National
Bank of Moldova

SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019
prepared in accordance with the
International Financial Reporting Standards
*(Free translation)**

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

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board,
National Bank of Moldova

Report on Separate Financial Statements

Opinion

1. We have audited the accompanying separate financial statements of the National Bank of Moldova ("the Bank") which comprise the balance sheet as at 31 December 2019, and the statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

2. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other information – Administrator's Report

4. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator' report but does not include the separate financial statements and our auditors report thereon.

   Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

   In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

7. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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Auditor's Responsibility for the Audit of the Separate Financial Statements

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

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

   - Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

   - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

   - Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

10. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Irina Litra, Licensed Auditor

For signature, please refer to the original Romanian version.

Registered in the Public Register of Auditors number 1212066

On behalf of:

DELOITTE & TOUCHE S.R.L.

Registered in the Public Register of Audit Firms under number 1903039

Bd. Stefan cel Mare, nr. 65 Oficiu 300, MD-2001
Chişinău, Moldova
11 May 2020

National Bank of Moldova
SEPARATE BALANCE SHEET
For the year ended 31 December 2019

	Notes	31 December 2019	31 December 2018
		MDL'000	MDL'000
ASSETS			
Cash and short-term placements	5	23 580 180	24 723 602
Monetary gold	6	61 961	51 533
Assets in international financial institutions	7	4 119 868	4 114 710
Securities issued by the Government of the Republic of Moldova	8	15 251 903	15 472 115
Loans granted to banks and separates	9	19 244	18 906
Investment securities	10	29 002 657	26 573 204
Investments in subsidiaries	11	24 000	24 000
Property and equipment	13	74 889	84 332
Intangible assets	13	43 133	46 041
Other assets	14	7 558	11 213
TOTAL ASSETS		**72 185 393**	**71 119 656**
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	15	25 852 674	23 748 867
Due to the Government of the Republic of Moldova	16	7 892 565	9 291 988
Due to the banks	17	20 966 543	19 715 061
Certificates issued by the National Bank of Moldova	18	5 402 974	6 298 721
Due to international financial institutions	7	7 231 560	7 876 786
Other liabilities	19	216 320	177 376
Total liabilities		**67 562 636**	**67 108 799**
Capital and reserves			
Authorized capital		1 012 474	902 970
General reserve fund		2 024 947	1 697 608
Total statutory capital	20	**3 037 421**	**2 600 578**
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	20	1 372 304	1 230 866
Reserve of unrealized gains on revaluation of investment securities	20	178 427	178 427
Other reserves	20	34 605	986
Total capital and reserves		**4 622 757**	**4 010 857**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**72 185 393**	**71 119 656**

The accompanying notes 1-32 are an integral part of these separate financial statements.

The Supervisory Board of the National Bank of Moldova approved these separate financial statements on 8 May 2020.

Octavian Armasu
Governor

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

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National Bank of Moldova
SEPARATE STATEMENT OF COMPREHENSIVE RESULT
For the year ended 31 December 2019

	Notes	2019 MDL'000	2018 MDL'000
Interest income from short-term placements	22	232 178	303 637
Interest income from securities	22	1 466 687	1 336 106
Interest income from loans and repo agreements	22	1 593	260
		1 700 458	1 640 003
Interest expenses on loans received	23	(46 972)	(51 474)
Interest expenses on deposits and mandatory reserves	23	(613 966)	(578 421)
Interest expenses on transactions with securities and repo agreements	23	(380 437)	(544 104)
		(1 041 375)	(1 173 999)
Net interest income		**659 083**	**466 004**
Gains/(losses) from foreign currency transactions and foreign exchange rate differences	24	201 002	(242 669)
Gains/(losses) from the revaluation of securities	25	18 632	(9 605)
Other income	26	41 420	41 336
Operating expenses	28	(341 856)	(253 845)
Net operating (expenses)		**(80 802)**	**(464 783)**
NET PROFIT		578 281	1 221
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation of monetary gold	20	10 428	(1 109)
Revaluation of securities in foreign currency measured at fair value through other comprehensive income	20	23 562	9 614
Foreign exchange differences from revaluation of securities in foreign currency measured at fair value through other comprehensive income	20	(371)	(1 697)
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD		611 900	8 029
Calculation of the profit available for distribution			
NET PROFIT		578 281	1 221
(Allocation)/covering of unrealized (gains)/losses on revaluation of foreign currency stocks		(141 438)	247 905
PROFIT AVAILABLE FOR DISTIRBUTION		436 843	249 126

The accompanying notes 1-32 are an integral part of these separate financial statements.

The Supervisory Board of the National Bank of Moldova approved these separate financial statements on 8 May 2020.

Octavian Armașu
Governor

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

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	Notes	2019 MDL'000	2018 MDL'000
Cash flows from operating activities			
Interest receipts		1 549 955	1 356 102
Interest payments		(1 052 969)	(1 166 794)
Gain/(loss) from investment securities		18 632	(9 605)
Other receipts		40 217	41 959
Payments to personnel and suppliers		(265 702)	(230 177)
Cash inflows (outflows) before changes in assets and liabilities		**290 133**	**(8 515)**
Net (increase)/ decrease in operating assets			
Securities issued by the Government of the Republic of Moldova		230 000	(1 853 392)
Term deposits in foreign currency		(102 487)	3 171 286
Assets in international financial institutions		(10 412)	(10 344)
Loans granted to banks and separates		(338)	4 916
Investment securities		(2 267 810)	(3 712 336)
		(2 151 047)	**(2 399 870)**
Net increase/ (decrease) in operating liabilities			
National currency issued into circulation		2 103 807	2 716 001
Due to Government of the Republic of Moldova		(1 371 996)	587 656
Balances due to banks		1 304 598	3 841 439
Certificates issued by the National Bank of Moldova		(894 331)	(2 916 825)
Assets in international financial institutions		(650 085)	(699 375)
Other liabilities		(12 169)	128 481
		479 824	**3 657 377**
Net cash (outflows)/inflows from operating activities		**(1 381 090)**	**1 248 992**
Property, equipment and intangible assets acquisitions		(10 589)	(27 720)
Investments in subsidiaries		-	(24 000)
Net cash (outflows) used in investing activities		**(10 589)**	**(51 720)**
Differences from revaluation of cash and cash equivalents		166 069	(538 673)
(Decrease)/increase in cash and cash equivalents		**(1 225 610)**	**658 599**
Cash and cash equivalents at the beginning of the year		16 284 961	15 626 362
Cash and cash equivalents at the end of the year		15 059 351	16 284 961
Analysis of cash and cash equivalents			
Cash in hand in foreign currency	5	591	530
Nostro accounts	5	2 147 672	2 214 599
Term deposits in foreign currency	5	12 911 088	14 069 832
Cash and cash equivalents		15 059 351	16 284 961

The accompanying notes 1 – 32 are an integral part of these separate financial statements.

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National Bank of Moldova
SEPARATE STATEMENT OF EQUITY AND RESERVES
For the year ended 31 December 2019

	Authorized capital MDL'000	General reserve fund MDL'000	Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation MDL'000	Reserve of unrealized gains on revaluation of investment securities MDL'000	Profit MDL'000	Other reserves MDL'000	Total capital and reserves MDL'000
Balance as at 1 January 2019	**902 970**	**1 697 608**	**1 230 866**	**178 427**	**-**	**986**	**4 010 857**
NET PROFIT	-	-	141 438	-	436 843	-	578 281
Other comprehensive income:							
Differences on revaluation of monetary gold	-	-	-	-	-	10 428	10 428
Differences on revaluation of securities in foreign currency measured at fair value through other comprehensive income	-	-	-	-	-	23 562	23 562
Foreign exchange differences from revaluation of securities in foreign currency measured at fair value through other comprehensive income	-	-	-	-	-	(371)	(371)
Other comprehensive income, total	**-**	**-**	**-**	**-**	**-**	**33 619**	**33 619**
Comprehensive result at the end of the year	-	-	141 438	-	436 843	33 619	611 900
Allocation of profit							
Increase of the authorized capital	109 504	-	-	-	(109 504)	-	-
Increase of the general reserve fund	-	327 339	-	-	(327 339)	-	-
Balance as at 31 December 2019	**1 012 474**	**2 024 947**	**1 372 304**	**178 427**	**-**	**34 605**	**4 622 757**

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	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	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 2018	902 970	1 448 482	1 479 755	164 542	-	8 967	4 004 716
Adjustment on initial application of IFRS 9	-	-	(984)	13 885	-	(14 789)	(1 888)
Restated as at 1 January 2018	902 970	1 448 482	1 478 771	178 427	-	(5 822)	4 002 828
NET PROFIT	-	-	(247 905)	-	249 126	-	1 221
Other comprehensive income:							
Differences on revaluation of monetary gold	-	-	-	-	-	(1 109)	(1 109)
Differences on revaluation of securities in foreign currency measured at fair value through other comprehensive income	-	-	-	-	-	9 614	9 614
Foreign exchange differences from revaluation of securities in foreign currency measured at fair value through other comprehensive income	-	-	-	-	-	(1 697)	(1 697)
Other comprehensive income, total	-	-	-	-	-	6 808	6 808
Comprehensive result at the end of the year			(247 905)	-	249 126	6 808	8 029
Allocation of profit							
Increase of the general reserve fund	-	249 126	-	-	(249 126)	-	-
Balance as at 31 December 2018	902 970	1 697 608	1 230 866	178 427	-	986	4 010 857

Please see *Note 32 Subsequent events* regarding the amendments entered into force to the legal framework applicable for the distribution of the profit of the Bank and for the level of Bank's statutory capital following the change of the legal framework.

The accompanying notes 1 – 32 are an integral part of these separate financial statements.

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1. General information about the National Bank of Moldova

The National Bank of Moldova (further referred to as the Bank) is the central bank of the Republic of Moldova which was established in 1991. The activity of the Bank is regulated by the *Law No 548/1995 on the National Bank of Moldova*. In accordance with the above 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 national currency, formulates and implements the state monetary and foreign exchange policy, holds and manages foreign exchange reserves of the State, acts as the State banker and agent, licenses, supervises and regulates the activity of banks, as well as the payment services and electronic money issuance provider, on behalf of the Republic of Moldova assumes obligations and carries out the transactions resulted from the membership of the Republic of Moldova to the activity of the international public institutions in the banking, credit and monetary field in accordance with the terms of international agreements and acts as the resolution authority of the banks.

The Bank 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 Bank’s activity. The Executive Board exercises the executive management of the Bank and ensures the independent achievement of its main attributions, as established by law. The Banks’ governing bodies’ members are appointed by the Parliament.

The Bank owns 98,36% of the share capital of the Joint Stock Company "Single Central Securities Depository" (CSD), which was founded and registered on April 4, 2018. The Central Securities Depository's activity is governed by the *Single Central Securities Depository Law 234/2016*. Pursuant to the aforementioned law and the license granted by the National Bank of Moldova, starting 31 July 2018 the Central Securities Depository carries out the activities on initial registration of the state securities and National Bank of Moldova’s financial claims in a book entry form, administration of securities accounts, management of securities settlement system, clearing and settlement of state securities and certificates issued by the National Bank of Moldova. Starting with May 1, 2019, the Central Securities Depository also carries out activities regarding the financial instruments defined in art.4 of *Law no.171/2012 on the capital market.*

The registered head-office of the Bank is 1 Grigore Vieru Avenue, Chisinau, Republic of Moldova, while the head-office of the single Central Securities Depository is 57/1, Mitropolit Bănulescu-Bodoni avenue Chișinău, Republic of Moldova.

2. Basis of preparation

The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and refer exclusively to the activity of the Bank. The Bank prepares consolidated financial statements, which are available on the Bank’s website.

The separate financial statements are prepared under the going concern basis and presented in Moldovan lei (hereinafter MDL), the currency of the Republic of Moldova, rounded to the nearest thousand in Moldovan lei. 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 separate financial statements have been prepared on a historic cost or amortized cost basis, except for financial assets measured at fair value through other comprehensive income.

Given the specificity of the Bank, the categories of financial assets of the Separate balance sheet were presented using other names than the categories provided in IFRS9 “Financial Instruments”. This presentation provides a better understanding of the financial assets and liabilities of the Bank, considering its specific activity.

2. Basis of preparation (continued)

At the same time, each line of financial assets and financial liabilities in the balance sheet corresponds to certain categories classified in accordance with IFRS 9 “Financial Instruments”, these being detailed in the Notes to the separate financial statements.

In accordance with paragraph 10 IAS 10 “Presentation of financial statements”, the Bank chose to keep the title of “Separate statement of comprehensive result” and “Separate balance sheet” as stated in financial statements for previous years because it better reflects user’s expectations of financial statements and in order to maintain consistency of presentation with previous years.

Significant accounting judgments and estimates

The preparation of the separate financial statements in accordance with the International Financial Reporting Standards requires management to make estimates, assumptions and judgements in determining the amounts reported in the separate 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 separate financial statements. Actual results therefore could differ from those estimates.

The information on judgements made in applying the accounting policies that have the most significant impact on the amounts recognized in these separate financial statements are as follows:

a) Classification of financial assets

The classification of financial assets according to IFRS 9 involves identifying and assessing the business model of the assets held and assessing whether the contractual terms of the financial instrument are solely payments of principal and interest (the ““SPPI” test).

b) Estimation of expected credit losses

Applying the expected credit loss model, involves the assumption and application of significant judgments and assumptions in determining the “significant increase in credit risk” from the initial recognition of the asset, the incorporation of forward looking economic conditions into impairment models, as well as the selection and approval of models used to measure expected credit losses. The detailed information on the estimates and judgments used to determine the expected credit losses of the financial instruments are presented in Note 4.

Information on the assumptions and uncertainties of the estimates that have a significant risk of material adjustments to the separate financial statements are:

- **Expected credit losses**

Significant assumptions relating the expected credit losses models for assets measured at fair value through other comprehensive income (hereinafter FVOCI) and assets measured at amortized cost are the inputs of the approved impairment models, including the forward looking economic conditions

- **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the Separate balance sheet cannot be derived from active markets, these are determined using a variety of evaluation techniques that include the use of mathematical models. The input of these models may be taken from other active markets, where possible. Where this is not feasible, a degree of judgment is required in establishing the 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 12.

3. Significant accounting policies

Except for the changes in accounting policies explained in *Note 3 a)*, the significant accounting policies set out below have been applied consistently by the Bank to all periods presented in these separate financial statements.

a) Changes in accounting policies

The Bank has applied initially *IFRS 16 Leases* (hereinafter IFRS 16) from 1 January 2019. Other standards that came into force on and after 1 January 2019 do not have a material impact on the Bank's separate financial statements. Changes in accounting policies resulting from the adoption of IFRS 16 have been applied prospectively, without restatement of previous periods, as permitted under the specific transitional requirements of the standard.

b) Revaluation of balances and transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate of the transaction day and are revalued on a daily basis using the official exchange rate of Moldovan lei. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate of the Moldovan lei on the reporting date. The official exchange rates of the Moldovan leu against the reference currencies, for the years 2019-2018, was the following:

	Year 2019		Year 2018	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	17,5751	17,2093	16,8031	17,1427
EUR/MDL	19,6741	19,2605	19,8442	19,5212
GBP/MDL	22,4205	22,5811	22,4380	21,6511
XDR/MDL	24,2786	23,7975	23,7875	23,7710
XAU/MDL	786,0086	835,8027	685,5073	695,1387

Foreign exchange rate differences arising on the settlement of transactions different from those of the foreign exchange stock are recognized in the Separate statement of comprehensive result.

c) Cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalents comprise cash in hand in foreign currency, Nostro accounts, short-term placements 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 issuance. The Separate balance sheet includes the cash at nominal value, while the short-term placements with banks are indicated at amortized cost and are presented on a net basis (cash in hand in national currency is offset with the national currency issued into circulation).

d) Monetary gold

The Bank's gold is kept in gold bullions, which comply 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 above-mentioned characteristics of the monetary gold, the management of the Bank understands that IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, pursuant to the requirements set by paragraphs 10-12 of IAS 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 daily basis at the price determined by the Bank based on the quotation $P_{Au/USD}$ set by London Gold Market Fixing Ltd Company. The gold is measured using the weighted average cost method.Unrealized gains and losses from monetary gold revaluation are recognized in the Separate statement of comprehensive result and reported in Other comprehensive income and as other reserves. At derecognition, the cumulative unrealized gains and losses shall be recognized as realized gains /losses and are reclassified to profit or loss.

3. Significant accounting policies (continued)

e) Assets in international financial institutions

The amounts recorded in the balance sheet as "Assets in 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. Receivables of international institutions and the quota of the Republic of Moldova to the IMF are measured at amortised cost, with the monthly reevaluation, on the last working day of the management month, at the XDR rate against the Moldovan leu, as calculated by the IMF.

f) Financial instruments

The Bank's financial instruments comprise:

- Cash and short-term placements
- Monetary gold
- Assets in international financial institutions
- Securities issued by the Government of the Republic of Moldova
- Credits granted to banks and other persons
- Investment securities
- Investments in subsidiaries
- National currency in circulation
- Due to the Government of the Republic of Moldova
- Due to banks and other clients
- Certificates issued by the National Bank of Moldova
- Due to international financial institutions

Recognition of assets and financial 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 there is probable that the future economic benefits embodied in these assets and liabilities will flow to/ from the Bank and the assets or liabilities have a cost or value that can be fairly measured.

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 the contractual obligations of the financial liability have been extinguished or canceled, or have expired.

Substantial modification of financial assets and liabilities

A substantial change in the conditions of an existing financial instrument (asset or liability) or part of it (whether or not it can be attributed to the financial difficulties of the debtor) is accounted for as a derecognition of the original financial instrument and the recognition of a new financial instrument new. A substantial change in the conditions of a financial instrument is determined on the basis of expert judgment, firstly by evaluating the qualitative factors of the change and then applying the quantitative assessment of the effects of the change.

Classification of financial assets and financial liabilities

On initial recognition, the Bank classifies its financial assets in the following categories: financial assets measured at amortized cost, financial assets measured at FVOCI and financial assets measured at fair value through profit or loss (hereinafter FVPL).

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Classification of financial assets and financial liabilities (continued)

On initial recognition, the Bank classifies its financial assets in the following categories: financial assets measured at amortized cost, financial assets measured at FVOCI and financial assets measured at fair value through profit or loss (hereinafter FVPL).

A financial asset is measured at **amortized cost** if it meets both of the following conditions:

1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely principal and interest payments only.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any credit loss allowance.

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective interest method and adjusted by the amount of any expected credit losses. The expected credit loss and interest income are recognized in the Separate statement of the comprehensive result (Interest income, Expected credit losses expenses).

This category includes securities issued by the Government of the Republic of Moldova, loans granted to banks and other individuals, investment securities from the investment tranche, as well as cash and short term placements in foreign currency in Nostro accounts, term deposits and overnight credits.

A financial asset is measured at **fair value through other comprehensive income (FVOCI)** if both conditions are met:

1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely principal and interest payments only.

This category includes investment securities in foreign currency held in the current and liquidity tranche and securities in foreign currency managed externally and the quota to the International Monetary Fund.

Other financial assets that do not meet the measurement criteria either at amortized cost or at fair value through other comprehensive result are classified and measured at fair value through profit or loss. The Bank does not hold such instruments on 31 December 2019 and 31 December 2018. Throughout 2019 and 2018, the Bank classified Forward and Swap instruments as financial assets measured at fair value through profit or loss.

Throughout 2019 and 2018, the Bank classified Forward and Swap instruments as financial assets measured at fair value through profit or loss.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The objectives of setting up and managing each tranche of foreign reserves, sales activity from each portfolio (frequency, volumes and timing), factors on which the management decision are based when managing foreign reserves, risk management of foreign currency assets, performance assessment and the relative significance of different sources of income are analyzed in establishing the business model of for the classes of financial assets representing the foreign currency reserves.

3. Significant accounting policies (continued)

f. Financial instruments (continued)

Regarding the financial instruments denominated in domestic currency, comprising the securities issued by the Government of the Republic of Moldova and monetary instruments (loans granted to banks, repo's), the objectives of holding financial instruments in portfolios, monetary policy objectives, frequency and volume of sale and other aspects of the legal and regulatory framework relating the Bank's duties are considered in setting up the business model.

Assessment of whether contractual cash flows are solely payments of principal and interest

The assessment of whether the contractual cash flows are solely payments of principal and interest is applied at the level of the financial instrument.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, while 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin, if pursued under the legal framework.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms and conditions of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank shall examine the conditions for early repurchase or extension of instrument terms (government bonds), contingent events, periodical reset of interest rates for floating-rate instruments or other instrument changes (instruments indexed at inflation rate, benchmark rates adjusted with different frequencies than the period of the interest rate, etc.) that modify consideration of the time value of money.

Financial liabilities are classified and measured at amortized cost.

Reclassification of assets and financial liabilities

Financial assets are not reclassified after initial recognition, unless the Bank shall change its business model in which the asset is managed.

g) Fair value of financial instruments

Fair value is the price that would be charged for the sale of an asset or paid for the transfer of a liability in a regulated 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, on the most advantageous market for the asset or liability.

Investment securities in foreign currency measured at fair value are classified as financial assets at FVOCI, the gain or loss from their revaluation to market value is recognized in other items of comprehensive income, while at their derecognition being reclassified in the Statement on comprehensive income under category gains/losses from revaluation of securities. Exchange rate differences on securities revaluation are recognized similarly in other items of the comprehensive income, derecognition being reclassified under gains/losses from foreign currency transactions and foreign exchange rate differences.

Considering the specific characteristics of the quota to the International Monetary Fund (the allocated rights, the way of joining and structuring the derecognition, the allocated benefits) and the lack of market and transactions with such instruments, the high degree of security and acceptance on the international market, the carrying value of the Republic of Moldova quota to the International Monetary Fund represent its fair value.

The fair value of the financial instruments measured at amortised cost 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.

3. Significant accounting policies (continued)

g) Fair value of financial instruments (continued)

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 held in the Bank's portfolio from the curve of the current effective interest rates, adjusted to relevant indices.

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. If the active market of state securities is different from the primary (interbank) market, the Bank establishes the market value by internal methodologies and references to similar market interest rates for those instruments.

The hierarchy of fair value 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 investment securities in foreign currency measured at FVOCI.

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

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

The Bank has controls in place to verify the fair value of financial assets, verifying it observable data, performs various valuation models based on observable quotations and analyzes major changes between periods. The classification of the fair value of financial assets of the Bank per the three levels is presented in Note 12.

h) Impairment of financial assets

Financial assets held by the Bank and measured at amortized cost and at FVOCI are tested for impairment under the expected credit loss model. Expected credit losses represent a probability weighted estimate of the credit losses. These losses are measured as the present value of the difference between the contractual cash flows due to the Bank and the cash flows that the Bank expects to receive as a result of the weighting of several future economic scenarios, discounted using the original effective interest rate of the instruments.

The Bank applies three-stage impairment model under the expected loss approach. The impairment model applies to financial instruments measured at amortized cost and FVOCI and does not apply to financial instruments measured at FVPL. Within three impairment stages, financial assets may migrate from one stage to another based on credit risk changes against initial recognition.

Stage 1. For Stage 1 financial assets, the expected loss is calculated for a 12 month period, applying the probability of default for a period of 1 year.

Stage 2. In the event of a significant increase in credit risk compared to initial recognition, the financial asset migrates to Stage 2. For Stage 2 financial assets, the expected loss for the lifetime of the asset is calculated by applying a probability of default that cover the residual maturity of the financial asset.

Stage 3. The Stage 3 migration criterion is the attribution of default status to the financial asset. The expected loss is calculated for the all lifetime of the asset.

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

3. Significant accounting policies (continued)

h) Impairment of financial assets (continued)

On initial recognition, financial assets related to foreign currency reserves and instruments in national currency were classified in Stage 1, these being considered as low-risk financial assets. The same approach shall also benefit financial instruments that will later be invested in these kind of assets.

A significant increase in credit risk associated with a foreign currency financial instrument is a downgrading of the issuer's rating below the minimum allowed level (A-) according to the *Regulation on managing international reserves.* In the case of financial instruments in national currency, a significant increase in credit risk is a downgrading according to internal methodologies agreed for assets in domestic currency. In this case, the financial instrument shall be classified in Stage 2 and the credit risk loss shall be calculated over the entire period of the instrument until its maturity. Also, a delay of more than 30 days' payment is a decisive factor for the migration of the Stage 1 asset to Stage 2 for all financial assets held by the Bank.

At each reporting date, the Bank assesses whether there is evidence of a financial asset measured at amortized cost and fair value through other comprehensive income is credit-impaired.

Default is defined as the inability of the issuer or counterparty to honor its contractual obligations. The Bank considers a credit-impaired asset and classifies it in Stage 3 when one or more impairment events occurred after initial recognition, with a negative impact on estimated future cash flows. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the debtor or issuer.
- A breach of the contract, such as a default or failure to pay;
- The disappearance of an active market for that financial asset due to financial difficulties.
- Granting concessions to the debtor, for economic or contractual reasons, related to the debtor's financial difficulties, which the Bank would not otherwise consider;
- It is likely that the debtor will go bankrupt or in another form of reorganization.

A financial instrument in the foreign currency reserve category shall be classified in Stage 3 when its rating is downgraded successively and goes from "investment grade" to "junk" (rating below "BBB-"). In case of financial assets in domestic currency, the Bank shall classify a financial instrument in Stage 3 if it migrates to the Credit-impaired category according to the models and the internal rating system. Also, a delay of more than 90 days of payment is a key factor for the migration of Stage 2 asset to Stage 3 for financial assets in foreign currency and exposures to licensed banks.

Considering the high credit quality of financial assets in foreign currency, the Bank applies the practical exemption to determine the expected credit losses based on the 12 month period expected loss.

Financial asset of the foreign currency reserves with a BBB- rating and higher, being rated as "investment grade" are considered low risk. The "investment grade" rating of a financial instrument indicates a low probability of default of the issuer. Instruments rated as "AAA" and "AA" are considered to be of high credit quality, indicating a high ability of the issuer to meet their contractual obligations.

Instruments rated as "A" and "BBB" are considered to be of medium credit quality, indicating a strong ability of the issuer to meet their payments. In this case, issuers have a stable financial position, they can pay off their debts, but they may face some difficulties in the event of worsening of the economic environment. At the same time, instruments rated as "BB", "B" and "CCC" are of low credit quality and are considered speculative or "junk" investments. The issuers of these instruments have a high vulnerability to changing economic conditions, with a significant impact on their ability to pay, in the event of recession or worsening in the economic environment.

3. Significant accounting policies (continued)

i) Impairment of financial assets (continued)

Given that under the *Regulation on managing international reserves* the minimum rating in which an investment can be made is "A-" and is considered as average rating calculated based on the ratings of the three international rating agencies, all financial assets in the Bank's foreign reserves portfolios are considered to be of low risk.

The formula for the expected credit loss is determined by multiplying the exposure at default (EA), probability of default (PD), and losses at default (loss given default LGD). In determining the expected credit loss and the scenarios used, the Bank applies the information derived from the "Annual Corporate Default Study and Rating Transitions" report, published annually by the Standard &Poor's rating agency, the "Sovereign Foreign - Currency Cumulative Average Default Rates With Rating Modifier" and "Sovereign Local-Currency Cumulative Average Default Rates With Rating Modifier" from the "Annual Sovereign Default Study and Rating Transitions" report, published annually by the Standard &Poor's rating agency, internal models for determining default probabilities for domestic assets, macroeconomic factors in the application of future information. For the lifetime expected credit losses, the marginal probability of default is estimated for each year until maturity. At the same time, the marginal probability of default in a given year is applies to the sample that survived the default in the previous year or years.

State securities issued in domestic currency held in the Bank's portfolio are considered as financial instruments with low credit risk (classified in Stage 1), considering the sustainability of the debt ratios and macroeconomic factors incorporated in the financial models developed in assessing the Government exposure in relation to the Bank, as well as the lack of history of defaults of state securities issued in domestic currency.

i) Repo agreements

The repo agreements represent sale/purchase transactions of securities with the subsequent commitment of repurchase/sale at a pre-established date and at a previously agreed price. The Bank uses these agreements in order to absorb liquidity (reverse repo) 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.

j) Forward transactions

Forward currency transactions and forward legs of swaps, involving a foreign currency exchange at a future date, towards domestic currency or other foreign currency are derivative financial instruments, recognized at FVPL with the notional recorded in off-balance sheet accounts using the trade date accounting at the spot rate of the transaction.

The notional of the forward transaction (Forward and Forward legs of SWAPs) is revalued starting from the transaction date or plus maximum two working days under the settlement terms of the base contract at the official rate of MDL against 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 recognized in balance sheet accounts and is considered as the interest to be paid or received on cumulative basis both for term purchases and sales.

3. Significant accounting policies (continued)

k) Investments in subsidiaries

Investments in subsidiaries are initially recognized in the separate financial statements at the fair value of the consideration transferred at the date of acquisition, the possible forms of consideration being cash and other assets. Investments in subsidiaries (capital, additional contribution) are recognized when the Bank has a contractual arrangement to contribute and the contribution meets the definition of an asset. After initial recognition, investments in subsidiaries are measured at cost less impairment. Dividend income from subsidiaries is recognized in the separate statement of comprehensive income on the date when the right to receive is determined and it is probable that these dividends will be collected. Dividends are presented as a component of other incomes.

l) Property and equipment

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

Expenditures on current repairs and maintenance are charged to operating expense as incurred. Expenditures related to tangible assets, made after their putting into service are recognized as assets only if these expenses improve the asset condition beyond the originally assessed performance standard. Depreciation of property and equipment is computed on a straight-line basis using the following depreciation rates:

	Rate per annum, Interval %
Buildings, special constructions and similar constructions	5%-10%
Vehicles	12,5%-20%
Special equipment, banknotes processing equipment etc.	12,5% -20%
Office equipment	20%
Machinery and equipment, computing equipment	30%

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

m) Intangible assets

Intangible assets represent costs incurred for acquisition of computer software. They are amortized using the straight-line method over their estimated useful lives. An annual amortization rate is determined based on the estimated useful life of each asset, which 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. On 31 December 2019, the estimated useful life of intangible assets in use varies between 1 and 10 years.

The costs related to the maintenance of the software elements are recognized in the separate statement of comprehensive income 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.

n) National currency issued into circulation

The national currency (banknotes and coins is recognized at nominal value when it is put into circulation and is derecognized when it is withdrawn from circulation. The national currency issued into circulation is measured at amortized cost. For presentation purposes, the national currency in circulation is reduced by the national currency held at the Bank's cash desk. The cost of production of banknotes and coins is recognized in the separate statement of comprehensive income as they 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 other income.

3. Significant accounting policies (continued)

o) Due to banks

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

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

p) 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 national and foreign currency, demand and term deposits of the Ministry of Finance and amounts of the Credit Line Directorate of the Ministry of Finance, being measured at amortized cost.

q) Certificates issued by the National Bank of Moldova

Certificates issued by the National Bank of Moldova represent discount securities and are recognized 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 rate 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.

r) Due to international financial institutions

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

s) Other liabilities

Other liabilities include financial and non-financial liabilities.

Other financial liabilities comprise the liabilities to the State Budget, the current account of the Deposit Guarantee Fund, Loro Temporary Account of Tiraspol Cash and Settlement Center, trade payables, operating lease liabilities, due to employees. Other financial liabilities are measured at amortized cost. Other non-financial liabilities comprise the provision for unused holidays days, measured at cost, deferred income from received grants and other non-monetary liabilities.

t) Capital and reserves

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

The capital structure of the Bank includes the following:

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

According to the provisions of the *Law on the National Bank of Moldova*, in force during the 2019 year, the statutory capital is dynamic and is formed from the annual profit available for distribution, from the income obtained under Article 64, paragraph (3) of the afore-mentioned 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).

3. Significant accounting policies (continued)

t) Capital and reserves (continued)

The authorized capital is subscribed and held exclusively by the State; the capital is not transferable or subject to encumbrance. No reduction of the level of monetary liabilities, both during the year, and at the end of the year, does not result in a decrease of statutory capital previously accumulated.

The general reserve fund is used exclusively to cover the net losses incurred by the Bank at the end of the financial year. In case when, at the end of the financial year, the general reserve fund has a debit balance, the Ministry of Finance, on behalf of the Government, 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 in the corresponding reserve accounts of the 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 distribution 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, pursuant the Article 64, paragraph (3) of the Law on the National Bank of Moldova.

At the end of the financial year, the profit available for distribution is allocated to the increase of the statutory capital, in accordance with Article 19, paragraph (3) of the Law on the National Bank of Moldova, in force at the end of the reporting year, until the capital reaches the level of specificed percentage 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 historical cost.

u) Income tax

In accordance with the Article 24, paragraph (15), letter f) of the Law No. 1164-XIII of 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.

v) Interest income and expenses

Interest income and expenses are recognized in the Separate statement of comprehensive result for all financial instruments measured at fair value and at amortized cost using the effective interest method. The effective interest method is the rate that that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, for a shorter period, to the gross carrying amount of the assets and the amortized cost of the financial liability.

The effective interest rate is calculated at initial recognition of the financial instrument. When applying the effective interest method for financial instruments, other than those purchased or originated as credit-impaired, the Bank takes into account future cash flows from contracts, excluding any expected credit losses, all commissions that form an integral part of the effective interest rate of a financial instrument, transaction costs and premiums and related discounts. For those assets purchased or originated as credit-impaired the Bank calculates an effective interest rate adjusted at credit loss, considering contractual flows and impairment losses. The effective interest rate is revised in the case of periodic reassessment of cash flows for floating interest rates in order to reflect market price movements.

3. Significant accounting policies (continued)

v) Interest income and expenses (continued)

Interest income and expenses are calculated by applying the effective interest rate to the gross carrying value of the financial asset and the amortized cost in the case of financial liabilities. In case of credit impaired assets, the interest income is calculated by applying the credit-adjusted effective interest rate at amortized cost of the financial asset. In case if the asset is no more impaired, the interest is calculated from the gross carrying value of the asset.

Interest income and expense measured by the effective interest rate method and disclosed in the Separate statement of comprehensive result comprise interest income of assets measured at amortized cost and FVOCI. Interest expense from negative interest rate on financial assets are presented in category *Operating Expenses.*

w) Fee and commission income and expenses

Commissions that are an integral part of the effective interest rate of financial instruments are included in interest income and expense calculated using the effective interest rate method. Other commissions are recognized as income based on services rendered by the Bank under the contracts with customers (performance obligations satisfied) and as expenses based on contractual services.

x) Revaluation of assets and liabilities in foreign currency

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 domestic currency against the foreign currencies which create the 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 Separate statement of comprehensive result is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

y) Fiduciary activities

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

z) Contingent assets and liabilities

Contingent liabilities include possible obligations arising as a result of past events and which existence shall be confirmed only by the occurrence or non-occurrence of one or more uncertain future doubtful 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 Separate financial Statements. They are disclosed in the Notes to the Financial Statements, unless the possibility of an outflow of resources embodying economic benefits is removed.

Contingent assets are presented by probable assets that arise as a result of past events and which existence shall 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 Separate Financial Statements but are disclosed when an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

aa) 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.

bb) Pension costs Employee benefits

During its actual 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 legislation in force. Social insurance contributions, as well as the mandatory health insurance premiums borne by the Bank on its own account are recognized as expenses when calculating salaries. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

cc) Operating leases

In the case of short-term leases and/or leases of assets of law value, the Bank recognizes the right of use asset and a lease liability equal to future lease payments required by the contract.

Right-of-use assets, generated by long term contracts, are recognized at cost in the Separate balance sheet, at the commencement date.

The cost of the right-of-use asset comprise the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the lessee; any estimated costs to be incurred in dismantling and removing the underlying asset.

The liability arising from the long-term lease is recognized in the balance sheet at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses the base rate used for the main short-term monetary policy operations published by National Bank of Moldova in force at the date of recognition of lease.

dd) New standards and interpretations not yet adopted

Some of the new standards, amendments and interpretations for existing standards are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these Financial Statements:

- Amendments to *Conceptual Framework for Financial Reporting*;
- Amendments to IFRS 3 *"Business Combinations"*- definition of a business;
- Amendments to IAS 1 *"Presentation of Financial Statements"* and IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors "* – defining the notion of "materiality" ;
- IFRS 17 *"Insurance Contracts"*.

Considering the nature of the Bank's transactions, it is estimated that the requirements of the amendments related to these standards will not have a significant impact on the Separate Financial Statements.

*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

4.1 Risk management framework

Throughout its normal operations, the Bank is exposed to a range of operational and financial risks. This note presents the information about Bank's exposures to risks, policies and processes of the Bank for assessing and monitoring the risks related to financial instruments held by the Bank.

In order to reduce the effect (impact and probability) of risk materialization, the Bank promotes risk management based on the principles of the classic "three lines of defence" model (based on COSO standards related to the internal control system and risk management within an entity). Within the framework of this model, each line has its importance in the process of corporate governance of the Bank, ensuring an adequate system of internal control and management of risks.

The first line of defence owns and manages the risks and is represented by the Bank subdivisions, which are also the "owners" of risks. The heads of subdivisions (line managers) bear responsibility for identifying and managing the risks inherent to the activity processes and the information systems of which they own.

The second line of defence represents the functions of organizing the risk management process, which facilitates and monitors the efficient implementation of risk management by the line managers. It is independent of line managers and reports to management bodies.

The third line of defence is represented by internal auditors, who provide reasonable independent assurance to the governing bodies and line managers regarding the adequacy and effectiveness of governance, risk management and internal controls, including how the first and second line of defence reach the objectives of risk management. The internal audit is subordinated and reports to the Supervisory Board.

The management bodies of the Bank implement the model of the three lines of defence and ensure that it reflects the risk management process and internal control of the bank.

Through the established duties, *the Supervisory Board* is responsible for adopting the standards of the internal control system, verifying and assessing continuously its functioning and its elements. Accordingly, the Supervisory Board is assisted by the Audit Committee, which in turn provides advice / opinions on the monitoring of the financial reporting processes of the Bank and on the efficiency of the internal control system, and in order to achieve the attributions mentioned at an expected quality level risk management.

The methodology for designing, implementing and maintaining the risk management system, is approved by the Supervisory Board of the Bank. Risk management policies include how to identify, evaluate, manage and monitor risk-measurement instruments with direct, regular, or necessary reporting to the Bank's management.

Regulatory acts, approved by the Supervisory Board of the Bank, that lay out the principles of the Bank's corporate governance, promote and develop the control environment of the Bank, emphasizing the importance that the management of the Bank attributes to the internal control. This ensures employees' awareness and compliance with the Bank's core tasks and objectives as well as separate functions and rules of conduct.

Auditing and evaluation of the internal control and risk management system in the Bank is an element of managerial control and is within the competence of the Internal Audit Department. The results of the internal audit and the recommendations provided are transmitted to the audited subdivisions and executive management for the implementation of the audit recommendations, the associated risk mitigation, with subsequent reporting to the Audit Committee / Supervisory Board of the Bank.

4. Risk management (continued)

4.1 Risk management framework (continued)

Operational risk

The operational risk (OpR) involves a potential financial, activity and/or a reputational impact for the bank that derives or is conditioned by inadequate or unsuccessful activities of internal governance, business processes, individuals, systems, infrastructure, legislation, communication or external environment change.

The operational risk management of the Bank is based on process management and is an integral part of corporate governance, processes and daily activities. Operational risk management includes policies and procedures, responsibilities imposed at all hierarchical levels, and internal control measures specific to each Bank's activity process. These are set out in the *Framework on operational risk management in the National Bank of Moldova*, approved by the Supervisory Board.

The operational risk governance model is a distributed one and is based on the classic "three lines of defense" model of the internal control system and risk management.

The line managers are responsible for the development, implementation and maintenance of effective internal control system for managed processes. Moreover, the line managers ensure the identification, assessment, mitigation and monitoring of the risks related to the processes carried out, as well as the continuity of the processes.

The risk management function (division) ensures the unitary methodological framework of the operational risk management system, facilitates and coordinates the operational risk management process carried out by the divisions, offers knowledge transfer, assistance and consultancy in the field. This function also elaborates the operational risk profile of the Bank, with quarterly reporting to the Risk Committee and annually to the governing bodies.

The Executive Board assumes responsibility for the implementation of the operational risk management framework and monitors its efficiency through the Risk Committee.

The purpose of the Risk Committee, as part of the second line of defense, is to assist the Executive Board with the direct supervision on the effective management of the operational risk management system in the Bank. The risk committee has been delegated with the authority to supervise the risk areas, the procedures and tools used to identify asses and mitigate operational risks, changes in risk levels and their impact, risk responses.

The Risk Committee is responsible to the Executive Board.

In the context of operational risk management, the management function of the business continuity and the informational security elaborates and implements the standards, information security policies and business continuity, incident response plans and resumption of the essential operational functions within the set deadlines, manages major incidents and exceptional instances of continuity and informational security and monitoring the incident management process.

Operational risk management is part of Bank's governance and support processes.

Financial risk

The Executive Board assumes responsibility for establishing and supervising the risk management framework of financial instruments, including through the Investment Committee, the manner in which the Supervisory Board sets it up.

The Investment Committee is responsible for developing and monitoring risk management policies in specific liability areas, reporting regularly to the Executive Board the results of its work. The Executive Board is responsible for: establishing the investment horizon; the regulatory foreign currency composition of international reserves; the minimum rating in which investments can be made; approving strategic benchmark; the allowed durations and deviations for each foreign currency; approving the maximum limits on instruments and counterparties/issuers; taking decisions on transmitting a certain part of international state reserves into external management.

4. Risk management (continued)

4.1 Risk management framework (continued)

Financial risk (continued)

The Investment Committee is responsible for: analyzing and monitoring the investment risks, including credit risks, the analysis of the rating developments of counterparties authorized to conduct the operations as well as the ratings of issuers of securities in foreign currency; establishing 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 foreign 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. As of 1 January 2018, the Investment Committee reviewed the financial instruments classification policies according to IFRS 9 and the expected credit losses (ECL method), including monitoring the periodic development of expected losses according to the approved methodology during the year.

The Risk Monitoring and Reporting Division is responsible for managing and reporting investment risks in accordance with the regulations approved by the Executive Board and the Investment Committee, including the expected credit losses according to ECL method and periodic validation and back-testing, identifying significant increases of the credit risk and the incorporation of future economic information.

The tasks of promoting the monetary and foreign exchange policy with the purpose of fulfilling the Bank's fundamental objective of ensuring and maintaining price stability are the Executive Board at the monetary policy promotion meetings.

The risk management activity of the Bank is governed by internal instructions and procedures and is monitored by the management of the Bank, which analyzes the Bank's monetary, investment and foreign exchange policy issues.

Pursuant to Article 5, 16, 53 and 71 of the Law on the National Bank of Moldova, the Bank maintains and manages the foreign exchange reserves of the State (also referred to as "international reserves"), performs foreign exchange operations using foreign reserve assets and maintains them at an adequate level for the conduct of the monetary and foreign exchange policy of the state. In the process of managing foreign exchange reserves, the Bank ensures a high degree of security and a required level of liquidity of investments. The investment policy of the Bank is prudent, aiming to improve profitability, focusing on liquidity and security.

As part of the management of foreign exchange reserves, the Bank invests in safe instruments, also used by other central banks: placements on correspondent accounts (usually with other central banks) and term placements in foreign currency and securities. These are classified as: supranational securities (issued by supranational institutions), government securities (issued by US Government, Governments of EU member states, other high-rating government issuers) and non-government securities (issued by high rating agencies).

As from July 2013 in collaboration with the World Bank, the management of foreign exchange reserves is carried out through Strategic Assets Allocation method (SAA). The Strategic Assets Allocation involves a long-term outlook for asset management aimed to achieve 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 ensures a more efficient achievement of the established objective.

The working capital tranche is a part of the international reserves used to cover cash needs for foreign currency sales on the domestic foreign exchange market, payments related to the external debt of the Bank and the Government of the Republic of Moldova and other payments in foreign currency during one month.

4. Risk management (continued)

4.1 Risk management framework (continued)

Financial risk (continued)

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 the forecast of imports for the next year). It also covers external debt payments of the Bank and the Government of Republic of Moldova and other payments in foreign currency within one year. If the liquidity tranche exceeds 4 months of import, as well as payments on external debt of the Bank and the RM Government and other payments in foreign currency over one year, the surplus of reserves may be used to complete the investment tranche. The part of the reserves that is transferred to external management is also included in the liquidity tranche. The liquidity tranche may cover less than 3 months of import as well as the amount of payments related to the external debt of the Bank, the RM Government and other payments in foreign currency during one year, as long as the investment tranche does not comprise other assets than the portfolio of securities at amortized cost and gold. Funds recovered at the maturity of the securities in the portfolio measured at amortized cost will be reinvested in the liquidity tranche.

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 securities measured at amortized cost and investments in gold are part of the investment tranche.

The tranches consist of portfolios in different currencies and different financial instruments, 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.

The strategic allocation in tranches is the fundamental element in determining the models of the management of financial assets in foreign currency (**"business models"**) according to the IFRS 9 classification requirements. The strategic asset allocation is a complex and sustainable process that is periodically reviewed.

An essential element of the process of managing foreign exchange reserves is the management of investment and credit risk, achieved by setting investment limits. The risk management procedures for foreign exchange reserves comprise the establishment and monitoring of adherence to limits on investment instruments, separate counterparties/issuers, depending on the rating, deviations from established benchmarks, time limits, limits depending on the investment term, as well as currency composition.

The regulatory framework for financial risk management in systematically updated, depending on the market trends, policy or structure of the Bank developments.

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 carrying value of its financial assets.

4. Risk management (continued)

4.2 Credit risk (continued)

Transaction credit risk relating the management of the foreign exchange reserves is monitored by selecting highly-liquid and low-risk investment instruments, as well as establishing investment limits and their day-to-day control. An essential element of credit risk management related to foreign exchange reserves is the Bank's investment with the purpose of managing foreign exchange reserves in secure long-term reliable counterparties (minimum average rating A-[1]) assigned by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and which are authorized by the Bank for those transactions.

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

In order to mitigate the exposure to credit risk associated with loans granted to licensed banks, the Bank monitors on a regular bases the quality of the loan portfolio by periodically evaluating the change in internal ratings in the debtors' classification, the events that may cause losses, including future macroeconomic factors, financial indicators of banks, including breach of contractual terms (failure to pay the principal or the interest), worsening the financial condition of the debtor and their probability of bankruptcy, renegotiating and/or extension of repayment terms of loans and/or interests relating to financial difficulties of the debtor caused by economic, legal reasons, etc.

Additionally, exposure to credit risk is reduced by the collateral made up by licensed banks, which must cover the total amount of loans granted by the Bank, interest and other related payments. When determining the value of the asset - guarantee, risk control measures are applied in order to protect the Bank against the risk of financial loss due to a bank failure to repay the loan. The Bank assesses the quality and the value of assets granted by banks as collateral for loans on a monthly basis, or more frequently, if necessary.

Credit risk associated with overnight credits is managed on a daily basis by using monetary policy limits that, according to the applicable normative acts, if necessary, allow to reduce to zero the amounts of credits that may be granted by the Bank to the banks licensed under the standing facilities. It is also managed by ensuring with state securities and certificates issued by the Bank that have a high degree of liquidity.

In order to reduce the exposure to credit risk related to loans granted to the Bank's employees, the Bank requires the employee to guarantee the pledge or other collateral.

[1] Ratings are expressed in the format used by Standard & Poor's and Fitch Ratings agencies. As Moody's rating agency uses a different rating format, they are assigned Standard & Poor's or Fitch Ratings equivalents using the equivalence tables.

4. Risk management (continued)

4.2 Credit risk (continued)

The table below presents the financial assets of the Bank held on **31 December 2019**, based on the long-term rating:

Long-term rating[1]	Cash and short-term placements	Monetary gold	Assets in international financial institutions	Securities issued by the Government of the Republic of Moldova[2]	Loans granted to banks and separate	Investment securities	Investments in subsidiaries	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	8 129 682	-	4 119 868	-	-	24 725 535	-	-	36 975 085
AA+	-	-	-	-	-	3 505 352	-	-	3 505 352
AA	8 435 173	-	-	-	-	480 821	-	-	8 915 994
AA-	-	-	-	-	-	290 949	-	-	290 949
A+	4 850 514	-	-	-	-	-	-	-	4 850 514
A	2 164 386	-	-	-	-	-	-	-	2 164 386
A-	412	-	-	-	-	-	-	-	412
BBB	8	-	-	-	-	-	-	-	8
BBB-	5	-	-	-	-	-	-	-	5
Not applicable	-	61 961	-	15 251 903	19 244	-	24 000	1 577	15 358 685
Total	**23 580 180**	**61 961**	**4 119 868**	**15 251 903**	**19 244**	**29 002 657**	**24 000**	**1 577**	**72 061 390**

[1] Established by applying the average rating assigned by international rating agencies ((Standard & Poor's, Moody's şi Fitch Ratings).
[2] Considering the management system of the credit risk related to the assests in domestic currency, as well as the position of state agent and the specific status of relations between the Government and the Bank as state central bank, the securities issued by the Government of the Republic of Moldova are included in the category „Not applicable". Also, on 31 December 2019, the international rating company Moody's maintained for Moldova a rating level of B3 (31 December 2018: 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.

4. Risk management (continued)

4.2 Credit risk (continued)

31 December 2018*

Long-term rating[3]	Cash and short-term placements	Monetary gold	Assets in international financial institutions	Securities issued by the Government of the Republic of Moldova[4]	Loans granted to banks and separate	Investment securities	Investments in subsidiaries	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	10 961 186	-	4 114 710	-	-	24 399 845	-	-	39 475 741
AA+	-	-	-	-	-	1 324 585	-	-	1 324 585
AA	6 533 395	-	-	-	-	642 215	-	-	7 175 610
AA-	-	-	-	-	-	206 559	-	-	206 559
A+	2 593 696	-	-	-	-	-	-	-	2 593 696
A	4 629 493	-	-	-	-	-	-	-	4 629 493
A-	5 351	-	-	-	-	-	-	-	5 351
BBB	477	-	-	-	-	-	-	-	477
BBB-	4	-	-	-	-	-	-	-	4
Not applicable	-	51 533	-	15 472 115	18 906	-	24 000	2 261	15 568 815
Total	**24 723 602**	**51 533**	**4 114 710**	**15 472 115**	**18 906**	**26 573 204**	**24 000**	**2 261**	**70 980 331**

*Following the reclassification and division of financial assets from non-financial assets starting with 2019, in order to ensure comparability with the previous reporting period, non-financial assets from the category Other assets from the table above ratings on 31 December 2018 were excluded.

[3] Established by applying the average rating assigned by international rating agencies ((Standard & Poor's, Moody's şi Fitch Ratings).
[4] Considering the management system of the credit risk related to the assests in domestic currency, as well as the position of state agent and the specific status of relations between the Government and the Bank as state central bank, the securities issued by the Government of the Republic of Moldova are included in the category „Not applicable".

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4. Risk management (continued)

4.2 Credit risk (continued)

For the purpose of quantification of investment credit risk made in foreign currency, the value of the credit risk applied to the investment portfolio shall be calculated based on the default coefficients established by the Standard&Poor's Agency, for each type of rating, investments being divided in ten categories, according to the default coefficients, with annual maturities up to ten years, inclusively.

As of 31 December 2019, the credit risk exposure of the investment securities portfolio quantified on the base of default coefficient determined by the Standard & Poor's Agency, can be presented as follows:

	At amortized cost		At FVOCI		Total		Portfolio share
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	%
31 December 2019	11 800	686	819	48	12 619	733	0,02
31 December 2018	**16 766**	**978**	**459**	**27**	**17 225***	**1 005**	0,04

*In order to ensure comparability with the previous period, following the transition to IFRS 9 which generated changes in the structure of financial instruments depending on the valuation method, the exposure to credit risk of the investment portfolio, as of 31 December 2018, was restated by MDL 100 thousand, following the inclusion in the amount of the risk exposure at 31 December 2018 and the accrued interest balance.

The assessment of assets portfolio diversification and correct rating of the credit risk depending on the geographical area, the classification of assets of the Bank, depending on the investment country, except the cash and the monetary gold, shall be done depending on the country of origin:

Country	31 December 2019	Share	31 December 2018	Share
	MDL'000	%	MDL'000	%
USA	19 398 743	26,92	18 362 612	25,87
France	6 753 330	9,37	3 354 869	4,73
The Netherlands	6 631 264	9,20	8 375 120	11,80
International Financial Organizations	6 591 527	9,15	6 675 937	9,41
Great Britain	5 544 725	7,69	4 548 475	6,41
Germany	5 186 266	7,20	6 859 494	9,66
Finland	2 364 409	3,28	588 441	0,83
Singapore	2 068 551	2,87	3 386 710	4,77
Luxembourg	1 039 554	1,44	1 551 655	2,19
Austria	362 676	0,50	251 798	0,35
Canada	325 518	0,45	1 093 066	1,54
Norway	241 917	0,34	34 365	0,05
Sweden	189 804	0,26	325 679	0,46
Other countries	4 421	0,01	3 295	0,00
Republic of Moldova*	15 358 685	21,32	15 568 815	21,93
Total financial assets	**72 061 390**	**100,00**	**70 980 331**	**100,00**

*Following the separate disclosure of other financial assets from non-financial assets starting with 2019, for comparability purposes the prior year balances have been restated resulting with the exclusion from the line "Republic of Moldova" of other non financial.

In the section „International Financial Organizations", the major share is held by the subscription share of the Republic of Moldova at the IMF in national currency.

4. Risk management (continued)

4.2 Credit risk (continued)

In addition, for the assessment of assets portfolio diversification and the rating of the credit risk depending on the investment sector, the classification of the assets of Banks depending on the investment sector shall be provided:

Investment sector	31 December 2019	Share	31 December 2018	Share
	MDL'000	%	MDL'000	%
Foreign central banks	12 757 938	17,70	10 862 525	15,30
Foreign commercial banks	10 643 753	14,77	13 687 142	19,28
Foreign Governments	18 818 998	26,12	17 796 492	25,07
Government of the Republic of Moldova	15 251 903	21,17	15 472 115	21,80
International Financial Organizations	6 591 527	9,15	6 675 937	9,41
Foreign Government Agencies	7 890 490	10,95	6 389 420	9,00
Investments in subsidiaries*	24 000	0,03	24 000	0,03
Other financial assets [4]	82 781	0,11	72 700	0,10
Total financial assets	**72 061 390**	**100,00**	**70 980 331**	**100,00**

Presentation of financial assets after the classification and calculation of losses following the expected depreciation :

Investment sector	31 December 2019	ECL stage	1 December 2019	ECL stage
	MDL'000		MDL'000	
Foreign central banks	12 757 938	1	10 862 525	1
Foreign commercial banks	10 643 753	1	13 687 142	1
Foreign Governments	18 818 998	1	17 796 492	1
Government of the Republic of Moldova	15 251 903	1	15 472 115	1
International Financial Organizations	6 591 527	1	6 675 937	1
Foreign Government Agencies	7 890 490	1	6 389 420	1
Other financial assets [4]	82 781	1	72 700	1
Total financial assets	**72 037 390**	**1**	**70 956 331**	**1**

During the management period, no significant increase of the credit risk associated with the financial assets held by the Bank was identified. Also, no premises for migration from the initial recognition stage to an inferior stage have been identified, nor for default counterparty.

Taking into consideration the scenarios applied in determining the losses caused by the expected depreciation, the depreciation losses have been qualified as non-material, while in the case of some instruments – equal with zero. Subsequently, they were not registered in the separate financial statements.

[4] Following the reclassification and division of financial assets from non-financial starting with 2019, to ensure comparability with the previous reporting period, from the table on the distribution of financial assets by investment sector, from the category "Other financial assets" on 31 December 2018 were excluding non-financial assets.

4. Risk management (continued)

4.2 Liquidity risk

The liquidity risk represents the risk that the Bank will not be able to meet its payment obligations at maturity. The maturity of assets and liabilities, as well as the capacity to replace the interest bearing liabilities at an acceptable price as they reach the due date, constitute major factors for the assessment of Bank's liquidity.

The liquidity risk is managed on a daily basis in dynamics through monitoring the investment limits established by internal regulations, the decisions of the Executive Board and decisions of the Monetary Committee. In addition, the monitoring of the liquidity risk is conducted through creating investment tranches and use of market benchmarks set for indexed investment sub-portfolios, depending on the type of instruments and investment currency. The used benchmarks are market indicators, which are internationally recognized and used for the contrastive evaluation of performance and risks related to investment portfolios.

The indicators are provided by Intercontinental Exchange (ICE), after taking over the activity of index supply from Bank of America Merrill Lynch, an institution which calculates and provides a large range of recognized benchmarks and throughout the investment community.

The liquidity risk, in the case of the internally managed portfolio, except the portfolio of securities assessed at amortized cost, is permanently monitored by the Bank by maintaining an adequate level of tranches in the range of admissible deviations and by limiting the maximum admissible maturity of the investment portfolio, which does not allow investments in instruments with high maturity.

In the case of externally managed portfolios, the limitation of the liquidity risk is done on the base of provisions of Agreement on consulting and investment management, concluded on 8 December 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova (NBM), which was prolonged by Decision of the Executive Board no 168 of 30 December 2015, and entered into force on 1 February 2016. The agreement stipulates that the investments shall be managed under the benchmark (ICE Bank of America Merrill Lynch index U.S. Treasuries, 0-1 year), so the duration of the portfolio is correlated with the duration of the benchmark. Deviations from the duration of portfolio of +/- 3 months compared to the duration of benchmark are allowed.

The liquidity risk of the foreign currency securities portfolio, assessed at amortized cost, is diminished through the diversification of maturity of investments, being distributed in the range of 1 to 5 years, and through limitation of share of this portfolio in the total portfolio of securities. In addition, the supply of foreign currency securities portfolio, assessed at amortized cost is possible only if the its share represents less than 25% of the international reserves and the level of reserves cover 4 months of import, as well as payments related to the external liabilities of the Bank and the Government of the Republic of Moldova and other payments in foreign currency, during one year.

Liquidity is one of the main criteria in determining the structure of currency assets. This fact shows the potential need to transform the currency reserves in liquidities for purpose of intervention, when such needs arise.

The foreign currency securities measured at fair value through other comprehensive income and held by the Bank, are instruments with a high degree of liquidity, meaning these can be easily sold before maturity, if necessary.

Securities issued by the Government of the Republic of Moldova and held by the Bank in 2019 after the conversion of loans previously contracted from the Bank had their contractual maximum maturity of 2 years. At maturity, starting with 2019, these securities have been repurchased by the Government and are reissued in the form of treasury bills or government bonds.

State securities issued for the execution of payment liabilities resulted from state guarantees by the Ministry of Finance have been obtained by the Bank on 4 October 2016 in form of government bonds with the maturity ranging from 1 to 25 years.

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4. Risk management (continued)

4.3 Liquidity risk (continued)

The maturity of assets and obligations, as well as the capacity to replace the interest bearing debt at an acceptable cost, as they reach maturity, represent important factors for the assessment of Bank's liquidity.

The analysis of assets and financial obligations, depending on the contracting maturity as of 31 December 2019, is described below:

31 December 2019	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
Assets								
Cash and short-term placements	18 232 952	5 347 228	-	-	-	-	-	**23 580 180**
Monetary gold	-	-	-	-	-	-	61 961	**61 961**
Assets in international financial institutions	9 750	-	-	-	-	-	4 110 118	**4 119 868**
Securities issued by the Government of the Republic of Moldova	326 599	171 112	240 000	2 162 992	930 000	11 421 200	-	**15 251 903**
Loans granted to banks and separates	655	657	1 345	2 512	5 729	8 346	-	**19 244**
Investment securities	7 377 428	5 438 455	10 910 965	2 371 234	2 904 575	-	-	**29 002 657**
Investments in subsidiaries	-	-	-	-	-	-	24 000	**24 000**
Other assets	1 577	-	-	-		-	-	**1 577**
Total financial assets	**25 948 961**	**10 957 452**	**11 152 310**	**4 536 738**	**3 840 304**	**11 429 546**	**4 196 079**	**72 061 390**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	25 852 674	**25 852 674**
Due to the Government of the Republic of Moldova	7 714 883	-	30 000	89 415	58 267	-	-	**7 892 565**
Due to the banks	20 966 543	-	-	-	-	-	-	**20 966 543**
Certificates issued by the National Bank of Moldova	5 402 974	-	-	-	-	-	-	**5 402 974**
Due to international financial institutions	299 185	184 114	436 951	761 196	744 179	690 249	4 115 686	**7 231 560**
Lease liabilities	271	274	561	1 169	1 235	-	-	**3 510**
Other liabilities	187 981	-	-	-	-	-	-	**187 981**
Total financial liabilities	**34 571 837**	**184 388**	**467 512**	**851 780**	**803 681**	**690 249**	**29 968 360**	**67 537 807**
Net liquidity gap	**(8 622 876)**	**10 773 064**	**10 684 798**	**3 684 958**	**3 036 623**	**10 739 297**	**(25 772 281)**	**4 523 583**

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4. Risk management (continued)

4.2 Liquidity risk (continued)

31 December 2018*	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
Assets								
Cash and short-term placements	22 752 191	1 971 411	-	-	-	-	-	**24 723 602**
Monetary gold	-	-	-	-	-	-	51 533	**51 533**
Assets in international financial institutions	1 976	-	-	-	-	-	4 112 734	**4 114 710**
Securities issued by the Government of the Republic of Moldova	1 170 674	1 220 241	230 000	240 000	860 000	11 751 200	-	**15 472 115**
Loans granted to banks and separates	531	536	1 071	2 141	5 919	8 708	-	**18 906**
Investment securities	5 048 425	5 863 641	9 421 185	1 119 174	4 778 196	342 583	-	**26 573 204**
Investments in subsidiaries	-	-	-	-	-	-	24 000	**24 000**
Other assets	2 261	-	-	-	-	-	-	**2 261**
Total financial assets	**28 976 058**	**9 055 829**	**9 652 256**	**1 361 315**	**5 644 115**	**12 102 491**	**4 188 267**	**70 980 331**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	23 748 867	**23 748 867**
Due to the Government of the Republic of Moldova	9 038 494		-	105 812	147 682			**9 291 988**
Due to the banks	19 715 061	-	-	-	-	-	-	**19 715 061**
Certificates issued by the National Bank of Moldova	6 298 721	-	-	-	-	-	-	**6 298 721**
Due to international financial institutions	301 628	184 070	476 650	913 564	1 329 188	545 384	4 126 302	**7 876 786**
Other liabilities	168 032	-	-	-	-	-	-	**168 032**
Total financial liabilities	**35 521 936**	**184 070**	**476 650**	**1 019 376**	**1 476 870**	**545 384**	**27 875 169**	**67 099 455**
Net liquidity gap	**(6 545 878)**	**8 871 759**	**9 175 606**	**341 939**	**4 167 245**	**11 557 107**	**(23 686 902)**	**3 880 876**

*Following the reclassification and division of financial assets and liabilities from non-financial ones starting with 2019, for comparability purposes the prior year balance of Other assets and Other liabilities category was adjusted with exclusion of non-financial assets and liabilities.

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4. Risk management (continued)

4.2 Liquidity risk (continued)

The table below presents the analysis of total financial liabilities, including future interest cash flows according to their contractual maturity as at 31 December 2019. The amounts of future obligations were calculated using the information available as at 31 December 2019 (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
31 December 2019	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	25 852 674	**25 852 674**
Due to the Government of the Republic of Moldova	7 718 574	-	35 747	97 157	65 590	-	-	**7 917 068**
Due to banks	20 984 871	-	-	-	-	-	-	**20 984 871**
Certificates issued by the National Bank of Moldova	5 407 450	-	-	-	-	-	-	**5 407 450**
Due to international financial institutions*	308 762	193 027	453 197	787 477	793 278	711 761	4 115 686	**7 363 188**
Lease liabilities	318	318	636	1 272	1 272	-	-	**3 816**
Other liabilities	187 981	-	-	-	-	-	-	**187 981**
Total financial liabilities	**34 607 956**	**193 345**	**489 580**	**885 906**	**860 140**	**711 761**	**29 968 360**	**67 717 048**
31 December 2018								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	23 748 867	**23 748 867**
Due to the Government of the Republic of Moldova	9 048 597	-	7 963	119 435	162 748			**9 338 743**
Due to banks	19 735 878	-	-	-	-	-	-	**19 735 878**
Certificates issued by the National Bank of Moldova	6 306 075	-	-	-	-	-	-	**6 306 075**
Due to international financial institutions*	318 935	200 523	506 656	960 666	1 403 282	577 878	4 126 302	**8 094 242**
Other liabilities**	168 032	-	-	-	-	-	-	**168 032**
Total financial liabilities	**35 577 517**	**200 523**	**514 619**	**1 080 101**	**1 566 030**	**577 878**	**27 875 169**	**67 391 837**

*According to the resolution of the IMF Executive Board, for the Extended Credit Facility (ECF) (previously Poverty Reduction and Growth Facility (PRGF)) from the IMF and included in Due to international financial institutions, for the period 7 January 2010 – June 2021, no interest is calculated.
**Following the reclassification and division of financial liabilities from non-financial ones starting with 2019, for comparability purposes the prior year balance of other Liabilities category was adjusted with exclusion of non-financial liabilities.

*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)

4.4 Market risk

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

The market risk of 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 shall apply on a monthly basis the VaR methodology to assess the market risk exposure of held positions 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:

	At amortized cost		At FVOCI		Total		Portfolio
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	share, %
31 December 2019	52 398	3 045	21 083	1 225	73 481	4 270	0,25
31 December 2018	71 341	4 162	16 681	973	88 022	5 135	0,33

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

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

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

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

4. Risk management (continued)

4.4 Market risk (continued)

On 31 December 2019, the exposed to risk amount of foreign currency securities portfolio, calculated on the base of CVaR, is presented below:

	At amortized cost		At FVOCI		Total		Portfolio share, %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2019	74 803	4 347	29 823	1 733	104 626	6 080	0,35
31 December 2018	100 311	5 852	23 679	1 381	123 990	7 233	0,46

4.4.1 Interest rate risk

Interest rate risk arises from the risk that the value of a financial instrument will fluctuate following the changes in the interest rates on the market.

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.

The most sensitive instruments for the modification of interest rates on the external market are the securities in foreign currency, because the modification 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 Separate Financial Statements related to these elements.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

The analysis of assets and financial obligations on **31 December 2019**, based on the contractual rates and their interest rates date of update is provided below:

31 December 2019	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non-interest bearing	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets								
Cash and short-term placements	18 211 982	5 347 228	-	-	-	-	20 970	**23 580 180**
Monetary gold	-	-	-	-	-	-	61 961	**61 961**
Assets in international financial institutions	9 736	-	-	-	-	-	4 110 132	**4 119 868**
Securities issued by the Government of the Republic of Moldova	169 453	-	240 000	2 162 992	930 000	11 421 200	328 258	**15 251 903**
Loans granted to banks and separates	655	3 685	1 008	1 984	5 201	6 711	-	**19 244**
Investment securities	7 680 219	5 413 410	10 659 350	2 268 002	2 835 777	-	145 899	**29 002 657**
Investments in subsidiaries	-	-	-	-	-	-	24 000	**24 000**
Other assets	-	-	-	-	-	-	1 577	**1 577**
Total financial assets	**26 072 045**	**10 764 323**	**10 900 358**	**4 432 978**	**3 770 978**	**11 427 911**	**4 692 797**	**72 061 390**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	25 852 674	**25 852 674**
Due to the Government of the Republic of Moldova	3 691 755	-	30 000	89 415	58 267	-	4 023 128	**7 892 565**
Due to banks	3 167 541	-	-	-	-	-	17 799 002	**20 966 543**
Certificates issued by the National Bank of Moldova	5 402 974	-	-	-	-	-	-	**5 402 974**
Due to international financial institutions	2 320 684	92 620	180 575	301 657	106 613	107 089	4 122 322	**7 231 560**
Lease liabilities	271	274	561	1 169	1 235	-	-	**3 510**
Other liabilities	-	-	-	-	-	-	187 981	**187 981**
Total financial liabilities	**14 583 225**	**92 894**	**211 136**	**392 241**	**166 115**	**107 089**	**51 985 107**	**67 537 807**
Interest rate gap	**11 488 820**	**10 671 429**	**10 689 222**	**4 040 737**	**3 604 863**	**11 320 822**	**(47 292 310)**	**4 523 583**

*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)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

31 December 2018*	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non-interest bearing	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets								
Cash and short-term placements	22 711 600	1 971 411	-	-	-	-	40 591	**24 723 602**
Monetary gold	-	-	-	-	-	-	51 533	**51 533**
Assets in international financial institutions	1 970	-	-	-	-	-	4 112 740	**4 114 710**
Securities issued by the Government of the Republic of Moldova	1 020 831	1 112 326	230 000	240 000	860 000	11 751 200	257 758	**15 472 115**
Loans granted to banks and separates	531	536	1 071	2 141	5 919	8 708	-	**18 906**
Investment securities	5 244 666	5 837 991	9 340 180	947 398	4 743 906	342 583	116 480	**26 573 204**
Investments in subsidiaries	-	-	-	-	-	-	24 000	**24 000**
Other assets	-	-	-	-	-	-	2 261	**2 261**
Total financial assets	**28 979 598**	**8 922 264**	**9 571 251**	**1 189 539**	**5 609 825**	**12 102 491**	**4 605 363**	**70 980 331**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	23 748 867	**23 748 867**
Due to the Government of the Republic of Moldova	4 317 658			105 812	147 682	-	4 720 836	**9 291 988**
Due to banks	15 733 340	-	-	-	-	-	3 981 721	**19 715 061**
Certificates issued by the National Bank of Moldova	6 298 721	-	-	-	-	-	-	**6 298 721**
Due to international financial institutions	2 699 981	92 517	180 375	360 749	407 815	-	4 135 349	**7 876 786**
Other liabilities	-	-	-	-	-	-	168 032	**168 032**
Total financial liabilities	**29 049 700**	**92 517**	**180 375**	**466 561**	**555 497**	**-**	**36 754 805**	**67 099 455**
Interest rate gap	**(70 102)**	**8 829 747**	**9 390 876**	**722 978**	**5 054 328**	**12 102 491**	**(32 149 442)**	**3 880 876**

*Following the reclassification and division of financial assets and liabilities from non-financial ones starting with 2019, for comparability purposes the prior year balance of Other assets and Other liabilities category was adjusted with exclusion of non-financial assets and liabilities.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

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

To determine the interest rate risk associated with demand and term deposits held in foreign currency, the Bank calculates the expected gains /losses assuming a scenario of a 0,5 p.p. raise /fall of the interest rates on these financial instruments.

According to the average balance of demand and term deposits for the year 2019, 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 2019	+/-110 643	+/-6 429
Year 2018	+/-122 360	+/-7 138

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.

On 31 December 2019, 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 2 416 thousands or USD 140 thousands, which represents 0,01% of the portfolio of securities (on 31 December 2018: of MDL 2 802 thousands or USD 163 thousands, which represents 0,01% 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 investment portfolio diversification.

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

On 31 December 2019 the US dollar share in the normative currency structure constituted 65%, Euro - 25%, pound sterling – 10% (on 31 December 2018 the US dollar share in the normative currency structure constituted 65%, pound sterling – 20%, euro – 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.

Investments in other currencies other than those indicated in the normative currency structure are allowed if they do not exceed 5% of the international reserves.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

As of 31 December 2019, the Bank held the following foreign exchange positions:

	MDL	USD	EUR	GBP	XDR	Other currencies	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2019							
Assets							
Cash and short-term placements	-	7 556 431	10 732 552	5 291 115	-	82	23 580 180
Monetary gold	-	-	-	-	-	61 961	61 961
Assets in international financial institutions	-	-	-	-	4 119 868	-	4 119 868
Securities issued by the Government of the Republic of Moldova	15 251 903	-	-	-	-	-	15 251 903
Loans granted to banks and separates	19 244	-	-	-	-	-	19 244
Investment securities	-	27 342 617	1 391 758	268 282	-	-	29 002 657
Investments in subsidiaries	24 000	-	-	-	-	-	24 000
Other assets	1 576	-	1	-	-	-	1 577
Total financial assets	15 296 723	34 899 048	12 124 311	5 559 397	4 119 868	62 043	72 061 390
Liabilities							
National currency issued into circulation	25 852 674	-	-	-	-	-	25 852 674
Due to the Government of the Republic of Moldova	4 838 339	933 904	2 120 312	-	-	10	7 892 565
Due to banks	16 479 193	1 263 667	3 223 683	-	-	-	20 966 543
Certificates issued by the National Bank of Moldova	5 402 974	-	-	-	-	-	5 402 974
Due to international financial institutions	5 567	-	-	-	7 225 993	-	7 231 560
Lease liabilities	3 510	-	-	-	-	-	3 510
Other liabilities	158 972	2 127	26 878	3	-	1	187 981
Total financial liabilities	52 741 229	2 199 698	5 370 873	3	7 225 993	11	67 537 807
Net position	(37 444 506)	32 699 350	6 753 438	5 559 394	(3 106 125)	62 032	4 523 583

As at 31 December 2019, other foreign currencies were represented by monetary gold – MDL 61 961 thousand, Romanian lei – MDL 38 thousand, Norwegian crowns – MDL 21 thousand, Swiss francs – MDL 7 thousand, Rubles – MDL 4 thousand and Danish crowns – MDL 1 thousand.

*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)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

	MDL	USD	EUR	GBP	XDR	Other currencies	Total
31 December 2018*	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Assets							
Cash and short-term placements	-	11 022 250	8 386 713	5 314 573	-	66	**24 723 602**
Monetary gold	-	-	-	-	-	51 533	**51 533**
Assets in international financial institutions	-	-	-	-	4 114 710	-	**4 114 710**
Securities issued by the Government of the Republic of Moldova	15 472 115	-	-	-	-	-	**15 472 115**
Loans granted to banks and separates	18 906	-	-	-	-	-	**18 906**
Investment securities	-	24 420 502	1 894 365	258 337	-	-	**26 573 204**
Investments in subsidiaries	24 000	-	-	-	-	-	**24 000**
Other assets	1 761	1	499	-	-	-	**2 261**
Total financial assets	**15 516 782**	**35 442 753**	**10 281 577**	**5572910**	**4 114 710**	**51 599**	**70 980 331**
Liabilities							
National currency issued into circulation	23 748 867	-	-	-	-	-	**23 748 867**
Due to the Government of the Republic of Moldova	5 723 711	715 208	2 853 069	-	-		**9 291 988**
Due to banks	16 155 252	1 073 758	2 486 051	-	-	-	**19 715 061**
Certificates issued by the National Bank of Moldova	6 298 721	-	-	-	-	-	**6 298 721**
Due to international financial institutions	21 339	-	-	-	7 855 447	-	**7 876 786**
Other liabilities	158 247	6 814	2 969	2	-	-	**168 032**
Total financial liabilities	**52 106 137**	**1 795 780**	**5 342 089**	**2**	**7 855 447**	**-**	**67 099 455**
Net position	**(36 589 355)**	**33 646 973**	**4 939 488**	**5 572 908**	**(3 740 737)**	**51 599**	**3 880 876**

As at 31 December 2018, other foreign currencies were represented by monetary gold – MDL 51 533 thousand, Norwegian crowns – MDL 21 thousand, Romanian lei – MDL 20 thousand, Swiss francs – MDL 19 thousand, Rubles – MDL 4 thousand and Danish crowns – MDL 2 thousand.

*Following the reclassification and division of financial assets and liabilities from non-financial ones starting with 2019, for comparability purposes the prior year balance of Other assets and Other liabilities category was adjusted with exclusion of non-financial assets and liabilities.

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4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

In order to estimate the currency risk associated to assets and liabilities denominated in foreign currency, possible unrealized gains /losses have been determined 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 2019 and 31 December 2018, respectively, the amount of the potential impact on the profit and capital of the Bank was as follows:

	31 December 2019		31 December 2018	
	MDL'000 Profit	MDL'000 Capital	MDL'000 Profit	MDL'000 Capital
MDL against USD	+/-3 269 965	+/-3 269 965	+/-3 364 726	+/-3 364 726
MDL against EUR	+/-675 344	+/-675 344	+/-494 338	+/-494 338
MDL against GBP	+/-555 939	+/-555 939	+/-557 291	+/-557 291
MDL against XDR	-/+310 338	-/+310 338	-/+374 074	-/+374 074
MDL against other currencies	+/-7	+/-7	+/-7	+/-7

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

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Cash in hand in foreign currency	591	530
Nostro accounts	2 147 672	2 214 599
Term deposits in foreign currency	21 431 917	22 508 473
	23 580 180	**24 723 602**

Cash and short-term placements do not include local currency balances of cash in hand of the Bank, which is offset with the respective amount at the position "National currency into circulation" (Note 15). This type of cash presentation is considered adequate since the Bank is the sole issuer of national currency.

As at the end of the reporting period, the balances on Nostro accounts were placed at financial institutions with ratings[1]: AAA" – 98,87%, „AA" – 0,90%, „A+" – 0,21% and „A-" – 0,02% (la 31 December 2018: „AAA" - 96,23%, „AA" - 3,38%, „A+" - 0,13%, „A-" - 0,24% and „BBB" – 0,02%). As at 31 December 2019, term deposits in foreign currency were placed at financial institutions with the following ratings: „ AAA" –28,02%, „AA" –39,27%, „A+" –22,61% and „A" –10,10% (la 31 December 2018: „AAA" –39,23%, „AA" –28,69%, „A+" –11,51% and „A" –20,57%). As at 31 December 2019, from the total of term deposits in foreign currency, the balance of deposits with a maturity of more than 3 months from the acquisition date amounted to MDL 8 520 829 thousand (on 31 December 2018: MDL 8 438 641 thousand). On 31 December 2019, from the total of term deposits in foreign currency, the balance of overnight deposits, including related interest, amounted to MDL 10 792 978 thousand (on 31 December 2018: MDL 8 829 463 thousand).

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

6. Monetary gold

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Monetary gold	61 961	51 533
	61 961	**51 533**

The monetary gold is represented by the quantity of 74,133.48 grams of gold (31 December 2018 – 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).

The variation registered during the reported period represents the daily revaluation of monetary gold at the price determined by the Bank based on the quotation PAu/USD set by London Gold Market Fixing Ltd Company.

7. Due from / to international financial institutions

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	4 110 118	4 112 734
Current account with IMF	9 750	1 976
	4 119 868	**4 114 710**
Liabilities		
Account No.1	4 109 999	4 112 615
Account No.2	120	120
Total liabilities of the IMF	**4 110 119**	**4 112 735**
Loans granted by the IMF	3 115 875	3 750 484
Other international institutions	5 566	13 567
	7 231 560	**7 876 786**

The Republic of Moldova joined the IMF on 12 August 1992. The Bank acts as the agent of the state that conducts the financial transactions with the IMF and as the depository for maintaining the IMF's accounts. The membership in the IMF is quota based. A member's quota is determined upon its admission to the membership and is revised periodically under General Quota Reviews. The quota forms the basis for the member's financial and organizational relationship with the IMF and determines, inter alia, a member's relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of XDR.

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

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

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

On 11 May 2012 the Parliament of the Republic of Moldova adopted the *Law for the increase of the Republic of Moldova's quota in the International Monetary Fund,* which increased the subscription quota of the Republic of Moldova to the IMF (hereinafter „quota") from XDR 123,3 million to XDR 172,5 million. On 18 December 2015 the U.S. Congress accepted the increase of the IMF capital within the 14th General revision of quotas, which enforced the IMF decision related to this subject. Thus, on 17 February 2016, the subscription quota of the Republic of Moldova was increased by XDR 49,3 million up to XDR 172,5 million.

The variation of the quota recorded during the reporting period represents the reevaluation of the value of the quota in XDR at the exchange rate of the Moldovan lei established by the International Monetary Fund at the end of the reporting period.

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), while measured in the equivalent of Moldovan lei at the end of the reporting period.

As at 31 December 2019 the Bank's outstanding balance of loans due to IMF is as follows:

- ECF commitments – XDR 36 832 thousand (31 December 2018 – XDR 47 508 thousand);
- EFF commitments – XDR 93 707 thousand (31 December 2018 – XDR 109 560 thousand).

The Extended credit facility (ECF, previously PRGF) represents the loans granted to the countries that meet the eligibility criteria approved by the IMF for concessional financing. The IMF has granted loans within ECF for a 10 year term and with a 5,5 years grace period. These loans bear an interest rate of 0,25% per annum. Based on the decision of the Council of Executive directors of the IMF, for the period 7 January 2010 – June 2021, the ECF loans borne no interest.

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 facility for a 10-year term with a 4,5 years grace period. The interest rate for this type of loans is floating and set on a weekly basis by the IMF. In 2019 the average rate was 2,0% per annum (2018: 1,94%).

Following the sign off of the Memorandum with the IMF on 7 November 2016, the Ministry of Finance of the Republic of Moldova received in 2019, one tranche of the loan under the EFF facility in amount of USD 18 369 thousand (the equivalent of XDR 13 400 thousand) and one tranche of the loan under the ECF facility in amount of USD 9 143 thousand (the equivalent of XDR 6 700 thousand) to finance the state budget deficit. In addition, during the reporting period, the Bank received one tranche within the EFF facility in amount of USD 12 337 thousand (the equivalent of XDR 9 000 thousand) and one tranche of the loan under the ECF facility in amount of USD 6 141 thousand (the equivalent of XDR 4 500 thousand).

The loans contracted through the Memorandum with the IMF dated 7 November 2016 for the EFF facility in amount of XDR 86 300 thousand and ECF facility in amount of XDR 43 100 thousand (with the commitment period up to 6 November 2019) have been approved by Law No 250 and Law No 251 on contracting state loans from the IMF. On September 20, 2019, the IMF Executive Board decided to extend the ECF and EFF disbursements until March 20, 2020.

Upon receipt of facility granted from the General resources account of the IMF (EFF), the Ministry of Finance of the Republic of Moldova has issued a promissory note in national currency in favor of the IMF, which has been received for safekeeping in Bank's vault.

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

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

	Balance 31.12.2018	Reimbursements	Receipts	Balance 31.12.2019
	XDR, 000	XDR, 000	XDR, 000	XDR, 000
National Bank of Moldova	157 068	40 029	13 500	130 539
Ministry of Finance	199 214	19 000	20 100	200 314
Loans and other financing from the IMF	**356 282**	**59 029**	**33 600**	**330 853**
National Bank of Moldova	109 560	24 853	9 000	93 707
Ministry of Finance	18 900	-	13 400	32 300
EFF	**128 460**	**24 853**	**22 400**	**126 007**
National Bank of Moldova	47 508	15 176	4 500	36 832
Ministry of Finance	62 600	19 000	6 700	50 300
ECF	**110 108**	**34 176**	**11 200**	**87 132**
National Bank of Moldova	-	-	-	-
Ministry of Finance	117 714	-	-	117 714
XDR allocations	**117 714**	-	-	**117 714**

As at 31 December 2019 the total value of EFF and ECF (allocated to the Bank and the Ministry of Finance) undrawn facilities allocated under the Memorandum signed on 7 November 2016 amounted to XDR 9 600 thousand (EFF) and XDR 4 800 thousand (ECF) (on 31 December 2018: EFF – XDR 32 000 thousand, ECF - XDR 16 000 thousand).

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

During the reported periods, the Bank had no breaches of principal or interest payments.

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

The line item "Securities issued by the Government of the Republic of Moldova" from the balance sheet includes two categories of financial assets, as presented below:

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Nominal value of state securities	12 851 200	13 081 200
Accrued nominal interest	149 058	149 843
Amortization at the effective interest rate"	151 427	107 915
State securities derived from state guarantees measured at amortized cost	**13 151 685**	**13 338 958**
Nominal value of state securities	2 073 933	2 157 145
Unamortized discount of state securities	(1 488)	(23 988)
Revaluation differences of state securities	27 773	-
State securities measured at amortized cost from previously converted debt	**2 100 218**	**2 133 157**
	15 251 903	**15 472 115**

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

The state securities derived from state guarantees have been issued under the Law No 235/2016 on issuing bonds for the execution by the Ministry of Finance of the payment obligations derived from state guarantees No 807 of 17 November 2014 and No 101 of 1 April 2015, granted to the National Bank of Moldova on 4 October 2016, in the form of interest-bearing bonds (coupon) with a nominal value of MDL 13 341 200 thousand.

The issuance amount represents the total outstanding balance of emergency loans granted by the Bank to "Banca de Economii" S.A., BC "Banca Socială" S.A. and B.C. "Unibank" S.A., which have not been reimbursed on the date of issue of these government bonds. These state bonds held in Bank's portfolio are measured at amortized cost, the Bank intending to collect contractual cash flows. The state bonds were issued with maturities of up to 25 years with fixed interest rates (nominal rate of 1,4% and 5,3%), the effective interest rate of the bond portfolio being of 5%, this representing the portfolio's fair value on the date of initial recognition of the state bonds.

The trading of these government bonds on the secondary market by the Bank is limited to 40% from the volume of state bonds issued to the Bank by the Ministry of Finance under the respective la. During the year, the Bank has not traded these state bonds on the secondary market (2018: MDL nil).

Considering the method of structuring of the state bonds issuance under Law No 235/2016 in a portfolio with similar characteristics in terms of scope, conclusion, effective interest rate agreed per portfolio and not separate instruments, the management of the instruments as a portfolio and legal provisions on trading and redemption, the government bonds portfolio derived from the state guarantees was recognized as a hybrid financial instrument under IFRS 9, by recognizing the interest income from the hybrid instrument according to the 5% effective interest rate method, its amortization at the effective interest rate being recognized under the *"Amortization at the effective interest rate"*.

Remaining portfolio of state securities assessed at amortized cost from previously converted debt were issued and transferred in the portfolio of the Bank in form of treasury bills following the conversion into state securities of loans contracted by the Ministry of Finance from the Bank in the previous years. These securities have been measured at amortized cost. State securities which reached maturity were redeemed by the Government and new securities in the same volume were issued and repurchased by the Bank.

During the year, the state securities that reached maturity were reissued in the form of treasury Bonds for a period of 364 days at the effective interest rate of 6,59% in volume of MDL 160 400 thousand at the purchase price and in the form of State bonds with a fixed interest rate for 2 years in volume of MDL 1 902 992 thousand at the nominal value, the weighted average effective interest rate of 6,32%.

The state securities available in the Bank's' portfolio can be used for implementation of Bank's monetary policy.

The state securities with a maturity less than 3 months are classified as cash and cash equivalents in the Cash flow statement.

In applying the expected credit loss method, the Bank developed internal methodologies and scenarios on the probability of defaults associated to the state securities portfolio within relation between the State as a debtor and the Bank as central bank of the State and determined the absence of expected credit indices at 31 December 2019 and at 31 December 2018. However, as the expected credit losses are determined as a weighted probability results of certain default scenarios and estimates, the Bank based on qualitative and quantitative factors of the scenarios, estimated the effect of the credit losses from applying the weighted method as being insignificant and result immaterial. As a result, by establishing the immaterial effect of expected credit losses, the Bank did not register losses from the expected credit loss in respect of securities issued by the Government of the Republic of Moldova held in the portfolio of the Bank.

9. Loans granted to banks and separates

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Loans granted to other separates	19 244	18 906
	19 244	18 906

As at 31 December 2019 the collateral pledged to secure the repayment of loans granted to other separates and related interest amounted to MDL 33 944 thousand (31 December 2018 – MDL 32 486 thousand).

Loans granted include the loans for other separates, including the accumulated interest.

During 2019 and 2018 no loan loss provisions (including expected credit losses) were registered for respective assets, considering its low level of credit risk, sufficient collateral, low level of probability of default and nil historical losses from non repayment.

10. Investment securities

The line item „Investment securities" of the balance sheet includes two categories of financial assets, as provided below:

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Securities in foreign currency measured at FVOCI	23 189 935	20 261 832
Coupon securities in foreign currency	23 189 935	20 193 747
Zero-coupon securities in foreign currency (discount)	-	68 085
Securities in foreign currency measured at amortized cost	5 812 722	6 311 372
Coupon securities in foreign currency	5 812 722	6 311 372
Total investment securities	29 002 657	26 573 204

The securities portfolio in foreign currency measured at FVOCI held by the Bank are represented mainly by securities issued by the government and governmental agencies of the United States of America, European Union and those issued by the supranational institutions.

The portfolio of securities in foreign currency measured at FVOCI is provided below:

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Coupon securities in foreign currency	23 189 935	20 193 747
Nominal value of securities	23 038 274	20 225 743
Interest and amortized cost adjustments	133 454	(27 011)
Market value revaluation differences	18 207	(4 985)
Zero-coupon securities in foreign currency	-	68 085
Nominal value of securities	-	68 571
Amortized cost adjustments	-	(486)
Securities in foreign currency measured at FVOCI	23 189 935	20 261 832

*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.

10. Investment securities (continued)

The securities in foreign currency measured at FVOCI are reassessed on a monthly basis and bear a fixed annual interest rate ranging between 0,12 % and 2.76% (31 December 2018: 0,004% and 2,88%), except for the securities with the nominal value of USD 28 500 thousand (MDL equivalent - MDL 490 465 thousand) with a floating interest rate which is repriced on a quarterly basis and one security with nominal value of USD 2 000 thousand (MDL equivalent - MDL 34 419 thousand) with a floating interest rate which is repriced on a weekly basis . The securities in foreign currency measured at FVOCI include the accrued interest, presented in the category *Interest and amortized cost adjustments*, which as at 31 December 2019 amounted to MDL 98 873 thousand (on 31 December 2018 - MDL 63 369 thousand).

As at 31 December 2019, the securities in foreign currency measured at FVOCI having the highest rating „AAA" represented 86,17% of the respective portfolio, while „AA+" - 12,58% and „AA-" - 1,25 % (31 December 2018: „AAA" - 93,37%, „AA+" - 3,58%, „AA" - 0,76% and „AA-" - 2,29%).

During the reporting period, securities in foreign currency measured at FVOCI at nominal value of USD 1 861 751 thousand and EUR 11 400 thousand (2018: USD 1 545 205 thousand and EUR 16 510 thousand) were sold and/or reached maturity. In addition, in the reporting period, securities in foreign currency were purchased and measured at FVOCI with a total nominal value of USD 2 029 688 thousand (in 2018: USD 1 846 365 thousand).

According to the Agreement on investment management and consulting concluded 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 reserves, limited to 20% from the currency official reserves. Within the program, investments are made in US dollar denominated securities issued by the US Treasury, governmental agencies and supranational. These assets are included in the securities in foreign currency measured at FVOCI.

As at 31 December 2019, the balance of securities in foreign currency managed externally amounted to MDL 3 509 899 thousand (31 December 2018: 3 599 361 thousand), with a share in currency reserves of 6,68% (on 31 December 2018: 7,02%).

The portfolio of securities measured at amortized cost represents the total securities purchased with the investment intent to collect contractual flows. The volume, risk structure and structure of foreign currency assets and future cash flow perspective of these securities allow the Bank to maintain these securities to collect full contractual cash flows until maturity. The completion of the portfolio of securities measured at amortized cost is possible only if its share represents less than 25% of the international reserves and the reserves cover 4 months of import, as well as payments related to the external debt of the Bank and the Government of the Republic of Moldova and other payments in foreign currency during one year.

As at 31 December 2019, the share of investment securities cost in the foreign currency measured at amortized amounted to 11,05% (on 31 December 2018: 12,30%)

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Nominal value of securities	5 788 074	6 279 365
Interest and amortized cost adjustments	24 648	32.007
Securities in foreign currency measured at amortized cost	**5 812 722**	**6 311 372**

The securities measured at amortized cost earn annual fixed rate ranging between 1,67% and 3,55% (31 December 2018: 1,38% and 3,55%). As at 31 December 2019, the share of securities measured at amortized cost with the rating „AAA" represented 81,61%, while „AA+" - 10,12% and „AA" - 8,27% (31 December 2018: „AAA" - 82,79%, „AA+" - 9,49%, „AA" - 7,72%).

During the reporting period, securities in foreign currency measured at amortized cost at nominal value of USD 15 000 thousand and EUR 12 500 thousand (2018: USD 24 000 thousand and GBP 10 000 thousand) reached maturity. During reporting period, as well as in 2018, no securities measured at amortized cost were bought.

11. Investments in subsidiaries

	31 December 2019 MDL'000	31 December 2018 MDL'000
"Single Central Securities Depository"	24 000	24 000
	24 000	**24 000**

Bank's share in CSD capital amounts to 98,36%, the equivalent of MDL 24, 000 thousand. The CSD was set up according to the Law on Single Central Securities Depository, (234/ 2016). The CSD represents the sole financial institution in Republic of Moldova licensed to provide services for registration, safekeeping, settlement and clearing of state securities and National Bank of Moldova's instruments since 30 July 2018, while stating 1 May 2019 it provides clearing and settlement services for corporate securities as well. The securities registration and settlement mechanism provided by CSD ensures the highest level of transparency, safety and efficiency in conducting transactions with securities. The CSD's business model is based on international standards and leading practices of settlement systems.

Bank's investment in the subsidiary is recognized at cost and measured subsequently at cost less accumulated impairment. As at 31 December 2019, no impairment indications of investment in subsidiary existed to lead to an impairment loss recognition.

According to the Law on Single Central Securities Depository the share capital of the CSD shall amount at any point in time the equivalent of at least EUR 1,000 thousand *(MDL equivalent on 31 December 2019: MDL 19 261 thousand)*, regulatory restriction which imposes restrictions on the Bank's ability to access or use its assets and settle the debts from the subsidiary.

In 2019, SDC made a net profit of MDL 2 857 thousand (2018: loss of MDL 737 thousand).

12. Financial assets and financial liabilities

The financial instruments of the Bank comprise the cash and short-term placements, monetary gold, assets in international financial organizations, securities, credits granted to banks and other persons, national currency in circulation, due to the Government of the Republic of Moldova and of banks, securities issued by the National Bank of Moldova (certificates issued by the NBM), due to international financial organizations, and other financial assets and financial liabilities.

The Bank's financial assets are measured at amortized cost, except for foreign currency securities measured at fair value through other comprehensive income, monetary gold and IMF quota. Financial liabilities are measured at amortised cost.

Hierarchy of the fair value of the financial instruments

In order to ensure the consistency and comparability of fair value measurement, the input data used in the fair value estimation methodologies are classified based on levels. In the hierarchy of fair value, the priority belongs to quoted prices (unadjusted) from active markets for similar assets or liabilities, while the lowest level of priority belongs to the unobservable entry data.

The following table provides the fair value hierarchy for financial instruments measured at fair value after initial recognition, classified within the 1-3 levels according to the valuation method and input data.

	Level 1	Level 2	Level 3	Total
	MDL'000	MDL'000	MDL'000	MDL'000
31 December 2019				
Monetary gold	61 961	-	-	61 961
IMF quota		4 110 118		4 110 118
Investment securities measured at FVOCI	23 189 935	-	-	23 189 935
Total	**23 251 896**	4 110 118	-	**27 362 014**
31 December 2018				
Monetary gold	51 533	-	-	51 533
IMF quota		4 112 734		4 112 734
Investment securities measured at FVOCI	20 261 832	-	-	20 261 832
Total	**20 313 365**	4 112 734	-	**24 426 099**

The valuation techniques used in assessing the fair value comprise the income method (discounted future cash flows), comparable approach with similar quoted instruments, polynomial technique and other methods, as appropriate. The assumptions and data used in the valuation techniques include benchmark interest rates, credit risk spreads, other margins to adjust the discount rate used for the cash flows, quoted prices (source: Bloomberg), quotations from the most recent auctions of securities issued by the Government of the Republic of Moldova, secondary market prices of securities issued by the Government of the Republic of Moldova, foreign exchange rates, forecasted volatilities and other correlations.

For the purpose of determining the fair value of non-complex financial instruments (quoted securities), the Bank uses the well-known methods based on the quotations available on the market.

12. Financial assets and financial liabilities (continued)

For financial instruments which are more complex or not quoted/traded on an active market, the Bank uses internal models based on international valuation methods, with inputs that are derived from market quotations or interest rates which are determined on a presumptive basis. The fair values obtained from the application of internal models are adjusted to different factors, such as: liquidity risk (for instruments without an active market, lack of transactions, etc.), credit risk/counterparty's risk or model uncertainties, factors that would be considered by a third party in determining the price of a transaction. Input data and model results are calibrated and management applies professional expert judgment to select the most relevant result within the range of values valuation models.

The adequate measurement and validation of the fair values is ensured by internal controls: verification of source data of market values (quoted prices validated and exported by back-office), recalculation of results of the fair value models, approval of fair value models procedures and changes in procedures, analysis and controls of variations in the results of methods, etc.

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

All financial instruments which are not measured at fair value in the balance sheet fall in Level 2 of fair value hierarchy.

Following the analyses performed, Bank management believes that given the short term of placements in banks, the specific nature and scope of loans granted and receivables, which are not measured at fair value in the separate financial statement, the fair value of respective financial instruments is not significantly different from the carrying values from the balance sheet.

Additionally, the management believes that the carrying values of Bank's liabilities approximate their fair value due to their short term placement period or the type of transaction specific for a central Bank and for which no distinct market exists, neither fair value models which can reliably estimate the fair value.

All Bank's financial assets are classified in the business model to collect contractual flows, except for the portfolio of investment securities which is held for the collection of flows and sale. All asset debt instruments held in Bank's portfolio pass the Solely payments of principal and interest, including all floating interest rate investments held by the Bank a, inflation linked investments (investment securities) and securities with prepayment or redemption clauses. The equity instrument in form of quota of the Republic of Moldova in IMF was designated in the business model and classification at FVOCI.

12. Financial assets and financial liabilities (continued)

The following table provides the reconciliation between the line items in the balance sheet and the categories of financial instruments and the fair value of assets and the financial liabilities of the Bank.

31 December 2019	Notes	FVOCI Debt instruments	FVOCI Equity instruments	Amortized cost	Carrying value Total	Fair Value
		MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets						
Cash and short-term placements	5	-	-	23 580 180	23 580 180	23 580 180
Monetary gold	6	-	61 961	-	61 961	61 961
Assets in international financial institutions	7					
- *At fair value*	8	-	4 110 118	-	4 110 118	4 110 118
- *At amortized cost*		-	-	9 750	9 750	9 750
Securities issued by the Government of the Republic of Moldova:		-	-	15 251 903	15 251 903	15 253 082
Loans granted to banks and separates	9	-	-	19 244	19 244	19 244
Investment securities	10					
- *At fair value*		23 189 935	-	-	23 189 935	23 189 935
- *At amortized cost*		-	-	5 812 722	5 812 722	5 963 070
Investments in subsidiaries	11	-	-	24 000	24 000	26 085
Other assets	14	-	-	1 577	1 577	1 577
Total financial assets		**23 189 935**	**4 172 079**	**44 699 376**	**72 061 390**	**72 215 002**
Liabilities						
National currency issued into circulation	15	-	-	25 852 674	25 852 674	25 852 674
Due to the Government of the Republic of Moldova	16	-	-	7 892 565	7 892 565	7 892 565
Due to the banks	17	-	-	20 966 543	20 966 543	20 966 543
Certificates issued by the National Bank of Moldova	18	-	-	5 402 974	5 402 974	5 402 974
Due to international financial institutions	7	-	-	7 231 560	7 231 560	7 231 560
Lease liabilities	31	-	-	3 510	3 510	3 510
Other liabilities	19	-	-	187 981	187 981	187 981
Total financial obligations		-	-	**67 537 807**	**67 537 807**	**67 537 807**

*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.

12. Financial assets and financial liabilities (continued)

31 December 2018*	Notes	FVOCI Debt instruments	FVOCI Equity instruments	Amortized cost	Carrying value Total	Fair Value
		MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets						
Cash and short-term placements	5	-	-	24 723 602	24 723 602	24 723 602
Monetary gold	6	-	51 533	-	51 533	51 533
Assets in international financial institutions	7					
- *At fair value*	8	-	4 112 734	-	4 112 734	4 112 734
- *At amortized cost*				1 976	1 976	1 976
Securities issued by the Government of the Republic of Moldova:		-	-	15 472 115	15 472 115	15 470 126
Loans granted to banks and separates	9	-	-	18 906	18 906	18 906
Investment securities	10					
- *At fair value*		20 261 832	-	-	20 261 832	20 261 832
- *At amortized cost*		-	-	6 311 372	6 311 372	6 384 213
Investments in subsidiaries	11	-	-	24 000	24 000	24 000
Other assets	14	-	-	1 761	1 761	1 761
Total financial assets		**20 261 832**	**4 164 267**	**46 553 732**	**70 979 831**	**71 050 683**
Liabilities						
National currency issued into circulation	15	-	-	23 748 867	23 748 867	23 748 867
Due to the Government of the Republic of Moldova	16	-	-	9 291 988	9 291 988	9 291 988
Due to the banks	17	-	-	19 715 061	19 715 061	19 715 061
Certificates issued by the National Bank of Moldova	18	-	-	6 298 721	6 298 721	6 298 721
Due to international financial institutions	7	-	-	7 876 786	7 876 786	7 876 786
Other liabilities	19	-	-	168 032	168 032	168 032
Total financial obligations		-	-	**67 099 455**	**67 099 455**	**67 099 455**

*Following the reclassification and division of financial and non-financial assets and liabilities starting with 2019, to ensure comparability with the previous reporting period, from the table on the distribution of financial assets and liabilities according to the valuation method, as of 31 December 2018, were excluded non-financial assets from the category "Other financial assets" and the amount "Other liabilities" excluded non-financial liabilities.

*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.

13. Property, equipment and intangible assets

	Land, buildings and similar constructions	Equipment and other	Property and equipment in construction	Intangible assets	Intangible assets in progress	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
On 1 January 2019	63 602	163 670	1 327	111 547	7 472	347 618
Additions	4 696	-	4 190	-	8 774	17 660
Transfers	-	4 587	(4 587)	11 001	(11 001)	-
Disposals	(1 186)	(5)	-	(4 723)	-	(5 914)
On 31 December 2019	67 112	168 252	930	117 825	5 245	359 364
Accumulated amortization						
On 1 January 2019	31 350	112 917	-	72 978	-	217 245
Amortization (Note 27)	3 161	15 168	-	11 682	-	30 011
Disposals	(1 186)	(5)	-	(4 723)	-	(5 914)
On 31 December 2019	33 325	128 080	-	79 937	-	241 342
Carrying value						
On 1 January 2019	32 252	50 753	1 327	38 569	7 472	130 373
On 31 December 2019	33 787	40 172	930	37 888	5 245	118 022
Cost						
On 1 January 2018	63 571	154 960	2 965	95 157	5 065	321 718
Additions	-	-	7 254	-	23 164	30 418
Transfers	31	8 861	(8 892)	20 757	(20 757)	-
Disposals	-	(151)	-	(4 367)	-	(4 518)
On 31 December 2018	63 602	163 670	1 327	111 547	7 472	347 618
Accumulated amortization						
On 1 January 2018	29 352	97 419	-	64 698	-	191 469
Amortization (Note 27)	1 998	15 649	-	12 647	-	30 294
Disposals	-	(151)	-	(4 367)	-	(4 518)
On 31 December 2018	31 350	112 917	-	72 978	-	217 245
Carrying value						
On 1 January 2018	34 219	57 541	2 965	30 459	5 065	130 249
On 31 December 2018	32 252	50 753	1 327	38 569	7 472	130 373

The additions and disposals of land, buildings and similar constructions for the reporting period represent the recognition of the assets related to the right of use held under the operational lease.

Intangible assets comprise software, applications and licenses both purchased and developed internally, including solutions for the Register of credit risk, CSD, solution for the licensing and notification process. The additions registered during the reporting period represent purchases of intangible assets from third parties.

On 7 March 2019, by the Government Decision regarding the *approval of the list of public property land owned by the State in the management of the Public Property Agency*, the public property land held and managed by the Bank and recorded in the balance sheet of the Bank in the amount of MDL 8 636 thousand are to be transferred to the Public Property Agency, after the registration in the Registry of immovable property by the executors' cadastral works.

14. Other assets

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Financial assets		
Other receivables	1 577	2 261
	1 577	**2 261**
Non-financial assets		
Advances	43	3 955
Prepaid expenses	4 128	2 968
Inventories	1 870	2 088
	6 041	**9 011**
Less:		
allowance for slow moving inventory	(55)	(54)
allowance for losses from impaired receivables	(5)	(5)
	7 558	**11 213**

Following the decision to disclose separated financial from non-financial assets, for comparability purposes the he previous reporting period was restated, the advances to third parties being reclassified into the category of non-financial assets.

The content of other assets presented in the financial assets category is disclosed below:

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Receivables from commissions for the processing within SAPI *(including impaired receivables)*	1 128	944
Receivables from commissions for the servicing of securities	47	-
Receivables for IT services	381	817
Other receivables	21	500
	1 577	**2 261**

All receivables were collected until these separate financial statements were authorised. On 31 December 2019, the collected amounts under clarification were MDL 1 thousand (2018: MDL 498 thousand) and were returned to beneficiaries according to the destination.

Advances granted on 31 December 2019 include advance payments for services that were provided during January 2020 (on 31 December, 2018: MDL 3 897 thousand advance for the national currency production and MDL 58 thousand other advances for services that were provided during immediately future).

15. National currency issued into circulation

		31 December 2019		31 December 2018	
		Quantity	Value	Quantity	Value
		Units'000	MDL'000	Units'000	MDL'000
Banknotes		**284 486**	**25 674 364**	**283 861**	**23 602 116**
	MDL 1	87 610	87 610	90 261	90 261
	MDL 5	17 789	88 946	17 175	85 874
	MDL 10	19 346	193 459	20 116	201 156
	MDL 20	12 485	249 707	12 259	245 171
	MDL 50	30 584	1 529 187	32 219	1 610 953
	MDL 100	39 702	3 970 212	37 842	3 784 227
	MDL 200	66 990	13 397 984	66 777	13 355 304
	MDL 500	7 646	3 822 886	5 965	2 982 467
	MDL 1000	2 334	2 334 373	1 247	1 246 703
Divisional coins		**865 452**	**125 192**	**833 683**	**120 634**
	MDL 0,01	71 010	710	71 004	710
	MDL 0,05	230 543	11 527	222 777	11 139
	MDL 0,10	262 255	26 226	249 990	24 999
	MDL 0,25	256 370	64 092	244 678	61 169
	MDL 0,50	45 274	22 637	45 234	22 617
Metal coins and mint sets		**22 971**	**37 119**	**8 370**	**10 482**
	MDL 1	13 769	13 769	6 400	6 400
	MDL 2	8 254	16 508	1 946	3 893
	MDL 5	528	2 639	11	56
	MDL 10	420	4 203	13	133
Commemorative banknotes and commemorative and jubilee coins		**-**	**15 999**	**-**	**15 635**
		-	**25 852 674**	**-**	**23 748 867**

16. Due to the Government of Republic of Moldova

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Demand deposits of the Ministry of Finance	3 620 600	3 977 809
Term deposits of the Ministry of Finance	257 680	609 952
Amounts in foreign currency of the Ministry of Finance	2 026 583	2 820 748
Other accounts of the Government of the Republic of Moldova	1 987 702	1 883 479
	7 892 565	**9 291 988**

Demand deposits of the Ministry of Finance bear a floating interest which is calculated on a monthly basis, based on the last three months average interest rate in the banking system for the interest bearing demand deposits in Moldovan currency attracted from legal entities.

As at 31 December 2019, the interest rate of Ministry of Finance's demands deposits constituted 1,79% (31 December 2018: 1,56%).

*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.

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

For the term deposits of the Ministry of Finance, the Bank pays an interest rate based on the term of deposit, determined as the weighted average interest rate of state securities placed at the last auction for the similar term of the deposit. If the term of deposits is different from the term of state securities sold at the last auction, the interest rate is determined by linear interpolation / extrapolation.

As at 31 December 2019, the weighted average interest rate of Ministry of Finance term deposits constituted 6,23% (31 December 2018 – 7,11%).

Other accounts of the Government of the Republic of Moldova include the accounts of the Credit Line Directorate under the financing projects and funds in foreign currency of Credit Line Directorate. The foreign currency accounts and other accounts of the Government are not bearing interest.

17. Due to banks

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Current accounts of banks, including mandatory reserves	20 966 543	19 590 013
Deposits from licensed banks in national currency	-	125 048
	20 966 543	**19 715 061**

Due to banks, including the mandatory reserves, represents the amounts placed in Loro accounts of the licensed banks and resident banks under liquidation, as well as the mandatory reserves of licensed banks in the Bank, in Moldovan currency, US dollars and Euro.

On 31 December 2019, according to the requirements of required reserves established by the Bank, banks are obliged to keep the required reserves in Moldovan currency and non-convertible currencies at the level of 42,5% and foreign currencies (USD dollars and euro) at the level of 17% (increased from 14%, starting with the application period of required reserves: 16 July 2019-15 August 2019) from the calculation base. The required reserves in Moldovan currency shall be kept by banks in Loro accounts at the Bank (in the application period, while the required reserves in foreign currency shall be described in the accounting registers of the Bank in the account of required reserves in foreign currency and are registered in the Nostro accounts of the Bank in foreign banks.

Pursuant to Article 17 of the Law on the National Bank of Moldova, the required reserves may be remunerated by the Bank. Therefore, accordingly to point 48 of the Regulation on the mandatory reserves, approved by the Executive Board on 27 December 2017, the Bank pays interest for mandatory reserves that exceed 5% of the liabilities based on which these reserves are calculated. For the remuneration of required reserves in Moldovan currency, the interest rate applied is the average interest rate on overnight deposits set by the Bank for the respective month. Starting with May 2019, required reserves in USD dollars and euro are remunerated at an interest rate of 0,01%, according by the Executive Board decision no. 139 dated 7 may 2019, while previously these were remunerated at the weighted average interest rate for on sight deposits attracted by banks in foreign currency, calculated on a monthly basis by the Bank according to the monthly reports on the average interest rate of deposits attracted by banks (the level of remuneration rates is provided in Note 23).

The deposits in national currency of licensed banks represent the overnight deposits of banks placed with the Bank and the accrued interest rate related to these deposits. On 31 December 2019, the interest rate of overnight deposits placed by licensed banks constituted 2,50% (on 31 December 2018: 3,50%).

18. Certificates issued by the National Bank of Moldova

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Certificates issued by the Bank at selling price	5 396 068	6 290 398
Amortized discount on the certificates issued by the Bank	6 906	8 323
	5 402 974	**6 298 721**

The certificates issued by the National Bank of Moldova represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the monetary market. These are issued with a discount (zero-coupon bond) and repurchased at maturity at their nominal value. During 2019, the certificates of the Bank were issued mainly with a maturity of 14 days (2018: 14 days).

The weighted average nominal interest rate of certificates issued by the Bank held into circulation on 31 December 2019 constituted 5,50% (on 31 December 2018: 6,50%), while the effective interest rate – 5,65% (on 31 December 2018: 6,70%).

During the reference period, no breaches of payment terms for the certificates issued by the Bank were registered.

19. Other liabilities

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Financial liabilities		
Due to other entities – customers accounts	148 886	156 447
Due to other entities – trade payables	29 519	6 131
Lease liabilities	3 510	-
Due to employees	233	211
Other financial liabilities	9 343	5 243
	191 491	**168 032**
Non-financial liabilities		
Non-monetary debt	8 636	8 636
Deferred income from asset related grants	5 179	708
Provisions for employee benefits	11 014	-
	24 829	**9 344**
	216 320	**177 376**

The customers' accounts include the accounts opened by the bank to *Deposits Guarantee Fund in the Banking System*, to entities performing activities of central depository of securities as main activity, the temporary Loro account of the Tiraspol Cash and Settlement Center and other liabilities regarding future payment to the State Budget.

Non-monetary liabilities include the Bank's liability related to the possession of state owned land - state property, held and managed by the Bank, on the territory of which the building of the Bank's head premises is located (including the annexes of the building).

The deferred income represent the unamortized grant received from United States Agency for International Development (USAID) by means of Financial Services Volunteer Corps for the acquisition of an IT system. The grant is recognized in profit or loss on a systematic basis over the useful life of the asset, starting with the date the IT system was ready for use while the grant for the compensation of the expenses incurred (the expenses in the contract purchasing the solution), recognised in profit or loss of the period in which it become receivable.

The provisions related to the unused vacation leaves include the amounts due to the employees for the earned but unpaid leave at the reporting date.

20. Capital and reserves

Pursuant to Article 19 of the *Law No 548/1995 on the National Bank of Moldova* with further amendments, in force at 31 December 2019, the capital of the Bank comprises the statutory capital, the reserve accounts created under the provisions of Article 66 and reserve accounts of unrealized gains. The statutory capital, comprising the authorized capital and the general reserve fund, is dynamic and created from the profit available for distribution, from the income obtained pursuant to Article 64 (3) and/or from the contributions of the Government, until its level reaches 10% of the total monetary liabilities of the Bank. The general reserve fund shall be used exclusively to cover the losses incurred at the end of the financial year, in case a negative result is recorded.

Thus, as at 31 December 2019, according with the legislation in force at this date, the general reserve fund was increased by MDL 327 339 thousand, up to MDL 2 024 947 thousand. Properly, was increased and authorized capital up to MDL 1 012 473 thousand.

Other reserves comprise the reserve from revaluation of monetary gold, reserve of revaluation of investment securities in foreign currency measured at fair value through other comprehensive income (the market value component and exchange differences related to market price difference).

All the elements of reevaluation accounts represent the elements of the *Other comprehensive income*, which are or may be redistributed to profit or loss.

The movement in other comprehensive income reserves is provided in the following table:

	2019	2018
	MDL'000	MDL'000
Reserves from revaluation of securities issued by the Government of the Republic of Moldova	-	-
On 1 January	-	1 888
Adjustment on initial application of IFRS 9	-	*(1 888)*
On 31 December	-	-
Reserves from revaluation of monetary gold		
On 1 January	5 970	7 079
Net differences from revaluation to market value	10 428	(1 109)
On 31 December	**16 398**	**5 970**
Reserves from revaluation of securities in foreign currency measured at fair value through other comprehensive income		
On 1 January	(4 271)	-
Adjustment on initial application of IFRS 9	-	(13 885)
Differences from revaluation to market value	42 194	9
Reclassified to profit and loss on derecognition	(18 632)	9 605
On 31 December	**19 291**	**(4 271)**
Reserves from foreign exchange differences of securities revaluation in foreign currency measured at fair value through other comprehensive income		
On 1 January	(713)	-
Adjustment on initial application of IFRS 9	-	984
Foreign exchange differences from revaluation to market value	(621)	(378)
Reclassified to profit and loss at derecognition	250	(1 319)
On 31 December	**(1 084)**	**(713)**
Other reserves	**34 605**	**986**

20. Capital and reserves (continued)

On 31 December 2019, the level of the statutory capital to total monetary obligations represents 5,79% (31 December 2018: 5,21%).

		31 December 2019	31 December 2018
		MDL'000	MDL'000
Total liabilities		**67 562 636**	**67 108 799**
Monetary liabilities due to IMF	7	7 225 994	7 863 219
Monetary liabilities due to the Government of Moldova	16	7 892 565	9 291 988
Monetary liabilities under the Law on the NBM		**52 444 077**	**49 953 592**
Authorized capital		1 012 474	902 970
General reserve fund		2 024 947	1 697 608
Statutory capital		**3 037 421**	**2 600 578**
Level of capital %		**5,79**	**5,21**

Please see *Note 32 Subsequent events* regarding the amendments entered into force to the legal framework applicable for the distribution of the profit of the Bank and for the level of Bank's statutory capital following the change of the legal framework.

21. Calculation of the profit available for distribution

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Net profit	**578 281**	**1 221**
(Allocation)/coverage of unrealized (gains) /losses on revaluation of foreign currency stocks (Note 24)	(141 438)	247 905
Profit available for distribution	**436 843**	**249 126**
Distribution:		
Increase of the authorized capital	**109 504**	-
Increase of the general reserve fund	**327 339**	**249 126**

In 2019, the Bank registered a net profit in amount of MDL 578 281 thousand (2018: net profit in amount of MDL 1 221 thousand). Following the application of corresponding provisions of the Law on the National Bank of Moldova, in force at 31 December 2019, the available profit for distribution amounted to MDL 436 843 thousand (2018: profit available for distribution MDL 249 126 thousand) which was distributed for the increase of the authorized capital until the level of 1/3 is reached, and for the increase of general reserve fund, for the purpose of its completion up to 2/3 of the statutory capital.

Please see Note 32 "Subsequent events" regarding changes to the regulatory framework applicable to the distribution of the profit of the National Bank.

22. Interest income

	2019	2018
	MDL'000	MDL'000
Interest income from short-term placements		
Interest from term deposits with foreign banks	196 204	280 387
Interests from overnight deposits	31 240	17 910
Interest from „Nostro" accounts in foreign banks and other organizations	3 975	2 316
Interest from IMF accounts	759	1 027
Interest on forward transactions	-	1 997
	232 178	**303 637**
Interest income on securities held		
Interest from securities in foreign currency measured at FVOCI	542 649	353 780
Interest from securities in foreign currency measured at amortized cost	146 463	160 575
Interest from state securities measured at amortized cost	657 251	724 662
Interest from state securities measured at amortized cost	120 324	97 089
	1 466 687	**1 336 106**
Interest income on the loans granted and repo		
Interests from repo transactions	1 041	-
Interests from loans granted to the banks	428	149
Interests from loans granted to other separates	124	111
	1 593	**260**
	1 700 458	**1 640 003**

The coupon rate of state securities issued by the Government of the Republic of Moldova, derived from state guarantees, is of 1,40% and 5,30% (2018: 1,40% and 5,30%), while the effective interest rate constitutes 5%, for the respective securities portfolio.

The following table presents the interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities:

	2019	2018
	MDL'000	MDL'000
Interest income		
Financial assets measured at amortized cost	1 157 809	1 284 226
Financial assets measured at FVOCI	542 649	353 780
Financial assets measured at fair value through profit or loss	-	1 997
	1 700 458	**1 640 003**
Expense on negative interest from short-term placements		
Financial assets measured at amortized cost (Note 28)	(45 001)	(26 615)
Interest expense		
Financial liabilities measured at amortized cost (Note 23)	(1 041 375)	(1 173 986)

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23. Interest expense

	2019	2018
	MDL'000	MDL'000
Interest expense on borrowings		
Interest on loans received from IMF	46 972	51 474
	46 972	**51 474**
Interest expense on cash and cash equivalents		
Interest on mandatory reserves	530 155	442 521
Interest on deposits accepted from banks	10 577	20 216
Interest on deposits accepted from the Ministry of Finance	73 234	115 671
Interest on forward transactions	-	13
	613 966	**578 421**
Interest expense on operations with securities and repo		
Interest on certificates issued by National Bank of Moldova (*amortization of discount and commissions part of effective interest rate*)	380 437	544 104
	380 437	**544 104**
	1 041 375	**1 173 999**

During the 2019, licensed banks maintained the mandatory reserves in Moldovan lei, due from funds attracted in Moldovan lei and nonconvertible currency, at 42,5% rate , but mandatory reserves in convertible currency at the level of 17% (increased from 14%, starting with the application period of required reserves: 16 July 2019-15 August 2019).

The interest rate on mandatory reserves from funds attracted in Moldovan lei and nonconvertible currency in 2019 was increased from 3,5% to 4%, starting with 19 June 2019, from 4% to 4,5%, starting with 31 July 2019, and decreased from 4,5% to 2,5%, beginning with 11 December 2019 (2018: 3,5%), while for the funds attracted in convertible currency – it varied from 0,36% to 0,01% (2018: with the variation range from 0,29% to 0,47%).

In 2019, the daily average balance of Bank's certificates amounted to MDL 5 500 117 thousand (2018: MDL 8 402 942 thousand). The average nominal interest rate of Bank's certificates placed in 2019 amounted to 6,86% (2018: 6,50%).

24. Gains/(losses) from foreign currency transactions and foreign exchange rate differences

	2019	2018
	MDL'000	MDL'000
Realized gains from foreign currency transactions	59 564	5 236
Unrealized gains/ (losses) from foreign currency stocks revaluation	141 438	(247 905)
	201 002	**(242 669)**

Realized gains and losses arise from foreign transactions applying the weighted average cost method, on each working day, on each currency, for both the sale and the purchased currency transactions. When the currency transactions do not affect the currency stock, the realized gains/losses are calculated as the difference between the average cost of the sale transactions and the average cost of purchase transactions.

If the volume of sales exceeds the volume of purchased currency, or vice versa, the realized gains/losses are determined as the difference between the average cost of the transactions and average cost of the currency stock. On 1 January the cost of the stock is equal to the official exchange rate published on the last day of the previous year by the Bank.

24. Gains/(losses) from foreign currency transactions and foreign exchange rate differences (continued)

In 2019, the realized gains were generated mainly from the sale of currency, when the difference between the sale exchange rate and the cost of currency stock was significant.

Net unrealized gains (losses) on exchange rate revaluation arise as a result of daily currency revaluation, as the difference between the official exchange rate of Moldovan currency against the foreign currencies which create the respective currency stocks and the revaluation of International Monetary Fund accounts during the financial year.

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

	2019	2018
	MDL'000	MDL'000
Net realized gains/(losses) from investment securities	18 632	(9 605)
	18 632	**(9 605)**

The net result from reevaluation at fair value represents the result recognized in other comprehensive income from the date of asset recognition, reclassified from other comprehensive income (account of reserves) to profit or loss, at maturity or sale of securities (derecognition).

During the holding of the securities in the Bank's portfolio, periodic (unrealized) revaluations are reflected in Other comprehensive income and Other reserves *(Note 20).*

26. Other income

	2019	2018
	MDL'000	MDL'000
Fee and commission income	33 746	29 234
Other income	7 674	12 102
	41 420	**41 336**

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by segments and sectors of the services provided:

		By sector:			
	Banks	Institutions	Other	2019	2018
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Automated Interbank Payment System	10 055	1 069	44	11 168	7 088
Cash operations	17 945	-	-	17 945	17 512
State's agent and banker activities	-	4 633	-	4 633	4 120
Securities registration system	-	-	-	-	514
	28 000	5 702	44	33 746	29 234

Commission and fee income from contracts with customers is measured based on the transactions' prices set in the contracts with customers and Bank's regulatory acts. Commission and fee income is recognized when the Bank transfers the control over the service to a customer.

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26. Other income (continued)

In the following table, other income from contracts with customers in the scope of IFRS 15 is disaggregated by segments and sectors of the services provided:

	By sector:				
	Banks	Institutions	Other	2019	2018
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Sale of commemorative banknotes and commemorative and jubilee coins	2 525	271	2 016	4 812	10 246
IT services	-	-	1 344	1 344	817
Other income	-	-	1 518	1 518	1 039
	2 525	271	4 878	7 674	12 102

The following table provides information on receivables/liabilities arisen from contracts with customers:

	31 December 2019	31 December 2018
	MDL'000	MDL'000
Receivables from commission, included in Other assets (Note14)	1 123	939
Receivables from other income, included in Other assets (Note 14)	381	817
	1 504	1 756

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and related commission revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Automated Interbank Payment System	The Bank manages the Automated Interbank Payment System (SAPI), which is the system through which all-interbank payments in Moldovan lei are processed in Republic of Moldova. The Bank gives free access to SAPI to the participants to process and settle interbank payments. The Bank charges commissions for the processing within SAPI of payment documents or packages of documents transmitted to the SAPI participants, according to SAPI participation Agreement and the *Regulation on the automated interbank payment system*. Based on the mandate assigned to the Bank, the commissions are collected automatically from the SAPI participants' accounts at the beginning of the month for the documents processed in the previous month. The tariffs are fixed and identically applied for all the participants (sectors).	Revenue obtained from the processing of documents in SAPI is recognized at the point in time when the transaction takes place.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Cash transaction	The Bank, as the single issuing national currency authority (monetary authority), exchanges the national currency issued into circulation in Republic of Moldova. Under the *Regulation on cash transactions in Banks of the Republic of Moldova, approved by Decision of the Executive Board of the Bank*, licensed banks can place and withdraw national currency cash from the Bank. For the withdrawal operations of banknotes and metallic coins by licensed banks and other clients, the Bank charges commissions, charged at withdrawal date. The tariffs are fixed and identical for all licensed banks, based on the scope of the withdrawal.	Revenue obtained from cash withdrawal is recognized at the cash withdrawal date.
Duties of the state agent and banker	The Bank, as agent of the state, shall organize in the name of the Ministry of Finance, the placement of state securities (SS) on the primary market, through SS auction, under the National Bank of Moldova Law and the Agreement on the state agent. Until 30 July 2018, the Bank covered the operations for the settlement of SS' principal and interest payments. For the organization of SS auction, the Bank charges a fee from the nominal value of SS placed at the auction, collected in the day after the auction completion. Until 30 July 2018, this commission represented the consideration received including for the SS settlement at maturity and of related coupons. As the State banker, the Bank processes the State's foreign currency payments, including performs the currency exchanges. The Bank charges commissions for each transaction on the date of processing the transaction (conversion, payment).	Revenue from commissions for organization of SS auctions is recognized at the date of completion of SS auction. Revenue from commission for foreign currency transactions of the state (payments and conversions) is recognized at the date of the related transactions.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and related other income recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Sale of commemorative banknotes and jubilee and	As the single issuing authority of national currency (monetary authority), the Bank issues commemorative and jubilee banknotes and coins, which have numismatic value and represent means of payment in Moldova. Moreover, and represent a	Revenue from sale (issuance) of commemorative coins is recognized on the issuance date at the sale

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Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
commemorative coins	component of the national currency once put into circulation (sale). The commemorative and jubilee coins are sold (issued) to licensed banks under the regulatory acts of the Bank, state institutions under customer contracts, and to other persons. Commemorative coins are sold at a prices set on a monthly basis by the Bank. The consideration paid at sale of commemorative coins is collected on the day of sale (in advance).	price of commemorative coins.
IT services	Pursuant to Law No 234 of 03.10.2016 on the single central securities depository and the Agreement on outsourcing information technologies services, the Bank provides assistance in the field of information technologies to its subsidiary *JSC Single Central Securities Depository.* The price of the services represents the costs incurred by the Bank for service provision, in the field of ensuring the functionality of information solutions of subsidiary (external costs re-invoiced) and the cost of IT corporative services, integrated network services and information security services ensured by the Bank. Income derived from respective services is recognized other time as the services are provided, based on incurred costs (re-invoiced costs) (quarterly), being paid in the following month from the date of service invoicing.	Revenue is recognized over time as the services are provided. Revenue from transactions/activities carried out in certain periods of time (specific transactions) are recognized in the period when these take place.

Income from technical assistance and grants from international financial institutions

In 2019 and 2018, the Bank received technical assistance from certain international financial institutions in form of compensation for operating expenses incurred by the Bank (consulting, training and travel expenditures, etc.). The Bank presents the income from grants of international financial assistance received for the compensation of expenses net of the compensated operational expenses (Note 28).

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27. Revenues by activity segments and geographical areas

The Bank operates only in the Republic of Moldova. Analysis of interest income, commissions and other income, differences from the revaluation of investments securities, differences from foreign currency transactions and foreign exchange rate differences, for the period ended at **31 December 2019**, according to the Bank's activities and geographical areas (country of issuer/borrower of the financial instrument) is presented below:

Country of issuer/borrower	**Foreign reserves management**	**Monetary policy**	**National currency**	**Financial relations with state bodies**	**Gains from foreign currency transactions and foreign exchange rate differences**	**Other**	**Total**
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Republic of Moldova	-	1 468	22 757	783 277	201 002	12 744	1 021 248
USA	472 873	-	-	-	-	305	473 178
Germany	116 272	-	-	-	-	-	116 272
Great Britain	74 236	-	-	-	-	-	74 236
International financial organizations	65 095	-	-	-	-	-	65 095
France	55 540	-	-	-	-	-	55 540
Singapore	47 251	-	-	-	-	-	47 251
The Netherlands	33 916	-	-	-	-	-	33 916
Canada	29 344	-	-	-	-	-	29 344
Finland	19 737	-	-	-	-	-	19 737
Luxembourg	12 612	-	-	-		-	12 612
Austria	5 990	-	-	-	-	-	5 990
Sweden	3 659	-	-	-	-	-	3 659
Norway	3 409	-	-	-	-	-	3 409
Other countries	-	-	-	-	-	25	25
Total revenues	**939 934**	**1 468**	**22 757**	**783 277**	**201 002**	**13 074**	**1 961 512**

Net results from foreign currency transactions and foreign exchange rate differences are presented separately. These are the cumulative results derived from the Bank's activities from the implementation of the monetary policy operations (foreign exchange interventions, compulsory reserves in foreign currency), the payments and receipts service in foreign currency of the Government and directly by the foreign exchange management activities.

Revenues from financial relations with state bodies consists of interest income on state securities held in the Bank's portfolio (Note 22) and other income from performing the role of agent and banker of the state (Note 26).

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27. Revenues by activity segments and geographical areas (continued)

The Bank operates only in the Republic of Moldova. Analysis of interest income, commissions and other income, differences from the revaluation of investments securities, differences from foreign currency transactions and foreign exchange rate differences, for the period ended at **31 December 2018,** according to the Bank's activities and geographical areas (country of issuer/borrower of the financial instrument) is presented below:

Country of issuer/borrower	Foreign reserves management	Monetary policy	National currency	Financial relations with state bodies	Gains from foreign currency transactions and foreign exchange rate differences	Other	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Republic of Moldova	-	2 149	27 758	827 103	(242 669)	8 120	622 461
USA	316 321	-	-	-	-	-	316 321
Germany	144 508	-	-	-	-	79	144 587
Singapore	74 636	-	-	-	-	-	74 636
France	62 757	-	-	-	-	-	62 757
International financial organizations	55 560	-	-	-	-	-	55 560
Luxembourg	44 658	-	-	-	-	-	44 658
The Netherlands	43 464	-	-	-	-	-	43 464
Great Britain	36 096	-	-	-	-	3	36 099
Finland	10 525	-	-	-	-	-	10 525
Canada	7 497	-	-	-	-	-	7 497
Austria	5 520	-	-	-	-	-	5 520
Sweden	3 885	-	-	-	-	-	3 885
Norway	992	-	-	-	-	-	992
Other countries	-	-	-	-	-	103	103
Total revenues	**806 419**	**2 149**	**27 758**	**827 103**	**(242 669)**	**8 305**	**1 429 065**

Net results from foreign currency transactions and foreign exchange rate differences are presented separately. These are the cumulative results derived from the Bank's activities from the implementation of the monetary policy operations (foreign exchange interventions, compulsory reserves in foreign currency), the payments and receipts service in foreign currency of the Government and directly by the foreign exchange management activities. Revenues from financial relations with state bodies consists of interest income on state securities held in the Bank's portfolio (Note 22) and other income from performing the role of agent and banker of the state (Note 26).

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28. Operating expenses

	2019 MDL'000	2018 MDL'000
Personnel expenses	159 535	128 001
Expenses related to national currency	65 337	25 760
Expense on negative interest from short-term placements (Note 22)	45 001	26 615
Expenses related to amortization of property, equipment and intangible assets	28 825	30 294
Expenses related to amortization of leased property	1 186	-
Expenses related to informational, advisory and audit services	23 631	22 007
Buildings, transport and equipment maintenance expenses	5 899	6 572
Expenses with fees and commissions	1 843	2 484
Other operating expenses	10 599	12 112
	341 856	**253 845**

Personnel expenses for the 2019, additionally, include expenses related to the provision for employee benefits in the amount of MDL 8 638 thousand (2018: nil), the mandatory state social insurance contributions in amount of MDL 28 633 thousand (included MDL 1 987 thousand related to provision for employee benefits) and mandatory medical insurance in amount of MDL 5 606 thousand (included MDL 389 thousand related to provision for employee benefits) (2018: MDL 22 774 thousand and MDL 4 486 thousand, respectively).

Following the amendment of Article 34 of the Law on the National Bank of Moldova, during 2018 was finalized the process of gradual implementation of the new payroll system, based on the assessment of functions, competences and performance, remuneration system that contributed to the strengthening of institutional capacity of the Bank, retention of competences and talent and improvement of Bank's competitiveness on the labor market. As a result of the implementation of the new payroll system, staff costs insignificant increased.

As at 31 December 2019 the number of active employees was 419 people (31 December 2018: 422 people). The average number of employees divided by categories during the period was:

	2019 employees	2018 employees
Managers	102	102
Specialists	251	245
Technical staff	69	68
	422	**415**

The change in negative interest expenses from foreign currency deposits was due to the increase in EUR funds held on overnight accounts opened in European central banks but also to the non-essential decrease in the interest rate on remuneration.

Following the implementation of IFRS 16 on 1 January 2019, the right of use assets depreciation identified in high value leasing contracts or which are signed for a term of more than 1 year (except for underlying assets with a small value) are reported separately in operating expenses. In 2018, leasing expenses were reported in accordance with IAS 17 under the category Other operating expenses.

The auditors of the Bank's financial statements for 2019 and 2018 are Deloitte Audit SRL and Deloitte&Touche SRL. In 2019, the expenses regarding the audit fees paid to the auditors of financial statements amounted to MDL 714 thousand (2018: MDL 869 thousand). Other services from the Bank's auditors were not contracted during the reported period.

28. Operating expenses (continued)

Fees and commissions expenses include commissions for:

	By sector:				
	Banks	International financial institutions	Others	2019	2018
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Credit lines	-	478	-	478	1 770
Account services	332	-	27	359	285
Safekeeping of state securities	-	-	1 006	1 006	429
	332	478	1033	1 843	2 484

The commissions for the safekeeping of state securities refer to the commissions charge by the Joint Stock Company "Single Central Securities Depository" for the safekeeping of state securities portfolio registered and held by the Bank in CSD's system (DEPO/x). The commissions relate to financial assets that are not measured at fair value through profit or loss.

The operating expenses (trainings, consulting) compensated within international technical assistance programs provided in 2019 and 2018 by a series of international financial organizations, have been presented net of the related income. In 2019 and 2018, the National Bank of Moldova benefited from technical assistance granted by the United States Agency for International Development, World Bank Treasury, United States Treasury, European South East Fund, International Monetary Fund and certain central banks.

29. Related parties

The related parties of the Bank are the Joint Stock Company "Single Central Securities Depository" and Bank's management (members of the Supervisory Board, Executive Board and mid-level managers).

Remuneration and compensation expenses related to the Bank's management during 2019 amounted to MDL 37 592 thousand (2018: MDL 29 005 thousand), of which for the members of the Supervisory Board of the Bank - MDL 3 604 thousand remuneration (2018: MDL 3 047 thousand) and MDL 991 thousand mandatory and optional social and medical insurance (2018: MDL 838 thousand), for members of the Executive Board of the Bank- MDL 10 261 thousand remuneration (2018: MDL 7 951 thousand) and MDL 2 763 thousand mandatory and optional social and medical insurance (2018: MDL 2 204 thousand), and others - MDL 5 thousand (2018: MDL 10 thousand), and for middle level managers MDL 15 552 thousand remuneration (2018: MDL 11 730 thousand), MDL 4 269 thousand mandatory and optional social and medical insurance (2018: MDL 3 225 thousand) and other benefits in amount of MDL 147 thousand (2018: nil).

The remuneration expenses include salaries and short-term benefits. The increase in remuneration expenses was mainly determined by the commitments made during the reported periods, the return of a member of the Executive Board of the National Bank after a delegation period, and the finalization of the gradual implementation of the new salary system within the National Bank.

The remuneration expenses include salaries and short-term benefits.

Transactions with the management of the Bank concluded during the period comprise those related to loans granted. Management's loans' balance and movements during the period is presented below:

	Balance on 1 January	Loans granted	Transfers	Reimbursements	Balance on 31 December
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Mid-level managers					
2019	2 992	360	-	606	2 746
2018	4 303	-	304	(1 615)	2 992

The loans have been granted at interest rates and conditions identical to those applicable to all employees according to the provisions of the internal regulatory acts of the Bank. These loans are fully collateralized with collaterals provided by each debtor with a pledge value of MDL 4 867 thousand as at 31 December 2019 (31 December 2018: MDL 5 373 thousand).

As at 31 December 2019 and 31 December 2018 these loans are classified as standard (stage 1 of the ECL), being fully collateralized, with no impairment triggers and no expected credit losses incurred.

During the 2019 and 2018, the Bank did not grant any loans to members of the Supervisory Board and the Executive Board.

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

29. Related parties (continued)

Bank's subsidiary

The Bank holds 98,36% of the share capital of the Joint Stock Company "Single Central Securities Depository" and appoints four out of the seven members of the Supervisory Board of CSD. Therefore, under IFRS 3 provisions, the Bank controls the *Single Central Securities Depository* as a subsidiary of the Bank.

The balances and transactions of the Bank with the SA Single Central Securities Depository of are:

	31 December 2019	31 December 2018
Balances	MDL'000	MDL'000
Assets		
Investments in subsidiaries – cash contribution to the capital	24 000	24 000
Other short-term receivables	381	812
	24 381	**24 812**
Other liabilities		
Current account of subsidiary in the Bank	1 781	23 046
Other liabilities	292	287
	2 073	**23 333**
	2019	**2018**
Transactions	MDL'000	MDL'000
Other income		
Income from compensation of expenses for the IT services outsourcing	1 349	812
	1 349	**812**
Interest expense		
Fees from settlement and clearing of certificates issued by the Bank	2 600	1 100
	2 600	**1 100**
Operating expenses		
Commissions for state securities safekeeping	1 007	429
Other commissions	26	4
	1 033	**433**

The Bank has not identified any indication of impairment of its investment in the subsidiary and no impairment losses have been recognized in this respect. The receivables due from the subsidiary were classified in the standard category (1 stage of the ECL) as at 31 December 2019, were collected in full in due time and no expected credit losses allowances was recognized as at the reporting date.

The transactions with "Central Securities Depository" were carried out at the general rates approved by the subsidiary's Supervisory Board (level of commissions for settlement, clearing, safekeeping) and similar conditions applied by the Bank on other financial liabilities (levels of interest rates). Income from the IT services provided to the subsidiary under the outsourcing agreement was charged at the level of costs incurred by the Bank in providing the outsourcing services for IT services.

Equity

The authorized of the capital of the Bank is held exclusively by the State. Considering Art. 1 of National Bank of Moldova Law, which expressly provides the Bank is an autonomous public legal entity responsible to the Parliament, the Government and Government related entities are not considered to be related parties of the Bank. However, transactions with these entities are disclosed in the corresponding notes of the financial statements.

30. Commitments and contingent liabilities

Promissory notes issued

As at 31 December 2019 the value of the promissory note issued by the Bank for the International Monetary Fund to secure the loans received within EFF facility amounted to MDL 2 232 729 thousand (31 December 2018: MDL 2 612 124 thousand).

Investment commitments

Within the external reserves management program, the World Bank concluded:

- at 30 December 2019, one buy transaction of a security at a nominal value of USD 10 000 thousand (at 31 December 2019 equivalent of MDL 172 093 thousand), with the settlement date on 2 January 2020;
- at 31 December 2019, 3 buy transactions of securities at a nominal value of USD 14 700 thousand (at 31 December 2019 equivalent of MDL 252 977 thousand) and 2 sale transactions of securities at a nominal value of USD 11 200 thousand (at 31 December 2019 equivalent of MDL 192 744 thousand, all securities having the settlement date on 2 January 2020;
- at 31 December 2019, one buy transaction of securities at a nominal value of USD 4 000 thousand (at 31 December 2019 equivalent of MDL 68 837 thousand), with the settlement date on 3 January 2020;

Loan commitments

As at 31 December 2019, there are no conditional commitments of creditor nature (31 December 2018: nil).

Capital commitments

As at 31 December 2019, according to the concluded contracts, the Bank was committed to settle during the following years its financial obligations regarding the acquisitions of property, equipment and intangible assets in amount of MDL 2 213 thousand (in original currency EUR 99 thousand and MDL 298 thousand) (on 31 December 2018, MDL 7 389 thousand or in original currency EUR 379 thousand).

Litigations and contingent liabilities

As at 31 December 2019, the Bank was involved in 13 litigations, where it participates as a defendant (31 December 2018: 19 litigations as a defendant).

As at 31 December 2019 the Bank has not registered any provisions for litigations, as the Bank considered that there were no sufficient evidence regarding any related possible future outflows of economic resources (31 December 2018: nil).

31. Operating leasing

Starting with 2017, the Bank uses administrative premises and public land, under operating lease and bailment agreement (free of charge use), respectively for the land. The operating lease and bailment agreements are commonly concluded for a one year period, with the option to extend the lease term for consecutive annual periods in the absence of any objections by the counterparties of the contracts. The lease payments are reviewed annually in accordance with the minimum rent rate for public property, as established by the laws of the annual State Budget.

The lease and bailment agreements may be terminated with a 60-day notice, without any cancellation cost to be incurred by the Bank.

Assessing the duration of the operational lease of the administrative space up to one year at 1 January 2019, the right of use asset was recognized at the effective value of the lease payments to be made during the 2019 in accordance with the provisions of IFRS 16 related to the short-term leasing contracts.

As at 31 December 2019, following the option to extend the term of the lease on a horizon of up to 3 years, the right of use assets and the lease liability have been revised at the present value of future lease payments, taking into account the term of 3 years and the base rate of the National Bank of Moldova at the date of revision.

Previously, this lease contract was classified as operational leasing according to IAS 17 Leasing.

Right of use assets

The right of use assets refers to the leased administrative premises and is included in Note 13 in the category Land, buildings and similar constructions:

	Administrative premises 2019
	MDL'000
Balance at 1 January 2019	1 186
Depreciation charge for the year	(1 186)
Additions	3 510
Balance at 31 December 2019	**3 510**

Amounts recognized in profit or loss

	2019	**2018**
	MDL'000	**MDL'000**
Expenses related to amortization of leased property (IFRS 16)	1 186	-
Lease expense (IAS 17)	-	1 080
	1 186	**1 080**

Amounts recognized in statement of cash flows

	2019	**2018**
	MDL'000	**MDL'000**
Total cash outflow for leases	1 186	1 080
	1 186	**1 080**

32. Subsequent events

After the balance sheet date, were recorded several significant subsequent events that not lead to the adjustment of the results reported at the balance sheet date.

1. *Tranches received from IMF credit facilities*

On 13 March 2020, the International Monetary Fund disbursed to the Bank the last tranche of the ECF facilities in the amount of XDR 1 900 thousand, and on 19 March 2020 – XDR 3 900 thousand of the EFF facilities, allocated under the Memorandum signed on 7 November 2016.

2. *Redistribution of profit available for distribution of the Bank for 2019 and modification of the regulatory framework*

Pursuant to *Law no. 42 of 06.03.2020 regarding the modification of some legislative acts* (hereinafter Law 42/2020), published at 2 April 2020, came into force the amendments to art.19 and art.20 of Law no.548/1995 on the National Bank regarding the way of forming the Bank's statutory capital and of distributing the profit available for distribution.

In accordance with the Law 42/2020, the new profit distribution mechanism is applied also on the distribution of profits and coverage of losses of the National Bank of Moldova for the financial year ended on 31 December 2019. Thereby, the Bank, by derogation from the art.19 paragraphs (2), (3) and (5) of Law no. 548/1995 on the National Bank of Moldova, the profit available for distribution of the 2019 distributed until the date of entry into force of Law 42/2020 is reallocated.

According to the new profit allocation mechanism, if the amount of the statutory capital of the Bank at the end of the financial year constitutes from 4% to 10% of the total monetary obligations of the National Bank, 50% of the profit available for distribution will be allocated for the increase of the statutory capital as provided in Article 19 paragraph (3), and 50% of the profit available for distribution will be transferred to the State Budget income.

Considering that on 31 December, 2019 the level of statutory capital until the distribution of profit was 5,79% (Note 20), and the Law 42/2020 have a prospective application and represent a subsequent event that does not adjust the financial statements from 31 December 2019, to on the date of entry into force of Law 42/2020, the Bank reallocated 50% of the profit available for distribution to the State Budget, registering the debt to the State Budget and reducing the statutory capital so that the authorized capital is 1/3 and the general reserve fund 2/3 of the total adjusted statutory capital:

Allocation of the profit available for distribution for the year:

	2018		2019
	31 December 2018	**According to Law 548/1995 in force at 31 December 2019**	**According to Law 42/2020 in force at 2 April 2020**
	MDL'000	**MDL'000**	**MDL'000**
Distribution:			
Profit available for distribution	**249 126**	**436 843**	**436 843**
Increase of the authorized capital	-	(109 504)	(36 696)
Increase of the general reserve fund	249 126	(327 339)	(181 725)
Profit allocated to the State Budget	-	-	(218 422)
Capital level			
Authorized capital	902 970	1 012 474	939 666
General reserve fund	1 697 608	2 024 947	1 879 333
Statutory capital	**2 600 578**	**3 037 421**	**2 818 999**
Level of capital %	**5,21**	**5,79**	**5,38**

*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.

32. Subsequent events (continued)

2. *Redistribution of profit available for distribution of the Bank for 2019 and modification of the regulatory framework (continued)*

Profit allocated to the State Budget will be transferred to the State Budget income within 15 days after receiving the external auditor's report on the financial statements of the National Bank.

3. *Monetary policy decisions after the balance sheet date*

The Bank's Executive Board has decided to reduce the base rate applied to the main short-term monetary policy operations on 4 March 2020, from 5,5% to 4,5%, and on 20 March 2020, from 4,5% to 3,25%. At the same time, interest rates on overnight loans and deposits were reduced by 1,0 p.p. on 4 March, and by 1,25 p.p. on 20 March, up to 6,25% and 0,25% respectively.

On 20 March 2020 and 3 April 2020, the Executive Board decided to reduce by 7 p.p., up to 34% of the calculation base, the norm of mandatory reserves from funds attracted in Moldovan lei and non-convertible currency, and increase by 1 p.p., up to 21% of the calculation base, of the mandatory reserves from funds attracted in convertible currency, for the application period 16 April – 15 May 2020.

The change in the rates related to the monetary policy instruments was decided based on the identification of the premises for the urgent adjustment of the monetary policy course against the background of the recent evolutions in the global and national economy. Thus, monetary policy measures were adopted capable of partially mitigating the impact of the effects generated by the COVID-19 pandemic on the national economy and in order to prevent liquidity risk and strengthen the stability of the banking sector in Moldova.

The change in the base rate and the level of mandatory reserves does not have a significant impact on the valuation of financial liabilities at 31 December 2019, considering that the financial instruments (monetary liabilities) to which they apply are valued at amortized cost and are short-term or spot instruments.

4. *Decrease in profitability from foreign exchange reserves*

Against the background of the evolution of the COVID-19 pandemic, the impact on the financial markets and world economies and the measures taken by the governments and central banks of the countries in which the Bank invests its foreign exchange reserves (United States, France, Germany, Great Britain, Canada, The Netherlands, Japan etc. .), the Bank expects a significant decrease in the profitability of financial instruments during 2020.

The US Federal Reserve has taken drastic measures to support the economy as the result of the rapidly escalating pandemic of COVID-19 and reduced the monetary policy interest rate by 0,5 p.p. on 3 March 2020 to the 1-1,25% corridor, and starting 16 March 2020, with 1,0 p.p., to the 0-0,25% corridor. The Bank of England, on same grounds, reduced the monetary policy interest rate by 0,5 p.p. on 10 March 2020, up to 0,25%, and starting with 19 March 2020 with 0,15 p.p., up to 0,1%.

The decrease in profitability of investment securities during the first quarter of 2020 led to an increase of the market value of the instruments, by about 0,4 p.p. compared to the valuation on 31 December 2019, with the recognition of unrealized revaluation gains of securities in foreign currency measured at fair value through other comprehensive income of about MDL 111 899 thousand.

5. *Impact of the spread of Covid – 19 virus*

The rapid spread of the Covid-19 virus and its social and economic impact in the Republic of Moldova and globally may generate assumptions and estimates that require reanalysis that may lead to significant adjustments in the carrying amount of the Bank's assets and liabilities during 2020.

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32. Subsequent events (continued)

5. Impact of the spread of Covid – 19 virus (continued)

In particular, the Bank's management identifies a reduction in the return on foreign exchange reserves, a change in the Bank's monetary liabilities and a decrease in monetary policy expenses. At this stage, however, management cannot confidently estimate the impact, as events evolve daily.

At the date of approving these individual financial statements, the Bank is well capitalized with a capital level of 5,38% compared to the level of monetary liabilities, has at its disposal a high level of official reserve assets (covering over 5 months of future imports according to the latest forecasts on imports of goods and services made during the IMF mission and over 100% of short-term external debt) and has sufficient room for maneuver in the main monetary policy instruments to maintain price stability, ensure the stability of the banking sector and inject sufficient liquidity into the banking sector and the business environment to help economic recovery.

From the perspective of credit risk, the Bank continuously monitors credit risk related to foreign exchange reserves and government securities, by analyzing the change in ratings set by international rating agencies, the evolution prospects of issuers of portfolio instruments and market probabilities and expectations, as well as the sources of financing of the issuers. The bank invests in foreign currency investment instruments with high liquidity and a minimum degree of risk. An essential element of credit risk management related to foreign exchange reserves is the Bank's investment with the purpose of managing foreign exchange reserves in secure long-term reliable counterparties (minimum average rating A-) assigned by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and which are authorized by the Bank for those transactions. According to the scenarios and information available, the Bank did not identify any objective indicators of a significant increase in the credit risk of foreign exchange reserves, which would lead to the recording of expected impairment losses significantly higher than the estimates as of 31 December 2019.

From the perspective of liquidity risk, the Bank has sufficient liquidity, both in the national currency and in foreign currency. Liquidity in national currency is ensured by the exclusive monetary right to issue money. Liquidity in foreign currency is ensured by the sufficient level of foreign exchange reserves, their diversification and the significant share of holdings on demand.

No other significant events after the balance sheet date, which would adjust the recognized amounts or information presented in the financial statements, have occurred after the balance sheet date.