National
Bank of Moldova

SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2018
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.

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the
National Bank of Moldova

Opinion

1. We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank") which comprise the balance sheet as at 31 December 2018, and the statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

2. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

4. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Deloitte.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

For signature, please refer to the original Romanian version.

Deloitte & Touche S.R.L.
Chisinau, R. Moldova
28 May 2019

Separate financial statements:

Notes to the separate financial statements:

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National Bank of Moldova
SEPARATE BALANCESHEET
For the year ended as at 31 December 2018

	Notes	31 December 2018	31 December 2017
		MDL'000	MDL'000
ASSETS			
Cash and short-term placements with banks	5	24 723 602	24 966 441
Monetary gold	6	51 533	52 642
Due from international financial institutions	7	4 114 710	4 206 142
Securities issued by the Government of the Republic of Moldova	8	15 472 115	15 522 330
Loans granted to banks and separates	9	18 906	23 821
Investment securities	10	26 573 204	22 915 155
Investments in subsidiaries	11	24 000	-
Property and equipment	13	84 332	94 725
Intangible assets	13	46 041	35 524
Other assets	14	11 213	6 628
TOTAL ASSETS		71 119 656	67 823 408
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	15	23 748 867	21 032 866
Due to the Government of the Republic of Moldova	16	9 291 988	8 783 146
Due to the banks	17	19 715 061	15 978 430
Certificates issued by the National Bank of Moldova	18	6 298 721	9 217 431
Due to international financial institutions	7	7 876 786	8 758 723
Other liabilities	19	177 376	48 096
Total liabilities		67 108 799	63 818 692
Capital and reserves			
Authorized capital		902 970	902 970
General reserve fund		1 697 608	1 448 482
Total statutory capital	20	2 600 578	2 351 452
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	20	1 230 866	1 479 755
Reserve of unrealized gains on revaluation of investment securities	20	178 427	164 542
Other reserves	20	986	8 967
Total capital and reserves		4 010 857	4 004 716
TOTAL LIABILITIES, CAPITAL AND RESERVES		71 119 656	67 823 408

The accompanying notes 1-31 are an integral part of these separate financial statements.

The Supervisory Board of the National Bank of Moldova approved these separate financial statements on 15 may 2019.

For signature, please refer to original Romanian signed version.

Octavian Armașu
Governor

Aliona Russu
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 as at 31 December 2018

	Notes	2018 MDL'000	2017 MDL'000
Interest income from short-term placements	22	303 637	189 453
Interest income from securities	22	1 336 106	1 089 548
Interest income from loans and repo agreements	22	260	292
		1 640 003	1 279 293
Interest expenses on loans received	23	(51 474)	(47 043)
Interest expenses on deposits and mandatory reserves	23	(578 421)	(682 942)
Interest expenses on transactions with securities and repo agreements	23	(544 104)	(519 828)
		(1 173 999)	(1 249 813)
Net interest income (expenses)		466 004	29 480
(Losses) from foreign currency transactions and foreign exchange rate differences	24	(242 669)	(4 807 265)
(Losses) from the revaluation of securities	25	(9 605)	(37 429)
Other income	26	41 336	108 824
Operating expenses	27	(253 845)	(269 689)
Net operating (expenses)		(464 783)	(5 005 559)
NET PROFIT/ (LOSS)		1 221	(4 976 079)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation of securities issued by the Government of the Republic of Moldova	20	-	(2 773)
Revaluation of monetary gold	20	(1 109)	(1 973)
Revaluation of securities in foreign currency measured at fair value through other comprehensive income	20	9 614	-
Foreign exchange differences from revaluation of securities in foreign currency measured at fair value through other comprehensive income	20	(1 697)	-
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD		8 029	(4 980 825)
Calculation of the profit available for distribution/ (total loss)			
NET PROFIT/ (LOSS)		1 221	(4 976 079)
Covering of unrealized losses on revaluation of investment securities		-	28 889
Covering of unrealized losses on revaluation of foreign currency stocks		247 905	4 851 881
PROFIT AVAILABLE FOR DISTIRBUTION/ (TOTAL LOSS)*		249 126	(95 309)

The accompanying notes 1-31 are an integral part of these separate financial statements.

The Supervisory Board of the National Bank of Moldova approved these separate financial statements on 15 may 2019.

Octavian Armașu
Governor

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

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National Bank of Moldova
SEPARATE STATEMENT OF CASH FLOWS
For the year ended as at 31 December 2018

	Notes	2018	2017
		MDL'000	MDL'000
Cash flows from operating activities			
Interest receipts		1 356 102	1 323 119
Interest payments		(1 166 794)	(1 201 955)
(Loss) from investment securities		(9 605)	(8 540)
Other receipts		41 959	109 351
Payments to personnel and suppliers		(230 177)	(232 922)
Cash outflows from operating activities		(8 515)	(10 947)
Net (increase)/ decrease in operating assets			
Securities issued by the Government of the Republic of Moldova		(1 853 392)	244 275
Term deposits in foreign currency		3 171 286	(384 118)
Due from international financial institutions		(10 344)	(14 013)
Loans granted to banks and separates		4 916	4 146
Investment securities		(3 712 336)	(2 238 071)
		(2 399 870)	(2 387 781)
Net increase/ (decrease) in operating liabilities			
National currency issued into circulation		2 716 001	2 042 534
Due to Government of the Republic of Moldova		587 656	3 180 036
Balances due to banks		3 841 439	1 864 225
Certificates issued by the National Bank of Moldova		(2 916 825)	3 301 574
Due to international financial institutions		(699 375)	(826 653)
Other liabilities		128 481	5 380
		3 657 377	9 567 096
Net cash inflows from operating activities		1 248 992	7 168 368
Property, equipment and intangible assets acquisitions		(27 720)	(35 973)
Investments in subsidiaries		(24 000)	
Net cash outflows used in investing activities		(51 720)	(35 973)
Differences from revaluation of cash and cash equivalents		(538 673)	(2 489 023)
Increase in cash and cash equivalents		658 599	4 643 372
Cash and cash equivalents at the beginning of the year		15 626 362	10 982 990
Cash and cash equivalents at the end of the year		16 284 961	15 626 362
Analysis of cash and cash equivalents			
Cash in hand in foreign currency	5	530	1 043
Nostro accounts	5	2 214 599	1 917 484
Term deposits in foreign currency	5	14 069 832	11 476 705
Securities issued by the Government of the Republic of Moldova	8	-	2 231 130
Cash and cash equivalents		16 284 961	15 626 362

The accompanying notes 1 – 31 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 as at 31 December 2018

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	Reserve of unrealized gains on revaluation of investment securities	Profit/ (Loss)	Other reserves	Total capital and reserves
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2017	902 970	1 543 791	6 331 636	193 431	-	13 713	8 985 541
(Net Loss)	-	-	(4 851 881)	(28 889)	(95 309)	-	(4 976 079)
Other comprehensive income:							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	(2 773)	(2 773)
Differences on revaluation of monetary gold	-	-	-	-	-	(1 973)	(1 973)
Other comprehensive income, total	-	-	-	-	-	(4 746)	(4 746)
Comprehensive result at the end of the year	-	-	(4 851 881)	(28 889)	(95 309)	(4 746)	(4 980 825)
Covering of losses							
Use of the general reserve fund	-	(95 309)	-	-	95 309	-	-
Balance as at 31 December 2017	902 970	1 448 482	1 479 755	164 542	-	8 967	4 004 716
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 *(20)*	-	-	(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
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

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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 National Bank of Moldova has two collegial governing bodies: the Supervisory Board and the Executive Committee. The Supervisory Board is the body responsible for organizing an efficient system of independent public oversight of the National Bank's activity. The Executive Committee exercises the executive management of the National Bank of Moldova 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", which was founded and registered on April 4, 2018. The Central Securities Depository's activity is governed by the Single Central Depository Securities 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.

The registered head-office of the Bank and the single Central Depository of Securities is 1 Grigore Vieru Avenue, Chisinau, 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 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 held at fair value listed below:

	Fair value
Financial assets at fair value through other comprehensive income	Starting 1 January 2018
Financial assets at fair value through profit or loss	Until 1 January 2018
Financial assets available for sale	Until 1 January 2018

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2. Basis of preparation (continued)

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.

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 (effective from 1 January 2018)

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). The detailed information on the estimates and mechanisms used to determine the business model and the SPPI test of the financial instruments are presented in Note 3 and Note 12.

b) Estimation of expected credit losses (effective from 1 January 2018)

Applying the expected credit loss model from 1 January 2018, 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 for 2018 are:

a) Expected credit losses (effective from 1 January 2018)

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, which are presented in Note 3 h).

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2. Basis of preparation (continued)

b) Allowances for incurred credit losses (effective until 1 January 2018)

Significant assumptions relating the estimation of incurred credit losses of the for the financial assets held by the Bank, excepts those classified at fair value through profit or loss, are those used to determine the future cash inflows, that are presented in Note 3 g). If there is evidence that a financial asset is impaired, the amount of the impairment loss is measured as the difference between the carrying value and the discounted expected cash inflows. The Bank reviews the securities portfolio held to maturity annually, while the securities held for sale, loans, conditional commitments and receivables on a quarterly basis or when required, in order to estimate the need for impairment losses to be recognized in the statement of comprehensive result.

c) Fair value of financial instruments (effective for 2018 and 2017)

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 3 f).

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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 9 Financial Instruments* (hereinafter IFRS 9) and *IFRS 15 Revenue from contracts with customers* (hereinafter IFRS 15) from 1 January 2018.

Due to the Bank's transition method chosen for the initial application of IFRS 9, comparative information throughout these separate financial statements has not generally been restated to reflect its requirements. The initial application of IFRS 15 had no impact on the recognition of commission and other income from contracts with customers, as well as related assets and liabilities. Thus, the impact of IFRS 15 application on comparative figures was limited to new disclosure requirements.

Additionally, the Bank applied the amendments adopted by *IFRS 7 Financial Instruments: Disclosures*, which are applied to the disclosures relating to financial instruments for 2018 without restatement to comparative information.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 retains the requirements of IAS 39 on the classification of financial liabilities. The detailed information about the classification of the Bank's financial instruments is presented in Note 12.

Impairment of financial assets

IFRS 9 replaces the incurred loss model of IAS 39 with an expected credit loss model. Under IFRS 9 credit losses are recognised earlier than under IAS 39. The information about the Bank's expected credit loss methodology is presented in Note 3 h).

Transition

Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated, considering the exemption not to restate allowed by IFRS 9. Differences resulting from initial application of IFRS 9 from financial assets were recognized in capital and reserves on 1 January 2018. Accordingly, the information presented for 2017 do not reflect the IFRS 9 requirements and therefore is not comparable to the information presented for 2018 under the IFRS 9.

The following assessments were made on the basis of the facts and circumstances that existed at the date of initial application of the IFRS 9 (1 January 2018):

- Determination of the business model within which a financial asset is held;
- Designation and revocation of previous designations of certain financial assets measured at fair value through profit or loss;
- If a debt security had a low credit risk at the date of initial application of the IFRS 9, then the Bank assumed that the credit risk of this debt instrument had not increased significantly from its initial recognition.

For more detailed information on changes and implications resulting from the adoption of IFRS 9 is presented in Note 12 and 20.

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3. Significant accounting policies (continued)

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 balance sheet date. The official exchange rates of the Moldovan leu against the reference currencies, for the years 2017-2018, was the following:

	Year 2018		Year 2017	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	16,8031	17,1427	18,4902	17,1002
EUR/MDL	19,8442	19,5212	20,8282	20,4099
GBP/MDL	22,4380	21,6511	23,7824	22,9715
XDR/MDL	23,7875	23,7710	25,6155	24,2942
XAU/MDL	685,5073	695,1387	746,9164	710,1013

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, current 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 Balancesheet 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 recognised 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.

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 International Monetary Fund are measured at fair value through other comprehensive income.

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3. Significant accounting policies (continued)

f) Financial instruments

The Bank's financial instruments comprise:

- Cash and short-term placements in banks
- Assets of international financial institutions
- Securities issued by the Government of the Republic of Moldova
- Credits granted to banks and other persons
- Investment securities
- Domestic currency in circulation
- Reserves of the Government of the Republic of Moldova
- Reserves of banks and other clients
- Certificates issued by the National Bank of Moldova
- Liabilities 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 asset has 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.

Classification of financial assets and financial liabilities

Accounting policies effective from 1 January 2018

On initial recognition, the Bank classifies its financial assets in the following categories: financial assets measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss.

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
1) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI (SPPI test – solely principal and interest payments only).

The 'amortised 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 amortisation 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).

*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)

f. Financial instruments (continued)

Classification of assets and financial liabilities (continued)

Accounting policies effective from 1 January 2018 (continued)

This category includes securities issued by the Government of the Republic of Moldova, which were previously classified as available-for-sale and held-to-maturity, being presented in the Balance sheet under the heading "Securities issued by the Government of the Republic of Moldova", loans granted to banks and other individuals, investment securities in foreign currency previously classified as held-to-maturity, as well as cash and short term placements in foreign currency and overnight loans.

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 SPPI.

This category includes investment securities in foreign currency previously measured at fair value through profit or loss, including 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 FVOCI are classified and measured at fair value through profit or loss. The Bank does not hold such instruments on 31 December 2018 and 1 January 2018. Throughout 2018, the Bank classified Forward and Swap instruments as financial assets measured at fair value through profit or loss.

Business model assessment

The Group Bank 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 category of foreign currency assets, sales activity from portfolios (frequency, amounts and periods), factors on which the management decision is based, risk management of reserve assets, performance evaluation and relative significance of different sources of income were analyzed in establishing the business model of managing different classes of financial assets associated to foreign currency assets .

In the event of financial instruments denominated in domestic currency, securities issued by the Government of the Republic of Moldova and monetary instruments (loans granted), the objectives of holding financial instruments in portfolios, monetary policy objectives, frequency and sales from portfolio volume and other peculiarities as in accordance with legal and regulatory framework in force relating the Bank's duties were taken into account.

Determining the flux flow characteristics – excluding principal and interest payments

Determining the cash flow characteristics is applied at the level of the financial instrument, in order to verify whether it is only the principal and interest payment. In order to assess the cash flow characteristic test, the principal is defined as the fair value of a financial asset at the date of initial recognition. While the interest is defined as the remuneration received for timely effect of the money and the credit risk associated to the principal over a specified period of time and other generic risks and costs (liquidity, administrative, etc.) as well as a certain profitability if pursued under the legal framework.

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3. Significant accounting policies (continued)

f. Financial instruments (continued)

Classification of assets and financial liabilities (continued)

Accounting policies as of 1 January 2018 (continued)

When determining whether cash flows are only principal and interest payments, the Bank shall examine the terms and conditions of the instrument, in order to identify whether there are terms that may change the time or value of cash flows, which would not meet the principal and interest term. In this respect, the Bank shall examine the conditions for early repurchase or extension of instrument terms (government bonds), contingent events, interest update for floating-rate instruments or other instrument changes (instruments indexed at inflation rate, benchmark rates adjusted with different periodicities from the duration of the rate, etc.) that may change the remuneration for timely effect of money.

Financial liabilities are classified and measured at amortized cost.

Reclassification of assets and financial liabilities

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

Accounting policies until 1 January 2018

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables of the Bank

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

Loans granted to banks and separates are subsequently measured at amortized cost, determined as principal redemption minus the cumulative amortization using the effective interest method and minus any allowance for depreciation losses.

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3. Significant accounting policies (continued)

f. Financial instruments (continued)

Classification of assets and financial liabilities (continued)

Accounting policies until 1 January 2018 (continued)

Held to maturity investments

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

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

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

Financial assets available for sale

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

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

Unrealized gains and losses related to this category of financial assets are recognized in the Statement of comprehensive income and reported in other reserves of the capital. When the financial assets available for sale are derecognized, the cumulative gain or loss - previously recognized in the capital - is recognized as income or loss in the Statement of comprehensive income.

Interest calculated using the effective interest method is recognized in the Statement of comprehensive income.

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

Financial liabilities are classified and measured at amortized cost.

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3. Significant accounting policies (continued)

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.

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

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 book value of the Republic of Moldova quota to the International Monetary Fund represent its fair value.

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

The fair value of the state securities held in the portfolio (with maturities which were not traded on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per each maturity of state securities held in the Bank's portfolio from the curve of the current effective interest rates. 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 securities in foreign currency measured at fair value through profit or loss.

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

In the reporting periods ending on 31 December 2018, it assigns the IMF quota to this category. For the financial year ended on 31 December 2017, the Bank assigns to this category its available for sale securities issued by the Government of the Republic of Moldova.

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

The Bank does not have any items assigned to this category during the reporting period. The classification of the fair value of financial assets of the Bank per the three levels is presented in Note 12.

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3. Significant accounting policies

h) Impairment of financial assets

Accounting policies applicable from 1 January 2018

Financial assets held by the Bank and measured at amortized cost and at fair value through other comprehensive income 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 underthe expected loss approach. The impairment model applies to financial instruments measured at amortized cost and at fair value through other comprehensive income and does not apply to financial instruments measured at fair value through profit or loss. 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 p12 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/credit impaired. The expected loss is calculated for the lifetime of the asset.

On initial recognition, financial assets related to foreign currency reserves and instruments in domestic 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 reserves 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 domestic 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 shall assess whether there is evidence or default of financial instruments measured at amortized cost and fair value through other comprehensive income.

Default is defined as the inability of the issuer or counterparty to honor its contractual obligations. The Bank considers a defaulted instrument and classifies it in Stage 3 when one or more impairment events occurred after initial recognition, with a negative impact on estimated cash flows. Indices or events that would indicate the case of default are:

- 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.

3 Significant accounting policies (continued)

h. Impairment of financial assets (continued)

Accounting policies effective from 1 January 2018

A financial instrument in the 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 the case of financial assets in domestic currency, the Bank shall classify a financial instrument in Stage 3 if it migrates to the Default 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 asset in the event of financial instruments from foreign exchange reserves and exposures to licensed banks.

Considering the high credit quality of financial assets on 1 January 2018, the Bank opted to apply the exemption and determine the expected credit losses based on the 12 month period expected loss.

Financial instruments of the foreign currency reserves having a BBB- rating and higher and 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 honour their contractual obligations. Instruments rated as "A" and "BBB" are considered to be of medium credit quality, indicating a high ability of the issuer to honour their payments. In this case, issuers have a stable situation, they can pay off their debts, but they may face some difficulties in the event of worsening 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.

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

The formula for the expected loss associated to the credit risk is determined by 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 will be estimated for each year until maturity. At the same time, the marginal probability of default in a given year will only apply 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 minimum credit risk (classified in Stage 1), considering the sustainability of the debt ratios and macroeconomic factors incorporated in the financial models in relation to the Bank, as well as the lack of default of securities issued in domestic currency.

Allowances for impairment of loans and provisions for losses on conditional commitments are established if there are objective evidences (relating to the financial position of the licensed bank, ensuring reimbursement of loans, current payments, renegotiation or extending reimbursement of loans and/or related interest) that the Bank shall not be able to recover all the amounts due to it (the initial amount of the loan and the related interest).

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3. Significant accounting policies (continued)

h. *Impairment of financial assets (continued)*

Accounting policies until January 2018

The amount of the allowances for impairment of the loans is the difference between the carrying amount and estimated recoverable value, calculated as present value of estimated cash flows from recovery, including the amounts recoverable from collaterals, discounted at the loan's original interest rate. The allowances for impairment of the loans and provisions for losses on conditional commitments are decreased or increased in case the allowance / provision calculated at the reporting date is respectively less or greater than the previously established allowance / provision. The allowance for impairment losses of the loan is used to cover loans classified as non-performing in the event of bankruptcy of the licensed bank and / or the insufficiency of its own funds for the payment of debts to the Bank.

Allowances for impairment of loans and provisions for losses on conditional commitments are established if there are objective evidences (relating to the financial position of the licensed bank, ensuring reimbursement of loans, current payments, renegotiation or extending reimbursement of loans and/or related interest) that the Bank shall not be able to recover all the amounts due to it (the initial amount of the loan and the related interest).

The amount of the allowances for impairment of the loans is the difference between the carrying amount and estimated recoverable value, calculated as present value of estimated cash flows from recovery, including the amounts recoverable from collaterals, discounted at the loan's original interest rate. The allowances for impairment of the loans and provisions for losses on conditional commitments are decreased or increased in case the allowance / provision calculated at the reporting date is respectively less or greater than the previously established allowance / provision. The allowance for impairment losses of the loan is used to cover loans classified as non-performing in the event of bankruptcy of the licensed bank and / or the insufficiency of its own funds for the payment of debts to the Bank.

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 fair value through profit or loss with the notional recorded in off-balance sheet accounts using the trade date accounting at the spot rate of the transaction.

Foreign exchange transactions with settlement at future date (Forward and Forward legs of swaps), recognized as off-balance sheet accounts are revalued starting 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 (goods).

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 in the separate financial statements at cost less impairment. Dividend income from subsidiaries is recognized in the separate Statement of comprehensive result 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 and similar constructions	5%-10%
Special constructions	20%
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 derecognised 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 2018, 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 through the 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 domestic currency (banknotes and coins) is recognized at face value when it is put into The national currency (banknotes and coins) is recognized at nominal value when it is put into circulation and is derecognized when it is withdrawn from circulation. The national currency issued into circulation is measured at amortized cost. For presentation purposes, the national currency in circulation is reduced by the national currency held at the Bank's cash desk. The cost of production of banknotes and coins is recognized in the Statement of Comprehensive Result as incurred.

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3. Significant accounting policies (continued)

n) National currency issued into circulation (continued)

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

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.

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

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 Statement of Comprehensive Result over the period to maturity.

s) Other liabilities

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

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.

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3. Significant accounting policies (continued)

t) Capital and reserves (continued)

According to the provisions of the *Law on the National Bank of Moldova,* 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).

The authorized capital shall be subscribed and held exclusively by the State; the capital shall not be 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, until the capital reaches the level of 10% of total monetary liabilities, and thereafter, if there will be a difference between the balance of the profit available for distribution and the amount allocated for the statutory capital increase, it will be transferred to the state budget. Statutory capital and reserves are disclosed in the balance sheet at 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

Applicable policy effectively from 1 January 2018

Interest income and expenses are recognised in the Statement of comprehensive result for all financial instruments measured at fair value and at amortised 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 amortised cost of the financial liability.

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3. Significant accounting policies (continued)

v) Interest income and expenses (continued)

Applicable policy effectively from 1 January 2018 (continued)

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.

The effective interest rates is calculated at initial recognition of the financial asset or liability. 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 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 method and disclosed in the Statement on comprehensive result comprise interest income of assets measured at amortized cost and fair value through other comprehensive income. Interest expense from negative interest on financial assets with are presented in *Operated Expenses*

Applicable policy until 1 January 2018

Interest income and expense are recognized in the Statement of comprehensive result for all instruments measured at fair value and amortized cost using the effective interest method. The effective interest method is the rate that accurately updates payments and future cash receipts estimated over the expected life of the financial instrument or, where appropriate, for a shorter period, to the carrying value of the financial asset or financial liability.

When applying the effective interest method for financial instruments, the Bank takes into account future cash flows of contractual financial instruments without the effect of impairment losses, all commissions that are integral part to the effective interest rate of a financial instrument, transaction costs and premiums or discounts

Interest income and expense calculated using the effective interest rate presented in the Statement of Comprehensive result include interest income of assets held to maturity, loans and receivables, available-for-sale assets and financial assets measured at fair value through profit or loss. Expenses from the remuneration of financial assets with negative interest rate are disclosed in *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 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.

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3. Significant accounting policies (continued)

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 relevant foreign exchange stocks and the revaluation of the International Monetary Fund related accounts during the financial year.

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

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

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 Financial Statements.

z) Contingent and assets 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 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 Financial Statements but are disclosed when an inflow of economic benefits is probable.

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.

3. Significant accounting policies (continued)

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.

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3. Significant accounting policies (continued)

cc) 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 2018, and have not been applied in preparing these Financial Statements.

IFRS 16 - "Leases"" (applicable to annual reporting periods beginning on or after 1 January 2019). IFRS 16 replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a way that represents exactly those transactions. Based on this information, users of the Financial Statements may assess the effect of Leases on the financial position, financial performance and cash flows of the Bank. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases of more than 12 months unless the underlying asset is of low value. IFRS 16 substantially takes over the lessor's accounting provisions in IAS 17. The Bank estimates that the provisions of this standard will have no impact on its financial statements considering the nature of the Bank's operations.

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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, objectives, policies and processes of the Bank for assessing and monitoring the risks related to financial instruments held by 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 National Bank of Moldova 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, including the Internal Control System within the Bank, 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, representing the base of the 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.

The Executive Committee assumes responsibility for establishing and supervising the risk management framework of financial instruments, including through the Investment Committee, the manner in which the Board of Supervisors sets it up. The Investment Committee is responsible for developing and monitoring risk management policies in specific liability areas, reporting regularly to the Executive Body the results of its work. The Executive Body 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.

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 2019, 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.

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4. Risk management (continued)

4.1 Risk management framework (continued)

The Risk Monitoring and Reporting Division is responsible for managing and reporting investment risks in accordance with the regulations approved by the Executive Body 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 Committee 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.

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 NBM 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 NBM, 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.

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4. Risk management (continued)

4.1 Risk management framework (continued)

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.

Operational risk

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, or inadequate functioning of the internal control system. The Bank's operational risk management is an integral part of its daily operations and management. The operational risk management includes policies describing standards of conduct imposed on separates involved and internal control systems, specific for each subdivision, elaborated taking into account the peculiarities of their basic activity.

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

- Setting up the objectives for each type of activity in order to implement the strategies and policies approved by the Executive Board of the Bank.
- Elaborating, monitoring and maintaining an effective, efficient and functional internal control system within the relevant subdivisions.
- Establishing appropriate procedures to identify, evaluate, monitor and control risks on a regular basis and control the efficiency of these procedures.
- Effective delegation and segregation of functions within the operational, administrative, accounting and control tasks.
- Developing and maintaining informational systems for the Bank's management, which would comprise the entire spectrum of activities where applicable.
- Determining administrative, operational and control mechanisms necessary to ensure the compliance with the laws, regulations, policies, rules and internal procedures, as well as ensuring the application of these mechanisms in all subdivisions and by the Bank's personnel.

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

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4. Risk Management (continued)

Financial risk

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

4.2 Credit risk

The credit risk is the risk of financial losses incurred as result of counterparty's failure to meet its contractual obligations. The Bank's maximum exposure to credit risk, excluding the value of any guarantees, represents the book value of its financial assets.

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.

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4. Risk management (continued)

4.2 Credit risk (continued)

The table below presents the financial assets of the Bank held on 31 December 2018, based on the long-term rating:

Long-term rating[1]	Cash and short-term placements with the banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova[2]	Loans granted to banks and 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	6 506	15 573 060
Total	24 723 602	51 533	4 114 710	15 472 115	18 906	26 573 204	24 000	6 506	70 984 576

* Investments in subsidiaries are presented for information purposes, and it does not represent financial assets according to the accounting policy of the Bank.

[1] Established by applying the medium rating assigned by the international rating agencies (Standard & Poor's, Moody's and 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 2018, the international rating company Moody's maintained for Moldova a rating level of B3 (31 December 2017: rating level B3).

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4. Risk management (continued)

4.2 Credit risk (continued)

31 December 2017

Long-term rating	Cash and short-term placements with the banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova	Loans granted to banks and separate	Investment securities	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	5 890 067	-	4 206 142	-	-	20 865 542	-	30 961 751
AA+	-	-	-	-	-	1 246 240	-	1 246 240
AA	10 666 084	-	-	-	-	739 447	-	11 405 531
AA-	3 272 213	-	-	-	-	63 926	-	3 336 139
A+	518 136	-	-	-	-	-	-	518 136
A	4 617 248	-	-	-	-	-	-	4 617 248
BBB+	86	-		-	-	-	-	86
BBB	297	-	-	-	-	-	-	297
BBB-	20	-	-	-	-	-	-	20
BB+	2 290	-	-	-	-	-	-	2 290
Not applicable	-	52 642		15 522 330	23 821	-	1 081	15 599 874
Total	24 966 441	52 642	4 206 142	15 522 330	23 821	22 915 155	1 081	67 687 612

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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 2018, 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 amortised cost		At FVOCI		Total		Portfolio share
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	%
31 December 2018	11 292	659	5 833	340	17 125	999	0,03
31 December 2017	17 368	1 016	6 631	388	23 999	1 403	0,05

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 2018	Share	31 December 2017	Share
	MDL'000	%	MDL'000	%
USA	18 362 612	25,87	14 880 500	21,98
The Netherlands	8 375 120	11,80	4 377 200	6,47
Germany	6 859 494	9,66	10 521 092	15,54
International financial organizations	6 675 937	9,40	6 331 570	9,35
Great Britain	4 548 475	6,41	4 514 142	6,67
Singapore	3 386 710	4,77	4 058 611	6,00
France	3 354 869	4,73	4 121 548	6,09
Luxemburg	1 551 655	2,19	2 060 742	3,04
Canada	1 093 066	1,54	63 926	0,09
Finland	588 441	0,83	770 552	1,14
Sweden	325 679	0,46	68 660	0,10
Austria	251 798	0,35	194 142	0,29
Norway	34 365	0,05	119 916	0,18
Other countries	3 295	0,00	5 137	0,01
Republic of Moldova [3]	15 573 060	21,94	15 599 874	23,05
Total financial assets	70 984 576	100,00	67 687 612	100,00

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, which increased on 17 February 2016 by 49,3 million XDR, from 123,3 million to 172,5 million XDR.

[3] The respective section includes the monetary gold and investments in subsidiaries, for which the credit risk is not applied.

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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 2018	Share	31 December 2017	Share
	MDL'000	%	MDL'000	%
Foreign central banks	10 862 525	15,30	5 896 027	8,71
Foreign commercial banks	13 687 142	19,28	19 070 414	28,18
Local banks	-	-	128	-
Foreign Governments	17 796 492	25,07	15 325 829	22,64
Government of the Republic of Moldova	15 472 115	21,80	15 522 330	22,93
International Financial Organizations	6 675 937	9,40	6 331 570	9,36
Foreign Government Agencies	6 389 420	9,00	5 463 898	8,07
Other financial assets [4]	76 945	0,11	77 416	0,11
Investments in subsidiaries*	24 000	0,04	-	-
Total financial assets	70 984 576	100,00	67 687 612	100,00

**For information purposes*

Presentation of financial assets after the classification and calculation of losses following the expected depreciation (Note 3.h):

Investment sector	31 December 2018	ECL stage	1 December 2018	ECL stage
	MDL'000		MDL'000	
Foreign central banks	10 862 525	1	5 896 027	1
Foreign commercial banks	13 687 142	1	19 070 414	1
Local banks	-	1	128	1
Foreign Governments	17 796 492	1	15 325 829	1
Government of the Republic of Moldova	15 472 115	1	15 522 330	1
International Financial Organizations	6 675 937	1	6 331 570	1
Foreign Government Agencies	6 389 420	1	5 463 898	1
Other financial assets [5]	76 945	1	77 416	1
Total financial assets	70 960 576		67 687 612	1

During the management period, no significant increase of the credit risk associated with the financial assets held by the NBM 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] The respective section includes the financial active-monetary gold, for which the credit risk is not applied.
[5] The respective section includes the financial active-monetary gold, for which the credit risk is not applied.

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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 shall be 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 shall be 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 recognised benchmarks and throughout the investment community.

The liquidity risk, in the case of the internally managed portfolio, except the portfolio of securities assessed at amortised 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 shall be 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 Committee 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 amortised cost, shall be diminished through the diversification of maturity of investments, being distributed in the range of 1 to 6 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 amortised cost is possible only if the its share represents less than 20% of the international reserves and the level of reserves cover 4 months of import.

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 2018 after the conversion of loans previously contracted from the NBM had their contractual maximum maturity of 364 days. On due date, these securities have been repurchased by the Government and new securities have been issued, and purchased by the Bank.

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.

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 2018, is described below:

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 with banks	22 752 191	1 971 411	-	-	-	-	-	24 723 602
Monetary gold	-	-	-	-	-	-	51 533	51 533
Due from 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	6 506	-	-	-	-	-	-	6 506
Total financial assets	28 980 303	9 055 829	9 652 256	1 361 315	5 644 115	12 102 491	4 188 267	70 984 576
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	177 376	-	-	-	-	-	-	177 376
Total financial liabilities	35 531 280	184 070	476 650	1 019 376	1 476 870	545 384	27 875 169	67 108 799
Net liquidity gap	(6 550 977)	8 871 759	9 175 606	341 939	4 167 245	11 557 107	(23 686 902)	3 875 777

4. Risk management (continued)

4.2 Liquidity risk (continued)

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

*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 amortised cost		At FVOCI		Total		Portfolio share, %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2018	71 341	4 162	16 681	973	88 022	5 135	0,33
31 December 2017	101 212	5 919	28 486	1 666	129 698	7 585	0,54

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 NBM 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.

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4. Risk management (continued)

4.4 Market risk (continued)

On 31 December 2018, the exposed to risk amount of foreign currency securities portfolio, calculated on the base of CVaR, is presented below:

	At amortised cost		At FVOCI		Total		Portfolio
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	share, %
31 December 2018	100 311	5 852	23 679	1 381	123 990	7 233	0,46
31 December 2017	142 116	8 311	40 544	2 371	182 660	10 682	0,76

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 Financial Statements related to these elements.

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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 2018, based on the contractual rates and their interest rates date of update is provided below:

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 with banks	22 711 600	1 971 411	-	-	-	-	40 591	24 723 602
Monetary gold	-	-	-	-	-	-	51 533	51 533
Due from 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	-	-	-	-	-	-	6 506	6 506
Total financial assets	28 979 598	8 922 264	9 571 251	1 189 539	5 609 825	12 102 491	4 609 608	70 984 576
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	-	-	-	-	-	-	177 376	177 376
Total financial liabilities	29 049 700	92 517	180 375	466 561	555 497		36 764 149	67 108 799
Interest rate gap	(70 102)	8 829 747	9 390 876	722 978	5 054 328	12 102 491	(32 154 541)	3 875 777

*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 2017	0-3 months MDL'000	3-6 months MDL'000	6-12 months MDL'000	1-2 years MDL'000	2-5 years MDL'000	More than 5 years MDL'000	Non-interest bearing MDL'000	Total MDL'000
Assets								
Cash and short-term placements with banks	22 024 923	2 907 034	-	-	-	-	34 484	24 966 441
Monetary gold	-	-	-	-	-	-	52 642	52 642
Due from international financial institutions	5 241	-	-	-	-	-	4 200 901	4 206 142
Securities issued by the Government of the Republic of Moldova	2 080 570	-	210 000	230 000	790 000	12 061 200	150 560	15 522 330
Loans granted to banks and separates	764	715	1 309	2 447	7 027	11 559	-	23 821
Investment securities	3 937 700	4 878 684	7 276 617	804 360	4 553 266	1 363 219	101 309	22 915 155
Other assets	-	-	-	-	-	-	1 081	1 081
Total financial assets	28 049 198	7 786 433	7 487 926	1 036 807	5 350 293	13 435 978	4 540 977	67 687 612
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	21 032 866	21 032 866
Due to the Government of the Republic of Moldova	4 715 544	-	-	345 451	-	-	3 722 151	8 783 146
Due to banks	14 060 859	-	-	-	-	-	1 917 571	15 978 430
Certificates issued by the National Bank of Moldova	9 217 431	-	-	-	-	-	-	9 217 431
Due to international financial institutions	3 065 627	94 553	212 137	368 689	785 480	-	4 232 237	8 758 723
Other liabilities	-	-	-	-	-	-	48 096	48 096
Total financial liabilities	31 059 461	94 553	212 137	714 140	785 480	-	30 952 921	63 818 692
Interest rate gap	(3 010 263)	7 691 880	7 275 789	322 667	4 564 813	13 435 978	(26 411 944)	3 868 920

*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)

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 2018, 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 2018	+/-122 360	+/-7 138
Year 2017	+/-99 406	+/-5 813

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 2018, 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 2,802 thousands or USD 163 thousands, which represents 0.01% of the portfolio of securities (on 31 December 2017: of MDL 3,426 thousands or USD 200 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 2018 the US dollar share in the normative currency structure constituted 65%, pound sterling – 20%, Euro – 10%, other currencies – 5% (on 31 December 2017 the US dollar share in the normative currency structure constituted 65%, euro – 10%, pound sterling – 20%, other currencies – 5%). The share of each currency in the Bank's investment portfolio may vary within +/- 10 p.p. from the normative currency structure.

At the same time, on 20 December 2018, by Decision no 309 of Executive Board, a decision to modify the normative currency structure of reserves was adopted and it shall enter into force on 1 January 2019, as follows: US dollar - 65%, euro – 25% and pound sterling – 10%.

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4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

As of 31 December 2018, 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 2018							
Assets							
Cash and short-term placements with banks	-	11 022 250	8 386 713	5 314 573	-	66	24 723 602
Monetary gold	-	-	-	-	-	51 533	51 533
Due from 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	1 820	290	4 396	-	-	-	6 506
Total financial assets	15 516 841	35 443 042	10 285 474	5 572 910	4 114 710	51 599	70 984 576
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	167 591	6 814	2 969	2	-	-	177 376
Total financial liabilities	52 115 481	1 795 780	5 342 089	2	7 855 447		67 108 799
Net position	(36 598 640)	33 647 262	4 943 385	5 572 908	(3 740 737)	51 599	3 875 777

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

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4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

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

As at 31 December 2017, other foreign currencies were represented by monetary gold – MDL 52,642 thousand, Rubles – MDL 2,290 thousand, Romanian leu – MDL 1,042 thousand, Norwegian crowns – MDL 22 thousand, Swiss francs – MDL 21 thousand, and Danish crowns – MDL 2 thousand.

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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 2018 and 31 December 2017, respectively, the amount of the potential impact on the profit and capital of the Bank was as follows:

	31 December 2018		31 December 2017	
	MDL'000 Profit	MDL'000 Capital	MDL'000 Profit	MDL'000 Capital
MDL against USD	+/-3 364 726	+/-3 364 726	+/-3 342 567	+/-3 342 567
MDL against EUR	+/-494 338	+/-494 338	+/-213 938	+/-213 938
MDL against GBP	+/-557 291	+/-557 291	+/-583 684	+/-583 684
MDL against XDR	-/+374 074	-/+374 074	-/+452 220	-/+452 220
MDL against other currencies	+/-7	+/-7	+/338	+/338

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

5. Cash and short-term placements with banks

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Cash in hand in foreign currency	530	1 043
Nostro accounts	2 214 599	1 917 484
Term deposits in foreign currency	22 508 473	23 047 914
	24 723 602	24 966 441

Cash and short-term placements with banks do not include local currency balances of cash in hand of the Bank, which is offset with the respective amount 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" – 96,23%, „AA" – 3,38%, „A+" – 0.13%, „A-„ – 0,24%, „BBB" - 0.02% (31 December 2017: „ AAA" – 99.44%, „ AA" – 0.29%, „A+" – 0,13%, „BBB" - 0.02% and „BB+" – 0.12%).

As at 31 December 2018, term deposits in foreign currency were placed at financial institutions with the following ratings[2]: „ AAA" –39,23%, „AA" –28.69%, „A+" –11.51% and „A" –20.57% (on 31 December 2017: „AAA" – 17.28%, „AA" – 46.25%, „ AA–" – 14.20%, „A+" – 2.24% and „A" – 20.03%).

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

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

As at 31 December 2018, 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 8,438,641 thousand (on 31 December 2017: MDL 11,571,209 thousand).

On 31 December 2018, from the total of term deposits in foreign currency, the balance of overnight deposits amounted to MDL 8,829,463 thousand (on 31 December 2017: MDL 3,982,383 thousand).

6. Monetary gold

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Monetary gold	51 533	52 642
	51 533	52 642

The monetary gold is represented by the quantity of 74,133.48 grams of gold (31 December 2017 – 74,133.48 grams of pure gold) in the form of bullions of Good Delivery standard quality (based on the requirements of the London Bullion Market Association).

7. Due from / to international financial institutions

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	4 112 734	4 200 893
Current account with IMF	1 976	5 249
	4 114 710	4 206 142
Liabilities		
Account No.1	4 112 615	4 200 771
Account No.2	120	123
Total liabilities of the IMF	4 112 735	4 200 894
Loans granted by the IMF	3 750 484	4 534 495
Other international institutions	13 567	23 334
	7 876 786	8 758 723

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 allotted.

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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 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 2018 the Bank's outstanding balance of loans due to IMF is as follows:

- ECF commitments – XDR 47,508 thousand (31 December 2017 – XDR 66,116 thousand);
- EFF commitments – XDR 109,560 thousand (31 December 2017 – XDR 119,913 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 – 31 December 2018, 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 2018 the average rate was 1.94% per annum (2017: 1,53%).

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 2018, one tranche of the loan under the EFF facility in amount of USD 2,110 thousand (the equivalent of XDR 1,500 thousand) and one tranche of the loan under the ECF facility in amount of USD 11,246 thousand (the equivalent of XDR 8,000 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 20,371 thousand (the equivalent of XDR 14,500 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.

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 31.12.2017	Reimbursements	Receipts	Balance 31.12.2018
	XDR, 000	XDR, 000	XDR, 000	XDR, 000
National Bank of Moldova	186 029	43 461	14 500	157 068
Ministry of Finance	208 714	19 000	9 500	199 214
Loans and other financing from the IMF	394 743	62 461	24 000	356 282
National Bank of Moldova	119 913	24 853	14 500	109 560
Ministry of Finance	17 400	-	1 500	18 900
EFF	137 313	24 853	16 000	128 460
National Bank of Moldova	66 116	18 608	-	47 508
Ministry of Finance	73 600	19 000	8 000	62 600
ECF	139 716	37 608	8 000	110 108
National Bank of Moldova	-	-	-	-
Ministry of Finance	117 714	-	-	117 714
XDR allocations	117 714	-	-	117 714

As at 31 December 2018 the total value of EFF and ECF undrawn facilities allocated under the Memorandum signed on 7 November 2016 amounted to XDR 32,000 thousand (EFF) and XDR 16,000 thousand (ECF) (on 31 December 2017: EFF – XDR 48,000 thousand, ECF - XDR 24,000 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 2018	31 December 2017
	MDL'000	MDL'000
Nominal value of state securities	13 081 200	13 291 200
Accrued nominal interest	149 843	150 560
Amortization at the effective interest rate"	107 915	-
State securities derived from state guarantees measured at amortised cost	13 338 958	13 441 760
Nominal value of state securities	2 157 145	2 093 331
Unamortized discount of state securities	(23 988)	(14 649)
Revaluation differences of state securities	-	1 888
State securities measured at amortised cost from previously converted debt	2 133 157	2 080 570
	15 472 115	15 522 330

*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.

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 amortised 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 2018, the Bank has not traded these state bonds on the secondary market (2017: MDL nil).

Considering the method of structuring of the state bonds issuance under Law No 235 of 3 October 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 recognised under the *"Amortization at the effective interest rate"*.

Remaining portfolio of state securities assessed at amortised 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 amortised 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.

The state securities measured at amortised cost from previously converted debt and held in the portfolio of the Bank as at 31 December 2018 had a contractual maturity of maximum 364 days. The average interest rate of the state securities portfolio measured at amortised cost from previously converted debt and held by the Bank as at 31 December 2018 amounted to 4.56% (on 31 December 2017 – 5,82%).

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. 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.

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9. Loans granted to banks and separates

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Loans granted to banks for crediting the construction cooperatives	-	128
Loans granted to other separates	18 906	23 693
	18 906	23 821

As at 31 December 2018 the collateral pledged to secure the repayment of loans granted to other separates and related interest amounted to MDL 32,486 thousand (31 December 2017 – MDL 36,899 thousand).

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

During 2017 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 2018	31 December 2017
	MDL'000	MDL'000
Securities in foreign currency measured fair value through other comprehensive income		
(2017 measured at fair value through profit or loss)[1]	20 261 832	15 877 864
Coupon securities in foreign currency	20 193 747	15 877 864
Zero-coupon securities in foreign currency (discount)	68 085	-
Securities in foreign currency measured at amortised cost (2017 held-to-maturity)	6 311 372	7 037 291
Coupon securities in foreign currency	6 311 372	7 037 291
Total investment securities	26 573 204	22 915 155

The securities portfolio in foreign currency measured at fair value through other comprehensive income 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.

[1]On 31 December 2017 "Securities in foreign currency measured at fair value through profit or loss"

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10. Investment securities (continued)

The portfolio of securities in foreign currency measured at fair value through other comprehensive income is provided below:

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Coupon securities in foreign currency	20 193 747	15 877 864
Nominal value of securities	20 225 743	15 846 189
Interest and amortised cost adjustments	(27 011)	44 576
Market value revaluation differences	(4 985)	(12 901)
Zero-coupon securities in foreign currency	68 085	-
Nominal value of securities	68 571	-
Amortised cost adjustments	(486)	-
Securities in foreign currency measured at FVOCI[13]	20 261 832	15 877 864

The securities in foreign currency measured at fair value through other comprehensive income are reassessed on a monthly basis and bear a fixed annual interest rate ranging between 0.004% and 2.88% (31 December 2017: 0.004% and 1.84%), except for the securities with the nominal value of USD 16,000 thousand (MDL equivalent – MDL 274,283 thousand) with a floating interest rate which is repriced on a quarterly basis. The securities in foreign currency measured at a fair value through other comprehensive income include the accrued interest, which as at 31 December 2018 amounted to MDL 63,369 thousand (on 31 December 2017 – MDL 44,406 thousand).

As at 31 December 2018, the securities in foreign currency measured at fair value through other comprehensive income having the highest rating „AAA" represented 93,37% of the respective portfolio, while „AA+" – 3,58 %, „AA" – 0,76 % and „AA-" – 2,29 % (31 December 2017: „AAA" – 94,26%, „AA+" – 3,89%, „AA" – 1,45 % and „AA-" – 0,40%).

During the reporting period, securities in foreign currency measured at fair value through other comprehensive income at nominal value of USD 1,545,205 thousand and EUR 16,510 thousand (2017: USD 1,089,041 thousand and EUR 60,000 thousand) were sold and/or reached maturity. In addition, in the reporting period, securities in foreign currency were purchased and measured at fair value through other comprehensive income with a total nominal value of USD 1,846,365 thousand (in 2017: USD 1,320,634 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 fair value through other comprehensive income.

As at 31 December 2018, the balance of securities in foreign currency managed externally amounted to MDL 3,599,361 thousand (31 December 2017: 3,475,567) thousand, with a share in currency reserves of 7,02% (on 31 December 2017: 7,26%).

The portfolio of securities measured at amortised cost represents the total securities purchased with the investment intent to collect contractual flows on a long term basis. 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 amortised cost is possible only if its share represents less than 20% of the international reserves and the reserves cover 4 months of import.

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10. Investment securities (continued)

As at 31 December 2018, the share of investment securities cost in the foreign currency measured at amortised amounted to 12,30% (on 31 December 2017:14,70%)

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Nominal value of securities	6 279 365	6 994 305
Interest and amortised cost adjustments	32 007	42 986
Securities in foreign currency measured at amortised cost[9]	6 311 372	7 037 291

The securities measured at amortised cost earn annual fixed rate ranging between 1,38% and 3,55% (31 December 2017: 1,38% and 3,55%). As at 31 December 2018, the share of securities measured at amortised cost with the rating „AAA" represented 82,79%, while „AA+" - 9,49% and „AA" – 7,72% (31 December 2017: „AAA" – 83,82%, „AA+" – 8,94%, „AA" – 7,25%).

11. Investments in subsidiaries

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Investments in subsidiaries	24 000	-
	24 000	-

In March 2018, the Executive Board of the National Bank of Moldova approved a set of measures to set up the Joint Stock Company (JSK) "Single Central Depository of Securities" (CSD) (subsidiary).

On 29 March 2018, general meeting of shareholders adopted the decision to set up the "Single Central Depository of Securities". Bank's share in CSD capital amounts to 98.36%, the equivalent of MDL 24, 000 thousand. The state registration of the SCD took place on 4 April 2018. The CSD was set up according to the Law on Single Central Depository of Securities, (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 recognised at cost and measured subsequently at cost less accumulated impairment. As at 31 December 2018, no impairment indications of investment in subsidiary existed to lead to an impairment loss recognition.

According to the Law on Single Central Depository of Securities 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 2018: MDL 19,521 thousand*), regulatory restriction which imposes restrictions on the Bank's ability to access or use its assets and settle the debts from the subsidiary.

[9]On 31 December 2017 "Foreign currency securities classified as held to maturity"

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12. Financial assets and financial liabilities

The financial instruments of the Bank comprise the cash and short-term placements in banks, 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.

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 2018				
Monetary gold	51 533	-	-	51 533
Quota in IMF	-	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
31 December 2017				
Monetary gold	52 642	-	-	52 642
Investment securities measured at FVPL	15 877 864	-	-	15 877 864
Securities issued by the Government of the Republic of Moldova available for sale	-	2 080 570	-	2 080 570
Total	15 930 506	2 080 570		18 011 076

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.

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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 not 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.

The accounting policies of the Bank on the measurement and classification of financial instruments according to IFRS9 as of 1 January 2018 are provided in Note 3. The implementation of these policies from 1 January 2018 led to reclassifications mentioned in the following table and are explained below.

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 Republic of Moldova in IMF was designated in the business model and classification at fair value through other comprehensive income.

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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 2018	Notes	FVOCI Debt instruments	FVOCI equity instruments	Amortised cost	Carrying value Total	Fair Value
		MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets						
Cash and short-term placements with banks	5	-	-	24 723 602	24 723 602	24 723 602
Due from international financial institutions	7					
- *At fair value*	8		4 112 734	-	4 112 734	4 112 734
- *At amortised 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 amortised cost*		-	-	6 311 372	6 311 372	6 384 213
Other assets	14	-	-	2 319	2 319	2 319
Total financial assets		20 261 832	4 112 734	46 530 290	70 904 856	70 975 708
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	-	-	161 690	161 690	161 690
Total financial obligations		-		67 093 113	67 093 113	67 093 113

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12. Financial assets and financial liabilities (continued)

31 December 2017

	Note	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	Other liabilities Amortized cost	Total	Fair Value
		MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Assets								
Cash and short-term placements with banks	5	-	-	24 966 441	-	-	24 966 441	24 966 441
Due from international financial institutions	7	-	-	4 206 142	-	-	4 206 142	4 206 142
Securities issued by the Government of the Republic of Moldova:	8							
- *At fair value*		-	-	-	2 080 570	-	2 080 570	2 080 570
- *At amortized cost*		-	13 441 760	-	-	-	13 441 760	13 441 760
Loans granted to banks and separates	9	-	-	23 821	-	-	23 821	23 821
Investment securities:	10							
- *At fair value*		15 877 864	-	-	-	-	15 877 864	15 877 864
- *At amortized cost*		-	7 037 291	-	-	-	7 037 291	7 226 053
Other assets	14			1 081			1 081	1 081
Total financial assets		15 877 864	20 479 051	29 197 485	2 080 570	-	67 634 970	67 823 732
Liabilities								
National currency issued into circulation	15	-	-	-	-	21 032 866	21 032 866	21 032 866
Due to the Government of the Republic of Moldova	16	-	-	-	-	8 783 146	8 783 146	8 783 146
Due to the banks	17	-	-	-	-	15 978 430	15 978 430	15 978 430
Certificates issued by the National Bank of Moldova	18	-	-	-	-	9 217 431	9 217 431	9 217 431
Due to international financial institutions	7	-	-	-	-	8 758 723	8 758 723	8 758 723
Other liabilities	19	-	-	-	-	48 096	48 096	48 096
Total financial obligations		-	-	-	-	63 818 692	63 818 692	63 818 692

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12. Financial assets and financial liabilities (continued)

The following table provides the classification of financial instruments according to IAS39 and the new classification and measurement of financial instruments according to IFRS 9 on 1 January 2018:

	Note	Classification according to IAS39	Classification according to IFRS9	Carrying amount IAS 39	Carrying amount IFRS 9
				MDL'000	MDL'000
Financial assets					
Cash and short-term placements with banks	5	Loans and receivables	Amortised cost	24 966 441	24 966 441
Due from international financial institutions	7	Loans and receivables	Amortised cost	5 249	5 249
Due from international financial institutions		Loans and receivables	Fair value through other comprehensive income- equity	4 200 893	4 200 893
Securities issued by the Government of the Republic of Moldova		Held-to-maturity	Amortised cost	13 441 760	13 441 760
Securities issued by the Government of the Republic of Moldova		Available for sale	Amortised cost	2 080 570	2 078 682
Loans granted to banks and separates		Loans and receivables	Amortised cost	23 821	23 821
Investment securities		Fair value through profit or loss	Fair value through other comprehensive income - debt	15 877 864	15 877 864
Investment securities		Held-to-maturity	Amortised cost	7 037 291	7 037 291
Other assets		Loans and receivables	Amortised cost	1 081	1 081
				67 634 970	67 633 082
Financial liabilities					
National currency issued into circulation		Amortised cost	Amortised cost	21 032 866	21 032 866
Due to the Government of the Republic of Moldova		Amortised cost	Amortised cost	8 783 146	8 783 146
Due to the banks		Amortised cost	Amortised cost	15 978 430	15 978 430
Certificates issued by the National Bank of Moldova		Amortised cost	Amortised cost	9 217 431	9 217 431
Due to international financial institutions		Amortised cost	Amortised cost	8 758 723	8 758 723
Other liabilities		Amortised cost	Amortised cost	48 096	48 096
				63 818 692	63 818 692

If the securities issued by the Government of the Republic of Moldova were not reclassified at amortised cost, the market value differences recognised in other comprehensive income would amount to MDL 3,877 thousand in 2018.

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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 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
Cost						
On 1 January 2017	46 748	137 233	9 358	88 060	6 470	287 869
Additions	7 821	14 990	6 496	1 391	5 275	35 973
Transfers	9 002	3 887	(12 889)	6 680	(6 680)	-
Disposals	-	(1 150)	-	(974)	-	(2 124)
On 31 December 2017	63 571	154 960	2 965	95 157	5 065	321 718
Accumulated amortization						
On 1 January 2017	28 195	83 810	-	51 793	-	163 798
Amortization (Note 27)	1 157	14 759	-	13 879	-	29 795
Disposals	-	(1 150)	-	(974)	-	(2 124)
On 31 December 2017	29 352	97 419	-	64 698	-	191 469
Carrying value						
On 1 January 2017	18 553	53 423	9 358	36 267	6 470	124 071
On 31 December 2017	34 219	57 541	2 965	30 459	5 065	130 249

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

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14. Other assets

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Other receivables	2 319	970
	2 319	970
Advance for national currency production	3 897	111
Prepaid expenses	2 968	3 408
Inventories	2 088	2 200
	8 953	5 608
Less:		
allowance for slow moving inventory	(54)	(61)
allowance for losses from impaired receivables	(5)	-
	11 213	6 628

As at 31 December 2018, other receivables include receivables for income from commissions amounting to of MDL 939 thousand (31 December 2017: MDL 673 thousand) collected in the first days of January 2019, receivables related to costs re-invoiced to the subsidiary in amount of MDL 817 thousand (31 December 2017: MDL 0) collected in February 2019 and amounts received pending for clarification in amount of MDL 498 thousand (31 December 2017: MDL 0) returned to the payer according to the destination in January 2019.

15. National currency issued into circulation

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Banknotes	23 602 116	20 901 824
Divisional coins	120 634	115 931
Metal coins and mint sets	10 482	-
Commemorative banknotes and commemorative and jubilee coins	15 635	15 111
	23 748 867	21 032 866

16. Due to the Government of Republic of Moldova

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Demand deposits of the Ministry of Finance	3 977 809	4 558 421
Term deposits of the Ministry of Finance	609 952	518 701
Amounts in foreign currency of the Ministry of Finance	2 820 748	2 481 442
Other accounts of the Government of the Republic of Moldova	1 883 479	1 224 582
	9 291 988	8 783 146

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 2018, the interest rate of Ministry of Finance's demands deposits constituted 1.56% (31 December 2017: 1,58%).

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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 2018, the weighted average interest rate of Ministry of Finance term deposits constituted 7,11% (31 December 2017 – 7,52%).

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.

As at 31 December 2018, the liability of MDL 4,892 thousand (31 December 2017: MDL 0) registered in the section Other liabilities (Note 19) represented amounts under clarification received by the Bank, which were transferred in the foreign currency reserves of the Ministry of Finance in January 2019.

17. Due to banks

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Current accounts of banks, including mandatory reserves	19 590 013	15 308 237
Deposits from licensed banks in national currency	125 048	670 193
	19 715 061	15 978 430

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 2018, 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% (increased from 40%, starting with the application period of required reserves: 16 September 2018 – 15 October 2018) and foreign currencies (USD dollars and euro) at the level of 14% 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 which exceed 5% of the liabilities on the base of which these reserves are calculated shall be reimbursed to the Bank. For the reimbursement of required reserves in Moldovan currency, the average interest rate shall be applied to the overnight deposits of the Bank calculated for the respective month, while for the required reserves in USD dollars and euro – the weighted average interest rate for interest sight deposits attracted by banks in foreign currency, calculated on a monthly basis by the Bank on the base of monthly reports on the average interest rate of deposits attracted by banks (the level of reimbursement 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 interest rate calculated for these deposits. On 31 December 2018, the interest rate of balance overnight deposits of banks constituted 3,50% (on 31 December 2017: 3,50%).

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18. Certificates issued by the National Bank of Moldova

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Certificates issued by the Bank at selling price	6 290 398	9 207 224
Amortized discount on the certificates issued by the Bank	8 323	10 207
	6 298 721	9 217 431

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) (with fixed interest) and repurchased at maturity at their nominal value. During 2018, the certificates of the Bank were issued mainly with a maturity of 14 days (2017: 14 days).

The weighted average nominal interest rate of certificates issued by the Bank held into circulation on 31 December 2018 constituted 6,50% (on 31 December 2017: 6,50%), while the effective interest rate – 6,70% (on 31 December 2017: 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 2018	31 December 2017
	MDL'000	MDL'000
Financial liabilities		
Due to other entities – customers accounts	156 447	33 104
Other financial liabilities	5 243	405
	161 690	33 509
Non-financial liabilities		
Due to other entities – trade payables	6 131	5 887
Non-monetary debt	8 636	8 636
Deferred income from asset related grants	708	-
Due to employees	211	64
	15 686	14 587
	177 376	48 096

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 and the temporary Loro account of the Tiraspol Cash and Settlement Center.

The deferred income represent the contribution paid by the "Financial Services Volunteer Corps" for the purchase of information solution until 31 December 2018. During 2018 and 2017 the United States Agency for International Development (USAID) provided to the Bank technical assistance for the implementation of the project "Single Central Depository of Securities", while at the end of 2018 agreed to provide a grant in equivalent of MDL 5,888 thousand (USD 343 thousand) for co-financing of the acquisition of an information solution to be used for the Single CSD. The grant was provided through the implementation agency "Financial Services Volunteer Corps" and was paid directly to the provider of the information solution. The outstanding contribution is conditioned by the progress of the development and implementation of the information solution by the software supplier and was not recognized as at 31 December 2018 and shall be recognized only after the completion and acceptance of by the "Financial Services Volunteer Corps" in 2019. The grant shall be recognised in profit or loss on a systematic basis throughout the use of the software solution, once the purchased information solution is put into operation.

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20. Capital and reserves

Pursuant to Article 19 of the *Law No 548/1995 on the National Bank of Moldova* with further amendments, 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 2018, the general reserve fund was increased by MDL 249,126 thousand, following the coverage of unrealized losses from reevaluation of currency stocks in amount of MDL 247,905 thousand. Accordingly, the statutory capital has increased and reached the level of" MDL 2,600,578 thousand at the end of the financial year.

At the same time, on 1 January 2018, following the implementation of IFRS 9 and reclassification of financial instruments, the reserves from the unrealised gains from revaluation of securities at market values was of adjusted with the amounts accumulated up to the date of the reclassification (from fair value through profit or loss to FVOCI) and the reevaluation of state securities (from available for sale to amortised cost) was excluded as of 1 January 2018, as follows:

	31 December 2017	Adjustment on initial application of IFRS 9	1 January 2018
	MDL'000	MDL'000	MDL'000
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	1 479 755	(984)	1 478 771
Reserve of unrealized gains on revaluation of investment securities	164 542	13 885	178 427
	1 644 297	12 901	1 657 198
Other reserves			
Other comprehensive income	8 967	(14 789)	(5 822)
	1 653 264	(1 888)	1 651 376

In the conditions of applying the IFRS9 "Financial instruments" from 1 January 2018 as a result of reclassification of securities in foreign currency from measured at fair value through the profit or loss to measured at fair value through other comprehensive income, other reserves have been supplemented with the reserve on the differences from revaluation of investment securities in foreign currency measured at fair value through other comprehensive income.

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.

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20. Capital and reserves (continued)

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

	2018	2017
	MDL'000	MDL'000
Reserves from revaluation of securities issued by the Government of the Republic of Moldova (2017: available for sale)	-	
On 1 January	1 888	4 661
*Adjustment on initial application of IFRS 9**	*(1 888)*	-
Net differences from revaluation to market value		(2 773)
On 31 December	-	1 888
Reserves from revaluation of monetary gold		
On 1 January	7 079	9 052
Net differences from revaluation to market value	(1 109)	(1 973)
On 31 December	5 970	7 079
Reserves from revaluation of securities in foreign currency measured at fair value through other comprehensive income		
On 1 January	-	-
*Adjustment on initial application of IFRS 9**	(13 885)	-
Differences from revaluation to market value	9	-
Reclassified to profit and loss on derecognition	9 605	-
On 31 December	(4 271)	-
Reserves from foreign exchange differences of securities revaluation in foreign currency measured at fair value through other comprehensive income		
On 1 January	-	-
*Adjustment on initial application of IFRS 9**	984	-
Foreign exchange differences from revaluation to market value	(378)	-
Reclassified to profit and loss at derecognition	(1 319)	-
On 31 December	(713)	-

On 31 December 2018, the level of the statutory capital to total monetary obligations represents 5,21% (31 December 2017: 5,08%).

		31 December 2018	31 December 2017
		MDL'000	MDL'000
Total liabilities		67 108 799	63 818 692
Monetary liabilities due to IMF	7	7 863 219	8 735 389
Monetary liabilities due to the Government of Moldova	16	9 291 988	8 783 146
Monetary liabilities under the Law on the NBM		49 953 592	46 300 157
Authorized capital		902 970	902 970
General reserve fund		1 697 608	1 448 482
Statutory capital		2 600 578	2 351 452
Level of capital %		5,21	5,08

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21. Calculation of the of the profit available for distribution (total loss)

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Net profit/ (loss)	1 221	(4 976 079)
Coverage of unrealized losses on revaluation of the investment securities (*Note25*)	-	28 889
Coverage of unrealized losses on revaluation of foreign currency stocks	247 905	4 851 881
Profit available for distribution/(Total loss)	249 126	(95 309)
Distribution:		
Increase/(Use) of the general reserve fund	249 126	(95 309)

In 2018, the Bank registered a net profit in amount of MDL 1,221 thousand (2017: loss in amount of MDL 4,976,079 thousand). Following the application of corresponding provisions of the Law on the National Bank of Moldova, the available profit for distribution amounted to MDL 249,126 thousand (2017: total loss MDL 95,309 thousand) which was distributed for the increase of the general reserve fund, for the purpose of its completion up to 2/3 of the statutory capital.

22. Interest income

	2018	2017
	MDL'000	MDL'000
Interest income from short-term placements		
Interest from term deposits with foreign banks	280 387	176 957
Interests from overnight deposits	17 910	12 018
Interest from „Nostro" accounts in foreign banks	2 316	-
Interest from other placements	1 027	478
Interest on forward transactions	1 997	-
	303 637	189 453
Interest income on securities held		
Interest from securities in foreign currency measured at FVOCI (2017: *fair value through profit or loss*)	353 780	151 545
Interest from securities in foreign currency measured at amortised cost (2017: *held-to-maturity)*	160 575	183 788
Interest from state securities measured at amortised cost (2017: *held-to-maturity)*	724 662	617 993
Interest from state securities measured at amortised cost (2017: *available for sale*)	97 089	136 222
	1 336 106	1 089 548
Interest income on the loans granted and repo		
Interests from loans granted to the banks	149	137
Interests from loans granted to other separates	111	155
	260	292
	1 640 003	1 279 293

The average interest rate on zero-coupon state securities (with discount) measured at amortised cost *(2017: available for sale)* and held in the Bank's portfolio amounted to 5,08% in 2018 (2017: 6,62%).

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22. Interest income (continued)

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% (2017: 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:

	2018	2017
	MDL'000	MDL'000
Interest income		
Financial assets measured at amortised cost	1 284 226	991 526
Financial assets measured at FVOCI	353 780	136 222
Financial assets measured at fair value through profit or loss	1 997	151 545
	1 640 003	1 279 293
Expense on negative interest from short-term placements		
Financial assets measured at amortised cost (Note 27)	(26 615)	(8 836)
Interest expense		
Financial liabilities measured at amortised cost (Note 23)	(1 173 986)	(1 249 813)

23. Interest expense

	2018	2017
	MDL'000	MDL'000
Interest expense on borrowings		
Interest on loans received from International Monetary Fund	51 474	47 043
	51 474	47 043
Interest expense on cash and cash equivalents		
Interest on mandatory reserves	442 521	534 322
Interest on deposits accepted from banks	20 216	55 473
Interest on deposits accepted from the Ministry of Finance	115 671	93 147
Interest on forward transactions	13	-
	578 421	682 942
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*)	544 104	519 828
	544 104	519 828
	1 173 999	1 249 813

During the period January – 15 September 2018, licensed banks maintained the mandatory reserves in Moldovan lei, due from funds attracted in Moldovan lei and nonconvertible currency, at 40% rate (unchanged from May 2017). Starting with the application period of mandatory reserves, 16 September – 15 October 2018, the amount of required reserves in Moldovan lei was increased up to 42,5% and kept at this level until the end of the year (in 2017, the rate was modified in 2 iterations with 5 bps, up to 40%).

The interest rate on mandatory reserves from funds attracted in Moldovan lei and nonconvertible currency in 2018 was constant at rate of 3,5% (2017: from 6% to 3,56%), while for the funds attracted in convertible currency – it varied from 0,29% to 0,47% (2017: with the variation range from 0,3% to 0,6%).

In 2018, the daily average balance of Bank's certificates amounted to MDL 8,403 million (2017: MDL 6,358 million). The average nominal interest rate of Bank's certificates placed in 2018 amounted to 6,50% (2017: 8,11%).

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

	2018	2017
	MDL'000	MDL'000
Realized gains from foreign currency transactions	5 236	44 616
Unrealized (losses) from foreign currency stocks revaluation	(247 905)	(4 851 881)
	(242 669)	(4 807 265)

The realized gains arise from the sale of foreign currencies and represents the positive difference between the sale exchange rate and the cost of the currency stock (or the average exchange rate of the purchased currency) multiplied to the sales volume. In 2018, 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. (Losses) from the revaluation of securities

	2018	2017
	MDL'000	MDL'000
Net realized (losses) from investment securities	(9 605)	(8 540)
Net unrealized (losses) from revaluation of securities in the balance at the year end	-	(28 889)
	(9 605)	(37 429)

Starting with 1 January 2018, with the application of IFRS 9, the Bank reclassified the investment securities from *fair value through profit and loss* to *financial assets measured through other comprehensive income.*

Therefore, the net result from reevaluation at fair value conducted in 2018 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). For the comparative period, the realized result represents the realized difference accumulated only during the financial year until maturity or sale of the security.

Similarly, starting with 1 January 2018, the result of unrealized reevaluation at fair value is recognized in other comprehensive income *(Note 20).*

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26. Other income

	2018	2017
	MDL'000	MDL'000
Fee and commission income	29 234	29 928
Other income	12 102	78 896
	41 336	108 824

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	2018	2017
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Automated Interbank Payment System	6 335	719	34	7 088	6 218
Cash operations	17 511	-	1	17 512	17 451
State's agent and banker activities	-	4 120	-	4 120	5 561
Securities registration system	514	-	-	514	698
	24 360	4 839	35	29 234	29 928

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.

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:				2017
	Banks	Institutions	Other	2018	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Sale of commemorative banknotes and commemorative and jubilee coins	7 310	30	2 906	10 246	3 212
IT services	-	-	817	817	-
Other income	-	-	1 039	1 039	75 684
	7 310	30	4 762	12 102	78 896

In other income is included additionally income related from the recovery of certain expenses. For the 2017, the highest amount of the recovered costs represent the recovery of some expenditures related to the liquidation procedure of banks under liquidation, amounting to MDL 75,237 thousand.

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

	31 December 2018	31 December 2017
	MDL'000	MDL'000
Receivables from commission, included in Other assets (Note14)	939	673
Receivables from other income, included in Other assets (Note 14)	817	-
	1 756	673

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26. Other income (continued)

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 (from 1 January 2018)
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.
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	Revenue from commissions for organization of SS auctions is recognized at the date of completion of SS auction.

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Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (from 1 January 2018)
	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 of 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 commission for foreign currency transactions of the state (payments and conversions) is recognized at the date of the related transactions.
Securities registration system	Until 30 July 2018, the Bank managed the Book-Entry System of Securities registration (SIC) which represented a system of registration, safekeeping, clearing and settlement of SS and certificates of the NBM (CBN). SIC assured the safekeeping and settlement of SS and CBN issued on the primary market, real time processing of transfer forms and settlements with immediate finality of operations on the secondary market; pledge registration within the operations concluded with the Bank. The Bank collected commissions from participants and holders of personal accounts for: • safekeeping of securities in SIC as a monthly commission from the monthly average balance of securities (nominal value) held in the personal accounts and account II of account holders; • Processing of security operations in SIC as a fixed commission for each transfer document. The commissions were collected monthly (debited in the first business day after the reported month), according to the *Regulation on the Book-entry system of securities.* Starting with 30 July 2018, the respective activities are carried out by the subsidiary of the Bank, JSC "Single Central Depository of Securities".	Revenue from safekeeping of securities is recognized over time on a monthly basis, while for the processing of transfer orders at the transfer order day

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26. Other income (continued)

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 (from 1 January 2018)
Sale of commemorative banknotes and jubilee and commemorative coins	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 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).	Revenue from sale (issuance) of commemorative coins is recognized on the issuance date at the sale price of commemorative coins.
IT services	Pursuant to Law No 234 of 03.10.2016 on the single central depository of securities and the Agreement on outsourcing information technologies services, the Bank provides assistance in the field of information technologies to its subsidiary *JSC Single Central Depository of Securities.* 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 2018 and 2017, 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 27).

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27. Operating expenses

	2018	2017
	MDL'000	MDL'000
Expenses related to national currency	25 760	53 157
Personnel expenses	128 001	116 460
Expenses related to informational, advisory and audit services	22 007	40 973
Expenses related to amortization of property, equipment and intangible assets	30 294	29 795
Expense on negative interest from short-term placements	26 615	8 836
Buildings, transport and equipment maintenance expenses	6 572	7 982
Expenses with fees and commissions	2 484	2 946
Other operating expenses	12 112	9 540
	253 845	269 689

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.

Personnel expenses include the mandatory state social insurance contributions in amount of MDL 22,774 thousand and mandatory medical insurance in amount of MDL 4,486 thousand (2017: MDL 20,668 thousand and MDL 4,042 thousand, respectively).

As at 31 December 2018 the number of active employees was 422 persons (31 December 2017: 437 persons).

Fees and commissions expenses include commissions for:

	By sector:				
	Banks	International financial institutions	Others	2018	*2017
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Credit lines	-	1 770	-	1 770	2 336
Account services	285	-	-	285	610
Safekeeping of state securities	-	-	429	429	-
	285	1 770	429	2 484	2 946

The commissions for the safekeeping of state securities refer to the commissions charge by the Joint Stock Company "Single Central Depository of Securities" (CSD) for the safekeeping of state securities portfolio registered and held by the Bank in CSD's system (DEPO/x). The commissions relate to 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 2018 and 2017 by a series of international financial organizations, have been presented net of the related income. In 2018 and 2017, 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.

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28. Related parties

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

Management of the Bank

Management's remuneration and compensation expenses comprise:

	2018	2017
	MDL'000	MDL'000
Remuneration	22 728	16 732
Mandatory and facultative social and medical insurance	6 267	4 587
Other	10	210
	29 005	21 529

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
2018	4 303	-	304	(1 615)	2 992
2017	5 356	-	-	(1 053)	4 303

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 5,373 thousand as at 31 December 2018 (31 December 2017: MDL 7,203 thousand).

As at 31 December 2018 and 31 December 2017 these loans are classified as standard (stage 1 of the ECL), being fully collateralized, with no impairment triggers and no expected credit losses incurred.

Bank's subsidiary

The Bank holds 98,36% of the share capital of the Joint Stock Company "Single Central Depository of Securities" (CSD) and appoints four out of the seven members of the Supervisory Council of CSD. Therefore, under IFRS 3 provisions, the Bank controls the *Single Central Depository of Securities* as a subsidiary of the Bank. JSC Single Central Depository of Securities was established on 29 March 2018.

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

	31 December 2018
Balances	MDL'000
Assets	
Investments in subsidiaries – cash contribution to the capital	24 000
Other short-term receivables	812
	24 812
Other liabilities	
Current account of subsidiary in the Bank	23 046
Other liabilities	287
	23 333

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28. Related parties (continued)

	2018
Transactions	MDL'000
Other income	
Income from compensation of expenses for the IT services outsourcing	812
	812
Interest expense	
Fees from settlement and clearing of certificates issued by the Bank	1 100
	1 100
Operating expenses	
Commissions for state securities safekeeping	429
Other commissions	4
	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 2018, 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. The methodology and policies for the authorized capital set up, profit distribution towards and loss coverage by the State are disclosed in Note 20.

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.

The Bank is income tax exempt and not a registered VAT payer by the Fiscal code provisions.

29. Commitments and contingent liabilities

Promissory notes issued

As at 31 December 2018 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 2,612,124 thousand (31 December 2017: MDL 2,920,250 thousand).

Investment commitments

As at 31 December 2018, within the external reserves management program, the World Bank concluded one buy transaction of a security at nominal value of USD 8,500 thousand (equivalent of MDL 145,142 thousand) and 2 sale transactions of securities with nominal value of USD 2,400 thousand (equivalent of MDL 41,142 thousand). The transactions have the settlement date on 2 January 2019.

Loan commitments

As at 31 December 2018, there are no conditional commitments of creditor nature (31 December 2017: nil).

29. Commitments and contingent liabilities

Capital commitments

As at 31 December 2018, 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 7,389 thousand (equivalent of EUR 379 thousand) (on 31 December 2017, MDL 9,811 thousand or EUR 481 thousand). EUR 258 thousand of the amount committed as at 31 December 2018 shall be financed and paid to the supplier by Volunteer Corps for the provision of financial services (FSVC) based on the grand offered under the technical assistance program offered by the United States Agency for International Development (USAID) within the implementation project of IT solution for the Single Central Depository.

Litigations and contingent liabilities

As at 31 December 2018, the Bank was involved in 19 litigations, where it participates as a defendant (31 December 2017: 23 litigations as a defendant and in one as a plaintiff).

As at 31 December 2018 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 2017: nil).

30. 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.

As at 31 December 2018 the future minimum lease payments under operating lease for the period of less than 1 year amount to MDL 1,203 thousand (31 December 2017: MDL 1,080 thousand).

Expenditure from administrative paces on operating leasing recorded under Operational Expenditure is MDL 1,080 thousand in 2018 (2017: MDL 649 thousand)

The operating lease expenses for the lease of administrative premises are presented under the *Operating expenses* amounting to 1,080 thousand MDL in 2018 (2017: 649 thousand MDL). The land is used on a bailment basis (free of charge use)and no lease cost have been incurred in 2018 (2017: MDL 0).

31. Subsequent events

On 7 March 2019, by the Government Decision *on 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 Bank's balance sheet amounting to MDL 8,636 thousand (*Note 13*) was transferred to the Public Property Agency.

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.

*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.