

# NATIONAL BANK OF MOLDOVA

## *FINANCIAL STATEMENTS*

*for the year ended 31 December 2010*

*Prepared in Accordance with  
International Financial Reporting Standards*

Chişinău 2011

**NATIONAL BANK OF MOLDOVA**  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2010**

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## Independent Auditors' Report (free translation<sup>1</sup>)

To the Board of Directors of the National Bank of Moldova

We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprises the balance sheet as at 31 December 2010, the statement of comprehensive income, 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.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the accompanying financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.



### *Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 18 which describes that the Bank had a debit balance of the general reserve fund of MDL 774,348 thousand as of 31 December 2009. In accordance with Article 19.6 of the Law on the National Bank of Moldova in the event that at the end of one financial year the balance of the general reserve fund has a debit balance, the Government of the Republic of Moldova, through the Ministry of Finance, shall transfer to the National Bank as a capital contribution, within 60 days after the receipt of the external auditor's report on the financial statements of the National Bank, the necessary interest bearing governmental securities at market-related rates for covering the debit balance of the general reserve fund. The Ministry of Finance has not issued such securities for covering the debit balance of the general reserve fund during the year ended 31 December 2010. As of 31 December 2010 the balance of the general reserve fund is a debit of MDL 745,409 thousand and the Bank's total capital and reserves is a credit of MDL 521,889 thousand.

### *Other Matters*

The financial statements of the Bank for the year ended 31 December 2009 were audited by other auditors whose report dated 11 March 2010 expressed an unqualified opinion on those financial statements prepared in accordance with International Financial Reporting Standards, but drew attention to the fact that the Bank had a debit balance of the general reserve fund of MDL 1,110,927 thousand as of 31 December 2008, but the Government of the Republic of Moldova, through the Ministry of Finance, had not transfer during 2009 the necessary interest bearing governmental securities at market-related rates for covering the debit balance of the general reserve fund.

This report is made solely to the Board of Directors of the National Bank of Moldova. Our audit work has been undertaken so that we might state to the Board of Directors of the National Bank of Moldova those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of the National Bank of Moldova for our audit work, for this report, or for the opinions we have formed.

Refer to the original signed  
Romanian version

KPMG Moldova SRL

21 March 2011

Chisinau, Republic of Moldova

Ref.: 11004

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

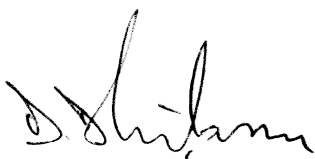
**NATIONAL BANK OF MOLDOVA**  
**BALANCE SHEET**  
**As at 31 December 2010**

	Notes	31 December 2010 MDL '000	31 December 2009 MDL '000
<b>ASSETS</b>			
Cash and short term placements with banks	5	7,956,366	10,580,780
Due from International Financial Institutions	6	2,310,219	2,419,756
Securities issued by the Government of the Republic of Moldova	7	2,232,452	2,227,930
Loans granted to banks and individuals	8	992,177	1,872,686
Investment securities	9	12,915,899	7,584,973
Tangible assets	11	18,411	20,654
Intangible assets	11	3,231	5,602
Other assets	12	4,281	3,274
<b>TOTAL ASSETS</b>		<b>26,433,036</b>	<b>24,715,655</b>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Liabilities</b>			
National currency issued into circulation	13	11,105,961	9,882,542
Due to the Government of the Republic of Moldova	14	3,319,963	2,828,040
Due to banks	15	2,986,353	3,062,406
Certificates issued by the National Bank of Moldova	16	3,654,152	3,081,558
Due to International Financial Institutions	6	4,790,727	4,262,550
Other liabilities	17	53,991	362,041
<b>Total liabilities</b>		<b>25,911,147</b>	<b>23,479,137</b>
<b>Capital and reserves</b>			
Authorized capital		288,923	288,923
General Reserve fund		(745,409)	(774,348)
<b>Total statutory capital</b>		<b>(456,486)</b>	<b>(485,425)</b>
Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	18	884,100	1,601,468
Reserve of unrealized gains on revaluation of investment securities	18	93,967	120,131
Other reserves	18	308	344
<b>Total capital and reserves</b>		<b>521,889</b>	<b>1,236,518</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>26,433,036</b>	<b>24,715,655</b>

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 National Bank of Moldova on 21 March 2011.

**Dorin Drăguțanu**  
**Governor**



**Natalia Zabolotnîi**  
**Director of the Budget, Finance and**  
**Accounting Department, Chief-accountant**



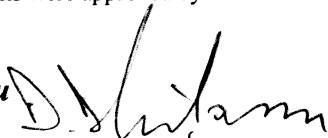
**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF COMPREHENSIVE RESULT**  
**For the year ended 31 December 2010**

	Notes	2010 MDL '000	2009 MDL '000
Interest income from short term placements	20	28,523	65,914
Interest income from securities	20	300,092	477,222
Interest income from loans and Repo agreements	20	47,614	56,902
		<u>376,229</u>	<u>600,038</u>
Interest expenses on loans received	21	(6,910)	(10,112)
Interest expenses on deposits and mandatory reserves	21	(63,264)	(126,364)
Interest expenses on transactions with securities and Repo agreements	21	(216,967)	(32,761)
		<u>(287,141)</u>	<u>(169,237)</u>
<b>Net interest income</b>		<b>89,088</b>	<b>430,801</b>
(Losses) / gains from foreign exchange transactions and foreign exchange rate differences	22	(658,648)	1,959,411
Losses from the revaluation of securities	23	(38,343)	(73,895)
Income from provisions for loans and doubtful receivables		-	2
Other income	24	33,375	39,360
Operating expenses	25	(111,126)	(108,539)
<b>Net Operating Gains/(losses)</b>		<b>(774,742)</b>	<b>1,816,339</b>
<b>NET PROFIT / (LOSS)</b>		<b>(685,654)</b>	<b>2,247,140</b>
Revaluation of securities issued by the Government of the Republic of Moldova		(36)	(5,181)
<b>COMPREHENSIVE RESULT</b>		<b>(685,690)</b>	<b>2,241,959</b>
<i>Calculation of the profit available for distribution</i>			
<b>NET PROFIT / (LOSS)</b>		<b>(685,654)</b>	<b>2,247,140</b>
Covering of unrealized losses on revaluation of investment securities	19	26,164	26,929
Covering/(allocation) of unrealized losses/(gains) on revaluation of foreign currency stocks	19	717,368	(1,601,468)
Transfer of surplus from indexation reserve of fixed assets	19	-	557
<b>PROFIT AVAILABLE FOR DISTRIBUTION</b>	<b>19</b>	<b>57,878</b>	<b>673,158</b>

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 National Bank of Moldova on 21 March 2011.

**Dorin Drăguțanu**  
Governor



**Natalia Zabolotnîi**  
Director of the Budget, Finance and  
Accounting Department, Chief-accountant



**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2010**

	Notes	2010 MDL '000	2009 MDL '000
<b>Cash flow from operating activities</b>			
Interest receipts		509,346	574,569
Interest payments		(323,069)	(239,032)
Losses from investment securities		(12,179)	(46,966)
Other receipts		34,513	39,239
Payments to staff and suppliers		(92,615)	(86,816)
<b>Cash flow before changes in assets and liabilities</b>		<b>115,996</b>	<b>240,994</b>
Decrease / (increase) in amounts due from International Financial Institutions		39,513	(19,502)
(Increase) / decrease in securities issued by the Government of the Republic of Moldova		(149)	2,188,449
Decrease / (increase) in loans granted to banks and individuals		877,927	(1,835,091)
(Increase) / decrease in investment securities		(5,953,699)	614,548
<b>(Increase) / decrease in operating assets</b>		<b>(5,036,408)</b>	<b>948,404</b>
Increase in the national currency issued into circulation		1,223,418	1,150,462
Increase / (decrease) in balances due to Government of the Republic of Moldova		545,926	(79,927)
Increase / (decrease) in balances due to banks		3,470	(3,359,515)
Increase in certificates issued by the National Bank of Moldova		572,134	2,019,168
Increase / (decrease) in balances due to International Financial Institutions		663,458	(175,661)
Increase / (decrease) in other liabilities		20,515	(40,695)
<b>Increase / (decrease) in operating liabilities</b>		<b>3,028,921</b>	<b>(486,168)</b>
<b>Net cash (used in) / from operating activities</b>		<b>(1,891,491)</b>	<b>703,230</b>
Fixed assets acquisitions		(3,206)	(3,326)
<b>Net cash used in investing activities</b>		<b>(3,206)</b>	<b>(3,326)</b>
Payments to the State Budget with regard to profit distribution		(336,579)	-
<b>Net cash used in financing activities</b>		<b>(336,579)</b>	<b>-</b>
Revaluation differences		(388,756)	1,381,407
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(2,620,032)</b>	<b>2,081,311</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>12,627,210</b>	<b>10,545,899</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>10,007,178</b>	<b>12,627,210</b>
		<b>2010</b>	<b>2009</b>
<b>Analysis of Cash and cash equivalents</b>			
Cash on hand in foreign currency	5	1,264	1,441
Nostro accounts	5	300,299	719,104
Term deposits in foreign currency	5	7,654,803	9,860,235
Securities issued by the Government of the Republic of Moldova	7	2,050,812	2,046,430
<b>Cash and cash equivalents</b>		<b>10,007,178</b>	<b>12,627,210</b>

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CHANGES IN CAPITAL AND RESERVES**  
**For the year ended 31 December 2010**

	Authorized capital MDL '000	General reserve fund MDL '000	Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation MDL '000	Reserve of unrealized gains on revaluation of investment securities MDL '000	Other reserves MDL '000	Profit available for distribution MDL '000	Total Capital and Reserves MDL '000
<b>Balance as at 1 January 2009</b>	<b>288,923</b>	<b>(1,110,927)</b>	<b>-</b>	<b>147,060</b>	<b>6,082</b>	<b>-</b>	<b>(668,862)</b>
Profit / (loss)	-	-	1,601,468	(26,929)	(557)	673,158	2,247,140
Other comprehensive result: Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	(5,181)	-	(5,181)
<b>Other comprehensive result, total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,181)</b>	<b>-</b>	<b>(5,181)</b>
<b>Comprehensive result at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,738)</b>	<b>673,158</b>	<b>2,241,959</b>
<b>Allocation of profit:</b>							
Increase of the general reserve fund	-	336,579	-	-	-	(336,579)	-
Allocation of profit to the State Budget	-	-	-	-	-	(336,579)	(336,579)
<b>Balance as at 31 December 2009</b>	<b>288,923</b>	<b>(774,348)</b>	<b>1,601,468</b>	<b>120,131</b>	<b>344</b>	<b>-</b>	<b>1,236,518</b>
<b>Balance as at 1 January 2010</b>	<b>288,923</b>	<b>(774,348)</b>	<b>1,601,468</b>	<b>120,131</b>	<b>344</b>	<b>-</b>	<b>1,236,518</b>
Profit / (loss)	-	-	(717,368)	(26,164)	-	57,878	(685,654)
Other comprehensive result: Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	(36)	-	(36)
<b>Other comprehensive result, total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(36)</b>	<b>-</b>	<b>(36)</b>
<b>Comprehensive result at the end of the period</b>	<b>-</b>	<b>-</b>	<b>(717,368)</b>	<b>(26,164)</b>	<b>(36)</b>	<b>57,878</b>	<b>(685,690)</b>
<b>Allocation of profit:</b>							
Increase of the general reserve fund	-	28,939	-	-	-	(28,939)	-
Allocation of profit to the State Budget	-	-	-	-	-	(28,939)	(28,939)
<b>Balance as at 31 December 2010</b>	<b>288,923</b>	<b>(745,409)</b>	<b>884,100</b>	<b>93,967</b>	<b>308</b>	<b>-</b>	<b>521,889</b>

This is a free translation from the original binding version in Romanian



**1. General information about the National Bank of Moldova**

The National Bank of Moldova (the Bank) was established in 1991. The activity of the Bank is regulated by the *Law on the National Bank of Moldova no.548-XIII dated 21 July 1995*. In accordance with the mentioned Law, the Bank is an autonomous public legal entity that is responsible to the Parliament. The primary objective of the 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.

The registered office of the Bank is located at 1, Grigore Vieru Avenue, Chişinău, Republic of Moldova.

**2. Basis of preparation**

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

The Financial Statements are 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 or amortised cost basis, except for financial assets held at fair value through profit or loss and financial assets available for sale that have been measured at fair value.

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

## **2. Basis of preparation (continued)**

### **Significant accounting judgments and estimates**

The preparation of the 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. These judgments and estimates are based on information available as of the date of the Financial Statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

#### *Fair value of financial instruments*

Where the fair 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, as presented in letter e. 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 the Bank.

#### *Allowance for loan losses, conditional commitments and receivables*

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

## **3. Significant accounting policies**

### **a. Revaluation of the balances and transactions in foreign currency**

The transactions in foreign currency are recorded at the exchange rate of the date of the transaction and are revalued on a daily basis using the official exchange rate of the Moldovan leu. As at the Balance sheet date, the monetary assets and the liabilities denominated in foreign currencies are translated at the official rate of the Moldovan leu as of the Balance sheet date. For the years 2009-2010, the official exchange rates of the reference foreign currencies were as follows:

	2010		2009	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	12.3663	12.1539	11.1134	12.3017
EUR/MDL	16.3995	16.1045	15.5248	17.6252
GBP/MDL	19.1020	18.7578	17.4035	19.4965
CHF/MDL	11.8688	12.9338	10.2774	11.8451
XDR/MDL	18.8576	18.7174	17.1508	19.2151

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.

**3. Significant accounting policies (continued)**

**b. 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 Government of the Republic of Moldova 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).

**c. 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.

**d. Financial assets**

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or 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 (BID price is provided by the Bloomberg Information System). Interest income on securities is included in “Interest income” in the Statement of comprehensive result.

This category of financial assets includes securities issued by non-residents with coupon or discount and purchased on 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 in the Balance sheet 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 amortised cost.

Loans granted to banks and individuals are stated at amortised cost, less impaired amounts and any allowances for impairment losses.

**3. Significant accounting policies (continued)**

**d. Financial assets (continued)**

*Held-to-maturity investments*

Held-to-maturity 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 amortised cost using the effective interest rate method, less allowance for impairment.

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

*Available for sale financial assets*

All the financial assets, which are not classified at fair value through profit or 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). Initially available for sale financial assets are recognised at their fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value which is based on Bank's evaluation techniques.

Unrealized gains and losses related to this category of financial assets are recognized in the Statement of comprehensive result and reported in equity as "Other reserves". When the financial assets 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 rate method is recognized in the Statement of comprehensive result.

The Bank includes in this category the securities issued by the Government of the Republic of Moldova that are included in the line "Securities issued by the Government of the Republic of Moldova" in the Balance sheet.

**e. 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.

**3. Significant accounting policies (continued)**

**e. Fair value of financial instruments (continued)**

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.

The fair value of the state securities held in the portfolio (with maturities which were not traded on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per each maturity of state securities retained in the Bank 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 Bank does not have any items assigned to this category during the reporting period.

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

**f. Allowances for impairment of the loans, other assets and provisions for losses on conditional commitments**

The allowances for impairment of loans and provisions for losses on conditional commitments are set up where there is objective evidence (regarding financial position of the licensed bank, collateral ensuring reimbursement of loans, service of current payments, renegotiations or 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).

**3. Significant accounting policies (continued)**

**f. Allowances for impairment of the loans, other assets and provisions for losses on conditional commitments (continued)**

The amount of the allowances for impairment of the loans 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 allowances for impairment of the loans and provisions for losses on conditional commitments are decreased or increased in case if the allowance/provision calculated at the reporting date is respectively less or greater than previously established allowance/provision.

The allowance 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 Bank. These loans are written off against allowances established previously.

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

**g. 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 interest rate method.

**h. Tangible assets**

Tangible assets are stated at cost less accumulated depreciation.

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:

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

**3. Significant accounting policies (continued)**

**i. Intangible assets**

Intangible assets represent costs incurred for acquisition of computer software, amortised 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 2010 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.

**j. National currency issued into circulation**

The national currency issued into circulation is carried at amortised cost. 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.

**k. Due to banks**

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

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

In the Balance sheet, balances due to banks are presented at amortised cost, and in case of term deposits, they are subsequently restated at amortised cost. Due to the short-term nature of such balances, the management of the Bank estimates that their carrying amount approximates their fair value.

**l. Due to the Government of the Republic of Moldova**

Due to the Government of the Republic of Moldova include accounts of the State Budget held in 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 amortised cost.

**m. Certificates issued by the National Bank of Moldova**

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

**3. Significant accounting policies (continued)**

**n. 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 amortised cost. Any difference between net proceeds and the redemption value is recognized in the Statement of comprehensive result over the period to maturity.

**o. Other liabilities**

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

**p. Capital and reserves**

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

The capital structure of the Bank includes the following:

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

According to the regulations of the *Law on the National Bank of Moldova* the statutory capital is dynamic and it is created from the annual profit available for distribution and/or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the Bank (that represent all liabilities in the Balance sheet except liabilities due to Government and International Monetary Fund).

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

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



**3. Significant accounting policies (continued)**

**p. Capital and reserves (continued)**

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

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

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.

Statutory capital and reserves are disclosed in the Balance sheet at amortised cost.

**q. Income tax**

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

**r. Interest income and expenses**

Interest income and expense are recorded in the Statement of comprehensive result for financial instruments valued at amortised cost using the effective interest rate method.

**s. Revaluation of foreign currency assets and liabilities**

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

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

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

The amount of net unrealized losses, 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.

**3. Significant accounting policies (continued)**

**t. Fiduciary activities**

The Bank 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.

**u. Contingent assets and liabilities**

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

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

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

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

**v. 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.

**w. Pension costs and employees' benefits**

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

**x. New standards and interpretations not yet adopted**

A number of standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these Financial Statements. None of these will have an impact on the Financial Statements of the Bank, with the exception of:

**3. Significant accounting policies (continued)**

**x. New standards and interpretations not yet adopted (continued)**

**IFRS 9 – “Financial Instruments”** published on 12 November 2009 as part of the first phase of the International Accounting Standards Board’s comprehensive project to replace IAS 39 “Financial Instruments: Recognition and Measurement”, deals with classification and measurement of financial assets.

The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available for sale and loans and receivables.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently evaluating the potential effect of this Standard. Given the nature of the Bank’s operations, this standard is expected to have a pervasive impact on the Bank’s Financial Statements.

**Annual Quality Improvement Project 2010 IFRS - IFRS 7 “Financial Instruments: Disclosures”** (effective for annual periods beginning on or after 1 January 2011). The Amendments add an explicit statement regarding the qualitative disclosures that should be linked to quantitative disclosures in order to enable the users of Financial Statements to better assess the entity’s risk exposures generated from financial instruments. In addition, the International Accounting Standards Board amended and removed the existing disclosure requirements. Given the nature of the Bank’s operations, it is possible that the provisions of this Standard to have an impact on the Financial Statements of the Bank.

**Annual Quality Improvement Project 2010 IFRS - IAS 1 “Presentation of Financial Statements”** (effective for annual periods beginning on or after 1 January 2011). The amendments clarify the fact that modifications for each component of equity arising from transactions recognised in other comprehensive result, should be presented in the Statement of changes in equity or in the Notes to Financial Statements. The Bank is currently evaluating the potential effect of these modifications on the disclosures in its Financial Statements.

**4. Financial risk management**

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

The methodology of development, implementation and maintenance of Risk management system, including internal control system within the Bank, is approved by the Council of administration of the Bank. Risk management policies include the methods of identification, evaluation, risk management and monitoring with direct reporting, periodically or if necessary, to the Bank’s management.

The legal framework for risk management is currently updated, depending on market evolution, Bank’s policy or structure, etc.

#### **4. Financial risk management (continued)**

However, normative documents approved by the Council of administration of the Bank, that constitute the basis of corporate governance, promote and develop the Bank's control environment, underlying the importance of internal control the Bank management attributes to. Thus the awareness and compliance with the basic tasks and objectives of the Bank are ensured by personnel, as well as with individual functions and rules of conduct.

Audit and internal control system assessment within the Bank is an element of managerial control and is in the responsibility of Internal Audit Department. Internal Audit performs audit missions and reports to the Council of administration on their results.

#### **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 corporate policies, which provide for behaviour standards applicable to involved persons and internal control systems, specific for each subdivision, elaborated taking into account the characteristics of their basic activity.

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

- Setting up the objectives for each type of activity in order to implement the strategies and policies approved by the Council of administration of the Bank;
- Efficient and functional development, implementation and maintenance on permanent basis of internal control system within the corresponding subdivisions;
- Setting up of adequate procedures for identification, evaluation, monitoring and review of risks on a regular basis and control the effectiveness of these procedures;
- Effective delegation and separation of functions within the operational, administrative, accounting and control tasks;
- Development and maintenance of information systems for the Bank's management, which would comprise the entire spectrum of activities where applicable; and
- Determination of administrative, operational and control mechanisms necessary to ensure the compliance with laws, regulations, policies, rules and procedures, as well as ensuring the application of these mechanisms in all subdivisions and by all Bank's personnel.

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

The Bank assesses operational risk through the Internal Audit Department, which performs tests and states its opinion on the effectiveness of internal control system operations.

#### **4. Financial risk management (continued)**

##### **Financial risk**

The main categories of financial risk to which the Bank is exposed are: credit risk, liquidity risk, market risk, which includes interest rate risk and currency risk. The structure of the assets and liabilities is primarily determined by the nature of the Bank's legal functions, rather than commercial considerations. At the same time the Bank continually manages its exposure to risk, through a variety of risk management techniques.

Risk management of the Bank 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 Bank.

In particular, in managing foreign exchange reserves are set the limits on transactions, counterparties, sectors, instruments, etc.

##### **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 Bank to credit risk, excluding the value of any guarantees, is reflected in the accounting value of its financial assets, as it is presented in the tables below.

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

In order to control credit risk exposure for Repo transactions, as part of the open market operations of the Bank, 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 Bank protects against the eventual non repayment by the counterpart bank;
- the request for supplementary pledge for maintaining the initial ratio of ensuring the transaction, established by the Bank in the event where the market rate at which state securities were purchased by the 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 overnight credits is daily monitored using the limits of monetary policy which according to laws in force, if necessary, allow reducing to zero of the loan amounts that may be granted by the Bank to licensed banks under the permanent facilities, and are secured by the highly liquid collateral such as state securities and certificates issued by the Bank.

In order to decrease the credit risk exposure related to loans granted to the Bank's personnel, the Bank accepts as collateral either the properties acquired with the loans and the salaries.

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

**4.1 Credit risk (continued)**

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 Bank with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating (minimum A-), established by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and authorized by the Bank for foreign currency transactions.

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

<b>Financial Assets</b>	<b>Long-term rating <sup>1</sup></b>	<b>31 December 2010 MDL '000</b>	<b>31 December 2009 MDL '000</b>
Cash and short-term placements with banks (in foreign currency):	AAA	3,853,481	1,926,898
	AA+	-	352,564
	AA	10	2,823,687
	AA-	1,025,744	2,425,210
	A+	1,575,065	2,076,232
	A	1,502,043	976,143
	BBB+	-	5
	BBB	3	-
	BBB-	11	31
	BB+	9	10
Due from International Financial Institutions	AAA	2,310,219	2,419,756
Securities issued by the Government of the Republic of Moldova	N/A	2,232,452	2,227,930
Loans granted to banks and individuals	N/A	992,177	1,872,686
Investment securities	AAA	11,970,933	7,133,924
	AA+	944,966	175,728
	AA-	-	275,321
Other financial assets	N/A	2,061	1,376
<b>Total Financial Assets</b>		<b>26,409,174</b>	<b>24,687,501</b>

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, according to default coefficients, with annual maturity of up to and including five years.

• <sup>1</sup> Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2010**

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**4. Financial risk management (continued)**

**4.1 Credit risk (continued)**

As at 31 December 2010 the credit risk of the investment portfolio in foreign currency is valued at approximately 12,931 MDL'000 (equivalent to 1,064 USD'000), (as at 31 December 2009: about 4,886 MDL'000 (equivalent to 397 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:

<b>Country</b>	<b>31 December</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
International Financial Organizations	6,021,882	4,826,961
Germany	4,573,531	2,387,822
USA	4,136,915	3,218,207
France	2,711,005	4,393,356
Great Britain	1,596,530	1,479,393
Belgium	1,537,563	175,873
The Netherlands	1,095,802	1,462,229
Finland	804,523	-
Sweden	704,314	590,873
Switzerland	274	101
Spain	-	1,589,381
Ireland	-	275,320
Austria	-	185,821
Other countries	145	172
Moldova	3,226,690	4,101,992
<b>Total Financial Assets</b>	<b>26,409,174</b>	<b>24,687,501</b>

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 Germany (17.32% of the total financial assets), USA (15.66%) and France (10.27%), (as at 31 December 2009: France (17.80% of the total financial assets), USA (13.04%) and Germany (9.67%)).

#### **4. Financial risk management (continued)**

##### **4.2 Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. 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 Bank.

The liquidity risk is constantly monitored by the Bank, limiting the maximum maturity term of the investment portfolio, which restricts the investment into long-term maturity instruments (more than 5 years), consequently the remaining maturity of the Bank 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 transform the currency reserves in liquidities for intervention purposes in case such needs arise.

Securities in foreign currency held in the Bank's portfolio are high liquidity instruments meaning that they could be sold at any moment before the maturity date, if necessary.

Securities issued by the Government of the Republic of Moldova and held by the Bank during 2010 had a contractual maturity not longer than 95 days. However, at maturity, those securities are repurchased by the Government and new securities are issued by the Government and purchased by the Bank.



**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2010**

**4. Financial risk management (continued)**

**4.2 Liquidity risk (continued)**

Analysis of financial assets and liabilities as at 31 December 2010 according to their contractual maturity date is as follows:

	<b>0-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>More than 2 years</b>	<b>Undefined maturity</b>	<b>Total</b>
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
<b>31 December 2010</b>							
<b>Assets</b>							
Cash and short-term placements with banks	7,713,288	243,078	-	-	-	-	7,956,366
Due from International Financial Institutions	4,230	-	-	-	-	2,305,989	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	144,093	362,380	315,138	154,807	15,759	-	992,177
Investment securities	3,104,627	1,515,915	3,953,716	1,047,495	3,294,146	-	12,915,899
Other assets	2,061	-	-	-	-	-	2,061
<b>Total financial assets</b>	<b>13,200,751</b>	<b>2,121,373</b>	<b>4,268,854</b>	<b>1,202,302</b>	<b>3,309,905</b>	<b>2,305,989</b>	<b>26,409,174</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	3,309,963	-	10,000	-	-	-	3,319,963
Due to banks	2,986,353	-	-	-	-	-	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	3,654,152
Due to International Financial Institutions	36,310	-	38,708	137,255	2,271,751	2,306,703	4,790,727
Other liabilities	53,991	-	-	-	-	-	53,991
<b>Total financial liabilities</b>	<b>10,040,769</b>	<b>-</b>	<b>48,708</b>	<b>137,255</b>	<b>2,271,751</b>	<b>13,412,664</b>	<b>25,911,147</b>
<b>Net liquidity gap</b>	<b>3,159,982</b>	<b>2,121,373</b>	<b>4,220,146</b>	<b>1,065,047</b>	<b>1,038,154</b>	<b>(11,106,675)</b>	<b>498,027</b>

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. Financial risk management (continued)**

**4.2 Liquidity risk (continued)**

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2009</b>							
<b>Assets</b>							
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 Government of the Republic of Moldova	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
Other assets	1,376	-	-	-	-	-	1,376
<b>Total financial assets</b>	<b>14,105,048</b>	<b>1,379,678</b>	<b>2,669,291</b>	<b>2,998,319</b>	<b>1,159,222</b>	<b>2,375,943</b>	<b>24,687,501</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Government of the Republic of Moldova	2,828,040	-	-	-	-	-	2,828,040
Due to banks	3,062,406	-	-	-	-	-	3,062,406
Certificates issued by the National Bank of Moldova	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
<b>Total financial liabilities</b>	<b>9,369,710</b>	<b>17,755</b>	<b>35,510</b>	<b>93,001</b>	<b>1,704,456</b>	<b>12,258,705</b>	<b>23,479,137</b>
<b>Net liquidity gap</b>	<b>4,735,338</b>	<b>1,361,923</b>	<b>2,633,781</b>	<b>2,905,318</b>	<b>(545,234)</b>	<b>(9,882,762)</b>	<b>1,208,364</b>

The table below presents the analysis of total financial liabilities, including future interests according to their contractual maturity as at 31 December 2010.

The amounts of future liabilities were calculated taking into consideration the data as at 31 December 2010 (official exchange rate of the Moldovan leu, interest rates on monetary-credit instruments, etc.)

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**For the year ended 31 December 2010**

**4. Financial risk management (continued)**

**4.2 Liquidity risk (continued)**

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2010</b>							
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	3,310,509	245	10,331	-	-	-	3,321,085
Due to banks	2,986,857	-	-	-	-	-	2,986,857
Certificates issued by the National Bank of Moldova	3,657,003	-	-	-	-	-	3,657,003
Due to International Financial Institutions	38,765	2,483	43,728	151,179	2,326,353	2,306,703	4,869,211
Other liabilities	53,991	-	-	-	-	-	53,991
<b>Total financial liabilities</b>	<b>10,047,125</b>	<b>2,728</b>	<b>54,059</b>	<b>151,179</b>	<b>2,326,353</b>	<b>13,412,664</b>	<b>25,994,108</b>
<b>31 December 2009</b>							
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Government of the Republic of Moldova	2,828,247	-	-	-	-	-	2,828,247
Due to banks	3,062,679	-	-	-	-	-	3,062,679
Certificates issued by the National Bank of Moldova	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
<b>Total financial liabilities</b>	<b>9,375,037</b>	<b>17,755</b>	<b>35,510</b>	<b>93,001</b>	<b>1,731,257</b>	<b>12,258,705</b>	<b>23,511,265</b>

\* For the Extended Credit Facility (ECF) (previously Poverty Reduction and Growth Facility (PRGF)) commitments received from IMF, included in the liabilities to the international financial organizations as at 31 December 2010, for the period 7 January 2010 – 31 December 2011, no interests are calculated, according to the resolution of the IMF Executive Board 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 rates to the securities placed on the recent BIDs on the primary market and those recently traded on the secondary 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 estimation the Bank uses the historical volatility method calculated by the Bloomberg Information System.

The exposure to the market risk of the securities portfolio held in foreign currency is quantified in the Bank also by calculation of value-at-risk, which represents the estimation of 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 2010 the value of exposure at risk of securities portfolio in foreign currency is estimated at approximately 133,828 USD'000 or approximately 1,626,534 MDL'000 (as at 31 December 2009: 66,200 USD'000 or approximately 814,374 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 fluctuation of interest rates on internal market may affect the value of the state securities portfolio of the Bank: fluctuations of increase / decrease of 1 p.p. of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of decrease / increase of approximately 1,900 MDL'000 on the Bank's capital.

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

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

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.

**4. Financial risk management (continued)**

**4.3 Market risk (continued)**

**4.3.1 Interest rate risk (continued)**

To determine the value of interest rate risk for short and long-term deposits in foreign currency, the possible gains / losses are calculated by the Bank 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 2010, the value of potential gains / losses resulted from the changes of interest rate with 0.5 p.p. is valued at approximately 3,355 USD'000 or approximately 40,782 MDL'000 (as at 31 December 2009: 3,409 USD'000 or approximately 41,930 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 to Financial Statements relating to these components.

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**4. Financial risk management (continued)**

**4.3 Market risk (continued)**

**4.3.1 Interest rate risk (continued)**

Analysis of financial assets and liabilities as at 31 December 2010 according to their contractual re-pricing and renewal date of interest rates 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
<b>31 December 2010</b>							
<b>Assets</b>							
Cash and short-term placements with banks	7,711,224	243,078	-	-	-	2,064	7,956,366
Due from International Financial Institutions	4,217	-	-	-	-	2,306,002	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	603,125	74,527	149,002	150,203	12,368	2,952	992,177
Investment securities	3,076,951	1,499,752	3,943,378	1,047,495	3,294,146	54,177	12,915,899
Other assets	-	-	-	-	-	2,061	2,061
<b>Total financial assets</b>	<b>13,627,969</b>	<b>1,817,357</b>	<b>4,092,380</b>	<b>1,197,698</b>	<b>3,306,514</b>	<b>2,367,256</b>	<b>26,409,174</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	2,075,576	-	10,000	-	-	1,234,387	3,319,963
Due to banks	1,596,517	-	-	-	-	1,389,836	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	3,654,152
Due to International Financial Institutions	783,287	-	38,708	137,255	1,523,053	2,308,424	4,790,727
Other liabilities	-	-	-	-	-	53,991	53,991
<b>Total financial liabilities</b>	<b>8,109,532</b>	<b>-</b>	<b>48,708</b>	<b>137,255</b>	<b>1,523,053</b>	<b>16,092,599</b>	<b>25,911,147</b>
<b>Interest rate gap</b>	<b>5,518,437</b>	<b>1,817,357</b>	<b>4,043,672</b>	<b>1,060,443</b>	<b>1,783,461</b>	<b>(13,725,343)</b>	<b>498,027</b>

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 and Extended Fund Facility (EFF) commitments, 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 (CCL) for which the interest rate is floating (depending on the modification of the basic rate of the Bank and on the modification of the long-term basic interest rate set by the Bank).

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2010**

**4. Financial risk management (continued)**

**4.3 Market risk (continued)**

**4.3.1 Interest rate risk (continued)**

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non-interest bearing	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2009</b>							
<b>Assets</b>							
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 Government of the Republic of Moldova	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
Other assets	-	-	-	-	-	1,376	1,376
<b>Total financial assets</b>	<b>15,025,954</b>	<b>809,988</b>	<b>2,249,837</b>	<b>2,993,683</b>	<b>1,153,254</b>	<b>2,454,785</b>	<b>24,687,501</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	9,882,542	9,882,542
Due to the Government of the Republic of Moldova	2,083,201	-	-	-	-	744,839	2,828,040
Due to banks	2,006,606	-	-	-	-	1,055,800	3,062,406
Certificates issued by the National Bank of Moldova	3,081,558	-	-	-	-	-	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
<b>Total financial liabilities</b>	<b>7,206,875</b>	<b>17,755</b>	<b>35,510</b>	<b>93,001</b>	<b>1,704,456</b>	<b>14,421,540</b>	<b>23,479,137</b>
<b>Interest rate gap</b>	<b>7,819,079</b>	<b>792,233</b>	<b>2,214,327</b>	<b>2,900,682</b>	<b>(551,202)</b>	<b>(11,966,755)</b>	<b>1,208,364</b>

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**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 official rate of Moldovan leu. As at 31 December 2010, the Bank held the following foreign exchange positions:

	MDL	USD	EUR	GBP	CHF	XDR	Other currencies	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2010</b>								
<b>Assets</b>								
Cash and short-term placements with banks	-	5,158,749	1,310,996	1,486,218	274	-	129	7,956,366
Due from International Financial Institutions	-	-	-	-	-	2,310,219	-	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	992,177	-	-	-	-	-	-	992,177
Investment securities	-	3,367,923	7,178,016	2,369,960	-	-	-	12,915,899
Other assets	1,752	309	-	-	-	-	-	2,061
<b>Total financial assets</b>	<b>3,226,381</b>	<b>8,526,981</b>	<b>8,489,012</b>	<b>3,856,178</b>	<b>274</b>	<b>2,310,219</b>	<b>129</b>	<b>26,409,174</b>
<b>Liabilities</b>								
National currency issued into circulation	11,105,961	-	-	-	-	-	-	11,105,961
Due to the Government of the Republic of Moldova	2,101,662	482,032	736,269	-	-	-	-	3,319,963
Due to banks	1,610,496	540,884	834,973	-	-	-	-	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	-	3,654,152
Due to International Financial Institutions	716	-	-	-	-	4,790,011	-	4,790,727
Other liabilities	53,954	11	26	-	-	-	-	53,991
<b>Total financial liabilities</b>	<b>18,526,941</b>	<b>1,022,927</b>	<b>1,571,268</b>	<b>-</b>	<b>-</b>	<b>4,790,011</b>	<b>-</b>	<b>25,911,147</b>
<b>Net position</b>	<b>(15,300,560)</b>	<b>7,504,054</b>	<b>6,917,744</b>	<b>3,856,178</b>	<b>274</b>	<b>(2,479,792)</b>	<b>129</b>	<b>498,027</b>

As at 31 December 2010 other currencies include mainly balances in Canadian Dollars, equivalent of 48 MDL'000, Romanian Lei – 33 MDL'000, Norwegian krone – 22 MDL'000, Russian rubles – 14 MDL'000, Japanese yen – 10 MDL'000 and other currencies – 2 MDL'000.



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**4. Financial risk management (continued)**

**4.3 Market risk (continued)**

**4.3.2 Foreign currency risk (continued)**

	MDL	USD	EUR	GBP	CHF	XDR	Other currencies	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2009</b>								
<b>Assets</b>								
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 Government of the Republic of Moldova	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
Other assets	1,324	38	12	-	-	-	2	1,376
<b>Total financial assets</b>	<b>4,101,940</b>	<b>7,661,535</b>	<b>6,934,880</b>	<b>3,213,775</b>	<b>355,458</b>	<b>2,419,756</b>	<b>157</b>	<b>24,687,501</b>
<b>Liabilities</b>								
National currency issued into circulation	9,882,542	-	-	-	-	-	-	9,882,542
Due to the Government of the Republic of Moldova	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 National Bank of Moldova	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
<b>Total financial liabilities</b>	<b>17,104,829</b>	<b>813,072</b>	<b>1,298,906</b>	<b>-</b>	<b>-</b>	<b>4,262,330</b>	<b>-</b>	<b>23,479,137</b>
<b>Net position</b>	<b>(13,002,889)</b>	<b>6,848,463</b>	<b>5,635,974</b>	<b>3,213,775</b>	<b>355,458</b>	<b>(1,842,574)</b>	<b>157</b>	<b>1,208,364</b>

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 official exchange rate of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2010 and 31 December 2009, respectively, the amount of the possible impact on the profit and equity of the Bank is as follows:

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**4. Financial risk management (continued)**

**4.3 Market risk (continued)**

**4.3.2. Foreign currency risk (continued)**

	<b>31 December 2010</b>		<b>31 December 2009</b>	
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
	<b>Profit</b>	<b>Equity</b>	<b>Profit</b>	<b>Equity</b>
MDL against USD	+/- 375,203	+/- 375,203	+/- 342,423	+/- 342,423
MDL against EUR	+/- 345,887	+/- 345,887	+/- 281,799	+/- 281,799
MDL against GBP	+/- 192,809	+/- 192,809	+/- 160,689	+/- 160,689
MDL against CHF	+/- 14	+/- 14	+/- 17,773	+/- 17,773
MDL against XDR	+/- 123,990	+/- 123,990	+/- 92,129	+/- 92,129
MDL against other currencies	+/-6	+/-6	+/-8	+/-8

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

**5. Cash and short-term placements with banks**

	<b>31 December</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Cash on hand in foreign currency	1,264	1,441
Nostro accounts	300,299	719,104
Term deposits in foreign currency	7,654,803	9,860,235
	<b>7,956,366</b>	<b>10,580,780</b>

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

As at 31 December 2010 the term deposits in foreign currency hold the significant portion within this line (about 96.21%). As at period end the term deposits in foreign currency were placed at financial institutions with ratings<sup>2</sup>: „AAA” – 46.41%, „AA-” – 13.40%, „A+” – 20.57%, „A” – 19.62% (as at 31 December 2009: „AAA” – 12.24%, „AA+” – 3.58%, „AA” – 28.63%, „AA-” – 24.60%, „A+” – 21.06%, „A” – 9.90%).

<sup>2</sup> Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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**6. Due from/to International Financial Institutions**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>Assets</b>		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,305,989	2,375,943
Current account with IMF	4,230	43,813
	<b>2,310,219</b>	<b>2,419,756</b>
<b>Liabilities</b>		
Account No.1	2,305,895	2,375,846
Account No.2	94	97
<b>Total liabilities of the IMF</b>	<b>2,305,989</b>	<b>2,375,943</b>
Other international organizations	715	220
Loans granted by IMF	2,484,023	1,886,387
	<b>4,790,727</b>	<b>4,262,550</b>

The Republic of Moldova joined the IMF on 12 August 1992. The Bank acts as the agent of the state for the conduct of the financial transactions with the IMF and as 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 Bank Balance sheet as Due to International Financial Institutions also include the loans received by the Bank from the IMF. The loans are denominated in Special Drawing Rights ("XDR"), but disclosed in the Balance sheet at the Moldovan Lei equivalent at the end of the reporting period.

As at 31 December 2010 the Bank's outstanding balance of loans due to the IMF is as follows:

- Extended Credit Facility (ECF) – XDR'000 92,620 (as at 31 December 2009 – XDR'000 98,164);
- Extended Fund Facility (EFF) – XDR'000 40 (as at 31 December 2009 – 0 XDR).

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

Extended Credit Facility (ECF, previously PRGF) represents loans granted to poor countries with the GDP less than USD 895 per person. The IMF has granted loans within ECF for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.25% per annum.

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

**7. Securities issued by the Government of the Republic of Moldova**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Securities issued by the Government of the Republic of Moldova	2,252,686	2,238,596
Discount at securities issued by the Government of the Republic of Moldova	(20,542)	(11,010)
Revaluation of the securities issued by the Government of the Republic of Moldova	308	344
	<b>2,232,452</b>	<b>2,227,930</b>

As at 31 December 2010, the portfolio of the Bank comprised state securities issued and delivered to the Bank as a result of conversion into state securities of the internal state debt contracted from the Bank during the previous years. These securities are classified as assets available for sale and are recorded at fair value.

The maturity of state securities held in the Bank's portfolio as at 31 December 2010 is up to 95 days. The average interest rate on portfolio of state securities held by the Bank as at 31 December 2010 constituted 7.10% (as at 31 December 2009 - 4.54%).

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

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>As at 1 January</b>	344	5,525
Changes in the reserve from revaluation of securities issued by the Government of the Republic of Moldova	(36)	(5,181)
<b>As at 31 December</b>	<b>308</b>	<b>344</b>

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**8. Loans granted to banks and individuals**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Medium term loans granted to banks	961,370	1,843,479
Loans granted to banks for crediting the construction cooperatives	17,981	21,895
Loans granted to other individuals	12,826	7,312
<b>Subtotal</b>	<b>992,177</b>	<b>1,872,686</b>
Less: Allowance for impairment of loans	-	-
	<b>992,177</b>	<b>1,872,686</b>

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 crediting the construction cooperatives (CCL), as well as the balance of the loans granted to the Bank employees, adjusted at the amount of the allowance and the interest calculated for these loans. The decrease in the balance of this caption by 880,509 MDL'000 was mainly due to the reimbursement of loans by the licensed banks.

As at 31 December 2010 the amount of payables of the banks constituted 976,400 MDL'000, represented by loans provided to credit the real sector of the economy – 450,536 MDL'000, loans for securing integrity of banking system - 507,883 MDL'000 and crediting the construction cooperatives (CCL) – 17,981 MDL'000.

Loans were provided with a floating interest rate equal to base rate of the Bank with the exception of the loan provided for securing integrity of the banking system, interest rate for this loan was established with preferential conditions.

Of the total amount of loans provided, 507,883 MDL'000 were provided for securing integrity of the banking system without collateral. According to the loan contract terms, the Bank 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 counterparty.

The other loans granted by the Bank to the licensed banks are secured with the state securities, cash equivalents in the Loro accounts of the banks and with the cash and cash equivalents in the accounts of the mandatory reserves in foreign currency maintained by the banks at the Bank.

As at 31 December 2010, the pledge submitted by the banks to secure the return of the loans granted and the related interests amounts to 802,683 MDL'000 (as at 31 December 2009: 1,377,509 MDL'000).

As at 31 December 2010, the pledge submitted by the employees to secure the return of the loans granted and the related interests amounts to 16,810 MDL'000 (as at 31 December 2009: 11,046 MDL'000).

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**8. Loans granted to banks and individuals (continued)**

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

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>As at 1 January</b>	-	<b>(2)</b>
Decrease during the year	-	2
Increase during the year	-	-
<b>As at 31 December</b>	<b>-</b>	<b>-</b>

**9. Investment securities**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>Investment securities in foreign currency with coupon, including:</b>	<b>7,707,013</b>	<b>6,242,563</b>
Investment securities in foreign currency with coupon (nominal value)	7,637,798	6,030,001
Premium / (discount) on investment securities in foreign currency with coupon	(20,745)	54,051
Interest purchased on investment securities in foreign currency with coupon	10,083	7,263
Interest accrued on investment securities in foreign currency with coupon	54,177	68,658
Revaluation of investment securities with coupon	25,700	82,590
<b>Investment securities in foreign currency with discount, including:</b>	<b>5,208,886</b>	<b>1,342,410</b>
Investment securities in foreign currency with discount (nominal value)	5,221,935	1,347,010
Discount on investment securities in foreign currency with discount	(12,885)	(4,716)
Revaluation of investment securities with discount	(164)	116
<b>Total investment securities in foreign currency</b>	<b>12,915,899</b>	<b>7,584,973</b>

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

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**9. Investment securities (continued)**

As at 31 December 2010, all securities issued by non-residents held in the Bank's portfolio have the highest rating<sup>3</sup> – „AAA” constituted 92.68% and the securities with rating „AA+” constituted 7.32% (as at 31 December 2009: „AAA” – 94.05%, AA+” 2.32% and „AA-” – 3.63%).

These securities 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'000 206,000; EUR'000 129,000 and GBP'000 151,512 (in 2009 were sold and matured – USD'000 269,000; EUR'000 60,000 and GBP'000 37,000). Consequently, during the reported period there were purchased securities denominated in foreign currency in the total nominal value of USD'000 222,827; EUR'000 411,611 and GBP'000 208,181 (in 2009: USD'000 155,000; EUR'000 120,000 and GBP'000 24,000).

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

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>As at 1 January</b>	<b>82,706</b>	<b>136,593</b>
Realised losses from revaluation of investments securities	(26,837)	(51,189)
Unrealised losses from revaluation of investments securities	(26,164)	(26,929)
Foreign currency differences	(4,169)	24,231
<b>As at 31 December</b>	<b>25,536</b>	<b>82,706</b>

**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.

<b>31 December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>MDL</b>	<b>MDL</b>	<b>MDL</b>	<b>MDL</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Investment securities	12,915,899	-	-	12,915,899
Securities issued by the Government of the Republic of Moldova	-	2,232,452	-	2,232,452
<b>Total</b>	<b>12,915,899</b>	<b>2,232,452</b>	<b>-</b>	<b>15,148,351</b>
<b>31 December 2009</b>				
Investment securities	7,584,973	-	-	7,584,973
Securities issued by the Government of the Republic of Moldova	-	2,227,930	-	2,227,930
<b>Total</b>	<b>7,584,973</b>	<b>2,227,930</b>	<b>-</b>	<b>9,812,903</b>

<sup>3</sup> Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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**10. Hierarchy of the fair value of the financial instruments (continued)**

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

Following the analysis performed, the Bank's management believes that given the short-term investments in banks, which are not recorded at fair value in Financial Statements, their fair value is not significantly different from the amount recorded in the Balance sheet. In addition, the management believes that the amounts recorded in the Bank's liabilities of the Balance sheet approximate their fair value due to short term they are placed or due to the type of specific transaction of a central bank, and for which there was no distinct market or valuation models to reliably estimate their fair value.

**11. Tangible and intangible assets**

	<b>Buildings</b>	<b>Equipment</b>	<b>Long term tangible assets under execution</b>	<b>Intangible assets</b>	<b>Total</b>
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
<b>Cost</b>					
As at 1 January 2010	36,420	79,009	-	26,465	141,894
Additions	-	1,869	-	1,332	3,201
Exploitations	-	6	-	-	6
Disposals	-	(2,689)	-	(591)	(3,280)
<b>As at 31 December 2010</b>	<b>36,420</b>	<b>78,195</b>	<b>-</b>	<b>27,206</b>	<b>141,821</b>
<b>Accumulated depreciation</b>					
As at 1 January 2010	21,350	73,424	-	20,864	115,638
Charge for the year	986	3,133	-	3,702	7,821
Charge for disposals	-	(2,689)	-	(591)	(3,280)
<b>As at 31 December 2010</b>	<b>22,336</b>	<b>73,868</b>	<b>-</b>	<b>23,975</b>	<b>120,179</b>
<b>Carrying value</b>					
As at 1 January 2010	15,070	5,585	-	5,601	26,256
As at 31 December 2010	14,084	4,327	-	3,231	21,642



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**11. Tangible and intangible assets (continued)**

	<b>Buildings</b>	<b>Equipment</b>	<b>Long-term tangible assets under execution</b>	<b>Intangible assets</b>	<b>Total</b>
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
<b>Cost</b>					
As at 1 January 2009	36,420	77,953	15	25,847	140,235
Additions	-	2,613	-	713	3,326
Exploitations	-	2	-	-	2
Disposals	-	(1,559)	(15)	(95)	(1,669)
<b>As at 31 December 2009</b>	<b>36,420</b>	<b>79,009</b>	<b>-</b>	<b>26,465</b>	<b>141,894</b>
<b>Accumulated depreciation</b>					
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)
<b>As at 31 December 2009</b>	<b>21,350</b>	<b>73,424</b>	<b>-</b>	<b>20,864</b>	<b>115,638</b>
<b>Carrying value</b>					
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

**12. Other assets**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Prepayments	421	118
Other receivables	1,640	1,258
Inventories	1,428	1,124
Goods and materials administered	852	842
<b>Subtotal</b>	<b>4,341</b>	<b>3,342</b>
Less: Provisions for slow moving inventory and doubtful debts	(60)	(68)
	<b>4,281</b>	<b>3,274</b>

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**12. Other assets (continued)**

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

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>As at 1 January</b>	<b>68</b>	<b>181</b>
Decrease during the year	-	-
Increase during the year	(8)	(113)
<b>As at 31 December</b>	<b>60</b>	<b>68</b>

**13. National currency issued into circulation**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Banknotes	11,034,103	9,818,032
Coins	71,858	64,510
	<b>11,105,961</b>	<b>9,882,542</b>

**14. Due to the Government of the Republic of Moldova**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Term deposits of the Ministry of Finance	49,523	10,159
Current deposits of the Ministry of Finance	2,037,827	2,075,018
Due in foreign currency of the Ministry of Finance	1,212,097	725,029
Other accounts of the Government of the Republic of Moldova	20,516	17,834
	<b>3,319,963</b>	<b>2,828,040</b>

The Bank 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 2010 constituted 12.57% (as at 31 December 2009: 18.79%).

The Bank 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 2010 constituted 0.99% (as at 31 December 2009: 1.41%).

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**15. Due to banks**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Current accounts of banks, including mandatory reserves	2,391,288	1,961,345
Deposits from licensed banks in national currency	595,065	1,101,061
	<b><u>2,986,353</u></b>	<b><u>3,062,406</u></b>

Due to banks, including mandatory reserves, are the amounts in the Loro accounts of the resident banks, of the resident banks under the liquidation process, of the resident banks under the insolvency process, as well as mandatory reserves of banks at the Bank in US Dollars and Euro.

According to the requirements of the mandatory reserves regime established by the Bank, as at December 31, 2010, banks are required to maintain mandatory reserves in Moldovan lei and in foreign currencies (US Dollars and Euro) at 8% of base, represented by the banks' attracted funds in corresponding currencies. The mandatory reserves in Moldovan lei are maintained by banks in the Loro accounts at the Bank at an average for the maintenance period. Mandatory reserves in foreign currency are registered in the Bank's accounting records, in the mandatory reserves in foreign currency account and are placed in the Bank's Nostro accounts with foreign banks.

Deposits in the national currency of licensed banks represent overnight deposits of banks placed at the Bank and the interest accrued for these deposits.

**16. Certificates issued by the National Bank of Moldova**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Certificates issued by the National Bank of Moldova at original selling price	3,652,477	3,080,343
Amortised discount on the certificates issued by the National Bank of Moldova	1,675	1,215
	<b><u>3,654,152</u></b>	<b><u>3,081,558</u></b>

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the money market. They are issued at a discount and repurchased on maturity date at the nominal value. During the year 2010 the Bank's certificates were issued with 7-day maturity, except several auctions carried out at the end of August and December when 6-day and 8-day certificates were sold.

The average interest rate on the Bank's certificates outstanding as at 31 December 2010 constituted 7.00% (as at 31 December 2009: 5.00%).

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**17. Other liabilities**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Due to the State Budget	28,939	336,579
Due to other entities	16,018	16,645
Due to personnel	7,165	6,963
Other liabilities	1,869	1,854
	<b>53,991</b>	<b>362,041</b>

Balances due to State Budget in amount of 28,939 MDL'000 represent 50% of the profit available for distribution which is transferrable to the State Budget income in accordance with the *Law on the National Bank of Moldova* during 15 days after the receipt of the external Auditor 's Report on the Financial Statements of the Bank.

**18. Capital and reserves**

During the year 2010, the Ministry of Finance did not issue state securities to cover the negative balance of the general reserve fund registered as at 31 December 2009 in the amount of 774,348 MDL'000, as provided by the *Law on the National Bank of Moldova*.

As of 31 December 2010 the debit balance of the general reserve fund decreased to 28,939 MDL'000 as a result of recording of the profit available for distribution in the amount of 57,878 MDL'000 and, respectively, its 50% utilisation according to the *Law on the National Bank of Moldova*. Debit balance of the general reserve fund as at 31 December 2010 constituted 745,409 MDL'000.

At the same time, as at 31 December 2010 capital and reserves of the Bank registered a positive level in total amount of 521,889 MDL'000 decreasing as compared to 31 December 2009, due to recording of unrealised losses from revaluation of foreign currency stocks in amount of 717,368 MDL'000 and from revaluation of investment securities in amount of 26,164 MDL'000, and, respectively, the using of the corresponding reserves.

Other reserves contain the reserve of gains from the revaluation of state securities, that presented a total positive result of 308 MDL'000, and respectively generated an increase in capital of the Bank with the corresponding amount (as at 31 December 2009: 344 MDL'000).

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**19. Calculation of the profit available for distribution**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>Net profit / (loss)</b>	<b>(685,654)</b>	<b>2,247,140</b>
Covering of unrealized losses on revaluation of the investment securities	26,164	26,929
Covering/(allocation) of unrealized losses/(gains) on revaluation of foreign currency stocks	717,368	(1,601,468)
Transfer of surplus from indexation reserve of fixed assets	-	557
<b>Profit available for distribution</b>	<b>57,878</b>	<b>673,158</b>

**Distribution:**

Increasing of the general reserve fund	(28,939)	(336,579)
State Budget	(28,939)	(336,579)

During the reporting year the Bank registered a net loss in the amount of MDL'000 685,654. As a result of the application of the corresponding regulations of the *Law on the National Bank of Moldova*, the profit available for distribution was in amount of 57,878 MDL'000.

**20. Interest income**

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>Interest income from short term placements:</b>		
Interests from term deposits with foreign banks	26,365	60,036
Interests from overnight deposits	2,119	5,595
Interests from cash and cash equivalents	39	283
	<b>28,523</b>	<b>65,914</b>
<b>Income from interests on securities:</b>		
Interest from securities issued by non residents with coupon and discount	164,406	195,530
Amortization of the discount on the securities issued by the Government of the Republic of Moldova	135,686	281,692
	<b>300,092</b>	<b>477,222</b>
<b>Income from interests on the loans granted and REPO:</b>		
Interests to the loans granted to the banks and employees	47,614	48,558
Interest from the Purchase REPO transactions	-	8,344
	<b>47,614</b>	<b>56,902</b>
	<b>376,229</b>	<b>600,038</b>

The average interest rate on state securities held in the Bank's portfolio during 2010 constituted 6.18% (average interest rate during 2009 - 12.35%).

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**21. Interest expense**

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
<b>Interest expense for the loans received:</b>		
Interests on the loans received from the International Monetary Fund	6,910	10,112
	<b>6,910</b>	<b>10,112</b>
<b>Interest expense pertaining to cash and cash equivalents:</b>		
Interests pertaining to the mandatory reserves	17,222	30,902
Interests pertaining to the accepted deposits from banks	15,008	21,391
Interests pertaining to the accepted deposits from the Ministry of Finance	31,034	74,071
	<b>63,264</b>	<b>126,364</b>
<b>Interest expense pertaining to the operations with securities and REPO:</b>		
Amortization of the discount to the Bank's certificates	216,967	32,761
	<b>216,967</b>	<b>32,761</b>
	<b>287,141</b>	<b>169,237</b>

The average daily balance of the Bank's certificates during 2010 constituted MDL 3,245 millions (2009: MDL 278 millions). The average interest rate on the Bank's certificates during 2010 constituted 6.74% (2009: 10.62%).

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

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Net realized gains from foreign currency transactions	58,720	357,943
Net unrealized gains / (losses) from foreign currency differences	(717,368)	1,601,468
	<b>(658,648)</b>	<b>1,959,411</b>

**23. Losses from the revaluation of securities**

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Net realized losses from investment securities	(12,179)	(46,966)
Net unrealized losses from revaluation of securities at the balance at the year-end	(26,164)	(26,929)
	<b>(38,343)</b>	<b>(73,895)</b>

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**24. Other income**

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Income relating to the settlement services under the Automated Interbank Payment System	11,501	10,647
Income relating to the cash operations	8,491	12,179
Income from the sale of commemorative and festive coins	5,523	8,525
Other income	7,860	8,009
	<b>33,375</b>	<b>39,360</b>

**25. Operating expenses**

	<b>2010</b>	<b>2009</b>
	<b>MDL '000</b>	<b>MDL '000</b>
Personnel expenses	50,748	47,649
Expenses related to national currency	32,502	38,024
Depreciation / amortisation of tangible and intangible assets	7,821	8,537
Information services and communication expenses	7,624	7,001
Equipment maintenance expenses	732	619
Expenses for repairs of buildings and equipment	1,196	163
Commissions paid	4,466	191
Other operating expenses	6,037	6,355
	<b>111,126</b>	<b>108,539</b>

The personnel expenses include also the mandatory state social insurance contributions in the amount of 9,006 MDL'000 and the mandatory health insurance contributions in the amount of 1,349 MDL'000 (as at 31 December 2009: 8,346 MDL'000 and 1,270 MDL'000, respectively).

As at 31 December 2010 the number of positions available at the Bank, including vacancies, was 470 persons, out of which the number of employees was - 468 (as at 31 December 2009 the number of positions available at the Bank was 463 persons, out of which the number of employees was - 455).

**26. Related parties**

The remuneration of the Bank's management, including middle management amounted to 4,232 MDL'000 for the year 2010 (2009: 4,833 MDL'000).

For the year 2010, the expenses with the mandatory state social insurance and health insurance contributions pertaining to the Bank's management, including middle management, amounted to 963 MDL'000 and 142 MDL'000, respectively (as at 31 December 2009: 1,056 MDL'000 and 161 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)**

	<b>Balance as at 1 January</b>	<b>Loans granted</b>	<b>Transfers</b>	<b>Reimburse ments</b>	<b>Balance as at 31 December</b>
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
2009	895	-	13	(82)	826
2010	826	4,032	556	(621)	4,793

The loans are granted to the management at the same interest rates charged to all Bank's employees according to the Bank's internal regulation. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2010 constituted 5,656 MDL'000 (as at 31 December 2009: 1,203 MDL'000).

As at 31 December 2010, these loans were classified as standard and therefore not requiring allowance for impairment losses.

**27. Commitments and contingencies**

*Commitments*

Starting with the 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 2010, according to the loan agreements concluded, the conditional commitments to provide loans (the amount not used of the loan agreements concluded by the Bank with the licensed banks) amounted to 173,661 MDL'000. These loans are due for repayment during the years 2011-2012.

As at 31 December 2010, there were no arrears.

*Disputes and contingencies*

As at 31 December 2010, the Bank was involved in 4 lawsuits against it.

There are two lawsuits in which the Bank is involved relating to the reimbursement of fines collected previously from a licensed bank, the respective claims for compensation are estimated to the total amount of 4,043 MDL'000. Under the Court of Appeal's decision pronounced on 05 July 2010, for one of the disputes, the decision of the Council of administration of the Bank under which the fine was levied, was quashed, and the amount of 2,536 MDL'000 was ordered to be collected from the Ministry of Finance from the State Budget (*as the fine applied to the licensed bank was paid to the State Budget*). The Bank submitted an appeal to the Supreme Court of Justice that was to be examined on 02 February 2011.

In the second lawsuit, under the Court of Appeal's decision, and then under the decision of the Supreme Court of Justice, the Bank was obliged to reimburse the previously collected fine in amount of 1,507 MDL'000. The Bank submitted an appeal to the Supreme Court of Justice for review. This request was to be examined on 02 February 2011.

Considering the above facts and the fact that according to art. 38 para. (5) of the *Law on Financial Institutions* the fines applied to banks are paid to the State Budget, the Bank's management considers the risk of effect on the Bank's Financial Statements related to these two lawsuits as being one reduced.



**27. Commitments and contingencies (continued)**

In the second half of the year 2009 two groups of shareholders of BC Investprivatbank S.A. brought in Court auctions against the Bank. The first group of shareholders required from the Court: to set up the unlawfulness of the actions of the Bank by the Order no. 09-02218/313 dated 19 June 2009 "With regard to the license withdrawal of the B.C. „Investprivatbank” S.A. and appointment of the liquidator” and cancellation of the above Order, the set up by the Court in its decision, that the mentioned Order shall not have effect after its adoption; the declaration of invalidity of the decisions of the Bank and of the Bank’s liquidator, performed under the corresponding Order; the compensation for material damages caused to plaintiffs in amount of 45,000 Euro’000; the compensation for material damages caused to plaintiffs in the amount of contributions to the share capital of BC “Investprivatbank” S.A. in amount of 88,000 MDL’000; suspension of the Order until the examination of core reasons; and the collection of costs related to the review of the reason. The second group of shareholders of B.C. “Investprivatbank” S.A. brought an auction against the Bank, with the same requests as the first group mentioned above, the compensation for material damages caused to each shareholder – plaintiff in part in the amount of 134,590 MDL’000.

In examining the lawsuit at the Court of Appeal Chişinău, the plaintiffs filed a claim on the recognition of the art. 38, par. (3), art. 38, par. (7) and art. 38<sup>12</sup> of the *Law on Financial Institutions* as unconstitutional provisions.

The claim was rejected by the decision of the Court of Appeal Chişinău.

The Court of Appeal decided to reject the claim submitted by the plaintiffs regarding the appealing of the administrative act and compensation of damages, having considered it groundless.

The Supreme Court of Justice admitted the appeal to the conclusion of the Court of Appeal Chişinău, and the Plenum of the Supreme Court of Justice decided the referral of the Constitutional Court with regard to the exception of unconstitutionality. Hearing date is to be determined by the High Court.

As at 31 December 2010 (and as at 31 December 2009), the Bank did not record any provisions for litigations, as the Bank does not consider that there was sufficient evidence regarding any related possible future outflows of economic resources.

**28. Events after the balance sheet date**

Of the amount of the medium-term loans provided to banks, a matured amount not paid as at 31 December 2010 constituted 65,459 MDL’000.

As at 03 January 2011, under the regulations of Art. 70 of the *Law on the National Bank of Moldova*, in order to settle the debt, the outstanding loan in the amount of 65,459 MDL’000 was charged.

As at 21 March 2011 the Council of administration of the Bank decided on the prolongation by 3.5 years of the loan grant period to protect the integrity of the banking system (Note 8), with the balance of 442,424 MDL’000 at the prolongation date, maturity date being set 30 December 2015. The repayment of the loan was set on a quarterly basis, in equal tranches. Considering the Bank's specificity, as authority to issue currency, this fact will not have significant impact on the situation and financial performance as well as future cash flows of the Bank.

**28. Events after the balance sheet date (continued)**

As at 31 December 2010 the National Bank of Moldova was involved in two lawsuits regarding the reimbursement of fines previously collected from a licensed bank.

As at 02 February 2011 the Supreme Court of Justice terminated the lawsuit related to one of the compensation claims estimated at an approximate amount of 2,536 MDL'000, as a result of recall of action by the plaintiff.

As at 02 March 2011 the Supreme Court of Justice rejected the appeal for revision of the Bank's second lawsuit. The Bank intends to submit a new appeal for revision, the risk of impact on the Bank's Financial Statements, which would result from this dispute, is estimated at a reduced level.