ProCredit Bank
Moldova

Annual Report 2011

Key Figures

	USD '000		Change
	2011	2010	
Balance Sheet Data			
Total Assets	152,088	108,810	39.8%
Gross Loan Portfolio	117,338	82,907	41.5%
Business Loan Portfolio	100,892	73,428	37.4%
< USD 10,000	17,186	17,079	0.6%
> USD 10,000 < USD 30,000	19,466	10,670	82.4%
> USD 30,000 < USD 150,000	33,033	22,985	43.7%
> USD 150,000	31,208	22,694	37.5%
Agricultural Loan Portfolio	14,142	8,998	57.2%
Housing Improvement Loan Portfolio	1,170	473	147.3%
Other	1,134	8	13,841.3%
Loan Loss Provisions	−2,058	−1,271	61.9%
Net Loan Portfolio	115,280	81,636	41.2%
Customer Deposits	43,597	34,269	27.2%
Liabilities to Banks and Financial Institutions (excluding PCH)	31,405	19,229	63.3%
Total Equity	22,026	13,544	62.6%
Income Statement			
Operating Income	12,444	8,809	41.3%
Operating Expenses	11,232	9,723	15.5%
Operating Profit Before Tax	1,212	−914	−232.6%
Net Profit	1,562	−914	−270.8%
Key Ratios			
Cost/Income Ratio	85.7%	100.6%	
Return on Equity (ROE)	8.8%	−7.7%	
Capital Ratio	23.8%	21.4%	
Operational Statistics			
Number of Clients	39,535	32,437	21.9%
of which Business Clients	10,318	10,457	−1.3%
Number of Loans Outstanding	11,177	11,249	−0.6%
Number of Deposit Accounts	45,831	38,802	18.1%
Number of Staff	532	454	17.6%
Number of Branches and Outlets	23	23	0.0%

Exchange rate as of December 31:
2011: USD 1 = MDL 11.7154
2010: USD 1 = MDL 12.1539

Mission Statement

ProCredit Bank Moldova is a development-oriented full-service bank. We offer excellent customer service to private individuals and enterprises. In our operations, we adhere to a number of core principles: we value transparency in our communication with customers, we do not promote consumer lending and we provide services which are based both on an understanding of each client's situation and on sound financial analysis. This responsible approach to banking allows us to build long-term partnerships with our clients based on mutual trust.

In our operations with business clients, we focus on very small, small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing substantial resources in financial education we aim to promote a culture of savings and responsibility which can help to bring greater stability and security to ordinary households.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere, and to provide friendly and competent service for our customers.

Letter from the Board of Directors

The Moldovan economy developed strongly in 2011. Despite the problems surrounding the unresolved sovereign debt crisis in Europe, GDP growth was 6.4%, similar to the 2010 figure. Inflationary pressure was reflected in an inflation rate of 7.6% for the year. Yet, the exchange rate of the leu against the US dollar remained basically stable and central bank reserves actually increased. This favourable economic setting positively influenced the development of ProCredit Bank.

Even more important, however, were the developments and measures taken within the bank. In its fourth year of operation, the bank continued the trend of healthy growth built on the systematic strengthening of internal structures.

In our core business area, servicing very small and small businesses, major progress was made. The overall loan portfolio grew by an impressive 41.5%, with the very small and small client categories increasing by 32% and 43.7%, respectively. The volume of domestic and international payment transactions grew by 74% and 32%, respectively. But achievements are not only expressed in percentages.

Major progress has been made with respect to capacity, processes and services. Following an intensive selection and training process, which for most of the successful applicants included participation in the newly established "Young Bankers Programme", additional staff members have been hired as Business Client Advisers to serve even more clients. Well trained staff are essential for the quality and the closeness of the bank's relationships with its clients. Procedures have been reviewed and simplified to ensure efficient lending processes and to avoid unnecessary delays. This will not only enable our staff to service our clients more efficiently, but will also benefit our clients by ensuring a swift analysis and quick turnaround of their loan applications and other requests. Finally, a review of our existing services and the implementation of additional ones have further improved the attractiveness of ProCredit Bank. With these improvements, the bank feels well-positioned to play an even more important role in servicing Moldova's very small and small business in a responsible and client-oriented manner. This will apply in particular to businesses in the agricultural sector, which already today form a major part of our client base.

Great emphasis has been placed on the development of the bank's positioning for private clients – ordinary people. Under the difficult circumstances of the previous years, the bank has managed to build a substantial client base. Its customer deposit base grew by no less than 22.8%. However, ProCredit is not yet as well known in the wider Moldovan population as it is in the business community. This is not surprising given its much longer institutional history of serving business customers. That is why the bank will place all the more emphasis on client acquisition and service and on building its network of service points, particularly in Chisinau, in the coming period.

Strong business results cannot be achieved without solid institutional structures. This includes robust risk management structures and reliable IT support. The risk management of the bank has been further strengthened in 2011 and the structures and processes established in all key risk areas not only ensure the stability and reliability of ProCredit Bank; more broadly, they are setting benchmarks in the banking sector of Moldova. Also, the bank will migrate to a new core software system in 2012 to further improve its service and to keep in line with technological progress.

Even more important, however, is the quality of our staff. The bank has invested heavily in the careful selection and intensive training of new staff members, and reinforced training of existing staff including middle management is high on the agenda for 2012. It is our expectation that the intensive training will lead to strong results in terms of business volume and quality of services. At the same time, we would also like to express our gratitude to our staff for the responsible and dedicated manner in which they have performed their duties. This gives us great confidence for the further successful development of ProCredit Bank Moldova.

Stephan Boven
Chairman of the Board of Directors

Members of the Board of Directors as of December 31, 2011:
Stephan Boven
Lorenz Gessner
Daan Christiaan Lameris
Ilinca Rosetti
Adalbert Winkler

Members of the Management Board as of December 31, 2011:
Vladislav Garbu
Kemal Seitveliiev
Eugenia Gashikulina
Natalia Osadcii

The Bank and its Shareholders

ProCredit Bank Moldova is a member of the ProCredit group, which is led by its Frankfurt-based parent company, ProCredit Holding. ProCredit Holding is the majority owner of ProCredit Bank in Moldova and holds 82.89% of the shares.

ProCredit Bank Moldova was founded in December 2007 by an alliance of international development-oriented investors, many of which are shareholders in ProCredit Holding today. Their goal was to establish a new kind of financial institution that would meet the demand of small and very small businesses in a socially responsible way. The primary aim was not short-term profit maximisation but rather to deepen the financial sector and contribute to long-term economic development while also achieving a sustainable return on investment.

Over the years, ProCredit Holding has consolidated the ownership and management structure of all the ProCredit banks to create a truly global group with a clear shareholder structure and to bring to each ProCredit institution all the best practice standards, synergies and benefits that this implies.

Today's shareholder structure of ProCredit Bank Moldova is outlined below. Its current share capital is USD 27.5 million.

Shareholder (as of Dec. 31, 2011)	Sector	Headquarters	Share	Paid-in Capital (in USD)
ProCredit Holding	Investment	Germany	82.89%	22,799,051
KfW	Banking	Germany	12.30%	3,382,983
DOEN Foundation	Investment	The Netherlands	4.81%	1,323,045
Total Capital			**100%**	**27,505,079**

ProCredit Holding is the parent company of a global group of 21 ProCredit banks. ProCredit Holding was founded as Internationale Micro Investitionen AG (IMI) in 1998 by the pioneering development finance consultancy company IPC.

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for very small, small and medium-sized businesses as well as the general population in their countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity, including banking operations, human resources and risk management. It ensures that ProCredit corporate values, international best practice procedures and Basel II risk management principles are implemented group-wide in line with standards also set by the German supervisory authorities.

IPC is the leading shareholder and strategic investor in ProCredit Holding. IPC has been the driving entrepreneurial force behind the ProCredit group since the foundation of the banks.

ProCredit Holding is a public-private partnership. In addition to IPC and IPC Invest (the investment vehicle of the staff of IPC and ProCredit), the other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund and the Swiss investment fund responsAbility. The public shareholders of ProCredit Holding include KfW (the German promotional bank), IFC (the private sector arm of the World Bank), FMO (the Dutch development bank), BIO (the Belgian Investment Company for Developing Countries) and Proparco (the French Investment and Promotions company for Economic Cooperation).

The legal form of ProCredit Holding is a so-called KGaA (Kommanditgesellschaft auf Aktien, or in English a partnership limited by shares). This is a legal form not uncommonly used in Germany which can basically be regarded as a joint stock company in which the role of the management board is assumed by a General Partner, and in which the General Partner has consent rights over certain key shareholder decisions. In the case of ProCredit Holding, the General Partner is a small

separate company which is owned by the core shareholders of ProCredit Holding AG & Co. KGaA: IPC, IPC Invest, DOEN, KfW and IFC. The KGaA structure will allow ProCredit Holding to raise capital in the future without unduly diluting the influence of core shareholders in ensuring the group maintains dual goals: development impact and commercial success.

ProCredit Holding has an investment grade rating (BBB-) from Fitch Ratings Agency. As of the end of 2011, the equity base of the ProCredit group is EUR 469 million. The total assets of the ProCredit group are EUR 5.5 billion.

KfW (Department KfW Development Bank): On behalf of the German Federal Government, KfW (Department KfW Development Bank) finances investments and accompanying advisory services in developing and transition countries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound and inclusive financial systems while protecting resources and ensuring a healthy environment.

KfW (Department KfW Development Bank) is a leader in supporting responsible and sustainable microfinance and is involved in target group-oriented financial institutions around the world. Department KfW Development Bank is part of KfW, which has a balance sheet total of EUR 494.8 billion (as of December 31, 2011). KfW is AAA-rated by Moody's, Standard & Poor's and Fitch Ratings.

Stichting DOEN, or the **DOEN Foundation**, was set up in 1991 by the Dutch Postcode Lottery. The DOEN Foundation's ambition is to help build a sustainable world in which everyone can make a contribution. DOEN actively seeks enterprising people and organisations who can contribute to this mission. DOEN finds these pioneers within three new themes, Climate Change, Culture & Cohesion and The New Economy, and frequently supports them at the outset of inspiring initiatives. By issuing subsidies, providing a loan or equity investments, but also to an increasing extent by interconnecting the various parties in its network. The DOEN Foundation funds initiatives from annual contributions received under long term contracts from its founder, the Dutch Postcode Lottery, and the two other Dutch charity lotteries, the BankGiro lottery and the Friends Lottery.

The DOEN Foundation has been financing entrepreneurial and sustainable initiatives that improve access to a responsible financial sector since 1994. The DOEN foundation considers access to finance an important tool for sustainable development and for building civil society.

Special Feature

Establishing New Standards in Delivering Banking Services to Business Clients

Although optimism about the development of the Moldovan business sector is on the rise, businesses are still working to achieve stability and find reliable financial partners. ProCredit Bank has always striven to understand the needs of small and medium-sized businesses and then develop appropriate financial services. At the same time, we believe that the key to success lies in establishing long-term relationships with business owners. It is therefore important for our SME customers to understand that ProCredit Bank's aim is not to make a quick profit by selling services, but rather to accompany entrepreneurs along their journey. To enable us to do this more effectively, we introduced a new customer care strategy aimed at bringing us closer to our business clients and helping us to understand their needs better.

As part of this strategy, we introduced a new position: Business Client Adviser. The staff selected for this new role are experienced employees of ProCredit Bank and are thus familiar with the bank's services. They received special training on how businesses work as well as on the main challenges that entrepreneurs face. Our clients have found this approach to be very effective, as the Business Client Adviser serves as their single contact person at the bank, answers their questions and advises them about all aspects of their finances. Direct, open communication with our business clients continues to be the main objective of our new approach, as entrepreneurs need to be listened to and understood.

To mark the debut of this new concept of customer service on the Moldovan market, ProCredit Bank held a reception for business owners from around the country. The entrepreneurs were welcomed personally by the bank's top management. Aside from providing an opportunity to explain the new concept and introduce the Business Client Advisers themselves, one of the primary goals of this reception was to help the entrepreneurs to find new contacts and business partners. The Business Client Advisers facilitated the networking process by introducing the entrepreneurs to each other.

Many clients gladly took the opportunity to have their businesses profiled in a brochure that was printed by the bank beforehand and distributed at the reception. The brochures also contained detailed contact information, making it easy for the business owners to get in touch with each other later on. There were also special stands where entrepreneurs could display informational materials, and in the other corner of the room ProCredit Bank set up a small exhibition of products from approximately ten businesses.

The entrepreneurs enjoyed the reception and stated that the event led to several new partnerships. Most of all, they were enthusiastic about developing a relationship with ProCredit Bank via their own personal Business Client Advisers, who can find answers and solutions to all of their business needs. This positive feedback gives us confidence that the new service concept will bring many benefits to our clients.

Management Business Review

Management Board
from left to right:

Vladislav Garbu
Chairperson of the Management Board

Eugenia Gashikulina
Deputy Chairperson of the Management Board

Natalia Osadcii
Deputy Chairperson of the Management Board

Kemal Seitveliiev
Deputy Chairperson of the Management Board

Political and Economic Environment

Strong domestic demand and steadily growing exports were responsible for Moldova's encouraging economic performance in 2011. Other factors which are likely to contribute to the country's modernisation included further integration with other European countries, more continuous and structured political dialogue with the EU and the EU's role in promoting internal reforms in Moldova. These are being supported by agreements with the EU, such as the Moldovan government's "European Integration: Freedom, Democracy, Welfare" Activity Programme, the Medium Term Development Action Plan "Rethink Moldova" and the Economic Stabilisation and Recovery Programme 2009–2011.

Despite these positive trends, Moldova remains in a transitional period. The deadlock surrounding the appointment of the country's president continued in 2011 and by the end of the year, following two inconclusive votes in parliament, it had still not been resolved. Nonetheless, the Alliance for European Integration, the ruling coalition, is pursuing long-overdue reforms in the areas of press freedom, civil society and the judicial system. The Moldovan government also continued to promote a transparent fiscal policy in 2011, which encouraged international aid inflows.

The economy experienced modest growth in 2011 but remained susceptible to political uncertainty, a weak administration and bureaucratic obstacles. The country's economic stability was also threatened by the separatist and internationally unrecognised government in the Transnistria region in eastern Moldova.

Structural problems, a narrow export base, an undiversified economy and excessive dependence on remittances increased Moldova's large trade deficit, continuing the trend of rising household consumption. In response, parliament adopted a new fiscal policy containing significant measures aimed at improving tax collection, which will come into force in 2012.

The 2011 inflation rate of 7.6%[1], the fourth highest in the Commonwealth of Independent States (CIS)[2], was attributed to the development of the fuel market set against increasing prices for petroleum products in foreign markets and the depreciation of the Moldovan leu. Other contributing factors included higher utility tariffs, adverse weather conditions for some crops, the worldwide increase in food prices and higher domestic demand due to increasing disposable incomes.[3]

Foreign investment for the year was 40% up on 2010, totalling USD 274 million,[4] with European investors accounting for three-quarters of the total volume. The trade deficit for 2011 totalled USD 2.8 billion.[5] During 2011 Moldova's import-export ratio rose by 2.6 percentage points, reaching 44.3%.

Despite modest improvements in the economic environment during 2011, the continuing political uncertainty and Moldova's dependence on FDI leave the country vulnerable. Moldova's economic development will therefore depend crucially on whether greater political stability and a more favourable investment climate can be achieved.

Financial Sector Developments

A total of 15 banks were operating in Moldova at the end of 2011. As a consequence of the country's general economic recovery, the financial sector also saw its results improve. The banking system grew in all lines of business, recording good year-end profits.

Four Moldovan banks were subject to external attacks by corporate raiders in August, when some shareholders were defrauded of their shares. These incidents threatened to undermine investor confidence, hamper the work of the state institutions and damage the overall business climate. However, the government took swift action in an attempt to counter these effects. In November the National Bank of Moldova (NBM) initiated special

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1 Source: http://www.statistica.md/
2 Source: http://www.cisstat.com/eng/frame_macro.htm CIS Statistical Committee
3 Source: www.indexmundi.com, "Moldova Economy profile 2011" – CIA World Factbook
4 Source: http://www.statistica.md/
5 Source: http://www.statistica.md/

supervision procedures against one local bank which had failed to fulfil NBM requirements.

The level of concentration remained high in the financial sector, with the country's five largest banks holding 70.12% of all banking assets (2010: 69.2%). Total banking sector assets increased by 12.87% (2010: 5.93%) to MDL 47.7 billion (USD 4.1 billion).

The ratio of liquid assets to total assets remained almost unchanged at 33.2%, compared with 34.2% at the end of 2010, far above the NBM minimum requirement of 20%. High levels of liquidity in the market, the inability of the real economy to absorb this, low interest rates on loans and deposits, and accelerated consumption – all of these factors created additional inflationary pressures, which prompted the adoption of a more restrictive monetary policy. In order to manage the liquidity in the banking system, the NBM increased the mandatory reserve from 11.0% to 14.0% and introduced a new ratio of 0.0% (zero) on mobilised funds with maturities over two years. The NBM increased the base rate to 10.0%, the interest rates on overnight deposits to 7.0%, and on overnight loans to 13.0% in anticipation of inflationary pressures.

In December 2011, strong competition among banks led to interest rate charges on loans in local currency falling to 13.96%, the lowest in Moldova's history.[6] Margins on foreign currency operations continued their downward trend. This more pronounced reduction in interest margins reflects the relative stabilisation of the economy and the decrease of credit risks.

The net loan portfolio in the banking sector increased by 16.93% (2010: 12.7%), reaching MDL 27.7 billion (USD 2.3 billion) by the end of the year. Consumer loans accounted for 6.7% of the total loan portfolio at the end of 2011 (2010: 8.4%). The ratio of loans to GDP was 36.3% (2010: 35.5%). The share of non-performing loans decreased from 13.3% in 2010 to 10.66% in 2011 as a result of actions taken by the banks.

The total level of deposits in the banking sector increased by 13.63% to MDL 32.6 billion (USD 2.8 billion) (2010: MDL 28.7 billion, USD 2.3 billion), while the deposits to loans ratio reached 109.45% (2010: 112.63%). There was also a greater focus on local currency deposits, with the share of foreign currency deposits decreasing slightly from 48.5% in 2010 to 46.2% at the end of 2011. The ratio of total deposits to GDP in 2011 was 39.71% (2010: 39.95%).

ProCredit Performance

ProCredit Bank's loan and deposit portfolios both continued to grow steadily during 2011. The bank achieved these encouraging business results by continuing to build strong and durable relationships with its clients, and by adhering to high international standards. It also owed its success to the firm support of its stable shareholders, enabling the bank to maintain a strong capital base, and to the personal commitment of its employees.

ProCredit Bank's position as the house bank for small businesses relies on excellent quality and highly efficient services which go hand-in-hand with our clients' expectations, including financing, liquidity management, payroll, internet banking and transactions. We also take great care to explain to our clients the services available to them in a transparent and clear manner. Business Client Advisers are at the forefront of our individual approach, which is based on establishing a relationship of trust with each customer. In practical terms, this means that our staff understand our business clients' needs and can recommend services that precisely meet their requirements.

At the same time, we continued offering savings facilities and other banking services to private clients. ProCredit Bank has always focused on promoting financial literacy and fostering a culture of savings. Deposit facilities are just as important for ordinary people as credit is for businesses, but they will only save with a bank that they trust. Confidence in the local banking system was undermined by the raider attacks that occurred in mid-2011, and in response we increased our efforts to provide the clarity, transparency and security that people have a right to expect from their bank.

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[6] Source: http://www.bnm.md/md/monthly_bulletin/2011

In July we inaugurated our Business Centre, a special branch dedicated to serving medium and small enterprises, i.e. those businesses with the most complex needs. We also opened a new service point in the heart of Chisinau, to deliver simple banking services to private clients and enterprises. To better serve our clients in Balti, Moldova's second largest city, we moved our branch to a spacious building on the main street, making it easier for our clients to reach us and benefit from the bank's support and advice.

Our key strength and our greatest asset are our loyal and committed employees. We therefore continued to provide seminars and trainings on a wide range of banking topics, as well as on-going mathematics and accounting courses. These activities also serve as a valuable communication platform which further enhances staff development.

We measure our success in terms of the professionalism of our staff and the loyalty of our clients, and our commitment to supporting our clients' long-term development remains as strong as ever.

Lending

The bank's loan portfolio grew steadily in 2011, reaching USD 117 million spread among 11,177 loans by the end of the year, an increase of 41.5% in volume terms. In 2011 the bank disbursed over 6,300 loans totalling USD 81.7 million, which translates into an average loan size of USD 12,920. Loans to businesses and agricultural enterprises accounted for 98.0% of our outstanding loan portfolio and 93.5% of the total number of loans.

Whereas the business loan portfolio grew in all our client categories – very small, small and medium – the largest increase was registered among small clients, growing by 43.7% to USD 33 million by year-end. This development was due to our new personalised, client-oriented approach, in which our Business Client Advisers (BCA) seek to understand clients' specific business needs and provide the services that best suit them.

Loans to the very small client category also grew by USD 8.9 million – an increase of 32% in comparison to 2010. This growth was attributable to several factors, both internal and external. The Business Client Advisers' focus on quality and efficiency in processing very small clients' loan applications resulted in a 18% increase in the monthly average number of loans disbursed per BCA in comparison to 2010. Despite the uncertainty caused by Moldova's political crisis, very small entrepreneurs have once again started to invest in working capital and fixed assets.

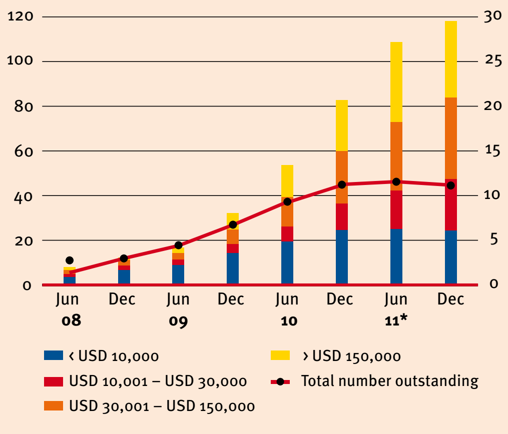
The bank's lending to medium enterprises also grew, but by a substantially lower percentage (37.5%) than in 2010 due to the bank's focus on very small and small clients. Most of the growth in the medium portfolio was concentrated in the size range up to USD 500,000.

Agricultural loans represented 12% of the total outstanding portfolio, and accounted for 23.8% of the total number of loans. The bank's financing of agricultural enterprises grew by 57.2%.

New credit services played an integral role in driving growth in all client categories. These included credit limits (used by more than 30% of business clients), business overdrafts and refinancing. We also made improvements to the lending processes, and, in the context of our agricultural lending, established partnerships with producers of agricultural equipment. These enhancements made ProCredit Bank more competitive in comparison with other financial institutions.

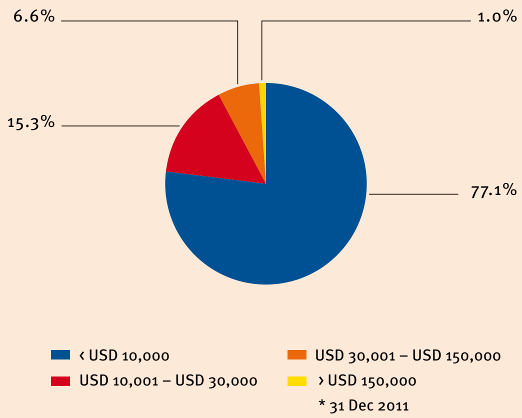
The quality of the loan portfolio remained stable compared with 2010. The overall PAR>30 days was 1.35% of the total loan portfolio (2010: 1.10%). Net write-offs totalled 0.32% of the total loan portfolio.

Loan Portfolio Development



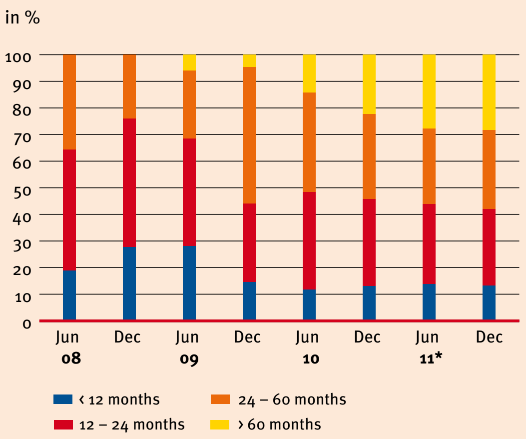
** Starting from 2011 the method of calculation for size categories has been changed; the figures for 2011 include the finance company ProCredit Moldova*

Number of Loans Outstanding – Breakdown by Loan Size*



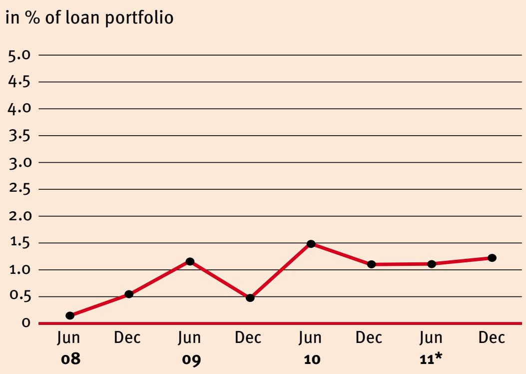
Starting from 2011 the method of calculation for size categories has been changed: breakdown by initial amount; the figures for 2011 include the finance company ProCredit Moldova

Business Loan Portfolio – Breakdown by Maturity



** The figures for 2011 include the finance company ProCredit Moldova*

Loan Portfolio Quality (arrears ›30 days)



Net write-offs: in 2008: USD 5,612 in 2009: USD 248,695 in 2010: USD 380,389 in 2011: USD 373,586

** The figures for 2011 include the finance company ProCredit Moldova*

Deposits and Other Banking Services

In 2011 we concentrated on consolidating ProCredit Bank's image as a stable, trustworthy and reliable bank, providing simple and clear savings facilities as well as wider banking services. Fast and convenient service, coupled with a high level of quality and fair pricing, has enabled us to meet existing customers' expectations and win new clients.

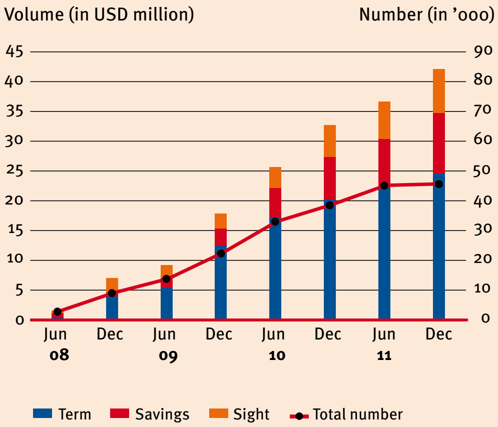
Individual branch efforts in client acquisition, accompanied by centralised marketing campaigns, have resulted in customer funds of USD 43.6 million as of the end of 2011, up 27% on 2010. Of this total, private clients contributed USD 35.5 million, while the business clients' share was USD 8 million. Most customer funds (57.7%) came from term deposits. As of year-end, there were 6,000 term deposit accounts on our books, with an average balance of USD 4,198. Furthermore, the average maturity of the deposit portfolio increased to 12.5 months. These achievements underscored the high level of public confidence in our bank.

In all, 3,383 new savings accounts were opened in 2011, increasing the total number of accounts by 32.7% compared to the end of 2010. Most savings accounts were opened by private clients with modest incomes, as is reflected in the average balance of USD 776. While savings accounts made up 23.22% of total customer funds, there was a significant increase in the share of current accounts in the total funding structure, which had risen to 19% by year-end. Total current account balances came to USD 8.3 million.

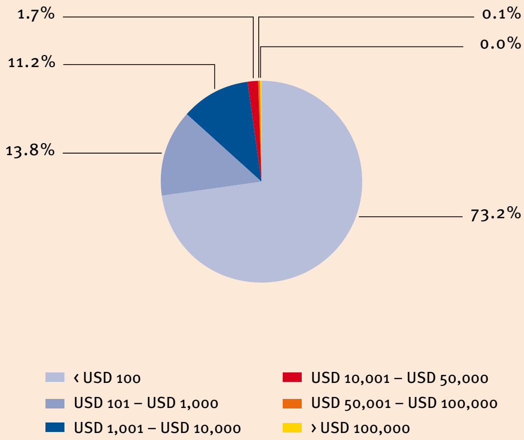
Among the general public, we continued to solidify ProCredit Bank's status as an established member of the banking community. To strengthen this position and to reach potential clients our staff organised regular meetings at public and private institutions, where we described the bank's mission and services to the employees. Business Client Advisers also explained the benefits of managing funds through current accounts during discussions with individual business clients. To reflect local market conditions and to meet our clients' needs, ProCredit Bank launched a new type of account: term deposits with a top-up facility. Furthermore, the maximum maturity for term deposits was extended to 36 months.

In 2011, the number and volume of domestic and international transfers going through current accounts increased. Compared with 2010, these grew by 67.6% to 19,061 transactions, and in volume terms by 60.4 % to USD 31.6 million per month. In our continuous drive to improve the efficiency of our services we also introduced internet banking for business clients. Now, 37.4% of all transactions are done online, helping our business clients to manage their business transactions from the comfort of their office.

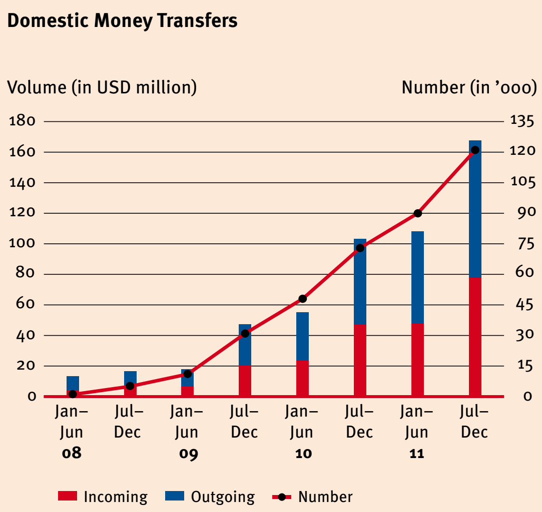
Customer Deposits

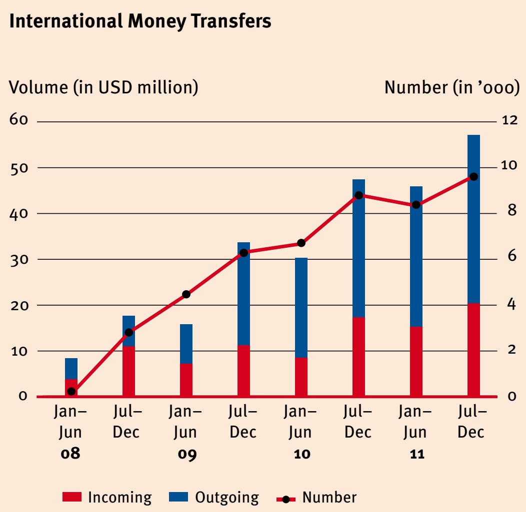


Number of Customer Deposits – Breakdown by Size*



* 31 Dec 2011


Domestic Money Transfers
Volume (in USD million)
Number (in '000)
180
160
140
120
100
80
60
40
20
0
135
120
105
90
75
60
45
30
15
0
Jan–Jun 08
Jul–Dec
Jan–Jun 09
Jul–Dec
Jan–Jun 10
Jul–Dec
Jan–Jun 11
Jul–Dec
Incoming
Outgoing
Number


International Money Transfers
Volume (in USD million)
Number (in '000)
60
50
40
30
20
10
0
12
10
8
6
4
2
0
Jan–Jun 08
Jul–Dec
Jan–Jun 09
Jul–Dec
Jan–Jun 10
Jul–Dec
Jan–Jun 11
Jul–Dec
Incoming
Outgoing
Number

Financial Results

Increased productivity and more efficient processes helped ProCredit Bank Moldova to break even in 2011. Total assets grew by 39.5% to MDL 1.77 billion (USD 151 million), largely because of the significant expansion of the loan portfolio, which rose by 41.5% in 2011, having already grown by 160.5% in 2010. As a result of increased efforts to promote lending, the loan portfolio grew in all client categories, and the share of the portfolio in total assets increased to 77.3%, up from 76.2% in 2010.

Customer deposits increased by 27.2% in 2011, mostly through term deposits, which accounted for MDL 294.8 million (USD 25 million). At the same time, current accounts and savings accounts rose by MDL 31.7 million (USD 2.9 million) and MDL 31.4 million (USD 2.9 million) respectively. Still, only 37.2% of our loan portfolio was financed with deposits (2010: 41.3%). Raising the deposits-to-loans ratio will remain an important focus in future years.

In order to maintain a continuous lending process, the bank increased its liabilities to banks and international financial institutions by 44.4% to USD 85.7 million (2010: USD 59 million). ProCredit Holding remains one of the main providers of long-term resources, extending its funding to USD 57.8 million in 2011. Liabilities from international financial institutions (including ProCredit Holding) accounted for 66.07% of the bank's liabilities.

The bank's total operating income for the year amounted to MDL 146 million (USD 12.4 million) – a year-on-year increase of 41.27%. Of this total, net interest income accounted for 88%. Interest income increased by 53.8% to MDL 223 million (USD 19 million), while interest expenses were MDL 94.2 million (USD 8 million), up 63.6% on 2010 due to the fact that more funds were provided by IFIs and ProCredit Holding. Net fee and commission income totalled MDL 13.6 million (USD 1.2 million).

Loan loss provisions amounted to MDL 24.1 million (USD 2.1 million), an increase of 62%. Recoveries from written-off loans brought in a total of MDL 5.2 million (USD 443,989) during 2011. Operating expenses totalled MDL 131.6 million (USD 11.2 million), up 15.5% on 2010. This rise was due to higher personnel expenses (up 15.4%) and general administrative expenses (up 15.6%).

The bank's increased profitability in 2011 was in large part due to the interest income from loans and the stable loan portfolio quality. All of the above achievements contributed towards a net profit of USD 1.56 million according to IFRS and, according to local accounting standards, of MDL 6.0 million (USD 512,984), with a return on equity of 8.8% (according to IFRS).The bank's capital adequacy ratio stood at 18.1% as of year-end (2010: 22.8%), well above the regulatory requirement of 12.0%.

Outlook

Moldova will face several economic challenges in 2012, due partly to external factors, such as the crisis in the EU and especially the euro. The large number of Moldovans who work abroad and send remittances home will continue to play a key role in the country's economy.

In 2012 we aim to further strengthen our position as a reliable and trustworthy institution, supporting our clients as they develop their businesses and offering secure and straightforward deposit services to our private clients. Fostering a savings culture through our many initiatives continues to be a long-term goal. We are confident that these steps will encourage people to save, thereby making a significant and lasting difference to their lives. At the same time we will continue to support the development of very small and small businesses, concentrating on providing finance to agricultural businesses, which make up Moldova's largest economic sector. We are convinced that there is considerable business growth potential in Moldova and that entrepreneurs value a long-term banking relationship that can help them prosper.

As an environmentally responsible institution, ProCredit Bank intends to offer a line of energy efficiency loans which will be disbursed primarily to business clients wishing to invest in energy efficient technologies.

The bank will continue to deliver high-quality and efficient services to its clients through its dedicated employees. We will therefore, as in previous years, invest heavily in developing both the professional competencies and the soft skills of our staff.

A key goal for ProCredit Bank is to expand our network of branches, starting with Chisinau, which continues to play a central role in our strategy. We intend to open several service points and one branch in the capital city during 2012. While service points will primarily serve private clients, they will also benefit business clients, who can perform routine banking transactions there. 2012 will additionally see new standards in the design of our branches, making our clients feel even safer and more comfortable when they visit ProCredit Bank. Meeting these challenges will bring us closer to making our bank the savings bank for private clients and the house bank for business clients.

Risk Management

While ultimate responsibility for risk management lies with the Management Board, it is the Risk Management Department which develops and implements mechanisms to identify, assess, and mitigate the bank's exposure to risk. This department and the other units that make up the Risk Division report to the Credit Risk Management Committee, which is led by a Management Board member and is responsible for monitoring the full range of credit portfolio risks to which the bank is exposed, as well as bearing decision-making authority in connection with risk. A separate General and Operational Risk Committee has been established, and is also led by a Management Board member. Its brief is to determine policies on people risks, process risks, IT and systems-related risks, external risks and other aspects of operational risk, and to monitor for adherence to these policies. It also discusses significant entries in the bank's Risk Event Database.

The risk management policies in effect at ProCredit Bank Moldova, which have been approved by the bank's Board of Directors, are in full compliance with the legal regulations valid in Moldova and with the requirements imposed by the National Bank of Moldova. The policies are based on the Group Handbook on Risk Management and Control, which in turn is based on the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management". ProCredit Bank Moldova reports its risk position to the Group Risk Management Committee (GRMC) at monthly intervals. The group's risk management departments also monitor the bank's key risk indicators on an ongoing basis, providing guidance whenever required.

Risk management throughout the ProCredit group is based on the concept of "risk-bearing capacity", i.e. the principle that each bank's aggregated risk exposures must not exceed its capacity to bear risk, and that the resources available to cover risk are sufficient to absorb any losses that may arise and protect creditors' investments. Statistical models and other procedures are used to quantify the risks incurred, and targets are set for each risk category and a limit for the aggregate exposure. During 2011 the bank's actual overall risk exposure decreased relative to its risk-bearing capacity, from 31.4% as of end-February to 27.9% as of end-December. The capital increases in March and in November were the main driver of this downward trend. Thus, the level of risk remained well within the predefined targets in nearly every category, with the exception of credit risk, which is approaching its upper limit as a result of the fact that the bank implemented new capital adequacy and RBC calculation standards in September 2011.

ProCredit Bank's culture of internal and external transparency is crucial to our risk management efforts. Thanks to our clearly defined procedures and our encouragement of open communication, our well-trained staff are in a strong position to detect risks and take the steps necessary to mitigate them.

Credit Risk Management

Lending to small businesses is ProCredit Bank's main asset-side operation and consequently classical credit risk, i.e. the risk that borrowers will be unable to repay, is the most important risk that the bank faces. Credit risk accounts for the largest share of risk in the context of risk bearing capacity calculation.

ProCredit Bank Moldova has adopted credit risk policies based on the ProCredit Group Credit Risk Management Policy and the Group Collateral Valuation Policy, which together reflect the experience, gained in more than two decades of successful lending operations in developing and transition economies and are in full compliance with Moldovan regulations. For every single customer of the bank a credit exposure limit is set and credit decision-making authority is clearly defined; all decisions to issue a loan, or change its terms, are taken by a credit committee, and all credit risk assessments are carefully documented. Above all, the bank seeks to build and maintain long-term relationships with its customers, thus ensuring that it is fully aware of their financial situation, and great care is taken to avoid over-indebting them.

Credit risk is also mitigated by the fact that our portfolio is highly diversified. The businesses we serve operate in a wide range of sectors, and their exposure to global market fluctuations is limited. Moreover, the majority of our credit exposures are relatively small. As of end-2011, loans under USD

30,000 accounted for 40.24% of the total outstanding portfolio, and the average amount outstanding was USD 13,624 , while the ten largest exposures accounted for only 14.75% of the portfolio.

As the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet a payment deadline is treated as an initial sign of potential default and draws an immediate response from the bank. When a payment of interest or principal is overdue by more than 30 days, the loan in question is assigned to the portfolio at risk (PAR>30), which serves as the key indicator for the quality of the loan portfolio and for measuring classical credit risk.

In 2011 the bank's overall PAR>30 slightly increased from 1.10% at the start of the year to 1.25% by year-end. It should be noted that ProCredit Bank Moldova's PAR is better than the average for the Moldovan banking sector as a whole, where, according to figures published by the National Bank of Moldova, 10.66% of loans were still non-performing as of November 2011.

One of the ways in which ProCredit Bank has met the challenge to portfolio quality posed by the financial crisis is to offer loan restructuring to those clients that are judged to have the potential to regain stability. Restructurings follow a thorough analysis of each client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery. As of end-2011, the total volume of restructured loans in the "watch" category came to USD 1,040,923 million, while USD 1,209,753 million had migrated to the "impaired" category.

ProCredit Bank Moldova takes a conservative approach to loan loss provisioning. Allowances for individually significant exposures with signs of impairment are set aside based on the results of an

individual assessment of impairment, while provisioning for impaired loans that are not individually significant is calculated according to historical default rates. For all unimpaired credit exposures, portfolio-based allowances for impairment are made. At the end of the year the coverage ratio (loan loss provisions as a percentage of PAR>30) stood at 136.17%, and as a percentage of the total loan portfolio, provisions amounted to 1.7%.

Loans considered to be irrecoverable are consistently written off. Nonetheless, recovery efforts continue even after a loan has been written off, and collateral collection is rigorously enforced. In 2011 net write-offs totalled USD 349,984, or 0.3% of the gross loan portfolio.

Counterparty and Issuer Risk Management

Counterparty and issuer risks evolve especially from the bank's need to invest its liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. The risk of incurring losses caused by the unwillingness or inability of a counterparty or issuer to fulfil its obligations is managed according to the ProCredit Group Counterparty Risk Management Policy (incl. Issuer Risk), which defines the counterparty selection and limit setting process, as well as according to the Group Treasury Policy, which specifies the set of permissible transactions and the rules for their processing. These policies are fully in line with local regulations. As a matter of principle, only large international banks and local banks with a good reputation and financial standing are eligible counterparties. Limits above certain thresholds are conditional on approval by the Group ALCO. In 2011, in response to the latest sovereign debt crisis, counterparty limits were reviewed and in some cases adjusted.

Country Risk Management

Given ProCredit Bank's focus on lending to businesses in the local market, it does not normally enter into cross-border transactions with high-risk countries, and therefore its exposure to country risk is limited. The group as a whole is exposed to country risk insofar as ProCredit Holding provides funding to ProCredit banks and these operate in transition economies or developing countries, where transfer, convertibility, expropriation, bank regulatory, macroeconomic and security risks play a role. The incurred country risk is however limited through a high degree of diversification across regions and countries and a group exposure limit system defined within the Group Country Risk Management Policy. Furthermore, ProCredit Bank has years of experience in the local market and the business model has proven to be relatively resistant to macroeconomic and political shocks.

Liquidity Risk Management

Several factors inherent to the bank's business model offset liquidity risk. Firstly, the bank's diversified, high quality portfolio of loans means that incoming cash flows are highly predictable. Secondly, our customer deposits are spread across a large number of depositors each holding relatively small amounts. As of December 2011 the average balance in deposit accounts of all types came to USD 4,198, and the ten largest depositors made up only 9.2% of total deposit volume.

To determine the robustness of the bank's liquidity in the face of potential shocks, the bank performs regular stress tests based on scenarios defined as a group standard by the Group Liquidity Risk Management Policy. In light of the 2011 sovereign debt crisis, the assumptions on which the stress tests are based were challenged and the calculation and targets of the group liquidity reserve were revised. Whenever necessary to bridge liquidity shortages, ProCredit Bank Moldova, like the other group banks, is able to obtain short-term funding from ProCredit Holding.

Currency Risk Management

ProCredit Bank Moldova has a low level of exposure to currency risk because it does not enter into speculative open currency positions, nor does it engage in derivative transactions except for hedging and liquidity purposes. Currency risk is managed in accordance with the Group Foreign Currency Risk Management Policy and local regulations. The bank continuously monitors exchange rate movements and foreign currency markets, and manages its currency positions on a daily basis. Any exceptions to the group policy or violations of group limits are subject to approval by the Group ALCO. Stress tests are regularly carried out to assess the impact of exchange rate movements on open currency positions (OCP) in each operating currency.

The Group Foreign Currency Risk Management Policy allows ProCredit banks to hold strategic open currency positions for the purpose of hedging equity, in which case these positions are closely monitored at both local and group level. As of end-2011, aside from a long OCP in US dollars, ProCredit Bank Moldova had an OCP of 5.48% of regulatory capital in US dollars. This strategic position was held in order to protect the value of the bank's equity, which is denominated in MDL against depreciation of the local currency.

During 2011 the fluctuations in the value of the leu against the hard currencies were smaller than in the previous year, but in general the leu tended to appreciate in the first half of the year against the USD (by 4.5%) and then slightly depreciated in the second half. The main drivers of these trends

were the increase of remittances and the decrease of the negative trade balance starting from the beginning of 2011.

Interest Rate Risk Management

During 2011 interest rates exhibited a slight upward trend. Maturity gap analysis and stress testing are used to measure and analyse the impact of interest rate shifts on the economic value and interest income. As a policy measure to mitigate interest rate risk, ProCredit Bank attracts long-term fixed rate funding and offers loans with variable interest rates, allowing the bank to raise (or lower) the rates it charges in line with shifts in the market interest rates.

Operational and Fraud Risk Management

The operational risk policy of ProCredit Bank Moldova is in full compliance with local regulations as well as with the Group Operational Risk Policy and the Group Fraud Prevention Policy. To minimise operational risk and the risk of fraud, all processes are precisely documented and subject to effective control mechanisms. Job descriptions are comprehensive, duties are strictly segregated, and dependency on key individuals is avoided. When recruiting, the bank pays close attention to personal integrity, a quality which is reinforced through the bank's strictly enforced code of conduct and through comprehensive training programmes designed to promote a culture of transparency and risk-awareness.

The group-wide Risk Event Database (RED) ensures that operational and fraud risks are addressed in a systematic and transparent manner, with all remedial and preventive action clearly documented and accessible to management control, both at bank level and at group level. Staff are required to report all events which represent an actual or potential loss using the RED interface. Those reported events that entail the most extensive risks, or which are considered most likely to be repeated, are subjected to in-depth analysis by the General and Operational Risk Committee, which then proposes appropriate preventive measures.

As part of their initial training, all new staff members are taught how to recognise and avoid operational and fraud risk and how to maintain information security. In 2011, ProCredit Bank Moldova reported 188 risk events representing a total net risk amount of EUR 75,700. The main types of reported events included internal and external fraud cases, card-related fraud, non-compliance with procedural guidelines and process failures.

Every year the bank conducts a risk assessment procedure by completing a group-wide questionnaire on fraud risk and operational risk. Each of the risks described here must be mitigated by appropriate controls, the adequacy of which is the subject of the assessment. If the controls are judged to be insufficient, an action plan for remedying the situation is drawn up. The completed assessment is sent to the Group Operational Risk Management Department.

A group-wide New Risk Approval (NRA) process is applied to all materially new or changed products, services or business processes. Only after the elimination of any obstacles or deficiencies revealed by the NRA process does management give its approval for the innovation to go ahead.

The bank's Business Continuity Policy ensures that the bank can maintain or restore its operations in a timely manner in the event of a serious disruption. As well as defining the steps to be taken to restore normal operations, the bank's Business Continuity Plan specifies the procedure for moving critical operations to temporary locations, the resources that need to be mobilised in each type of case and the expected cost of disruptions in specific areas. It also offers guidance on avoiding disruption in the first place.

Anti-Money Laundering

ProCredit Bank Moldova fully endorses the fight against money laundering and terrorist financing, and has implemented the Group Anti-Money Laundering Policy, which meets the requirements of German and EU legislation as well as the stipulations of the Moldovan authorities. No customer is accepted and no transaction is executed unless the bank understands and agrees to the underlying purpose of the business relationship. The Group Anti-Money Laundering Department (Group AML) conducts an annual risk assessment of all ProCredit banks and updates the policy accordingly. In addition, all ProCredit banks submit quarterly reports on their AML activities to Group AML.

At ProCredit Bank Moldova, responsibility for AML activities is exercised by the Compliance and AML Unit, which forms part of the bank's Risk Management Department. The AML Unit is staffed by two AML specialists who are supported by the head of Risk Management department. According to local regulations, any transaction exceeding MDL 500,000 by transfer or MDL 100,000 in cash must be reported to the local authorities. In addition, any attempt to execute a transaction that arouses suspicion of money laundering, terrorist financing or some other criminal activity must be reported. The department reports once per month to the AML Committee, which consists of members of the Management Board. Front office staff receive intensive training in how to recognise suspicious transactions. An additional automated safeguard is provided by the use of three modules of the AML software manufactured by Tonbeller AG: Siron Embargo, Siron PEP and Siron AML. In cases of doubt, Group AML takes the final decision on how to handle the suspicious transactions and suspicious customers reported by the bank.

Capital Adequacy

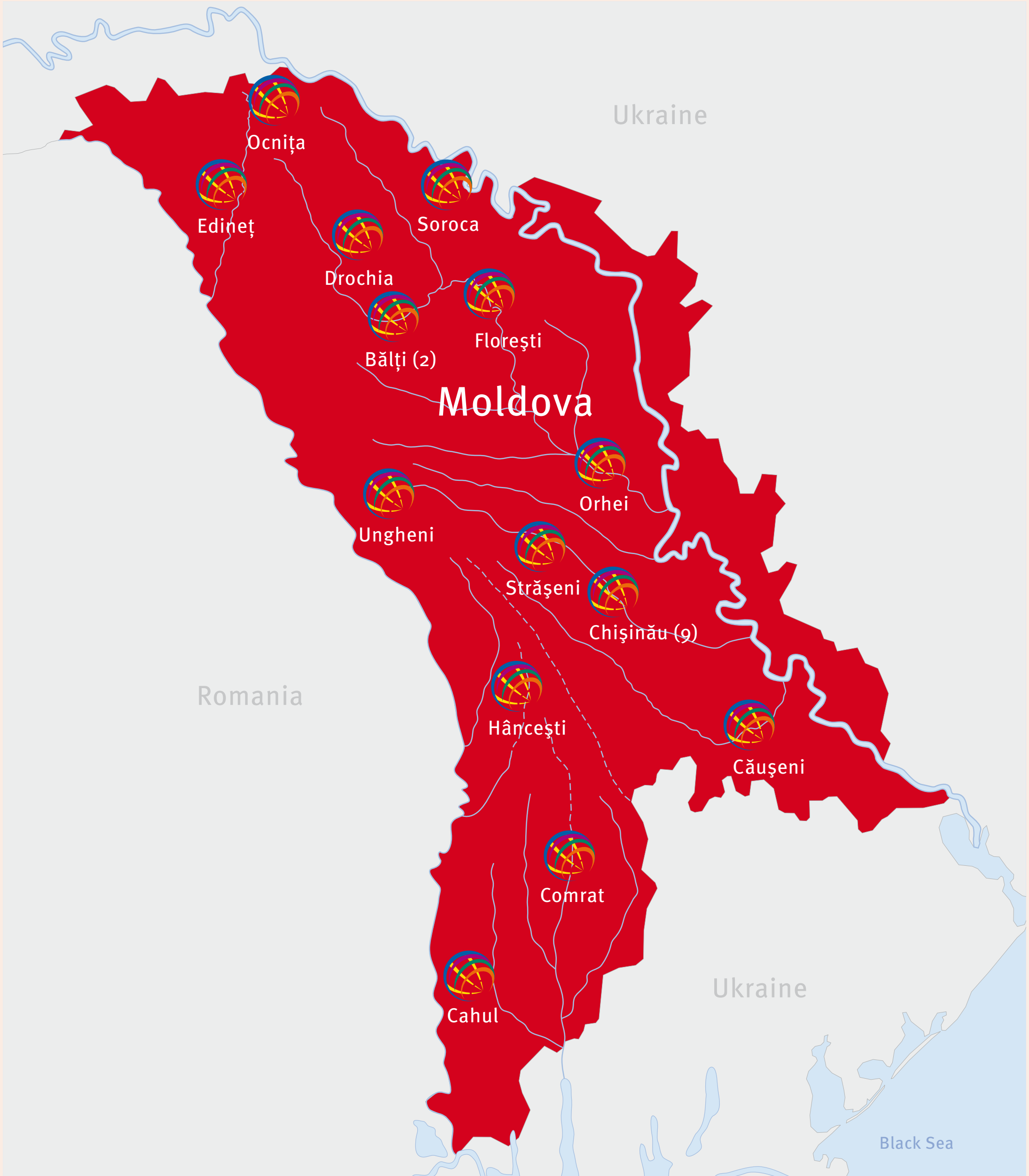
The bank's capital adequacy is calculated on a monthly basis and reported both to the management and to the Group Risk Management Committee, together with rolling forecasts to ensure future compliance with capital adequacy requirements. Strong support from our shareholders once again enabled the bank to maintain a comfortable capital cushion. In 2011 the bank's paid-in capital was increased twice, by USD 1.3 million in March 2011 and by USD 5.0 million in November 2011. At year-end 2011 the capital adequacy ratio (tier 1 and tier 2 capital / risk-weighted assets) stood at 23.8%, well above the group-wide minimum standard of 12%, which is also the locally required minimum.

Branch Network

At the end of 2011, ProCredit Bank Moldova had a total of 23 offices located in 14 different towns and cities, thus providing country-wide coverage. As Moldova is a predominately agricultural country, almost all branches outside the capital serve agricultural businesses. Still, Chisinau remains the focus of our branch expansion, as 9 of our offices are located here.

The structure of our branch network is designed to enable us to be close to our customers and respond in a differentiated manner to their needs. Our enterprise lending business is concentrated in a number of specialised branches, where the majority of our Business Client Advisers and Credit Analysts are based. These branches provide not only credit but also all of the bank's other services for business clients and private clients, including various types of account services, foreign exchange, money transfers and utilities payments.

In addition to these full-scale branches, the bank also operates smaller service points in strategic, often densely populated neighbourhoods. The service points are designed to be convenient places for both private clients and business clients to do their day-to-day retail banking business, but do not process loan applications. Potential borrowers may submit their applications at a service point, if it is more convenient to do so, but the actual credit analysis and approval takes place at the nearest full-fledged branch.



At the other end of the scale, the bank operates one Business Centre, which is specifically oriented towards serving the more complex needs of our larger-scale business clients, i.e. up to medium-sized enterprises. This specialised branch is located in the capital, Chisinau.

The interior design of the branches is geared to maximising customer convenience. Signposting directs business clients to physically separate areas staffed by experts in serving enterprises, and rooms for confidential negotiations have been created wherever space has allowed.

In order to increase the outreach and efficiency of our branch network, we have introduced various innovative technologies and we encourage our customers to make active use of our technology-based services, particularly in connection with payments. Examples include e-banking via the Internet both for business clients and for private clients. In enabling clients to perform their routine banking transactions from other locations and outside normal banking hours, we not only make life more convenient for them, but are also able to devote more time to talking to them in person at the branches about more complex facilities, such as long-term savings options or company payroll services.

To further increase accessibility for our clients, we opened a currency exchange point in a large supermarket in Chisinau. The exchange point has longer working hours (10:00 – 21:00) and is also open on Saturdays.

Among our most popular technology-based services are the VISA debit cards, which both business clients and private clients can use to withdraw cash at any of our 25 ATMs, or to make cashless purchases using POS terminals operated by local merchants, many of whom are themselves customers of ProCredit Bank Moldova.

In 2012 we plan to focus our efforts on implementing a “one-stop” system that will allow customers to perform cash and non-cash transactions at a single front office desk. This streamlined service will be available in all branches and service points. Currently, this service is provided at two pilot service points.

Organisation, Staff and Staff Development

ProCredit Bank is aware that the quality of our relationship with our customers and the quality of service we provide to them depend crucially on the ability of our staff to understand their needs and respond to them in a responsible manner. For this reason, the bank takes great care to ensure that the people we hire identify wholeheartedly with its mission, and are dedicated to developing the skills they need in order to serve our clients well.

Recruitment is overseen by the Human Resources Committee, which includes members of the bank's management. It is co-ordinated on a centralised basis by the HR Department, following a carefully designed procedure. In line with the ProCredit group's recruitment policy, all shortlisted applicants are now invited to take a "maths and logic" test, which is set by ProCredit Holding. While these technical skills are obviously necessary, they are not sufficient criteria in themselves. More importantly, the bank seeks candidates who are intrinsically motivated to work for an ethical, development-oriented financial institution, and for whom the beneficial impact of their work on the society in which they live is more important than personal financial gain. In order to assess candidates' interpersonal skills and above all their potential commitment to ProCredit's objectives and principles, they are invited to take part in group discussions and role plays, followed by individual in-depth interviews with senior staff of the bank.

For university graduates and people with practical working experience who are interested in finding out whether a career with ProCredit is right for them, the bank has set up the "Young Bankers Programme". For the duration of this six-month course, which covers maths, basic accounting and various banking-specific subjects as well as soft skills, participants receive a stipend. It is a unique opportunity both for them and for the bank to gauge whether their aptitudes and personal qualities fit in well with the special "ProCredit way of working". Those who successfully complete the course are eligible for an offer of a permanent position with the bank.

Given the importance of human resources for the future of the bank, highly qualified people have been chosen to serve as the head of the HR Department and as managers of its three units – Recruitment and Evaluation, Administration and Training. Aside from the Young Bankers Programme, the Training Unit organises ongoing training to advance the professional and personal development of the staff. During the year, our employees participated in a total of 375 internal training days, not including attendance at the international ProCredit Academies.

Continuing the group-wide initiative to raise the level of mathematical knowledge among its staff, in 2011 ProCredit Bank's training activities focused on advanced financial mathematics and accounting. During the year, 287 of the bank's employees reached the ProCredit group's "Maths 2" standard, while another 278 successfully completed the group-wide Basic Accounting course.

A large proportion of the training provided to current and potential middle managers takes place outside Moldova at the international ProCredit Academies. In 2011, seven colleagues from ProCredit Bank Moldova graduated from the ProCredit Regional Academy for Eastern Europe in Veles, Macedonia. Two of the bank's staff earned their "ProCredit Banker" diploma, marking the successful completion of the highly intensive three-year programme offered at the central ProCredit Academy in Fürth, Germany.

The bank's organisational structure is designed to support the building of long-term customer relationships. At head office level, the Business Clients Division is devoted to handling all of the banking needs specific to business customers, while the Private Clients Division focuses on serving non-business clients.

The internal organisation of the branches reflects this customer orientation, with separate front office areas for business clients and private clients, respectively. Business Client Advisers at the branches are responsible for advising Small and Very Small enterprises on all of the bank's services and for acquiring new customers, while the function of Credit Analysts is to evaluate applications for credit services submitted by comparatively large, complex business clients.

Given the bank's continued focus on consolidation and quality in 2011, recruitment of new personnel took place on a relatively limited scale. Nonetheless, 100 people joined the bank in 2011, bringing the total at year-end to 532 (including support staff).

ProCredit Bank Moldova understands that the key to providing high quality service lies in building a team of motivated, professionally competent staff who are jointly committed to the bank's mission and objectives, and who work well together on the basis of mutual trust and respect. For this reason, in addition to its substantial investment in training, the bank also organises regular summer events, where all employees gather to engage in shared activities in an informal setting. Additionally, the bank organised a team-building activity for the winners of a contest held for Business Client Advisers for very small enterprises. These staff members had the chance to spend a weekend at a camping resort situated near Chisinau, taking part in different activities designed to develop their professional and interpersonal skills.

Business Ethics and Environmental Standards

Business Ethics

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong **corporate values** play a key role in this respect. Six essential principles guide the operations of the ProCredit institutions:

- **Transparency:** We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of intransparent financial offers.

- **A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.

- **Social responsibility and tolerance:** We offer our clients sound, well founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity. On this basis we help them to choose appropriate loan options from which they can genuinely benefit, and to avoid becoming overindebted. Promoting a savings culture is another important part of our mission, as we believe that private savings play an especially crucial role in societies with relatively low levels of publicly funded social welfare provision. And we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious or political beliefs.

- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing

excellent service to all customers, regardless of their background or the size of their business.

- **High professional standards:** Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.

- **A high degree of personal integrity and commitment:** Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These six values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which transforms the group's ethical principles into practical guidelines for all staff. To make sure that new employees fully understand all of the principles that have been defined, induction training includes sessions dedicated to the Code of Conduct and its significance for all members of our team. Regular refresher training sessions help to ensure that employees remain committed to our high ethical standards and are kept abreast of new issues and developments which have an ethical dimension for our institution. These events allow existing staff to analyse recent case studies and discuss any grey areas.

We also ensure that requests for loans are evaluated in terms of the applicant's compliance with ethical business practices. No loans are issued to enterprises or individuals if it is suspected that they are making use of unsafe or morally objectionable forms of labour, in particular child labour.

Another aspect of ensuring that our institution adheres to the highest ethical standards is our consistent application of best practice systems and procedures to protect ourselves from being used as a vehicle for money laundering, the financing of terrorism or other illegal activities. Staff members are trained to apply the "know your customer" principle, and to carry out sound monitoring and reporting in line with the applicable regulations. Anti-money laundering and fraud prevention policies are regularly updated and exercised throughout the group to ensure compliance with local and international regulatory standards.

Environmental Standards

All of the banks belonging to the ProCredit group set high standards regarding the impact of their operations on the environment. ProCredit banks take a three-pronged approach to environmental challenges:

Pillar 1:
Internal environmental management system

ProCredit Bank Moldova is putting in place an approach to better understand and improve the sustainability of its own energy use and environmental impact. As a matter of policy, the bank pays careful attention to environmental issues when opening a new branch or refurbishing an existing one. For example, all of our furniture is made from chipboard, a recycled material. We now use energy-saving light bulbs and plan to switch to LED lamps in the very near future. To further protect the environment, we no longer install energy-intensive equipment, such as large air-conditioners.

Environmental issues are an essential component of the training provided to ProCredit Bank staff at the local, regional and international level. For example, for their final project, participants in the Young Bankers Programme are required to develop a blueprint for a green business that would not only do no harm to the environment but would even help to improve it.

The bank has designated an Environmental Coordinator to be responsible for monitoring our environmental performance, and co-ordinating efforts to improve it.

Pillar 2:
Management of environmental risk in lending

ProCredit Bank Moldova has implemented an environmental management system based on continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which

are deemed environmentally hazardous and appear on our institution's exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank Moldova is also able to raise its clients' overall level of environmental awareness.

Pillar 3:
Promotion of "green finance"

ProCredit Bank Moldova aims to promote economic development that is as environmentally sustainable as possible. In 2012, we plan to launch a programme of green finance products consisting of energy efficiency loans for private clients as well as for businesses. This initiative will also involve building relationships with suppliers of environmentally friendly equipment and services, and encouraging them to offer products bearing the EU standard energy efficiency labels. The bank aims to use its green finance products and approach to increase public awareness and understanding.

The ProCredit Group: Responsible Neighbourhood Banks for Small Businesses and Ordinary People

The ProCredit group comprises 21 financial institutions providing banking services in transition economies and developing countries. ProCredit banks are responsible neighbourhood banks. This means, in the neighbourhoods in which we work, we aim to:

- be the house bank of choice for the very small, small and medium-sized enterprises which create jobs and drive economic development, and
- provide secure, fair and transparent savings and banking services to ordinary people who are looking for an affordable bank they can trust.

At the end of 2011 our 16,183 employees, working in some 775 branches, were serving 2.9 million customers in Eastern Europe, Latin America and Africa.

The history of the ProCredit group is a rich one and forms the basis of what we are today. The first ProCredit banks were founded more than a decade ago with the aim of making a development impact by providing loans to help small business to grow and offering deposit facilities that would encourage lower-income individuals and families to save. The group has grown strongly over the years, and today we are one of the leading providers of banking services to small business clients in most of the countries in which we operate.

Our origins lie in our pioneering microfinance positioning. This positioning has developed as our markets and our clients have developed so our socially responsible approach remains as relevant today as ever. Its importance has been underscored by the financial crisis and subsequent macroeconomic decline which most of our countries of operation experienced. As enterprises adjust to and expand again in their new economic reality and ordinary people rebuild their trust in banks, it is clear that our customers need a reliable banking partner now more than ever. This has also given us the impetus to further strengthen our comprehensive customer-oriented approach with more highly specialised and well trained staff.

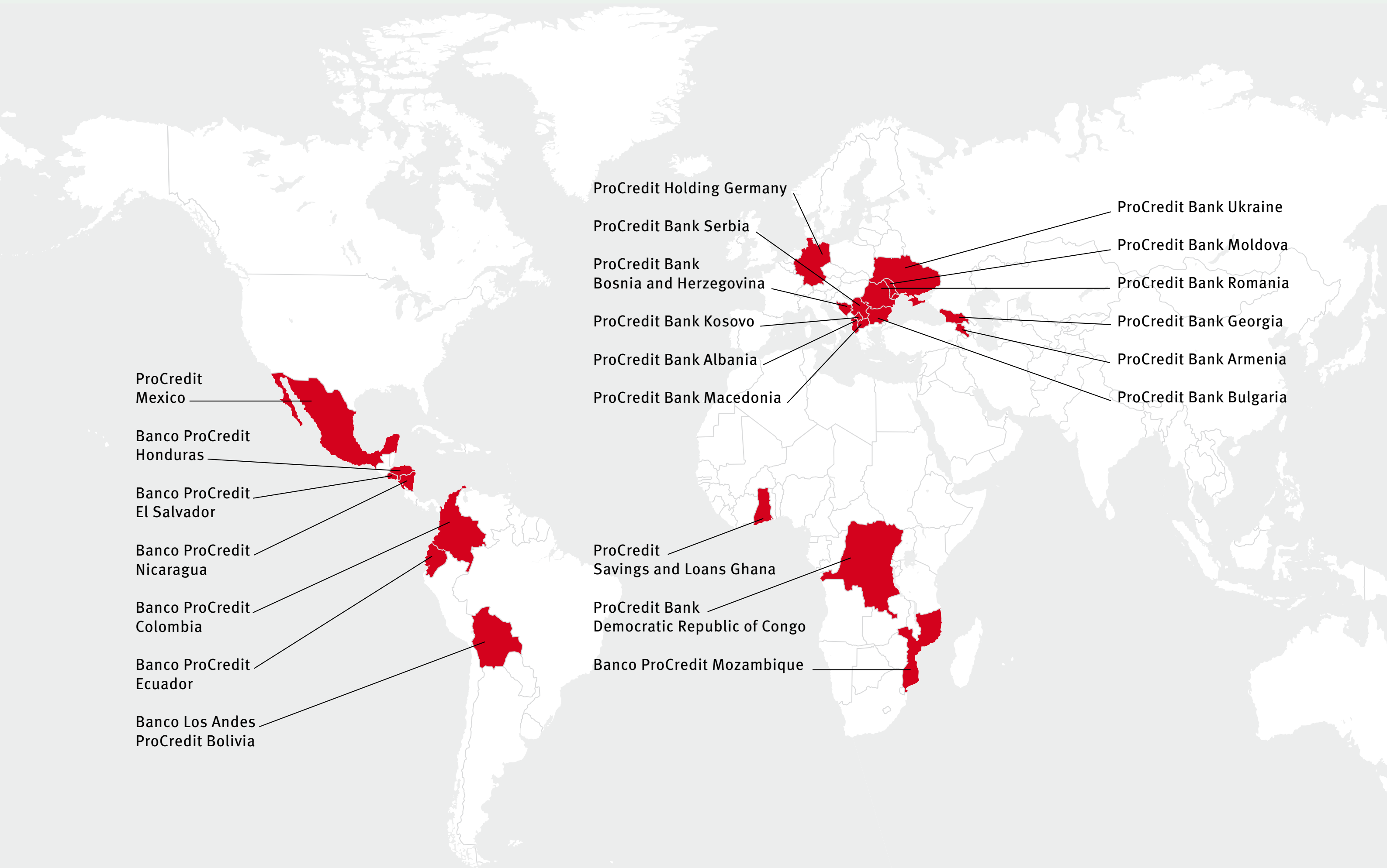
Unlike most other banks operating in our markets, we have always avoided aggressive consumer lending and speculative lines of business. Instead, the ProCredit banks work in close contact with their clients to gain a full understanding of the problems and opportunities of small businesses. Our credit technology, developed over many years with the support of the German consulting company IPC, relies on the careful individual analysis of credit risks. By making the effort to know our clients well and maintain long-term relationships based on trust and understanding, we are able to support them not only when the economy is buoyant, but also during a downturn and recovery. Over the last two years, the ability of our business client advisers to proactively make appropriate adaptations to payment plans where necessary to reflect clients' new and more challenging sales environments has played an important role in maintaining good loan portfolio quality. This is in contrast to many of the markets in which we operate where Non Performing Loan portfolios have been very high, also in the SME sector, which suggests that bank behaviour has in many cases increased the risk of bankruptcy rather than help businesses emerge more strongly from the economic shock.

We not only extend loans, but also offer our enterprise clients a broad range of other banking services such as cash management, domestic and international money transfers, payroll services, POS terminals and payment and credit cards. Using our rigorous approach to financial analysis, we promote, in so far as we can, financial education and enhanced financial record keeping amongst our clients. These services are geared towards assisting our business clients to operate more efficiently and more formally and thus help to strengthen the real economy and the banking sector as a whole. In these terms ProCredit has a "whole customer" service orientation rather than a "product selling" approach. Our staff and our branches are becoming more specialised and better equipped to cater to the needs of different client categories.

Today we have less of a focus on "micro-micro loans" than we did in the past. The minimum loan size for enterprise clients is EUR/USD 2,000 in most countries since we found that below this limit there is such broad access to loans from consumer finance providers that "excess" had become more of a challenge for many clients than "access". For these groups we prefer to offer deposit accounts and other banking services rather than credit. We would judge our development impact not just by the number of loans disbursed, but also by the sustainability of the enterprises we work with – in economic, social and environmental terms; by the stability and quality of the income that associated families and employees enjoy; by the reduction of household vulnerability because people save; by the calibre of our staff; and by the impact we have in promoting transparent financial institutions more widely.

Our targeted efforts to foster a savings culture in our countries of operation have enabled us to build a stable deposit base. ProCredit deposit facilities are appropriate for a broad range of lower- and middle-income customers. We place particular emphasis on working with the owners, employees and families associated with our core target group of very small, small and medium-sized businesses. ProCredit banks offer simple savings accounts and place great emphasis on promoting financial literacy in the broader community. In addition to deposit facilities, we offer our clients a full range of standard retail banking services. Over 2011 ProCredit institutions managed to maintain a high level of liquidity given the stability of their loyal retail deposit base.

The ProCredit group has a simple business model: providing banking services to a diverse range of enterprises and the ordinary people who live and work around our branches. As a result, our banks have a transparent, low-risk profile. We do not rely heavily on capital market funding and have no exposure to complex financial products. Furthermore, our staff are well trained, flexible and able to provide competent advice to clients, guiding them through difficult times as well as good times. Despite the turmoil of the global financial markets,



The international group of ProCredit institutions; see also www.procredit-holding.com

the performance of the ProCredit group has been remarkably stable: we ended 2011 with a good liquidity position, comfortable capital adequacy, PAR over 30 days of 3.8%, and a Return on Equity of 10.4%. Given the depressed macroeconomic situation in many of our countries of operation, this was a strong performance.

Our shareholders have always taken a conservative, long-term view of business development, aiming to strike the right balance between a shared developmental goal – reaching as many small enterprises and small savers as possible – and achieving commercial success.

Strong shareholders provide a solid foundation for the ProCredit group. It is led by ProCredit Holding AG & Co. KGaA, a German-based company that was founded by IPC in 1998. ProCredit Holding is a public-private partnership. The private shareholders include: IPC and IPC Invest, an investment vehicle for ProCredit staff members; the Dutch DOEN Foundation; the US pension fund TIAA-CREF; the US Omidyar-Tufts Microfinance Fund; and the Swiss investment fund responsAbility. The public shareholders include the German KfW Bankengruppe (KfW banking group); IFC, the private sector arm of the World Bank; the Dutch development bank FMO; the Belgian Investment Company for Developing Countries (BIO) and Proparco, the French Investment and Promotions Company for Economic Co-operation. The group also receives strong support from the EBRD and Commerzbank, our minority shareholders in Eastern Europe, and from the Inter-American Development Bank (IDB) in Latin America. With the strong support of its shareholders and other partners, the ProCredit group ended the year with a total capital adequacy ratio of 15% – a figure that reflects their confidence in the group.

ProCredit Holding is not only a source of equity for its subsidiaries, but also a guide for the development of the ProCredit banks, providing the personnel for their senior management and offering support in all key areas of activity. The holding company ensures the implementation of ProCredit corporate values, best practice banking operations and Basel II risk management principles across the group. The group's business is run in accordance with the rigorous regulatory standards imposed by the German banking supervisory authority (BaFin).

ProCredit Holding and the ProCredit group place a strong emphasis on human resource management. Our "ethical neighbourhood bank" concept is not limited to our target customers and how we reach them; it above all concerns the way in which we work with our staff and how we encourage them to work with their customers. The strength of our relationships with our customers will continue to be central to working with them effectively in 2012 and achieving steady business results. In 2011 there was a strong focus on staff quality, recruitment and training. The 6-month Young Banker stipend programme, which all ProCredit banks offer to all potential new recruits, continues to develop. This symbolises our commitment to skill development in all our countries of operation.

A responsible approach to neighbourhood banking requires decentralised decision-making and a high level of judgment and adaptability from all staff members, especially our branch managers. Our corporate values embed principles such as open communication, transparency and professionalism into our day-to-day business. Key to our success is therefore the recruitment and training of dedicated staff. We maintain a corporate culture that promotes the professional development of our employees while fostering a deep sense of personal and social responsibility.

A central plank in our approach to training is the ProCredit Academy in Germany, which provides an intensive part-time training programme over a period of three years for high-potential staff from each of the ProCredit institutions. The curriculum includes technical training and also exposes participants to subjects such as anthropology, history, philosophy and ethics in an open and multicultural learning environment. Our goal in covering such varied topics is to give our future managers the opportunity to develop their knowledge and views of the world. At the same time, we aim to improve their communication and staff management skills. The group also operates two Regional Academies in Latin America (Colombia) and in Eastern Europe (for our African and Eastern European colleagues) to support the professional development of middle managers at the local level.

The group's strategy for 2012 is to consolidate the tremendous efforts we have made over the last two years to strengthen our institutions and our client relationships. We will further expand our business as the "house bank" of choice for small and very small enterprises, offering tailored loans and other banking services. At the same time we will continue to improve the speed and convenience of our services for all clients.

2012 will also be the year that we begin operations at our planned ProCredit Bank in Germany and bring the group under the supervision of the German Federal supervising authorities (BaFin, the Bundesanstalt für Finanzdienstleistungsaufsicht, and the Bundesbank). The group is well prepared, having overhauled its reporting and risk management systems to bring all institutions into line with the requirements of German banking regulations (KWG). Nevertheless full implementation will require our attention.

Strong investment in our staff remains the key priority. Together we look forward to further strengthening the development impact and commercial success of the group.

ProCredit in Eastern Europe

ProCredit banks operate in 11 countries across Eastern Europe. As a leading provider of banking services to very small, small and medium-sized businesses, we position ourselves as the "house bank for small business" in the region. ProCredit banks provide a high standard of transparent, professional services to all their clients – the ordinary people who live and work in the vicinity of the 475 ProCredit branches across the region.

The macroeconomic environment continued to be challenging in 2011 for most of the South Eastern and Eastern European countries in which ProCredit works, particularly in the last quarter of 2011 in the wake of deep uncertainty about the economic future of Greece and the euro zone. There was little GDP or banking sector growth in most Balkan countries in South Eastern Europe. Only in Serbia and Albania did banking sectors grow by more than 5%. The countries further east (Armenia, Georgia, Moldova and Ukraine) experienced more steady GDP growth of 4–5%, with growth in the banking sector in Georgia being notably strong. Non-performing loans (NPLs, i.e. loans more than 90 days overdue) of banking sectors were also persistently high, at well over 10% in most markets where ProCredit operates. Many Western bank groups were reducing risk-weighted assets in the region with more stringent central capital adequacy requirements. Generally, government spending remained tight, consumer confidence low and investment activity by the small and medium enterprise sector depressed in 2011. Prospects for 2012 are similar since there is unlikely to be an economic turnaround in the euro zone which could drive growth in the region. The role of ProCredit banks against this still vulnerable economic backdrop is a valuable one as our clients and the financial markets in which we operate adjust to the new economic reality in the region.

For the financial sectors in which we work, ProCredit banks have represented consistency, good risk management and a high degree of financial transparency throughout the recent unsettled years. ProCredit banks have been notable in continuing to lend steadily and responsibly to support small businesses while banking sectors as a whole have tended to be erratic.

For our business clients, ProCredit banks remain a reliable and responsible partner. We specialise in working with very small, small and medium enterprises, because these clients are central to developing the economy and employment opportunities. Our approach is based on building relationships with our clients and a thorough understanding of their business.

In the current climate, we support our business clients with prudent business development and efficient cash management. Given the overall weak investment climate in 2011, we put particular emphasis on efficient working capital facilities in the form of credit lines and overdrafts. We work with each client to identify their credit capacity based on their ability to repay their debt even in volatile times.

The outstanding loan portfolio of the 11 ProCredit banks in Eastern Europe stood at EUR 2.9 billion at the end of 2011 (an increase of 7.2% from the end of 2010). Growth was particularly strong in our core "Small Business" client category (defined as business clients with a credit capacity of EUR 30,000-150,000) which grew by 14.1% in 2011. We have approximately 321 thousand business clients in total across the region. ProCredit staff have been proactive in acquiring new clients and serving existing clients. Our lending activities aim to foster local production and service industries, and include the provision of agricultural loans. We are keen to support a sector that has been particularly neglected by other banks and that is vital for employment and social cohesion outside the main urban areas.

For clients facing difficulties we support businesses to restructure to avoid bankruptcy where appropriate. Given our thorough understanding of our clients' businesses, we are able, where necessary, to adapt loan repayment schedules if the sales pattern of a business has changed significantly. This has meant that arrears and write-off figures for the ProCredit banks in Eastern Europe are low relative to banking sectors as a whole. The combined portfolio at risk (PAR) >30 days for the Eastern European institutions as a percentage of their loan portfolio was 4.2% at the end of 2011 (PAR>90 days stood at 3.1%). Write-offs for the group in the region amounted to 1.4% of the loan portfolio. In these terms ProCredit continues to demonstrate that with a responsible approach to lending, based on an assessment of the real situation of an enterprise, a high degree of financial

stability can be achieved for clients and in bank performance.

ProCredit banks have also had to strengthen their structures for the recovery of written-off and non-performing loans, however. The weaknesses of the legal system in many countries in the region in supporting banks to realise registered collateral have become very apparent since the financial crisis. The ultimate success and timeliness of recovery efforts will be an important factor in determining banks' willingness to expand SME finance in the future.

For our private clients, ProCredit banks have also been a symbol of stability and transparency in turbulent years. ProCredit has focused for many years on promoting a savings culture because setting money aside can help clients build a buffer against the vagaries of life. The ratio of deposits to GDP in Eastern European countries is still well below Western European levels.

We offer simple and reliable retail banking services. Our belief in transparent, direct communication is particularly important in fostering clients' trust. We understand that our clients want to know in simple language how to save safely; they also want to access their money when they need it and they want access to convenient and efficient transaction services. Our experience confirms that customers appreciate the transparent, responsible approach we take.

ProCredit banks fund most of their lending activities with local savings. The ratio of deposits to loans in the ProCredit banks in the region is 84%. Not only did we not have to rely on unpredictable capital markets for funds in 2011, but ProCredit banks in the region remained highly liquid throughout the year and our cost of funds declined.

Looking forward, in addition to the savings services they provide, ProCredit banks will continue to be conservative with consumer loans for their private clients, but will expand their provision of convenient banking services, such as e-banking and direct debit, and will continue to provide responsible housing improvement, energy efficiency and other loans which help build a family's assets.

For our staff, ProCredit banks offer unique opportunities for professional development and job satisfaction given our strong client orientation, open communication culture and unusual commitment to staff training. In terms of institution building activities, ProCredit banks in Eastern Europe were focused on consolidating many of the measures introduced in 2010 to improve the quality and efficiency of our services.

Our staff is the key element in our approach to being a stable, down-to-earth and personal banking partner. The ProCredit group invests heavily to achieve high standards in staff recruitment and development. The six-month "Young Banker" stipend programme introduced by all ProCredit banks in the region is fast becoming a well-known and innovative feature of bank recruitment in many countries, with its strong emphasis not just on a broad-based technical training, but also on individual ethics and the responsibilities of a banking sector to promote sustainable economic development.

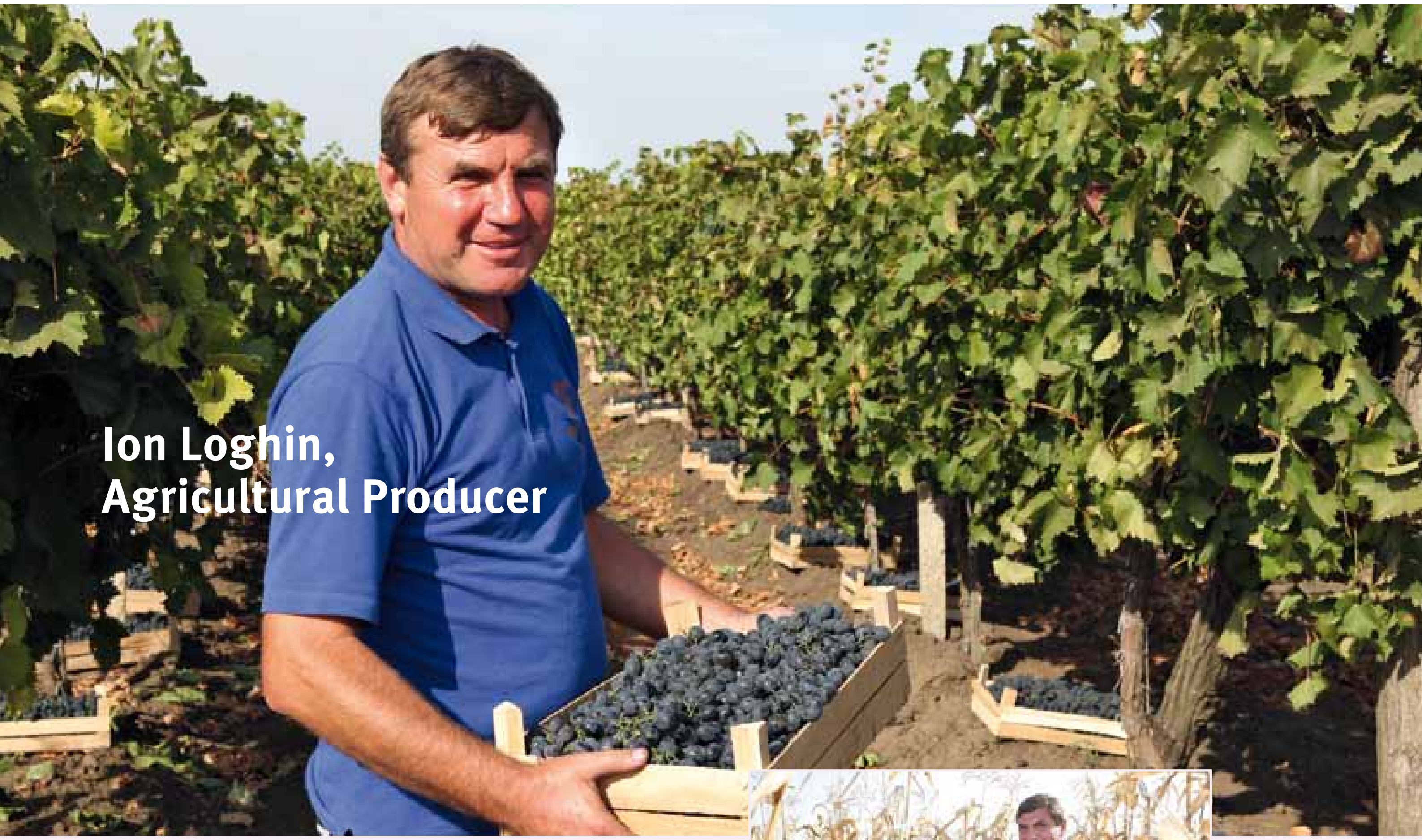
To complement the international ProCredit Academy in Germany, we have an Eastern European academy, located near Skopje in Macedonia, which is dedicated to the training of ProCredit middle managers. The regional academy is an important channel for rapid and consistent communication region-wide and one that helps us adapt quickly to face new challenges. Investment in our staff is an ongoing commitment and will remain a central plank in the ProCredit Bank approach. A qualified, motivated and professional team lies at the root of our lasting success across Eastern Europe.

Name	Highlights*	Contact
ProCredit Bank Albania	Founded in October 1998 40 branches 24,658 loans / EUR 178 million in loans 180,000 deposit accounts / EUR 232 million 635 employees	Legal address: Rr. "Dritan Hoxha". Nd. 92, H.15, Njësia Bashkiake Nr. 11 Tirana P.O. Box 1026 Tel./Fax: +355 4 2 389 300 / 22 33 918 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Armenia	Founded in December 2007 11 branches 5,613 loans / EUR 48 million in loans 20,733 deposit accounts / EUR 22 million 284 employees	105/1 Teryan St., area 11 0009 Yerevan Tel./Fax: + 374 10 514 860 / 853 info@procreditbank.am www.procreditbank.am
ProCredit Bank Bosnia and Herzegovina	Founded in October 1997 30 branches 17,427 loans / EUR 126 million in loans 82,722 deposit accounts / EUR 108 million 425 employees	8 Emerika Bluma 71000 Sarajevo Tel./Fax: +387 33 250 950 / 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001 83 branches 33,337 loans / EUR 586 million in loans 217,586 deposit accounts / EUR 437 million 1,391 employees	26 Todor Aleksandrov Blvd. 1303 Sofia Tel./Fax: +359 2 813 5100 / 5110 contact@procreditbank.bg www.procreditbank.bg
ProCredit Bank Georgia	Founded in May 1999 61 branches 43,968 loans / EUR 316 million in loans 435,440 deposit accounts / EUR 238 million 1,525 employees	154 D. Agmashenebeli Ave. 0112 Tbilisi Tel./Fax: +995 32 220 22 22 / 220 22 23 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank Kosovo	Founded in January 2000 63 branches 85,656 loans / EUR 517 million in loans 426,851 deposit accounts / EUR 664 million 1,071 employees	16 "Mother Tereze" Boulevard 10000 Prishtina Tel./Fax: +381 38 555 777 / 248 777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 35 branches 22,796 loans / EUR 164 million in loans 108,797 deposit accounts / EUR 144 million 461 employees	109a Jane Sandanski Blvd. 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
ProCredit Bank Moldova**	Founded in December 2007 23 branches 11,177 loans / EUR 90 million in loans 45,831 deposit accounts / EUR 33 million 540 employees	65 Stefan cel Mare Ave. office 901, Chisinau Tel./Fax: +373 22 836 555 / 273 488 office@procreditbank.md www.procreditbank.md
ProCredit Bank Romania	Founded in May 2002 28 branches 24,541 loans / EUR 192 million in loans 111,314 deposit accounts / EUR 159 million 783 employees	62–64 Buzesti St., Sector 1 011017 Bucharest Tel./Fax: +40 21 201 6000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001 62 branches 79,403 loans / EUR 532 million in loans 282,248 deposit accounts / EUR 274 million 1,315 employees	17 Milutina Milankovica 11070 Belgrade Tel./Fax: +381 11 20 77 906 / 905 info@procreditbank.rs www.procreditbank.rs
ProCredit Bank Ukraine	Founded in January 2001 40 branches 14,478 loans / EUR 176 million in loans 133,857 deposit accounts / EUR 147 million 1,337 employees	107a Peremohy Ave. 03115 Kyiv Tel./Fax: +380 44 590 10 00/01 info@procreditbank.com.ua www.procreditbank.com.ua

* The figures in this section have been compiled on the basis of the financial and operational reporting performed in accordance with group-wide standards; they may differ from the figures reported in the bank's local statements.

** Not including finance company ProCredit Moldova.

Our Clients



Ion Loghin, Agricultural Producer

Ion Loghin, 52, owns a small business in the village of Pelinei in the southern part of the country. He studied at the State Agricultural University of Moldova, specialising in the cultivation of grapevines and maize. Ten years ago, Ion opened his own business, growing grapes on a 3 ha plot of land. Today, he owns a 30 ha farm, 17 ha of which are dedicated to vineyards, and harvests 150 tonnes of grapes per year on average. In addition to grapes, he grows maize on another 13 ha with the help of his son, Igor.

In 2007, one of Ion's friends recommended ProCredit Bank as a reliable financial partner. In May of that year, he received his first agricultural loan in the amount of EUR 1,000, which he used to buy construction materials for a garage for his tractor. Since then, Ion's business has developed significantly. He has received eight agricultural loans from ProCredit Bank totalling USD 19,000, which has allowed him to buy the materials, various types of fertiliser and equipment he needs, and thus achieve high yields and a stable income. These results have inspired Ion and his son to expand their farm.

"ProCredit Bank has fully met my business needs and proposed a flexible method of loan repayment that takes into account the seasonality of agricultural work. I am also satisfied because I know that I can receive professional and objective advice, which is valuable for planning my business."

Ion greatly appreciates the bank's flexible approach to collateral analysis, as well as the fact that the loan disbursement process is very simple and fast. He also uses other ProCredit services: he has opened one term deposit account with a replenishment option to ensure a stable future for his family and his business. Next year, he intends to buy one more tractor, for the fall harvest, and to invest in a five ha vineyard for his son.

Larisa Lisnic, Depositor

Larisa Lisnic, 43, lives in Drochia, a small city in northern Moldova, with her husband and two daughters. She studied music at the Art Institute in Chisinau and now works as a deputy head teacher at a boarding school. Larisa is especially dedicated to helping orphans, because they lack the warmth of a family relationship, which is crucial for a child's development.

Larisa found out about ProCredit at a presentation given by bank staff at her workplace in 2009. She was impressed by the bank's group of shareholders, values and easy-to-understand range of services. She has always felt that saving is the safest way to ensure her family's future. That is why she decided to open two savings accounts, where she puts aside some of her earnings on a regular basis.

"ProCredit Bank employees are always welcoming and friendly. The service is efficient and the products are flexible and attractive. I like the fact that ProCredit Bank is ready to help me and answer all of my questions."

An outgoing, energetic and ambitious person, Larisa earns extra money by holding various types of gatherings in the region. As the number of events grew, she realised that special technical equipment would make her presentations more professional. She therefore applied for a loan to buy a high-quality microphone.

"ProCredit Bank made my dream come true. I received a loan and bought a good microphone, which helps me to moderate larger parties and events. I am very grateful for the loan, because this work helps me to earn more money and increase my savings."

Larisa is always eager to learn new ways to plan for the future. Every time she visits ProCredit, she finds out more about the bank's services. She is especially pleased with the high level of customer service at the bank, where her Client Adviser is always happy to explain things and offer thorough advice. Larisa intends to remain a client at ProCredit because it is a stable bank that she trusts with her savings and her future.

Ludmila Dimitrachi, Meat and Pastry Producer

Ludmila Dimitrachi, 47, owns a company that makes semi-prepared meat and pastry products in the Sangerei region. She holds a degree from the Technical University of Moldova and today manages the family business herself. Her 20-year-old son helps her to develop marketing strategies and to promote the business.

Ludmila began using ProCredit Bank's services three years ago, upon the recommendation of one of her business partners. In May 2008 she obtained her first loan, in the amount of EUR 45,000.

"ProCredit staff are very willing to listen and offer professional advice. Even in difficult times, they know how to find a good solution. I really feel that the bank cares about its clients' businesses."

Pleased with the service she received, she began thinking of ways to improve her business. For example, she wanted to buy new packaging to improve her product positioning, and she also needed a refrigeration system to guarantee the freshness of her products. To purchase these two items, Ludmila applied for another loan, this time for EUR 35,000. Two months later, she received a credit line to boost her working capital. More recently Ludmila signed up for ProCredit's convenient internet-based e-banking service, which allows her to access and manage her accounts from her office, thus saving time and increasing efficiency.

"I appreciate efficiency and ProCredit Bank knows what that means. The application process was very straightforward and the decision was taken very quickly. The loan enabled me to buy modern equipment and a specialised refrigerated vehicle for distributing my products on a wider scale in the region. The vehicle also allows me to keep perishable items fresh for a longer period of time. Preservation is very important in my business!"

Ludmila now does all of her banking with ProCredit. She has since opened a current account, where she makes various administrative transactions and payments. In the near future, she would like to expand her business line and further automate production. As she has done in the past, she hopes to realise her ambitious plans with the help of ProCredit Bank.

Valeriu Benderschi, Furniture Dealer

Valeriu Benderschi, 36, owns and manages a furniture trading company. He first got into the business in 2000, when he opened a small furniture shop in Chisinau. Within a few years, he had succeeded in opening several more furniture shops, and today he has numerous commercial outlets and showrooms throughout the city.

Valeriu began his business relationship with ProCredit Bank three years ago, in 2008, when one of the bank's employees contacted him and arranged for a meeting. He did not expect a bank to come to him and propose a wide range of solutions specifically tailored to his business. This outreach truly impressed him, and he quickly saw that ProCredit Bank was honest, transparent and ready to offer good advice.

"I did not expect to find a bank that cares about the development of my business. At the first meeting, I noticed that ProCredit's employees were well prepared and could respond to all my questions. This went beyond my expectations."

Soon after the meeting Valeriu applied to ProCredit Bank for a loan that allowed him to buy additional furniture. At this point he wished to deepen his partnership with a well-known Ukrainian furniture company, but did not have sufficient capital. He applied to ProCredit Bank for two more loans, which he used to import more furniture. In the meantime, he has raised the number of employees in his company. He also has a very large storage facility, where the company's administrative offices are located.

For Valeriu and his partners abroad, efficiency and punctuality is vital. The ambitious entrepreneur therefore decided to take advantage of many other ProCredit services to streamline his transactions. He has started to transfer more and more of his financial operations to ProCredit Bank, and eventually plans to conduct his entire turnover via the bank. He already uses international money transfers and currency exchange services on a daily basis.

"I like working with ProCredit Bank. It has everything my business needs and the staff are very efficient."

Valeriu has optimistic plans for the future, and he is confident that with ProCredit Bank's help he will soon be able to open a furniture showroom for private clients and establish new retail outlets.

Financial Statements

For the year ended 31 December 2011.
Prepared in accordance with International Financial Reporting Standards.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of BC ProCredit Bank SA

1 We have audited the accompanying financial statements of BC ProCredit Bank SA ("Bank") which comprise the balance sheet as of 31 December 2011 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

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

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

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estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

7 This report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's 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 Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

ICS PricewaterhouseCoopers Audit SRL

ICS PricewaterhouseCoopers Audit SRL — Kishinev, 20 March 2012

Statement of Comprehensive Income

For the year ended 31 December 2011

In USD	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Interest and similar income	3	19,005,743	12,353,867
Interest and similar expenses	3	(8,043,898)	(4,916,065)
Net interest income		**10,961,845**	**7,437,802**
Allowance for impairment losses on loans and advances	4	(717,509)	(852,590)
Net interest income after allowances		**10,244,336**	**6,585,212**
Fee and commission income	5	1,462,687	1,916,169
Fee and commission expenses	5	(299,823)	(257,045)
Net fee and commission income		**1,162,864**	**1,659,124**
Trading result	6	865,373	458,993
Net result from financial assets designated at fair value	7	62,371	–
Net other operating income	8	108,846	105,191
Operating income		**12,443,790**	**8,808,520**
Personnel expenses	9	(4,389,341)	(3,803,573)
Administrative expenses	10	(6,842,409)	(5,918,983)
Operating expenses		**(11,231,750)**	**(9,722,556)**
Profit/(Loss) before tax		**1,212,040**	**(914,036)**
Income tax (expenses)/credit	11	349,516	–
Profit/(Loss) for the year		**1,561,556**	**(914,036)**
Other comprehensive income			
Translation difference		509,832	108,621
Other comprehensive income, net of tax		509,832	108,621
Total comprehensive income/(Loss) for the year		**2,071,388**	**(805,415)**

These financial statements were approved for issue on 20 March 2012 and signed by:

Vladislav Garbu
Chairman of the Management Board

Elena Gornet
Chief Accountant

The notes on pages 52 to 82 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2011

In USD	Notes	31 December 2011	31 December 2010
Assets			
Cash and balances with Central Bank	12	15,230,781	12,071,321
Available for sale debt instruments	13	8,139,490	9,043,345
Loans and advances to banks	14	9,053,285	2,805,410
Available for sale financial investments	15	102,429	254,153
Loans and advances to customers, gross	16	117,338,345	82,907,073
Allowance for losses on loans and advances	17	(2,058,098)	(1,271,234)
Intangible assets	18	922,645	662,931
Property and equipment	19	2,214,973	1,854,002
Deferred tax assets	20	350,160	–
Other assets	21	546,079	482,817
Total assets		**151,840,089**	**108,809,818**
Liabilities			
Liabilities to banks	22	–	963,056
Borrowed funds	23	56,648,398	38,364,099
Liabilities to customers	24	43,596,606	34,269,276
Liabilities to International Financing Institutions	25	24,862,169	16,747,161
Financial liabilities	26	–	316,705
Other liabilities	27	243,378	129,072
Provisions	28	199,814	190,739
Subordinated debt	29	4,263,718	4,285,458
Total liabilities		**129,814,083**	**95,265,566**
Equity			
Subscribed capital	30	27,505,079	20,333,638
Accumulated loss		(5,930,133)	(7,491,689)
Translation reserve		451,060	702,303
Shareholders' equity		**22,026,006**	**13,544,252**
Total equity and liabilities		**151,840,089**	**108,809,818**

These financial statements were approved for issue on 20 March 2012 and signed by:

Vladislav Garbu
Chairman of the Management Board

Elena Gornet
Chief Accountant

The notes on pages 52 to 82 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2011

In USD	Share capital	Retained earnings	Translation reserve	Total
Balance at 1 January 2010	**16,024,858**	**(6,577,653)**	**788,556**	**10,235,761**
Loss of the year 2010	–	(914,036)	–	(914,036)
Currency translation differences	194,874	–	(86,253)	108,621
Total comprehensive income	194,874	(914,036)	(86,253)	(805,415)
Share issue	4,113,906	–	–	4,113,906
Balance at 31 December 2010	**20,333,638**	**(7,491,689)**	**702,303**	**13,544,252**
Balance at 1 January 2011	**20,333,638**	**(7,491,689)**	**702,303**	**13,544,252**
Profit for the year 2011	–	1,561,556	–	1,561,556
Currency translation differences	761,075	–	(251,243)	509,832
Total comprehensive income	761,075	1,561,556	(251,243)	2,071,388
Share issue	6,410,366	–	–	6,410,366
Balance at 31 December 2011	**27,505,079**	**(5,930,133)**	**451,060**	**22,026,006**

The notes on pages 52 to 82 are an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2011

In USD	Year ended 31 December 2011	Year ended 31 December 2010
Profit/(Loss) before tax	**1,212,040**	**(914,036)**
Non-cash items included in the loss for the year and transition to the cash flow from operating activities		
Allowance for losses on loans and receivables	717,509	852,590
Depreciation	691,677	527,428
Amortisation	186,564	189,371
Unrealised gains/(losses) from currency revaluation	103,186	57,641
Addition/release of provision	83,438	179,139
Other non-cash items	(222,586)	(120,503)
Gains/losses from disposal of intangible assets	50	191
Gains/losses from disposal of property, plant and equipment	68,943	25,262
Interest income	(19,005,743)	(12,353,867)
Interest expense	8,043,898	4,916,065
Cash flows from operating activities before change in assets and liabilities	**(8,121,024)**	**(6,640,719)**
Increase/(decrease) of assets and liabilities from operating activities after non-cash items		
Loans and advances to Central Bank	198,536	(4,972,976)
Decrease in financial assets available for sale	(415,602)	(254,153)
Decrease in loans and advances to customers	(30,466,405)	(42,789,061)
Decrease in other assets	(33,971)	(14,572)
Decrease in Liabilities to banks	(963,056)	(537,360)
Increase in liabilities to customers	9,327,330	14,590,514
Decrease in other liabilities	(202,399)	(16,937)
Interest received	18,730,459	11,939,997
Interest paid	(7,969,807)	(4,676,868)
Net cash used in operating activities	**(19,915,939)**	**(33,372,135)**
Purchase of/proceeds from sale of:		
Purchases of property, plant and equipment	(790,624)	(439,438)
Purchases of intangible assets	(123,868)	(187,926)
Cash flow used in investing activities	**(914,492)**	**(627,364)**
Shares issued	6,415,120	4,195,863
Long-term borrowings	22,008,435	31,981,858
Subordinated debts	(21,740)	4,000,000
Cash flow from financing activities	**28,401,815**	**40,177,721**
Currency translation difference	**(54,317)**	**20,318**
Cash and cash equivalents at the end of previous period	**16,501,015**	**10,178,695**
Cash flow from operating activities	(19,915,939)	(33,372,135)
Cash flow from investing activities	(914,492)	(627,364)
Cash flow from financing activities	28,401,815	40,177,721
Effects of exchange rate changes	617,622	123,780
Cash and cash equivalents at the end of period	**24,635,704**	**16,501,015**

The notes on pages 52 to 82 are an integral part of these financial statements.

General Information

For the year ended 31 December 2011

B.C. ProCredit Bank S.A. (thereafter "the Bank") was established in the Republic of Moldova in 2007 as a commercial Bank. On 17 December 2007 the Bank received a licence of type "B" from the National Bank of Moldova authorising it to conduct banking activities in the Republic of Moldova. Currently the Bank has a licence that allows it to engage in all banking activities.

The Bank's registered office is located at the following address:

B.C. ProCredit Bank S.A.
of. 901, Stefan cel Mare si Sfant Street
MD - 2012, Chisinau
Republic of Moldova

The Bank operates through its head office.

The Bank's number of employees as at 31 December 2011 was 532 (31 December 2010: 454).

Notes to the Financial Statements

For the year ended 31 December 2011
All amounts in United States Dollars (USD) unless otherwise stated

1. Basis of presentation

1.1 Compliance with International Financial Reporting Standards

B.C. ProCredit Bank S.A. ("the Bank") prepares its financial statements according to International Financial Reporting Standards (IFRS). Accordingly, the financial statements for the year ended 31 December 2011 are prepared in accordance with IFRS as issued by the IASB and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body have been applied.
The Bank did not early adopt any standard not yet effective.
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.
All amounts are presented in US dollars, unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.
The fiscal year of the Bank is the calendar year.

1.2 Compliance with national law

For supervisory purposes the institution qualifies as a commercial Bank according to the banking licence issued by the National Bank of Moldova, authorising it to conduct banking activities in the Republic of Moldova and is therefore supervised by the National Bank of Moldova.
These financial statements of the Bank for the fiscal year 2011 were approved for issue by the Management Board on 20 March 2012.

1.3 Use of assumptions and estimates

The Bank's financial reporting and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.
Accounting policies and management's judgements and estimates for certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

Impairment of loans
ProCredit Bank uses rates for portfolio – based loan loss provisions which are in line with the ProCredit group (group of ProCredit banks) rates. To determine the group-wide rates to be applied for portfolio-based loan loss provisioning, the group performed an evaluation of the quality of the loan portfolio, taking into account historical loss experiences of the majority of the institutions. This migration analysis is based on statistical data from 2000 - 2011 and therefore it reflects not only average losses during a period of constant growth and favourable economic environments but also average losses during a period of global recession in nearly all of the ProCredit group's countries of operation. Further information on the Bank's accounting policy on loan loss provisioning can be found in note 2.6.

1.4 Accounting developments

(a) *Standards effective for annual periods beginning on or after 1 January 2011*

The following new standards and interpretations became effective for the Bank from 1 January 2011:

- ***Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).*** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Bank now also discloses contractual commitments to purchase and sell goods or services to its related.
- ***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation; (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure require-

ments, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity ; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The amendments did not have a material impact on Bank financial statements.

- ***Other revised standards and interpretations effective for the current period***. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS" did not have any impact on these financial statements.

(b) *Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Bank has not early adopted*

- ***IFRS 9, Financial Instruments Part 1: Classification and Measurement***. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

- ***IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Bank does not expect the amendments to have any material effect on its financial statements.
- ***IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities — Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Bank activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Bank is currently assessing the impact of the amended standard on its financial statements.

- ***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, "Consolidated Financial Statements". The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)***. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.)***. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)***, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Banks, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- ***Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013)***, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank is currently assessing the impact of the amended standard on its financial statements.
- ***Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)***. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.
- ***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)***. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Bank is considering the implications of the amendment, the impact on the Bank and the timing of its adoption by the Bank.
- ***Other revised standards and interpretations***: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

2. Summary of significant accounting policies

2.1 Measurement basis

These financial statements have been prepared under the historic cost convention, unless IFRS require recognition at fair value.
The best evidence of fair value are quoted prices in an active market. If the market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange determined by normal business considerations.
Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.
The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the balance sheet positions are part of the accounting policies listed below.

These financial statements have been prepared based on the going concern principle, which assumes that the Bank will continue its operations for the foreseeable future. In order to assess the reasonability of this assumption, the management reviews forecasts of the future cash inflows. Based on these reviews and on the ongoing support of the ProCredit group, the management believes that the Bank will be able to continue to operate as a going concern for the foreseeable future and, therefore, this principle was applied in the preparation of these financial statements.
The financial year begins on 1 January and ends on 31 December and includes all operations performed by the Bank. All the effective figures that reflect financial and economic results of the Bank's activity during the financial year are included in the financial statements of the financial year.

2.2 Financial assets

The Bank classifies its financial assets in 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. In the reporting period there were no financial assets classified as at fair value through profit or loss or held to maturity. Management determines the classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading ("trading assets"), including the derivatives held, and financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.
Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy.
The monthly reporting on these portfolios and the included assets to key management personnel is also done on a fair value basis. The fair values reported are usually observable market prices; as a guideline, the Bank prefers to invest in securities for which market prices in active markets can be observed. Only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique.
Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit and loss. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in profit and loss of the period. Together with interest earned on financial instruments designated as at fair value through profit or loss they are shown as "net result from financial assets at fair value through profit or loss".
Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.
Loans and receivables are initially recognised at fair value plus transactions costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note 4 for the accounting policy for impairment of loans, and note 16 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in profit and loss. The upper limit on the release of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.
Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. At initial recognition, held-to-maturity investments are recorded at fair value plus transaction costs. Subsequently they are carried at amortised cost.

(d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite amount of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. At initial recognition, available–for-sale financial assets are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on current observable market. For very short-term financial assets it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income (OCI) in the position "revaluation reserve from available-for-sale financial instruments", until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in OCI is recognised in profit or loss as "gains and losses from available-for-sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available–for-sale are recognised in the profit and loss under interest and similar income. Dividends on available–for-sale equity instruments are recognised in profit and loss when the entity's right to receive the payment is established.
Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates, i.e. the functional currency: the Moldovan leu. Normally, it is the currency of the environment in which an entity

primarily generates and expends cash. The financial statements of the Bank are presented in US dollars, which is ProCredit Bank's presentation currency. The reason for using a different presentation currency is to meet the expectation of the parent company and providers of external financing.
All assets and liabilities for all balance sheets presented (including comparatives) have been translated from the functional currency (MDL) to the presentation currency (USD) at the closing rate existing at the date of each balance sheet presented. Income and expense items for all periods presented (including comparatives) have been translated using an average rate for the period. Share capital is also translated at closing rates. The exchange differences resulting from translating income statement items at average rate and assets and liabilities at closing rates, as well as the exchange differences arising on opening net assets' retranslation at closing rates are recognised in OCI.
Finally, exchange differences resulting from translation of retained earnings have been recognised directly as a separate component of equity – translation reserve – and exchange differences resulting from translation of other equity items (e.g. share capital) are included directly within the relevant components of the equity.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss (trading result).
Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in the amortised cost of securities and other changes in the carrying amount of the available-for-sale assets. Translation differences related to changes in the amortised cost are recognised in profit and loss, while other changes in the carrying amount are recognised in OCI.
Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.
The exchange rates for the year 2011 and 2010 are presented below:

	2011		2010	
	USD	EUR	USD	EUR
Closing rate	11.7154	15.0737	12.1539	16.1045
Average rate	11.7370	16.3369	12.3663	16.3995

2.4 Cash and balances with Central Bank

For the purposes of the balance sheet, cash and balances with the Central Bank comprise cash in hand and balances with less than three months' maturity at the Central Bank.
For the purposes of the cash flow statement, cash and balances with Central Bank comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with the Central Bank, non-pledged securities and other bills eligible for refinancing with the Central Bank, and loans and advances to banks and amounts due from other Banks.

2.5 Loans and receivables

The amounts reported under receivables from customers consist mainly of loans and advances granted.
In addition to overnight and term deposits, the amounts reported under receivables from Banks include current account balances.
All loans and receivables to Banks as well as loans and receivables to customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in profit and loss under net interest income. Impairment of loans is recognised on separate allowance accounts (Note 17).
For the purposes of the cash flow statement, loans to Banks with a remaining maturity of less than three months from the reporting date are treated as cash equivalents (Note 12).

2.6 Allowance for losses on loans and advances

(a) Assets carried at amortised cost – loans and advances

Impairment of loans and advances
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a loan or a portfolio of loans has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the loan, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of loans. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in profit and loss. The Bank does not recognise losses from expected future events that have not occurred at the balance sheet date.

Individually assessed loans and advances
Loans are considered individually significant if they have a certain size. The Bank considers that all loans over USD 30,000 should be individually assessed for impairment. For such loans, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the Bank:

- delinquencies in contractual payments of interest or principal;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings;
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client);
- changes in the customer's market environment;
- the general economic situation.

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collectively assessed loans and advances
There are two cases in which loans are collectively assessed for impairment:

- individually insignificant loans that show objective evidence of impairment;
- the group of loans which do not show signs of impairment, in order to cover all losses which have already been incurred but not identified on an individual loan basis.

For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be an indicator of impairment. This characteristic is relevant for the estimation of future cash flows for the thus defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant loans (lump-sum impairment) and for unimpaired loans (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual ProCredit group subsidiaries (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, the holding company's management prescribed appropriate rates to the banks of the ProCredit group as the basis for their portfolio-based impairment allowances. Deviations from this guideline were allowed, if necessitated by the specific situation of a ProCredit group institution.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed loans).

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit and loss.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in profit and loss. The Bank writes off non-performing credit exposures in accordance with the following principles:

- Non-performing and non-secured loans under USD 10,000 shall be written off after 180 days of arrears;
- Non-performing and non-secured loans of USD 10,000 and up to USD 30,000 shall be written off after 360 days of arrears; and
- Non-performing loans of USD 30,000 and over shall be collaterised and will be written off after 360 days of arrears unless the Bank decides to keep the loan active, e.g. to allow for a legal collateral recovery process to finish.

Restructured loans

Restructured loans which are considered to be individually significant are assessed for impairment on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans which are individually insignificant are collectively assessed for impairment. All loans exceeding USD 30,000 that have been restructured shall be individually assessed to determine the level of impairment. All loans that have been restructured more than once shall be individually assessed, regardless of their amount. Once a restructured loan has been performing (defined as having no payment obligation towards the Bank in arrears by more than 30 days) for at least six consecutive instalments after the restructuring, the Bank may treat the loan as unimpaired. If other loans to the client are outstanding, in addition to the restructured loan, the contamination principle shall apply, i.e. the other loans to the client and any related parties must also be assessed for impairment.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In determining whether an available-for-sale financial asset is impaired the following criteria are considered:

- Deterioration of the ability or willingness of the debtor to service the obligation;
- A political situation which may significantly impact the debtor's ability for debt repayment;
- Additional events that make it unlikely that the carrying amount may be recovered.

In the case of equity investments, a significant or prolonged decline in the fair value of the investments below its cost is considered as indicator in determining whether the assets are impaired.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortisation for debt securities) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from OCI and recognised in profit and loss.

Impairment losses recognised in profit and loss on equity instruments are not reversed through profit and loss at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through profit and loss.

The Bank primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

2.7 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of five years.

The assets are amortised using the straight-line method over their useful lives.

(b) Other intangible assets

The items reported under "Other intangible assets" are software in progress. The intangible assets in progress are not amortised.

2.8 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment are stated at historical cost less scheduled depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.
Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	shorter of rental contract life or useful life
Computers	3 years
Furniture	5 years
Motor vehicles	5 years
Other fixed assets	2–5 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss. The Bank does not hold investment property.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not depreciated on a scheduled basis but are tested annually for impairment.
Assets that are subject to depreciation/amortisation are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.
For the purpose of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash flows (cash-generating units).

2.10 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

(a) ProCredit Bank as the lessee

Finance lease
Agreements which transfer to the lessee substantially all the risks and rewards incidental to the ownership of assets, but not necessarily a legal title, are classified as finance leases.
In 2008 the Bank concluded a software lease agreement with ProCredit S.A. for a period of five years, where ProCredit Bank is the lessee. The finance lease is recognised as a financial liability and the finance charge is allocated to each lease period and recognised in income statement as interest expense.
During 2011 the legal title on the software was transferred from ProCredit S.A. to the Bank, thus the Bank does not have any finance lease agreement as at the year end.

Operating lease
Operating leases are all lease agreements which do not qualify as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases.
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
The total payments made under operating leases are charged to profit and loss under administrative expenses on a straight-line basis over the period of the lease.

(b) ProCredit Bank as the lessor

Finance leases
When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "loans and advances to customers". Payments received under leases are divided into an amortisation component which is not recognised in profit and loss and an income component. The income component is recognised under "interest income". Premiums received are recognised over the term of the lease using the effective interest rate method under "interest income".

Operating leases
The Bank does not enter into operating leases as a lessor.
At the end of 2011 the Bank appears only as lessee in both types of leasing operations.

2.11 Income tax

(a) Current income tax

Current income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
The principal temporary differences arise from depreciation of property and equipment and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.
The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.
Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.
Deferred tax related to fair value re-measurement of available-for-sale investments, which are recognised in OCI, is also credited or charged directly to OCI and subsequently recognised in profit and loss together with the deferred gain or loss.

In 2011 the income tax rate was 0%; starting from 2012 the income tax rate will be 12%.

2.12 Liabilities to banks and customers

Liabilities to banks and customers are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the repayment is recognised in profit and loss over the period of the borrowings using the effective interest rate method.
All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged or, cancelled or when it expires.

2.13 Provisions

Provisions are recognised if:
- there is a present legal or constructive obligation resulting from past events;
- it is probable that an outflow of resources will be required to settle the obligation;
- the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.
Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be not occur within one year.
Contingent liabilities, which mainly consist of certain guarantees and credit commitments issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the Bank, they are not recognised in the financial statements but are disclosed off-balance sheet unless the probability of settlement is remote (Note 33).

2.14 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit and loss the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.
Any increase in the liability relating to guarantees is taken to profit and loss under "other operating expenses".

2.15 Subordinated debt

Subordinated debt consists of liabilities to shareholders which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early.

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost. Fees and commissions are accounted for over the respective terms in profit and loss under "net interest income".

2.16 Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds as (negative) capital reserve.

2.17 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in profit and loss using the effective interest rate method. Interest income and expense are recognised in profit and loss on an accrual basis.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received in respect of written-off loans are not recognised in net interest income but in allowances for loan losses.

2.18 Fee and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.
Up-front fees for granting loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

3. Net interest income

	2011	2010
Interest and similar income		
Interest income from cash and short term funds	586,957	174,091
Interest income from loans and advances to customers	18,398,330	12,178,908
Other interest income	20,456	868
Total interest income	**19,005,743**	**12,353,867**
Interest and similar expenses		
Interest expenses on liabilities to banks	42,105	60,878
Interest expenses on liabilities to customers	2,120,313	2,060,476
Interest expenses on liabilities to international financial institutions	2,021,548	804,359
Interest expenses on other borrowed funds	3,491,952	1,706,224
Interest expenses on subordinated debt	367,980	284,128
Total interest expenses	**8,043,898**	**4,916,065**
Net interest income	**10,961,845**	**7,437,802**

The interest income on impaired financial assets is USD 155,123 (2010: USD 116,816).

4. Allowance for impairment losses on loans and advances

Risk provisioning on loans and advances to customers are reflected in profit and loss as follows:

	2011	2010
Increase of impairment charge	845,363	1,272,629
Write-offs	528,374	–
Release of impairment charge	(212,539)	(350,111)
Recovery of written-off loans	(443,689)	(69,928)
Total	**717,509**	**852,590**

The net increase in impairment charge, less releases, can be analysed as followings:

	2011	2010
Allowance for impairment on loans and advances to customers		
Specific impairment	57,338	50,377
Allowance for individually insignificant impaired loans	127,054	351,873
Allowance for collectively assessed loans	448,431	520,268
Total allowance for impairment on loans and advances to customers	**632,823**	**922,518**

5. Net fee and commission income

	2011	2010
Fee and commission income		
Payment transfers and transactions	1,132,766	738,010
Account maintenance fee	77,279	60,723
Letters of credit and guarantees	10,088	1,878
Debit/credit cards	61,056	41,459
Other fee and commission income	181,498	1,074,099
Total fee and commission income	**1,462,687**	**1,916,169**
Fee and commission expenses		
Payment transfers and transactions	(101,791)	(47,956)
Fees for credit/debit card business	(198,032)	(209,089)
Total fee and commission expenses	**(299,823)**	**(257,045)**
Net fee and commission income	**1,162,864**	**1,659,124**

Other fee and commission income includes income from the maintenance of ProCredit S.A.'s loan portfolio in the amount of USD 63,290 (2010: USD 979,882). This decrease was due to the fact that the loan portfolio was transferred from ProCredit S.A. to the Bank during 2011.

6. Trading result

Trading result refers to the results of foreign exchange dealings with and for customers. The Bank does not engage in any foreign currency trading on its own account. In addition, this item includes the result from foreign currency operations and unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IAS 39.

	2011	2010
Currency transactions	968,559	516,634
Revaluation general	(103,186)	(57,641)
Total	**865,373**	**458,993**

7. Net gains from available-for-sale financial instruments designated at fair value

	2011	2010
Net gains/(losses) arising on:		
Equity investments	62,371	–
Total	**62,371**	**–**

The gain was recognised on sale of equity investments held by the Bank in ProCredit Academy (Macedonia).

8. Net other operating results

	2011	2010
Other operating income	242,571	174,317
Other operating expenses	(133,725)	(69,126)
Total	**108,846**	**105,191**

Other operating income relates to a leasehold improvement recognition, which has been recognised at the fair value of USD 100,007 (2010: nil); to the disposal of property, plant and equipment in the amount of USD 66,124 (2010: nil) and to the reversal of provisions on off-balance sheet items of USD 15,315 (2010: nil).
Other operating expenses include mainly: expenses in the amount of USD 32,749 for deposit insurance fund (2010: USD 29,450) and expenses for disposal of property and equipment in the amount of USD 67,967 (2010: 22,900).

9. Personnel expenses

Personnel expenses can be broken down as follows:

	2011	2010
Salary expenses	3,505,161	3,068,467
Social security expenses	884,180	735,106
Total	**4,389,341**	**3,803,573**

10. Administrative expenses

	2011	2010
Office rent	2,150,788	2,115,128
Depreciation fixed and intangible assets incl. leasehold improvement	985,880	720,097
Service management fees	680,940	649,776
Training	469,217	480,148
Communication and IT expenses	507,498	414,856
Marketing, advertising and entertainment	464,106	319,894
Transport	482,568	321,791
Consulting, legal and audit fees	166,202	168,956
Security service	138,992	113,590
Office supply	98,696	101,252
Construction, repairs and maintenance	129,032	91,166
Other administrative expenses	568,490	422,329
Total	**6,842,409**	**5,918,983**

Other administrative expenses includes other taxes of USD 242,498 (2010: USD 148,743) and expenses for utilities and electricity in the amount of USD 225,414 (2010: USD 173,629).

11. Income tax (expenses)/credit

	2011	2010
Current tax	–	–
Deferred tax (Note 20)	349,516	–
Total	**349,516**	**–**

The Bank did not have any current income tax expenses during 2011 due to the fact that the income tax rate was nil; for 2012 the income tax rate will be 12%. Due to the fact that the income tax rate for the year 2012 was substantially enacted before 31 December 2011, according to IAS 12 requirements the deferred tax should be calculated as of 31 December 2011.

12. Cash and balances with central bank

Cash and balance with Central Bank comprise the following items:

	2011	2010
Cash on hand	6,676,624	3,733,285
Balances at Central Bank excluding mandatory reserves	1,333,630	918,972
Mandatory reserve deposits	7,220,527	7,419,064
Total cash	**15,230,781**	**12,071,321**

The following cash equivalents have been considered as cash for the cash flow statement:

	2011	2010
Available-for-sale debt instruments (less than 3 months)	7,572,164	9,043,345
Loans and advances to banks	9,053,285	2,805,410
Minimum reserve with Central Bank, which does not qualify as cash for the cash flow statement	(7,220,527)	(7,419,064)
Cash and cash equivalents for cash flows statement	**24,635,703**	**16,501,012**

Mandatory reserves are the Bank's funds held in Moldovan lei (MDL) or freely convertible currency (USD, EUR) in accounts opened with the National Bank of Moldova. The reserves are calculated on the basis of funds attracted in deposit accounts and other similar liabilities. As of 31 December 2011 the reserve ratio established by the Central Bank was 14% (2010: 8%).

13. Available-for-sale debt instruments

	2011	2010
As at the beginning of the period	**9,043,345**	**1,460,812**
Additions	128,962,713	97,075,674
Disposals	(130,201,724)	(89,631,365)
Exchange rate adjustments	335,156	138,224
As at 31 December	**8,139,490**	**9,043,345**

Available-for-sale financial instruments represent short-term certificates issued by the National Bank of Moldova and Treasury bills issued by the Government. Due to the fact that these financial instruments were bought close to the year end for short terms, the fluctuation in fair value of these financial instruments was not significant and thus no changes in fair value of available-for-sale financial instruments were recorded by the Bank during the year. For the estimation of fair value Level 2 was applied.

14. Loans and advances to banks

Loans and advances to banks are as follows:

	2011	2010
Loans and advances to banks in OECD countries	8,988,047	2,771,552
Loans and advances to banks in non-OECD countries	65,238	33,858
Total	**9,053,285**	**2,805,410**

Loans and advances to banks in OECD countries as at 31 December 2011 and 31 December 2010 are nostro account balances held in Deutsche Bank, Commerzbank, Citibank, Raiffeisen Bank Russia and WGZ Bank.
Loans and advances to banks in non-OECD countries are nostro account balances held in ProCredit Bank Bulgaria and ProCredit Bank Armenia.

15. Available-for-sale financial investments

Available-for-sale financial investments are as follows:

	2011	2010
Equity investments in non-OECD countries	102,429	254,153
Total	**102,429**	**254,153**

Equity investments represent shares in: "Bureau of Credit History" in the amount of USD 102,429 (2010: USD 98,734 and "ProCredt Academy" (Macedonia), in the amount of USD 155,419). Bank investments in ProCredt Academy (Macedonia) were sold during the year to ProCredit Holding. No other acquisitions of equity investments took place during the year.
The available for sale equity investments are recorded at fair value which at the initial recognition was the transaction price. After the initial recognition the Bank assesses the fair value of equity investments using the Level three model (unobservable inputs).

16. Loans and advances to customers

Loans and advances to customers can be analysed as follows:

At 31 December 2011	Gross amount	Allowance for impairment	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
Business loans	**100,892,390**	**(1,762,850)**	**99,129,540**	**86.0%**	**7,787**	**69.7%**
Loan size up to 10 KUSD	17,185,843	(344,170)	16,841,673	14.6%	5,585	50.0%
Loan size 10 to 30 KUSD	19,465,920	(403,618)	19,062,302	16.5%	1,434	12.8%
Loan size 30 to 150 KUSD	33,032,516	(543,465)	32,489,051	28.2%	667	6.0%
Loan size more than 150 KUSD	31,208,111	(471,597)	30,736,514	26.7%	101	0.9%
Agricultural loans	**14,142,435**	**(265,626)**	**13,876,809**	**12.0%**	**2,663**	**23.8%**
Loan size up to 10 KUSD	5,680,793	(106,130)	5,574,661	4.8%	2,347	21.0%
Loan size 10 to 30 KUSD	3,243,974	(92,525)	3,151,450	2.7%	255	2.2%
Loan size 30 to 150 KUSD	2,463,184	(32,216)	2,430,968	2.1%	51	0.5%
Loan size more than 150 KUSD	2,754,484	(34,755)	2,719,730	2.4%	10	0.1%
Housing improvement loans	**1,169,981**	**(14,750)**	**1,155,230**	**1.0%**	**401**	**3.6%**
Loan size up to 10 KUSD	662,647	(9,171)	653,476	0.6%	383	3.4%
Loan size 10 to 30 KUSD	117,328	(1,290)	116,038	0.1%	8	0.1%
Loan size 30 to 150 KUSD	390,006	(4,289)	385,716	0.3%	10	0.1%
Loan size more than 150 KUSD	–	–	–	–	–	–
Consumer loans*	**135,085**	**(3,440)**	**131,646**	**0.1%**	**72**	**0.6%**
Loan size up to 10 KUSD	110,311	(3,167)	107,144	0.1%	70	0.6%
Loan size 10 to 30 KUSD	24,774	(273)	24,502	0.0%	2	0.0%
Loan size 30 to 150 KUSD	–	–	–	–	–	–
Loan size more than 150 KUSD	–	–	–	–	–	–
Other loans	**998,454**	**(11,432)**	**987,022**	**0.9%**	**254**	**2.3%**
Loan size up to 10 KUSD	522,158	(6,193)	515,965	0.4%	232	2.1%
Loan size 10 to 30 KUSD	202,646	(2,229)	200,417	0.2%	16	0.1%
Loan size 30 to 150 KUSD	273,650	(3,010)	270,640	0.2%	6	0.1%
Loan size more than 150 KUSD	–	–	–	0.0%	–	0.0%
Total	**117,338,345**	**(2,058,098)**	**115,280,247**	**100.0%**	**11,177**	**100.0%**

During 2011 ProCredit S.A. (related party) transferred to the Bank loans from its loan portfolio and other tangible and intangible assets with a total fair value of USD 4,506,705 against liabilities which represent borrowings from ProCredit Holding AG & Co. KGaA.

At 31 December 2010	Gross amount (%)	Allowance for impairment loans	Net amount (%)	Share of total portfolio	Number of outstanding	Share of total number
Business loans	**73,428,024**	**(1,121,375)**	**72,306,648**	**88.6%**	**7,834**	**69.6%**
Loan size up to 10 KUSD	17,078,812	(338,027)	16,740,785	20.5%	6,524	58.0%
Loan size 10 to 30 KUSD	10,670,173	(178,671)	10,491,502	12.8%	809	7.2%
Loan size 30 to 150 KUSD	22,984,659	(323,200)	22,661,458	27.8%	432	3.8%
Loan size more than 150 KUSD	22,694,380	(281,477)	22,412,903	27.5%	69	0.6%
Agricultural loans	**8,997,825**	**(144,377)**	**8,853,448**	**10.8%**	**3,251**	**29%**
Loan size up to 10 KUSD	5,110,771	(90,891)	5,019,880	6.1%	3,155	28.1%
Loan size 10 to 30 KUSD	882,426	(17,615)	864,811	1.1%	68	0.6%
Loan size 30 to 150 KUSD	1,151,594	(15,225)	1,136,369	1.4%	24	0.2%
Loan size more than 150 KUSD	1,853,034	(20,646)	1,832,388	2.2%	4	0.1%
Housing improvement loans	**473,093**	**(5,389)**	**467,704**	**0.6%**	**149**	**1.3%**
Loan size up to 10 KUSD	306,078	(3,513)	302,565	0.4%	144	1.3%
Loan size 10 to 30 KUSD	9,630	(110)	9,520	–	1	–
Loan size 30 to 150 KUSD	157,385	(1,766)	155,619	0.2%	4	–
Loan size more than 150 KUSD	–	–	–	–	–	–
Consumer loans	**8,131**	**(93)**	**8,039**	**–**	**15**	**0.1%**
Loan size up to 10 KUSD	8,131	(93)	8,039	–	15	0.1%
Loan size 10 to 30 KUSD	–	–	–	–	–	–
Loan size 30 to 150 KUSD	–	–	–	–	–	–
Loan size more than 150 KUSD	–	–	–	–	–	–
Total	**82,907,073**	**(1,271,234)**	**81,635,839**	**100.0%**	**11,249**	**100.0%**

17. Allowances for losses on loans and advances

Allowance for impairment losses on loans and advances cover the risks which arise from the category “loans and advances to customers”. In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, lump-sum specific provisions and a portfolio-based impairment provision were formed to cover impairment loss relating to the customer loan portfolio as a whole:

	2011	2010
Allowance for impairment on loans and advances to customers		
Specific impairment	185,712	105,241
Allowance for individually insignificant impaired loans	352,805	190,808
Allowance for collectively assessed loans	1,519,581	975,185
Total	**2,058,098**	**1,271,234**

The following table shows the movement in allowances for impairment losses for loans and advances to customers during the year:

	2011	2010
As at the beginning of the period	**1,271,234**	**585,706**
Additions	931,887	1,272,629
Used	105,098	(255,765)
Released	(212,539)	(350,111)
Exchange rate adjustments	(37,582)	18,775
As at 31 December	**2,058,098**	**1,271,234**

18. Intangible assets

	2011	2010
Software		
Net book value as of the beginning of the period	651,658	650,031
Transfers from other intangible assets	(39,755)	–
Additions	187,063	182,404
Disposal	–	(191)
Amortisation charge	(185,071)	(188,766)
Exchange rate adjustments	24,323	8,180
Net book value as of 31 December	**638,218**	**651,658**
Other intangible assets		
Net book value as of 1 January	11,273	6,185
Transfers	39,755	–
Additions	234,018	5,522
Disposals	(50)	–
Amortisation charge	(1,493)	(605)
Exchange rate adjustments	924	171
Net book value as of 31 December	**284,427**	**11,273**
Total net book value as at 31 December	**922,645**	**662,931**
Software		
As at 31 December		
Cost	925,361	1,040,926
Accumulated amortisation	(287,143)	(389,268)
Net book value as at 31 December	**638,218**	**651,658**
Other intangible assets		
As at 31 December		
Cost	286,593	11,937
Accumulated amortisation	(2,166)	(664)
Net book value as at 31 December	**284,427**	**11,273**

Intangible assets in progress are reflected as "Other intangible assets".

19. Property and equipment

At 31 December 2011	Leasehold improvements	Assets under construction	Furniture, fixtures and vehicles	IT and other equipment	Total
Net book value at 1 January 2011	350,645	45,938	735,273	722,146	1,854,002
Transfers	286,815	(963,228)	234,831	441,582	–
Additions	–	1,051,660	–	–	1,051,660
Disposals	(7,856)	(356)	(38,310)	(22,421)	(68,943)
Depreciation charge	(110,684)	–	(200,399)	(380,594)	(691,677)
Exchange rate adjustment current year	13,434	1,882	27,514	27,101	69,931
Net book value as at 31 December 2011	**532,354**	**135,896**	**758,909**	**787,814**	**2,214,973**
As at 31 December 2011					
Cost	768,442	135,896	1,222,575	1,679,404	3,806,317
Accumulated depreciation	(236,088)	–	(463,666)	(891,590)	(1,591,344)
Net book value as at 31 December 2011	**532,354**	**135,896**	**758,909**	**787,814**	**2,214,973**

During the physical inspection of its fixed assets the Bank identified a missed leasehold improvement asset which should have been recognised by the Bank in prior years. Taking into account that the value of this asset is not significant the correction of the accounting entry was made through other operating income of the current year, please see Note 8 for the disclosed value.

At 31 December 2010	Leasehold improvements	Assets under construction	Furniture, fixtures and vehicles	IT and other equipment	Total
Net book value at 1 January 2010	302,962	65,988	818,995	666,338	1,854,283
Transfers	124,989	(538,902)	32,445	381,468	–
Additions		520,770	–	422	521,192
Disposals	(12,884)	(2,362)	–	(10,016)	(25,262)
Depreciation charge	(70,065)	–	(126,695)	(330,668)	(527,428)
Exchange rate adjustment current year	5,643	444	10,528	14,602	31,217
Net book value as at 31 December 2010	**350,645**	**45,938**	**735,273**	**722,146**	**1,854,002**
As at 31 December 2010					
Cost	478,480	45,938	1,027,660	1,249,082	2,801,160
Accumulated depreciation	(127,835)	–	(292,387)	(526,936)	(947,158)
Net book value as at 31 December 2010	**350,645**	**45,938**	**735,273**	**722,146**	**1,854,002**

There are no assets related to finance leases.

20. Deferred taxes

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of 12% (2010: nil). Movements in the deferred income tax account are as follows:

	2011	2010
As at 1 January 2011	–	–
Income statement charge	349,516	–
Exchange rate adjustment	644	–
As at 31 December 2011	**350,160**	–

Deferred income tax assets are attributable to the following items:

	2011	2010
Deferred tax assets		
Tax losses carried forward	340,060	–
Deferred income on loans	225,727	–
Other provisions	22,569	–
Other accruals	9,623	–
Total	**597,979**	–
Deferred tax liabilities		
Provisions for loan impairments	195,646	–
Other temporary differences	48,199	–
Accelerated tax depreciation	3,974	–
Total	**247,819**	–

The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:

	2011	2010
Accelerated tax depreciation	(3,967)	–
Deferred income on loans	225,312	–
Allowances for impairments	(195,286)	–
Other provisions	22,528	–
Tax losses carried forward	339,434	–
Write-offs of loans	(48,110)	–
Other accruals	9,605	–
Total	**349,516**	–

21. Other assets

Other assets are as follows:

	2011	2010
Prepayments	372,481	321,368
Claims against insurances	242	–
Claims from customs and taxes	3,400	11,300
Other inventory items	60,417	41,100
Others	109,539	109,049
Total	**546,079**	**482,817**

Pre-payments are advance payments for the operational lease of Bank premises in the amount of USD 216,267 (2010: 169,550 USD), and advance payments for services of USD 133,344 (2010: USD 146,325). Other assets include amounts in the course of settlement for international money transfers in the amount of USD 73,571 (2010: USD 73,492).
The table below represents the breakdown of other assets into financial and non-financial:

	2011	2010
Other financial assets	74,248	109,050
Other non-financial assets	471,831	373,768
Total	**546,079**	**482,818**

22. Liabilities to banks

Liabilities to banks consist primarily of short-term bank deposits obtained on the local interbank market:

	2011	2010
Liabilities to banks in OECD countries	–	–
Liabilities to banks in non-OECD countries	–	963,056
Total	**–**	**963,056**

Liabilities to banks as at 31 December 2010 included the short term borrowings from the National Bank of Moldova.

23. Borrowed funds

	2011	2010
Borrowed funds	56,648,398	38,364,099
Total	**56,648,398**	**38,364,099**

Borrowed funds represent borrowings from ProCredit Holding AG &Co. KGaA in the total amount of USD 50,105,320 (2010: USD 36,845,536), from BlueOrchard Finance S.A. in the amount of USD 1,000,000 (2010: USD 1,518,563) and from Credit Swiss MF in the amount of USD 4,000,000.

24. Liabilities to customers

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

	2011	2010
Current accounts	8,303,250	5,392,874
private individuals	1,713,873	1,341,577
legal entities	6,589,377	4,051,297
Savings accounts	10,124,473	7,169,659
private individuals	10,124,473	7,169,659
legal entities	–	–
Term deposit accounts	25,168,883	21,706,743
private individuals	23,668,759	17,138,363
legal entities	1,500,124	4,568,380
Total	**43,596,606**	**34,269,276**

25. Liabilities to international financing institutions

Liabilities to International Financial Institutions (IFIs) are an important source of financing for the Bank. Medium to long-term loans from IFIs are reported under this position.
The following table gives a detailed breakdown for liabilities to IFIs.

	2011	2010
Liabilities with fixed interest rates		
up to 1 year	–	–
up to 2 years	–	–
up to 3 years	–	–
up to 4 years	3,511,261	–
more than 4 years	–	4,091,420
Total liabilities with fixed interest rates	**3,511,261**	**4,091,420**
Liabilities with variable interest rates		
up to 1 year	–	–
up to 2 years	–	–
up to 3 years	9,092,462	–
up to 4 years	7,237,654	12,655,741
more than 4 years	5,020,792	–
Total liabilities with variable interest rates	**21,350,908**	**12,655,741**
Total liabilities to IFIs	**24,862,169**	**16,747,161**

Liabilities to IFIs represent one loan with a fixed interest rate from the International Finance Corporation (IFC) in the amount of USD 3,511,261 (2010: USD 4,091,420) and two loans with variable interest rates from the European Bank for Reconstruction and Development (EBRD) in the amount of USD 14,113,254 (2010: 10,233,672) and the European Fund for Southeast Europe (EFSE) in the amount of USD 7,237,654 (2010: 2,422,068).

26. Financial liabilities

	2011	2010
Finance lease liabilities	–	316,705
Total	**–**	**316,705**

	2011	2010
Lease liability (present value)	–	316,705
up to 1 year	–	109,798
more than 1 year	–	206,907
Future finance charges	–	10,801
Gross finance lease liabilities (minimum lease payments)	–	327,506
up to 1 year	–	113,544
more than 1 year	–	213,962

Finance lease liabilities relate to the sale and leaseback transaction of the Bank's software, concluded between the Bank and ProCredit S.A.. As the legal right to the software was transferred back to the Bank in 2011 the finance lease transaction was cancelled.

27. Other liabilities

	2011	2010
Financial liabilities		
Liabilities for goods and services	240,456	120,409
Liabilities to employees	–	594
Non-financial liabilities		
Non-income tax liabilities	2,790	7,924
Liabilities to social fund on employees' contributions	132	145
Total	**243,378**	**129,072**

Non-income tax liabilities are liabilities related to value-added tax.

28. Provisions

	2011	2010
At the beginning of the period	**190,739**	**126,079**
Exchange rate adjustments	7,143	1,533
Additions	147,221	203,533
Used	(81,506)	(116,012)
Releases	(63,783)	(24,394)
At as 31 December	**199,814**	**190,739**

The provisions consist of provisions for unused vacation in the amount of USD 188,079 (2010: USD 169,474), provisions for off-balance sheet items, e.g. guarantees, credit commitments in the amount of USD 6,718 (2010: USD 21,265) and provisions for lawsuits and recourse claims in the amount of USD 5,017 (2010: nil). For the provisions for unused vacation and for off-balance sheet items the outflow of economic benefits is expected during the next one or two years.

29. Subordinated debts

	2011	2010
Subordinated debt	4,263,718	4,285,458
Total	**4,263,718**	**4,285,458**

In 2010 the Bank received two subordinated borrowings from ProCredit Holding AG & Co. KGaA with maturity in 2018.

30. Subscribed capital

As at 31 December 2011 and 31 December 2010 the shareholder structure was as follows:

Shareholder	31 December 2011			31 December 2010		
	Size of stake in %	Number of shares	Amount USD	Size of stake in %	Number of shares	Amount USD
ProCredit Holding	82.89%	267,100	22,799,051	84.17%	208,000	17,113,848
Kreditanstalt für Wiederaufbau	12.30%	39,633	3,382,983	9.56%	23,633	1,944,479
DOEN	4.81%	15,500	1,323,045	6.27%	15,500	1,275,311
Voting Capital	**100.00%**	**322,233**	**27,505,079**	**100.00%**	**247,133**	**20,333,638**
Non-Voting Capital	–	–	–	–	–	–
Total	**100.00%**	**322,233**	**27,505,079**	**100.00%**	**247,133**	**20,333,638**

In 2011 the Bank issued shares to: KfW in the amount of MDL 16,000,000 (USD 1,348,890 at the transaction exchange rate) and to the main shareholder ProCredit Holding AG (now ProCredit Holding AG & Co. KGaA) in the amount of MDL 59,100,000 (USD 5,066,221 at the transaction exchange rate).
The total number of authorised and issued ordinary shares at the end of the year was 322,233 shares (2010: 247,133 shares) with a par value of USD 85.36 per share each (2010: USD 82.28 per share). All shares are fully paid.

31. Risk management

31.1 Management of the overall Bank risk profile – capital management

(a) Capital management – objectives

Overall ProCredit Bank is not allowed to take on more risk than it is capable of bearing. This rule is put into operation using different indicators for which target and limit ratios have been established. The indicators for ProCredit Bank include, in addition to local regulatory standards, a Basel II capital adequacy calculation, a Tier 1 leverage ratio and a risk bearing capacity model.
The capital management of the Bank has the following objectives:

- Ensuring that the Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

(b) Capital management – processes and procedures

The capital management of ProCredit Bank is governed by the Policy on Capital Management and the Policy on Risk Bearing Capacity. Regulatory and Basel II capital ratios, the Tier 1 leverage ratio and the risk bearing capacity are monitored on a monthly basis by the Bank's Risk Management Committee.

(c) Capital management – compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the local banking supervision authority. Capital adequacy is calculated and reported on the Bank level to the General and Operational Risk Management Committee on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance for a period of six months, as well as stress tests for different crisis scenarios.
During the reporting period, all regulatory capital requirements were met at all times.
Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the group in accordance with the guidelines of the Basel Committee (Basel II).
The following table shows the capital adequacy ratios of the Bank:

	Limit	2011	2010
Tier 1 ratio (Tier 1 Capital/ Total risk weighed assets)	8.00%	18.8%	16.28%
Tier 1 + Tier 2 ratio (Total own funds/ Total risk weighed assets)	10.00%	23.8%	21.42%

	2011	2010
Ordinary share capital	27,505,079	20,333,638
Capital + legal reserves	–	–
Loss of the current year	–	(211,733)
Retained earnings	(7,043,509)	(6,577,653)
Minority interests	–	–
Less goodwill	–	–
Less other intangibles	(922,645)	(662,931)
Tier I capital	**19,538,925**	**12,881,321**
Subordinated loans	4,000,000	3,200,000
Preference shares	–	–
Other inherent loss allowance	1,164,760	975,184
Tier II capital	**5,164,760**	**4,175,184**
Total regulatory capital	**24,703,685**	**17,056,505**

	2011	2010
RWA on-balance sheet	92,339,159	67,633,286
RWA off-balance sheet	841,670	328,885
RWA from open currency position	1,360,726	881,239
RWA from operational risk	9,325,430	10,787,222
Total Risk Weighted Assets	**103,866,985**	**79,630,632**

For the Bank a combination of straight equity and subordinated debt issued by ProCredit Holding AG & Co. KGaA, is used for capital management.
With respect to the leverage of the Bank, a lower limit for the ratio of Tier 1 capital to on and adjusted off-balance sheet exposures is being applied , according to which the Tier 1 leverage ratio of the Bank should not fall below 5%. At the end of 2011 it was well above this limit at 12.8%.

(d) Risk bearing capacity

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses.
The risk taking potential of the Bank is defined as the Bank's equity (net of intangibles) plus subordinated debt, which amounted to USD 25.2 million as of the end of December 2011 (2010: USD 16.9 million). The Resources Available to Cover Risk were set at 60% of the risk-taking potential, i.e. USD 15.1 million. For calculating potential losses in the different risk categories the following concepts were used:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 99% confidence level) are applied to current loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shocks for EUR/USD (two percentage points, Basel interest rate shock) and higher (historical) shock levels for local currency – 10.9%.
- Operational risk: The Basel II standard approach is used to calculate the respective value.

Other risks have been assessed as not sufficiently relevant for the Bank or as relevant, but not quantifiable, e.g. liquidity risk.
The table below shows the distribution of the resources available to cover risk among the different risk categories as determined by the Risk Management Committee and the level of utilisation as of 31 December 2011.

December 2011

Risk Factor	Risk Detail	Limit (in %)	Limit (in USD)	Actual (in USD)	Limit Used (in % of limit)
Credit Risk (Clients)		25.0%	6,289,350	4,295,086	68%
Counterparty Risk	Commercial Banks	1.0%	251,574	737	0%
	Central Bank	9.0%	2,264,166	255,567	11%
Market Risk	Interest Rate Risk	10.0%	2,515,740	1,483,543	59%
	Currency Risk	2.5%	628,935	238,062	38%
Operational Risk		12.5%	3,144,675	746,034	24%
Resources Available to Cover Risk		**60.0%**	**15,094,440**	**7,019,029**	**47%**

December 2010

Risk Factor	Risk Detail	Limit (in %)	Limit (in USD)	Actual (in USD)	Limit Used (in % of limit)
Credit Risk (Clients)		25.0%	4,240,903	2,606,127	61%
Counterparty Risk	Commercial Banks	1.0%	169,636	742	0%
	Central Bank	9.0%	1,526,725	1,263,679	83%
Market Risk	Interest Rate Risk	10.0%	1,696,361	436,122	26%
	Currency Risk	2.5%	424,090	158,957	37%
Operational Risk		12.5%	2,120,452	862,979	41%
Resources Available to Cover Risk		**60.0%**	**10,178,167**	**5,328,606**	**52%**

As the above table indicates, the Bank showed a modest level of utilisation of its resources available to cover risk as of 31 December 2011 – overall 47%, down in comparison with 2010. Due to the high quality of the loan portfolio, which was well-managed during the year, the utilisation level in terms of credit risk increased slightly compared to 2010, but still has enough of a buffer before the limit is reached. Counterparty and market risk limit utilisation is again low, reflecting the conservative risk management approach which guides the Bank's treasury operations. Counterparty Risk – Sovereigns decreased significantly compared with December 2010 due to the fact that a part of the mandatory reserves held with the National Bank of Moldova (NBM) was released because of a new calculation method for mandatory reserves which entered into force in 2011, namely, a mandatory reserve rate of 0% was applied to liabilities of over two years. The economic capital required to cover operational risk is calculated according to the Basel II standard approach, and thus does not reflect the individual risk profile of the Bank in this area. Data collected during 2011 in the Risk Event Database (RED), which captures risk event data on a Bank and group-wide scale, indicates a significantly lower level of operational risk. All risks combined, as quantified by the methods established in the group's policies, are considerably below 60% of the Bank's total risk bearing capacity as defined.

31.2 Management of individual risks

In 2011, the management and reporting of individual risks in ProCredit Bank have been further developed and refined in order to further enhance the risk management of the Bank in accordance with the German MaRisk regulations and Basel II requirements. In particular, additional processes were introduced for the management of
- credit risk
- counterparty risk
- liquidity risk
- operational risk and
- anti-money laundering activities.

The Bank places special emphasis on a general understanding of the factors driving risk and an ongoing analysis and company-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely, and described appropriately. This includes, for example, ensuring that no products or services are offered unless they are thoroughly understood by all parties and can be handled.

(a) Credit risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Bank.
The following table shows the maximum exposure to credit risk:

	2011	2010
Balances with Central Bank	15,230,781	8,338,036
Available-for-sale debt instruments	8,139,490	9,043,345
Loans and advances to banks	9,053,285	2,805,410
Available-for-sale financial assets	102,429	254,153
Loans and advances to customers	117,338,345	82,907,073
Other financial assets	74,248	109,049
Total	**149,938,578**	**103,457,066**

Credit risk exposures relating to off-balance sheet items are as follows:

	2011	2010
Financial guarantees	299,501	185,943
Credit commitments	2,131,475	1,446,301
Total	**2,430,976**	**1,632,244**

Loans and advances to banks consist mainly of nostro accounts with short-term placements (up to 14 days) with OECD banks. Total exposure towards OECD banks grew markedly compared with December 2010 after the release of significant amounts from mandatory reserves account after changes to the NBM regulation.

Credit default risk from customer credit exposures
Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.
The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank's lending principles:
- intensive analysis of the debt capacity of the Banks' clients;
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties;
- rigorous avoidance of overindebting the Bank's clients;
- building a personal and long-term relationship with the client and maintaining regular contact;
- strict monitoring of loan repayment;
- practising tight arrears management;
- exercising strict collateral collection in the event of default;
- investing in well-trained and highly motivated staff;
- implementing carefully designed and well-documented processes;
- rigorous application of the "four-eyes principle".

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk.
The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for individually significant credit exposures that are risk-relevant; the information collected from the clients, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the client; in particular for individually insignificant credit exposures, the liquid funds and creditworthiness of the client; and the collateral requirements. As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the Bank and the higher the turnover of the client with the Bank, the lower will be the collateral requirements.
The decision-making process ensures that all credit decisions on individually significant exposures, and most decisions on individually insignificant exposures, are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.
Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The high quality of the loan portfolio reflects the application of the above lending principles and the results of the application of early

warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank's strategy for managing arrears in the current economic crisis that is affecting a large number of its clients. Once arrears occur, the Bank rigorously follows up on the non-repayment of the credit exposures, and by so doing typically identifies any potential for default on a credit exposure. Strict rules are applied regarding credit exposures for which, in the Bank's view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank's recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate exhibited by the loan portfolio.

Breakdown of loan portfolio by days in arrears:

	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	Other signs of impairment	Total
31 December 2011								
Business	87,943,151	9,936,728	412,509	159,383	248,814	601,964	1,589,842	100,892,391
Agricultural	13,651,125	341,340	3,715	46,847	83,486	15,922	–	14,142,435
Housing	1,106,646	60,397	–	948	1,989	–	–	1,169,980
Consumer	123,489	8,461	452	2,276	407	–	–	135,085
Other	998,454	–	–	–	–	–	–	998,454
Total	**103,822,865**	**10,346,926**	**416,676**	**209,454**	**334,696**	**617,886**	**1,589,842**	**117,338,345**
31 December 2010								
Business	66,386,853	5,515,087	203,704	119,959	84,202	457,965	660,253	73,428,024
Agricultural	8,776,880	70,170	25,187	7,497	21,375	254	96,463	8,997,825
Housing	473,093	–	–	–	–	–	–	473,093
Finance leases	–	–	–	–	–	–	–	–
Consumer	8,131	–	–	–	–	–	–	8,131
Other	–	–	–	–	–	–	–	–
Total	**75,644,956**	**5,585,257**	**228,890**	**127,456**	**105,577**	**458,219**	**756,717**	**82,907,073**

The quality of the loan portfolio is monitored on an ongoing basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Bank defines as all credit exposures outstanding with one or more payment of interest and/or principal in delay by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no other exposure-reducing measures are applied when determining PAR. Additionally, the quality of credit operations is assured by Operational Control Unit within the Risk Management Department which is responsible for monitoring the Bank's credit operations and compliance with its procedures. The unit, made up of experienced lending staff, ensures compliance, in form and substance, with the lending policy and procedures through on-site checks and system screening.

	Loan portfolio	Allowance for impairment	PAR as % of loan portfolio	Net write write-offs	Net write-offs as % of loan portfolio
2011	117,338,345	(2,058,098)	1.35%	349,984	0.32%
2010	82,907,073	(1,271,234)	1.11%	71,150	0.09%

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired. The following table shows watch and impaired restructured credit exposures with less than 31 days in arrears:

At 31 December 2011	Loan Portfolio	Restructured loans	Restructured loans in % of loan portfolio
Loans to customers	**117,338,345**		
out of which:			
Watch restructured	–	958,798	0.82%
Impaired restructured	–	940,587	0.80%
Total	**117,338,345**	**1,899,385**	**1.62%**

At 31 December 2010	Loan Portfolio	Restructured loans in % of loan portfolio	Restructured loans
Loans to customers	**82,907,073**		
out of which:			
Watch restructured		712,462	0.86%
Impaired restructured		–	0.00%
Total	**82,907,073**	**712,462**	**0.86%**

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions. Individually significant and some individually insignificant credit exposures are reviewed for impairment on an individual basis (specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates; 30 or more days in arrears is considered as objective evidence of impairment. For all unimpaired credit exposures, portfolio-based allowances for impairment are made, again based on historical loss experience.

Allowance for impairment on restructured loans

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
At 31 December 2011			
Specific impairment	2,123,838	111,882	2,011,956
Allowance for individually insignificant impaired loans	138,950	94,493	44,457
Allowance for collectively assessed loans	6,871,995	340,744	6,531,251
Total	**9,134,783**	**547,119**	**8,587,664**
At 31 December 2010			
Specific impairment	1,072,625	97,816	974,809
Allowance for individually insignificant impaired loans	74,060	46,621	27,439
Allowance for collectively assessed loans	2,481,512	103,381	2,378,130
Total	**3,628,197**	**247,818**	**3,380,378**

Individually significant credit exposures are reviewed for impairment on an individual basis (specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates (see note (11) for further explanation); 30 or more days in arrears is considered as objective evidence of impairment. For all credit exposures not assessed individually for impairment the portfolio-based allowances for impairment are made based on historical loss experience.

	2011	2010
Allowance for losses on loans and advances		
Specific impairment	185,712	105,241
Allowance for individually insignificant impaired loans	352,805	190,808
Allowance for collectively assessed loans	1,519,581	975,185
Total	**2,058,098**	**1,271,234**

The development of allowances for impairment losses on credit exposures to customers over time was as follows:

	2011	2010
As at the beginning of the period	**1,271,234**	**585,706**
Additions	931,887	1,272,629
Used	105,098	(255,765)
Releases	(212,539)	(350,111)
Exchange rate adjustments	(37,582)	18,775
As at 31 December	**2,058,098**	**1,271,234**

According to the Credit Policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. Credit exposures with a higher risk profile are always covered with solid collateral, typically through mortgages. As the majority of credit exposures are fixed instalment loans with a rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount, and therefore is not monitored. The collateral can be classified into the following categories:

	Mortgage	Guarantees	Inventories	Other
2011	65%	23%	10%	3%
2010	68%	11%	19%	1%

Credit portfolio risk from customer lending

The granularity of the credit exposure portfolio is a highly effective credit risk mitigating factor. The core business of the Bank, lending to very small and small enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of USD 150,000, constitutes a supplementary area of the Bank's business in terms of its overall strategic focus. Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent. Overall, the loan portfolio of the Bank includes 111 credit exposures of more than USD 150,000

At 31 December 2011	Business	Agricultural	Housing	Consumer	Other
‹ 10 000 USD	17,185,843	5,680,793	662,647	110,311	522,158
10 000 to 30 000 USD	19,465,920	3,243,974	117,328	24,774	202,646
30 000 to 150 000 USD	33,032,516	2,463,184	390,006	–	273,650
› 150 000 USD	31,208,111	2,754,484	–	–	–
Total	**100,892,390**	**14,142,435**	**1,169,981**	**135,085**	**998,454**

At 31 December 2011	Business	Agricultural	Housing	Consumer	Other
‹ 10 000 USD	17,078,812	5,110,771	306,079	8,131	–
10 000 to 30 000 USD	10,670,174	882,426	9,630	–	–
30 000 to 150 000 USD	22,984,659	1,151,594	157,384	–	–
› 150 000 USD	22,694,379	1,853,034	–	–	–
Total	**73,428,024**	**8,997,825**	**473,093**	**8,131**	**–**

The structure of the loan portfolio is regularly reviewed by the Risk Management department in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

The Bank follows a guideline that limits concentration risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the Group Risk Management Committee. No single large credit exposure may exceed 15% of the Bank's regulatory capital.

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Management Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, these results in a high portfolio quality and comparatively little need for allowance for individual impairment.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee. For such credit exposures, the committee assesses whether objective evidence of impairment exists, i.e.:

- more than 30 days in arrears;
- delinquencies in contractual payments of interest or principal;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings;
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client);
- changes in the customer's market environment;
- the general economic situation.

Additionally, the realisable net value of collateral held is taken into account when deciding on the allowance for impairment.

Loans and advances to customers can be analysed as follows:

	2011	2010
Neither past due nor impaired	103,822,865	75,644,779
Past due but not impaired	10,884,071	5,889,062
Individually impaired	2,631,409	1,373,232
Total gross loan portfolio	**117,338,345**	**82,907,073**
Allowance for impairment	(2,058,098)	(1,271,234)
Total net loan portfolio	**115,280,247**	**81,635,839**

For all credit exposures that are neither past due nor impaired a portfolio-based provision is applied to reflect losses that have been incurred but not yet identified by the Bank:

	2011	2010
Neither past due nor impaired loans		
Business	87,943,151	66,386,690
Agricultural	13,651,125	8,776,865
Housing improvement	1,106,646	473,093
Consumer	123,489	8,131
Other	998,454	–
Total gross loan portfolio	**103,822,865**	**75,644,779**
Allowance for portfolio-based impairment	(1,373,024)	(901,619)
Total	**102,449,841**	**74,743,160**

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, generally a lump-sum approach is applied; the impairment is determined depending on the number of days in arrears. In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country. For all unimpaired credit exposures a portfolio-based impairment is calculated.

	2011	2010
Past due but not impaired		
Business	**10,356,523**	**5,764,589**
in arrears up to 30 days	9,936,728	5,513,271
in arrears 31–90 days	250,645	145,059
in arrears over 90 days	169,150	106,259
Agricultural	**452,618**	**124,473**
in arrears up to 30 days	341,340	70,170
in arrears 31–90 days	11,870	32,683
in arrears over 90 days	99,408	21,620
Housing improvement	**63,334**	**–**
in arrears up to 30 days	60,397	–
in arrears 31–90 days	948	–
in arrears over 90 days	1,989	–
Consumer	**11,596**	**–**
in arrears up to 30 days	8,461	–
in arrears 31–90 days	2,728	–
in arrears over 90 days	407	–
Total	**10,884,071**	**5,889,062**
Allowance for portfolio-based impairment	(146,557)	(73,565)
Allowance for lump-sum specific impairment	(352,805)	(190,808)
Net outstanding amount	**10,384,709**	**5,624,689**

For the calculation of the individual impairment a discounted cash flow approach is applied. The individual impairment of credit exposures to customers is as follows:

	2011	2010
Impaired loans individually assessed		
Business	**2,592,717**	**1,276,744**
not in arrears	–	–
in arrears up to 30 days	–	–
in arrears 31–90 days	321,247	178,603
in arrears over 90 days	681,628	435,909
other signs of impairment	1,589,842	662,232
Agricultural	**38,692**	**96,487**
not in arrears	–	–
in arrears up to 30 days	–	–
in arrears 31–90 days	38,692	–
in arrears over 90 days	–	–
other signs of impairment	–	96,487
Total	**2,631,409**	**1,373,231**
Allowance for individual impairment	(185,712)	(105,241)
Total	**2,445,697**	**1,267,990**

Conceptual risk management framework

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Bank. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks evolve especially from the Bank's need to invest liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. The excess liquidity is usually placed with highly rated OECD banks with short maturities, typically up to 14 days. Foreign exchange transactions are also concluded with short maturities, typically up to two days. Derivative contracts, which are used to protect the Bank against foreign currency risk, usually have maturities of up to three months. Furthermore, as a result of the Bank's strong efforts to finance its lending activities with retail deposits, there is also an exposure towards the Central Bank. This is because the Central Bank requires banks operating in its territory to hold a mandatory reserve in a Central Bank account, the size of which depends on the amount of deposits taken from customers or other funds used to fund the bank's operations

The counterparty and issuer risks are managed according to the Bank's Counterparty Risk Management Policy (including Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks of systemic importance and, for local currency business, local banks with a good reputation and financial standing are eligible counterparties. As a general rule, the Bank applies limits of up to 10% of its regulatory capital on exposures to banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group Assets and Liabilities Committee (Group ALCO).

The Bank ensures through its ALCO that each counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, typically performed by the risk management department in collaboration with the treasury department.

Treasury policy forbids the Bank to conduct any speculative trading activities. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (T-bills, bonds or certificates. The inherent issuer risk is managed by the provisions of the Bank's conservative Treasury Policy, which is compliant to the ProCredit Group Treasury Policy. Among other requirements, the policy stipulates that the securities should preferably be issued by the government or Central Bank of the country of operation, or by sovereigns or international and/or multinational institutions with very high credit ratings (international rating of AA- or better).

Facts and figures concerning counterparty and issuer risk

The Bank incurs counterparty and issuer risk for the following reasons: The main reason for incurring counterparty and issuer risk is to keep liquid assets for liquidity risk management purposes, i.e. as a reserve for times of potential stress. These funds are held as cash in commercial bank or Central Bank accounts, as interbank placements, and as securities. As mentioned above, a substantial part of the Bank's exposure consists of the mandatory reserve required by the Central Bank and held in a specific Central Bank account.

Finally, financial markets provide instruments to manage different types of risks such as currency, interest rate and liquidity risk. The Bank is solely allowed to use these instruments for risk management purposes.

The following table provides an overview of the types of Bank counterparties:

	2011	%	2010	%
Loans to banks	9,053,285	35.2%	2,805,411	13.9%
OECD banks	8,987,867	34.9%	2,743,517	13.6%
non-OECD banks	65,418	0.3%	61,894	0.3%
Central Bank	16,693,647	64.8%	17,452,088	86.1%
Mandatory reserves	7,220,527	28.0%	7,419,064	36.4%
Other exposures to Central Bank	7,297,716	28.3%	10,033,024	49.7%
Ministry of Finance	2,175,404	8.4%	–	–
	25,746,932	**100.0%**	**20,257,499**	**100.0%**

Interbank placements, FX transactions and derivative transactions are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries. The total exposure to banks increased in 2011 by USD 6.2 million and amounted to 29.9% of the total counterparty and issuer risk exposure (2010: 13.8%).
The exposure is distributed across four OECD and three non-OECD banking groups. In December 2011 the average exposure with OECD banking groups was USD 2.2 million while the exposure to non-OECD ones was only USD 87 thousand.
The exposure to the Central Bank is primarily related to the mandatory reserve requirement and makes up the largest share of the Bank's counterparty and issuer exposure. The other exposure to the Central Bank relates to a nostro account in the NBM and overnight placements. 7.2% of the Bank's counterparty and issuer exposure is accounted for by investments in securities issued by the Ministry of Finance, i.e. treasury bills with maturities of three and six months, which are considered highly liquid as they can be resold anytime.
The maturity of all Bank exposures is extremely short, the longest being for T-bills of up to six months. The other exposures are either due the next day (overnight placements, foreign exchange transactions, cash deals), at sight (nostro) or up to 14 days (placements, NBM certificates).
Given that the exposure is diversified across a reasonable number of counterparties and the average maturity of the Bank's counterparty and issuer risks is short, the Bank considers its counterparty and issuer risk to be low.

(b) Foreign currency risk

Conceptual risk management framework

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.
Due to the still developing financial market, a history of high inflation and exchange rate fluctuations, a considerable part of private savings in Moldova is held in EUR or USD. Also, loans in foreign currency available at (nominally) lower interest rates and with longer maturities still play an important role in the financing of many of the country's businesses. As a result, foreign currencies play a major role for the Bank.
Currency risk management is guided by the Foreign Currency Risk Management Policy. This policy was first implemented at the Bank in 2009 and updated in 2010. Its adherence to this policy is constantly monitored by a market risk unit at group level, and amendments as well as exceptions to this policy are decided by the Group ALCO or Group Risk Management Committee.

The Bank's treasury department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The treasury department also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. According to group-wide policy, derivatives may only be used for hedging purposes to close positions of the Bank as well as for liquidity purposes. Permissible FX derivatives are currency forwards (including non-deliverable forwards) and currency swaps. The Bank's foreign currency exposures are monitored and controlled on a daily basis by the Bank's risk controlling functions.
Developments in the foreign exchange markets and the currency positions are regularly reported to the Bank's ALCO, which is authorised to take strategic decisions with regard to treasury activities. In cases where exceptions to group policy may be needed or violations to group limits may have occurred, the Bank's risk management department reports to the Group ALCO or Risk Management Committee and proposes appropriate measures.
The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and limits. In cases where the positions cannot be brought back below 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the Bank's ALCO and the Group ALCO have to be informed and appropriate measures taken.
This mechanism helps to ensure that the Bank's total OCP does not exceed 10% of regulatory capital. Exemptions from the limit or strategic positions are subject to approval by the Group ALCO or Risk Management Committee
The following table shows the distribution of the Bank's balance sheet items across its material operating currencies, which are USD and EUR. Indexed loans and deposits are treated as foreign currency items for this purpose.

As at 31 December 2011	EUR	USD	Other currencies
Assets			
Cash and balances with Central Bank	2,998,773	1,831,522	10,400,486
Loans and advances to banks	4,209,611	4,776,283	67,391
Available-for-sale financial instruments		–	7,572,164
Loans and advances to customers	26,817,415	46,497,831	45,904,157
Available-for-sale financial assets	–	–	669,755
Other financial assets	36,715	33,285	4,248
Total financial assets	**34,062,514**	**53,138,921**	**64,618,201**
Liabilities			
Liabilities to banks	–	–	–
Borrowed funds	20,004,500	33,910,629	2,733,268
Liabilities to customers	13,172,542	4,589,843	25,834,220
Liabilities to international financial institutions	–	8,583,096	16,519,073
Financial liabilities	–	–	–
Other liabilities	122,191	25,332	95,855
Subordinated debts	–	4,263,718	–
Total financial liabilities	**33,299,233**	**51,372,618**	**45,182,416**
Net position	**763,281**	**1,766,303**	**19,435,785**
Credit commitments	**844,359**	**750,897**	**835,720**

As at 31 December 2010	EUR	USD	MDL
Assets			
Cash and balances with Central Bank	2,429,853	4,215,252	5,426,215
Loans and advances to banks	1,005,586	1,764,880	34,944
Available-for-sale financial instruments	–	–	9,043,345
Loans and advances to customers	16,515,391	38,527,271	29,442,297
Available-for-sale financial assets		155,419	98,734
Other financial assets	38,090	69,575	1,386
Total financial assets	**19,988,920**	**44,732,397**	**44,046,921**
Liabilities			
Liabilities to banks	–	–	963,056
Borrowed funds	8,906,607	26,809,672	2,647,819
Liabilities to customers	10,785,946	3,056,111	20,427,219
Liabilities to international financial institutions	–	9,177,877	7,823,307
Financial liabilities			316,705
Other financial liabilities	59,832	33,586	35,655
Subordinated debts	–	4,285,458	–
Total financial liabilities	**19,752,385**	**43,362,704**	**32,213,761**
Net position	**236,535**	**1,369,693**	**11,833,160**
Credit commitments	**409,929**	**493,923**	**662,140**

To assess the Bank's currency risk for risk-bearing capacity, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is five years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the Bank has significant currency positions. The maximum loss (VaR) at a 99% confidence level is USD 238,062.

Overall, in 2011 currency risk was low as the Bank managed to keep its currency positions within the limits set in the Foreign Currency Policy. The table below shows the impact on the Bank's profit of possible changes in foreign exchange rates against local currency, assuming that all other market variables remain constant:

31 December 2011		
Estimated change of exchange rates, (%)	**Currency**	**Impact, Profit/(Loss), USD'000**
+10	USD	122
	EUR	31
−10	USD	(122)
	EUR	(31)
+20	USD	244
	EUR	63
−20	USD	(244)
	EUR	(63)

31 December 2011		
Estimated change of exchange rates, (%)	Currency	Impact, Profit/(Loss), USD '000
+10	USD	(55)
	EUR	242
−10	USD	55
	EUR	(242)
+20	USD	(110)
	EUR	484
−20	USD	110
	EUR	(484)

(c) Interest rate risk

Conceptual risk management framework

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a four-year fixed interest rate loan is funded with a six-month term deposit. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

A large share of the Bank's loans is offered at fixed interest rates. The average maturity of loans typically exceeds that of customer deposits, thus exposing the Bank to interest rate risk as described above. Given that financial instruments to mitigate interest rate risks (hedges) are only available for hard currencies such as EUR and USD, the Bank is required to closely monitor the interest rate risks.

The Bank's approach to measuring and managing interest rate risk is guided by the Interest Rate Risk Management Policy.

The main indicator for managing interest rate risk measures the potential impact on the economic value of all assets and liabilities. The indicator analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) of the interest rates on assets and liabilities. For EUR or USD, a parallel shift of the interest rate curve by +/– 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last five years. The potential economic impact on the Bank's balance sheet must not exceed 10% of its regulatory capital for all currencies. A reporting trigger is set at 5% per currency, providing an early warning signal.

Also regularly analysed is the potential impact of interest rate risk on the Bank's expected earnings over the next three months. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective.

Deviations from the Group Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Group Risk Management Committee.

Interest rate risk is regularly discussed by the Bank's General and Operational Risk Management Committee. The indicators are also reported to the Group Risk Management Committee.

In order to limit interest rate risk, the Bank aims to align the maturities of its balance sheet items which generate interest earnings and interest expenses. This is increasingly done by offering variable interest rate loans.

Facts and figures concerning interest rate risk

The ProCredit group's main interest rate risk indicator is the economic value impact indicator. It measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items and quantifies the loss in value of the Bank given certain changes of interest rates. As described above, the calculation of the economic value impact indicator is based on different parallel shifts of the interest rate curves. For EUR and USD a shift of +/– 200 bps is applied; for the local currency the shift is defined in terms of a historical worst case (+/– 1100 bps).

During 2011 the economic value impact indicator was always below the limit of 10%. In December 2011 the reporting trigger for this indicator was exceeded, mainly because of the increasing volume of the variable interest rate loan portfolio in local currency, which causes a high repricing mismatch with the liabilities in MDL. According to the projections, the interest rate risk is expected to increase due to the growing volume of the floating interest rate loan portfolio, which is repriced twice a year – in January and July. In order to reduce the interest rate risk the Bank plans to apply individual repricing to each loan, in such a way as to reduce the repricing gaps.

In addition to the long-term analysis of the economic value impact indicator, the Bank analyses the short-term interest rate risk. This measure quantifies the potential decline of interest rate earnings within the next three months. A reporting trigger has been set for this measure which assumes that the interest earnings impact within the next three months should not exceed 1% of the Bank's regulatory capital. Short-term interest rate risk exceeded the reporting trigger for the local currency several times during the year, in the period when repricing dates were approaching. This happens usually when the whole variable rate loan portfolio is repriced in the next month and there is a large gap between assets and liabilities that have to be repriced in the next 30 days.

The interest earning impact captures the fact that once the currently outstanding assets and liabilities are repriced (either because they fall due and are replaced at the new interest rate or because they have variable interest rates) their interest rates will increase/decrease by the size of the interest rate shock. It uses the assumption that the exact same balance sheet structure is maintained, i.e. that every cash flow is renewed in the same amount, only with the post-shock interest rates.

This scenario analysis shows the following impact of an interest rate fluctuation on the Bank's profit as at December 2011, following an interest rate shock of +/– 200 bps on EUR/USD and a possible shift for local currency of +/– 1100 bps:

		2011
in USD '000	Parallel shift of yield curve	Impact on profit and loss
Local Currency (MDL)	11%	3,148
	−11%	−3,148
EUR	2%	1
	−2%	−1
USD	2%	144
	−2%	−144

		2010
in USD '000	Parallel shift of yield curve	Impact on profit and loss
Local Currency (MDL)	11%	464
	−11%	−464
EUR	2%	−44
	−2%	44
USD	2%	−133
	−2%	133

The impact on profit and loss from interest rate shocks in the local currency is much higher as of December 2011 than December 2010 because of a significant 174% increase in the size of the variable rate loan portfolio in the local currency which is repriced twice a year. As a consequence the impact on profit and loss increases significantly only in July and December, when the repricing dates approach, but on average the impact is much lower during the other months of the year.
Overall, the Bank's interest rate risk is assessed to be medium.

(d) Liquidity risk

Conceptual risk management framework

The Bank's liquidity risk management (LRM) system is tailored to the specific characteristics of the Bank. On the one hand, the Bank was founded as a lending institution and financial intermediary for ordinary people. Consequently, its loan portfolio is the largest single component on the asset side, and is primarily funded through locally mobilised deposits. On the other hand, the loan portfolio is characterised by a large number of exposures to small businesses and is therefore highly diversified. The majority of loans are disbursed as instalment term loans and the default rate is low. Therefore cash flows are highly predictable. All of these factors justify the use of a relatively simple and straightforward LRM system. Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.
The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The treasury department manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the back office and risk management departments.
In addition to the requirements set by the local regulatory authorities, the standards that the Bank applies in this area are guided by the Group Liquidity Risk Management Policy and the Group Treasury Policy. Both policies were first implemented by the Bank in 2009 and updated in 2011. Limit breaches and exceptions to these group policies are subject to decisions of the Group ALCO or Risk Management Committee.
Treasury manages liquidity on a daily level using a cash flow. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.
The key tool for measuring liquidity risk is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).
Based on the gap analysis, a set of key liquidity risk indicators and early warning indicators are calculated on at least a monthly basis and are closely monitored. The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. It must not fall below 1. This implies that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 30 days.
This is complemented by the early warning indicators, foremost amongst which is the highly liquid assets indicator, which relates highly liquid assets to customer deposits.
The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank with some time delay, and other assets which take some time to liquidate.
In addition to prescribing the close monitoring of these early warning indicators, the Group Liquidity Risk Management Policy also defines reporting triggers. If the highly liquid asset indicator drops below 20%, if the short-term liquidity position becomes negative, or if the depositor concentration rises above 20%, the Bank's ALCO and the Group ALCO or Group Risk Management Committee must be involved in decisions on appropriate measures.
In order to safeguard the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Bank's liquidity reserve target is determined by the ALCO. The results of these stress tests are also used to determine liquidity standby lines provided by ProCredit Holding AG & Co. KGaA to the Bank if necessary.
The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 10 largest depositors exceed 20% of total customer deposits. This serves as an early warning signal and requires the reasons and mitigating measures to be reported to the Bank's ALCO and the Group Risk Management Committee.
The Bank also minimises its dependency on the interbank market. The ProCredit group's policies stipulate that the total amount of interbank liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. Higher limits need to be approved by Group ALCO.

Facts and figures concerning liquidity risk

The following table shows the liquidity gap analysis, i.e. the (undiscounted) cash flows of the financial assets and financial liabilities of the Bank according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

As of 31 December 2011	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	15,230,781	–	–	–	–	–	15,230,781
Available-for-sale financial instruments	5,974,820	1,618,192	571,256	–	–	–	8,164,268
Loans and advances to banks	9,053,946	–	–	–	–	–	9,053,946
Available-for-sale financial assets	–	–	–	–	–	102,429	102,429
Loans and advances to customers	25,382,108	9,129,304	13,328,688	27,562,580	79,762,948	20,014,917	175,180,545
Other assets	121,436	–	–	–	–	–	121,436
Total financial assets	**55,763,091**	**10,747,496**	**13,899,944**	**27,562,580**	**79,762,948**	**20,117,346**	**207,853,405**
Liabilities							
Liabilities to banks	–	–	–	–	–	–	–
Borrowed funds	279,242	1,055,841	559,119	4,864,746	58,067,798	–	64,826,746
Liabilities to customers	21,356,371	2,973,427	4,836,410	14,178,833	1,671,527	–	45,016,568
Liabilities to international financial institutions	716,175	1,003,099	2,155,374	5,660,352	20,102,700	–	29,637,700
Other liabilities	242,220	1,158	–	–	–	–	243,378
Provisions	–	–	199,814	–	–		199,814
Subordinated debt	–	275,553	–	95,059	1,479,405	4,746,987	6,597,004
Total financial liabilities	**22,594,008**	**5,309,078**	**7,750,717**	**24,798,990**	**81,321,430**	**4,746,987**	**146,521,210**
Financial guarantees	**86,182**	**12,846**	**–**	**200,075**	**397**	**–**	**–**
Net liquidity gap	**33,082,901**	**5,425,572**	**6,149,227**	**2,563,515**	**(1,558,879)**	**15,370,359**	**–**

As of 31 December 2010	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	12,159,406	–	–	–	–	–	12,159,406
Available-for-sale financial instruments	9,043,345	–	–	–	–	–	9,043,345
Loans and advances to banks	2,805,410	–	–	–	–	–	2,805,410
Available-for-sale financial assets	–	–	–	–	–	254,153	254,153
Loans and advances to customers	4,006,853	6,988,854	11,952,803	19,894,075	56,066,009	10,038,550	108,947,144
Other assets	109,049	–	–	–	–	–	109,049
Total financial assets	**28,124,063**	**6,988,854**	**11,952,803**	**19,894,075**	**56,066,009**	**10,292,703**	**133,318,507**
Liabilities							
Liabilities to banks	–	14,769	966,873	–	–	–	981,642
Borrowed funds	–	2,152,856	1,997,250	1,056,070	40,981,877	–	46,188,052
Liabilities to customers	16,006,677	2,818,673	7,411,261	8,232,485	672,000	–	35,141,096
Liabilities to international financial institutions	176,538	146,201	2,784,554	4,410,724	25,942,194	–	33,460,211
Provisions	–	–	190,739	–	–		190,739
Financial liabilities	9,462	18,924	28,386	56,772	213,962	–	327,506
Other liabilities	129,072	–	–	–	–	–	129,072
Subordinated debt	–	276,906	–	94,799	5,495,627	–	5,867,332
Total financial liabilities	**16,321,748**	**5,428,328**	**13,379,064**	**13,850,849**	**73,305,660**	**–**	**122,285,650**
Financial guarantees	**168**	**7,816**	**–**	**177,959**	**–**	**–**	**–**
Net liquidity gap	**11,802,148**	**1,552,709**	**(1,426,261)**	**5,865,267**	**(17,239,652)**	**–**	**–**

Due to the fact that not all cash flows will occur in the future as specified within the contracts, the Bank applies assumptions, especially regarding deposit withdrawals. These assumptions are very conservative.
The core assumptions used for the purposes of calculating the liquidity indicator are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month, another 50% will be withdrawn within the following three months;
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later;
- 5% of exposures guaranteed by the Bank will require a payment within the next month;
- 20% of credit lines which the Bank has committed to its customers, but which are currently undrawn, will be drawn within the next month.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions.
The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity if it has a positive one. This calculation includes positive excess values from the previous time buckets. On an operational level, the gap report is broken down into the most important currencies (EUR, USD and local currency).
In order to ensure that the Bank has a sufficient level of funds in the event that its customers suddenly wish to withdraw their deposits, the Bank monitors the relation of highly liquid assets to customer deposits. As a general rule the Bank is always prepared to pay out at least 20% of all customer deposits. These amounts are held in highly liquid assets, which can quickly be converted into cash. Highly liquid assets during 2011 were always well above the reporting trigger of 20%. As of end of 2011 the indicator was at the level of 77% for all currencies.
As mentioned above, the Bank also performs stress test calculations in order to safeguard the liquidity of the Bank. The result is analysed and the Bank's liquidity reserve target is determined by the Bank's ALCO. The results of the stress tests are also used to determine liquidity standby lines provided by ProCredit Holding AG & Co. KGaA to the Bank if necessary. As of 31 December, 2011 the Bank had a positive liquidity gap of USD 17.3 million for all currencies in the first time bucket according to the internal worst-case stress test calculation. Additionally, the Bank has approved a liquidity standby line of EUR 5.0 million provided by ProCredit Holding which can be withdrawn anytime in case of need.
The Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), such as EBRD, EFSE, IFC, which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In addition, ProCredit Holding provides short- and long-term funding.
In order to maintain a high level of diversification among its customer deposits, the Bank has implemented a concentration trigger, which aims at ensuring that the ten largest customer deposits do not exceed 20% of total deposits. The concentration of the Bank's deposit base remained below this reporting trigger during 2011, registering 9% at the end of the year.
Due to strong growth of the loan portfolio during 2011, the development of the Bank's funding sources was mainly driven by PCH borrowings and customer funds. It shows that, as mentioned above, PCH funds are the largest source of funding, constituting 42% of total Bank's liabilities. The second largest sources of funding are customer funds – 33% of total Bank's liabilities.

Overall the Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the Bank's funds are provided by a large number of customer deposits.

(e) Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel II, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This category includes all "risk events" in the areas of personnel, processes, and information technology. A dedicated Operational Risk Management Policy was implemented in 2009 and has been further developed and updated annually since then. The principles outlined in this document have been designed to effectively manage the Bank's operational risk exposure. They are in compliance with the Basel II requirements for the "standard approach" (as outlined in Section 276 of the German Ordinance on Solvency– SolvV).
The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database. While the Corporate Culture, the Governance Framework and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.
The overall objectives of the Bank's approach to the management of operational risks are:

- to understand the drivers of the group's operational risks
- to be able to identify critical issues as early as possible
- to avoid losses caused by operational risks; and
- to ensure efficient use of the group's capital.

To deliver on these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, treatment, monitoring, documentation and communication, and follow up.

- Identification
  - Annual operational and fraud risk assessments
  - New Risk Approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks
- Evaluation/quantification
  - Agreed standards to quantify risks
- Mitigation and treatment
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer or other party
- Monitoring and control
  - Process owners' responsibility to monitor risks
  - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring
- Communication, escalation, documentation
  - Escalation levels to management bodies, regular reporting, risk committees
  - RED, management summary documents for risk events
- Issue tracking/follow-up tables for material action plans
  - Follow-up tools used in banks

To constantly enhance the professional standards of the Bank, it has continued to make use of local training facilities in 2011, including regional academies and the international ProCredit Academy in Fürth, Germany. Training programmes for candidates for management positions include sessions focusing explicitly on operational risk management. Risk awareness training is delivered annually to all staff as well as to all new employees.

31.3 Organisation of the risk management function

Responsibility for risk management at the Bank lies with the Management Board.

The risk management function comprises various organisational units, including the Credit Risk department and the Risk Management & AML department which covers such risks areas as operational risk management, market risk management, information security and business continuity. The AML Unit, which is an integral part of the Risk Management & AML department, is responsible for the identification of suspicious clients/transactions and the prevention of money laundering as required by the Group AML Policy.

The controlling function is undertaken by the Operational Control Unit which is responsible for on-site inspections in the branches and covers both lending and front office operations. The operational Control Unit is also a structural unit of the Risk Management & AML Department. Responsibility for capital management and for controlling risk bearing capacity lies with the Risk Management & AML department and MIS and Controlling department. These organisational units report to the Management Board of the Bank, to the Bank's Risk Management Committee, which meets on a monthly basis, and the Assets and Liabilities Committee (ALCO), which meets weekly. Specialised committees are installed to address individual risks such as market risks (ALCO), credit risks (Credit Risk Committee), operational risks (Operational Risk Committee) and AML Committee.

At the Bank, risk management is implemented and developed, in operational terms, by a risk management department which is an autonomous department within the Bank's organisation and which is not involved in any way with the Bank's customer service operations (credit or deposit business) or trading operations. The risk departments report regularly to the corresponding risk departments at ProCredit Holding.

The Bank's risk policies address all risk categories and set standards that enable risks to be identified early and to be managed appropriately. The risk management department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits agreed, i.e., that the risk bearing capacity of the Bank is not exceeded, so that sufficient capital is available to cover even unlikely potential losses.

The respective risk positions of the individual banks are described in a standard General Risk Report which is generated on at least a quarterly basis. This risk report is provided to the local risk committees and to ProCredit Holding AG & Co. KGaA.

32. Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank.

		2011		2010
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with Central Bank	15,230,781	15,230,781	12,071,321	12,071,321
Available for sale debt instruments	8,139,490	8,139,490	9,043,345	9,043,345
Available-for-sale financial assets	102,429	102,429	254,153	254,153
Loans and advances to banks	9,053,285	9,053,285	2,805,410	2,805,410
Loans and advances to customers	117,338,345	106,991,444	82,907,073	85,370,435
Total	**149,864,330**	**139,517,429**	**107,081,302**	**109,544,664**
Financial liabilities				
Liabilities to banks	–	–	963,057	963,057
Borrowed funds	56,648,398	58,300,307	38,364,099	33,108,659
Liabilities to customers	43,596,606	41,374,851	34,269,276	34,329,241
Liabilities to international financial institutions	24,862,169	27,570,079	16,747,161	17,743,120
Financial liabilities	–	–	316,705	316,704
Subordinated debts	4,263,718	4,742,971	4,285,458	5,867,332
Total	**129,370,891**	**131,988,208**	**94,945,756**	**92,328,113**

For the calculation of fair value level two was applied – valuation using observable current market rates.

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates of the respective markets.

33. Contingent liabilities and commitments

	2011	2010
Guarantees	299,501	185,943
Commitments to extend credit:		
Original term to maturity of one year or less	788,983	247,004
Original term to maturity of more than one year	1,342,492	1,199,297
Total	**2,430,976**	**1,632,244**

The above table presents the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. We expect that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements. An estimate of amount and timing of outflow is not practicable.

	2011	2010
Non-cancellable operating lease commitments		
No later than 1 year	1,700,590	1,861,399
Later than 1 year and no later than 5 years	7,964,485	3,047,430
Later than 5 years	924,916	1,495,158
Total	**10,589,991**	**6,403,987**

As at 31 December 2011 the Bank was engaged in legal proceedings against a customer, which were resolved during January 2012.

34. Related party transactions

The ultimate parent company of the Bank is ProCredit Holding AG& Co. KGaA. The Bank's related parties include the parent, other ProCredit group companies, and key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

Transactions of the Bank with group companies
According to the group's strategy, the holding company acts as an additional provider of funds (including subordinated debt) for its subsidiaries.
All transactions with group companies are performed substantially on the same terms, including interest rates and security, as for transactions of a similar nature with third party counterparts.

	2011		2010	
	Procredit Holding	**Other**	**Procredit Holding**	**Other**
Income	62,371	161,531	–	1,051,363
Expense	(4,324,859)	(2,210,017)	(1,460,245)	(1,034,485)
Net income/loss	**(4,262,488)**	**(2,048,486)**	**(1,460,245)**	**16,878**

The table above discloses all income and expenses items derived from transactions with ProCredit Bank's group companies including Quipu GmbH Germany (the group's IT provider), and ProCredit Holding AG & Co. KGaA under common control of the chairman of the holding company's supervisory board, and KfW, being the Bank's second largest shareholder. Some expenses are related to the fees paid for staff training in the ProCredit Academy in Fürth (Germany) in the amount of USD 320,641. The income from other related party transactions includes mainly: the income from ProCredit S.A. in the amount of USD 113,464 (2010: USD 1,050,305). The expenses for other related party transactions include mainly: the expenses to ProCredit S.A. in the amount of USD 200,016 (2010: USD 50,763), ProCredit Academies (USD 320,641) and Quipu (USD 232,010) and salary expenses to related parties (USD 1,278,866; 2010: USD 588,993).

	2011		2010	
	Procredit Holding	**Other**	**Procredit Holding**	**Other**
Assets				
Loans and advances to banks	–	65,230	–	5,742
Loans and advances to customers	–	–	–	902,678
Other assets	3,792	2,573	1,462	18,219
Liabilities				
Liabilities to banks	–	–	–	–
Borrowed funds	54,372,301	–	41,130,995	–
Liabilities to customers	–	1,818,968	–	1,213,920
Other liabilities	–	4,421	–	319,456
Off-balance sheet positions				
Guarantees	–	–	–	**66,252**

The liabilities to customers (other related parties) include deposits and accrued interest of ProCredit S.A. in the amount of USD 901,428 (2010: USD 1,213,920).
Outstanding balances of the Bank with key management personnel, their close family members and entities which are controlled by them as at year end amounted to USD 70,699, and are recognised under "Liabilities to customers". The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment nor did they comprise other unfavourable features.

35. Management compensation

During the reporting period, total compensation paid to the management of the Bank was USD 254,044 (2010: USD 206,104).
The members of the Supervisory Board do not receive any compensation from ProCredit Bank.

36. Subsequent events

No significant subsequent events took place after the reporting date.

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