

NATIONAL BANK OF MOLDOVA

FINANCIAL STATEMENTS

for the year ended 31 December 2009

***Prepared in Accordance with
International Financial Reporting Standards***

Chişinău 2010

NATIONAL BANK OF MOLDOVA
FINANCIAL STATEMENTS
For the year ended 31 December 2009

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To the Council of Administration
of the National Bank of Moldova

Independent Auditor's Report

1. We have audited the accompanying financial statements of the National Bank of Moldova (the 'Bank'), which comprise the balance sheet as at 31 December 2009, and the statement of comprehensive result, statement of changes in capital and reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year ended 31 December 2008 were audited by another auditor whose report dated 20 March 2009 expressed an unqualified opinion on those financial statements.

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 control 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.

Auditor's Responsibility

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

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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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

7. Without qualifying our opinion, we draw attention to Note 18 which describes that the Bank had a negative balance of the general reserve fund of MDL 1,110,927 thousand as of 31 December 2008. In accordance with Article 19.6 of the Law on the National Bank of Moldova in the event that at the end of the financial year the balance of the general reserve fund has a debit balance, the Government, in the person of the Ministry of Finance, shall, within 60 days after the receipt of the external auditor's report on the financial statements of the National Bank, transfer to the National Bank, as a capital contribution, state securities bearing interest at market-related rates in such amounts as is necessary to cover the debit balance. The Ministry of Finance did not issue such securities to cover the negative balance of the general reserve fund during the year ended 31 December 2009. As of 31 December 2009 the balance of the general reserve fund is negative of MDL 774,348 thousand and the Bank's total capital and reserves is positive of MDL 1,236,518 thousand.

Deloitte & Touche SRL

Deloitte & Touche SRL
11 March, 2010
Chisinau, Republic of Moldova

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NATIONAL BANK OF MOLDOVA
BALANCE SHEET
As at 31 December 2009

	Notes	31 December 2009 MDL '000	31 December 2008 MDL '000
ASSETS			
Cash and short term placements with banks	5	10,580,780	10,545,899
Due from International Financial Institutions	6	2,419,756	1,975,126
Securities issued by the Moldovan Government	7	2,227,930	2,304,220
Loans granted to banks and individuals	8	1,872,686	32,059
Investment securities	9	7,584,973	6,845,824
Tangible assets	11	20,654	22,599
Intangible assets	11	5,602	8,881
Other assets	12	3,274	3,293
TOTAL ASSETS		24,715,655	21,737,901
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	13	9,882,542	8,732,080
Due to the Moldovan Government	14	2,828,040	2,789,251
Due to banks	15	3,062,406	6,048,623
Certificates issued by the NBM	16	3,081,558	1,061,580
Due to International Financial Institutions	6	4,262,550	3,711,103
Other liabilities	17	362,041	64,126
Total liabilities		23,479,137	22,406,763
Capital and reserves			
Authorized capital		288,923	288,923
General Reserve fund		(774,348)	(1,110,927)
Total statutory capital		(485,425)	(822,004)
Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	18	1,601,468	-
Reserve of unrealized gains on revaluation of investment securities	18	120,131	147,060
Other reserves	18	344	6,082
Total capital and reserves		1,236,518	(668,862)
TOTAL LIABILITIES, CAPITAL AND RESERVES		24,715,655	21,737,901

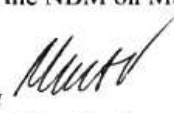
The accompanying notes 1 – 28 are an integral part of these financial statements.

The financial statements were approved by the Council of Administration of the NBM on March 11, 2010

Dorin Drăguțanu
Governor



Vasile Munteanu
Deputy Director of the Budget,
Finance and Accounting Department



NATIONAL BANK OF MOLDOVA
STATEMENT OF COMPREHENSIVE RESULT
For the year ended 31 December 2009

	<u>Notes</u>	<u>2009</u> <u>MDL '000</u>	<u>2008</u> <u>MDL '000</u>
Interest income from short term placements	20	65,914	442,086
Interest income from securities and Repo agreements	20	485,566	520,355
Interest income from loans	20	48,558	37,970
		<u>600,038</u>	<u>1,000,411</u>
Interest expenses on loans received	21	(10,112)	(13,618)
Interest expenses on deposits and obligatory reserves	21	(126,364)	(182,314)
Interest expenses on transactions with securities and Repo agreements	21	(32,761)	(210,772)
		<u>(169,237)</u>	<u>(406,704)</u>
Net interest income		430,801	593,707
Gains/(losses) from foreign exchange transactions and foreign exchange rate differences	22	1,959,411	(1,971,088)
Gains/(losses) from the revaluation of securities	23	(73,895)	126,499
Income / (expenses) from provisions for loans and doubtful receivables		2	(2)
Other income	24	39,360	42,485
Operating expenses	25	(108,539)	(94,035)
Operating Gains/(losses)		1,816,339	(1,896,141)
NET PROFIT / (LOSS)		2,247,140	(1,302,434)
Revaluation of securities issued by the Moldovan Government		(5,181)	5,139
COMPREHENSIVE RESULT		2,241,959	(1,297,295)
<i>Calculation of the profit available for distribution / (Total loss)</i>			
NET PROFIT / (LOSS)		2,247,140	(1,302,434)
Covering/(allocation) of unrealized losses/(gains) on revaluation of investment securities	19	26,929	(129,417)
Allocation of unrealized gains on revaluation of foreign currency stock	19	(1,601,468)	-
Transfer of surplus from indexation reserve of fixed assets	19	557	647
PROFIT AVAILABLE FOR DISTRIBUTION/ (TOTAL LOSS)	19	673,158	(1,431,204)

The accompanying notes 1 – 28 are an integral part of these financial statements.

The financial statements were approved by the Council of Administration of the NBM on March 11, 2010

Dorin Drăguțanu
Governor



Vasile Munteanu
Deputy Director of the Budget,
Finance and Accounting Department



NATIONAL BANK OF MOLDOVA
STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	<u>Notes</u>	<u>2009</u> <u>MDL '000</u>	<u>2008</u> <u>MDL '000</u>
Cash flow from operating activities			
Interest receipts		574,569	1,066,228
Interest payments		(239,032)	(416,828)
Losses from investment securities		(46,966)	(2,918)
Other receipts		39,239	42,470
Payments to staff and suppliers		(86,816)	(75,003)
Cash flow before changes in assets and liabilities		240,994	613,949
 Increase in amounts due from International Financial Institutions		(19,502)	(853)
Decrease/(increase) securities issued by the Government of the Republic of Moldova		2,188,449	(433,067)
(Increase)/decrease in loans granted to banks and individuals		(1,835,091)	6,778
Decrease/(increase) in investment securities		614,548	(3,308,343)
Decrease/(increase) in operating assets		948,404	(3,735,485)
 Increase in the national currency issued into circulation		1,150,462	1,128,734
(Decrease)/increase in balances due to Government		(79,927)	281,512
(Decrease)/increase in balances due to banks		(3,359,515)	2,243,527
Increase in certificates issued by the NBM		2,019,168	250,973
(Decrease)/increase in balances due to International Financial Institutions		(175,661)	110,097
Decrease in other liabilities		(40,695)	(80,674)
(Decrease)/increase in operating liabilities		(486,168)	3,934,169
 Net cash from operating activities		703,230	812,633
 Fixed assets acquisitions		(3,326)	(2,129)
Net cash flow from investing activities		(3,326)	(2,129)
 Revaluation differences		1,381,407	(1,711,281)
Increase/(decrease) in cash and cash equivalents		2,081,311	(900,777)
 Cash and Cash equivalents at the beginning of the period		10,545,899	11,446,676
 Cash and Cash equivalents at the end of the period		12,627,210	10,545,899
		<u>2009</u>	<u>2008</u>
Analysis of Cash and Cash equivalents			
Cash on hand in foreign currency	5	1,441	1,418
Nostro accounts	5	719,104	602,296
Term deposits in foreign currency	5	9,860,235	9,942,185
Securities issued by the Moldovan Government	7	2,046,430	-
Cash and Cash equivalents		12,627,210	10,545,899

NATIONAL BANK OF MOLDOVA
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
For the year ended 31 December 2009

	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	Total profit / (losses)	Total Capital and Reserves
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2008	288,923	320,277	-	17,643	1,590	-	628,433
Comprehensive result	-	-	-	-	5,139	(1,302,434)	(1,297,295)
Transfer of surplus from indexation reserve of fixed assets	-	-	-	-	(647)	647	-
Allocation of unrealized gains from revaluation of investment securities	-	-	-	129,417	-	(129,417)	-
Release of general reserve fund	-	(320,277)	-	-	-	320,277	-
Recording the debtor balance of the general reserve fund	-	(1,110,927)	-	-	-	1,110,927	-
Balance as at 31 December 2008	288,923	(1,110,927)	-	147,060	6,082	-	(668,862)
Balance as at 1 January 2009	288,923	(1,110,927)	-	147,060	6,082	-	(668,862)
Comprehensive result	-	-	-	-	(5,181)	2,247,140	2,241,959
Transfer of surplus from indexation reserve of fixed assets	-	-	-	-	(557)	557	-
Allocation of unrealized gains on foreign currency stock revaluation	-	-	1,601,468	-	-	(1,601,468)	-
Covering of unrealized losses from revaluation of investment securities	-	-	-	(26,929)	-	26,929	-
Increase of the general reserve fund	-	336,579	-	-	-	(336,579)	-
Allocation of profit to the State Budget	-	-	-	-	-	(336,579)	(336,579)
Balance as at 31 December 2009	288,923	(774,348)	1,601,468	120,131	344	-	1,236,518

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

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 on 21 July 1995. In accordance with the Law on the National Bank of Moldova, it is an autonomous public legal entity that is responsible to the Parliament. The primary objective of the National Bank is to achieve and maintain price stability. 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 2009 the number of positions available at the Bank, including vacancies, was 463, out of which the number of employees was - 455 persons (at 31 December 2008 the number of positions available at the Bank was 460, out of which the number of employees was - 452 persons).

The registered office of the Bank is located at Grigore Vieru 7 (previously named Renasterii 7 Avenue), Chisinau, Republic of Moldova.

2. Adopting the new and revised International Financial Reporting Standards

2.1. Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **IFRS 8 “Operating Segments”** (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures”** - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),

**2. Adopting the new and revised International Financial Reporting Standards
(continued)**

2.1. Standards and Interpretations effective in the current period (continued)

- **Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements”** – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008** (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- **Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”** – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- **IAS 1 (revised) “Presentation of Financial Statements”** – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- **IAS 23 (revised) “Borrowing Costs”** (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRS 2 “Share-based Payment”** – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- **Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”** – Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- **IFRIC 13 “Customer Loyalty Programmes”** (effective for annual periods beginning on or after 1 July 2008),
- **IFRIC 15 “Agreements for the Construction of Real Estate”** (effective for annual periods beginning on or after 1 January 2009),
- **IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”** (effective for annual periods beginning on or after 1 October 2008),

The Bank adopted the amendments to IFRS 7 which refer to the extension of the disclosures required with regard to the fair value of the financial instruments and presentation of an analysis of the financial bonds derived according to the contractual maturity. The bank has disclosed the necessary information pertaining to these amendments in these financial statements. The Bank did not adopt other amendments to the existing standards and interpretations as they are not relevant to its operations.

2. Adopting the new and revised International Financial Reporting Standards (continued)

2.2. Standards and interpretations issued not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 3 (revised) “Business Combinations”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRS 1 (revised) “First-time Adoption of IFRS”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters** (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters** (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRS 2 “Share-based Payment”** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 24 “Related Party Disclosures”** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 27 “Consolidated and Separate Financial Statements”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 32 “Financial Instruments: Presentation”** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009** (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction”** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 17 “Distributions of Non-Cash Assets to Owners”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18 “Transfers of Assets from Customers”** (effective for transfer of assets from customers received on or after 1 July 2009),
- **IFRIC 19 “Extinguishing Liabilities with Equity Instruments”** (effective for annual periods beginning on or after 1 July 2010).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

3. Significant accounting policies

a. Basis of preparation

The financial statements of the NBM have been prepared in accordance 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 and 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 Republic of Moldova. The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the *Law on the National Bank of Moldova* and prepares its financial statements in accordance with them. The financial statements have been prepared on a historic cost 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.

Given the specificity of the Bank, the categories of financial assets shown on the face of the Balance sheet were presented using other names than the categories indicated by IAS 39. This presentation provides a better understanding of the financial assets and liabilities of the Bank. At the same time, each position of financial assets and liabilities in the balance sheet corresponds to a certain category classified in accordance with IAS 39, these being presented in this note.

b. Comparative figures

At the end of 2009, the "Income Statement" was renamed as "Statement of comprehensive result" and its structure was updated, clearly identifying the component elements of the report.

This change was made such as to conform to the information presentation requirements according to the International Financial Reporting Standards (IAS 1) and Law on the National Bank of Moldova.

c. Revaluation of the balances and transactions in foreign currency

The transactions in foreign currency are recorded at the exchange rate of the date of the transaction and are revalued on a daily basis using the official exchange rate. As at the balance sheet date, the monetary assets and the liabilities denominated in foreign currencies are translated at the forex rate as of the balance sheet date. For the years 2008-2009, the exchange rates of the reference foreign currencies were as follows:

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

3. Significant accounting policies (continued)

c. Revaluation of the balances and transactions in foreign currency (continued)

	2009		2008	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	11.1134	12.3017	10.3895	10.4002
EUR/MDL	15.5248	17.6252	15.2916	14.7408
GBP/MDL	17.4035	19.4965	19.2929	15.0760
CHF/MDL	10.2774	11.8451	9.6243	9.8552
XDR/MDL	17.1508	19.2151	16.4315	16.0975

Exchange rate differences arising on the settlement of transactions at exchange rates different from those at initial recognition are recognized in the statement of comprehensive result.

d. 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, conditional commitments and receivables

The Bank reviews its loans, conditional commitments and receivables quarterly or when it is considered necessary in order to assess whether an allowance for impairment should be recorded in the statement of comprehensive result.

e. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements at other banks, securities issued by the Moldovan Government 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).

3. Significant accounting policies (continued)

f. Due from International Financial Institutions

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

g. Financial assets

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

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss 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, these securities are remeasured at fair value based on quoted bid prices. Interest income on securities is included in “Interest income” line in the statement of comprehensive result.

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 balances due from IFIs, purchase Repo transactions, loans granted to licensed 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 recognition, 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)

g. Financial assets (continued)

Available for sale financial assets

All the financial assets, which are not classified at fair value through profit and loss 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 measured at their fair value which is based on quoted bid prices or amounts derived from discounted 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 as other comprehensive income in the statement of comprehensive result and reported in equity as "Other reserves". When the securities available for sale are disposed of, the cumulative gain or loss previously recognized in equity is recognized as income or loss in the statement of comprehensive result.

Interest calculated using the effective interest method is recognized in profit or loss. The Bank includes in this category the securities issued by the Moldovan Government that are included in the line "Securities issued by the Moldovan Government" in the balance sheet.

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

Loans and advances provided by the Bank are presented at amortised cost less an estimate for impairment that approximates fair value of such assets.

State securities are classified as "available for sale" and are reported at fair value.

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

3. Significant accounting policies (continued)

h. Fair value of financial instruments (continued)

The fair value of the state securities held in the portfolio (with maturities which were not traded on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per each maturity of state securities 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 state securities on the primary market as well as on the secondary market for the last 5 banking days.

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

The fair value hierarchy comprises the following three levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). The Bank assigns its investment securities to this category.
- 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) (level 2). The Bank assigns its state securities to this category.
- inputs for assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).

The classification of the fair value of the financial assets of the Bank per the three levels is presented in Note 10.

i. Provisions for impairment of the loans, other assets and losses on conditional commitments

The provisions for the impairment of loans and losses on conditional commitments are set up where there is objective evidence (regarding financial position of the Bank, collateral ensuring reimbursement of loans, service of current payments, renegotiations and prolongations of repayments terms of loans and/or related interests) that the Bank will not be able to recover all the amounts due to it (the initial amount of the loan and the related interests).

The amount of the impairment loss provision 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 provision for impairment of the loans and losses on conditional commitments 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 licensed bank and/or the insufficiency of own funds to settle the debt to the NBM. These loans are written off against provisions established previously.

3. Significant accounting policies (continued)

i. Provisions for impairment of the loans, other assets and losses on conditional commitments (continued)

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

In order to cover the potential objective risks and losses, 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.

j. Repo Agreements

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

Securities sold (purchased) with a simultaneous commitment to repurchase (sell) at a specified future date are subsequently recognized in the balance sheet as purchase/sale Repo transactions and are measured in accordance with respective accounting policies. 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 yield method.

k. 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. These indices 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.

Depreciation of fixed assets is computed on a straight-line basis using the following depreciation rates:

3. Significant accounting policies (continued)

k. Tangible assets (continued)

	<u>rate per annum</u>
Buildings	5%
Motor vehicles – heavy vehicles	10%
Wooden buildings	20%
Motor vehicles – cars, buses	20%
Special equipment	20%
General and administration equipment	20%
Other equipment	30%

l. Intangible assets

Intangible assets represent costs incurred for acquisition of computer software, amortized using the straight-line method over their estimated useful lives, by applying an annual amortization rate determined based on the estimated useful life of each asset. The useful life of the asset is determined when it is put into use, on the basis of the period that the asset is estimated to be used or the duration of the license. As at 31 December 2009 the estimated useful life of intangible assets varied between 1 and 5 years.

The costs related to the development or maintenance of the software elements are recognized through the statement of comprehensive result at the moment they occur.

m. 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 statement of comprehensive result when the expense is incurred.

n. 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 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.

In the Balance sheet balances due to banks are presented at nominal value, and in cases of term deposits they are subsequently restated at amortized cost. Due to the short-term nature of such balances, their carrying amount approximates fair value.

3. Significant accounting policies (continued)

o. Due to Moldovan Government

Due to Moldovan Government include accounts of the State Budget held in the Unique Treasury Account, foreign currency balances, 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, which due to their short-term nature, approximates the fair value of such instruments.

p. 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. Due to their short-term nature, their carrying amount approximates fair value.

q. Due to International Financial Institutions

Balances Due to International Financial Institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently Balances Due to International Financial Institutions are recognized 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.

r. 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, in accordance with IFRS.

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 (that represent all liabilities in the Balance sheet except liabilities due to Government and International Monetary Fund).

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

3. Significant accounting policies (continued)

r. Capital and reserves (continued)

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end. In case when at year end the general reserve fund has a debit balance, the Government, in the person of 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 securities at the market interest rate, in the amount necessary to cover the debit balance.

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

At the end of the financial year, the profit available for distribution is allocated 50% to increase the statutory capital and the balance of the profit available for distribution is transferred to the income of the state budget.

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

Statutory capital and reserves are disclosed in the Balance sheet at nominal value.

s. Income tax

In compliance with the art. 24 par. (15) lit. f) of the *Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code*, the National Bank of Moldova is exempted from the income tax on its activities.

t. Interest income and expenses

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

u. Revaluation of foreign currency assets and liabilities

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency 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.

3. Significant accounting policies (continued)

u. Revaluation of foreign currency assets and liabilities (continued)

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 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 statement of comprehensive result is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

v. Fiduciary activities

NBM acts as fiscal agent of the State, in accordance with provisions of the Law on the National Bank of Moldova. Assets and income arising from these activities are not included in these financial statements.

w. 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 is disclosed when an inflow of economic benefits is probable.

x. Provisions

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

y. Pension costs and employees' benefits

During its normal activity, the Bank makes contributions to the social state insurance budget and to the mandatory medical insurance fund of the Republic of Moldova, including the contributions made on the name of its employees, according to the acting legislation. Social insurance contributions and medical insurance contributions of the 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.

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, 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 behaviour standards applicable to involved persons and internal control systems, specific for each sub-division, 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 operational 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 legal 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.

4.1 Credit risk

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

Maximum exposure of the NBM to credit risk, excluding the value of any guarantees, is reflected in the accounting value of its financial assets.

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

In order to control credit risk exposure for Repo transactions, as part of the open market operations of NBM, are 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;

4. Financial risk management (continued)

4.1 Credit risk (continued)

- The request for supplementary pledge for maintaining the initial ratio of ensuring the transaction, established by the NBM in the event where the market rate at which state securities were purchased by the National Bank, as part of the Purchase Repo transaction, has significantly decreased.

In order to decrease the credit risk exposure related to loans granted to licensed banks, 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 intraday/overnight/credits as well as to pawnshop facilities is daily monitored using the limits of monetary policy 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 and the salaries.

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 for foreign currency transactions.

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

NATIONAL BANK OF MOLDOVA
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4. Financial risk management (continued)

4.1 Credit risk (continued)

Financial Assets	Long-term rating	31 December 2009	31 December 2008
		MDL '000	MDL '000
Cash and short-term placements with banks (in foreign currency)	AAA	1,926,898	2,101,732
	AA+	352,564	-
	AA	2,823,687	773,742
	AA-	2,425,210	2,363,800
	A+	2,076,232	4,127,953
	A	976,143	307,134
	A-	-	4
	BBB+	5	-
	BBB	-	871,524
	BBB-	31	-
	BB+	10	10
Due from International Financial Institutions	AAA	2,419,756	1,975,126
Securities issued by the Moldovan Government	N/A	2,227,930	2,304,220
Loans granted to banks and individuals	N/A	1,872,686	32,059
Investment securities	AAA	7,133,924	6,845,824
	AA+	175,728	-
	AA-	275,321	-
Other financial assets	N/A	1,376	1,388
Total Financial Assets		24,687,501	21,704,516

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 five categories, with annual maturity of up to and including five years.

As at 31 December 2009 the credit risk of the investment portfolio in foreign currency is valued at approximately 4,886 MDL'000 (equivalent to 397 USD'000), (as at 31 December 2008: about 5,885 MDL'000 (equivalent to 566 USD'000)).

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:

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

4. Financial risk management (continued)

4.1 Credit risk (continued)

Country	31 December 2009	31 December 2008
	MDL '000	MDL '000
International Financial Organizations	4,826,961	4,693,215
France	4,393,356	2,830,115
USA	3,218,207	3,709,936
Germany	2,387,822	1,225,113
Spain	1,589,381	-
Great Britain	1,479,393	2,223,975
The Netherlands	1,462,229	2,289,724
Sweden	590,873	312,168
Ireland	275,320	871,521
Austria	185,821	-
Belgium	175,873	301,588
Other countries	172	189
Switzerland	101	909,305
Moldova	4,101,992	2,337,667
Total Financial Assets	24,687,501	21,704,516

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 financial assets, by a foreign country, belongs to France (17.80% of the total financial assets), USA (13.04%) and Germany (9.67%), (as at 31 December 2008: USA (17.09% of the total financial assets), France (13.04%) and The Netherlands (10.55%)).

4.2 Liquidity risk

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

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

4. Financial risk management (continued)

4.2 Liquidity risk (continued)

Securities issued by Moldovan Government and held by the National Bank of Moldova have a contractual maturity not longer than 140 days. However, at maturity, those securities are repurchased by the Government and new securities are issued by the Government and purchased by the National Bank of Moldova.

Analysis of assets and liabilities as at 31 December 2009 according to their contractual maturity date is as follows:

	<u>0-3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>More than 2 years</u>	<u>Undefined maturity</u>	<u>Total</u>
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2009							
Assets							
Cash and short-term placements with banks	10,580,780	-	-	-	-	-	10,580,780
Due from International Financial Institutions	43,813	-	-	-	-	2,375,943	2,419,756
Securities issued by the Moldovan Government	2,227,930	-	-	-	-	-	2,227,930
Loans granted to banks and individuals	307,305	544,521	556,311	301,892	162,657	-	1,872,686
Investment securities	943,844	835,157	2,112,980	2,696,427	996,565	-	7,584,973
Tangible assets	-	-	-	-	-	20,654	20,654
Intangible assets	-	-	-	-	-	5,602	5,602
Other assets	3,274	-	-	-	-	-	3,274
Total assets	14,106,946	1,379,678	2,669,291	2,998,319	1,159,222	2,402,199	24,715,655
Liabilities							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Moldovan Government	2,828,040	-	-	-	-	-	2,828,040
Due to banks	3,062,406	-	-	-	-	-	3,062,406
Certificates issued by the NBM	3,081,558	-	-	-	-	-	3,081,558
Due to International Financial Institutions	35,665	17,755	35,510	93,001	1,704,456	2,376,163	4,262,550
Other liabilities	362,041	-	-	-	-	-	362,041
Total liabilities	9,369,710	17,755	35,510	93,001	1,704,456	12,258,705	23,479,137
Net liquidity gap	4,737,236	1,361,923	2,633,781	2,905,318	(545,234)	(9,856,506)	1,236,518
31 December 2008							
Total assets	12,216,402	1,309,818	3,087,065	1,845,520	1,274,060	2,005,036	21,737,901
Total liabilities	9,710,093	171,874	223,121	89,244	1,505,825	10,706,606	22,406,763
Net liquidity gap	2,506,309	1,137,944	2,863,944	1,756,276	(231,765)	(8,701,570)	(668,862)

NATIONAL BANK OF MOLDOVA
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4. Financial risk management (continued)

4.2 Liquidity risk (continued)

The table below presents the analysis of total financial liabilities, including future interests according to their contractual maturity as at 31 December 2009.

The amounts of future liabilities were calculated taking into consideration the data as at 31 December 2009 (exchange rates, interest rates on monetary-credit instruments, etc.)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2009							
Liabilities							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Moldovan Government	2,828,247	-	-	-	-	-	2,828,247
Due to banks	3,062,679	-	-	-	-	-	3,062,679
Certificates issued by the NBM	3,086,250	-	-	-	-	-	3,086,250
Due to International Financial Institutions *	35,820	17,755	35,510	93,001	1,731,257	2,376,163	4,289,506
Other liabilities	362,041	-	-	-	-	-	362,041
Total liabilities	9,375,037	17,755	35,510	93,001	1,731,257	12,258,705	23,511,265
31 December 2008							
Liabilities							
National currency issued into circulation	-	-	-	-	-	8,732,080	8,732,080
Due to the Moldovan Government	2,484,500	166,251	174,539	-	-	-	2,825,290
Due to banks	6,049,782	-	-	-	-	-	6,049,782
Certificates issued by the NBM	1,066,861	-	-	-	-	-	1,066,861
Due to International Financial Institutions	65,769	17,071	67,223	96,912	1,535,554	1,974,526	3,757,055
Other liabilities	64,126	-	-	-	-	-	64,126
Total liabilities	9,731,038	183,322	241,762	96,912	1,535,554	10,706,606	22,495,194

* For the PRGF commitments received from IMF, included in the liabilities to the international financial organizations as at 31 December 2009, for the period 7 January 2010 – 31 December 2011, no interests are calculated, according to the resolution by the IMF board of executives as of July 2009.

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.

4. Financial risk management (continued)

4.3 Market risk (continued)

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 value at risk methodology (VaR) 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 also 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 2009 the value of exposure at risk of securities portfolio in foreign currency is estimated at approximately 66,200 USD'000 or approximately 814,374 MDL'000 (as at 31 December 2008: 62,558 USD'000 or approximately 650,618 MDL'000).

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 state securities. In the same time, based on personal professional judgment, it is possible to presume that fluctuations of increase / decrease of 1p.p. of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of decrease / increase of approximately 1,936 MDL'000 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 loans to the licensed 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.

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.

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Interest rate risk (continued)

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. 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 gains / losses are calculated considering an increase / 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 2009, the value of potential gains / losses resulted from the changes of interest rate with 0.5 p.p. is valued at approximately 3,409 USD'000 or approximately 41,930 MDL'000 (as at 31 December 2008: 5,604 USD'000 or approximately 58,285 MDL'000).

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.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Interest rate risk (continued)

Analysis of assets and liabilities as at 31 December 2009 according to their contractual re-pricing and maturity date is as follows:

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non-interest bearing	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2009							
Assets							
Cash and short-term placements with banks	10,577,532	-	-	-	-	3,248	10,580,780
Due from International Financial Institutions	43,787	-	-	-	-	2,375,969	2,419,756
Securities issued by the Moldovan Government	2,227,930	-	-	-	-	-	2,227,930
Loans granted to banks and individuals	1,263,899	612	148,696	297,256	156,689	5,534	1,872,686
Investment securities	912,806	809,376	2,101,141	2,696,427	996,565	68,658	7,584,973
Tangible assets	-	-	-	-	-	20,654	20,654
Intangible assets	-	-	-	-	-	5,602	5,602
Other assets	-	-	-	-	-	3,274	3,274
Total assets	15,025,954	809,988	2,249,837	2,993,683	1,153,254	2,482,939	24,715,655
Liabilities							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Moldovan Government	2,083,201	-	-	-	-	744,839	2,828,040
Due to banks	2,006,606	-	-	-	-	1,055,800	3,062,406
Certificates issued by the NBM	3,080,343	-	-	-	-	1,215	3,081,558
Due to International Financial Institutions	35,510	17,755	35,510	93,001	1,704,456	2,376,318	4,262,550
Other liabilities	-	-	-	-	-	362,041	362,041
Total liabilities	7,205,660	17,755	35,510	93,001	1,704,456	14,422,755	23,479,137
Interest rate gap	7,820,294	792,233	2,214,327	2,900,682	(551,202)	(11,939,816)	1,236,518
31 December 2008							
Total assets	12,026,540	1,287,978	3,074,665	1,840,814	1,264,866	2,243,038	21,737,901
Total liabilities	7,845,490	171,874	189,748	89,244	1,505,825	12,604,582	22,406,763
Interest rate gap	4,181,050	1,116,104	2,884,917	1,751,570	(240,959)	(10,361,544)	(668,862)

The interest bearing assets and liabilities mainly comprise cash and cash equivalents in foreign currency, securities, accepted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current account with the IMF, which bear floating interest rates set on a weekly basis by the IMF. The same is for the medium term loans, 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 NBM.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As at 31 December 2009, NBM held the following foreign exchange positions:

	MDL MDL '000	USD MDL '000	EUR MDL '000	GBP MDL '000	CHF MDL '000	XDR MDL '000	Other MDL '000	Total MDL '000
31 December 2009								
Assets								
Cash and short-term placements with banks	-	4,423,179	3,967,843	1,834,145	355,458	-	155	10,580,780
Due from International Financial Institutions	-	-	-	-	-	2,419,756	-	2,419,756
Securities issued by the Moldovan Government	2,227,930	-	-	-	-	-	-	2,227,930
Loans granted to banks and individuals	1,872,686	-	-	-	-	-	-	1,872,686
Investment securities	-	3,238,318	2,967,025	1,379,630	-	-	-	7,584,973
Tangible assets	20,654	-	-	-	-	-	-	20,654
Intangible assets	5,602	-	-	-	-	-	-	5,602
Other assets	3,222	38	12	-	-	-	2	3,274
Total assets	4,130,094	7,661,535	6,934,880	3,213,775	355,458	2,419,756	157	24,715,655
Liabilities								
National currency issued into circulation	9,882,542	-	-	-	-	-	-	9,882,542
Due to the Moldovan Government	2,093,061	296,262	438,717	-	-	-	-	2,828,040
Due to banks	1,685,446	516,810	860,150	-	-	-	-	3,062,406
Certificates issued by the NBM	3,081,558	-	-	-	-	-	-	3,081,558
Due to International Financial Institutions	220	-	-	-	-	4,262,330	-	4,262,550
Other liabilities	362,002	-	39	-	-	-	-	362,041
Total liabilities	17,104,829	813,072	1,298,906	-	-	4,262,330	-	23,479,137
Net position	(12,974,735)	6,848,463	5,635,974	3,213,775	355,458	(1,842,574)	157	1,236,518
31 December 2008								
Total assets	2,371,016	8,303,884	5,829,657	2,960,670	297,373	1,975,126	175	21,737,901
Total liabilities	15,479,065	1,239,231	1,978,007	-	-	3,710,460	-	22,406,763
Net position	(13,108,049)	7,064,653	3,851,650	2,960,670	297,373	(1,735,334)	175	(668,862)

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NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Currency risk (continued)

Other currencies include mainly balances in Canadian Dollars, equivalent of MDL'000 46, Romanian Lei – MDL'000 38, Russian rubles – MDL'000 31, Norwegian krone – MDL'000 23, Japanese yen – MDL'000 12, Estonian kroon – MDL'000 5 and other currencies - MDL'000 2.

In order to estimate the currency risk related to assets and liabilities denominated in foreign currency, possible unrealized gains/losses have been computed by assuming a variation of +/- 5% during the next 12 months of the exchange rates of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2009 and 31 December 2008, respectively, the amount of the possible impact on the profit and equity of the NBM is as follows:

	31 December 2009		31 December 2008	
	MDL '000 Profit	MDL '000 Equity	MDL '000 Profit	MDL '000 Equity
MDL against USD	+/- 342,423	+/- 342,423	+/- 353,233	+/- 353,233
MDL against EUR	+/- 281,799	+/- 281,799	+/- 192,583	+/- 192,583
MDL against GBP	+/- 160,689	+/- 160,689	+/- 148,034	+/- 148,034
MDL against CHF	+/- 17,773	+/- 17,773	+/- 14,869	+/- 14,869
MDL against XDR	+/- 92,129	+/- 92,129	+/- 86,767	+/- 86,767
MDL against other currencies	+/-8	+/-8	+/- 9	+/- 9

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

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

5. Cash and short-term placements with banks

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Cash on hand in foreign currency	1,441	1,418
Nostro accounts	719,104	602,296
Term deposits in foreign currency	9,860,235	9,942,185
	10,580,780	10,545,899

Cash and short-term placements with banks does not include local currency balances held at the central treasury of NBM, which decreases with the respective amount the liability side "National currency into circulation" (Note 13). The net value presentation is adequate since the NBM is the sole issuer of the national currency.

As at 31 December 2009 the term deposits in foreign currency hold the significant portion within this line (about 93.19%). As at period end the term deposits in foreign currency were placed at counterparties with rating: „AAA” – 12.24%, „AA+” – 3.58%, „AA” – 28.63%, „AA-” – 24.60%, „A+” – 21.06%, „A” – 9.90% (as at 31 December 2008: „AAA” – 15.31%, „AA” - 7.82%, „AA-” – 23.73%, „A+” – 41.48%, „A” – 3.0%, „BBB” - 8.67%, the classification of investments in “BBB” rating category has been performed following the revision by the rating agencies of one counterparty rating, after the investments were made).

6. Due from/to International Financial Institutions

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,375,943	1,973,556
Current account with IMF	43,813	1,570
	2,419,756	1,975,126
Liabilities		
Account No.1	2,375,846	1,973,475
Account No.2	97	81
Total liabilities of the IMF	2,375,943	1,973,556
Other international organizations	220	970
Loans granted by IMF	1,886,387	1,736,577
	4,262,550	3,711,103

6. Due from/to International Financial Institutions (continued)

The Republic of Moldova joined the IMF on 12 August 1992. The National Bank of Moldova acts as the agent of the state 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.

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 and IMF No. 2 Account. The IMF No 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No 2 account is used for the payment of expenses incurred by the 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 2009 the Bank's outstanding balance of loans due to the IMF is as follows:

- Poverty Reduction and Growth Facility – XDR'000 98,164 (as at 31 December 2008 – XDR'000 103,708);
- Extended Fund Facility – 0 XDR (at 31 December 2008 – 4,167 XDR'000).

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.

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

NATIONAL BANK OF MOLDOVA
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7. Securities issued by the Moldovan Government

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Securities issued by the Moldovan Government	2,238,596	2,364,923
Discount at securities issued by the Moldovan Government	(11,010)	(66,228)
Revaluation of the securities issued by the Moldovan Government	344	5,525
	2,227,930	2,304,220

As at 31 December 2009, the portfolio of the NBM comprised state securities issued and sent by the NBM as a result of reissuing and translation to state securities of the internal state debt contracted from the National Bank of Moldova during the previous years. These securities are classified as assets available for sale and are recorded at fair value.

The table below presents the reconciliation of the reserve from the revaluation of the securities issued by the Government of the RM:

	2009	2008
	MDL '000	MDL '000
As at 1 January	5,525	387
Changes in the reserve from revaluation of securities issued by the Moldovan Government	(5,181)	5,139
As at 31 December	344	5,525

8. Loans granted to banks and individuals

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Medium term loans granted to banks	1,843,479	-
Loans granted to banks for CCL	21,895	26,386
Loans granted to other individuals	7,312	5,675
Subtotal	1,872,686	32,061
Less: Impairment Provision	-	(2)
	1,872,686	32,059

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

8. Loans granted to banks and individuals (continued)

This caption includes the balance of the loans to licensed banks on medium term, the balance of the loans to the licensed banks during the years 1993-2000 to credit the residence building cooperatives (CCL), as well as the balance of the loans granted to the NBM employees, adjusted at the amount of the provision and the interest calculated for these loans. The increase in the balance of this caption by 1,840,627 MDL'000 was mainly due to granting during the year 2009 of loans to licensed banks to maintain liquidity, to credit the real sector of the economy and to secure integrity of the banking system.

As at 31 December 2009 the amount of loans provided to maintain liquidity constituted 450,000 MDL'000, loans provided to credit the real sector of the economy – 798,046 MDL'000 and loans for securing integrity of banking system – 589,898 MDL'000.

Loans were provided with a floating interest rate equal to base rate of National Bank of Moldova with the exception of the loan provided for securing integrity of the banking system, interest rate for this loan was established with preferential conditions, less than the interest rate for the loans provided for maintaining liquidity and for financing the real sector of the economy.

Of the total amount of loans provided recorded as at 31 December 2009 the amount of 889,898 MDL'000 are provided without collateral, including the amount of 300,000 MDL'000 provided for maintaining liquidity and 589,898 MDL'000 provided for securing integrity of the banking system. According to provisions of the loan agreements without collateral, National Bank of Moldova has the right to withdraw irrevocably from LORO accounts of the corresponding banks the loan principle and related interest at maturity if such is not repaid by a counterparty.

The other loans granted by the National Bank of Moldova to the licensed banks are secured with the cash and cash equivalents in the Loro accounts of the banks, with the cash and cash equivalents in the accounts of the mandatory reserves in foreign currency maintained by the Banks with the NBM as well as with state securities. As at 31 December 2009 the pledge submitted by the banks to secure the recovery of the loans granted and the related interests amounts to 1,377,509 MDL'000 (as at 31 December 2008: 199,010 MDL'000).

As at 31 December 2009, the pledge submitted by the employees to secure the return of the loans granted and the related interests amounts to 11,046 MDL'000 (as at 31 December 2008: 9,031 MDL'000).

The fluctuations of the reductions for loan losses during the year are the following:

	2009	2008
	MDL '000	MDL '000
As at 1 January	(2)	-
Income from provisions during the year	2	-
Expenses with the provisions during the year	-	(2)
As at 31 December 2009	-	(2)

As at 31 December 2009 BNM did not record arrears related to the loans granted.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2009

9. Investment securities

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Investment securities in foreign currency with coupon, including	6,242,563	5,811,003
Investment securities in foreign currency with coupon (nominal value)	6,030,001	5,572,683
Premium / discount on investment securities in foreign currency with coupon	54,051	34,465
Interest purchased on investment securities in foreign currency with coupon	7,263	15,808
Interest accrued on investment securities in foreign currency with coupon	68,658	54,084
Revaluation of investment securities with coupon	82,590	133,963
Investment securities in foreign currency with discount, including	1,342,410	1,034,821
Investment securities in foreign currency with discount (nominal value)	1,347,010	1,040,020
Discount on investment securities in foreign currency with discount	(4,716)	(7,829)
Revaluation of investment securities with discount	116	2,630
Total investment securities in foreign currency	7,584,973	6,845,824

The securities in foreign currency issued by non-residents held by the National Bank of Moldova represent mainly securities issued by Government and Governmental Agencies from the United States of America and European Union and supranational investment securities.

As at 31 December 2009, all securities issued by non-residents held in the Bank's portfolio have the highest rating – „AAA” - 94.05%, the securities with rating „AA+” - 2.32% and „AA-” - 3.63% (as at 31 December 2008: „AAA” – 100%).

These securities are low risk assets and are classified as financial assets at fair value through profit or loss.

During the reported period, the total amount of securities sold and matured denominated in foreign currency represented the total nominal value of USD'000 269,000; EUR'000 60,000 and GBP'000 37,000 (in 2008 matured – USD'000 124,000; EUR'000 60,000 and GBP'000 19,000). Consequently, during the reported period there were purchased securities denominated in foreign currency in the total nominal value of USD'000 155,000; EUR'000 120,000 and GBP'000 24,000 (in 2008: USD'000 309,000; EUR'000 83,000 and GBP'000 75,600).

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
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9. Investment securities (continued)

The table below presents a reconciliation of the change in fair value for investment securities:

	2009	2008
	MDL '000	MDL '000
As at 1 January	136,593	12,042
Realised losses from revaluation of investments securities	(51,189)	(2,918)
Unrealised gains/(losses) from revaluation of investments securities	(26,929)	129,417
Foreign currency differences	24,231	(1,948)
As at 31 December	82,706	136,593

10. Hierarchy of the fair value of the financial instruments

The table below presents the financial instruments measured at fair value, subsequently to the initial recognition, grouped per levels 1-3 according to the valuation method used.

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	MDL	MDL	MDL	MDL
	'000	'000	'000	'000
Investment securities	7,584,973	-	-	7,584,973
Securities issued by the Moldovan Government	-	2,227,930	-	2,227,930
Total	7,584,973	2,227,930	-	9,812,903

The evaluation methods and techniques used for determination of the fair value remained the same as in the previous reporting period.

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11. Tangible and intangible assets

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost						
As at 1 January 2009	36,420	77,953	15	25,847	-	140,235
Additions	-	2,613	-	-	713	3,326
Transfers	-	-	-	713	(713)	-
Exploitation	-	2	-	-	-	2
Disposals	-	(1,559)	(15)	(95)	-	(1,669)
As at 31 December 2009	36,420	79,009	-	26,465	-	141,894
Accumulated depreciation						
As at 1 January 2009	20,365	71,424	-	16,966	-	108,755
Charge for the year	985	3,559	-	3,993	-	8,537
Charge for disposals	-	(1,559)	-	(95)	-	(1,654)
As at 31 December 2009	21,350	73,424	-	20,864	-	115,638
Carrying value						
As at 1 January 2009	16,055	6,529	15	8,881	-	31,480
As at 31 December 2009	15,070	5,585	-	5,601	-	26,256

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost						
As at 1 January 2008	36,420	77,871	15	25,704	120	140,130
Additions	-	1,831	-	298	-	2,129
Transfers	-	-	-	120	(120)	-
Exploitation	-	12	-	-	-	12
Disposals	-	(1,761)	-	(275)	-	(2,036)
As at 31 December 2008	36,420	77,953	15	25,847	-	140,235
Accumulated depreciation						
As at 1 January 2008	19,380	68,352	-	12,861	-	100,593
Charge for the year	985	4,833	-	4,380	-	10,198
Charge for disposals	-	(1,761)	-	(275)	-	(2,036)
As at 31 December 2008	20,365	71,424	-	16,966	-	108,755
Carrying value						
As at 1 January 2008	17,040	9,519	15	12,843	120	39,537
As at 31 December 2008	16,055	6,529	15	8,881	-	31,480

NATIONAL BANK OF MOLDOVA
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12. Other assets

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Prepayments	118	107
Other receivables	1,258	1,281
Inventories	1,124	1,300
Goods and materials administered	842	786
Subtotal	3,342	3,474
Less: Provisions for slow moving inventory and doubtful debts	(68)	(181)
	3,274	3,293

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

	2009	2008
	MDL '000	MDL '000
As at 1 January	181	169
Charge for the year	-	19
Release for the year	(113)	(7)
As at 31 December	68	181

13. National currency issued into circulation

	31 December 2009	31 December 2008
	MDL '000	MDL '000
National currency issued into circulation	9,884,909	8,802,838
Less: Cash on hand in national currency in circulation cash desk	(2,367)	(70,758)
	9,882,542	8,732,080

14. Due to the Moldovan Government

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Term deposits of the Ministry of Finance	10,159	837,727
Current deposits of the Ministry of Finance	2,075,018	1,683,919
Other accounts of the Government of RM	742,863	267,605
	2,828,040	2,789,251

NATIONAL BANK OF MOLDOVA
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14. Due to the Moldovan Government (continued)

NBM pays an interest rate on the term deposits accepted from 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 weighted average interest rate on term deposits accepted from the Ministry of Finance as at 31 December 2009 constituted 18.79% (as at 31 December 2008: 18.16%).

NBM pays an interest rate on the current deposits accepted from 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 weighted average interest rate on current deposits accepted from the Ministry of Finance as at 31 December 2009 constituted 1.41% (as at 31 December 2008: 1.19%).

15. Due to banks

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Current accounts of banks, including obligatory reserves	1,961,345	5,854,612
Deposits from licensed banks in national currency	1,101,061	194,011
	3,062,406	6,048,623

16. Certificates issued by the NBM

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Certificates issued by NBM at original selling price	3,080,343	1,061,175
Amortized discount on certificates issued by NBM	1,215	405
	3,081,558	1,061,580

NBM certificates represent securities sold to licensed banks through auctions in order to absorb the excess of liquidity on the monetary market. They are issued at a discount and repurchased at maturity at nominal value. The NBM certificates were issued with 7-day maturity in the first quarter of 2009 and with 14-day maturity in December 2009.

NATIONAL BANK OF MOLDOVA
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17. Other liabilities

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Due to the State Budget	336,579	-
Due to other entities	16,645	57,311
Due to personnel	6,963	5,385
Other liabilities	1,854	1,430
	362,041	64,126

Balances due to State Budget in amount of 336,579 MDL'000 represent 50% of the profit available for distribution, that is transferrable to State Budget in accordance with the requirements of the Law on the National Bank of Moldova.

18. Capital and reserves

As of 31 December 2008 the general reserve fund had a negative balance of 1,110,927 MDL'000 as a result of financial performance for the year then ended. In accordance with the Law on the National Bank of Moldova, the Ministry of Finance, by the end of May 2009, should have transferred to the National Bank of Moldova, as capital contribution, state securities bearing interest at market-related rates in amount of 1,110,927 MDL'000.

The Ministry of Finance did not issue such state securities to cover the negative balance of the general reserve fund during the year 2009.

At the same time, as at 31 December 2009 capital and reserves of the Bank amount to 1,236,518 MDL'000 as a result of i) recording unrealised gains from revaluation of foreign currency stock in amount of 1,601,468 MDL'000 and forming of the corresponding reserve; ii) recording of the – profit available for distribution in amount of 673,158 MDL'000 and correspondingly utilization of 50% of it, in accordance with the Law on the National Bank of Moldova, for decreasing the debit balance of the general reserve fund with the amount of 336,579 MDL'000.

As at 31 December 2009 reserve of unrealised gains from revaluation of investment securities was decreased with the amount of 26,929 MDL'000.

Other reserves contain i) reserve of gains from revaluation of state securities that presented a positive result of 344 MDL'000, and respectively generated an increase in capital of NBM with the corresponding amount (as at 31 December 2008: 5,525 MDL'000), as well as ii) surplus from indexation of fixed assets that was fully utilised by the end of 2009 (as at 31 December 2008: 557 MDL'000).

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

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Net profit / (loss)	2,247,140	(1,302,434)
Covering/(allocation) of unrealized losses/(gains) on revaluation of the investment securities	26,929	(129,417)
Allocation of unrealized gains on revaluation of foreign currency stock	(1,601,468)	-
Transfer of surplus from indexation reserve of fixed assets	557	647
Profit available for distribution / (total loss)	673,158	(1,431,204)
Distribution / covering:		
(Increasing)/using the general reserve fund	(336,579)	320,277
State budget	(336,579)	-

As at 31 December 2009 the National Bank registered a net profit in the amount of MDL'000 2,247,140, this being mainly as a result of the recognition of unrealized gains from revaluation of foreign currency stocks in the amount of MDL'000 1,601,468 (as at 31 December 2008: unrealized losses in amount of MDL'000 1,865,107). As a result of the application of the corresponding provisions of the Law on the NBM, the profit available for distribution was in amount of 673,158 MDL'000.

NATIONAL BANK OF MOLDOVA
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20. Interest income

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Interest income from short term placements:		
Interests from term deposits with foreign banks	60,036	357,392
Interests from overnight deposits	5,595	83,824
Interests from cash and cash equivalents	283	870
	65,914	442,086
Income from interests on securities and REPO:		
Interest from securities issued by non residents with coupon and discount	195,530	168,654
Interest from the Purchase REPO transactions	8,344	-
Amortization of the discount on the securities issued by the Moldovan Government	281,692	351,701
	485,566	520,355
Income from interests on the loans granted:		
Interest from the reconcluded loans with the Moldovan Government	-	33,947
Interests to the loans granted to the banks and employees	48,558	4,023
	48,558	37,970
	600,038	1,000,411

Significant decrease in interest income from short term placements during 2009 in comparison with 2008 is determined by the global financial crisis, that lead to the significant decrease in interest rates on international financial markets and correspondingly for placements. However, the foreign currency reserves of the state are placed in secured instruments, the main criterias for selecting these financial instruments have been their security and liquidity.

NATIONAL BANK OF MOLDOVA
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21. Interest expense

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Interest expense for the loans received:		
Interests on the loans received from the IMF	10,112	13,618
	10,112	13,618
Interest expense pertaining to cash and cash equivalents:		
Interests pertaining to the mandatory reserves	30,902	48,803
Interests pertaining to the accepted deposits from banks	21,391	1,040
Interests pertaining to the accepted deposits from the Ministry of Finance	74,071	132,471
	126,364	182,314
Interest expense pertaining to the operations with securities and REPO:		
Amortization of the discount to the NBM certificates	32,761	210,772
	32,761	210,772
	169,237	406,704

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

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Net realized gains /(losses) from foreign currency transactions	357,943	(105,981)
Net unrealized gains / (losses) from foreign currency differences	1,601,468	(1,865,107)
	1,959,411	(1,971,088)

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

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Net realized losses from investment securities	(46,966)	(2,918)
Net unrealized gains / (losses) from revaluation of securities	(26,929)	129,417
	(73,895)	126,499

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24. Other income

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Non-interest income from NBM current account with IMF	-	11,594
Income relating to the cash operations	12,179	14,263
Income relating to the settlement services under SAPI	10,647	10,645
Income from the sale of commemorative and festive coins	8,525	2,228
Other income	8,009	3,755
	39,360	42,485

25. Operating expenses

	31 December 2009	31 December 2008
	MDL '000	MDL '000
Expenses related to national currency	38,024	33,164
Personnel expenses	47,649	37,147
Depreciation of tangible assets and amortization of intangible assets	8,537	10,198
Communication expenses	7,001	6,492
Expenses for repairs of buildings and equipment	163	518
Equipment maintenance expenses	619	486
Other operating expenses	6,546	6,030
	108,539	94,035

The personnel expenses include also the mandatory state social insurance contributions in the amount of 8,346 MDL'000 and the mandatory health insurance contributions in the amount of 1,270 MDL'000 (as at 31 December 2008: 6,717 MDL'000 and 873 MDL'000, respectively).

26. Related parties

The remuneration of the Bank management, including middle management amounted to 4,833 MDL'000 for the year 2009 (2008: 4,120 MDL'000).

For the year 2009, the expenses with the mandatory state social insurance and health insurance contributions pertaining to the Bank management, including middle management, amounted to 1,056 MDL'000 and 161 MDL'000, respectively (2008: 950 MDL'000 and 119 MDL'000 respectively).

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

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26. Related parties (continued)

	Balance as at 1 January	Loans granted	Transfers	Reimbursements	Balance as at 31 December
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
2008	555	432	-	(92)	895
2009	895	-	13	(82)	826

The loans are granted to the management at the same interest rates charged to all NBM employees according to NBM internal regulation. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2009 constituted 1,203 MDL'000 (as at 31 December 2008: 1,216 MDL'000).

As at 31 December 2009, these loans were classified as standard, not requiring a provision.

27. Commitments and contingencies

Commitments

Starting with first quarter of 2009, the Bank granted loans to the licensed banks to maintain liquidity and finance the real sector of the economy. As at 31 December 2009, according to the loan agreements concluded, the conditional commitments to provide loans (the amount not used of the loan agreements concluded by the NBM with the licensed banks) amounted to 222,055 MDL'000. These loans are due for repayment during the year 2010.

As at 31 December 2009, there were no arrears.

Disputes

As at 31 December 2009, the Bank was involved in 4 lawsuits against it and acted as plaintiff in a dispute against a legal entity. As at 31 December 2009, the bank did not record any provisions for litigations, as at the time it did not have any legal or potential obligation that might have arisen from a past event, also there was no evidence regarding any possible outflows of economic resources necessary to pay any obligations.

28. Events after the balance sheet date

On 29 January 2010 the Executive Board of Directors of IMF approved a Memorandum of Economic and Financial Policies for the Republic of Moldova, that stipulates initiation of two financing mechanisms by providing loans in total amount of 369,600 XDR'000, namely:

- 184,800 XDR'000 as part of Extended Credit Facility (ECF) of which 95,000 XDR'000 for budget support and 89,800 XDR'000 for covering deficit of the balance of payments and completion of the foreign currency reserve of the state;

- 184,800 XDR'000 as part of Extended Financing Facility (EFF) for covering deficit of the balance of payments and completion of the foreign currency reserve of the state.

As of 2 February 2010 first tranche in amount of 20,000 XDR'000 part of EFF facility entered NBM account, and on February 9, 2010 amount of 40,000 XDR'000 part of ECF facility for budget support was received.