

NATIONAL BANK OF MOLDOVA

FINANCIAL STATEMENTS

for the year ended 31 December 2015
Prepared in Accordance with the
International Financial Reporting Standards
(free translation¹)

¹Translator's explanatory note: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official binding version.

NATIONAL BANK OF MOLDOVA
FINANCIAL STATEMENTS
For the year ended 31 December 2015

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To the Supervisory Board of the
National Bank of Moldova

INDEPENDENT AUDITOR'S REPORT

- 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 2015, statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 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.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

- 6 In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

- 7 We draw attention to the Notes 9 and 29 to the financial statements describing that during 2014-2015 the Bank has granted short-term emergency loans to three banks from Republic of Moldova. All mentioned loans are currently overdue. The three banks are under the liquidation process and their banking licenses have been withdrawn. However, these loans have been secured by State Guarantees issued by the Ministry of Finance of Republic of Moldova, providing that the Bank will receive state securities issued by the Ministry of Finance of Republic of Moldova. In accordance with the Memorandum of understanding, signed by the Bank and the Ministry of Finance of Republic of Moldova on 09 March 2016, the state securities will be issued starting with 01 April 2016. As at 31 December 2015 the balance of these loans amounts to MDL 13,689,217 thousand. Our opinion is not qualified in respect of this matter.

Other Matters

- 8 The financial statements of the National Bank of Moldova for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2015.
- 9 This independent auditor's report is made solely to the Supervisory Board of the National Bank of Moldova, as a body. Our audit work has been undertaken so that we might state to the Supervisory Board of the National Bank of Moldova those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Supervisory Board of the National Bank of Moldova as a body, for our audit work, for this report, or for the opinion we have formed.

*Refer to the original signed
Romanian version*

Deloitte Audit S.R.L.
Bucharest, Romania
25 March 2016

NATIONAL BANK OF MOLDOVA
BALANCE SHEET
As at 31 December 2015

	Notes	31 December 2015 MDL'000	31 December 2014 MDL'000
ASSETS			
Cash and short-term placements with banks	5	14,706,367	13,140,735
Monetary gold	6	50,032	44,159
Due from international financial institutions	7	3,703,857	2,805,833
Securities issued by the Government of the Republic of Moldova	8	2,118,561	2,075,118
Loans granted to banks and individuals	9	14,039,063	7,671,022
Investment securities	10	19,431,909	20,472,929
Property and equipment	12	66,651	25,430
Intangible assets	12	23,252	21,540
Other assets	13	6,920	33,110
TOTAL ASSETS		54,146,612	46,289,876
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	14	17,044,068	19,216,997
Due to the Government of the Republic of Moldova	15	3,311,788	2,398,196
Due to the banks	16	12,787,808	8,509,563
Certificates issued by the National Bank of Moldova	17	614,445	219,809
Due to international financial institutions	7	10,035,034	8,896,675
Other liabilities	18	64,433	955,096
Total liabilities		43,857,576	40,196,336
Capital and reserves			
Authorized capital	19	902,970	330,017
General reserve fund		1,805,940	418,005
Total statutory capital		2,708,910	748,022
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation		7,364,942	5,106,782
Reserve of unrealized gains on revaluation of investment securities		211,577	240,117
Other reserves		3,607	(1,381)
Total capital and reserves		10,289,036	6,093,540
TOTAL LIABILITIES, CAPITAL AND RESERVES		54,146,612	46,289,876

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

The Financial Statements were approved by the Supervisory Board of the National Bank of Moldova on 25 March 2016.



Dorin Drăguțanu
Governor


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




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NATIONAL BANK OF MOLDOVA
STATEMENT OF COMPREHENSIVE RESULT
For the year ended 31 December 2015

	Notes	2015 MDL'000	2014 MDL'000
Interest income from short-term placements	21	32,754	32,373
Interest income from securities	21	647,838	412,555
Interest income from loans and Repo agreements	21	80,389	17,119
		<u>760,981</u>	<u>462,047</u>
Interest expenses on loans received	22	(39,717)	(34,522)
Interest expenses on deposits and mandatory reserves	22	(657,770)	(58,618)
Interest expenses on transactions with securities and Repo agreements	22	(119,810)	(56,928)
		<u>(817,297)</u>	<u>(150,068)</u>
Net interest (loss) / income		(56,316)	311,979
Gains from foreign currency transactions and foreign exchange rate differences	23	4,545,010	3,905,825
(Losses) / gains from the revaluation of securities	24	(48,479)	29,824
Other income	25	20,696	32,768
Operating expenses	26	(270,403)	(116,544)
Net Operating Income		4,246,824	3,851,873
NET PROFIT		4,190,508	4,163,852
Other comprehensive income			
Revaluation of securities issued by the Government of the Republic of Moldova		(884)	(1,477)
Revaluation of monetary gold		5,872	6,768
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD		4,195,496	4,169,143
<i>Calculation of the Profit available for distribution</i>			
NET PROFIT		4,190,508	4,163,852
Covering / (allocation) of unrealized losses / (gains) on foreign exchange revaluation of investment securities	20	28,540	(12,282)
Allocation of unrealized gains on revaluation of foreign currency stocks	20	(2,258,160)	(2,372,840)
PROFIT AVAILABLE FOR DISTRIBUTION	20	1,960,888	1,778,730

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

The Financial Statements were approved by the Supervisory Board of the National Bank of Moldova on 25 March 2016.


Dorin Drăguțanu
Governor


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



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NATIONAL BANK OF MOLDOVA
STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	Notes	2015 MDL'000	2014 MDL'000
Cash flows from operating activities			
Interest receipts		776,411	514,502
Interest payments		(814,574)	(151,197)
(Loss) / gain from investment securities		(19,939)	17,542
Other receipts		20,692	32,730
Payments to personnel and suppliers		(191,352)	(108,487)
Cash flows before changes in assets and liabilities		(228,762)	305,090
(Increase) / decrease in term deposits in foreign currency		(2,218,849)	209,876
(Increase) / decrease in amounts due from international financial institutions		(306,820)	72,869
Increase in loans granted to banks and individuals		(6,369,159)	(7,387,824)
Decrease in investment securities		4,842,930	6,696,259
Increase in operating assets		(4,051,898)	(408,820)
(Decrease) / increase in the national currency issued into circulation		(2,172,928)	176,292
Increase in balances due to Government of the Republic of Moldova		789,219	735,781
Increase in balances due to banks		3,617,195	1,181,827
Increase/ (decrease) in certificates issued by the National Bank of Moldova		392,631	(2,381,414)
Decrease in balances due to international financial institutions		(654,350)	(412,153)
Decrease in other liabilities		(14,323)	(124,083)
Increase/ (decrease) in operating liabilities		1,957,444	(823,750)
Net cash flows from operating activities		(2,323,216)	(927,480)
Property, equipment and intangible assets acquisitions		(40,599)	(9,619)
Net cash flows used in investing activities		(40,599)	(9,619)
Payments to the State Budget with regards to profit distribution		(889,365)	(125,040)
Net cash flows used in financing activities		(889,365)	(125,040)
Differences from revaluation of cash and cash equivalents		2,643,406	1,849,403
(Decrease) / increase in cash and cash equivalents		(609,774)	787,264
Cash and cash equivalents at the beginning of the year		6,356,404	5,569,140
Cash and cash equivalents at the end of the year		5,746,630	6,356,404
Analysis of cash and cash equivalents			
		31 December 2015	31 December 2014
Cash in hand in foreign currency	5	3,554	1,233,359
Nostro accounts	5	77,961	233,890
Term deposits in foreign currency	5	3,546,554	2,814,037
Securities issued by the Government of the Republic of Moldova	8	2,118,561	2,075,118
Cash and cash equivalents		5,746,630	6,356,404

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 2015

	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 available for distribution	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 2014	330,017	(471,360)	2,733,942	227,835	-	(6,672)	2,813,762
Profit	-	-	2,372,840	12,282	1,778,730	-	4,163,852
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	(1,477)	(1,477)
Differences on revaluation of monetary gold	-	-	-	-	-	6,768	6,768
Other comprehensive income, total	-	-	-	-	-	5,291	5,291
Comprehensive result at the end of the year	-	-	2,372,840	12,282	1,778,730	5,291	4,169,143
<i>Allocation of profit</i>							
Increase of the general reserve fund	-	889,365	-	-	(889,365)	-	-
Allocation of profit to the State Budget	-	-	-	-	(889,365)	-	(889,365)
Balance as at 31 December 2014	330,017	418,005	5,106,782	240,117	-	(1,381)	6,093,540
Balance as at 1 January 2015	330,017	418,005	5,106,782	240,117	-	(1,381)	6,093,540
Profit	-	-	2,258,160	(28,540)	1,960,888	-	4,190,508
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	(884)	(884)
Differences on revaluation of monetary gold	-	-	-	-	-	5,872	5,872
Other comprehensive income, total	-	-	-	-	-	4,988	4,988
Comprehensive result at the end of the year	-	-	2,258,160	(28,540)	1,960,888	4,988	4,195,496
<i>Allocation of profit</i>							
Increase of the Authorized capital	572,953	-	-	-	(572,953)	-	-
Increase of the general reserve fund	-	1,387,935	-	-	(1,387,935)	-	-
Balance as at 31 December 2015	902,970	1,805,940	7,364,942	211,577	-	3,607	10,289,036

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



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. General information about the National Bank of Moldova

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

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

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

2. Basis of preparation

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

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

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

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

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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 a semiannual 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.

NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies

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

a. Revaluation of the balances and transactions in foreign currency

The transactions in foreign currency are recorded at the exchange rate of the date of the transaction and are revalued on a daily basis using the official exchange rate of the Moldovan Leu. As at the Balance Sheet date, the monetary assets and liabilities denominated in foreign currencies are translated at the official rate of the Moldovan Leu as of the Balance Sheet date. For the years 2015 –2014, the official exchange rates of the reference foreign currencies were as follows:

	Year 2015		Year 2014	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	18.8161	19.6585	14.0388	15.6152
EUR/MDL	20.8980	21.4779	18.6321	18.9966
GBP/MDL	28.7964	29.1134	23.1178	24.2574
XDR/MDL	26.3363	27.2635	21.3198	22.6168
XAU/MDL	700.9788	674.8875	570.3802	595.6709

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. Short-term placements with other banks and securities issued by the Government of the Republic of Moldova with the maturity of more than 3 months from the date of the acquisition are not included in cash and cash equivalents. For a more appropriate presentation of the cash flow statement the short-term investments with a maturity higher than 3 months from the acquisition date have been excluded from the cash and cash equivalents category/account. The cash flow statement at 31 December 2014 has been adjusted to reflect the comparative information accordingly.

In the Balance Sheet, cash is carried at nominal value and short-term placements with banks are carried at amortised 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.



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

c. Monetary gold (continued)

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*.

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

d. Due from international financial institutions

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

e. Financial assets

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent securities acquired for generating a profit from short-term fluctuations in price or securities included in a portfolio for which there is evidence of short-term profit-taking. Upon initial recognition, the financial assets at fair value through profit or loss are recognized at fair value at the settlement date and are accounted for with separate details of the nominal value, unamortized discount or premium, purchased interest and accrued interest. After initial recognition, these securities are measured at fair value based on

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

e. Financial assets (continued)

quoted bid prices on the principal market (BID price provided by Bloomberg Information System), the revaluation result being recognized separately in the Balance Sheet. Interest income on securities is included in "Interest income".

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

Loans and receivables of the Bank

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

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

Held-to-maturity investments

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

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

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

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the entity has collected substantially all of the financial asset's original principal; and

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

e. Financial assets (continued)

- sales or reclassifications attributable to non-recurring isolated events beyond the entity's control that could not have been reasonably anticipated.

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

Available for sale financial assets

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

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

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

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

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

Recognition of financial assets and liabilities

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

Derecognition of financial assets and liabilities

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

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



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

f. Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

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).

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

f. Fair value of financial instruments (continued)

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

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

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

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

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

The amount of the allowances for impairment of the loans is the difference between the carrying amount and estimated recoverable value, calculated as present value of estimated future cash flows from recovery, including the amounts recoverable from collaterals, discounted at the loan's original interest rate. The allowances for impairment of the loans and provisions for losses on conditional commitments are decreased or increased in case the allowance / provision calculated at the reporting date is respectively less or greater than the previously established allowance / provision. For emergency loans granted to licensed banks, allowances for impairment are not constituted, due to the fact that these are guaranteed by the State.

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

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

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

The evaluation of impairment is performed annually, based on individual assessment, or, when necessary, more frequently, if there are any objective evidences that could lead to the impairment of financial assets.



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

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

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

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

h. Repo Agreements

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

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

i. Forward transactions

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

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

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.

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

j. Property and equipment (continued)

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

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

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

k. Intangible assets

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

As at 31 December 2015 the estimated useful life of intangible assets in use varied between 1 and 5 years.

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

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

l. National currency used into circulation

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

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

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

m. Due to the banks

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

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

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

n. Due to the Government of the Republic of Moldova

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

o. Certificates issued by the National Bank of Moldova

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

p. Due to international financial institutions

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

q. Other liabilities

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

r. Capital and reserves

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



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

r. Capital and reserves (continued)

The capital structure of the Bank includes the following:

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

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

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

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

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

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



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

r. Capital and reserves (continued)

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*¹, until the capital reaches the level of 10% of total monetary liabilities, and thereafter, if there will be a difference between the balance of the profit available for distribution and the amount allocated for the statutory capital increase, it will be transferred to the State Budget. Statutory capital and reserves are disclosed in the Balance Sheet at amortized cost.

s. Income tax

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

t. Interest income and expenses

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

u. Revaluation of foreign currency assets and liabilities.

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

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

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

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

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.

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

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

w. Contingent assets and liabilities

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

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

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

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

x. Provisions

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

y. Pension costs and employees' benefits

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

z. New standards and interpretations not yet adopted

A number of standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these Financial Statements. None of these will have an impact on the Financial Statements of the Bank, with the exception of:

IFRS 9 "Financial Instruments" (the final version of the standard was published on July 24, 2014, and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted.). The final version of the standard includes both provisions on the classification and measurement, impairment and hedge accounting.

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

3. Significant accounting policies (continued)

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

The standard fully replaces IAS 39 “Financial Instruments: Recognition and Measurement”, except that it allows the application of hedge accounting for a portfolio of financial assets or financial liabilities of the entity either based on the requirements of IAS 39 or IFRS 9, depending on the provisions of the accounting policies applied by the entity and choice made.

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

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

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

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

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

Amendments to IAS 1 “Presentation of Financial Statements” (effective for periods of a year, on or after 1 January 2016). The amendments aim to clarify some impediments to the exercise of judgment in preparing and presenting financial statements.

Materiality. Specific changes state that the information should not be covered by aggregation or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires specific disclosure.

Notes. The amendments add additional examples of possible ways of arranging the notes to clarify that understandability and comparability should be taken into account in determining their order and to demonstrate that the notes should not be required to be presented in the order

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3. Significant accounting policies (continued)

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

specified in paragraph 114 of the present IAS 1. The IASB also eliminated guidance and examples on the identification of significant accounting policies that were perceived as potentially useless.

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

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” (effective for periods of a year, on or after 1 January 2016). Amendments clearly explain that it is prohibited to use the depreciation method based on income for tangible and intangible assets. This provision can be violated only when the income and consumption of economic benefits of the intangible assets are highly correlated, or when the asset is expressed as a measure of income. It is expected that the changes will not significantly impact the bank's financial statements because it does not apply depreciation methods based on income.

Amendments to IAS 27 „Separate Financial Statements” (effective for periods of a year, on or after 1 January 2016). The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements at cost, in accordance with IFRS 9 “Financial Instruments” (or in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” for entities that have not yet adopted IFRS 9), or using the equity method as described in IAS 28 “Investments in Associates and Joint Ventures”.

Moreover, taking in consideration that the definition of separate financial statements has long been somewhat unclear, the IASB has made adjustments to confirm that separate financial statements are those presented in addition to consolidated financial statements, or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures, in which the investments in associates or joint ventures are required by IAS 28 “Investments in Associates and Joint Ventures” to be accounted for using the equity method. The expectancy is that these amendments will not impact the financial statements of the Bank, taking in consideration the nature of its activities.



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management

4.1 Risk management framework

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

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

The Executive Board of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework, including through the setting up of Investment and Monetary Committees which are responsible for developing and monitoring the risk management policies in the specific areas of responsibility, reporting regularly to the 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 on the market for its institutional purposes only.

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4. Risk management (continued)

4.1 Risk management framework (continued)

using foreign exchange reserves assets and keeps them at an adequate level for the implementation of monetary and foreign exchange policy of the State.

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

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

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

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

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

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

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management (continued)

4.1 Risk management framework (continued)

securities assigned to one of the following categories: supranational (issued by supranational institutions), Governmental (issued by the U.S. Government, Governments of the European Union member-countries and other governmental issuers with high ratings) and other non-governmental bodies (issued by agencies with high ratings).

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

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

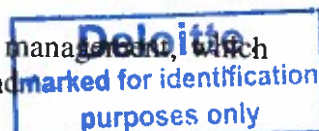
The audit and the assessment of the internal control system within the Bank is an element of managerial control which is in the responsibility of the Internal Audit Department. Internal audit conclusions and recommendations are submitted to audited departments and to the executive management for implementation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

Operational risk

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

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

- 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



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4. Risk management (continued)

4.1 Risk management framework (continued)

Operational risk (continued)

- Determination of administrative, operational and control mechanisms necessary to ensure the compliance with laws, regulations, policies, rules and internal procedures, as well as ensuring the application of these mechanisms in all subdivisions and by the Bank's personnel.

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

Financial risk

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

4.2 Credit risk

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

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

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

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.

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.

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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management (continued)

4.2 Credit risk (continued)

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

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

The credit risk associated to overnight loans is monitored daily using the monetary policy limits that according to the current regulations, if necessary, allow to reduce to zero the loans that may be granted to licensed banks under the permanent facilities, 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:

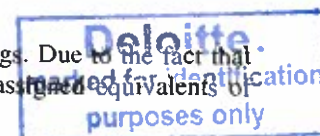
- Establishing the percentage of insurance of transaction (haircut) - when securities are acquired at a higher interest rate than established on the market at the moment, the Bank being protected against the eventual non repayment by the counterpart bank.
- Requesting additional pledge for maintaining 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.

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.

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



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

NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management (continued)

4.2 Credit risk (continued)

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

31 December 2015

Long-term rating ¹	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 ²	Loans granted to banks and individuals	Investment securities	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	2,123,450	-	3,703,857	-	-	16,346,393	-	22,173,700
AA+	22,368	-	-	-	-	1,025,414	-	1,047,782
AA	2,066,335	-	-	-	-	2,060,102	-	4,126,437
AA-	2,461,752	-	-	-	-	-	-	2,461,752
A+	2,939,159	-	-	-	-	-	-	2,939,159
A	5,090,131	-	-	-	-	-	-	5,090,131
BBB+	1,400	-	-	-	-	-	-	1,400
BBB	21	-	-	-	-	-	-	21
BBB-	10	-	-	-	-	-	-	10
BB+	1,741	-	-	-	-	-	-	1,741
Without rating	-	50,032	-	2,118,561	14,039,063	-	1,695	16,209,351
Total	14,706,367	50,032	3,703,857	2,118,561	14,039,063	19,431,909	1,695	54,051,484

31 December 2014

Long-term rating	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	Loans granted to banks and individuals	Investment securities	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	2,403,664	-	2,805,833	-	-	17,784,278	-	22,993,775
AA+	549,221	-	-	-	-	1,465,748	-	2,014,969
AA	17	-	-	-	-	1,222,903	-	1,222,920
AA-	2,596,064	-	-	-	-	-	-	2,596,064
A+	2,823,044	-	-	-	-	-	-	2,823,044
A	4,767,639	-	-	-	-	-	-	4,767,639
A-	212	-	-	-	-	-	-	212
BBB	21	-	-	-	-	-	-	21
BBB-	853	-	-	-	-	-	-	853
Without rating	-	44,159	-	2,075,118	7,671,022	-	30,036	9,820,335
Total	13,140,735	44,159	2,805,833	2,075,118	7,671,022	20,472,929	30,036	46,239,832

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

² Taking into consideration the Bank's role as the state's fiscal agent and the specific relationship between the Bank as the Central Bank of the state and the Government, the securities issued by the Government of the Republic of Moldova are included in the category "Without Rating". However, as at 31 December 2015, the international rating agency Moody's maintains for Republic of Moldova the rating level B3 (as at 31 December 2014, rating level B3).

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



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management (continued)

4.2 Credit risk (continued)

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

As at 31 December 2015 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 2015	35,571	1,809	13,278	675	48,849	2,485	0.14
31 December 2014	35,649	2,283	14,178	908	49,827	3,191	0.15

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

Country	31 December 2015		31 December 2014	
	MDL'000	Share %	MDL'000	Share %
USA	9,530,780	17.63	7,404,056	16.01
International financial organisations	7,244,333	13.40	6,950,745	15.03
Germany	5,688,796	10.52	7,561,246	16.35
France	4,479,428	8.29	4,508,229	9.75
Great Britain	4,321,619	8.00	1,860,125	4.02
The Netherlands	2,191,584	4.05	6,111,273	13.22
Luxemburg	2,066,315	3.82	546,980	1.18
Sweden	1,078,552	2.00	234,421	0.51
Finland	773,379	1.43	479,815	1.04
Austria	363,179	0.67	323,250	0.70
Canada	101,722	0.19	18,678	0.04
Norway	24	-	388,409	0.84
Denmark	2	-	31,299	0.07
Other Countries	2,420	0.01	971	-
Republic of Moldova	16,209,351	29.99	9,820,335	21.24
Total financial assets	54,051,484	100.00	46,239,832	100.00

The Republic of Moldova Quota within IMF is one of the most significant balances classified under the position "International Financial Organizations". Decrease of investments in The Netherlands and Germany, and the simultaneous increase of investments in Great Britain, USA and Luxemburg is mainly due to reinvestment of term due placements with counterparties from Great Britain and Luxemburg and purchase of securities issued by the U.S. Treasury.

NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Risk management (continued)

4.2 Credit risk (continued)

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

Investment sector	31 December 2015	Share	31 December 2014	Share
	MDL'000	%	MDL'000	%
Foreign central banks	2,145,871	3.97	2,405,952	5.20
Foreign commercial banks	12,560,496	23.24	10,734,782	23.22
Local banks	14,039,063	25.97	7,671,022	16.59
Foreign Governments	11,792,606	21.82	11,203,451	24.23
Government of the Republic of Moldova	2,118,561	3.92	2,075,118	4.49
International Financial Organizations	7,244,333	13.40	6,950,745	15.03
Foreign Government Agencies	4,098,827	7.58	5,124,567	11.08
Other financial assets	51,727	0.10	74,195	0.16
Total financial assets	54,051,484	100.00	46,239,832	100.00

During the year 2015, the concerns about the creditworthiness of certain Eurozone countries persisted, thus leading to speculations concerning the long-term sustainability of the Eurozone. During 2015, the Bank promoted a prudent investment policy regarding exposures to counterparties and countries from Eurozone. The lowest average rating of issuers of government bonds and Eurozone Government Agencies in which the Bank invested was "AA". The exposure to other counterparties was restricted based on the credit rating assigned by international rating agencies to these investments, the average rating accepted on investments being "A-".

As at 31 December 2015, emergency loans granted to banks amounting MDL 13,689,217 thousands are past due, but not impaired. As at 31 December 2014, emergency loans granted to banks amounted MDL 6,450,000 thousands.

As emergency loans granted to licensed banks are guaranteed by State guarantee, these are analyzed as sovereign risk assets of the Republic of Moldova.

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.

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

4. Risk management (continued)

4.3 Liquidity risk (continued)

Benchmarks used are market indices recognized and used worldwide for benchmarking the performance and risks of the investment portfolios. The indices used are provided by the Bank of America Merrill Lynch, an institution that calculates and provides a wide range of benchmarks recognized and used throughout the investment community.

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

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 stipulates that the investments are managed according to a benchmark index (Bank of America Merrill Lynch U. S. Treasuries, 1-3 years), so as the duration of the portfolio is correlated with the duration of the benchmark. Deviations of portfolio duration of +/- 3 months are allowed compared to benchmark duration.

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

Nevertheless, the replenishment of the portfolio of investment securities held-to-maturity 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 2015 had a contractual maturity no longer than 91 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.



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS – not audited
For the year ended 31 December 2015

4. Management risk (continued)

4.3 Liquidity (continued)

The analysis of financial assets and liabilities classified according to their contractual maturity date as at 31 December 2015 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 2015								
Assets								
Cash and short-term placements with banks	10,633,122	4,073,245	-	-	-	-	-	14,706,367
Monetary gold	-	-	-	-	-	-	50,032	50,032
Due from international financial institutions	347,723	-	-	-	-	-	3,356,134	3,703,857
Securities issued by the Government of the Republic of Moldova	2,118,561	-	-	-	-	-	-	2,118,561
Loans granted to banks and individuals	14,013,219	833	1,604	2,907	6,972	13,528	-	14,039,063
Investment securities	712,900	954,630	2,320,330	4,482,793	5,149,260	5,811,996	-	19,431,909
Other assets	1,695	-	-	-	-	-	-	1,695
Total financial assets	27,827,220	5,028,708	2,321,934	4,485,700	5,156,232	5,825,524	3,406,166	54,051,484
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	3,311,788	-	-	-	-	-	-	3,311,788
Due to the banks	12,787,808	-	-	-	-	-	-	12,787,808
Certificates issued by the National Bank of Moldova	614,445	-	-	-	-	-	-	614,445
Due to international financial institutions	287,171	141,052	533,502	1,211,784	3,320,533	1,179,278	3,361,714	10,035,034
Other liabilities	64,432	-	-	-	-	-	-	64,432
Total financial liabilities	17,065,644	141,052	533,502	1,211,784	3,320,533	1,179,278	20,405,782	43,857,575
Net liquidity gap	10,761,576	4,887,656	1,788,432	3,273,916	1,835,699	4,646,246	(16,999,616)	10,193,909

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

NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Management risk (continued)

4.3 Liquidity (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2014								
Assets								
Cash and short-term placements with banks	11,662,647	1,478,088	-	-	-	-	-	13,140,735
Monetary gold	-	-	-	-	-	-	44,159	44,159
Due from international financial institutions	18,635	-	-	-	-	-	2,787,198	2,805,833
Securities issued by the Government of the Republic of Moldova	2,075,118	-	-	-	-	-	-	2,075,118
Loans granted to banks and individuals	7,572,881	24,396	49,191	4,114	7,588	12,852	-	7,671,022
Investment securities	1,188,449	455,455	2,597,368	4,716,785	6,135,110	5,379,762	-	20,472,929
Other assets	30,036	-	-	-	-	-	-	30,036
Total financial assets	22,547,766	1,957,939	2,646,559	4,720,899	6,142,698	5,392,614	2,831,357	46,239,832
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	19,216,997	19,216,997
Due to the Government of the Republic of Moldova	2,398,196	-	-	-	-	-	-	2,398,196
Due to the banks	8,509,563	-	-	-	-	-	-	8,509,563
Certificates issued by the National Bank of Moldova	219,809	-	-	-	-	-	-	219,809
Due to international financial institutions	182,099	98,179	293,277	792,600	2,894,217	1,846,550	2,789,753	8,896,675
Other liabilities	955,091	-	-	-	-	-	-	955,091
Total financial liabilities	12,264,758	98,179	293,277	792,600	2,894,217	1,846,550	22,006,750	40,196,331
Net liquidity gap	10,283,008	1,859,760	2,353,282	3,928,299	3,248,481	3,546,064	(19,175,393)	6,043,501



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Management risk (continued)

4.3 Liquidity (continued)

The table below presents the analysis of total financial liabilities, including future interest cash flows according to their contractual maturity as at 31 December 2015.

The amounts of future obligations were calculated using the information available as at 31 December 2015 (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 2015								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	3,311,788	-	-	-	-	-	-	3,311,788
Due to banks	12,810,774	-	-	-	-	-	-	12,810,774
Certificates issued by the National Bank of Moldova	617,000	-	-	-	-	-	-	617,000
Due to international financial institutions*	296,815	150,544	551,565	1,242,792	3,375,352	1,185,323	3,361,714	10,164,105
Other liabilities	64,432	-	-	-	-	-	-	64,432
Total financial liabilities	17,100,809	150,544	551,565	1,242,792	3,375,352	1,185,323	20,405,782	44,012,167
31 December 2014								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	19,216,997	19,216,997
Due to the Government of the Republic of Moldova	2,398,196	-	-	-	-	-	-	2,398,196
Due to banks	8,511,723	-	-	-	-	-	-	8,511,723
Certificates issued by the National Bank of Moldova	220,052	-	-	-	-	-	-	220,052
Due to international financial institutions*	190,596	106,712	310,141	823,459	2,955,881	1,861,100	2,789,753	9,037,642
Other liabilities	955,091	-	-	-	-	-	-	955,091
Total financial liabilities	12,275,658	106,712	310,141	823,459	2,955,881	1,861,100	22,006,750	40,339,701

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



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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 2015	227,341	11,565	196,707	10,006	424,049	21,571	2.15
31 December 2014	153,172	9,809	187,563	12,012	340,735	21,821	1.64

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.



NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Management risk (continued)

4.4 Market risk (continued)

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

Thus, as at 31 December 2015, 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 2015	327,155	16,642	275,700	14,024	602,854	30,666	3.05
31 December 2014	212,847	13,631	264,275	16,924	477,122	30,555	2.29

4.4.1 Interest rate risk

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

The fluctuation of interest rates on the internal market affects the value of the state securities' portfolio of the Bank: fluctuations of increase /decrease of 5 p.p. of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of decrease /increase of approximately MDL 8,500 thousand on the Bank's capital.

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

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

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

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

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



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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 2015 according to their contractual re-pricing and interest rate renewal dates is as follows:

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non-interest bearing	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2015								
Assets								
Cash and short-term placements with banks	10,620,463	4,073,245	-	-	-	-	12,659	14,706,367
Monetary gold	-	-	-	-	-	-	50,032	50,032
Due from international financial institutions	347,711	-	-	-	-	-	3,356,146	3,703,857
Securities issued by the Government of the Republic of Moldova	2,118,561	-	-	-	-	-	-	2,118,561
Loans granted to banks and individuals	323,334	833	1,604	2,907	6,972	13,528	13,689,885	14,039,063
Investment securities	655,637	932,658	2,294,140	4,482,793	5,149,260	5,811,996	105,425	19,431,909
Other assets	-	-	-	-	-	-	1,695	1,695
Total financial assets	14,065,706	5,006,736	2,295,744	4,485,700	5,156,232	5,825,524	17,215,842	54,051,484
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	2,367,794	-	-	-	-	-	943,994	3,311,788
Due to banks	9,957,335	-	-	-	-	-	2,830,473	12,787,808
Certificates issued by the National Bank of Moldova	614,445	-	-	-	-	-	-	614,445
Due to international financial institutions	3,934,086	118,351	276,888	534,746	1,334,821	467,733	3,368,409	10,035,034
Other liabilities	-	-	-	-	-	-	64,432	64,432
Total financial liabilities	16,873,660	118,351	276,888	534,746	1,334,821	467,733	24,251,376	43,857,575
Interest rate gap	(2,807,954)	4,888,385	2,018,856	3,950,954	3,821,411	5,357,791	(7,035,534)	10,193,909



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

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non-interest bearing	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2014								
Assets								
Cash and short-term placements with banks	10,424,445	1,478,088	-	-	-	-	1,238,202	13,140,735
Monetary gold	-	-	-	-	-	-	44,159	44,159
Due from international financial institutions	18,630	-	-	-	-	-	2,787,203	2,805,833
Securities issued by the Government of the Republic of Moldova	2,075,118	-	-	-	-	-	-	2,075,118
Loans granted to banks and individuals	7,574,581	24,049	48,047	2,567	7,140	12,852	1,786	7,671,022
Investment securities	1,163,652	434,488	2,536,544	4,716,785	6,135,110	5,379,762	106,588	20,472,929
Other assets	-	-	-	-	-	-	30,036	30,036
Total financial assets	21,256,426	1,936,625	2,584,591	4,719,352	6,142,250	5,392,614	4,207,974	46,239,832
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	19,216,997	19,216,997
Due to the Government of the Republic of Moldova	1,461,233	-	-	-	-	-	936,963	2,398,196
Due to banks	5,443,517	-	-	-	-	-	3,066,046	8,509,563
Certificates issued by the National Bank of Moldova	219,809	-	-	-	-	-	-	219,809
Due to international financial institutions	3,436,201	98,179	199,028	428,724	1,207,692	731,246	2,795,605	8,896,675
Other liabilities	-	-	-	-	-	-	955,091	955,091
Total financial liabilities	10,560,760	98,179	199,028	428,724	1,207,692	731,246	26,970,702	40,196,331
Interest rate gap	10,695,666	1,838,446	2,385,563	4,290,628	4,934,558	4,661,368	(22,762,728)	6,043,501



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NATIONAL BANK OF MOLDOVA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

4. Management risk (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

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

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 2015, 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 2015	<u>+/-57,198</u>	<u>+/-2,910</u>
Year 2014	<u>+/-75,698</u>	<u>+/-4,848</u>

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 2015, 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 6,131 thousand or USD 312 thousand, which represents 0.03% of the portfolio of securities (as at 31 December 2014: of MDL 6,581 thousand or USD 421 thousand, which represents 0.03% of the portfolio of securities).

4.4.2 Foreign currency risk

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

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

The normative currency structure of the investment portfolio is set by the Executive Board and is aimed to hedge the foreign currency risk through an appropriate structure of foreign currency assets and liabilities, and a reasonable investment horizon that is

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For the year ended 31 December 2015

4. Management risk (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

acceptable to serve the current external liabilities and to implement the foreign currency policy of the state. As at 31 December 2015 the US dollar share in the normative currency structure constituted 55%, Euro – 30%, Pound Sterling – 10%, other currencies – 5% (as at 31 December 2014 the US dollar share in the normative currency structure constituted 50%, Euro – 35%, Pound Sterling – 10%, other currencies – 5%). The share of each currency in the Bank's investment portfolio may vary within +/-10 p.p. from the normative currency structure.

As at 31 December 2015, the Bank held the following foreign exchange positions:

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

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



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4. Management risk (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

	MDL	USD	EUR	GBP	XDR	Other currencies	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2014							
Assets							
Cash and short-term placements with banks	-	6,803,723	4,233,389	2,102,677	-	946	13,140,735
Monetary gold	-	-	-	-	-	44,159	44,159
Due from international financial institutions	-	-	-	-	2,805,833	-	2,805,833
Securities issued by the Government of the Republic of Moldova	2,075,118	-	-	-	-	-	2,075,118
Loans granted to banks and individuals	7,671,022	-	-	-	-	-	7,671,022
Investment securities	-	10,945,671	7,939,572	1,587,686	-	-	20,472,929
Other assets	657	247	29,132	-	-	-	30,036
Total financial assets	9,746,797	17,749,641	12,202,093	3,690,363	2,805,833	45,105	46,239,832
Liabilities							
National currency issued into circulation	19,216,997	-	-	-	-	-	19,216,997
Due to the Government of the Republic of Moldova	1,486,316	59,920	851,960	-	-	-	2,398,196
Due to banks	5,009,028	1,224,135	2,276,400	-	-	-	8,509,563
Certificates issued by the National Bank of Moldova	219,809	-	-	-	-	-	219,809
Due to international financial institutions	2,983	-	-	-	8,893,692	-	8,896,675
Other liabilities	951,658	1,616	1,470	6	-	341	955,091
Total financial liabilities	26,886,791	1,285,671	3,129,830	6	8,893,692	341	40,196,331
Net position	(17,139,994)	16,463,970	9,072,263	3,690,357	(6,087,859)	44,764	6,043,501

As at 31 December 2014, other currencies include monetary gold equivalent of MDL 44,159 thousands, Russian roubles – MDL 1,187 thousands, Swiss Francs – MDL 41 thousands, Romanian Lei – MDL 35 thousands, Norwegian kroner – MDL 23 thousands and Danish kroner – MDL 1 thousand.



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NATIONAL BANK OF MOLDOVA
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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 2015 and 31 December 2014, respectively, the amount of the potential impact on the profit and equity of the Bank is as follows:

	31 December 2015		31 December 2014	
	MDL'000 Profit	MDL'000 Equity	MDL'000 Profit	MDL'000 Equity
MDL against USD	+/-1,987,963	+/-1,987,963	+/-1,646,397	+/-1,646,397
MDL against EUR	+/-407,523	+/-407,523	+/-907,226	+/-907,226
MDL against GBP	+/-568,396	+/-568,396	+/-369,036	+/-369,036
MDL against XDR	+/-632,870	+/-632,870	+/-608,786	+/-608,786
MDL against other currencies	+/-183	+/-183	+/-60	+/-60

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

5. Cash and short-term placements with banks

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Cash in hand in foreign currency	3,554	1,233,359
Nostro accounts	77,961	233,890
Term deposits in foreign currency	14,624,852	11,673,486
	14,706,367	13,140,735

Cash and short-term placements with banks do not include local currency balances of cash in hand of the Bank, which is offset with the respective amount on the liability side "National currency into circulation" (Note 14). This type of cash presentation is considered adequate since the Bank is the sole issuer of the national currency. As at period end the term deposits in foreign currency were placed at financial institutions with ratings¹: „AAA” – 14.14%, „AA” – 14.13%, „AA-” – 16.83%, „A+” – 20.10% and „A” – 34.80% (as at 31 December 2014: „AAA” – 8.05%, „AA+” – 4.69%, „AA-” – 22.24%, „A+” – 24.18% and „A” – 40.84%).

¹ Established by applying the minimum 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 31 December 2015, 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 11,078,298 thousands (as at 31 December 2014: MDL 8,859,449 thousands).

6. Monetary gold

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Monetary gold	50,032	44,159
	50,032	44,159

The monetary gold is represented by the quantity of 74,133.48 grams (as at 31 December 2014 – 74,133.48 grams of pure gold) in the form of bullions of Good Delivery standard quality (based on the requirements of the London Bullion Market Association). As at 31 December 2015 the revaluation price of gold was of 674.8875 MDL/gram (as at 31 December 2014 was of 595.6709 MDL/gram).

7. Due from /to international financial institutions

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	3,356,134	2,787,198
Current account with IMF	347,723	18,635
	3,703,857	2,805,833
Liabilities		
Account No.1	3,355,998	2,787,085
Account No.2	138	114
Total liabilities of the IMF	3,356,136	2,787,199
Other international organisations	5,578	2,554
Loans granted by the IMF	6,673,320	6,106,922
	10,035,034	8,896,675

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.



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

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

As at 31 December 2015 the Bank's outstanding balance of loans due to the IMF is as follows:

- ECF commitments – XDR 104,686 thousands (as at 31 December 2014 – XDR 122,286 thousands);
- EFF commitments – XDR 139,953 thousands (as at 31 December 2014 – XDR 147,453 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 years 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 years term with a 4.5 years grace period. The interest rate for this type of loans is floating and is set on a weekly basis by the IMF. For the reference period, the average rate was 1.05% per annum.

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



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

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Securities issued by the Government of the Republic of Moldova	2,185,388	2,086,765
Discount at securities issued by the Government of the Republic of Moldova	(65,965)	(11,669)
Revaluation of the securities issued by the Government of the Republic of Moldova	(862)	22
	2,118,561	2,075,118

As at 31 December 2015 the Bank's portfolio comprises securities issued by the Government ("state securities") issued and transferred to the Bank as a result of conversion of Government debt contracted from the Bank, during previous years, into securities issued by the Government. These securities are classified as assets available for sale and are measured at fair value.

The state securities held in the portfolio of the Bank represent one of the monetary policy instruments that can be used by the Bank at any time in order to conduct the monetary policy.

The Bank has the incontestable right to trade these instruments on the secondary market, thus ensuring its ability to convert these securities into liquid assets, throughout their holding period in the banks' portfolio.

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

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

The contractual maturity of state securities held in the Bank's portfolio as at 31 December 2015 is up to 91 days. The average interest rate on the portfolio of state securities held by the Bank as at 31 December 2015 was of 23.71% (as at 31 December 2014 – 4.57%).

9. Loans granted to banks and individuals

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Short term loans granted to banks	13,689,217	6,450,498
Medium term loans granted to banks	-	93,141
Repo transactions	180,581	1,098,290
Overnight loans granted to banks	142,588	-
Loans granted to banks for crediting the construction cooperatives	722	-
Loans granted to other individuals	25,955	-
	14,039,063	7,671,022

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9. Loans granted to banks and individuals (continued)

This caption includes the balance of the loans granted to licensed banks on short (emergency loans) and medium term (loans for protecting the integrity of the banking system), the balance of the long-term loans granted to the licensed banks (during the years 1993-2000 for crediting the construction cooperatives), the balance of overnight loans, the balance of Repo transactions, as well as the balance of the loans granted to the Bank employees, adjusted at the amount of interest accrued for these loans.

There is a balance increase amounted to MDL 6,368,041 thousands, mainly as a result of the increase of the balances of short-term loans granted to banks. As at 31 December 2015, the balance of overnight loans granted to bank amounted to MDL 142,500 thousands.

Repo operations were conducted by the Bank at a fixed rate, equivalent to the base rate plus a margin of 0.25 p.p. with a maturity of 14 and 28 days. The purpose of these operations was to cover current liquidity needs of licensed banks.

The average interest rate on Repo transactions was 14.89% during year 2015 (during the year 2014: 4.12%).

The National Bank of Moldova does not consider necessary the provisioning of these operations, as it protects the eventual non repayment by the counterpart bank by setting initial transaction insurance percentage (haircut) and margin calls (request additional collateral assets).

During the year 2015, in order to ensure the banking system stability, the National Bank granted emergency loans amounted to MDL 7,751,758 thousands to the banks under special administration.

These emergency loans have been granted under the provisions of Article 5, letter e), Article 18 para. (3) and Article 26, letter a)¹ of the *Law on the National Bank of Moldova* No. 548-XIII dated 21 July 1995, in the terms and conditions set out in the Regulation on emergency loan (approved by Resolution of the Council of Administration of the National Bank of Moldova no.130 of May 28, 2012).

Emergency loans were granted for honoring banks receivables according to Article.38¹¹ para.(3) of Law on financial institutions No. 550-XIII of 21 July 1995, at an interest rate of 0.1 percent annually, under the State Guarantee no.807 of 17 November 2014 amounted to MDL 9,500 million, modified by the Amendment of 1 April 2015, and the State Guarantee no.101 of 1 April 2015 amounted to MDL 5,340 million, issued by the Ministry of Finance of Republic of Moldova, provided its substitution with state securities issued by the Ministry of Finance.

Relying of the provisions of Article 38¹, para.(1) of the *Law on financial institutions*, No. 550-XIII on 16th of October 2015, it was decided to withdraw the license on performing financial activity and initiation of the liquidation process of the Banca de Economii S.A., BC „BANCA SOCIALĂ” S.A. and BC „UNIBANK” S.A.

¹ In the context of adjustments made to the Law on the National Bank of Moldova, No.548-XIII dated 21 July 1995, through the Law on amending and supplementing several legislative acts no.147 dated 30 July 2015, the provisions of Article 26, letter a) are currently contained by Article 27, para.(1), letter a).



NATIONAL BANK OF MOLDOVA
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9. Loans granted to banks and individuals (continued)

As at 31 December 2015, the balance of short-term emergency loans amounted to MDL 13,689,217 thousand.

Given the conditions in which emergency loans were granted and their specific nature and taking into account the State guarantee issued to honor the Bank claims, there was no need to form allowances for impairment losses on loans granted.

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

As at 31 December 2015, the value of Guarantees issued by the Ministry of Finance to secure the repayment of emergency loans granted to banks amounts to MDL 14,840,000 thousands (as at 31 December 2014: MDL 9,500,000 thousands), and the collateral pledged by banks as to secure the repayment of loans granted and the related interest, amounts to MDL 26,132 thousands (as at 31 December 2014: MDL 179,859 thousands).

As at 31 December 2015, the collateral pledged by the Bank's employees, as to secure the repayment of loans received and related interest amounts to MDL 34,599 thousand (as at 31 December 2014: MDL 33,425 thousand).

During years 2014 and 2015, no impairment allowances were accounted for the loans granted.

10. Investment securities

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

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Securities in foreign currency measured at fair value through profit or loss	10,169,179	12,509,195
Coupon securities in foreign currency	10,169,179	12,509,195
Discount securities in foreign currency	-	-
Securities in foreign currency held-to-maturity	9,262,730	7,963,734
Coupon securities in foreign currency	9,262,730	7,963,734
Discount securities in foreign currency	-	-
Total investment securities	19,431,909	20,472,929

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



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10. Investment securities (continued)

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

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Securities in foreign currency measured at fair value (nominal value)	10,051,291	12,351,934
Interest on securities in foreign currency measured at fair value	79,940	65,228
Revaluation of securities in foreign currency measured at fair value	37,948	92,033
Securities in foreign currency measured at fair value through profit or loss	10,169,179	12,509,195

The securities in foreign currency measured at fair value through profit or loss are revalued on a monthly basis and bear a fixed interest rate, within the range of 0.004% to 2.69% per annum (as at 31 December 2014: 0.01% to 2.86%). The investment securities in foreign currency measured at fair value through profit or loss include also the accrued interest amounting MDL 31,733 thousand as at 31 December 2015 (as at 31 December 2014: MDL 43,087 thousand).

As at 31 December 2015, the securities measured at fair value through profit or loss issued by non-residents held in the Bank's portfolio having the highest rating¹ – „AAA” constituted 86.52%, securities with rating „AA+” constituted 4.46% and securities with rating „AA” constituted 9.02% (as at 31 December 2014: „AAA” – 88.43%, „AA+” – 6.36%, „AA” – 5.21%).

Reduction of the share of securities with „AAA” rating was caused by the downgrading of the average rating of Austria from „AAA” down to „AA+”, as well as by the sale and maturity of securities issued by the U.S. and Dutch Governments, by Norwegian and German governmental agencies implicitly guaranteed by the state, by issuers of supranational bonds with an average „AAA” rating.

The reduction of the share of securities with the „AA+” rating was caused by the maturity and sale during the financial year of securities issued by Dutch governmental agencies with an assigned „AA+” rating. Additionally, the increase of securities with the „AA” rating is due to the acquisition during the year 2015 of securities issued by the French government and by French governmental agencies.



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

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10. Investment securities (continued)

The par value of securities in foreign currency measured at fair value through profit or loss that were sold during the period amounted to USD 562,950 thousands, EUR 124,491 thousands and GBP 36,500 thousands (in the year 2014 were sold and matured - USD 686,275 thousands and EUR - 220,500 thousands). At the same time, during the reported period, the Bank purchased securities denominated in foreign currency at fair value with a total par value of USD 487,930 thousands and EUR 19,690 thousands (in the year 2014: USD 406,940 thousands and EUR 100,475 thousands).

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

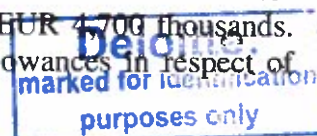
As at 31 December 2015, the book value of the portfolio of securities in foreign currency managed by the external manager amounted to MDL 4,048,477 thousands (as at 31 December 2014: MDL 3,210,209 thousands), their share in the official reserve assets amounted to 11.72% (as at 31 December 2014: 9.53%).

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

As at 31 December 2015, the share of held-to-maturity securities in total official reserve assets of the Bank is of 26.82% (as at 31 December 2014: 23.65%).

	<u>31 December</u> <u>2015</u> <u>MDL'000</u>	<u>31 December</u> <u>2014</u> <u>MDL'000</u>
Securities in foreign currency held-to-maturity (par value)	9,183,378	7,880,772
Interest on securities in foreign currency held-to-maturity	79,352	82,962
Securities in foreign currency held-to-maturity	<u>9,262,730</u>	<u>7,963,734</u>

Held-to-maturity securities bear fixed annual interest rates within the range of 1.38% and 3.55%. As at 31 December 2015, the share of securities held-to-maturity with „AAA” rating was of 81.49%, those with „AA+” rating constituted 6.17% and those with „AA” rating constituted 12.34% (as at 31 December 2014: „AAA” - 84.41%, „AA+” - 8.42%, and „AA” - 7.18%). The portfolio of held-to-maturity securities in foreign currency comprises securities issued by Governments and Governmental Agencies from the United States of America, European Union and supranational financial institutions. During the reporting period, two securities held-to-maturity had matured, with a par value of USD 13,250 thousands and EUR 4,700 thousands. During the year 2015, the Bank has not recognized any impairment allowances in respect of held-to-maturity securities.



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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, Certificates issued by the National Bank of Moldova, as well as other liabilities towards the international financial institutions, other financial assets and liabilities.

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

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

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

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NATIONAL BANK OF MOLDOVA
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11. Fair value of financial instruments (continued)

	At fair value through profit and loss	Held-to- maturity	Loans and receivables	At fair value Available for Sale	Other at amortised cost	Total	Fair value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2014							
Assets							
Cash and short-term placements with banks	-	-	13,140,735	-	-	13,140,735	13,140,735
Monetary gold	-	-	-	44,159	-	44,159	44,159
Due from international financial institutions	-	-	2,805,833	-	-	2,805,833	2,805,833
Securities issued by the Government of the Republic of Moldova	-	-	-	2,075,118	-	2,075,118	2,075,118
Loans granted to banks and individuals	-	-	7,671,022	-	-	7,671,022	7,671,022
Investment securities:							
At fair value	12,509,195	-	-	-	-	12,509,195	12,509,195
At amortized cost	-	7,963,734	-	-	-	7,963,734	8,339,295
Other costs	-	-	30,036	-	-	30,036	30,036
Total financial assets	12,509,195	7,963,734	23,647,626	2,119,277	-	46,239,832	46,615,393
Liabilities							
National currency issued into circulation	-	-	-	-	19,216,997	19,216,997	19,216,997
Due to the Government of the Republic of Moldova	-	-	-	-	2,398,196	2,398,196	2,398,196
Due to banks	-	-	-	-	8,509,563	8,509,563	8,509,563
Certificates issued by the National Bank of Moldova	-	-	-	-	219,809	219,809	219,809
Due to international financial institutions	-	-	-	-	8,896,675	8,896,675	8,896,675
Other liabilities	-	-	-	-	955,091	955,091	955,091
Total financial liabilities	-	-	-	-	40,196,331	40,196,331	40,196,331



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11. Fair value of financial instruments (continued)

Hierarchy of the fair value of the financial instruments

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

31 December 2015	Level 1	Level 2	Level 3	Total
	MDL'000	MDL'000	MDL'000	MDL'000
Monetary gold	50,032	-	-	50,032
Securities in foreign currency measured at fair value through profit or loss	10,169,179	-	-	10,169,179
Securities issued by the Government of the Republic of Moldova	-	2,118,561	-	2,118,561
Total	10,219,211	2,118,561	-	12,337,772
31 December 2014				
Monetary gold	44,159	-	-	44,159
Securities in foreign currency measured at fair value through profit or loss	12,509,195	-	-	12,509,195
Securities issued by the Government of the Republic of Moldova	-	2,075,118	-	2,075,118
Total	12,553,354	2,075,118	-	14,628,472

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

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

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

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



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12. Property, equipment and intangible assets

	Buildings	Equipment	Property and equipment in progress	Intangible assets	Intangible assets in progress	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
As at 1 January 2015	36,539	84,578	3,554	55,341	2,525	182,537
Additions	1,500	42,048	4,323	1,142	7,162	56,175
Transfers	73	2,827	(2,900)	2,099	(2,099)	-
Disposals	-	(5,119)	(63)	(883)	-	(6,065)
As at 31 December 2015	38,112	124,334	4,914	57,699	7,588	232,647
Accumulated amortization						
As at 1 January 2015	26,306	72,934	-	36,327	-	135,567
Accumulated depreciation / amortization	1,003	5,585	-	6,591	-	13,179
Disposals	-	(5,119)	-	(883)	-	(6,002)
As at 31 December 2015	27,309	73,400	-	42,035	-	142,744
Carrying value						
As at 1 January 2015	10,233	11,644	3,554	19,014	2,525	46,970
As at 31 December 2015	10,803	50,934	4,914	15,664	7,588	89,903

	Buildings	Equipment	Property and equipment in progress	Intangible assets	Intangible assets in progress	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
As at 1 January 2014	36,496	81,217	4,304	51,831	2,501	176,349
Additions	43	2,491	3,499	1,524	2,098	9,655
Transfers	-	4,249	(4,249)	2,074	(2,074)	-
Disposals	-	(3,379)	-	(88)	-	(3,467)
As at 31 December 2014	36,539	84,578	3,554	55,341	2,525	182,537
Accumulated amortization						
As at 1 January 2014	25,287	71,912	-	31,074	-	128,273
Accumulated depreciation / amortization	1,019	4,401	-	5,341	-	10,761
Disposals	-	(3,379)	-	(88)	-	(3,467)
As at 31 December 2014	26,306	72,934	-	36,327	-	135,567
Carrying value						
As at 1 January 2014	11,209	9,305	4,304	20,757	2,501	48,076
As at 31 December 2014	10,233	11,644	3,554	19,014	2,525	46,970

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13. Other assets

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Prepaid expenses	2,607	1,086
Other receivables	1,696	904
Advance for banknotes issue	-	29,132
Inventories	1,881	1,142
Goods and materials administered	797	907
Subtotal	6,981	33,171
Less: Provision for slow moving inventory and doubtful receivables	(61)	(61)
	6,920	33,110

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

	2015	2014
	MDL'000	MDL'000
As at 1 January	61	61
Increase during the year	-	-
Decrease during the year	-	-
As at 31 December	61	61

14. National currency issued into circulation

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Banknotes	16,927,072	19,106,868
Divisional coins	102,207	95,577
Commemorative banknotes and commemorative and jubilee coins	14,789	14,552
	17,044,068	19,216,997

15. Due to the Government of Republic of Moldova

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Demand deposits of the Ministry of Finance	2,370,595	1,463,409
Amounts in foreign currency of the Ministry of Finance	910,896	881,299
Other accounts of the Government of the Republic of Moldova	30,297	53,488
	3,311,788	2,398,196

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

The interest rate paid by the Bank on the demand deposits of the Ministry of Finance is determined based on the average interest rate of the banking system available for the last three months, for interest bearing demand deposits of legal entities in MDL. The weighted average interest rate on demand deposits accepted from the Ministry of Finance as at 31 December 2015 is of 1.79% (as at 31 December 2014: 1.86%).

16. Due to banks

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Current accounts of banks, including mandatory reserves	11,942,426	6,562,376
Deposits from licensed banks denominated in national currency	845,382	1,947,187
	12,787,808	8,509,563

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

According to the requirements of the mandatory reserves regime established by the Bank, as at 31 December 2015, banks are required to maintain mandatory reserves in Moldovan lei and non-convertible currencies at 35% and in foreign currencies (US Dollars and Euro) at 14% (as at 31 December 2014: 14%) of the base. The mandatory reserves in Moldovan Leu are maintained in average by banks on Loro accounts opened with the Bank during the maintenance period, and the mandatory reserves in foreign currency are registered in the Bank's accounting records, in the account of mandatory reserves in foreign currency and are placed in the Bank's Nostro accounts with foreign banks.

According to the art. 17 of the *Law on National Bank of Moldova*, mandatory reserve balances that exceed 5% of attracted funds, are remunerated by the Bank as follows: for mandatory reserves in Moldovan lei by applying the current month average interest rate for overnight deposits of the Bank, and for the mandatory reserves in foreign currency (USD and Euro) – the average interest rate on interest bearing demand deposits in foreign currency attracted by banks, measured on a monthly basis by the Bank based on monthly reports 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 2015 is of 16.50% (as at 31 December 2014: 3.50%).



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17. Certificates issued by the National Bank of Moldova

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Certificates issued by the National Bank of Moldova at original selling price	612,304	219,673
Amortized discount on the certificates issued by the National Bank of Moldova	2,141	136
	614,445	219,809

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the monetary market. These are issued at discount and repurchased on maturity date at their nominal value. During the year 2015, the Bank's certificates were mainly issued with 14-day maturity.

The weighted average interest rate on the Bank's certificates in circulation as at 31 December 2015 was of 19.50% (as at 31 December 2014: 4.50%).

18. Other liabilities

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Due to the State Budget for profit distribution (Note 19)	-	889,365
Due to other entities	33,570	52,097
Due to personnel	11,590	10,068
Other liabilities	19,273	3,566
	64,433	955,096

19. Capital and reserves

As at 31 December 2015 the general reserve fund was increased by MDL 1,387,935 thousands, whereas the authorized capital was increased by MDL 572,953 thousands, through the allocation of profit available for distribution amounted to MDL 1,960,888 thousands, which as a result was used completely for the increase of statutory capital, according to the provisions of the *Law on the National Bank of Moldova*. Therefore, as of December 31, 2015 the general reserve fund registered a value of MDL 1,805,940 thousands, the authorized capital amounted MDL 902,970 thousands, and consequently, the statutory capital increased reaching the level of MDL 2,708,910 thousands.

As at 31 December 2015, the Bank's capital and reserves registered a positive value in amount of MDL 10,289,036 thousands, recording an increase as compared to 31 December 2014, due to recognition of unrealised foreign exchange gains from revaluation of foreign currency stocks in amount of MDL 2,258,160 thousands and due to covering unrealised losses from revaluation of investment securities amounting MDL (28,540) thousands, from the respective reserve account. Other reserves comprise the reserves recorded after the revaluation of state securities that registered a total negative result in amount of MDL (862) thousands, and the positive differences from the revaluation of monetary gold, in amount of MDL 4,469 thousands.

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19. Capital and reserves (continued)

According to the *Law on amending and supplementing several legislative acts no.147* dated 30 July 2015, Article 20 of the *Law on the National Bank of Moldova no.548-XIII* dated 21 July 1995 has been amended, which according to new provisions states : „*At the end of the financial year, profit available for distribution shall be allocated for increase of statutory capital within the limits set in Article 19 para. (3).*”

The limit stated in Article 19 para. (3) of the *Law on the National Bank of Moldova* represents 10% of the total monetary liabilities of the National Bank.

As at 31 December 2015, the level of statutory capital in the total monetary liabilities of the Bank represents approximatively 8.88% (as at 31 December 2014: 2,67%), and is structured as follows: 1/3 is the Authorized capital (MDL 902,970 thousands) and 2/3 is the general reserve fund (MDL 1,805,940 thousands).

In such circumstances, profit available for distribution was allocated in full at the year-end for the increase of the statutory capital, according to limits set by Article 19, para. (3) of the *Law on the National Bank of Moldova*. Thus, no distributions of profit available for distribution to the State budget were performed, based on the reason that the level of statutory capital did not reach the 10% limit set by the law.

20. Calculation of the profit available for distribution

	31 December 2015	31 December 2014
	MDL'000	MDL'000
Net profit	4,190,508	4,163,852
Covering/ (allocation) of unrealized losses /(gains) on revaluation of the investment securities	28,540	(12,282)
Allocation of unrealized gains on revaluation of foreign currency stocks	(2,258,160)	(2,372,840)
Profit available for distribution	1,960,888	1,778,730
Distribution:		
Increase of the Authorized capital	(572,953)	-
Increasing of the general reserve fund	(1,387,935)	(889,365)
State Budget	-	(889,365)

During the year, the Bank registered a net profit in amount of MDL 4,190,508 thousands. As a result of the application of the corresponding provisions of the *Law on the National Bank of Moldova*, the profit available for distribution amounted to MDL 1,960,888 thousands.



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21. Interest income

	2015	2014
	MDL'000	MDL'000
Interest income from short-term placements:		
Interests from term deposits with foreign banks	30,818	31,351
Interests from overnight deposits	870	311
Interests from cash and cash equivalents	1,066	711
	32,754	32,373
Income from interest on securities:		
Interest from securities in foreign currency measured at fair value	104,948	150,490
Interest from securities in foreign currency held-to-maturity	214,130	170,091
Amortization of the discount on the securities issued by the Government of the Republic of Moldova	328,760	91,974
	647,838	412,555
Income from interest on the loans granted and REPO:		
Interests from loans granted to the banks	10,501	5,810
Interests from loans granted to other individuals	189	150
Interest from Repo purchase transactions	69,699	11,159
	80,389	17,119
	760,981	462,047

The average interest rate on state securities held in the Bank's portfolio during the year 2015 was of 15.69% (average interest rate during the year 2014: 4.60%). The average interest rate on Repo transactions during 2015 was 14.89% (average interest rate during 2014: 4.12%). The volume of liquidity provided under Repo transactions was MDL 9,690 million (2014: MDL 4,547 million).

22. Interest expense

	2015	2014
	MDL'000	MDL'000
Interest expense for loans received:		
Interests on the loans received from the International Monetary Fund	39,717	34,522
	39,717	34,522
Interest expense on cash and cash equivalents:		
Interests on the mandatory reserves	560,125	23,546
Interests on the deposits accepted from banks	63,822	1,832
Interests on the deposits accepted from the Ministry of Finance	33,823	27,626
Interests on Forward transactions	-	5,614
	657,770	58,618
Interest expense on the operations with securities and REPO:		
The amortization of the discount to the certificates of the National Bank of Moldova	119,810	56,928
	119,810	56,928
	817,297	150,068

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22. Interest expense (continued)

The ratio of the mandatory reserves attracted in MDL and non-convertible currency has been gradually increased during the year 2015 from 14% to 35%. The ratio of the mandatory reserves attracted from the freely convertible currency throughout the year 2015 remained stable at 14%. In 2014 the ratio of mandatory reserves attracted in MDL and non-convertible currency, as well as from freely convertible currency has been maintained at 14%.

The average daily balance of the Bank's certificates during the year 2015 amounted to MDL 783 million (for the year 2014: MDL 1,624 million). The average interest rate of the Bank's certificates placed during the year 2015 was 15.45% (for the year 2014: 3.51%).

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

	<u>2015</u> MDL'000	<u>2014</u> MDL'000
Realized gains from foreign currency transactions	2,286,850	1,532,985
Unrealized gains from foreign currency stocks revaluation	<u>2,258,160</u>	<u>2,372,840</u>
	<u>4,545,010</u>	<u>3,905,825</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 2015 the gains on foreign exchange were generated mainly from the sale of currency when the difference between the sale exchange rates and cost of currency stock was significant.

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

	<u>2015</u> MDL'000	<u>2014</u> MDL'000
Net realized (losses) / gains from securities measured at fair value	(19,939)	17,542
Net unrealized (losses) / gains from revaluation of securities measured at fair value in the balance at the year-end	<u>(28,540)</u>	<u>12,282</u>
	<u>(48,479)</u>	<u>29,824</u>



NATIONAL BANK OF MOLDOVA
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25. Other income

	2015	2014
	MDL'000	MDL'000
Income relating to the settlement services under the Automated Interbank Payment System	6,296	6,462
Income relating to the cash operations	4,062	13,140
Income from the sale of commemorative banknotes and commemorative and jubilee coins	3,308	3,118
Income from commissions related to Government securities	2,962	4,329
Other income	4,068	5,719
	20,696	32,768

26. Operating expenses

	2015	2014
	MDL'000	MDL'000
Expenses related to national currency	119,841	3,213
Personnel expenses	82,523	72,463
Expenses related to information, advisory and audit services	40,448	16,128
Expenses related to amortization of property, equipment and intangible assets	13,178	10,761
Buildings, transport and equipment maintenance expenses	6,098	4,825
Expenses with fees and commissions	2,735	2,346
Other operating expenses	5,580	6,808
	270,403	116,544

The personnel expenses include also the mandatory state social insurance contributions in amount of MDL 14,424 thousands and the mandatory medical insurance contributions in amount of MDL 2,734 thousands (as at 31 December 2014: MDL 12,814 thousands and respectively MDL 2,247 thousands).

As at 31 December 2015 the number of available positions within the Bank, including vacancies, constituted 469 units (as at 31 December 2014 – 476 units).

27. Related parties

The remuneration of the Bank's management including middle management expenses for the year 2015, amounted to MDL 9,028 thousands (for the year 2014: MDL 9,101 thousands).

For the year 2015, the expenses with the mandatory state social insurance and the mandatory medical insurance contributions related to the Bank's management, including the middle management, amounted to MDL 2,053 thousands and MDL 375 thousands, respectively (as at 31 December 2014: MDL 2,069 thousands and respectively MDL 350 thousands).



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27. Related parties (continued)

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

	Balance as at 1 January	Loans granted	Reimburse- ments	Balance as at 31 December
	MDL'000	MDL'000	MDL'000	MDL'000
2014	5,295	1,659	(1,110)	5,844
2015	5,844	1,132	(1,862)	5,114

The loans are granted to the management at the same interest rates as charged to all Bank's employees in accordance with the Bank's internal regulations. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2015 constituted MDL 7,176 thousands (as at 31 December 2014: MDL 9,426 thousands).

As at 31 December 2015, 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 2015 the value of the promissory note issued by the Bank for the International Monetary Fund to secure the loans received within EFF facility amounted to MDL 3,812,518 thousands (as at 31 December 2014: MDL 3,335,352 thousands).

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

As at 18 December 2015, the U.S. Congress accepted the increase of the IMF capital within the 14th General revision of quotas, which enforced the IMF decision related to this subject. Republic of Moldova has to increase its subscription quota within 30 days as of the enactment of the respective decision which is a date that will be subsequently communicated by IMF.



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28. Commitments and contingent liabilities (continued)

Investment commitments

As at 31 December 2015 within the external reserves management program, the World Bank has concluded 5 transactions with securities, including 2 securities purchases of total nominal value amounting to USD 7,000 thousands, and 3 sales of securities of total nominal value amounting to USD 6,350 thousands, all transactions with value date of the transaction being 4 January 2016.

Loan commitments

As at 31 December 2015 there are no loan commitments (as at 31 December 2014 there were emergency short-term loan commitments in amount of MDL 2,984,518 thousands).

As at 31 December 2015 (as well as at 31 December 2014) there was no debt with expired limitation period.

Capital commitments

As at 31 December 2015, 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 EUR 1,816 thousands and USD 115 thousands or about MDL 41,261 thousands (as at 31 December 2014: approximately EUR 3,774 thousands, or about MDL 71,684 thousands).

Litigations and contingent liabilities

As at 31 December 2015, the Bank was involved in 12 lawsuits, in 11 of which the Bank participates as a defendant and in one as an accessory intervener.

As at 31 December 2015 (as well as at 31 December 2014), the Bank did not record any provisions for litigations, as the Bank considered that there were not sufficient evidence regarding any related possible future outflows of economic resources.

29. Subsequent events

After 31 December 2015 and until the date of approval of these financial statements, following significant subsequent events have occurred.

On 9th of March 2016, the National Bank of Moldova and the Ministry of Finance signed the Memorandum of Understanding on the issuance of state securities for the execution of state guarantees no.807 dated 17 November 2014 and no.101 dated 1 April 2015, which were granted by the Ministry of Finance to the National Bank of Moldova to guarantee for the emergency loans.

According to the provisions of the Memorandum of Understanding, the securities shall be issues by the Ministry of Finance at nominal value, bearing a fixed interest rate and provided to NBM on 1st of April 2016, or any other date as agreed between the parties, in the total amount of outstanding emergency loans, with an effective interest rate of 5%. As at 25 March 2016, the emergency loans outstanding balance amounted MDL 13,567,217 thousands.

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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.