NATIONAL BANK OF MOLDOVA

FINANCIAL STATEMENTS

Prepared in Accordance with
International Financial Reporting Standards

For the year ended 31 December 2007

CONTENTS:

Ernst & Young

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INDEPENDENT AUDITORS' REPORT

To the National Bank of Moldova

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 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 March 2008

Ernst & Young

Ernst & Young
Chisinau, Moldova

NATIONAL BANK OF MOLDOVA
BALANCE SHEET
as at 31 December 2007

	Notes	2007	2006
		MDL '000	MDL '000
ASSETS			
Cash and short term placements with banks	5	11,038,139	5,983,251
Due from International Financial Institutions	6	2,202,960	2,394,300
Due from the Moldovan Government	7	1,972,560	2,113,822
Securities issued by the Moldovan Government	8	408,537	402,574
Loans granted to banks and individuals	9	38,839	46,032
Investment securities	10	4,056,392	4,019,326
Tangible assets	11	26,574	31,045
Intangible assets	11	12,963	16,730
Other assets	12	7,325	3,730
TOTAL ASSETS		**19,764,289**	**15,010,810**
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	13	7,603,347	5,817,191
Due to the Moldovan Government	14	2,506,809	871,627
Due to banks	15	4,054,556	1,824,397
Certificates issued by the National Bank of Moldova	16	812,928	943,347
Due to International Financial Institutions	6	4,014,172	4,218,728
Other liabilities	17	144,044	335,543
Total liabilities		**19,135,856**	**14,010,833**
Capital and reserves			
Authorized capital	18	288,923	288,923
General Reserve fund	18	320,277	577,845
Total statutory capital		**609,200**	**866,768**
Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	18	-	133,099
Reserve of unrealized gains on revaluation of investment securities	18	17,643	-
Other reserves	18	1,590	110
Total capital and reserves		**628,433**	**999,977**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**19,764,289**	**15,010,810**

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue on 19 March 2008:

L. Talmaci

Mr. Leonid Talmaci
Governor

Mrs. Natalia Zabolotnîi
Head of the Budget, Finance and Accounting Department,
Chief Accountant

NATIONAL BANK OF MOLDOVA
INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007	2006
		MDL '000	MDL '000
Interest income from deposits and availabilities	20	372,827	213,025
Interest income from securities	20	228,032	159,339
Interest income from loans	20	244,835	126,523
		845,694	498,887
Interest expenses arising from loans received	21	(24,805)	(32,559)
Interest expenses arising from availabilities	21	(98,918)	(46,380)
Interest expenses arising from transactions with securities and Repo agreements	21	(198,410)	(40,235)
		(322,133)	(119,174)
Net Interest Income		**523,561**	**379,713**
Gains/(losses) from foreign exchange transactions and foreign exchange rates differences	22	(880,913)	266,429
Gains/(losses) from the revaluation of securities	23	24,504	(2,380)
Release from loan loss provision		46	10
Other income	24	24,234	10,076
Operating expenses	25	(65,103)	(108,042)
Operating Gains/(Losses)		**(897,232)**	**166,093**
Net profit for the year	19	**(373,671)**	**545,806**
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation		-	(133,099)
Allocation of unrealized gains on revaluation of investment securities		(17,643)	-
Release of unrealized losses on exchange rate differences from foreign currency stocks revaluation		133,099	-
Release of realized gains from fixed assets revaluation		647	647
Net profit for the year available for distribution	19	**(257,568)**	**413,354**

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue on 19 March 2008:

L. Talmaci

Mr. Leonid Talmaci
Governor

Mrs. Natalia Zabolotnîi
Head of the Budget, Finance and Accounting Department, Chief Accountant

	Notes	2007	2006
		MDL '000	MDL '000
Cash flow from operating activities			
Interest receipts		835,936	481,875
Interest payments		(328,692)	(116,387)
Gains from foreign exchange transactions		24,504	4,544
Other receipts		24,229	10,066
Staff and suppliers costs paid		(55,063)	(93,110)
Cash flow before changes in assets and liabilities		**500,914**	**286,988**
(Increase) / Decrease in operating assets			
Decrease / (increase) in net amounts due to/from International Financial Institutions		209	(1,962)
Increase in securities		(394,851)	(1,189,636)
Decrease in amounts due from Government		160,000	118,800
Decrease in loans granted to banks and individuals		7,193	10,327
		(227,449)	**(1,062,471)**
Increase / (Decrease) in operating liabilities			
Increase in the national currency issued into circulation		1,786,156	668,304
Increase in due to Government		1,635,613	526,414
Increase / (decrease) in due to banks		2,300,955	(1,163,766)
(Decrease) / increase in certificates issued by the National Bank of Moldova		(130,160)	799,086
Increase in due to International Financial Institutions		133,137	533,076
Increase in other liabilities		121,785	2,188
		5,847,486	**1,365,302**
Net cash from operating activities		**6,120,951**	**589,819**
Tangible and intangible fixed assets additions		(4,431)	(8,777)
Net cash flow from investing activities		**(4,431)**	**(8,777)**
Government contribution to statutory capital		-	250,000
Profit payments to the State		(313,498)	(162,775)
Net cash flow from financing activities		**(313,498)**	**87,225**
Revaluation Differences		(742,171)	259,198
Increase in cash and cash equivalents		**5,060,851**	**927,465**
Cash and Cash equivalents at 1 January		**6,385,825**	**5,458,360**
Cash and Cash equivalents at 31 December		**11,446,676**	**6,385,825**

		2007	2006
Analysis of Cash and Cash equivalents			
Cash on hand in foreign currency	**5**	1,362	1,354
Nostro accounts in foreign currency	**5**	678,630	63,824
Term deposits in foreign currency	**5**	10,358,147	5,918,073
Securities issued by the Moldovan Government	**8**	408,537	402,574
Cash and Cash equivalents, gross		**11,446,676**	**6,385,825**

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	Reserve of unrealized gains on revaluation of investment securities	Other reserves	Retained earnings	Total Capital and Reserves
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2006	**200,000**	**319,175**	**-**	**-**	**2,938**	**-**	**522,113**
Net profit for the year 2006	-	-	-	-	-	545,806	545,806
Transfer from indexation reserve of fixed assets	-	-	-	-	(647)	647	-
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	133,099	-	-	(133,099)	-
Increase in authorized capital	88,923	-	-	-	-	(32,531)	56,392
Transfer to general reserve fund	-	258,670	-	-	-	(65,062)	193,608
Difference from revaluation of securities issued by the Moldovan Government	-	-	-	-	(2,181)	-	(2,181)
Profit distributed to State Budget	-	-	-	-	-	(315,761)	(315,761)
Balance as at 31 December 2006	**288,923**	**577,845**	**133,099**	**-**	**110**	**-**	**999,977**
Balance as at 1 January 2007	**288,923**	**577,845**	**133,099**	**-**	**110**	**-**	**999,977**
Net loss for the year 2007	-	-	-	-	-	(373,671)	(373,671)
Transfer from indexation reserve of fixed assets	-	-	-	-	(647)	647	-
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	(133,099)	-	-	133,099	-
Allocation of unrealized gains on revaluation of investment securities	-	-	-	17,643		(17,643)	-
Release of general reserve fund	-	(257,568)	-	-	-	257,568	-
Difference from revaluation of securities issued by the Moldovan Government	-	-	-	-	2,127	-	2,127
Balance as at 31 December 2007	**288,923**	**320,277**	**-**	**17,643**	**1,590**	**-**	**628,433**

1. General information

The National Bank of Moldova (the Bank or NBM) was established in 1991. The activity of the Bank is regulated by the *Law no.548-XIII* on the National Bank of Moldova approved by the Parliament of RM in 1995 and subsequent modifications thereafter. In accordance with the Law on the National Bank of Moldova is an autonomous public legal entity that is responsible to the Parliament of the Republic of Moldova. The primary objective of the National Bank is to achieve and maintain price stability. The Bank in consultation with the economical and financial bodies of the Government formulates and implements the monetary and foreign exchange policy. The activities of the Bank are as follows:

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

As at 31 December 2007 the number of positions available at the Bank, including vacancies, was 450 (31 December 2006: 451), out of which the number of employees was 432 persons (441 persons as of 31 December 2006).

The inflation rate for the year 2007 was 13.10% (2006: 14.10%).

The registered office of the Bank is located at Renasterii Avenue 7, Chisinau, Republic of Moldova.

2. Basis of preparation

Financial statements of the NBM are prepared in conformity with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect.

The financial statements are presented in Moldovan lei ("MDL"), the currency of the country in which the Bank operates. The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the *Law on the National Bank* and prepares its financial statements in accordance with them. The financial statements have been prepared on a historic cost basis, except for financial assets held at fair value through profit and loss and financial assets available for sale that have been measured at fair value.

(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

3. Significant accounting policies

a. Revaluation of foreign exchange stocks and transactions

Foreign currency transactions are recorded at the exchange rate on the date of the transaction and are revalued daily using official foreign exchange rate. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The exchange rates of the reference currencies for the year 2007 were as follows:

	2007		2006	
	Average for the period	Year end	Average for the period	Year end
USD/MDL	12.1362	11.3192	13.1319	12.9050
EUR/MDL	16.5986	16.6437	16.4918	16.9740
GBP/MDL	24.2728	22.6361	24.1934	25.3034
XDR/MDL	18.5624	17.8671	19.3235	19.3982

Exchange rate differences arising on the settlement of the transactions at exchange rates different from those of stocks in foreign currency are recognized in the income statement.

b. Comparative figures

In cases when the financial statements presentation has changed for some items, the comparatives have been amended to reflect the changes in presentation.

Accordingly, at the presentation of certain items from the Statement of Cash Flows, unrealized gains and losses from foreign currency exchange rate differences have been presented per each balance sheet account in foreign currency as at the reporting date.

c. Significant accounting judgments and estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input of these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs accepted by the Management of NBM.

Impairment losses on loans and receivables

The Bank reviews its loans and advances at each reporting date or when it is considered necessary in order to assess whether an allowance for impairment should be recorded in the income statement.

3. Significant accounting policies (continued)

d. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements at other banks, treasury bills and other short – term highly liquid investments, with less than 3 months maturity from the date of acquisition.

In the Balance Sheet cash and short term placements with banks are presented on net basis (cash on hand in local currency is offset with the National currency issued into circulation).

e. Due from International Financial Institutions

The amounts recorded in the balance sheet as "Due from International Financial Institutions" represents mainly the quota of the Republic of Moldova in the International Monetary Fund ("IMF"). This amount is established in Special Drawing Rights ("XDR") but it is presented in MDL.

f. Financial assets

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

Financial assets at fair value through profit and loss account

Financial assets at fair value through profit and loss account represent securities, which were either acquired for generating a profit from short term fluctuations in price, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition at fair value, these securities are remeasured at fair value based on quoted bid prices. 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 from the foreign markets which are presented in the balance sheet under category "Investment securities".

Loans and receivables

Loans and receivables represent financial instruments where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash disbursed, and are subsequently measured at amortized cost.

Loans granted to banks and individuals are stated at amortized cost, less impaired amounts and any provisions for impairment.

The Bank includes in this category loans reconcluded with Government, loans granted to banks and employees.

Held to maturity investments (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

The Bank does not currently classify any items in this category.

3. Significant accounting policies (continued)

f. Financial assets (continued)

Available for sale financial assets

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

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Available for sale assets are recognized initially at fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value which is based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer.

Unrealized gains and losses related to this category of financial assets are recognized directly in equity in "Other reserves". When the securities available for sale are disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Interest calculated using the effective interest method is recognized in profit or loss.

The Bank includes in this category Securities issued by the Moldovan Government that are included in the line "Securities issued by the Moldovan Government" in the balance sheet..

g. Fair value of financial instruments

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

The loans and receivables of the Bank are reported at amortized cost less an estimate for impairment.

The carrying amounts of financial assets and liabilities measured at amortized cost approximate to their fair value.

The securities of non-residents are classified as "financial assets at fair value through profit or loss account" the gain or loss from their revaluation to market value is reported in the income statement.

The estimated fair values of financial instruments available for sale have been determined by the Bank using available market information and appropriate valuation methodologies, such as discounted cash flows techniques.

The State Treasury bills are classified as "available for sale" and are reported at fair value.

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 (for maturity which were not performed on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per maturity of state securities retained in the NBM portfolio from the curve of the current interest rates. The curve is constructed for the appropriate day based on the recent results of the auctions for treasury bills on the primary market as well as on the secondary market for the last 5 working days.

3. Significant accounting policies (continued)

h. Provisions for impairment of the loans and other assets

The loan loss provision is created in case if there are objective evidences (financial situation of the bank, reimbursement of principal, current debt service, renegotiation or prolongation of the payment terms of principal and interest) that the Bank will not be able to collect all amounts due (principal and interest).

The amount of the impairment loss is the difference between the carrying value and estimated recoverable value, calculated as updated value of cash flows estimated for recovery including the amounts recoverable from collaterals, updated based on initial interest of the instrument. The loan loss provision is decreased or increased in case if the provision calculated at the reporting date is respectively less or greater than previously established provision.

Provision for impairment of the loans is used to cover the non-performing loans, in cases of bankruptcy of the commercial bank and/or the insufficiency of own funds to settle the debt to the NBM. These loans are written off against provisions established previously.

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

In order to cover the potential risks and losses, both objective and subjective, a provision for doubtful debts is created. The provision represents expenses, which occur at the moment of its creation or increase, and, respectively, is reflected as an income at the moment of its cancellation or decrease. The provisions for bad debts are not used to cover the losses resulted from the bad debts written off as unrecoverable debts. The doubtful receivable is considered unrecoverable in cases when there is confirmation from the appropriate authorities that the receivable lost its value and can not be recovered. The write off of bad debts is recorded as expense, and the created provision is release to income.

i. Sale and repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (Repos) continue to be recognized in the balance sheet as securities and are measured in accordance with respective accounting policies. The liability for amounts received under these agreements is included in due to Moldovan Government. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

The Bank has not entered in such transactions during the current reporting period.

j. Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

In 1996 the Bank performed indexation of the items of property and equipment that were acquired prior to 1 January 1996 by applying the set of indices elaborated by the Moldovan Government. The indices provided by the Ministry of Finance of the Republic of Moldova were applied to the net book value of assets in order to reflect changes in prices. The indices varied according to asset type and acquisition date.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on tangible assets is only recognized as an asset when the expenditures improve the condition of the asset beyond the originally assessed standard of performance.

3. Significant accounting policies (continued)

j. Tangible assets (continued)

Depreciation of fixed assets is computed on a straight-line basis using the following rates specified for each depreciable asset to decrease the cost of each asset to their residual values over their estimated useful life:

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

k. Intangible assets

Intangibles represent costs incurred for acquisition of computer software, amortized using the straight-line method over their estimated useful lives, by applying an annual amortization rate determined based on the estimated useful live of each asset . The useful life of the asset is determined when it is put into use, on the basis of the period that the asset is estimated to be used or the duration of the license. As at 31 December 2007 the estimated useful life of intangible assets varied between 1 and 5 years.

Where the carrying amount of an intangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. The costs related to the development or maintenance of the software elements are recognized through the income statement at the moment they occur.

l. National currency issued into circulation

The national currency issued into circulation is carried at nominal value. For presentation purposes the cash on hand in national currency available in the circulation cash desk of the Bank is offset against national currency issued into circulation. The cost of production of banknotes and coins is recorded in the income statement when the expense is incurred.

m. Due to banks

Due to banks include LORO accounts and current accounts of the banks residents/non-residents, term deposits placed by banks and the interests on deposits.

Due to banks include among other the obligatory reserves required to be maintained on the accounts opened in the NBM, in compliance with its prudential requirement.

The mandatory reserves are determined by applying the set percentages to the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason by the Regulation on Obligatory Reserves Regime.

In the Balance Sheet availabilities of banks are presented at nominal value, and in cases of term deposits they are subsequently remeasured at amortized cost.

3. Significant accounting policies (continued)

n. Due to Moldovan Government

Due to Moldovan Government include accounts of the State Budget held in the Unique Treasury Account, term deposits of the Ministry of Finance and amounts of the Directorate of Credit Line of the Ministry of Finance and are presented in the Balance Sheet at nominal value. The deposits of the Ministry of Finance are subsequently measured at amortized cost.

o. Certificates issued by the NBM

Certificates issued by the NBM represent discount securities and are reflected in the Balance Sheet at the settlement date at sale price. After initial recognition the certificates are remeasured at amortized cost based on the effective interest rate, with the calculation and recognition of the amortized discount in the last day of each month and at the maturity date of the NBM certificates.

p. Due to International Financial Institutions

Due to International Financial Institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently Due to International Financial Institutions are recognized at amortized cost. Any difference between net proceeds and the redemption value is recognized in the income statement over the period to maturity.

q. Capital and reserves

The Bank maintains the statutory capital on the level required to accomplish the objective established by the *Law nr.548 – XIII of 21 July 1995 on the National Bank of Moldova*.

The capital structure of the NBM includes the following:

- statutory capital:
  - authorized capital
  - general reserve fund
- reserve of unrealized gains;
- other reserves.

The statutory capital is dynamic and it is created from the annual profit available for distribution and/or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the NBM (except liabilities due to Government and International Monetary Fund) recorded in the accounting books of the NBM as at 31 December 2007.

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

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end. In case when at year the general reserve fund has a debit balance, the Government, through the Ministry of Finance, during a period of 60 days from the date when the external audit opinion on the financial statements of NBM is presented, transfers to NBM a capital contribution in state treasury bills at the market interest rate, in the amount necessary to cover the debit balance.

3. Significant accounting policies (continued)

q. Capital and reserves (continued)

As the allocation of unrealized profits may affect the achievement of the objectives of the NBM, the Bank retains unrealized profits, resulted from the foreign exchange rates fluctuation and from revaluation of the securities in foreign currency at their fair value in the reserves of the unrealized income, which, consequently, are used to cover the unrealized losses generated by respective sources.

Both Statutory Fund and reserves are disclosed in the balance sheet at nominal value.

r. Income tax

In compliance with the art. 24 par. (15) p. f) of the *Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code* and the subsequent amendments, the National Bank of Moldova is not subject to income tax on its activities.

s. Interest income and expenses

Interest income and expense are recoded in the income statement for financial instruments valued at amortized cost based on the linear method and those valued at amortized cost using the effective interest rate method.

t. Revaluation of foreign currency assets and liabilities

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency towards the foreign currencies which create the relevant foreign exchange stocks, the revaluation of the IMF related accounts during the financial year, as well as monthly revaluation of foreign securities at fair value which are held in the NBM portfolio.

By virtue of its activities as a central bank and for currency market intervention purposes, NBM 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 of securities in foreign currency available in the NBM portfolio are transferred to the correspondent reserve accounts of unrealized gains.

The amount of net unrealized losses, after recognition in the income statement is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

u. Fiduciary activities

The National Bank of Moldova acts in some cases as fiscal agent of the State. Assets and income arising from these activities are not included in these financial statements where the Bank acts in the fiduciary capacity such as nominee or agent.

v. Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

w. 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 a reasonable estimate of the obligation can be made.

x. Pension costs and employees' benefits

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

y. Standards and interpretations issued but not yet effective

Certain new standards and interpretations have been issued and will be in effect beginning on or after 1 January 2008 or later periods:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Bank does not have different operating segments and therefore the Standard will not be applied to the Bank's financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Due to the specifics of the Bank, it is not expected that circumstances for the application of this Standard will appear.

3. Significant accounting policies (continued)

y. Interpretations issued but not yet effective (continued)

IFRIC Interpretations not yet effective:

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008);
IFRIC 14, IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).
All the Interpretations mentioned above, due to the specifics of the Bank, are not expected to be applied by the Bank.

In this context, all the Standards and Interpretations described above are not expected to affect the Bank's financial statements.

4. Financial risk management

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

Operational risk

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, breakdown or inadequate functioning of the internal control system. The Bank operational risk management is an integral part of daily operations and management. The operational risk management includes corporative policies, which provide for behavior standards applicable to involved persons and specific internal control systems, specific for each subdivision elaborated, taking into account the characteristics of their basic activity. Hence, for the monitoring and adequate management of the related risks the sub-divisions of the NBM elaborate their own internal control procedures.

The National Bank of Moldova manages this risk through its Internal Audit Department, which tests and expresses the opinion on the effective functioning of the internal controls system of the Bank. Segregation of duties among different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

Financial risk

The main categories of financial risk to which the Bank is exposed are: credit risk, liquidity risk, market risk, which includes interest rate risk and currency risk. The structure of the assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time NBM continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank of Moldova is regulated by its internal instructions, and procedures, and is monitored by the management of the Bank, that analyzes issues related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and sets limits for volumes of transactions.

4. Financial risk management (continued)

4.1 Credit risk

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

The National Bank of Moldova is subject to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Bank's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets.

The credit risk relating to operational credit in national currency is monitored and controlled.

In order to control credit risk exposure, the Bank implemented the following risk monitoring elements:

- settling the transaction insurance percentage (haircut) – when securities are acquired at a higher interest rate than established on the market at that specific moment, the National Bank protects against the eventual non repayment by the counterpart bank;
- requesting an additional pledge for maintaining the initial transaction insurance percentage, settled by the Bank.

In order to decrease the credit risk exposure related to loans granted to commercial banks for loans to housing construction cooperatives, the Bank monitors on a permanent basis the quality of credit portfolio and debtors financial situation, and, periodically, evaluates the impairment provisions, and adjusts them to reflect best current estimates. The credit risk related to such loans diminishes as the balances of the loans granted are decreasing.

The credit risk related to intraday/overnight/credits as well as to pawnshop facility is daily monitored using the limits of monetary policy set for each bank and are secured by the highly liquid collateral such as state securities and certificates issued by NBM.

In order to decrease the credit risk exposure related to loans granted to the Bank's personnel, the Bank accepts as a collateral either the properties acquired with the loans or the salaries in case the loan was granted for personal needs.

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

Furthermore, an essential element of credit risk management is the investment of the NBM with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating, established by the international rating agencies (Standard & Poor's, Moody's and Fitch IBCA), and authorized by the NBM with whom to execute foreign currency transactions.

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

Financial Assets	**Long-term rating**	**31 December 2007**	**31 December 2006**
Cash and short-term placements with banks (in foreign currency)	**AAA**	3,593,441	2,237,097
	AA+	-	430,710
	AA	5,608,128	2,107,366
	AA-	1,836,238	1,207,942
	A+	-	83
	A	319	5
	A-	-	48
	BBB-	13	-
Due from International Financial Organizations	**AAA**	2,202,960	2,394,300
Due from the Government	N/A	1,972,560	2,113,822
Securities issued by the Moldovan Government	N/A	408,537	402,574
Loans granted to banks and individuals	N/A	38,839	46,032
Investment securities	**AAA**	4,056,392	4,019,326
Other assets		5,232	1,541
Total Financial Assets		**19,722,659**	**14,960,846**

To quantify the credit risk related to investments in foreign currency, the value of credit risk associated to the investment portfolio is calculated based on default coefficients set by the Standard & Poor's agency per each rating category, the investments being classified in three categories (less or equal to one year, from one year to two, more than two years). As at 31 December 2007, the credit risk of the investment portfolio in foreign currency is valued at MDL'000 574 (equivalent to USD'000 51).

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

Country	**31 December 2007**	**31 December 2006**
USA	4,752,215	2,947,115
International Financial Organizations	2,653,637	2,520,282
Germany	2,556,550	1,750,606
France	1,600,271	952,994
Belgium	1,394,328	1,314,056
Sweden	562,942	431,779
Switzerland	2,446,482	430,715
The Netherlands	1,321,354	721,407
Great Britain	9,484	1,327,253
Other Countries	228	670
Moldova	2,425,168	2,563,969
Total Financial Assets	**19,722,659**	**14,960,846**

The biggest share of the assets held with "International Financial Organizations" represents the quota of the Republic of Moldova held with the IMF. Simultaneously, the major share of the investments and availabilities, by a foreign country, belongs to the USA (24.10% of the total assets), followed by Germany (12.96%), and Switzerland (12.40%).

4. Financial risk management (continued)

4.2 Liquidity risk

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

The liquidity risk is constantly monitored by the NBM, limiting the maximum maturity term of the investment portfolio, which restricts the investment into long-term maturity instruments, consequently the remaining maturity of the NBM portfolio being diversified.

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

Securities in foreign currency held in NBM portfolio are high liquidity instruments meaning that they could be sold at any moment before the maturity date.

Securities issued by Government of the Republic of Moldova and held by the National Bank of Moldova have a contractual maturity not longer than 91 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued by the Government and purchased by the National Bank of Moldova.

Loans granted by the National Bank of Moldova to the Moldovan Government have a maturity of 91 days. At maturity, interest accrued is paid to the National Bank of Moldova and the agreements are reconcluded.

Based on the Plan of Conversion of the loans previously granted by the NBM into state treasury securities dated 12 September 2007, the National Bank of Moldova and the Ministry of Finance during the I quarter of 2008 will convert the loans previously granted by the NBM into state treasury securities.

Analysis of assets and liabilities as at 31 December 2007 according to their contractual maturity date is as follows:

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

4. Financial risk management (continued)

4.2 Liquidity risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
31 December 2007							
Active							
Cash and short-term placements with banks	7,536,751	3,501,388	-	-	-	-	11,038,139
Due from International Financial Institutions	1,730	-	-	-	-	2,201,230	2,202,960
Due from the Moldovan Government	1,972,560	-	-	-	-	-	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	1,707	1,708	3,415	6,758	25,251	-	38,839
Investment securities	923,059	681,121	1,182,405	1,038,322	231,485	-	4,056,392
Tangible assets	-	-	-	-	-	26,574	26,574
Intangible assets	-	-	-	-	-	12,963	12,963
Other assets	7,325	-	-	-	-	-	7,325
Total assets	**10,851,669**	**4,184,217**	**1,185,820**	**1,045,080**	**256,736**	**2,240,767**	**19,764,289**
Liabilities							
National currency issued into circulation	7,603,347	-	-	-	-	-	7,603,347
Due to the Moldovan Government	2,239,809	122,000	145,000	-	-	-	2,506,809
Due to banks	4,054,556	-	-	-	-	-	4,054,556
Certificates issued by the NBM	812,928	-	-	-	-	-	812,928
Due to International Financial Institutions	109,656	16,509	107,465	210,725	1,361,616	2,208,201	4,014,172
Other liabilities	144,044	-	-	-	-	-	144,044
Total liabilities	**14,964,340**	**138,509**	**252,465**	**210,725**	**1,361,616**	**2,208,201**	**19,135,856**
Net liquidity gap	**(4,112,671)**	**4,045,708**	**933,355**	**834,355**	**(1,104,880)**	**32,566**	**628,433**
31 December 2006							
Total assets	**8,761,825**	**1,048,303**	**1,233,114**	**1,495,529**	**32,421**	**2,439,618**	**15,010,810**
Total liabilities	**9,919,684**	**-**	**141,009**	**269,330**	**1,286,046**	**2,394,764**	**14,010,833**
Net liquidity gap	**(1,157,859)**	**1,048,303**	**1,092,105**	**1,226,199**	**(1,253,625)**	**44,854**	**999,977**

4. Financial risk management (continued)

4.3 Market risk

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

The State securities are valued quarterly at their fair value determined based on recent auction interest rate on the primary market.

The market risk for the portfolio of securities in foreign currency is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic losses based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. For VaR calculation the Bank uses the historical volatility method.

The exposure to the market risk of the securities portfolio held in foreign currency is quantified by calculation of value-at-risk, which represents the maximum possible losses related to securities in foreign currency for a 12 months future period with a probability, usually, of 5%, considering the historical volatilities for a similar period. As of 31 December 2007, the value of exposure to risk of securities portfolio in foreign currency is estimated at approximately USD'000 16,387 or approximately MDL'000 185,488 (2006: USD'000 19,220 or approximately MDL'000 247,980).

4.3.1 Interest rate risk

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

The Bank does not apply the value-at-risk method to analyze the sensitivity of its portfolio of securities in foreign currency. In the same time, based on personal professional judgment, it is possible to presume that +/- 1p.p. fluctuations of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of approximately MDL'000 +/-350 on the Bank capital.

As a result of its activity related to monetary policy, the Bank is exposed to the internal market interest rate risk resulted from granting and extending the loans to the Government and the commercial banks at a fixed rate, holding the State Securities in its own portfolio in amounts and for terms different from those of the deposits placed with NBM, NBM Certificates issued and other borrowed funds.

Due to the fact that the interest bearing assets and liabilities mature or modify their interest rate in different periods or for different amounts – the correlation between current market interest rates is permanently monitored.

Consequently, due to the fact that the level of the abovementioned assets and liabilities is provided for by the objectives of the monetary policy, it is not always possible to obtain a positive margin.

In case of the long term borrowings received from the IMF the Bank is exposed to interest rate risk as a result of the interest rate fluctuation.

The fluctuation of interest rates on external market may affect the value of the investment portfolio in foreign currency as well as future cash flows. On external markets, the most vulnerable instruments to interest rate fluctuations are securities in foreign currency as the fluctuation of interest rates indirectly affects these assets price.

4. Financial risk management (continued)

4.3.1 Interest rate risk (continued)

Consequently, 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.

To determine the value of interest rate risk for short and long-term deposits in foreign currency, the possible losses are calculated considering a decrease of 0.5 p.p. of the interest rate for these instruments for the next 12 months. According to the average balance of the short and long term deposits for the year 2007, the value of potential losses resulted from the decrease of interest rate with 0.5 p.p. is valued at approximately USD'000 3,086 or approximately MDL'000 34,927 (2006: USD'000 1,850 or approximately MDL'000 23,860).

While managing the interest rates risk influenced by changes on the external markets, special attention is paid to the principal 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 relating to these components. Analysis of assets and liabilities as at 31 December 2007 according to their contractual re-pricing or maturity date is as follows:

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

4. Financial risk management (continued)

4.3.1 Interest rate risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non-interest bearing	Total
31 December 2007							
Assets							
Cash and short-term placements with banks	7,453,278	3,501,388	-	-	-	83,473	11,038,139
Due from International Financial Institutions	1,701	-	-	-	-	2,201,259	2,202,960
Due from the Moldovan Government	1,932,242	-	-	-	-	40,318	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	1,707	1,708	3,415	6,758	25,251	-	38,839
Investment securities	901,083	668,473	1,172,647	1,038,298	231,485	44,406	4,056,392
Tangible assets	-	-	-	-	-	26,574	26,574
Intangible assets	-	-	-	-	-	12,963	12,963
Other assets	-	-	-	-	-	7,325	7,325
Total assets	**10,698,548**	**4,171,569**	**1,176,062**	**1,045,056**	**256,736**	**2,416,318**	**19,764,289**
Liabilities							
National currency issued into circulation	-	-	-	-	-	7,603,347	7,603,347
Due to the Moldovan Government	1,981,208	122,000	145,000	-	-	258,601	2,506,809
Due to banks	2,926,302	-	-	-	-	1,128,254	4,054,556
Certificates issued by the NBM	810,201	-	-	-	-	2,727	812,928
Due to International Financial Institutions	293,580	16,509	33,019	99,055	1,361,616	2,210,393	4,014,172
Other liabilities	-	-	-	-	-	144,044	144,044
Total liabilities	**6,011,291**	**138,509**	**178,019**	**99,055**	**1,361,616**	**11,347,366**	**19,135,856**
Interest rate gap	**4,687,257**	**4,033,060**	**998,043**	**946,001**	**(1,104,880)**	**(8,931,048)**	**628,433**
31 December 2006							
Total assets	**8,693,954**	**1,033,682**	**1,219,078**	**1,495,528**	**32,421**	**2,536,147**	**15,010,810**
Total liabilities	**2,646,879**	**-**	**35,848**	**107,544**	**1,164,707**	**10,055,855**	**14,010,833**
Interest rate gap	**6,047,075**	**1,033,682**	**1,183,230**	**1,387,984**	**(1,132,286)**	**(7,519,708)**	**999,977**

The interest bearing assets and liabilities of the Bank, mainly comprise cash and cash equivalents, loans granted, securities, attracted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current account with the IMF and loan granted by the IMF (EFF), which bear floating interest rates set on a weekly basis by the IMF. The same is for the loans granted to the banks for crediting the construction cooperatives for which the interest rate is floating depending on the modifications of the long-term basic interest rate set by the Bank.

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

4. Financial risk management (continued)

4.3.2 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As at 31 December 2007, NBM held the following foreign exchange positions:

	MDL	USD	EUR	GBP	SDR	Other	Total
31 December 2007							
Assets							
Cash and short-term placements with banks	-	5,848,165	2,725,038	2,464,688	-	248	11,038,139
Due from International Financial Institutions	2,201,230	-	-	-	1,730	-	2,202,960
Due from the Moldovan Government	1,972,560	-	-	-	-	-	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	38,839	-	-	-	-	-	38,839
Investment securities	-	2,161,252	1,350,872	544,268	-	-	4,056,392
Tangible assets	26,574				-	-	26,574
Intangible assets	12,963	-	-	-	-	-	12,963
Other assets	3,170	2,248	1,907	-	-	-	7,325
Total assets	**4,663,873**	**8,011,665**	**4,077,817**	**3,008,956**	**1,730**	**248**	**19,764,289**
Liabilities							
National currency issued into circulation	7,603,347	-	-	-	-	-	7,603,347
Due to the Moldovan Government	2,277,520	6,692	222,597	-	-	-	2,506,809
Due to banks	2,133,021	767,877	1,153,658	-	-	-	4,054,556
Certificates issued by the NBM	812,928	-	-	-	-	-	812,928
Due to International Financial Institutions	2,208,201	-	-	-	1,805,971	-	4,014,172
Other liabilities	143,934	89	21	-	-	-	144,044
Total liabilities	**15,178,951**	**774,658**	**1,376,276**	**-**	**1,805,971**	**-**	**19,135,856**
Net position	**(10,515,078)**	**7,237,007**	**2,701,541**	**3,008,956**	**(1,804,241)**	**248**	**628,433**
31 December 2006							
Total assets	**5,005,737**	**5,413,971**	**2,641,963**	**1,946,517**	**2,457**	**165**	**15,010,810**
Total liabilities	**11,177,892**	**527,499**	**481,887**	**-**	**1,823,555**	**-**	**14,010,833**
Net position	**(6,172,155)**	**4,886,472**	**2,160,076**	**1,946,517**	**(1,821,098)**	**165**	**999,977**

Japanese yen, Romanian leu and Russian ruble represent other currencies, mainly.

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

5. Cash and short-term placements with banks

	31 December 2007	31 December 2006
Cash on hand in foreign currency	1,362	1,354
Nostro accounts	678,630	63,824
Term deposits in foreign currency	10,358,147	5,918,073
	11,038,139	**5,983,251**

Cash and short-term placements with banks are presented at their net value due to the fact that the cash on hand in local currency in the NBM circulation cash desk is offset with the national currency issued into circulation. The net value presentation is adequate since the NBM is the sole issuer of the national currency.

As at 31 December 2007 the term deposits in foreign currency hold the significant portion within this line (circa 93.84%). As at period end the term deposits in foreign currency were placed at counterparties with high rating including counterparties with ratings „AAA" – 28.35%, „AA" – 53.90%, „AA–" – 17.75% of total deposits (as at 31 December 2006: „AAA" – 36.76%, „AA+" – 7.30%, „AA" – 35.60%, „AA–" – 20.34%).

The average interest rate of the term deposits in foreign currency placed during the year 2007 is 5.14% (2006: 4.36%) and it is above the compound benchmark related to the investment portfolio calculated for the same period, which represents 4.64% (2006: 4.18%).

6. Due from/to International Financial Institutions

	31 December 2007	31 December 2006
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,201,230	2,391,843
Current account with IMF	1,730	2,457
	2,202,960	**2,394,300**
Liabilities		
Account No.1	2,201,141	2,391,746
Account No.2	90	98
Total Availabilities of the IMF	**2,201,231**	**2,391,844**
Other international organizations	6,970	2,920
Loans granted by IMF	1,805,971	1,823,964
	4,014,172	**4,218,728**

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

6. Due from International Financial Institutions (continued)

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the member. Up to 25% is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

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

The amounts included in the NBM balance sheet as Due to International Financial Institutions also include the loans received by the NBM from the IMF. The loans are denominated in Special Drawing Rights ("XDR"), but disclosed in the balance sheet at the Moldovan Lei equivalent at the end of the reporting period.

As at 31 December 2007 the Bank's outstanding balance of loans due to the IMF is as follows:

- Poverty Reduction and Growth Facility – XDR'000 86,372 (as at 31 December 2006: XDR'000 68,358)
- Extended Fund Facility – XDR'000 14,583 (as at 31 December 2006: XDR'000 25,417)

Poverty Reduction and Growth Facility (PRGF) represents loans granted to poor countries with the GDP less than USD 895 per person. The IMF has granted loans within PRGF for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.5% per annum

During the year 2007 NBM has received a loan installment of XDR'000 21,710 within PRGF loan (2006: two loan installments with a total of XDR'000 43,410).

Extended Fund Facility (EFF) represents the loan granted for economic growth support and is granted to economies suffering balance of payments deficits. The IMF has granted the loan of XDR'000 87,500 for a period of 10 years with a grace period of 4.5 years and a floating interest rate set on a weekly basis by the IMF.

The loans received by NBM from the IMF from the General Resources Account are secured by a bill of exchange issued by the National Bank of Moldova.

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

7. Due from the Moldovan Government

	31 December 2007	31 December 2006
Loans granted/reconcluded with the Moldovan Government	1,932,242	2,092,242
Interest accrued on loan granted/ reconcluded with the Moldovan Government	40,318	21,580
	1,972,560	**2,113,822**

7. Due from the Moldovan Government (continued)

The balance of the State debt to the NBM (loans granted and accrued interest) has decreased as at 31 December 2007 as compared to 31 December 2006 by MDL'000 141,262 or 6.68%. The decrease in this account with the above mentioned amount is due to a decrease in the loan balances as a result of repayment of MDL'000 160,000 (stipulated in the Law on State Budget for 2007) and an increase in the balance of accrued interest as at 31 December 2007 with MDL'000 18,738.

The interest rate of the loans as at 31 December 2007 varied from 13.60% to 15.76% per annum, comparing to 6.98% – 13.69% per annum as at 31 December 2006.

The loans to the Government are guaranteed by state securities at the market price issued by the Moldovan Government with a maturity similar to loan due date that can be traded on the market. As at 31 December 2007 the value of state treasury securities placed as collateral constituted MDL'000 2,006,508 (31 December 2006: MDL'000 2,140,514).

The matured loans are reconcluded for a maximum period of 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

8. Securities issued by the Moldovan Government

	31 December 2007	**31 December 2006**
Securities issued by the Moldovan Government	415,502	409,030
Discount on securities issued by the Moldovan Government	(7,352)	(4,716)
Revaluation of securities issued by the Moldovan Government	387	(1,740)
	408,537	**402,574**

As at 31 December 2007, the balance of state securities held in the Bank portfolio comprises state securities issued by the Moldovan Government and remitted to the Bank as a result of prior conversion into state securities of internal state debts purchased from the Bank during the previous years. These securities are classified as available for sale and are recorded at their fair value.

As at 31 December 2007 this account increased by MDL'000 5,963 as compared to 31 December 2006, due to the fact that the securities obtained during the IV quarter of 2007 bear higher interest rates as compared to the same period of 2006.

The average weighted interest rate for the state securities from the Bank's portfolio re-issued during 2007 is 12.78% per annum (in 2006: 6.17%); maximum interest rate – 15.76% per annum (in 2006: 13.69%) being registered in October 2007 (December 2006); minimum interest rate – 10.45% per annum (in 2006: 1.01%) registered in September 2007 (February 2006).

As at 31 December 2007 the average market rate for the state securities registered was 14.19% per annum (as at 31 December 2006: 13.30%).

9. Loans granted to banks and individuals

	31 December 2007	**31 December 2006**
Loans granted to banks	33,461	40,670
Loan granted to other individuals	5,378	5,362
Subtotal	**38,839**	**46,032**
Less: Impairment Provision	-	-
	38,839	**46,032**

Loans granted to banks and individuals include loans granted to commercial banks during the years 1993-2000 for loans to housing construction cooperatives and loans granted to the Bank' employees adjusted with loan loss provision.

The decrease in the balance of loans granted to banks and individuals by MDL'000 7,193 or by 15.63% resulted mainly due to reimbursements by banks of the loans granted.

Hence, the balance of loans granted to banks decreased by MDL'000 7,209, from MDL'000 40,670 to MDL'000 33,461, and the balance of loans granted to employees of NBM increased by MDL'000 16, from MDL'000 5,362 to MDL'000 5,378.

The loans granted by the National Bank of Moldova to commercial banks are guaranteed by the balances of the Loro accounts in MDL of commercial banks. As at 31 December 2007 the value of collateral placed by banks to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 199,010 (as at 31 December 2006: MDL'000 199,010).

As at 31 December 2007 the value of the collateral placed by employees to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 8,930 (as at 31 December 2006: MDL'000 8,634).

The movement in the provision for loan losses during the year is as follows:

	2007	**2006**
As at 1 January	**-**	**10**
Release of provisions during the year	(5)	(10)
Additions during the year	5	-
As at 31 December	**-**	**-**

As at 31 December 2007, NBM did not have any past due receivables.

10. Investment securities

	31 December 2007	31 December 2006
Investment securities in foreign currency with coupon	4,002,772	3,981,882
Premium / discount on investment securities in foreign currency with coupon	(9,049)	(8,938)
Interest purchased on investment securities in foreign currency with coupon	6,221	10,973
Interest accrued on investment securities in foreign currency with coupon	44,406	48,024
Revaluation of investment securities with coupon	12,042	(12,615)
	4,056,392	**4,019,326**

The securities issued by non-residents held by the National Bank of Moldova represent mainly securities issued by entities from the United States of America and European Union. As at 31 December 2007 all securities issued by non-residents held in the Bank’s portfolio have the highest rating - „AAA” (as at 31 December 2006: “AAA”-100%).

Those securities are low risk assets and are classified as held for trading financial assets at fair value through profit or loss account.

During 2007, the securities issued by non-residents increased in MDL equivalent by 0.92% (in 2006: 53.96%).

During the reported period, the total amount of securities sold or matured denominated in foreign currency represented the total nominal value of USD’000 130,000, EUR’000 63,000 and GBP’000 16,500 (in 2006: USD’000 110,000, EUR’000 40,000 and GBP’000 7,500). Consequently, there were purchased securities denominated in foreign currency in the total nominal value of USD’000 164,000, EUR’000 65,000 and GBP’000 14,000 (in 2006: USD’000 164,000, EUR’’000’ 60,000 and GBP’000 15,000).

11. Tangible and intangible assets

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
Cost						
At as 1 January 2007	36,627	76,111	15	26,269	-	139,022
Additions	-	3,675	-	636	120	4,431
Disposals	(207)	(1,915)	-	(1,201)	-	(3,323)
As at 31 December 2007	**36,420**	**77,871**	**15**	**25,704**	**120**	**140,130**
Accumulated depreciation						
As at 1 January 2007	18,478	63,230	-	9,539	-	91,247
Charge for the year	992	7,037	-	4,523	-	12,552
Charge for disposals	(90)	(1,915)	-	(1,201)	-	(3,206)
As at 31 December 2007	**19,380**	**68,352**	**-**	**12,861**	**-**	**100,593**
Carrying value						
As at 1 January 2007	**18,149**	**12,881**	**15**	**16,730**	**-**	**47,775**
As at 31 December 2007	**17,040**	**9,519**	**15**	**12,843**	**120**	**39,537**

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

11. Tangible and intangible assets (continued)

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
Cost						
At as 1 January 2006	36,653	76,175	15	9,872	9,202	**131,977**
Additions	14	1,568	-	2,180	5,015	**8,777**
Reclassification	-	-	-	14,217	(14,217)	**-**
Disposals	(40)	(1,632)	-	-	-	**(1,672)**
As at 31 December 2006	**36,627**	**76,111**	**15**	**26,269**	**-**	**139,022**
Accumulated depreciation						
As at 1 January 2006	17,525	56,730	-	6,346	-	**80,241**
Charge for the year	993	8,476	-	3,193	-	**12,662**
Charge for disposals	(40)	(1,616)	-	-	-	**(1,656)**
As at 31 December 2006	**18,478**	**63,230**	**-**	**9,539**	**-**	**91,247**
Carrying value						
As at 1 January 2006	**19,128**	**19,805**	**15**	**3,526**	**9,202**	**51,676**
As at 31 December 2006	**18,149**	**12,881**	**15**	**16,730**	**-**	**47,775**

12. Other assets

	31 December 2007	31 December 2006
Prepayments	41	533
Other receivables	5,191	1,053
Inventories	1,423	1,634
Goods and materials administered	839	722
Subtotal	**7,494**	**3,942**
Less: Provisions for slow moving inventory and doubtful debts	(169)	(212)
	7,325	**3,730**

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

	2007	2006
As at 1 January	**212**	**219**
Charge for the year	7	4
Release for the year	(50)	(11)
As at 31 December	**169**	**212**

13. National currency issued into circulation

	31 December 2007	31 December 2006
National currency issued into circulation	7,603,355	5,874,968
Less: Cash on hand in national currency in circulation cash desk	(8)	(57,777)
	7,603,347	**5,817,191**

14. Due to the Moldovan Government

	31 December 2007	31 December 2006
Term deposits of the Ministry of Finance	371,415	-
Current deposits of the Ministry of Finance	1,882,761	-
Other availabilities of the Government of RM	252,633	871,627
	2,506,809	**871,627**

As at 31 December 2007 the availabilities of the Government represent 13.10% of the total liabilities of NBM (as at 31 December 2006: 6.22%).

BNM pays an interest rate on the term deposits of the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for deposits with a similar maturity in MDL. The average interest rate on term deposits of the Ministry of Finance for the period constituted 11.83%.

BNM pays an interest rate on the current deposits of the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for current deposits in MDL. The average interest rate on current deposits of the Ministry of Finance for the period constituted 3.09%.

15. Due to banks

	31 December 2007	31 December 2006
Current accounts of commercial banks, including obligatory reserves	3,741,505	1,491,606
Deposits from local banks in national currency	313,051	332,791
	4,054,556	**1,824,397**

As at 31 December 2007 the availabilities of the banks represent 21.19% of the total liabilities of NBM (as at 31 December 2006: 13.02%).

The balance in due to banks increased as compared to 2006 by MDL'000 2,230,159. This increase was mainly due to an increase in the balances on Loro accounts and the increase in the obligatory reserves of commercial banks by MDL'000 2,249,899, while the balance of deposits from commercial banks decreased by MDL'000 19,740.

16. Certificates issued by the National Bank of Moldova

	31 December 2007	31 December 2006
Certificates issued by NBM	810,201	940,361
Discount on certificated issued by NBM	2,727	2,986
	812,928	**943,347**

NBM certificates represent securities sold to commercial banks through auctions in order to absorb the excess of liquidity on the monetary market. They are issued at a discount and repurchased upon maturity at nominal value. The prevailed maturity of NBM certificates (NBC) issued during 2007 was 7, 14 and 28 days.

The average rate on NBC in circulation as at 31 December 2007 constituted 15.86% (2006: 14.04%).

Even though during 2007 the balance of NBM certificates in circulation registered values above MDL'000 2,000,000, at the end of December their value decreased to MDL'000 810,201 (sale price).

As a result of the decrease in volume of NBC in circulation at the end of 2007, their balance decreased by MDL'000 130,419 as compared to 31 December 2006.

17. Other liabilities

	31 December 2007	31 December 2006
Due to the State Budget	-	313,498
Due to other entities	137,293	15,782
Due to personnel	5,061	4,922
Other liabilities	1,690	1,341
	144,044	**335,543**

Due to other entities includes mainly temporary availabilities accumulated during the process of issuance of shares for the statutory capital of ProCredit Bank S.A. in the amount of MDL'000 120,000.

18. Capital and reserves

	31 December 2007	31 December 2006
Authorized capital	288,923	288,923
General reserve fund	320,277	577,845
Total statutory capital:	**609,200**	**866,768**
Reserve of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	133,099
Reserve of unrealized gains from revaluation of securities	17,643	
Gains/(losses) from revaluation of treasury bills	387	(1,739)
Gains from indexation of fixed assets	1,203	1,849
	628,433	**999,977**

18. Capital and reserves (continued)

The statutory capital of the Bank as at 31 December 2007 decreased by MDL'000 257,568 as compared to 31 December 2006. This was as a result of the release of the general reserve fund to cover the losses registered at the end of 2007 after the allocation of the unrealized gains on revaluation of investment securities in the respective reserve account in the amount of MDL'000 17,643 and the release to cover unrealized gains on exchange rate differences from foreign currency stocks revaluation from the respective reserve account in the amount of MDL'000 133,099.

As at 31 December 2007 the revaluation of treasury bills registered a positive result of MDL'000 387, which resulted in an increase of the capital of NBM with the respective amount.

Hence, as at 31 December 2007, the statutory capital of the Bank constituted MDL'000 609,200. The ratio of capital in total monetary liabilities of the Bank decreased as compared to prior year from 10% to 4.83%.

19. Distribution of net profit

	31 December 2007	**31 December 2006**
Net profit for the year	(373,671)	545,806
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	(133,099)
Allocation of unrealized gains from revaluation of investment securities	(17,643)	-
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	133,099	
Transfer from indexation reserve of fixed assets	647	647
Net profit for the year available for distribution	**(257,568)**	**413,354**
Release / (allocation) to:		
Authorized capital	-	(32,531)
General reserve fund	257,568	(65,062)
State Budget	**-**	**315,761**

As at 31 December 2007 the National Bank registered a loss in the amount of MDL'000 257,568, this being mainly as a result of the recognition of unrealized losses from revaluation of foreign currency stocks in the amount of MDL'000 885,438.

(all amounts are expressed in thousand Moldovan Lei "MDL '000")

20. Interest income

	31 December 2007	31 December 2006
Interest income from deposits and availabilities:		
Interest from term deposits in foreign banks	281,671	179,508
Interest from deposits overnight	89,373	31,709
Interest income from availabilities	1,783	1,808
	372,827	**213,025**
Interest income from securities:		
Interest from securities with coupon and discount	179,724	137,328
Interest from amortized discount on treasury bills	48,308	22,011
	228,032	**159,339**
Interest income from loans:		
Interest from loans to the Moldovan Government	240,556	121,650
Interest from loans to banks and employees	4,279	4,873
	244,835	**126,523**
	845,694	**498,887**

21. Interest expense

	31 December 2007	31 December 2006
Interest expenses arising from loans received:		
Interest from loans received from the IMF	24,805	32,559
	24,805	**32,559**
Interest expenses arising from availabilities:		
Interest on obligatory reserves	16,444	15,418
Interest on deposits placed by the Banks	29,299	30,962
Interest on deposits placed by the Ministry of Finance	53,175	-
	98,918	**46,380**
Interest expenses arising from transactions with securities and Repo agreements:		
Interest on certificates of the Bank	198,406	40,235
Interest on investment securities	4	-
	198,410	**40,235**
	322,133	**119,174**

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

	31 December 2007	31 December 2006
Realized gains from foreign exchange transactions	4,525	133,330
Unrealized gains/(losses) from foreign exchange rate difference	(885,438)	133,099
	(880,913)	**266,429**

23. Gains/ (losses) from revaluation of securities

	31 December 2007	31 December 2006
Net realized gains from investment securities	6,861	4,544
Net unrealized gains from investment securities	17,643	-
Net unrealized losses from revaluation of securities	-	(6,924)
	24,504	**(2,380)**

24. Other income

	31 December 2007	31 December 2006
Income related to settlements in SAPI	9,213	7,394
Income related to cash transactions	11,374	-
Other income	3,647	2,682
	24,234	**10,076**

25. Operating expenses

	31 December 2007	31 December 2006
Expenses related to the production of the national currency	4,053	50,624
Staff costs	35,636	33,624
Depreciation of tangible assets and amortization of intangible assets	12,551	12,662
Communication expenses	5,728	5,028
Repair of property and equipment	273	718
Maintenance of the equipment	445	517
Other operating expenses	6,417	4,869
	65,103	**108,042**

Staff costs include mandatory state social contribution in the amount of MDL'000 6,681 and mandatory medical insurance in the amount of MDL'000 699 (2006: MDL'000 6,508 and MDL'000 529 respectively).

26. Related parties

During the year ended at 31 December 2007, the remuneration paid to the Bank management, including middle level management, was MDL'000 3,877 (2006: MDL'000 3,335).

The Bank has granted loans to its employees. The following disclosure represents the movement for loans granted and remaining balances of the loans granted to the management of the Bank, including the middle level management:

	Remaining balance as at 1st of January	Loans granted	Reimbursements	Remaining balance as at 31st of December
2006	676	-	43	633
2007	633	-	78	555

The loans were granted to the management of the Bank according to the NBM internal regulation and the interest rates charged are the same for all NBM employees. Outstanding balances at the year-end are secured by collateral placed by each individual, which as at 31 December 2007 amounted to MDL'000 984 (as at 31 December 2006: MDL'000 984). For the year ended 31 December 2007 these loans were classified as performing loans and therefore the Bank has not made any provisions relating to amounts owed by related parties.

27. Commitments and contingencies

Litigations

As at 31 December 2007 the Bank was involved in two litigations against the Bank and a litigation against a former authorized bank related to the insolvency procedure. As at 31 December 2007 the Bank did not book any provisions for litigations, due to the fact that at that moment it did not have a legal or constructive obligation as a result of a past event, and there was no probability of future outflow of resources embodying economic benefits to settle the obligations.

Credit related commitments

As at 31 December 2007, there were no outstanding credit related commitments.