



**National
Bank of Moldova**

FINANCIAL STATEMENTS

**For the year ended 31 December 2017
prepared in accordance with the
International Financial Reporting Standards
(Free translation) ***

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

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the
National Bank of Moldova

Opinion

1. We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank") which comprise the balance sheet as at 31 December 2017, and the statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

4. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
5. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
6. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

For signature, please refer to the original Romanian version.

Deloitte & Touche S.R.L.
Chisinau, R. Moldova
07 May 2018

National Bank of Moldova
FINANCIAL STATEMENTS
For the year ended 31 December 2017

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

National Bank of Moldova
BALANCE SHEET
For the year ended 31 December 2017

	Notes	31 December 2017 MDL'000	31 December 2016 MDL'000
ASSETS			
Cash and short-term placements with banks	5	24,966,441	20,118,744
Monetary gold	6	52,642	54,616
Due from international financial institutions	7	4,206,142	4,639,313
Securities issued by the Government of the Republic of Moldova	8	15,522,330	15,583,808
Loans granted to banks and individuals	9	23,821	27,968
Investment securities	10	22,915,155	23,898,946
Property and equipment	12	94,725	81,334
Intangible assets	12	35,524	42,737
Other assets	13	6,628	17,071
TOTAL ASSETS		67,823,408	64,464,537
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	14	21,032,866	18,990,332
Due to the Government of the Republic of Moldova	15	8,783,146	5,712,099
Due to the banks	16	15,978,430	14,319,524
Certificates issued by the National Bank of Moldova	17	9,217,431	5,915,352
Due to international financial institutions	7	8,758,723	10,498,477
Other liabilities	18	48,096	43,212
Total liabilities		63,818,692	55,478,996
Capital and reserves			
Authorized capital	19	902,970	902,970
General reserve fund		1,448,482	1,543,791
Total statutory capital		2,351,452	2,446,761
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation		1,479,755	6,331,636
Reserve of unrealized gains on revaluation of investment securities		164,542	193,431
Other reserves		8,967	13,713
Total capital and reserves		4,004,716	8,985,541
TOTAL LIABILITIES, CAPITAL AND RESERVES		67,823,408	64,464,537

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

The Supervisory Board of the National Bank of Moldova approved the Financial Statements on 4 May 2018.



Sergiu Cioclea
Governor



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

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National Bank of Moldova
STATEMENT OF COMPREHENSIVE RESULT
For the year ended 31 December 2017

	Notes	2017 MDL'000	2016 MDL'000
Interest income from short-term placements	21	189,453	105,235
Interest income from securities	21	1,089,548	802,764
Interest income from loans and repo agreements	21	292	16,126
		<u>1,279,293</u>	<u>924,125</u>
Interest expenses on loans received	22	(47,043)	(39,333)
Interest expenses on deposits and mandatory reserves	22	(682,942)	(904,251)
Interest expenses on transactions with securities and repo agreements	22	(519,828)	(346,052)
		<u>(1,249,813)</u>	<u>(1,289,636)</u>
Net interest income /expenses		<u>29,480</u>	<u>(365,511)</u>
(Losses) from foreign currency transactions and foreign exchange rate differences	23	(4,807,265)	(794,873)
(Losses) / gains from the revaluation of securities	24	(37,429)	8,068
Other income	25	108,824	37,209
Operating expenses	26	(269,689)	(198,494)
Net Operating (expenses)		<u>(5,005,559)</u>	<u>(948,090)</u>
NET (LOSS)		<u>(4,976,079)</u>	<u>(1,313,601)</u>
Other comprehensive income			
Revaluation of securities issued by the Government of the Republic of Moldova		(2,773)	5,522
Revaluation of monetary gold		(1,973)	4,584
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD		<u>(4,980,825)</u>	<u>(1,303,495)</u>
CALCULATION OF THE (TOTAL LOSS)			
NET (LOSS)		<u>(4,976,079)</u>	<u>(1,313,601)</u>
Covering of unrealized losses on revaluation of investment securities	20	28,889	18,146
Covering of unrealized losses on revaluation of foreign currency stocks	20	4,851,881	1,033,306
(TOTAL LOSS)	20	<u>(95,309)</u>	<u>(262,149)</u>

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Sergiu Cioclea
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Director of the Budget, Finance and Accounting Department,
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National Bank of Moldova
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017 MDL'000	2016 MDL'000
Cash flows from operating activities			
Interest receipts		1,323,119	947,466
Interest payments		(1,201,955)	(1,280,993)
(Loss) /gain from investment securities		(8,540)	26,215
Other receipts		109,351	37,602
Payments to personnel and suppliers		(232,922)	(224,261)
Cash flows from operating activities		(10,947)	(493,971)
Decrease /(increase) in securities issued by the Government of the Republic of Moldova		244,275	(13,535,475)
(Increase) in term deposits in foreign currency		(384,118)	(108,793)
(Increase) in amounts due from international financial institutions		(14,013)	(1,047,850)
Decrease in loans granted to banks and individuals		4,146	14,010,427
(Increase) in investment securities		(2,238,071)	(4,478,300)
(Increase) in operating assets		(2,387,781)	(5,159,991)
Increase in the national currency issued into circulation		2,042,534	1,946,263
Increase in balances due to Government of the Republic of Moldova		3,180,036	2,473,779
Increase in balances due to banks		1,864,225	1,570,338
Increase in certificates issued by the National Bank of Moldova		3,301,574	5,293,346
Decrease /(increase) in balances due to international financial institutions		(826,653)	661,939
Increase /(decrease) in other liabilities		5,380	(23,709)
Increase in operating liabilities		9,567,096	11,921,956
Net cash flows from operating activities		7,168,368	6,267,994
Property, equipment and intangible assets acquisitions		(35,973)	(47,748)
Net cash flows used in investing activities		(35,973)	(47,748)
Differences from revaluation of cash and cash equivalents		(2,489,023)	(983,886)
Increase in cash and cash equivalents		4,643,372	5,236,360
Cash and cash equivalents at the beginning of the year		10,982,990	5,746,630
Cash and cash equivalents at the end of the year		15,626,362	10,982,990
Analysis of cash and cash equivalents			
Cash in hand in foreign currency	5	1,043	1,875
Nostro accounts	5	1,917,484	947,796
Term deposits in foreign currency	5	11,476,705	7,981,983
Securities issued by the Government of the Republic of Moldova	8	2,231,130	2,051,336
Cash and cash equivalents		15,626,362	10,982,990

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

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National Bank of Moldova
STATEMENT OF CAPITAL AND RESERVES
For the year ended 31 December 2017

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	Reserve of unrealized gains on revaluation of investment securities	Profit/(Loss)	Other reserves	Total capital and reserves
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2016 (Net Loss)	902,970	1,805,940	7,364,942 (1,033,306)	211,577 (18,146)	- (262,149)	3,607	10,289,036 (1,313,601)
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	5,522	5,522
Differences on revaluation of monetary gold	-	-	-	-	-	4,584	4,584
Other comprehensive income, total	-	-	-	-	-	10,106	10,106
Comprehensive result at the end of the year	-	-	(1,033,306)	(18,146)	(262,149)	10,106	(1,303,495)
<i>Covering of losses</i>							
Use of the general reserve fund	-	(262,149)	-	-	262,149	-	-
Balance as at 31 December 2016	902,970	1,543,791	6,331,636	193,431	-	13,713	8,985,541
Balance as at 1 January 2017 (Net Loss)	902,970	1,543,791	6,331,636 (4,851,881)	193,431 (28,889)	- (95,309)	13,713	8,985,541 (4,976,079)
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	(2,773)	(2,773)
Differences on revaluation of monetary gold	-	-	-	-	-	(1,973)	(1,973)
Other comprehensive income, total	-	-	-	-	-	(4,746)	(4,746)
Comprehensive result at the end of the year	-	-	(4,851,881)	(28,889)	(95,309)	(4,746)	(4,980,825)
<i>Covering of losses</i>							
Use of the general reserve fund	-	(95,309)	-	-	95,309	-	-
Balance as at 31 December 2017	902,970	1,448,482	1,479,755	164,542	-	8,967	4,004,716

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1. General information about the National Bank of Moldova

The National Bank of Moldova (further referred to as the Bank) is the central bank of the Republic of Moldova and it was established in 1991. The activity of the Bank is regulated by the *Law on the National Bank of Moldova no.548-XIII dated 21 July 1995*. In accordance with the mentioned Law, the Bank is an autonomous public legal entity that is responsible to the Parliament of Republic of Moldova. The primary objective of the Bank is to achieve and maintain price stability. Moreover, the Bank acts as the sole issuer of the national currency, formulates and implements the State monetary and foreign exchange policy, holds and manages foreign exchange reserves of the State, licenses, supervises and regulates the activity of financial institutions, as well as the payment services activities and electronic money issuance.

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

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

2. Basis of preparation

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

The Financial Statements are prepared under the going concern basis and presented in Moldovan lei ("MDL"), the currency of the Republic of Moldova, rounded to the nearest thousand in Moldovan lei (MDL '000). The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the *Law on the National Bank of Moldova* and prepares its Financial Statements in accordance with them.

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

Given the specificity of the Bank, the categories of financial assets presented on the face of the Balance Sheet were presented using other names than the categories indicated by IAS 39 "Financial Instruments: Recognition and Measurement". This presentation provides a better understanding of the financial assets and liabilities of the Bank.

At the same time, each position of financial assets and liabilities in the Balance Sheet corresponds to a certain category classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", these being presented in the Notes to the Financial Statements. In accordance with paragraph 10 of IAS 1 "Presentation of financial statements", the Bank chose to keep title of "Statement of Comprehensive Result" and "Balance Sheet" as stated in Financial Statements for previous year because it better reflects user's expectations of Financial Statements and in order to maintain consistency of presentation with previous year.

2. Basis of preparation (continued)

Significant accounting judgments and estimates

The preparation of the Financial Statements in accordance with the International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. These judgments and estimates are based on information available as of the date of the Financial Statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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

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

All financial assets held by the Bank, except those classified at fair value through profit or loss, are subject to impairment testing. If there is objective evidence that an impairment loss on financial assets is incurred, the amount of loss is measured as the difference between assets' carrying amount and the present value of estimated future cash flows. The Bank reviews the portfolio of securities held-to-maturity on an annual basis. The securities classified as available for sale, loans, conditional commitments and receivables are reviewed quarterly or upon necessity in order to assess whether an allowance for impairment losses should be recorded in the Statement of Comprehensive Result. The detailed information on significant accounting judgments and estimates applied by the Bank is presented in Note 3, g.

3. Significant accounting policies

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

a. Revaluation of the balances and transactions in foreign currency

The transactions in foreign currency are recorded at the exchange rate of the date of the transaction and are revalued on a daily basis using the official exchange rate of the Moldovan Leu. As at the Balance Sheet date, the monetary assets and liabilities denominated in foreign currencies are translated at the official rate of the Moldovan Leu as of the Balance Sheet date. For the years 2016 - 2017, the official exchange rates of the reference foreign currencies were as follows:

	Year 2017		Year 2016	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	18.4902	17.1002	19.9238	19.9814
EUR/MDL	20.8282	20.4099	22.0548	20.8895
GBP/MDL	23.7824	22.9715	27.0353	24.4903
XDR/MDL	25.6155	24.2942	27.7060	26.7768
XAU/MDL	746.9164	710.1013	798.7571	736.7237

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

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

b. Cash and cash equivalents

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

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

c. Monetary gold

The Bank's gold is kept in gold bullions, corresponding with international certification and monetary market trading requirements. Being a part of the official reserve assets, the gold is considered to be a monetary asset. Given the characteristics of the monetary gold, the management of the Bank understands that IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, pursuant to the requirements set by paragraphs 10-12 of International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Bank determined that it is relevant to apply the specific accounting treatment for the monetary gold, similar to that established for the accounting of financial instruments and the disclosure of relevant information related to gold as a monetary asset, part of the financial instruments.

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

3. Significant accounting policies (continued)

c. Monetary gold (continued)

Unrealized gains and losses from changes in fair value of monetary gold are recognized in the Statement of Comprehensive Result and reported in the Other comprehensive income as "Other reserves". When the monetary gold is derecognized, the cumulative unrealized gains and losses are recognized as realized gains /losses and are presented in profit and loss account for the period.

d. Due from international financial institutions

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

e. Financial assets

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the initial net carrying amount of the financial asset or financial liability.

Financial assets at fair value through profit or loss

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

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

Loans and receivables of the Bank

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

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

3. Significant accounting policies (continued)

e. Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity which do not meet the definition of loans and receivables. The Bank recognizes the held-to-maturity investments at the settlement date and measures them initially at its fair value, presenting separately the nominal value, the purchased interest, the accrued interest and the unamortized premium /discount. After initial recognition, held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Impairment losses are recognized in the Statement of Comprehensive Result. The interest is recognized as interest income.

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

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

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

This category of financial assets includes held-to-maturity securities issued by non-residents, purchased with coupon or discount on foreign markets and presented in the Balance Sheet under the category "Investment securities" and securities issued by the Government of the Republic of Moldova, held to maturity, which are presented in the balance sheet as "Securities issued by the Government of the Republic of Moldova".

Available for sale financial assets

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

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

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

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

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

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3. Significant accounting policies (continued)

e. Financial assets (continued)

Recognition of financial assets and liabilities

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

Derecognition of financial assets and liabilities

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

f. Fair value of financial instruments

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

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

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

State securities issued and sent in the Bank's portfolio as a result of the conversion of contracted loans in previous years from the Bank by the Ministry of Finance are classified as available for sale and are reported at fair value.

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

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

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

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

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

3. Significant accounting policies (continued)

f. Fair value of financial instruments (continued)

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

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

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

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

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

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

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

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

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

The allowance for impairment of the loans is used to cover the losses generated by non-performing loans, in cases of bankruptcy of the licensed bank and /or the insufficiency of its funds to settle the debt to the Bank. A financial asset is written off when the Bank estimates in a reliable and realistic manner that it will not obtain any positive cash flows generated by the 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 impairment is assessed annually, based on individual assessment, or, when necessary, more frequently, if there are any objective evidences that could lead to the impairment of financial assets.

The recognition of increase in allowances for impairment of financial assets /provisions for losses on conditional commitments of a crediting nature are recorded as expenses, and their decrease is recorded as gains.

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

3. Significant accounting policies (continued)

h. Repo Agreements

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

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

i. Forward transactions

Forward currency transactions and forward legs of swaps, involving a foreign currency exchange at a future date, towards national currency or other foreign currency are recorded in off-balance sheet accounts using the trade date accounting at the spot rate of the transaction.

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

j. Property and equipment

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

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

	Rate per annum, Interval %
Buildings and similar constructions	5%-10%
Special constructions	20%
Means of transport	12.5%-20%
Special equipment, banknotes processing equipment etc.	12.5% -20%
Office equipment	20%
Machinery and equipment, computing equipment	30%

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

3. Significant accounting policies (continued)

k. Intangible assets

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

As at 31 December 2017 the estimated useful life of intangible assets in use varied between 1 and 7 years.

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

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

l. National currency issued into circulation

The national currency (banknotes and coins) is recognized at nominal value when it is put into circulation and is derecognized when it is withdrawn from circulation. The national currency issued into circulation is measured at amortized cost. For presentation purposes, the national currency in circulation is reduced by the national currency held at the Bank's cash desk. The cost of production of banknotes and coins is recognized in the Statement of Comprehensive Result as incurred.

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

m. Due to the banks

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

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

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

n. Due to the Government of the Republic of Moldova

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

o. Certificates issued by the National Bank of Moldova

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

3. Significant accounting policies (continued)

p. Due to international financial institutions

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

q. Other liabilities

Other liabilities include liabilities to the State Budget, current account of the Deposit Guarantee Fund, Loro Temporary Account of Tiraspol Cash and Settlement Center and are measured in the Balance Sheet at amortized cost. Other liabilities include also the personnel's liabilities measured according to IAS 19 *Employee Benefits* at cost.

r. Capital and reserves

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

The capital structure of the Bank includes the following:

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

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

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

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

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

3. Significant accounting policies (continued)

r. Capital and reserves (continued)

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

At the end of the financial year, the profit available for distribution is allocated to the increase of the statutory capital, in accordance with article 19, paragraph (3) of the Law on the National Bank of Moldova, until the capital reaches the level of 10% of total monetary liabilities, and thereafter, if there will be a difference between the balance of the profit available for distribution and the amount allocated for the statutory capital increase, it will be transferred to the State Budget. Statutory capital and reserves are disclosed in the Balance Sheet at amortized cost.

s. Income tax

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

t. Interest income and expenses

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

u. Reevaluation of foreign currency assets and liabilities

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

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

In accordance with the art. 20 of the *Law on the National Bank of Moldova* at the end of the financial year, the net unrealized foreign exchange gains from revaluation of the foreign currency stocks and securities in foreign currency available in the Bank's portfolio are transferred to the correspondent reserve accounts of unrealized gains. The amount of net unrealized losses, reported in the Statement of Comprehensive Result is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

v. Fiduciary activities

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

w. Contingent assets and liabilities

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

3. Significant accounting policies (continued)

v. Contingent assets and liabilities (continued)

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

Contingent assets are presented by possible assets that arise as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that may not be entirely under the control of the entity. Contingent assets are not recognized in the Financial Statements but are disclosed when an inflow of economic benefits is probable.

x. Provisions

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

y. Pension costs and employees' benefits

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

z. New standards and interpretations not yet adopted

Some of the new standards, amendments and interpretations for existing standards are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these Financial Statements.

IFRS 9 "Financial Instruments" (the final version of the standard was published on July 24, 2014, and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted). The standard fully replaces IAS 39 "Financial Instruments: Recognition and Measurement", and includes provisions on classification and measurement, impairment of financial instruments and hedge accounting. The bank will apply IFRS 9 as issued in July 2014, initially on 1 January 2018.

IFRS 9 contains a new classification and measurement approach for financial assets based on an entity's business model and the nature of the cash flows of the asset. These factors determine whether financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. The combined effect of the business model in managing the assets and the nature of the cash flows of the asset may result in some differences from amortized cost measurement and fair value measurement as compared to IAS 39 provisions. For financial liabilities, IFRS 9 mainly maintains the existing requirements of financial liabilities as provided in IAS 39.

IFRS 9 introduces a new model for impairment, the 'expected credit loss impairment' model ("ECL"). This three-stage approach is based on the change in credit risk of financial assets after initial recognition. The new requirements require the loss allowance to be recognized immediately on initial recognition at an amount equal to 12-month of expected credit losses (or lifetime ECLs for trade receivables). If there has been a significant increase in credit risk, relative to initial recognition, the loss allowance determined based on the lifetime expected credit losses model.

3. Significant accounting policies (continued)

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

The Bank has assessed the impact of the transition on 1 January 2018 on the new IFRS 9 provisions, however the assessment and the impact is preliminary as there are transition work ongoing as – updating internal accounting processes, regulations and internal controls; finalizing testing and assessment of controls over the IT systems; refining, calibrating and validating the models for ECL calculations. As result, the final results, the assumptions and judgements applied and estimation techniques may be subject to change until the first financial statements prepared under the IFRS 9.

The Bank will apply the retrospective application option without restating comparative information for prior periods according to the transition exemption of IFR 9.

On initial application of IFRS 9, certain differences are expected in the classification of financial assets as compared to the classification in IAS 39. The main changes comprise the reclassification of the investment securities in foreign currency classified as at fair value through profit or loss under IAS 39 to the fair value through other comprehensive income under IFRS 9 and the reclassification of securities issued by the Government of the Republic of Moldova from available-for-sale in accordance with IAS 39 to the amortized cost category in accordance with IFRS 9.

The classification of instruments according to IFRS 9 will have a reclassification impact between the Bank reserves, namely: 1) MDL 13,885 thousand reclassification of the fair value revaluation differences from prior year retained earnings reserves to Other comprehensive income related to investment securities in foreign currency measured at fair value through other comprehensive income; 2) MDL 984 thousand reclassification of the accumulated exchange differences from prior years retained earnings to Other comprehensive income related to the revaluation reserve of the investment securities in foreign currency valued at fair value through other comprehensive income and 3) MDL 1,888 thousand reclassification of the fair value revaluation differences recognized in Other comprehensive income to retained earnings for securities issued by the Government of the Republic of Moldova measured at amortized cost under IFRS 9.

Considering the high quality of Bank's assets, at the date of these financial statements the impact of applying the expected credit loss model as of 1 January 2018 is deemed to be insignificant, however the Bank continues to review the impairment models and calculations and will monitor and update the impairment levels for 2018 financial statements.

IFRS 15 "Revenue from contracts with customers" (the final version of the standard was issued on May 28, 2014, effective from annual periods beginning on or after 1 January 2018.) The new standard presents a new framework for revenue recognition that replaces the existing provisions of the current IFRS. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Depending on which criteria will be met, revenue shall be recognized as entity satisfies a performance obligation.

IFRS 15 requires the use of a higher degree of judgment and a more extensive use of accounting estimates. The standard contains detailed disclosure requirements on disaggregating revenue to describe how the nature, amount, timing and uncertainty of recognition of revenue and cash flows are influenced by economic factors. In April 2016, the IASB issued amendments to IFRS 15 that include clarifications on the underlying principles of the Standard and more complex aspects of the Standard, as well as some transitory aspects of the original application.

The Bank estimates that the provisions of this standard will have no significant impact on its financial statements considering the nature of the Bank's operations.

3. Significant accounting policies (continued)

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

IFRS 16 - "Leases" (applicable to annual reporting periods beginning on or after 1 January 2019). IFRS 16 replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a way that represents exactly those transactions. Based on this information, users of the financial Statements can assess the effect of Leases on the Bank's financial position, financial performance and cash flows. IFRS 16 introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value. IFRS 16 substantially takes over the lessor's accounting provisions from IAS 17.

The Bank estimates that the provisions of this standard will have no impact on its financial statements considering the nature of the Bank's operations.

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 1 (effective on or after 1 January 2018. Early application is permitted.). Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued December 8, 2016 and effective for annual periods beginning on or after January 1, 2018). The interpretation covers foreign currency transactions when an entity recognizes non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. According to IAS 21, the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple prepayments, the Bank must establish the transaction date for each payment or receipt. IFRIC 22 applies only if the Bank recognizes a non-monetary asset or non-monetary liability arising from a prepayment in foreign currency. IFRIC 22 does not provide guidance on the definition of monetary or non-monetary items. A receipt or an advanced payment usually results in the recognition of a liability or non-monetary asset; however, it can also generate a monetary asset or liability. The bank should determine whether an item is considered monetary or non-monetary. The Bank estimates that the provisions of this standard will have no impact on its financial statements considering the nature of the Bank's operations.

4. Risk management

4.1 Risk management framework

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

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

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

The Executive Board of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework, through the Investment and Monetary Committees, the way of creating and functioning of committees is established by the Supervisory Board. They are responsible for developing and monitoring the risk management policies in the specific areas of responsibility, reporting regularly to the Executive Board on the results of its activity. The Executive Board of the Bank is responsible for: establishing the investment horizon, the regulatory currency composition of international reserves, the minimum rating within which the investments can be made; approving the strategic benchmarks, their duration and acceptable deviations for each currency; approving the maximum limits on instruments and counterparties /issuers; taking decision related to the transmission into the external management of a certain part of international state reserves.

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

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

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

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

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

4. Risk management (continued)

4.1 Risk management framework (continued)

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

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

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

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

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

Strategic allocation of assets is a complex and durable process.

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

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

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

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

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

4. Risk management (continued)

4.1 Risk management framework (continued)

The audit and the assessment of the internal control system within the Bank is an element of managerial control which is in the responsibility of the Internal Audit Department. Internal audit conclusions and recommendations are submitted to audited departments and to the executive management for implementation of the audit recommendations, mitigation of the associated risks, being further reported to the Supervisory Board of the Bank.

Operational risk

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

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

- Setting up the objectives for each type of activity in order to implement the strategies and policies approved by the Executive Board of the Bank.
- Efficient and functional development, implementation and maintenance on a permanent basis of the internal control system within the corresponding subdivisions.
- Formulating of adequate procedures for identification, evaluation, monitoring and review the risks on a regular basis and control the efficiency of these procedures.
- Effective delegation and segregation of functions within the operational, administrative, accounting and control tasks.
- Developing and maintaining informational systems for the Bank's management, which would comprise the entire spectrum of activities where applicable; and
- Determination of administrative, operational and control mechanisms necessary to ensure the compliance with laws, regulations, policies, rules and internal procedures, as well as ensuring the application of these mechanisms in all subdivisions and by the Bank's personnel.

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

Financial risk

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

4. Risk management (continued)

4.2 Credit risk

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

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

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

In order to minimize the exposure to credit risk on loans granted to licensed banks, the Bank monitors on a continuous basis the quality of the loan portfolio, periodically assessing the events that can lead to losses, including breach of contractual terms (non-fulfilment of the obligation to pay principal or interest), worsening of financial situation of the debtor and probability of its bankruptcy, renegotiation of conditions and /or prolongation of loan repayment terms and /or interest due to the debtor's financial difficulties caused by economic or legal reasons, etc. As a result of the assessment, the Bank forms/adjusts the discount for credit losses and the provisions for contingent liabilities, so that they reflect the best current estimate.

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

In determining the value of guarantee-assets, there are implemented measures to control risks in order to protect the Bank against the risk of financial losses due to loan non-reimbursement by a bank. The Bank assesses the quality and value of assets offered by banks as guarantees in granting loans, on a monthly basis and more frequently, if necessary.

The evaluation of loans is performed individually for each loan agreement, analyzing the events that may lead to losses and that can impact the ability of the debtor to meet its contractual obligations. As a result of the evaluation of loans the Bank forms /adjusts the impairment losses on loans and provisions for losses on conditional commitments as to reflect its best current estimate.

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

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

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

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

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

National Bank of Moldova
 NOTES TO FINANCIAL STATEMENTS
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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 with high long term credit rating (medium A-*), assigned by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and which are authorized by the Bank for foreign currency transactions.

The Bank does not use long-term ratings established by international rating agencies in managing the credit risk of national currency exposures, but applies internal credit risk methodologies.

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

31 December 2017

Long-term rating ³	Cash and short-term placements with the banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova ⁴	Loans granted to banks and individual	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	5,890,067	-	4,206,142	-	-	20,865,542	-	30,961,751
AA+	-	-	-	-	-	1,246,240	-	1,246,240
AA	10,666,084	-	-	-	-	739,447	-	11,405,531
AA-	3,272,213	-	-	-	-	63,926	-	3,336,139
A+	518,136	-	-	-	-	-	-	518,136
A	4,617,248	-	-	-	-	-	-	4,617,248
BBB+	86	-	-	-	-	-	-	86
BBB	297	-	-	-	-	-	-	297
BBB-	20	-	-	-	-	-	-	20
BB+	2,290	-	-	-	-	-	-	2,290
Not applicable	-	52,642	-	15,522,330	23,821	-	1,081	15,599,874
Total	24,966,441	52,642	4,206,142	15,522,330	23,821	22,915,155	1,081	67,687,612

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

³ Established by applying the medium rating assigned by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

⁴ Taking into consideration the Bank's role as the state's agent and the specific relationship between the Bank as the Central Bank of the state and the Government, the securities issued by the Government of the Republic of Moldova are included in the category "Not applicable". However, as at 31 December 2017, the international rating agency Moody's maintains for Republic of Moldova the rating level B3 (as at 31 December 2016: rating level B3).

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

National Bank of Moldova
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4. Risk management (continued)

4.2 Credit risk (continued)

31 December 2016

Long-term rating	Cash and short-term placements with the banks MDL'000	Monetary gold MDL'000	Due from international financial institutions MDL'000	Securities issued by the Government of the Republic of Moldova MDL'000	Loans granted to banks and individuals MDL'000	Investment securities MDL'000	Other financial assets MDL'000	Total financial assets MDL'000
AAA	2,814,944	-	4,639,313	-	-	19,916,868	-	27,371,125
AA+	-	-	-	-	-	2,670,241	-	2,670,241
AA	7,696,308	-	-	-	-	1,311,837	-	9,008,145
AA-	2,193,715	-	-	-	-	-	-	2,193,715
A+	2,179,579	-	-	-	-	-	-	2,179,579
A	5,233,355	-	-	-	-	-	-	5,233,355
BBB+	606	-	-	-	-	-	-	606
BBB	21	-	-	-	-	-	-	21
BBB-	26	-	-	-	-	-	-	26
BB+	190	-	-	-	-	-	-	190
Not applicable	-	54,616	-	15,583,808	27,968	-	11,630	15,678,022
Total	20,118,744	54,616	4,639,313	15,583,808	27,968	23,898,946	11,630	64,335,025

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

As at 31 December 2017 the credit risk of the investment securities portfolio, quantified based on the default rates published by Standard & Poor's, is as follows:

	Held-to-maturity		At fair value		Total		Portfolio share %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2017	17,368	1,016	6,631	388	23,999	1,403	0.05
31 December 2016	27,408	1,372	8,037	402	35,445	1,774	0.08

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

National Bank of Moldova
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017

4. Risk management (continued)

4.2 Credit risk (continued)

Country	31 December	Share	31	Share
	2017		December	
	MDL'000	%	2016	%
USA	14,880,500	21.98	13,332,241	20.72
Germany	10,521,092	15.54	5,933,867	9.22
International financial organizations	6,331,570	9.35	8,128,764	12.64
Great Britain	4,514,142	6.67	4,457,800	6.93
The Netherlands	4,377,200	6.47	3,508,099	5.45
France	4,121,548	6.09	4,952,352	7.70
Singapore	4,058,611	6.00	2,998,513	4.66
Luxemburg	2,060,742	3.04	3,603,875	5.60
Finland	770,552	1.14	688,281	1.07
Austria	194,142	0.29	350,869	0.55
Norway	119,916	0.18	179,047	0.28
Sweden	68,660	0.10	246,379	0.38
Canada	63,926	0.09	180,252	0.28
Other countries	5,137	0.01	1,256	-
Japan	-	-	95,408	0.15
Republic of Moldova ⁵	15,599,874	23.05	15,678,022	24.37
Total financial assets	67,687,612	100.00	64,335,025	100.00

"International Financial Organizations" represents the quota of the Republic of Moldova to International Monetary Fund, which increased with XDR 49.3 million on 17 February 2016, from XDR 123.2 million to XDR 172.5 million.

The increase of investments in Germany, the United States and Singapore, countries listed with "AAA" rating, relate to increase of funds on Nostro accounts in Deutsche Bundesbank, Frankfurt am Main, investment in investment securities issued by the US Treasury and term placements with Singapore entities.

To assess the portfolio diversification of assets and to estimate the credit risk based on the investment sector, the classification of the Bank's financial assets per investment sector is presented as follows:

Investment sector	31 December	Share	31 December	Share
	2017		2016	
	MDL'000	%	MDL'000	%
Foreign central banks	5,896,027	8.71	2,913,109	4.53
Foreign commercial banks	19,070,414	28.18	17,205,635	26.74
Local banks	128	-	408	-
Foreign Governments	15,325,829	22.64	14,574,781	22.66
Government of the Republic of Moldova	15,522,330	22.93	15,583,808	24.22
International Financial Organizations	6,331,570	9.36	8,128,764	12.64
Foreign Government Agencies	5,463,898	8.07	5,834,714	9.07
Other financial assets ⁵	77,416	0.11	93,806	0.14
Total financial assets	67,687,612	100.00	64,335,025	100.00

⁵ Includes monetary gold—a financial asset to which credit risk is not applicable.

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

4. Risk management (continued)

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they fall due, are important factors in assessing the liquidity of the Bank.

Liquidity risk is managed daily and in dynamics, by monitoring investment limits, established by the internal regulations, the decisions of the Executive Board and of the Monetary Committee. Therewith, liquidity risk management is carried by the formation of investment tranches and by the use of market benchmarks established for investment sub-portfolios, indexed, depending on the type of instruments and investments' currency.

Benchmarks used are market indices recognized and used worldwide for benchmarking the performance and risks of the investment portfolios.

The benchmarks used are provided by the Bank of America Merrill Lynch, an institution that calculates and provides a wide range of benchmarks recognized and used throughout the investment community.

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

Regarding the portfolio managed externally, the liquidity risk limits are set by the provisions of the Agreement of investment management and consulting, concluded on 8th of December 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova, which was extended by the Decision of Executive Board no. 168 from 30 December 2016, with effect from 1st February 2016 and which stipulates that the investments are managed according to a benchmark index (Bank of America Merrill Lynch U. S. Treasuries, 0-1 years), so as the duration of the portfolio is correlated with the duration of the benchmark. Deviations of portfolio duration of +/- 3 months are allowed compared to benchmark duration.

The liquidity risk of the portfolio of investment securities held-to-maturity, in foreign currency, is mitigated through the diversification of the maturity of investments between the range of 1 to 7 years and by restricting the share of this portfolio in the total portfolio of investment securities.

Nevertheless, the replenishment of the portfolio of investment securities held-to-maturity, in foreign currency, is possible only when its share represents less than 20% of the international reserves and the level of the reserves covers 4 months of import.

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

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

The investment securities issued by the Government of the Republic of Moldova and held by the Bank during the year of 2017 had a contractual maturity no longer than 182 days. At maturity, these securities are repurchased by the Government and new securities are issued by the Government in the same volume which are subsequently purchased by the Bank.

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

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

National Bank of Moldova
NOTES TO FINANCIAL STATEMENTS
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4. Risk management (continued)
4.3 Liquidity risk (continued)

The analysis of financial assets and liabilities classified according to their contractual maturity date as at 31 December 2017 is set out below:

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2017								
Assets								
Cash and short-term placements with banks	22,059,407	2,907,034	-	-	-	-	-	24,966,441
Monetary gold	-	-	-	-	-	-	52,642	52,642
Due from international financial institutions	5,249	-	-	-	-	-	4,200,893	4,206,142
Securities issued by the Government of the Republic of Moldova	2,231,130	-	210,000	230,000	790,000	12,061,200	-	15,522,330
Loans granted to banks and individuals	764	716	1,309	2,446	7,027	11,559	-	23,821
Investment securities	3,865,673	4,898,722	7,326,929	804,360	4,656,252	1,363,219	-	22,915,155
Other assets	1,081	-	-	-	-	-	-	1,081
Total financial assets	28,163,304	7,806,472	7,538,238	1,036,806	5,453,279	13,435,978	4,253,535	67,687,612
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	21,032,866	21,032,866
Due to the Government of the Republic of Moldova	8,437,695	-	-	345,451	-	-	-	8,783,146
Due to the banks	15,978,430	-	-	-	-	-	-	15,978,430
Certificates issued by the National Bank of Moldova	9,217,431	-	-	-	-	-	-	9,217,431
Due to international financial institutions	362,498	188,068	514,763	973,942	2,092,994	402,230	4,224,228	8,758,723
Other liabilities	38,795	-	64	601	-	-	8,636	48,096
Total financial liabilities	34,034,849	188,068	514,827	1,319,994	2,092,994	402,230	25,265,730	63,818,692
Net liquidity gap	(5,871,545)	7,618,404	7,023,411	(283,188)	3,360,285	13,033,748	(21,012,195)	3,868,920

As at 31 December 2017 government securities with a contractual maturity of more than 5 years represent 79.57% of the total volume of securities issued by the Government of the Republic of Moldova and held by the NBM.

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

National Bank of Moldova
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4. Risk management (continued)

4.3 Liquidity risk (continued)

31 December 2016

Assets

	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
Cash and short-term placements with banks	17,720,976	2,397,768	-	-	-	-	-	20,118,744
Monetary gold	-	-	-	-	-	-	54,616	54,616
Due from international financial institutions	5,679	-	-	-	-	-	4,633,634	4,639,313
Securities issued by the Government of the Republic of Moldova	2,091,878	-	200,730	210,000	730,000	12,351,200	-	15,583,808
Loans granted to banks and individuals	955	951	1,725	2,951	7,529	13,857	-	27,968
Investment securities	4,565,347	3,824,985	6,467,556	1,536,643	4,257,274	3,247,141	-	23,898,946
Other assets	11,630	-	-	-	-	-	-	11,630
Total financial assets	24,396,465	6,223,704	6,670,011	1,749,594	4,994,803	15,612,198	4,688,250	64,335,025

Liabilities

National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	5,712,099	-	-	-	-	-	-	5,712,099
Due to the banks	14,319,524	-	-	-	-	-	-	14,319,524
Certificates issued by the National Bank of Moldova	5,915,352	-	-	-	-	-	-	5,915,352
Due to international financial institutions	491,485	89,327	619,107	1,165,864	2,946,778	545,719	4,640,197	10,498,477
Other liabilities	43,212	-	-	-	-	-	-	43,212
Total financial liabilities	26,481,672	89,327	619,107	1,165,864	2,946,778	545,719	23,630,529	55,478,996
Net liquidity gap	(2,085,207)	6,134,377	6,050,904	583,730	2,048,025	15,066,479	(18,942,279)	8,856,029

Cash flows from government and banks may vary considerably from those of the contract (contractual maturity), the Bank estimates that they will not be immediately withdrawn within 0-3 months.

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National Bank of Moldova
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4. Risk management (continued)

4.3 Liquidity risk (continued)

The table below presents the analysis of total financial liabilities, including future interest cash flows according to their contractual maturity as at 31 December 2017. The amounts of future obligations were calculated using the information available as at 31 December 2017 (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 2017								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	21,032,866	21,032,866
Due to the Government of the Republic of Moldova	8,447,114	6,675	13,496	351,906	-	-	-	8,819,191
Due to banks	15,986,277	-	-	-	-	-	-	15,986,277
Certificates issued by the National Bank of Moldova	9,230,170	-	-	-	-	-	-	9,230,170
Due to international financial institutions*	379,515	204,363	544,830	1,029,425	2,169,880	426,828	4,224,228	8,979,069
Other liabilities	38,795	-	64	601	-	-	8,636	48,096
Total financial liabilities	34,081,871	211,038	558,390	1,381,932	2,169,880	426,828	25,265,730	64,095,669
31 December 2016								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	5,712,099	-	-	-	-	-	-	5,712,099
Due to banks	14,329,763	-	-	-	-	-	-	14,329,763
Certificates issued by the National Bank of Moldova	5,926,035	-	-	-	-	-	-	5,926,035
Due to international financial institutions*	501,847	99,293	637,691	1,196,502	2,996,003	553,056	4,640,197	10,624,589
Other liabilities	43,212	-	-	-	-	-	-	43,212
Total financial liabilities	26,512,956	99,293	637,691	1,196,502	2,996,003	553,056	23,630,529	55,626,030

*According to the resolution of the IMF Executive Board, for the Extended Credit Facility (ECF) (previously Poverty Reduction and Growth Facility (PRGF)) from the IMF and included in Due to international financial institutions, for the period 7 January 2010 – 31 December 2018, no interest is calculated.

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

4. Management risk (continued)

4.4 Market risk

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

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

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

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

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

	Held-to-maturity		At fair value		Total		Portfolio share, %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2017	101,212	5,919	28,486	1,666	129,698	7,585	0.54
31 December 2016	171,788	8,597	91,122	4,560	262,910	13,158	1.11

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

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

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

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

Thus, as at 31 December 2017, the value of exposure at risk of securities portfolio in foreign currency, calculated by using CVaR, is presented as follows:

	Held-to-maturity		At fair value		Total		Portfolio share %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2017	142,116	8,311	40,544	2,371	182,660	10,682	0.76
31 December 2016	241,926	12,108	127,516	6,382	369,442	18,489	1.56

4. Management risk (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk

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

The fluctuation of interest rates on the internal market affects the value of the state securities' portfolio of the Bank: fluctuations of increase /decrease of 5 p.p. of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of decrease /increase of approximately MDL 8,300 thousands on the Bank's capital.

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

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

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

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

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

National Bank of Moldova
NOTES TO FINANCIAL STATEMENTS
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4. Management risk (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

The analysis of financial assets and liabilities as at 31 December 2017 according to their contractual re-pricing and interest rate renewal dates is as follows:

31 December 2017

	0-3	3-6	6-12	1-2	2-5	More than	Non-interest	Total
	months	months	months	years	years	5 years	bearing	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets								
Cash and short-term placements with banks	22,024,923	2,907,034	-	-	-	-	34,484	24,966,441
Monetary gold	-	-	-	-	-	-	52,642	52,642
Due from international financial institutions	5,241	-	-	-	-	-	4,200,901	4,206,142
Securities issued by the Government of the Republic of Moldova	2,080,570	-	210,000	230,000	790,000	12,061,200	150,560	15,522,330
Loans granted to banks and individuals	764	715	1,309	2,447	7,027	11,559	-	23,821
Investment securities	3,937,700	4,878,684	7,276,617	804,360	4,553,266	1,363,219	101,309	22,915,155
Other assets	-	-	-	-	-	-	1,081	1,081
Total financial assets	28,049,198	7,786,433	7,487,926	1,036,807	5,350,293	13,435,978	4,540,977	67,687,612
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	21,032,866	21,032,866
Due to the Government of the Republic of Moldova	4,715,544	-	-	345,451	-	-	3,722,151	8,783,146
Due to banks	14,060,859	-	-	-	-	-	1,917,571	15,978,430
Certificates issued by the National Bank of Moldova	9,217,431	-	-	-	-	-	-	9,217,431
Due to international financial institutions	3,065,627	94,553	212,137	368,689	785,480	-	4,232,237	8,758,723
Other liabilities	-	-	-	-	-	-	48,096	48,096
Total financial liabilities	31,059,461	94,553	212,137	714,140	785,480	-	30,952,921	63,818,692
Interest rate gap	(3,010,263)	7,691,880	7,275,789	322,667	4,564,813	13,435,978	(26,411,944)	3,868,920

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National Bank of Moldova
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017

4. Management risk (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

31 December 2016

	0-3	3-6	6-12	1-2	2-5	More than	Non-interest	Total
	months	months	months	years	years	5 years	bearing	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets								
Cash and short-term placements with banks	17,700,139	2,397,768	-	-	-	-	20,837	20,118,744
Monetary gold	-	-	-	-	-	-	54,616	54,616
Due from international financial institutions	5,653	-	-	-	-	-	4,633,660	4,639,313
Securities issued by the Government of the Republic of Moldova	2,091,878	-	200,730	210,000	730,000	12,351,200	-	15,583,808
Loans granted to banks and individuals	955	951	1,725	2,951	7,529	13,857	-	27,968
Investment securities	5,215,049	3,707,419	6,274,620	1,086,734	4,257,274	3,247,141	110,709	23,898,946
Other assets	-	-	-	-	-	-	11,630	11,630
Total financial assets	25,013,674	6,106,138	6,477,075	1,299,685	4,994,803	15,612,198	4,831,452	64,335,025
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	2,679,999	-	-	-	-	-	3,032,100	5,712,099
Due to banks	11,826,438	-	-	-	-	-	2,493,086	14,319,524
Certificates issued by the National Bank of Moldova	5,915,352	-	-	-	-	-	-	5,915,352
Due to international financial institutions	3,728,538	66,942	285,307	498,262	1,152,152	119,960	4,647,316	10,498,477
Other liabilities	-	-	-	-	-	-	43,212	43,212
Total financial liabilities	24,150,327	66,942	285,307	498,262	1,152,152	119,960	29,206,046	55,478,996
Interest rate gap	863,347	6,039,196	6,191,768	801,423	3,842,651	15,492,238	(24,374,594)	8,856,029

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.

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

4. Management risk (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

They bear fixed interest rates, except for the current accounts correlated to the rates REPO, EONIA, EURIBOR, current account with the IMF and Extended Fund Facility (EFF) commitments, which bear floating interest rates set on a weekly basis by the IMF.

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

According to the average balance of demand and term deposits for the year 2017, the expected amount of gains /losses from increase /decrease in interest rate with 0.5 p. p. is as follows:

	MDL'000	USD'000
Year 2017	+/-99,406	+/-5,813
Year 2016	+/-83,119	+/-4,160

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

As at 31 December 2017, the change of the yield by 0.01 p.p. leads to a change in the present value of the investment portfolio of securities of MDL 3,426 thousands or USD 200 thousands, which represents 0.01% of the portfolio of securities (as at 31 December 2016: of MDL 4,522 thousands or USD 226 thousands, which represents 0.02% of the portfolio of securities).

4.4.2 Foreign currency risk

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

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

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

As at 31 December 2017 the US dollar share in the normative currency structure constituted 65%, Pound Sterling – 20%, Euro – 10%, other currencies – 5% (as at 31 December 2016 the US dollar share in the normative currency structure constituted 65%, Euro – 10%, Pound Sterling – 20%, other currencies – 5%). The share of each currency in the Bank's investment portfolio may vary within +/- 10 p.p. from the normative currency structure.

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

National Bank of Moldova
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For the year ended 31 December 2017

4. Management risk (continued)
4.4 Market risk (continued)
4.4.2 Foreign currency risk (continued)

As at 31 December 2017, the Bank held the following foreign exchange positions:

	MDL		USD		EUR		GBP		XDR		Other currencies		Total MDL'000
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	
31 December 2017													
Assets													
Cash and short-term placements with banks	-	15,172,002	4,465,060	5,326,002	-	-	-	-	-	-	3,377	-	24,966,441
Monetary gold	-	-	-	-	-	-	-	-	-	-	52,642	-	52,642
Due from international financial institutions	-	-	-	-	-	-	-	-	4,206,142	-	-	-	4,206,142
Securities issued by the Government of the Republic of Moldova	15,522,330	-	-	-	-	-	-	-	-	-	-	-	15,522,330
Loans granted to banks and individuals	23,821	-	-	-	-	-	-	-	-	-	-	-	23,821
Investment securities	-	20,069,178	2,335,136	510,841	-	-	-	-	-	-	-	-	22,915,155
Other assets	680	289	112	-	-	-	-	-	-	-	-	-	1,081
Total financial assets	15,546,831	35,241,469	6,800,308	5,836,843	4,206,142	56,019	-	-	-	-	-	-	67,687,612
Liabilities													
National currency issued into circulation	21,032,866	-	-	-	-	-	-	-	-	-	-	-	21,032,866
Due to the Government of the Republic of Moldova	5,938,246	606,359	2,238,541	-	-	-	-	-	-	-	-	-	8,783,146
Due to banks	12,351,019	1,208,182	2,419,229	-	-	-	-	-	-	-	-	-	15,978,430
Certificates issued by the National Bank of Moldova	9,217,431	-	-	-	-	-	-	-	-	-	-	-	9,217,431
Due to international financial institutions	30,385	-	-	-	-	-	-	-	8,728,338	-	-	-	8,758,723
Other liabilities	43,671	1,260	3,162	3	-	-	-	-	-	-	-	-	48,096
Total financial liabilities	48,613,618	1,815,801	4,660,932	3	3	3	3	3	8,728,338	-	-	-	63,818,692
Net position	(33,066,787)	33,425,668	2,139,376	5,836,840	(4,522,196)	56,019	-	-	-	-	-	-	3,868,920

As at 31 December 2017, other currencies include monetary gold equivalent of MDL 52,642 thousand, Russian roubles – MDL 2,290 thousands, Romanian Lei – MDL 1,042 thousands, Norwegian kroner – MDL 21 thousands, Swiss Francs – MDL 21 thousands, Danish kroner – MDL 2 thousands.

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National Bank of Moldova
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017

4. Management risk (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

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

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

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4. Management risk (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

In order to estimate the currency risk associated to assets and liabilities denominated in foreign currency, possible unrealized gains /losses have been computed assuming a change of +/- 10% of the official exchange rate of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2017 and 31 December 2016, respectively, the amount of the potential impact on the profit and equity of the Bank is as follows:

	31 December 2017		31 December 2016	
	MDL'000 Profit	MDL'000 Equity	MDL'000 Profit	MDL'000 Equity
MDL against USD	+/-3,342,567	+/-3,342,567	+/-2,826,612	+/-2,826,612
MDL against EUR	+/-213,938	+/-213,938	+/-199,004	+/-199,004
MDL against GBP	+/-583,684	+/-583,684	+/-755,054	+/-755,054
MDL against XDR	+/-452,220	+/-452,220	+/-584,137	+/-584,137
MDL against other currencies	+/338	+/338	+/-9,592	+/-9,592

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 2017 MDL'000	31 December 2016 MDL'000
Cash in hand in foreign currency	1,043	1,875
Nostro accounts	1,917,484	947,796
Term deposits in foreign currency	23,047,914	19,169,073
	24,966,441	20,118,744

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

As at period end the funds on the Nostro accounts were placed at financial institutions with ratings⁴: „AAA” – 99.44%, „AA” – 0.29%, „A+” – 0.13%, „BBB” - 0.02%, and „BB+” – 0.12% (as at 31 December 2016: „AAA” – 89.46%, „AA” – 0.28%, „A+” – 10.17%, „BBB+” - 0.07% and „BB+” – 0.02%).

⁴ Established by applying the average rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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

As at period end the term deposits in foreign currency were placed at financial institutions with ratings⁵: „AAA” -17.28%, „AA” -46.25%, „AA-” -14.20% , „A+” -2.24% and „A” -20.03% (as at 31 December 2016: „AAA” - 10.25%, „AA” - 40.14%, „AA-” - 11.44%, „A+” - 10.87% and „A” - 27.30%).

As at 31 December 2017, from the total of term deposits in foreign currency, the balance of those with a maturity of more than 3 months from the acquisition date amounts MDL 11,571,209 thousand (as at 31 December 2016: MDL 11,187,090 thousand).

As at 31 December 2017, from the total of term deposits in foreign currency, the balance of overnight deposits amounts MDL 3,982,383 thousand (as at 31 December 2016: MDL 1,965,204 thousand).

6. Monetary gold

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Monetary gold	52,642	54,616
	<u>52,642</u>	<u>54,616</u>

The monetary gold is represented by the quantity of 74,133.48 grams (as at 31 December 2016 - 74,133.48 grams of pure gold) in the form of bullions of Good Delivery standard quality (based on the requirements of the London Bullion Market Association).

7. Due from /to international financial institutions

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	4,200,893	4,633,634
Current account with IMF	5,249	5,679
	<u>4,206,142</u>	<u>4,639,313</u>
Liabilities		
Account No.1	4,200,771	4,633,500
Account No.2	123	135
Total liabilities of the IMF	<u>4,200,894</u>	<u>4,633,635</u>
Loans granted by the IMF	4,534,495	5,858,280
Other international institutions	23,334	6,562
	<u>8,758,723</u>	<u>10,498,477</u>

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

⁵ Established by applying the average rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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

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

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the IMF's member. Up to 25% of quota is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency. The amount of the quota determines the voting power in the IMF's decisions, the amount of the IMF member's financial contribution, the financing a member can obtain in the event of balance-of-payments problems and the amount of Special Drawing Rights (XDR) that a member receives when they are allotted.

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 of XDR), whereas the IMF No. 2 account is used for the payment of expenses incurred by the IMF in the member's national currency.

On 11 May 2012 the Parliament of the republic of Moldova adopted the *Law for the increase of the Republic of Moldova's quota in the International Monetary Fund*, according to which was approved the increase of the Republic of Moldova's quota to the International Monetary Fund from XDR 123.2 million to XDR 172.5 million.

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

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

As at 31 December 2017 the Bank's outstanding balance of loans due to the IMF is as follows:

- ECF commitments – XDR 66,116 thousands (as at 31 December 2016 – XDR 85,730 thousands);
- EFF commitments – XDR 119,913 thousands (as at 31 December 2016 – XDR 132,367 thousands).

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

The Extended financing facility (EFF) represents the loans granted to the IMF members in order to finance the balance of payments deficit. IMF grants loans within EFF for a 10 year term with a 4.5 years grace period. The interest rate for this type of loans is floating and is set on a weekly basis by the IMF. In 2017 the average rate was 1.53% per annum (2016: 1.08%).

Following the signing of the memorandum with the IMF on 7 November 2016, the Ministry of Finance of Republic of Moldova received in 2017, 2 tranches of the loan under the EFF facility in amount of USD 11,959 thousand (equivalent to XDR 8.600 thousand) and 2 tranches of the loan under the ECF facility in amount of USD 14,501 thousand (equivalent to XDR 10,400 thousand) to finance the state budget deficit. The Bank received in 2017 2 tranches of loan under the EFF facility amounting USD 17,260 thousand (equivalent to XDR 12,400).

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National Bank of Moldova
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7. Due from /to international financial institutions (continued)

The loans received through signing the memorandum with the IMF on 7 November 2016, for EFF facility amounting XDR 86,300 thousand and ECF facility amounting XDR 43,100 thousand (with the disbursement date up to 6 November 2019) were approved by the Law no. 250 and the Law no. 251, regarding the contracting of external state loan from IMF. Upon receipt of the facility granted from IMF General Resources Account (EFF), the Ministry of Finance issued a promissory note in local currency in favor of the IMF, which has been received for safekeeping in the vault of NBM.

The amounts of financing received by the Republic of Moldova from IMF, allocated to the beneficiary institutions of the financing are presented in the table below:

	<u>Balance</u> <u>31.12.2016</u>	<u>Reimburse</u> <u>ments</u>	<u>Receipts</u>	<u>Balance</u> <u>31.12.2017</u>
	XDR, thousands	XDR, thousands	XDR, thousands	XDR, thousands
National Bank of Moldova	218,097	44,468	12,400	186,029
Ministry of Finance	208,714	19,000	19,000	208,714
Loans and other financing from the IMF	426,811	63,468	31,400	394,743
National Bank of Moldova	132,367	24,854	12,400	119,913
Ministry of Finance	8,800	-	8,600	17,400
EFF	141,167	24,854	21,000	137,313
National Bank of Moldova	85,730	19,614	-	66,116
Ministry of Finance	82,200	19,000	10,400	73,600
ECF	167,930	38,614	10,400	139,716
National Bank of Moldova	-	-	-	-
Ministry of Finance	117,714	-	-	117,714
XDR allocations	117,714	-	-	117,714

The total value of EFF and ECF undrawn facilities allocated through the memorandum signed on 7 November 2016 amounts at 31 December 2017 - XDR 48,000 thousand (EFF) and XDR 24,000 thousand (ECF) (as at 31 December 2016: EFF - XDR 69,000 thousand, ECF: XDR 34,400 thousand).

XDR allocations are the general reserve allocations in XDR made by the IMF in August 2009 and the special allocations distributed by the IMF in September 2009 under Amendment IV to the IMF Statute.

During 2017 and 2016, the Bank had no breaches of the principal and interest payment terms of the IMF loans.

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

The caption "Securities issued by the Government of Republic of Moldova" from the Balance sheet includes 2 categories of financial assets, as presented below:

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Nominal value of state securities	13,291,200	13,341,200
Accrued interest	150,560	150,730
State Securities held to maturity	13,441,760	13,491,930
Nominal value of state securities	2,093,331	2,105,293
Unamortized discount of state securities	(14,649)	(18,076)
Revaluation differences of state securities	1,888	4,661
State Securities available for sale	2,080,570	2,091,878
	15,522,330	15,583,808

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

The amount represented the total outstanding balance of emergency loans granted by Bank to "Banca de Economii" S.A., BC "Banca Socială" S.A. and B.C. "Unibank" S.A., at the date of issuance of the bonds. These bonds are measured at amortized cost and classified as held to maturity, following the Bank's positive intention and ability to hold these until maturity.

The state bonds were issued with maturities of up to 25 years with fixed interest rates (nominal rate of 1.4% and 5.3%), the effective interest rate of the bond portfolio being 5%.

The trading on the secondary market of these bonds is limited to 40 % of the volume of state bonds transmitted to the Bank by the Ministry of Finance. During 2017 the Bank has not traded these bonds on the secondary market (2016: MDL 0).

On 4 October 2017, the Ministry of Finance redeemed the bonds due in 2017 with a MDL 50,000 thousand nominal value. No early redemption were performed in 2017 (2016: nil).

The securities issued by the Government ("state securities") available for sale were issued and transferred in the Bank's portfolio following the conversion of Government debt contracted from the Bank in previous years, into securities issued by the Government. These securities are classified as assets available for sale and are measured at fair value. The securities that matured in 2017 were redeemed by the Government, new securities in the same volume being issued and transmitted to the Bank.

The contractual maturity of the available for sale state securities held in the Bank's portfolio as at 31 December 2017 is up to 91 days. The average interest rate on the portfolio of state securities held by the Bank as at 31 December 2017 was of 5.82% (as at 31 December 2016 – 7.27%).

Both held to maturity state securities and those available for sale, held in Bank's portfolio, represent monetary policy instruments that can be used by the Bank at any time in order to conduct the monetary policy.

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

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9. Loans granted to banks and individuals

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Loans granted to banks for crediting the construction cooperatives	128	408
Loans granted to other individuals	23,693	27,560
	23,821	27,968

Loans granted include the balance of long-term loans granted to banks (loans granted to banks for crediting the construction cooperatives during 1992-2002) and the balance of loans granted to other individuals, with related accrued interest.

As at 31 December 2017, the collateral pledged to secure the repayment of loans granted and related interest amounts to MDL 36,899 thousand (as at 31 December 2016: MDL 38,481 thousand).

In 2017 and 2016, no impairment allowances were accounted for the loans, the impairment losses allowances balance being nil as at 31 December 2017 (as at 31 December 2016: nil).

10. Investment securities

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

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Securities in foreign currency measured at fair value through profit or loss	15,877,864	15,329,320
Coupon securities in foreign currency	15,877,864	15,329,320
Securities in foreign currency held-to-maturity	7,037,291	8,569,626
Coupon securities in foreign currency	7,037,291	8,569,626
Total investment securities	22,915,155	23,898,946

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

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

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Nominal value of securities in foreign currency	15,846,189	15,233,577
Interest and amortised cost adjustments for foreign currency securities	44,576	75,105
Revaluation differences on securities in foreign currency	(12,901)	20,638
Securities in foreign currency measured at fair value through profit or loss	15,877,864	15,329,320

The securities in foreign currency measured at fair value through profit or loss are revalued on a monthly basis and bear a fixed interest rate, within the range of 0.004% and 2.32% per annum (as at 31 December 2016: 0.004% and 2.32%), with the exception of the securities with a nominal value of USD 28,500 thousand (equivalent of MDL 487,356 thousand) with floating interest rates, which change on a quarterly basis.

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10. Investment securities (continued)

The investment securities in foreign currency measured at fair value through profit or loss include also the accrued interest amounting MDL 44,406 thousands as at 31 December 2017 (as at 31 December 2016: MDL 40,439 thousand).

As at 31 December 2017 the securities measured at fair value through profit or loss issued by non-residents held in the Bank's portfolio having the highest rating – „AAA” represented 94.26%, securities with rating „AA+” constituted 3.89%, „AA” - 1.45% and „AA-” - 0.40% (as at 31 December 2016: „AAA” – 85.76%, „AA+” – 9.09%, „AA” – 5.15%).

The increase of the share of the securities with „AAA” rating and the reduction of the share of securities rated „AA+” and „AA” was caused, mainly, due to the maturity of the euro denominated securities issued by the Council of Europe and the Government of France, as well as supplying the portfolio of securities denominated in foreign currency managed internally, with securities issued by the US Treasury, having the highest rating.

At the same time, during the reporting period, under the external reserve management program, securities denominated in foreign currency issued by Canadian provinces Ontario and Quebec were purchased, quoted with the rating “AA-”.

During the reporting period were sold and have matured securities in foreign currency at fair value through profit or loss with a total nominal value of USD 1,089,041 thousand and EUR 60,000 thousand (during 2016: USD 951,980 thousand, EUR 69,920 thousand and GBP 5,100 thousand). At the same time, during the reporting period, the Bank purchased securities denominated in foreign currency carried at fair value with a total par value of USD 1,320,634 thousand (during 2016: USD 1,258,574 thousand).

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

As at 31 December 2017, the book value of the portfolio of securities in foreign currency managed externally amounted to MDL 3,475,567 thousand (as at 31 December 2016: MDL 4,102,683 thousand), with a share of 7.26% (as at 31 December 2016: 9.32%).

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

As at 31 December 2017, the share of held-to-maturity securities in total official reserve assets of the Bank is of 14.70% (as at 31 December 2016: 19.47%).

	<u>31 December 2017</u>	<u>31 December 2016</u>
	MDL'000	MDL'000
Nominal value of securities in foreign currency	6,994,305	8,509,579
Interest and amortised cost adjustments for foreign currency securities	42,986	60,047
Securities in foreign currency held-to-maturity	<u>7,037,291</u>	<u>8,569,626</u>

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

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10. Investment securities (continued)

Held-to-maturity securities bear fixed annual interest rates within the range of 1.38% and 3.55%.

As at 31 December 2017, securities held-to-maturity with „AAA” rating had a share of 83.82%, those with „AA+” rating had a share of 8.94%, and those with „AA” rating amounted 7.25% (as at 31 December 2016: „AAA” – 79.01%, „AA+” – 14.90%, „AA” – 6.09%).

During the year 2017, the Bank did not recognize any impairment allowances in respect of held-to-maturity securities.

11. Fair value of financial instruments

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

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

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

Hierarchy of the fair value of the financial instruments

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

	Level 1	Level 2	Level 3	Total
	MDL’000	MDL’000	MDL’000	MDL’000
31 December 2017				
Monetary gold	52,642	-	-	52,642
Securities in foreign currency measured at fair value through profit or loss	15,877,864	-	-	15,877,864
Securities issued by the Government of the Republic of Moldova available for sale	-	2,080,570	-	2,080,570
Total	15,930,506	2,080,570	-	18,011,076
31 December 2016				
Monetary gold	54,616	-	-	54,616
Securities in foreign currency measured at fair value through profit or loss	15,329,320	-	-	15,329,320
Securities issued by the Government of the Republic of Moldova available for sale	-	2,091,878	-	2,091,878
Total	15,383,936	2,091,878	-	17,475,814

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11. Fair value of financial instruments (continued)

Valuation techniques include the discounted future cash flows method where applicable, the market prices for similar quoted instruments, polynomial option functions and other methods, as appropriate. The presumptions and inputs used in the valuation techniques include reference to the interest rates used to discount the estimated cash flows, investment securities quotations (source: Bloomberg), quotations from the most recent auctions of state securities issued by the Government of the Republic of Moldova, secondary market prices of securities issued by the Government of the Republic of Moldova, exchange rates, forecasted volatilities and other correlations.

In determining, the fair value of single financial instruments (listed securities), the Bank uses recognized methods based on market information.

For more complex or non-listed or traded instruments in an active market, the Bank uses internal models based on international valuation methods, with inputs that are derived from market quotes or interest rates that are determined based on various presumptions. The fair values obtained as a result of applying internal models are adjusted with various factors, such as liquidation risk (for instruments without an active market, lack of transactions, etc.), credit / counterparty risk or model uncertainties, factors that would be considered by a third party in determining the price of a transaction. Input data and model results are calibrated, and management applies expert judgment to select the most relevant result within the range of values offered by rating models.

In determining and validating fair values, the Bank ensures the implementation of internal control system procedures: verification of source data of market values (exported and validated by the back-office), recalculation of the model results, approval of valuation procedures and changes in the procedure, and analysis and verification of the variations in the method's results, etc.

Classification of financial instruments and financial instruments that are not measured at fair value

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

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

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

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11. Fair value of financial instruments (continued)

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

	At fair value through profit or loss	Held-to- maturity	Loans and receivables	At fair value available for sale	Other liabilities at amortized cost	Total	Fair Value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2017							
Active							
Assets							
Cash and short-term placements with banks	-	-	24,966,441	-	-	24,966,441	24,966,441
Monetary gold	-	-	-	52,642	-	52,642	52,642
Due from international financial institutions	-	-	4,206,142	-	-	4,206,142	4,206,142
Securities issued by the Government of the Republic of Moldova:							
- At fair value	-	-	-	2,080,570	-	2,080,570	2,080,570
- At amortized cost	-	13,441,760	-	-	-	13,441,760	13,441,760
Loans granted to banks and individuals			23,821			23,821	23,821
Investment securities:	15,877,864	-	-	-	-	15,877,864	15,877,864
- At fair value	-	7,037,291	-	-	-	7,037,291	7,226,053
- At amortized cost			1,081			1,081	1,081
Other assets	15,877,864	20,479,051	29,197,485	2,133,212	-	67,687,612	67,876,374
Total financial assets							
Liabilities							
National currency issued into circulation	-	-	-	-	21,032,866	21,032,866	21,032,866
Due to the Government of the Republic of Moldova	-	-	-	-	8,783,146	8,783,146	8,783,146
Due to the banks	-	-	-	-	15,978,430	15,978,430	15,978,430
Certificates issued by the National Bank of Moldova	-	-	-	-	9,217,431	9,217,431	9,217,431
Due to international financial institutions	-	-	-	-	8,758,723	8,758,723	8,758,723
Other liabilities	-	-	-	-	48,096	48,096	48,096
Total financial obligations	-	-	-	-	63,818,692	63,818,692	63,818,692

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11. Fair value of financial instruments (continued)

	At fair value through profit or loss	Held-to- maturity	Loans and receivabl es	At fair value available for sale	Other liabilities at amortized cost	Total	Fair Value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2016							
Active							
Assets							
Cash and short-term placements with banks	-	-	20,118,744	-	-	20,118,744	20,118,744
Monetary gold	-	-	-	54,616	-	54,616	54,616
Due from international financial institutions	-	-	4,639,313	-	-	4,639,313	4,639,313
Securities issued by the Government of the Republic of Moldova:							
- At fair value	-	-	-	2,091,878	-	2,091,878	2,091,878
-At amortized cost	-	13,491,930	-	-	-	13,491,930	13,491,930
Loans granted to banks and individuals	-	-	27,968	-	-	27,968	27,968
Investment securities:	15,329,320	-	-	-	-	15,329,320	15,329,320
- At fair value	-	8,569,626	-	-	-	8,569,626	8,854,054
- At amortized cost	-	-	11,630	-	-	11,630	11,630
Other assets	15,329,320	22,061,556	24,797,655	2,146,494	-	64,335,025	64,619,453
Total financial assets							
Liabilities							
National currency issued into circulation	-	-	-	-	18,990,332	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	-	-	-	-	5,712,099	5,712,099	5,712,099
Due to the banks	-	-	-	-	14,319,524	14,319,524	14,319,524
Certificates issued by the National Bank of Moldova	-	-	-	-	5,915,352	5,915,352	5,915,352
Due to international financial institutions	-	-	-	-	10,498,477	10,498,477	10,498,477
Other liabilities	-	-	-	-	43,212	43,212	43,212
Total financial obligations	-	-	-	-	55,478,996	55,478,996	55,478,996

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12. Property, equipment and intangible assets

	Land, buildings and similar constructions	Equipment and other assets	Property and equipment in construction	Intangible assets	Intangible assets in progress	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
As at 1 January 2017	46,748	137,233	9,358	88,060	6,470	287,869
Additions	7,821	14,990	6,496	1,391	5,275	35,973
Transfers	9,002	3,887	(12,889)	6,680	(6,680)	-
Disposals	-	(1,150)	-	(974)	-	(2,124)
As at 31 December 2017	63,571	154,960	2,965	95,157	5,065	321,718
Accumulated amortization						
As at 1 January 2017	28,195	83,810	-	51,793	-	163,798
Accumulated depreciation / amortization	1,157	14,759	-	13,879	-	29,795
Disposals	-	(1,150)	-	(974)	-	(2,124)
As at 31 December 2017	29,352	97,419	-	64,698	-	191,469
Carrying value						
As at 1 January 2017	18,553	53,423	9,358	36,267	6,470	124,071
As at 31 December 2017	34,219	57,541	2,965	30,459	5,065	130,249
Cost						
As at 1 January 2016	38,112	124,334	4,914	57,699	7,588	232,647
Additions	8,636	9,838	8,652	23,762	5,536	56,424
Transfers	-	4,197	(4,197)	6,654	(6,654)	-
Disposals	-	(1,136)	(11)	(55)	-	(1,202)
As at 31 December 2016	46,748	137,233	9,358	88,060	6,470	287,869
Accumulated amortization						
As at 1 January 2016	27,309	73,400	-	42,035	-	142,744
Accumulated depreciation / amortization	886	11,546	-	9,813	-	22,245
Disposals	-	(1,136)	-	(55)	-	(1,191)
As at 31 December 2016	28,195	83,810	-	51,793	-	163,798
Carrying value						
As at 1 January 2016	10,803	50,934	4,914	15,664	7,588	89,903
As at 31 December 2016	18,553	53,423	9,358	36,267	6,470	124,071

Intangible assets include software, applications and licenses purchased and developed internally.

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13. Other assets

	31 December 2017	31 December 2016
	MDL'000	MDL'000
<i>Other financial assets</i>		
Other receivables	970	8,571
Advance for national currency issuance	111	3,060
	1,081	11,631
<i>Other non-financial assets</i>		
Prepaid expenses	3,408	3,140
Inventories	835	970
Goods and materials administered	1,365	1,391
	5,608	5,501
Less: allowance for slow moving inventory	(61)	(61)
	6,628	17,071

During 2017 there were no allowances for the decrease of the net realizable value of inventories and impairment of receivables (in 2016 – MDL 0).

14. National currency issued into circulation

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Banknotes	20,901,824	18,866,555
Divisional coins	115,931	108,841
Commemorative banknotes and commemorative and jubilee coins	15,111	14,936
	21,032,866	18,990,332

15. Due to the Government of Republic of Moldova

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Demand deposits of the Ministry of Finance	4,558,421	2,683,640
Term deposits of the Ministry of Finance	518,701	-
Amounts in foreign currency of the Ministry of Finance	2,481,442	2,502,827
Other accounts of the Government of the Republic of Moldova	1,224,582	525,632
	8,783,146	5,712,099

The interest rate paid by the Bank on the demand deposits of the Ministry of Finance is floating and determined based on the average interest rate in the banking system available for the last three months, for interest bearing demand deposits of legal entities in MDL. The average interest rate on demand deposits accepted from the Ministry of Finance as at 31 December 2017 is 1.58% (as at 31 December 2016: 1.71%).

For the term deposits of the Ministry of Finance, starting March 2017, the Bank pays interest according to the term of the deposit, applying the weighted average interest rate on the state securities placed at the last auction for that term.

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

If the term of deposits is different from the term of state securities sold at the last auction, the interest rate is determined using the linear interpolation / extrapolating method.

For deposits accepted until March 2017, the Bank paid interest equivalent to the National Bank's base rate applied to the main short-term monetary policy operations, variable over the term of the deposit agreement, irrespective of the deposit term.

The weighted average rate on term deposits of the Ministry of Finance in the balance at 31 December 2017 amounted to 7.52%.

Other assets of the Government of the Republic of Moldova include the accounts of the Credit Line Directorate for various financing projects and the foreign currency means of the Credit Line Directorate.

Foreign currency means and other Government accounts are not interest bearing.

16. Due to banks

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Current accounts of banks, including mandatory reserves	15,308,237	13,324,197
Deposits from licensed banks denominated in national currency	670,193	995,327
	15,978,430	14,319,524

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

According to the requirements of the mandatory reserves regime established by the Bank, as at 31 December 2017 banks are required to maintain mandatory reserves in Moldovan lei and non-convertible currencies at 40 % and in foreign currencies (US Dollars and Euro) at 14% (as at 31 December 2016: mandatory reserves in Moldovan lei and non-convertible currencies at 35% and in foreign currencies (US Dollars and Euro) at 14%) of the reserves base. The mandatory reserves in Moldovan Leu are maintained in average by banks on Loro accounts opened with the Bank during the maintenance period, and the mandatory reserves in foreign currency are registered in the Bank's accounting records, in the account of mandatory reserves in foreign currency and are placed in the Bank's Nostro accounts with foreign banks.

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

Deposits from licensed banks denominated in national currency comprise the overnight deposits of banks placed with the Bank and the related interest accrued for the respective deposits. The interest rate on overnight deposits of the banks as at 31 December 2017 is of 3.50% (as at 31 December 2016: 6%).

17. Certificates issued by the National Bank of Moldova

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Certificates issued by the National Bank of Moldova at original selling price	9,207,224	5,905,650
Amortized discount on the certificates issued by the National Bank of Moldova	10,207	9,702
	9,217,431	5,915,352

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the monetary market. These are issued at discount and repurchased on maturity date at their nominal value. During 2017, the certificates were mainly issued with 14-day maturity.

The weighted average interest rate on the Bank's certificates in circulation as at 31 December 2017 was of 6.50% (as at 31 December 2016: 9%).

18. Other liabilities

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Due to other entities	39,045	34,501
Due to personnel	64	75
Other liabilities	8,987	8,636
	48,096	43,212

19. Capital and reserves

In accordance with art. 19 of the Law on the National Bank of Moldova No.548-XIII of 21 July 1995, with subsequent changes and additions, *"The general reserve fund shall be used exclusively for covering the incurred losses in accordance with the results of the accounting period as at the end of the financial year."*

Thus, on 31 December 2017, the general reserve fund was used to cover losses incurred as at the end of the financial year in the amount of MDL 95,309 thousand, consequently decreasing down to MDL 1,448,482 thousand. Hence, the statutory capital has decreased, down to the amount of MDL 2,351,452 thousand.

As at 31 December 2017, the capital and reserves of the Bank amounted MDL 4,004,716 thousand, decreasing compared to 31 December 2016, due to covering of the unrealized foreign exchange losses from revaluation of foreign currency stocks amounting to MDL (4,851,881) thousand and of the unrealized losses from revaluation of investment securities amounting to MDL (28,889) thousand, which amended the respective reserves accordingly.

Other reserves comprise the reserve recorded from revaluation of the state securities, classified as available for sale, and favourable differences from the revaluation of monetary gold.

Revaluation differences on these assets represent items of other comprehensive income that may be subsequently reclassified to profit or loss.

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19. Capital and reserves (continued)

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Revaluation of available-for-sale assets	1,888	4,661
Revaluation of monetary gold	7,079	9,052
	8,967	13,713

As of 31 December 2017, the statutory capital' ratio to total monetary liabilities was of approximatively 5.08% (31 December 2016: 6.23%).

	Notes	31 December 2017	31 December 2016
		MDL'000	MDL'000
Total liabilities		63,818,692	55,478,996
Monetary liabilities due to IMF	7	8,735,389	10,491,915
Monetary liabilities due to the Government of Republic of Moldova	15	8,783,146	5,712,099
Monetary liabilities under the Law on the NBM		46,300,157	39,274,982
Authorized capital		902,970	902,970
General reserve fund		1,448,482	1,543,791
Statutory capital		2,351,452	2,446,761
Level of capital %		5.08	6.23

20. Calculation of the (total loss)

	31 December 2017	31 December 2016
	MDL'000	MDL'000
(Net loss)	(4,976,079)	(1,313,601)
Covering of unrealized losses on revaluation of the investment securities	28,889	18,146
Covering of unrealized losses on revaluation of foreign currency stocks	4,851,881	1,033,306
(Total loss)	(95,309)	(262,149)
Distribution:		
(Use) of the general reserve fund	(95,309)	(262,149)

During the year 2017, the Bank registered a net loss in amount of MDL 4,976,079 thousand (2016: net loss: MDL1,313,601 thousand). As a result of applying the corresponding provisions of the *Law on the National Bank of Moldova*, the total loss amounted to MDL 95,309 thousand (2016: total loss: MDL 262,149 thousand).

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17. Certificates issued by the National Bank of Moldova

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Certificates issued by the National Bank of Moldova at original selling price	9,207,224	5,905,650
Amortized discount on the certificates issued by the National Bank of Moldova	10,207	9,702
	9,217,431	5,915,352

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the monetary market. These are issued at discount and repurchased on maturity date at their nominal value. During 2017, the certificates were mainly issued with 14-day maturity.

The weighted average interest rate on the Bank's certificates in circulation as at 31 December 2017 was of 6.50% (as at 31 December 2016: 9%).

18. Other liabilities

	31 December 2017	31 December 2016
	MDL'000	MDL'000
Due to other entities	39,045	34,501
Due to personnel	64	75
Other liabilities	8,987	8,636
	48,096	43,212

19. Capital and reserves

In accordance with art. 19 of the Law on the National Bank of Moldova No.548-XIII of 21 July 1995, with subsequent changes and additions, *"The general reserve fund shall be used exclusively for covering the incurred losses in accordance with the results of the accounting period as at the end of the financial year."*

Thus, on 31 December 2017, the general reserve fund was used to cover losses incurred as at the end of the financial year in the amount of MDL 95,309 thousand, consequently decreasing down to MDL 1,448,482 thousand. Hence, the statutory capital has decreased, down to the amount of MDL 2,351,452 thousand.

As at 31 December 2017, the capital and reserves of the Bank amounted MDL 4,004,716 thousand, decreasing compared to 31 December 2016, due to covering of the unrealized foreign exchange losses from revaluation of foreign currency stocks amounting to MDL (4,851,881) thousand and of the unrealized losses from revaluation of investment securities amounting to MDL (28,889) thousand, which amended the respective reserves accordingly.

Other reserves comprise the reserve recorded from revaluation of the state securities, classified as available for sale, and favourable differences from the revaluation of monetary gold.

Revaluation differences on these assets represent items of other comprehensive income that may be subsequently reclassified to profit or loss.

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22. Interest expenses (continued)

The minimum level of mandatory reserves in MDL was gradually increased in 2017 from 35% up to 40%, in 2016 being maintained at 35%.

In 2017 the interest rate on the remunerated mandatory reserves attracted in MDL gradually decreased from 6% to 3.56% (2016: from 16.50% to 6%), while for those means attracted in convertible currency it ranged from 0.6% to 0.3% (2016: interval from 0.2% to 0.65%).

The average daily balance of the Bank's certificates during the year 2017 amounted to MDL 6,358 million (2016: MDL 2,959 million). The average interest rate of the Bank's certificates issued during the year 2017 was 8.11% (during 2016: 11.55%).

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

	<u>2017</u>	<u>2016</u>
	MII LEI	MII LEI
Realized gains from foreign currency transactions	44,616	238,433
Unrealized (losses) from foreign currency stocks revaluation	(4,851,881)	(1,033,306)
	<u>(4,807,265)</u>	<u>(794,873)</u>

Realized gains arise from the sale of foreign currencies and represent the positive difference between sale exchange rate and the cost of currency stock (or the average exchange rate of the purchased currency) multiplied to the sales volume. During the year 2017, the foreign exchange gains were generated mainly from the sale of currency when the difference between the sale exchange rates and cost of currency stock was significant.

Net unrealized losses on exchange rate revaluation are formed as a result of the daily currency revaluation as the difference between the official exchange rate of the MDL against the foreign currencies constituting the respective foreign exchange reserves and the revaluation of the International Monetary Fund accounts during the financial year.

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

	<u>2017</u>	<u>2016</u>
	MII LEI	MII LEI
Net realized (losses)/gains from investment securities	(8,540)	26,214
Net unrealized (losses) from revaluation of securities in the balance at the year end	(28,889)	(18,146)
	<u>(37,429)</u>	<u>8,068</u>

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

National Bank of Moldova
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25. Other income

	2017	2016
	MII LEI	MII LEI
Income relating to the settlement services under the Automated Interbank Payment System	6,218	5,693
Income relating to the cash operations	17,451	21,531
Income from the sale of commemorative banknotes and commemorative and jubilee coins	3,212	2,151
Income from commissions related to state securities	3,088	3,375
Other income	78,855	4,459
	108,824	37,209

Other income includes income from the recovery of expenses related to the liquidation procedures of banks in liquidation amounting to MDL 75,237 thousand (2016: MDL 0 thousand).

26. Operating expenses

	2017	2016
	MII LEI	MII LEI
Expenses related to national currency	53,157	7,445
Personnel expenses	116,460	89,549
Expenses related to informational, advisory and audit services	40,973	60,266
Expenses related to amortization of property, equipment and intangible assets	29,795	22,247
Buildings, transport and equipment maintenance expenses	7,982	7,023
Expenses with fees and commissions	11,782	3,173
Other operating expenses	9,540	8,791
	269,689	198,494

Following the amendment of Article 34 of the Law on the National Bank of Moldova, during 2017 the Bank launched the first stage of the gradual implementation of a new remuneration system based on the evaluation of functions, competencies and performance, a remuneration system that would allow strengthening the institutional capacity of the Bank, retaining skills and enhancing competitiveness on the labor market. This step led to a first benefit of the uniformity and transparency of the payroll system.

The change of personnel expenses in 2017 was mainly determined by the consolidation of institutional capacity of the Bank through: the full activity (except for a vice-governor) of the bank's governing bodies, the optimization of the state structure by decreasing the number of managerial positions and the reduction of some positions in the support areas, which led to additional costs for personnel reduction, the development of functions by creating specialized subdivisions in the areas of supervision, resolution, financial stability, etc., hiring the personnel with a high level of expertise and knowledge. At the same time, the increase of commitments assumed by the Bank under the agreements with external development partners also had an impact on the level of personnel costs.

The personnel expenses include the mandatory state social insurance contributions in amount of MDL 20,668 thousand and the mandatory medical insurance contributions in amount of MDL 4,042 thousand (as at 31 December 2016: MDL 15,737 thousand and MDL 3,025 thousand respectively).

As at 31 December 2017 the number of active employees represented 437 (as at 31 December 2016: 424 active employees).

In 2017 the negative interest rate expense for the Nostro and Overnight accounts in Euro amounted to MDL 8,836 thousand (2016: MDL 624 thousand). Fees related to financial assets and liabilities not valued at fair value are MDL 2,723 thousand (2016: MDL 2,530 thousand).

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27. Related parties

The remuneration of the Bank's management (including members of Executive Board, Supervisory Board and middle management) expenses for the year 2017, amounted to MDL 16,732 thousands (for the year 2016: MDL 12,771 thousands, including the members of Supervisory Board).

For the year 2017, the expenses with the mandatory state social insurance and the mandatory medical insurance contributions related to the Bank's management (including members of Executive Board, Supervisory Board members and middle management) amounted to MDL 3,837 thousands and MDL 751 thousands, respectively (as at 31 December 2016: MDL 2,911 thousands and respectively MDL 556 thousands).

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

	Balance as at 1 January	Loans granted	Reimbursements	Balance as at 31 December
	MDL'000	MDL'000	MDL'000	MDL'000
2016	5,114	1,121	(879)	5,356
2017	5,356	-	(1,053)	4,303

The loans are granted at the same interest rates to all Bank's employees in accordance with the Bank's internal regulations. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2017 amounted to MDL 6,697 mii lei (as at 31 December 2016: MDL 8,019 thousands).

As at 31 December 2017, these loans were classified as standard and therefore not requiring any allowance for impairment losses.

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

28. Commitments and contingent liabilities

Promissory notes issued

As at 31 December 2017 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 2,920,250 thousands (as at 31 December 2016: MDL 3,555,587 thousands).

Investment commitments

On 29 December 2017, within the external reserves management program, the World Bank has concluded one purchase transaction for a security with a total nominal value of USD 8,500 thousands (equivalent of MDL 145,352 thousands), but NBM concluded 2 purchase transactions of securities with a nominal value of USD 54,500 thousands (equivalent of MDL 931,961 thousand), the date of all the aforementioned transactions being 2 January 2018.

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28. Commitments and contingent liabilities (continued)

Loan commitments

As at 31 December 2017 there are no loan commitments (as at 31 December 2016 there were no loan commitments).

As at 31 December 2017 (as well as at 31 December 2016) there was no debt with expired limitation period.

Capital commitments

As at 31 December 2017, in accordance with the agreements concluded, the Bank was committed to settle during the following years its financial obligations regarding the payment for some acquisitions related to the Bank's activity amounting to approximately EUR 481 thousands or approximately MDL 9,811 thousands (as at 31 December 2016: approximately EUR 1,001 thousands and USD 41 thousands or approximately MDL 21,735 thousands).

Litigations and contingent liabilities

As at 31 December 2017, the Bank was involved in 24 lawsuits, in 23 of which the Bank participates as a defendant and in one as a complainant.

As at 31 December 2017 (as well as at 31 December 2016), the Bank did not record any provisions for litigations, as the Bank considered that there were not sufficient evidence regarding any related possible future outflows of economic resources.

29. Subsequent events

The Executive Board of the National Bank of Moldova approved in March 2018 a set of measures for the establishment of the Central Securities Depository (CSD).

The CSD is being established under the Law on the Central Securities Depository, adopted in 2016, and will be the only institution in the Republic of Moldova to keep record, deposit and provide settlement of state and corporate securities.

The CSD is designed to guarantee the securities' safety, to ensure the transparency of financial markets and to develop new financial market instruments. It will be organized on the model of depositories currently operating on international financial markets of developed economies, and will facilitate the NBM in achieving its objective of ensuring the shareholders' transparency in the licensed banks.

On March 29, 2018, the general meeting of the shareholders of the CSD was held, during which the decision to establish the CSD was adopted. The National Bank's share in the Central Securities Depository's capital is 98.36% amounting to 24 million MDL. The Central Securities Depository was registered on 4 April 2018.

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