B.C. “PROCREDIT BANK” S.A.
FINANCIAL STATEMENTS FOR
THE YEAR ENDED
31 DECEMBER 2019

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

This version of the accompanying document is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version prevails over this translation

B.C. "PROCREDIT BANK" S.A.

FINANCIAL STATEMENTS

31 DECEMBER 2019

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Independent Auditors' Report

(free translation[1])

To the sole Shareholders of Banca Comerciala "ProCredit Bank" S.A.

Opinion

1. We have audited the accompanying financial statements of Banca Comerciala "ProCredit Bank" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and the cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2019 are identified as follows:

- Total equity: Lei 636,527,124
- Net profit for the year: Lei 87,582,791

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Law no. 271/2017 and related amendments ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with

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International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Moldova, including the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information – Management's Report

5. Management is responsible for the preparation and presentation of other information. The other information comprises the Management' Report, but does not include the financial statements and our auditors' report thereon.

   Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

   With respect to the Management's Report we read and report whether the Management's Report is prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23; paragraphs 2 – 4.

   Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion:

   a) The information given in the Management's Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;

   b) The Management's Report has been prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23; paragraphs 2 – 4.

   In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Management's Report. We have nothing to report in this regard.

Other Matter – Area of applicability

6. The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by another auditor, who expressed an unqualified opinion on those financial statements on 16 May 2019.

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

7. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS 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.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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Other matters

13. This independent auditors' report is made solely to the Bank's sole Shareholder. Our audit work has been undertaken so that we might state to the Bank's sole Shareholder those matters we are required to state 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 sole Shareholder, for our audit work, for this report or for the opinion we have formed.

27 May 2020

For and on behalf of ICS KPMG Moldova S.R.L.:

Nicoleta Rusu

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registered in the electronic public register of financial auditors under No.0802064

Auditor for general audits
Certificate of audit qualification
Series AG, No.000064

Auditor of financial institutions
Certificate of audit qualification of financial institutions
Series AIF, No.0007

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171/1 Stefan cel Mare Avenue, 8th floor
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registered in the electronic public register of audit firms under No.1903038

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B.C. “PROCREDIT BANK” S.A.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

	Notes	31 December 2019	31 December 2018
Interest income calculated using the effective interest method	8	210,318,017	220,478,211
Other interest income	8	463,019	534,257
Interest expense	8	(82,761,329)	(94,211,601)
Net interest income		**128,019,707**	**126,800,867**
Impairment lossess on financial instruments	31	18,317,009	18,184,887
Net interest income after impairment lossess on financial instruments		**146,336,716**	**144,985,754**
Fee and commission income	9	49,021,213	41,717,028
Fee and commission expenses	9	(13,367,335)	(12,125,717)
Net fee and commission income		**35,653,878**	**29,591,311**
Net trading income	10	40,183,830	32,082,832
Other operating income	11	376,668	93,697
Operating income		**222,551,092**	**206,753,594**
Personnel expenses	12	(40,271,676)	(36,477,826)
General and administrative expenses	13	(82,092,327)	(85,634,643)
Operating expenses		**(122,364,003)**	**(122,112,469)**
Profit before tax		**100,187,089**	**84,641,125**
Income tax expense	14	(12,604,298)	(10,593,501)
Net profit for the year		**87,582,791**	**74,047,624**
Other comprehensive income of the period		-	-
Total comprehensive income for the year		**87,582,791**	**74,047,624**

These financial statements were approved for issue on 27 May 2020 and signed by:

Please refer to original financial statements signed in Romanian language

Olga Bulat
Chairman of the Management Board

Elena Gornet
Chief Accountant

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

The notes on pages 5 to 116 are an integral part of these financial statements.

B.C. "PROCREDIT BANK" S.A.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

Assets	**Note**	**31 December 2019**	**31 December 2018**
Cash and cash equivalents with NBM	15	179,240,450	188,185,925
Mandatory reservers with NBM	15	481,268,040	512,524,575
Loans and advances to banks	16	214,461,966	142,754,526
Loans and advances to customers	19	2,407,032,911	2,079,338,464
Finance leases	20	8,979,566	10,862,416
Investments in debt securities	17	629,420,955	775,402,073
Investments in equity securities	18	1,200,000	1,200,000
Current tax assets		453,025	-
Deferred tax assets	22	1,487,208	1,493,487
Intangible assets	24	589,562	487,964
Property and equipment	23	31,073,215	21,885,465
Other assets	21	12,311,602	9,590,120
Total assets		**3,967,518,500**	**3,743,725,016**
Liabilities			
Deposits from customers	25	2,162,212,253	1,938,440,564
Borrowed funds	26	994,940,208	1,102,730,756
Current tax liabilities		-	1,060,789
Subordinated debt	29	126,330,935	129,588,717
Provisions	27	5,104,535	3,716,404
Other liabilities	28	42,403,445	19,243,453
Total Liabilities		**3,330,991,376**	**3,194,780,683**
Share capital	30	406,550,000	406,550,000
Statutory reserve	30	6,208,522	-
General reserve for banking risks	30	40,025,680	18,223,885
Retained earnings		183,742,922	124,170,448
Total equity		**636,527,124**	**548,944,333**
Total equity and liabilities		**3,967,518,500**	**3,743,725,016**

These financial statements were approved for issue on 27 May 2020 and signed by:

Please refer to original financial statements signed in Romanian language

Olga Bulat
Chairman of the Management Board

Elena Gornet
Chief Accountant

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	Share Capital	General reserve for banking risks	Statutory Reserves	Retained earnings	Total
Opening balance (current period)	**406,550,000**	**60,140,421**	**-**	**8,206,289**	**474,896,709**
Profit of the period	-	-	-	74,047,624	**74,047,624**
Total comprehensive income of the period	**-**	**-**	**-**	**74,047,624**	**74,047,624**
Capital increase	-	(41,916,536)	-	41,916,536	**-**
Balance at 31 December 2018	**406,550,000**	**18,223,885**	**-**	**124,170,448**	**548,944,333**
Balance as of 1 January 2019	**406,550,000**	**18,223,885**	**-**	**124,170,448**	**548,944,333**
Profit of the period				87,582,791	**87,582,791**
Total comprehensive income of the period	**-**	**-**	**-**	**87,582,791**	**87,582,791**
Capital increase		21,801,795	6,208,522	(28,010,317)	**-**
Balance at 31 December 2019	**406,550,000**	**40,025,680**	**6,208,522**	**183,742,922**	**636,527,124**

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

Cash flow from operating activities	**2019**	**2018**
Profit	87,582,791	74,047,624
Adjustments for:		
- Depreciation and amortisation	20,458,702	12,165,393
- Impairment losses, losses from financial assets derecognition, provisions for other risks and financial guarantees	(18,317,009)	16,997,325
- Interests income	(210,781,036)	(221,012,468)
- Interest expenses	82,761,329	94,211,601
- Gains/Lossees from foreign currency reevaluation	735,069	(1,556,207)
- Tax expense	12,604,298	10,593,501
Net profit adjusted with non-monetary elements	**(24,955,856)**	**(14,553,231)**
Changes in:		
- Mandatory reserves with NBM	29,163,830	(101,283,346)
- Loans and advances to banks	612,736	(2,786,234)
- Loans and advances to customers	(320,200,071)	(250,733,711)
- Finance leases	1,470,088	1,526,701
- Other assets	(4,804,005)	(14,976,153)
- Deposits from customers	232,586,394	220,387,170
- Provisions	1,393,938	1,187,005
- Other liabilities	6,415,130	(3,134,086)
Interest received	203,406,188	209,961,935
Dividends received	165,686	-
Interest paid	(88,878,204)	(99,486,411)
Income tax paid	(14,111,833)	(9,829,133)
Net cash used in operating activities	**22,264,021**	**(63,719,494)**
Cash Flow from investing activities		
Aquisition of property and equipment	(2,423,001)	(1,291,920)
Acquisition of intangible assets	(296,369)	(127,531)
Net cash used in investing activities	**(2,719,370)**	**(1,419,451)**
Cash flow from financing activities		
Proceeds from borrowings from other financial institutions	16,792,986	217,864,049
Repayment of borrowings to other financial institutions	(111,282,343)	(99,531,542)
Payments of lease liabilities	(9,971,360)	-
Net cash from financial activity	**(104,460,717)**	**118,332,507**
Net increase/ decrease in cash and cash equivalents	**(84,916,066)**	**53,193,562**
Cash and cash equivalents at 1 January	**1,097,119,336**	**1,047,353,517**
Effect of exchange rate fluctuations on cash and cash equivalents held	(2,099,167)	(3,427,743)
Cash and cash equivalents at 31 December	**1,010,104,103**	**1,097,119,336**

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1 GENERAL INFORMATION

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:
of. 901, 65, Stefan cel Mare si Sfant Street
MD - 2012, Chisinau, Republic of Moldova

The Bank provides retail and commercial banking services in Moldovan Lei ("MDL") and foreign currency for individuals and legal entities. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital financing, medium and long term facilities, retail loans, bank guarantees, letters of credit and documentary collections etc.

As at 31 December 2019 the Bank has 4 branches and 2 agencies in Chişinău and Bălţi which offer the full range of banking services and operations.

As at 31 December 2019 the Supervisory Board of the Bank is comprised of the following members:

- Ms. Svetlana Tolmacheva Dingarats– President of the Supervisory Board;
- Ms. Elena Godea– Member of the Supervisory Board;
- Ms. Stela Ciobu - Member of the Supervisory Board;
- Mr. Dietrich Ohse – Member of the Supervisory Board;
- Ms. Jovanka Joleska Popovska – Member of the Supervisory Board.

As at 31 December 2018 the Management Board of the Bank is comprised of the following members:

- Ms. Olga Bulat – Chairman of the Management Board;
- Ms. Irina Coroi-Jovmir – Deputy Chairman of the Management Board;
- Ms. Elena Gornet - Member of the Management Board.

As at 31 December 2018 the shareholders of the Bank were the following:

	31 December 2019	31 December 2018
	%	%
ProCredit Holding AG & Co. KGaA	100	100
	100%	100%

The Bank's number of employees as at 31 December 2019 was 147 (31 December 2018: 153).
Abbreviations. A glossary of various abbreviations used in this document is included in Note 39.

2 OPERATING ENVIRONMENT OF THE BANK

The Bank, through its operations, has a significant exposure to the economy and financial markets of Moldova.

The Republic of Moldova displays certain characteristics of an emerging market, including relatively high inflation growth. The banking sector in Moldova is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in the market. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank. The tax, currency and customs legislation in Moldova is subject to varying interpretations and frequent changes. The future economic direction of Moldova is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. At the same time, the evolution of the economy in the short and medium term is dependent on the measures taken by the authorities and the economic environment to counteract the effects caused by the COVID-19 pandemic.

For the purpose of measurement of expected credit losses (“ECL”) the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 31 provides more information of how the Bank incorporated forward-looking information in the ECL models.

3 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, and IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The Bank did not early adopt any standard not yet effective.

All amounts are presented in Moldovan Lei (MDL), unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

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.

3. BASIS OF PREPARATION (CONTINUED)

These financial statements have been prepared based on the going concern principle, which assumes that the Bank will continue its operations for the foreseeable futureIn 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.

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 2019 were approved for issue by the Management Board on 27 May 2020.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1. Modifications to the accounting policies

The accounting policies presented in these financial statements were applied consistently in the financial statements ending on 31 December 2019, respectively 31 December 2018, except if mentioned otherwise, such as the application of IFRS 16.

In these financial statements, the Bank has applied for the first time IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019). The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

The Bank has applied the retrospective method at the standart implementation, recognising the right of use of the asset and a corresponding leasing liability as of 1 January 2019.
The reconciliation of the lease agreements is disclosed in Note 20.

The main accounting policies applicable to the comparative period ended 31 December 2018 that are amended by IFRS 16 are disclosed in Note 6

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Comparative financial statements

These financial statements include the comparatives whenever required by an international financial reporting standard and whenever they facilitate proper understanding of the Bank’s situation.

The comparatives presented in these financial statements represent the financial information of the Bank.

For the purpose of preparing these financial statements, certain comparative information has been reclassified to comply with the presentation requirements applicable for the financial year ended on 31 December 2019.

4.3. Significant accounting policies

Changes in accounting policies

The Bank adopted IFRS 16 as issued by the IASB, the transition date being January 1, 2019, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. The Bank did not adopt any provisions of IFRS 16 in advance in previous periods.

The Bank has applied the retrospective method at the standart implementation, recognising the right of use of the asset and a corresponding lease liability as of 1 January 2019.

Any adjustments to the carrying amounts of financial assets and liabilities at the transition date have been recognized in the opening balance of the retained earnings for the current period.

The adoption of IFRS 16 resulted in a change in the Bank's accounting policies regarding the recognition, classification and measurement of leases.

4.4. Conversion of foreign currency

(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. The financial statements of the Bank are presented in Moldovan leu, which is the Bank’s presentation currency.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Conversion of foreign currency (continued)

(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 statement of profit or loss within (“net trading income”).

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 investments in equity securities denominated in foreign currency measurea at FVOCI, translation differences are recognised in other comprehensive income (“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 2019 and 2018 are presented below:

		2019		2018
	USD	EUR	USD	EUR
Closing rate	17.2093	19.2605	17.1427	19.5212
Average rate	17.5751	19.6741	16.8031	19.8442

4.5. Cash and cash equivalents with NBM and Mandatory reserves with NBM

For the purposes of the statement of financial position, cash and cash equivalents with NBM, comprise cash on hand, current accounts and highly liquid financial assets with original maturities of less than three months with the National Bank of Moldova, excluding mandatory reserves.

For the purposes of the cash flow statement, cash and cash equivalents comprise liquid financial assets with original maturities of three months or less from the date of acquisition, including: cash and non-restricted balances with the National Bank of Moldova, non-pledged securities and other bills eligible for refinancing with the National Bank of Moldova, and loans and advances to banks and amounts due from other Banks.

Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6. Mandatory reserves with the NBM

Mandatory reserves with the NBM are carried at amortised cost and represent non-interest bearing mandatory interest bearing reserve deposits, which are not available to finance the Bank’s day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

4.7. Loans and advances to banks

Loans and advances to banks are recorded when the Bank advances money to counterparty banks. Loans and advances to banks are carried at amortised cost when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

4.8. Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Bank intends to sell immediately or in the nearest future, those ones that the Bank, at initial recognition, classifies as at fair value through profit or loss, those that the Bank, at initial recognition, classifies as available for sale or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration. Loans and advances comprise loans and advances to banks and customers.

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 advances. Their carrying amount may be reduced as a consequence through the use of an expected credit loss allowance account (see Note 4.11 for the accounting policy for impairment of loans, and Note 3119 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 the statement of 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 and advances are recognised when the principal is advanced to the borrowers. Loans and advances 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Investments in debt securities

Investments in debt instruments include certificates issued by the National Bank of Moldova measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

As of 31 December 2019 and 2018, the Bank does not hold investments in debt instruments measured at FVOCI, or FVTPL.

4.10. Investments in equity securities.

The Bank measures investments in equity securities at fair value through other comprehensive income. The changes being recognized in the other comprehensive income. The Bank elects to present changes in the fair value of certain investments in equity securities that are not held for trading in other comprehensive income. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity securities are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss (“Net trading income”), unless they clearly represent a recovery of part of cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

4.11. Financial assets and financial liabilities

The Bank has adopted IFRS 9 “Financial Instruments” as of the transition date January 1, 2018.

i. Recognition and initial measurement

The Bank initially recognizes financial assets and liabilities at the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to acquisition or issue.

At initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present the subsequent changes in fair value through other comprehensive income (OCI). The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

ii. Classification

The Procredit Bank classifies its financial assets both according to their underlying business model and also their contractual cash flows.

Differentiation is made between the following business models: "hold to collect", "hold to collect and sell" and "other". Financial assets are assigned to the "hold to collect" business model if their objective is solely to collect contractual cash flows through interest and principal payments. The the statement of financial position items allocated to this business model are: "Cash equivalents with BNM", "Mandatory reserves with NBM", "Loans and advances to banks", "Loans and advances to customers" "Finance leases" "Investments in debt securities", and "Other financial assets". "Cash and cash equivalents" and "Derivative financial assets" are allocated to the "Other" business model.

After initial recognition, the Bank classifies and measures a financial asset at: amortized cost; fair value through other comprehensive income; or fair value through profit or loss.

Subsequent measurement of financial liabilities is generally measured at amortised cost. Only derivative financial liabilities are recognised at fair value.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets held for trading or which are not classified in the "hold to collect" or "hold to collect and sell" business models are allocated to the "other" business model and recognised at fair value through profit or loss. This includes "Cash" and "Derivative financial assets". Only "Derivative financial liabilities" are recognised as financial liabilities at fair value through profit or loss.

The Bank does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Derivative financial assets". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Derivative financial liabilities".
Gains and losses arising from changes in their fair value are immediately recognised in the statement of profit or loss of the period.

Financial assets at amortised costs

A financial asset is classified as "at amortised costs" if the financial asset is allocated to the "hold to collect" business model and the contractual cash flows meet the SPPI criterion. They arise when the Bank provides capital directly to a contracting party with no intention of trading the receivable.
These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

ii. Classification (continued)

Amortised premiums and discounts are accounted for over the respective terms in the statement of profit or loss under “net interest income”. Expected credit losses are basically recognised using a three-stage model (please see paragraph “Impairment” below). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the statement of profit or loss. The upper limit on the reduction 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.

Financial assets at fair value with changes in fair value recognised in other comprehensive income

A financial asset is classified and recognised as “Fair Value through Other Comprehensive Income” (“FVOCI financial instrument”), if the financial asset is allocated to a “hold to collect or sell” business model.

Most of the “investment securities” allocated to this business model are those financial assets that are generally held considering the “SPPI” criteria, in order to collect contractual cash flows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the other comprehensive income under “Revaluation reserve”.

As of 31 December 2019 and 31 December 2018, the Bank has no investments in debt instruments classified at FVOCI.

Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss over the period of the debt instrument.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

Reclassification of financial assets and financial liabilities

If the Bank changes its business model for the management of its financial assets, all affected financial assets are reclassified. It is estimated that such changes will be very rare. Such changes are determined by the Bank's management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Consequently, a change in an Bank's business model will occur only if the Bank either begins or ceases an activity that is significant to its operations.

A change in the objective of the Bank's business model must be made before the date of reclassification, applying reclassification prospectively from the date of reclassification. In the event of reclassifications, the Bank does not restate previously recognized gains, losses (including impairment gains or losses) or interest. The bank does not reclassify financial liabilities.

iii. Derecognition

Loans and advances 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. In addition, when loans and advances are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

FVOCI financial instruments are derecognised when the rights to receive cash flows from financial assets have expired or when the Bank has transferred substantially all the risks and rewards of ownership.

Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or if the Bank has transferred the legal rights and substantially all the risks and rewards of ownership. Derivative financial liabilities are derecognised when they are settled - that is, when the obligation is discharged, canceled or expired.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

iv. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Bank assesses whether the cash flows are substantially different. During 2018 and 2019, the Bank did not have any changes that would result in the derecognition of the original instrument.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in the derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in the profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect the current market terms at the time of the modification. Any cost or fees incurred or modification fees received adjust the gross carrying amount of the modified financial asset and amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of the financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method. The gain or loss from the modifications of financial assets for the years ended 31 December 2019 and 2018 was not significant.

v. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

vi. Fair value measurement

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis in the financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

vi. Fair value measurement (continued)

The ProCredit Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

(a) Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2 Inputs

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters. Each subsidiary applies individual observable interest and exchange rates, predominantly from local central banks.

(c) Level 3 Inputs

Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model.

Internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit Group Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

***vii.* Impairment**

The ProCredit Bank sets aside expected credit loss allowances for the statement of financial position items "Cash equivalents with NBM", "Mandatory reserves with NBM", "Loans and advances to banks", "Loans and advances to customers", "Finance leases", "Investment in debt securities" and for the financial assets under "Other assets". In general, a three-stage model is used to report expected credit loss allowances. These are generally recognised at net value within the corresponding item from the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Increase in expected credit loss allowances

Recognition of loss allowances uses a three-stage model based on expected credit losses (“ECL”).

Stage 1: Financial assets are generally classified as “Stage 1” when they are recognised for the first time. The Bank establishes loss allowances in an amount equivalent to the expected credit losses during the first 12 months following the date of the statement of financial position. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.

Stage 2: If credit risk increases significantly, the assets are classified as “Stage 2” and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

Stage 3: Defaulted financial assets are classified as “Stage 3” and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances).

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Reversal of loss allowances

In the event that credit risk decreases, loss allowances already recorded are reversed.

Write-offs, subsequent recoveries and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Subsequent recoveries of amounts which have been written off are recognised in the statement of profit or loss under “Impairment lossess on financial instruments”. Uncollectible loans for which no loss allowances have been set aside in full are recognised in profit or loss as direct write-offs.

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.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Management continuously reviews renegotiated loans to ensure that all relevant agreed lending conditions are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, as described above.

4.12. 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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13. Premises and equipment

Land and buildings comprise mainly branches and offices. All premises 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:

- Buildings	30-35 years
- Computers	3 - 5 years
- Servers, Conditioning	4 - 5 years
- Furniture	5 years
- Household Inventories	5 - 7 years
- Motor vehicles	5 - 7 years
- Leasehold improvements	As per lease agreement, max. 5 years

The assets’ residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in statement of profit or loss.

4.14. 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).

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15. Leases

Policy applicable from 1 January 2019

At inception of a contract3, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset, for a period of time in exchange for consideration. To assess whether the contract conveys the right to control the use of an identified asset, the Bank shall assess whether:

- The contract involves the use of an identified asset - it can be specified explicitly or implicitly, it must be physically distinct or it must essentially represent the majority of the capacity of the distinct physical asset;
- The Bank has the right to obtain essentially all the economic benefits from the use of the asset during the period of use; and
- The Bank has the right to dispose of the use of the asset. The Bank has this right when it has relevant decision-making rights regarding the change in the manner and purpose for which the asset is used during the period of use. In rare circumstances when the decision regarding the way and purpose of asset use is predetermined, the Bank has the right to dispose of the use of the asset if:

  1) The bank has the right to exploit the asset; or
  2) The Bank has designed the asset in a manner that predetermines how and for what purpose the asset will be used during the period of use.

This policy applies to contracts signed or amended on or after January 1, 2019.

When initiating or revaluing a contract that contains a lease component, the Bank allocates the equivalent value of the contract to each lease component based on the relative value of the individual prices. However, for the lease of land and buildings in which the Bank is a lessee, the Bank has chosen not to separate the non-lease components and books the lease and non-lease components as a single component.

i. Lessee

Policy applicable from 1 January 2019

The Bank recognizes the right to use an asset and a lease liability at the commencement date. The right of use is initially measured at cost which includes the initial amount of the lease liability adjusted by any lease payment made on or before the commencement date, plus any initial direct costs incurred and an estimate of the cost of dismantling and dismembering the asset and for the restoration of the place where it is located, minus any leasing incentives received.

The right of use of the asset is subsequently amortized using the straight-line method from the commencement date until the earliest date between the end of life of the right of use or

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Leases (continued)

the end of the lease term. The estimated useful lives of right-of-use asset are determined in the same way as for property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted by certain revaluations of lease liabilities.

The liabilities arising from the lease are initially measured at the amount of lease payments that are not paid at the commencement date, discounted using the interest rate specified in the lease contract or, if that rate cannot be determined immediately, the Bank uses the incremental borrowing rate.

At the commencement date, the lease payments included in the valuation of the lease liabilities include the following:

- fixed payments, including fixed payments in the fund;
- variable lease payments that depend on an index or a rate, initially valued on the basis of the index or rate from the start date;
- the amounts expected to be due by the lessee on the basis of guarantees relating to the residual value;
- the exercise price of a call option if the lessee has reasonable certainty that he will exercise the option; and
- payments of the lease termination penalties, if the duration of the lease reflects the exercise by the lessee of a lease termination option.

The liability arising from the lease contract is measured at amortized cost using the effective interest rate method. Lease liability is revalued when there is a change in future lease payments arising from a change in index or rate, when there is a reassessment of amounts expected to be due under the residual value guarantee or when the Bank changes evaluation of the exercise of a call, extension or termination option.

When the liability arising from the lease contract is revalued in this way, an appropriate adjustment is made to the value of the right-of-use asset or is recorded in the statement of profit or loss if the balance sheet value of the right-of-use has been reduced to zero.

The Bank presents the rights-of-use assets that do not meet the definition of real estate investments in “Property and equipment” and the liability arising from lease contracts in “Other financial liabilities” in statement of financial position.

Short-term leases and leases for which the underlying asset has a small value:

The Bank has chosen not to recognize the right-of-use asset and the liability arising from short-term leases, 12 months and less, related to equipment and for leases for which the underlying asset has a small value. The Bank recognizes the lease payments associated with such leases as an expense of the current period on a straight-line basis over the lease term.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Leases (continued)

ii. Lessor

Policy applicable from 1 January 2019

When the Bank acts as lessor, it determines at the initiation of the lease whether the lease is financial or operational.

In order to classify each lease, the Bank makes an overall assessment of whether it transfers in essence all the risks and rewards of ownership of an underlying asset. In such cases the contract is classified as a finance lease; otherwise, it is considered an operating lease. As part of this valuation, the Bank considers certain indicators such as the assessment of whether the lease is for most of the economic life of the asset.

The Bank recognizes the lease payments received under the operating leases on a straight-line basis over the term of the contract as part of "Other operating income".

4.16. Income tax

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.

Deferred income tax

Deferred income tax is provided, using the balance sheet 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 (Note 22). 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.
Starting from 2012, the corporate income tax rate is 12%.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17. 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 the statement of 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

4.18. 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.

4.19. Financial guarantee contracts

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified 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 at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Any increase in the liability relating to guarantees is taken to profit and loss under “General and administrative expenses”.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20. Loan commitments

The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

4.21. 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 "interest expense".

4.22. Share capital

Share capital consists of the nominal shares placed. The total number of ordinary shares authorized and issued at the end of the year are at a nominal value of 1,000 MDL per share. All shares are fully paid.

4.23. Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised in the statement of profit or loss using the effective interest rate method. Interest income and expense are recognised in statement of profit or loss on an accrual basis of accounting.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23. Interest income and expense (continued)

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 impairment lossess on financial instruments.

4.24. 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.

4.25. Net trading income

Net trading income comprises gains less lossess related to trading assests and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

4.26. Employee benefits

Short-term employee benefits include wages, salaries and social security contributions. Short-term benefits are recognized as expenses as the services are rendered.

4.27. Dividends

Dividends income is recognized in the result of the year to date is established the right to receive such dividends are likely to be collected. Dividends are reflected as a component of “Net trading income” in the statement of profit or loss. Dividends payment is treated as a distribution of profit for the period they are declared and approved by the General Meeting of Shareholders.

4.28. Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but they are disclosed in the financial statements unless there is a “low” probability of an outflow of resources.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Use of assumptions and estimates

The Bank’s financial reporting and its financial result are influenced by assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the Financial Statements. All estimates and assumptions required 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.

Management judgements for certain items are especially critical for the Bank’s results and financial situation. This applies to the following:

a. See also Note 4.16, Note 14 and Note 22: recognition of deferred income tax assets: availability of future profit for the use of fixed losses.
b. See also Note 33: determining the fair value of instruments that are not traded in an active market.
c. Impairment of credit exposures in accordance with IFRS 9

By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in other comprehensive income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. The ProCredit Bank reports the balance sheet items “Cash equivalents with NBM”, “Mandatory reserves with NBM”, “Loans and advances to banks”, “Loans and advances to customers”, “Finance leases” and “Other financial assets” net (after subtracting loss allowances).

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 31. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

SPPI testing

The "SPPI" test (contract terms of the financial asset are consistent with the principle of exclusive principal collection and principal interest) takes into account the application of significant judgments. These judgments are of significant importance in the IFRS 9 classification and in the valuation process as they determine whether the asset will be measured at fair value through the profit and loss account or, depending on the business model, at amortized cost or fair value through other comprehensive income.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

As part of the SPPI test, any clause or obligation that may influence the contractual cash flows will be evaluated. In this respect, the following aspects will be analyzed: the Bank's general terms and conditions; models of credit facilities contracts (special attention will be given to clauses and obligations that can modify contractual cash flows, especially monetary items - taxes, commissions, penalties - and how the interest rate is expressed); contracts whose content is different from standard contracts.

When implementing IFRS 9, the Bank uses an internally developed classification to determine the significant increase in credit risk “SICR”. Among other criteria used to determine the stages, the Bank uses a classification that is based on 8 credit risk levels (1 - the lowest risk, 8 - the highest risk), which are then allocated in 3 stages.

6 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The Bank initially applied the following standards and amendments to standards from 1 January 2019

IFRS 16 “Leases” (issued on January 2016 and effective for annual periods beginning on or after 1 January 2019).

The Bank first adopted the provisions of IFRS 16 “Leases” on January 1, 2019. At first recognition, the Bank immediately had an impact on the statement of financial position.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right-of-use asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In accordance with IFRS 16 and the Accounting Policies, the bank applies the standard to all leases, including leases for assets related to the right of use under a sublease. At the commencement date, the Bank as lessee recognizes an asset related to the right of use and a liability arising from the lease.

The Bank recognised a right-of-use asset of MDL 27,028,681 against a corresponding lease liability on 1 January 2019.

6 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

A reconciliation of the operating lease commitments disclosed in Note 2034 to this liability is as follows:

Reconciliation for the transition from IAS 17 to IFRS 16	**1 January 2019**
Operating lease commitment at December 2018:	19,056,842
Recognition exemption for	
- short-term leases	(832,775)
- the extension option to be exercised	11,955,913
Total of lease contract volumn as basis for lease liability	**30,179,980**
Discounted using the incremental borrowing rate at 1 January 2019	27,028,681
Lease liabilities recognised at 1 January 2019	**27,028,681**

Exceptions to the provisions of this standard may be short-term contracts, up to 12 months or for contracts with a value of less than five thousand euros or the equivalent of five thousand Euros at the date of recognition.

The liability arising from the lease is initially measured at the present value of the lease payments made during the term of the lease, discounted at the default rate of the lease. The Bank uses as an discount rate the average interest rate related to new loans granted with comparable term, published on the website of the National Bank of Moldova for the previous month.

Subsequent measurement of the asset is carried out in accordance with the cost-based model set out in IFRS 16.

The subsequent valuation of the liability arising from the leasing contract takes place by: increasing the book value with the accrued interest, reducing by making payments and revaluing the book value as a result of the modification of the contract.

7 NEW ACCOUNTING PRONOUNCEMENTS

Current list of new IFRS Standards, Interpretations and amendments to published Standards (as at 1 January 2020) that are not yet effective, for disclosure in financial statements prepared in accordance with IFRS

The following new Standards, *amendments to Standards* and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

7 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

(Effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Bank has no subsidiaries, associates or joint ventures.

IFRS 17 *Insurance Contracts*

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted.)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

7 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank because the Bank does not operate in the insurance industry.

Amendments to IFRS 3 *Business Combinations*

(Effective for annual periods beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*

(Effective for annual periods beginning on or after 1 January 2020)

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- ‘Highly probable’ requirement.
- Risk components
- Prospective assessments
- Retrospective effectiveness test (for IAS 39)
- Recycling of the cash flow hedging reserve.

The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied.

8 NET INTEREST INCOME

	2019	2018
Interest and similar income		
Mandatory reserves with NBM	11,978,603	9,754,004
Placements with NBM	277,671	494,315
Investments in debt securities	31,442,042	35,307,619
Loans and advances to banks	829,782	923,212
Loans and advances to customers	165,789,919	173,999,060
Total interest income calculated using the effective interest method	**210,318,017**	**220,478,211**
Interest income from finance lease receivables	463,019	534,257
Total interest income	**210,781,036**	**221,012,468**
Interest expense:		
Interest expenses on liabilities to banks	612,399	490,848
Interest expenses on deposits from customers	37,664,895	38,613,409
Interest expenses on liabilities to IFI's	24,340,986	32,256,196
Interest expenses on liabilities to DLC	6,634,469	9,511,893
Interest expenses on liabilities to related parties	3,545,690	4,109,096
Interest expenses on subordinated debt	8,725,596	9,230,159
Interest expenses on lease liabilities	1,237,294	-
Total interest expenses	**82,761,329**	**94,211,601**
Net interest income	**128,019,707**	**126,800,867**

9 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Payment transfers and transactions	17,513,124	15,639,372
Account maintenance fee	13,250,604	9,433,956
Letters of credit and guarantees	3,219,761	2,656,437
Debit/credit cards	13,838,794	11,912,595
Other fee and commission income	1,198,930	2,074,668
Total fee and commission income	**49,021,213**	**41,717,028**
Fee and commission expenses		
Payment transfers and transactions	7,012,939	6,321,497
Fees for credit/debit card business	6,354,396	5,804,220
Total fee and commission expenses	**13,367,335**	**12,125,717**
Net fee and commission income	**35,653,878**	**29,591,311**

10 NET TRADING INCOME

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 did not apply hedge accounting as defined by IFRS 9.

	2019	2018
Net gains less loses from foreign currency transactions	38,981,690	33,562,115
Net gains less loses from derivatives	467,071	76,924
Revaluation of balances in foreign currencies	735,069	(1,556,207)
Total	**40,183,830**	**32,082,832**

11 OTHER OPERATING INCOME

	2019	2018
Other operating income		
Dividend income from FVOCI equity instruments	165,686	-
Other operating income	210,982	93,697
Total	**376,668**	**93,697**

12 PERSONNEL EXPENSES

Personnel expenses can be broken down as follows:

	2019	2018
Salary expenses	30,582,109	29,272,151
Social ecurity contributions	5,885,141	6,768,750
Medical contributions	1,438,738	1,387,258
Other remuneration expenses	2,127,310	1,563,931
Expenses/ (income) related to unused vacations	238,379	(287,124)
Income related to reversal of employees provisions	-	(2,227,140)
Total	**40,271,676**	**36,477,826**

13 ADMINISTRATIVE EXPENSES

	2019	2018
Communication and IT expenses	33,814,889	28,096,783
Depreciation of fixed assets, including leasehold	19,851,308	10,870,220
Service management fees	6,003,699	6,468,386
Court and notary fees	3,853,705	4,391,042
Advertising and marketing services	3,779,925	1,457,276
Transportation expenses	3,356,377	4,407,722
Audit and consulting services	2,673,719	2,391,264
Other taxes	2,515,780	1,776,830
Training expenses	2,171,505	3,686,545
Utilities	1,117,574	1,197,316
Insurance expenses	898,915	820,006
Office rent	760,667	11,163,124
Expenses with the contribution to the Deposit Guarantee Fund	715,689	783,867
Construction, repairs and maintenance	709,190	821,907
Security service	608,333	660,409
Amortisation of intangible assets	194,771	471,533
Office supplies	106,799	184,279
Impairment charges on non-financial assets	8,786	2,227,977
Net result from derecognition of non-financial assets	(2,994,595)	1,294,202
Other administrative expenses	1,945,290	2,463,957
Total	**82,092,327**	**85,634,643**

The implementation of IFRS 16 explains the increase in *Depreciation of fixed assets, including leasehold*” and the decrease in *Office rent*

14 INCOME TAX EXPENSES/(CREDIT)

	2019	2018
Current tax	12,598,019	10,593,661
Deferred tax (Note 22)	6,279	(160)
Total	**12,604,298**	**10,593,501**

Since 2012 the income tax rate was 12%. Please refer to Note 22 for calculation of current and deferred income tax.

15 CASH AND CASH EQUIVALENTS WITH NATIONAL BANK OF MOLDOVA

Cash and cash equivalents with National Bank of Moldova comprise the following items:

	31 December 2019	**31 December 2018**
Cash on hand	179,240,450	139,928,145
Balances at National Bank of Moldova, excluding mandatory reserves	-	48,488,680
Expected credit loss allowance	-	(230,899)
	179,240,450	**188,185,926**
Mandatory reserves with NBM	483,570,765	514,976,854
Expected credit loss allowance	(2,302,725)	(2,452,279)
	481,268,040	**512,524,575**
Total cash and cash equivalents with NBM	**660,508,489**	**700,710,501**

For the purpose of statement of cash flows, cash and cash equivalents included in the note below with the original maturity of less than three months.

Cash equivalents that were included as cash in statement of cash flows are:

	31 December 2019	**31 December 2018**
Cash on hand (Note 15)	179,240,450	139,928,145
Balances at National Bank of Moldova, excluding mandatory reserves (Nota 15)	-	48,488,679
Investments in debt securities (Nota 17)	629,473,750	779,112,143
Loans and advances to banks, that are considered as cash (Nota 16)	201,389,903	129,590,369
Cash and Cash Equivalents	**1,010,104,103**	**1,097,119,336**

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 2019 the reserve ratio established by the National Bank of Moldova was 42.5% for MDL and other non-convertible currencies (2018: 42.5%) and 17% for convertible currencies (2018: 14%).

There is no separate credit rating for the National Bank of Moldova. According to Moody's rating agency, Republic of Moldova is classified in B3 rating category.

16 LOANS AND ADVANCES TO BANKS

	Classification	Rating agency	2019	2018
Correspondent accounts in banks in OECD countries:				
DZ BANK AG	AA-	Fitch	83,446,735	5,270,026
THE BANK OF NEW YORK MELLON	AA	Fitch	95,100,553	6,504,371
PROCREDIT BANK AG*	BBB	Fitch	22,171,517	115,305,336
Expected credit loss allowance			(17)	(6,627)
			200,718,788	**127,073,107**
Correspondent accounts in banks in non-OECD countries:				
BCR CHISINAU**	no rating		671,098	2,510,636
Expected credit loss allowance			(7)	(9,831)
			671,091	**2,500,805**
Guarantee placements in banks:				
PROCREDIT BANK GEORGIA	BB+	Fitch	3,441,860	3,428,540
PROCREDIT BANK AG*	BBB	Fitch	9,630,250	9,760,600
Expected credit loss allowance			(23)	(8,526)
			13,072,087	**13,180,614**
Expected credit loss allowance			(47)	(24,984)
Total			**214,461,966**	**142,754,526**

*There is no separate classification by a rating agency for ProCredit Bank Germany, the Bank utilized the rating attributed to the ProCredit Holding AG (Germany), ultimate parent company for ProCredit Bank Germany.
**There is no separate classification by a rating agency for BCR Chisinau, the Bank utilized the rating attributed to the Erste Group Bank AG (Austria), ultimate parent company for BCR Chisinau.

Movement in the expected credit loss allowances for loans and advances to banks

	2019	2018
	Stage 1	Stage 1
Balance at 1 January	**(24,984)**	**(18,793)**
Increase due to remeasurement of loss allowance	(2,059,177)	(2,407,080)
Decrease due to remeasurement of loss allowance	2,070,647	2,396,181
Changes due to updates of ECL methodology	14,595	-
Net change due to foreign exchange movements	(1,128)	4,709
Balance at 31 Decembrie	**(47)**	**(24,983)**

17 INVESTMENTS IN DEBT SECURITIES

	31 December 2019	31 December 2018
Certificates issued by Nationa Bank of Moldova	629,473,750	779,112,143
Expected credit loss allowance	(52,794)	(3,710,070)
Carrying amount	**629,420,955**	**775,402,073**

Movement of investments in debt securities	**2019 Stage 1**	**2018 Stage 1**
Balance at 1 January	779,112,143	718,954,104
New financial assets originated	11,827,950,025	14,174,030,040
Release due to derecognition	(11,977,588,418)	(14,113,872,001)
Balance at 31 December	**629,473,750**	**779,112,143**

Debt securities mandatorily classified as at amortised cost by the Bank represent securities held in a “held to collect” business model. Investments in debt securities represent short-term certificates issued by the National Bank of Moldova. For the presentation purposes, the Bank has classified the investments in debt securities at Stage 1 (Note 331). The interest rate on certificates issued by the NBM during the year was 6,5%, 7,0%, 7,5% and 5,5% at the end of the year.

When implementing IFRS 9, the Bank, with the help of risk assessment experts within the ProCredit Group Germany, has estimated a set of indicators for measuring PDs related to financial institutions, including the National Bank of Moldova based on information provided by reputable international rating agencies (Fitch ratings Inc). At the end of 2018, in a periodic review of risk parameters required by IFRS 9, the Bank, together with group experts, refined these indicators. Thus, in order to estimate the probability of entering the default, the PD observed from external sources (the Fitch Ratings Inc scale) was allocated to the lower rating, after which a linear interpolation was made resulting in the PD for each step rating ("rating modifier"). This process resulted in decreases in the values of PD indicators compared to those used for 1 January 2018 and as a result the expected credit loss allowance for the National Bank of Moldova exposure decreased. The decrease was reflected in the statement of profit or loss for the year 2018.

In 2019 the ECL calculation methodology continued to be revised. Thus, for exposures with a maturity of less than 12 months, the PD will reflect the remaining maturity. Respectively, the considerable decrease in the expected credit losses allowance for the certificates issued by the NBM is explained by the fact that they have a maturity of only 14 days

As at 31 December 2019 there were no debt investments securities pledged as collateral.

18 INVESTMENTS IN EQUITY SECURITIES

	Fair value at 31 December 2019	Dividend income recognised for the year
Investment in equity shares of non-OCDE countroes	1,200,000	165,686
Total investments in equity securities	**1,200,000**	**165,686**

	Fair value at 31 December 2018	Dividend income recognised for the year
Investment in equity shares of non-OCDE countroes	1,200,000	-
Total investments in equity securities	**1,200,000**	**-**

Equity investments represent 10.22% of shares owned in:"Bureau of Credit History" in the amount of MDL 1,200,000.

The Bank classified those investments at Nivelul 3 (Note 33).

As at 31 December 2019 equity securities at FVOCI have not been pledged.

19 LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
Loans and advances to customers	2,493,890,450	2,177,350,193
Expected credit loss allowance	(86,857,539)	(98,011,729)
Total loans and advances to customers	**2,407,032,911**	**2,079,338,464**

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers can be analysed as follows:

At 31 December 2019	Gross amount	ECL Allowance	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
Business loans	**1,734,054,011**	**(57,747,856)**	**1,676,306,155**	**69.6%**	**1,015**	**60.9%**
Loan size up to 50 kEUR	126,586,809	(9,448,142)	117,138,667	4.9%	374	22.4%
Loan size from 50 to 250 kEUR	740,689,313	(19,326,345)	721,362,968	30.0%	518	31.1%
Loan size more than 250 kEUR	866,777,890	(28,973,369)	837,804,521	34.8%	123	7.4%
Agricultural loans	**732,771,306**	**(25,440,188)**	**707,331,118**	**29.4%**	**533**	**32.0%**
Loan size up to 50 kEUR	59,583,537	(5,182,104)	54,401,433	2.3%	171	10.3%
Loan size from 50 to 250 kEUR	496,202,221	(16,660,112)	479,542,109	19.9%	329	19.7%
Loan size more than 250 kEUR	176,985,547	(3,597,972)	173,387,575	7.2%	33	2.0%
Housing improvement loans	**11,555,556**	**(288,084)**	**11,267,472**	**0.5%**	**13**	**0.8%**
Loan size up to 50 kEUR	2,716,751	(82,227)	2,634,525	0.1%	10	0.6%
Loan size from 50 to 250 kEUR	3,389,182	(71,335)	3,317,847	0.1%	2	0.1%
Loan size more than 250 kEUR	5,449,623	(134,522)	5,315,100	0.2%	1	0.1%
Consumer loans	**15,502,681**	**(3,381,393)**	**12,121,288**	**0.5%**	**100**	**6.0%**
Loan size up to 50 kEUR	8,850,165	(2,033,852)	6,816,313	0.3%	82	4.9%
Loan size from 50 to 250 kEUR	6,652,516	(1,347,541)	5,304,975	0.2%	18	1.1%
Other loans	**6,895**	**(18)**	**6,877**	**0.00%**	**7**	**0.4%**
Loan size up to 50 kEUR	6,895	(18)	6,877	0.00%	7	0.4%
Total	**2,493,890,450**	**(86,857,539)**	**2,407,032,911**	**100.0%**	**1,668**	**100.0%**

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2018	Gross amount	ECL Allowance	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
Business loans	**1,473,412,277**	**(66,306,298)**	**1,407,105,979**	**67.7%**	**1,031**	**58.0%**
Loan size up to 50 kEUR	153,947,515	(14,798,903)	139,148,613	6.7%	466	26.2%
Loan size from 50 to 250 kEUR	655,992,275	(29,387,666)	626,604,609	30.1%	473	26.6%
Loan size more than 250 kEUR	663,472,487	(22,119,730)	641,352,757	30.8%	92	5.2%
Agricultural loans	**671,251,160**	**(21,077,028)**	**650,174,132**	**31.3%**	**531**	**29.9%**
Loan size up to 50 kEUR	70,737,918	(7,058,905)	63,679,013	3.1%	234	13.2%
Loan size from 50 to 250 kEUR	388,579,989	(11,602,237)	376,977,752	18.1%	264	14.8%
Loan size more than 250 kEUR	211,933,253	(2,415,886)	209,517,367	10.1%	33	1.9%
Housing improvement loans	**2,052,538**	**(302,287)**	**1,750,251**	**0.1%**	**11**	**0.6%**
Loan size up to 50 kEUR	2,052,538	(302,287)	1,750,251	0.1%	11	0.6%
Consumer loans	**30,553,746**	**(10,317,559)**	**20,236,187**	**1.0%**	**188**	**10.6%**
Loan size up to 50 kEUR	17,934,562	(4,848,722)	13,085,839	0.6%	167	9.4%
Loan size from 50 to 250 kEUR	12,619,184	(5,468,836)	7,150,348	0.3%	21	1.2%
Other loans	**80,472**	**(8,557)**	**71,916**	**0.00%**	**17**	**1.0%**
Loan size up to 50 kEUR	80,472	(8,557)	71,916	0.00%	17	1.0%
Total	**2,177,350,193**	**(98,011,729)**	**2,079,338,464**	**100.0%**	**1,778**	**100.0%**

20 LEASING

	31 December 2019	31 December 2018
Finance lease receivable, gross	9,419,592	11,015,873
Expected credit loss allowance	(440,025)	(153,457)
Net finance lease amount	**8,797,566**	**10,862,416**
Fair value of lease receivable	**9,377,392**	**10,947,434**

Finance Leases under IFRS 16

Gross investment in finance lease receivable	**31 December 2019**
Less than one year	1,839,401
Between one and two years	1,771,369
Between two and three years	1,707,300
Between three and four years	1,642,266
Between four and five years	1,577,751
More than five years	2,244,054
	10,782,142
Unearned finance income	(1,362,550)
Net investment in finance leases	**9,419,592**

Finance Leases under IAS 17

Gross investment in finance lease receivable	**2018**
Less than one year	1,928,106
Between one and five years	7,054,547
More than five years	3,873,536
	12,856,189
Unearned finance income	(1,840,316)
Net investment in finance leases	**11,015,873**
Net investment in finance leases receivable	
Less than one year	1,499,288
Between one and five years	5,856,360
More than five years	3,660,225
	11,015,873

The Bank rents a number of offices for the bank's branches. Leases are usually for a period of 1 to 7 years. Previously, leases were classified as operating leases in accordance with IAS 17. Following the application of IFRS 16, on 1 January, 2019, assets increased by MDL 27,028,681.

20 LEASES (CONTINUED)

I. Right-of-use assets	**2019**
Balance at 1 January 2019	27,028,681
Depreciation charge for the year	(9,336,231)
Additions	-
Balance at 31 December 2019	**17,692,450**

Maturity analysis of undiscounted lease liability	
Less than one year	6,729,720
Between one and five years	10,176,667
More than five years	2,150,455
Total undiscounted lease liability at 1 January 2019	**19,056,842**

II. Amounts recognized in profit and loss

2019 – Leases according IFRS 16	**2019**
Interest on lease liabilities	1,237,294

2018 - Operating leases under IAS 17	**2018**
Lease expense	11,080,581
Contingent rent expense	-

III. Amount recognized in statement of Cash Flows	**2019**
Total cash outflow for leases	9,971,360

21 OTHER ASSETS

Other assets are as follows:

Other financial assets	**31 December 2019**	**31 December 2018**
Transit and suspense accounts	6,988,007	3,297,176
Derivatives	-	(97,570)
Other receivables	513,521	698,036
Expected credit loss allowance	(59,041)	(81,261)
Total financial assets	**7,442,487**	**3,816,381**

21 OTHER ASSETS (CONTINUED)

Non-financial assets	**31 December 2019**	**31 December 2018**
Prepaid expenses	2,255,477	2,210,056
Spare parts and consumables	95,619	108,009
Settlements with third parties	2,151,174	1,904,265
Prepaid taxes	366,841	1,551,409
Total non-financial assets	**4,869,115**	**5,773,739**
Total other assets	**12,311,602**	**9,590,120**

22 DEFERRED TAX ASSET

The reconciliation of the income tax expense is presented in the table below, as follows:

a. Amounts recognised in the statement of profit or loss and other comprehensive income

	2019	**2018**
Current tax expense		
Current year	12,532,335	10,919,675
Changes in estimates related to prior years	65,684	(326,014)
	12,598,019	**10,593,661**
Deferred tax expense		
Origination and reversal of temporary differences	269,166	344,000
Derecognition of temporary differences	(262,888)	(344,160)
	6,279	**(160)**
Total	**12,604,298**	**10,593,501**

22 DEFERRED TAX ASSETS (CONTINUED)

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of 12 % (2018: 12%).

b. Reconciliation of effective tax rate

	2019	2019	2018	2018
Profit before tax		100,187,089		84,641,125
Tax using the bank's domestic tax rate 12% (2018: 12%)	12%	12,022,451	12%	10,156,935
Tax effect of:				
Tax-exempt income	-0.5%	(522,838)	0.0%	(9,129)
Non-deductible expenses				
Accelerated depreciation rate	0.8%	778,539	0.1%	76,594
Provisions and commitments	-0.2%	(232,223)	0.3%	275,339
Expenses from revaluation of fixed assets and other assets	0.1%	53,979	0.0%	38,373
Loss on disposal of fixed assets	0.0%	1,152	0.1%	91,011
Costs associated with payments to employees that cannot qualify for salary payments	0.0%	3,712	0.1%	83,370
Other non-deductible expenses	0.4%	433,842	0.2%	207,022
Changes in estimates relating to prior years	0.1%	65,684	-0.4%	(326,014)
Total income tax expense	**12.6%**	**12,604,298**	**12.5%**	**10,593,501**

22 DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets

	1 January 2019	Recognised in profit or loss	Balance at 31 December 2019
Arising from Assets			
Property and equipment, and intangible assets	1,244,015	(269,166)	974,849
Deferred tax assets	**1,244,015**	**(269,166)**	**974,849**
Arising from Liabilities			
Other Liabilitites	118,979	245,796	364,775
Unpaid vacations	130,493	17,092	147,585
Deferred tax assets	**249,472**	**262,888**	**512,360**
Deferred tax assets	**1,493,487**	**(6,279)**	**1,487,208**

	1 January 2018	Recognised in profit or loss	Balance at 31 December 2018
Arising from Assets			
Property and equipment, and intangible assets	899,855	344,160	1,244,015
Deferred tax assets	**899,855**	**344,160**	**1,244,015**
Arising from Liabilities			
Other Liabilitites	459,434	(340,455)	118,979
Unpaid vacations	134,038	(3,545)	130,493
Deferred tax assets	**593,472**	**(344,000)**	**249,472**
Deferred tax assets	**1,493,327**	**160**	**1,493,487**

23 PROPERTY AND EQUIPMENT

See accounting policy in Note 4.13

	Land and buildings	Equipment	IT equipment	Vehicles	Other assets	Assets under construction	Total
Cost							
Balance at 1 January 2018	8,597,290	29,834,019	17,351,434	5,057,546	11,414,871	4,076,945	76,332,105
Additions	-	-	-	-	-	1,291,920	1,291,920
Transfers	-	3,656,771	620,451	583,862	381,463	(5,242,547)	-
Disposals	-	4,234,951	449,104	422,428	1,563,612	92,421	6,762,517
Balance at 31 December 2018	**8,597,290**	**29,255,838**	**17,522,781**	**5,218,980**	**10,232,722**	**33,896**	**70,861,508**
Balance at 1 January 2019	**8,597,290**	**29,255,838**	**17,522,781**	**5,218,980**	**10,232,722**	**33,896**	**70,861,508**
Recognition of right-of-use asset on initial application of IFRS 16	27,028,681	-	-	-	-		27,028,681
Adjusted balance at 1 January 2019	**35,625,970**	**29,255,838**	**17,522,781**	**5,218,980**	**10,232,722**	**33,896**	**97,890,189**
Additions	-	-	-	-	-	2,423,001	2,423,001
Transfers	123,002	30,360	609,080	0	512,148	(1,274,590)	-
Disposals	-	1,188,690	298,448	530,414	726,038	-	2,743,590
Balance at 31 December 2019	**35,748,972**	**28,097,508**	**17,833,414**	**4,688,566**	**10,018,833**	**1,182,307**	**97,569,599**

23 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Equipment	IT equipment	Vehicles	Other assets	Assets under construction	Total
Accumulated depreciation and impairment losses							
Balance at 1 January 2018	**6,526,904**	**16,600,271**	**11,553,759**	**2,927,497**	**6,436,268**	**-**	**44,044,700**
Depreciation for the year	984,478	5,101,106	2,202,007	1,019,785	1,562,844	-	10,870,220
Disposals	4,080,628	445,117	422,428	990,705	-	-	4,080,628
Balance at 31 December 2018	**7,511,382**	**17,620,750**	**13,310,649**	**3,524,854**	**7,008,407**	**-**	**48,976,043**
Balance at 1 January 2019	**7,511,382**	**17,620,750**	**13,310,649**	**3,524,854**	**7,008,407**	**-**	**48,976,043**
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	-	-	-
Adjusted balance at 1 January 2019	**7,511,382**	**17,620,750**	**13,310,649**	**3,524,854**	**7,008,407**	**-**	**48,976,043**
Depreciation for the year	10,150,128	5,298,980	2,174,142	794,490	1,433,569	-	19,851,308
Disposals	-	862,045	295,917	501,214	671,791	-	2,330,967
Balance at 31 December 2019	**17,661,511**	**22,057,685**	**15,188,874**	**3,818,130**	**7,770,185**	**-**	**66,496,384**
Carrying amounts							
Balance at 1 January 2018	**2,070,386**	**13,233,747**	**5,797,675**	**2,130,049**	**4,978,603**	**4,076,945**	**32,287,405**
Balance at 31 December 2018	**1,085,907**	**11,635,089**	**4,212,131**	**1,694,126**	**3,224,315**	**33,896**	**21,885,465**
Balance at 31 December 2019	**18,087,462**	**6,039,823**	**2,644,540**	**870,436**	**2,248,647**	**1,182,307**	**31,073,215**

As at 31 Decembrie 2019, property and equipment includes right-of-use assets of MDL 17,692,449.66 related to leased branches and office premises (see Note 20.

24 INTANGIBLE ASSETS

	Software	Other Intangible Assets	Intangible Assets in process	Total
Cost				
Balance at 1 January 2018	**18,942,922**	**112,636**	**487,005**	**19,542,562**
Acquisitions	124,490		3,041	127,531
Transfers		17,945	(17,945)	
Disposals	9,677,728	10,764	472,101	10,160,593
Balance at 31 December 2018	**9,389,683**	**119,817**	**-**	**9,509,500**
Balance at 1 January 2019	**9,389,683**	**119,817**	**-**	**9,509,500**
Acquisitions	54,789	90,995	150,584	296,369
Transfers	42,172		(42,172)	
Disposals	1,988,707	58,464		2,047,171
Balance at 31 December 2019	**7,497,937**	**152,348**	**108,413**	**7,758,697**
Accumulated amortization and impairment losses				
Balance at 1 January 2018	**18,145,582**	**92,911**	**-**	**18,238,494**
Amortisation for the year	464,714	6,819	-	471,533
Disposals	9,677,728	10,764	-	9,688,492
Balance at 31 December 2018	**8,932,568**	**88,967**	**-**	**9,021,535**
Balance at 1 January 2019	8,932,568	88,967	-	9,021,535
Amortisation for the year	183,934	10,837	-	194,771
Disposals	1,988,707	58,464		2,047,171
Balance at 31 December 2019	**7,127,795**	**41,339**	**-**	**7,169,135**
Carrying amounts				
Balance at 1 January 2018	**797,339**	**19,725**	**487,005**	**1,304,068**
Balance at 31 December 2018	**457,115**	**30,850**	**-**	**487,964**
Balance at 31 December 2019	**370,141**	**111,009**	**108,413**	**589,562**

25 DEPOSITS FROM CUSTOMERS

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

	31 December 2019	31 December 2018
Current accounts	**604,219,842**	**547,223,297**
-private individuals	53,123,731	57,333,721
-legal entities	551,096,112	489,889,577
Saving accounts	**620,045,587**	**791,375,771**
-private individuals	369,358,496	365,681,983
-legal entities	250,687,091	425,693,788
Term deposit accounts	**937,946,824**	**599,841,496**
-private individuals	843,890,250	559,235,823
-legal entities	94,056,575	40,605,673
Total	**2,162,212,253**	**1,938,440,564**

26 BORROWED FUNDS

	31 December 2019	31 December 2018
Loans from International Financial Institutions	627,888,950	674,525,336
Loans from DLC	230,843,323	215,693,168
Loans from related parties	136,207,935	212,512,252
Total	**994,940,208**	**1,102,730,756**

26 BORROWED FUNDS (CONTINUED)

26.1 Liabilities to International Financial Institutions (IFIs)

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.

	Maturity	Currency	Original value	31 December 2019	31 December 2018
European Investment Bank	24 Mai 2023	EUR	20,000,000	54,684,609	77,647,826
European Investment Bank	24 Mai 2023	USD		122,891,802	160,231,452
European Investment Bank	07 Decembrie 2028	EUR	10,000,000	96,326,680	97,638,739
European Investment Bank	28 Noiembrie 2029	EUR	10,000,000	96,340,791	
European Bank of Reconstruction and Development (DCFTA)	15 Noiembrie 2023	EUR	10,000,000	75,539,873	(1,952,120)
European Bank of Reconstruction and Development	24 Februarie 2020	USD	8,000,000	17,227,503	51,631,554
The European Fund For Southeast Europe S.A., SICAV-SIF (EFSE)	29 Septembrie 2019	USD	7,000,000		95,096,241
Council of Europe Development Bank (CEB)	25 Iunie 2024	EUR	10,000,000	123,477,026	142,632,733
Council of Europe Development Bank (CEB)	25 Iunie 2024	USD		41,400,665	51,598,911
Total				**627,888,950**	**674,525,336**

*Loan from European Bank of Reconstruction and Development was granted in MDL, denominated in USD, in amount equivalent to USD 8,000,000. Interest rate applied is as for the loan in MDL. The Bank is required by its borrowing agreements to comply with certain financial ratios. As of the balance sheet date of these financial statements, and during 2019 and 2018 financial years, the Bank was complying with all the covenants required by the creditors

26 BORROWED FUNDS (CONTINUED)

26.2 Borrowed Funds from Credit Line Directorate

Financing projects	Currency	31 December 2019	31 December 2018
Inclusive Rural Economic & Climate Resilience Programme (“IFAD”)	EUR	5,658,998	7,772,728
	MDL	87,958,399	58,254,502
	USD	548,851	749,996
Wine Sector Restructuring Program	EUR	991,665	1,888,554
	MDL	328,626	2,044,210
Rural Investment and Services Project (“RISP”)	MDL	9,781,814	16,568,741
	USD	29,882	115,913
Competitiveness enhancement project (CEP)	EUR	17,390,287	21,322,458
	MDL	37,641,573	41,732,380
	USD	8,433,363	10,482,456
Livada Moldovei	EUR	55,638,695	54,761,202
	MDL	6,441,171	-
Total		**230,843,323**	**215,693,168**

26.3 Loans from affiliated parties

		Maturity	Currency	Original Value	31 December 2019	31 December 2018
ProCredit Holding AG	Loan	16 June 2017	EUR	9,000,000	135,689,404	177,461,568
	Loan	18 December 2018	USD	2,000,000	-	34,346,702
ProCredit Holding AG	Warranty comission		EUR		355,154	703,982
	Warranty comission		USD		163,377	-
	Total				**136,207,935**	**212,512,252**

27 PROVISIONS

	31 December 2019	31 December 2018
At the beginning of the period	**3,716,404**	**4,301,953**
Additions	2,839,590	3,490,017
Used	-	(176,731)
Releases	(1,451,459)	(3,898,835)
At as 31 December	**5,104,535**	**3,716,404**

The provisions consist of provisions for off-balance sheet items, e.g. guarantees, loan commitments in the amount of MDL 2,830,790 (2018: MDL 1,451,459) and provisions for imminent losses from pending transactions in the amount of MDL 2,273,744.34 (2018: MDL 2,264,945).

28 OTHER LIABILITIES

	31 December 2019	31 December 2018
Financial liabilities		
Lease liabilities	17,910,417	0
Transit accounts	10,626,404	5,302,555
Liabilities for support programs	7,603,985	7,934,899
Liabilities for goods and services	4,970,111	4,505,078
Accruals for unused vacation	1,229,872	991,493
Other financial liabilities	42,711	165,269
	42,383,501	**18,899,293**
Non-financial liabilities		
Non-income tax liabilities	13,694	259,464
Liabilities to social fund on employees’ contributions	-	59,214
Liabilities to employees	6,250	25,482
	19,944	**344,160**
Total	**42,403,445**	**19,243,453**

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

Liabilities for support programs are related to amounts received from:

a. European Investment Bank, which granted EUR 1,300,000 to the Bank, payable in 3 separate tranches, along with the General Investment Agreement. Destination of this grant is creation of loss absorption cushion in relation to the loans, financed from sources of the main Agreement. At the moment, PCB obtained first tranche of this Grant (EUR 400,000).

28 OTHER LIABILITIES (CONTINUED)

b. Sources obtained from the Credit Line Directorate under the Ministry of Finance as a part of Refinancing Agreements, such as Inclusive Rural Economic & Climate Resilience Programme (“IFAD”) and Rural Investment and Services Project (“RISP”).

As at 31 December 2019 and 31 December 2018 liabilities for support programs have the following structure:

Liabilities for support programs	31 December 2019	31 December 2018
European Investment Bank	6,263,977	6,354,899
Credit Line Directorate	1,340,008	1,580,000
	7,603,985	**7,934,899**

29 SUBORDINATED DEBT

	31 December 2019	31 December 2018
Subordinated debt	126,330,935	129,588,717
Total	**126,330,935**	**129,588,717**

Subordinated borrowings from ProCredit Holding AG & Co. KGaA are with floating interest rate and have a maturity of more than 5 years. Subordinated debts mature in 2026.

30 CAPITAL AND RESERVES

a. Share capital

As at 31 December 2019 and 31 December 2018 the shareholder structure was as follows:

	31 December 2019			31 December 2018		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount**	**Size of stake in %**	**Number of shares**	**Amount**
ProCredit Holding	100%	406,550	406,550,000	100%	406,550	406,550,000
Voting Capital	100%	406,550	406,550,000	100%	406,550	406,550,000
Non-Voting Capital	-	-	-	-	-	-
Total	100%	406,550	406,550,000	100%	406,550	406,550,000

30 CAPITAL AND RESERVES (CONTINUED)

During the 2018 the Bank did not issue shares (2018: nil). The total number of ordinary shares authorised and issued at the end of the year constituted 406,550 shares with a nominal value of MDL 1,000 per share.

b. General reserve for banking risks

According to the regulations of the National Bank of Moldova, starting from 2012, banks shall allocate to reserves from the retained earnings an amount representing the difference between the adjustment on impairment of assets calculated under prudential requirements of the National Bank of Moldova and ECL allowance calculated in accordance with IFRS. Thus, as at 31 December 2019 the balance of general reserve for banking risks amounts of MDL 40,025,680 (as at 31 December 2018: MDL 18,223,885). These reserves are non-distributable.

c. Statutory reserve

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents at least 10% of the share capital of the Bank. This reserve is non-distributable. According to Bank’s statute these can be used to absorb losses. In 2019, the Bank formed statutory reserves in the amount of 5% of the profit of previous years amounting to MDL 6,208,522.

31 RISK MANAGEMENT

31.1 Management of the general risk profile of the bank

The Bank is exposed to risks during its activities. The core component of the Bank's socially responsible business model is the informed and transparent approach to risk management. This is also reflected in its risk culture, which results in well-balanced decision-making processes. The Bank's overall risk profile is appropriate and stable, based on an individual risk assessment.

The Bank's risk strategy is based on a number of core principles that contribute to effective risk management.

a) Concentration on core activities

In its operations, the bank focuses on core business, focusing on serving small and medium business customers as well as individuals. Income is primarily generated from interest on loans and commissions from operations on accounts and payments. All other operations are carried out in support of basic activities. All other Bank operations are mainly performed to support the core business.

31 RISK MANAGEMENT (CONTINUED)

31.1 Management of the general risk profile of the bank (continued)

b) High degree of transparency, simplicity and diversification

The Bank's concept of providing responsible banking services involves a high degree of diversification both on credit and on deposits. The Bank relies on customer diversification in terms of customer types, economic sectors and revenue groups. Diversifying the loan portfolio is an important part of the credit risk management policy. Another feature of the Bank's approach is to offer simple, easy-to-understand products. This leads to a high degree of transparency not only for customers but also for risk management. Both high degree of diversification and simple and transparent products and procedures reduce the overall risk profile of the Bank.

c) Careful staff selection and continuous training

The responsible banking service is characterized by a long-term relationship not only with customers but also with employees. In order to build such long-term relationships, the Bank uses a selection and training method for potential candidates and also invests continuously in staff training. Intensive training of staff is a prerequisite not only for the institution's development but also for the successful implementation of the risk management framework.

The Bank carries out its activities, including providing services and performing operations in fully compliance with the management framework of its business. At the same time, the Bank has a comprehensive risk management framework that includes all the significant risks identified by the institution: credit risk, counterparty risk (including issuer risk), foreign exchange risk, interest rate risk, liquidity risk, operational risk, reputation risk, compliance risk. According to its policies and risk profile, the Bank is not allowed to take more risks than is able to tolerate. This rule is put into operation with the help of risk exposure limits and reporting thresholds. The risk management process involves identifying and continuously assessing risk positions, monitoring and controlling risks, and reporting the risk level to Bank’s management bodies (Supervisory Board and Management Board) through the Risk Committee.

31.2 Organization of the risk management function

The Bank has established an adequate and effective internal control mechanism at all levels, involving both the members of the Management Board and the other employees of the institution. Thus, each employee has the responsibility to manage the risks in order to prevent procedural errors and irregularities. It is very important to have an efficient internal control system to ensure the proper functioning of the institution.

The Code of Conduct for employees is a complementary document to the risk management strategy that clearly defines the acceptable and unacceptable behavior of employees, including illegal activities, lacking professional ethics and excessive risk taking for the bank.

31 RISK MANAGEMENT (CONTINUED)

31.2 Organization of the risk management function (continued)

The risk management function is responsible for identifying the risks to which the Bank is subject, measuring, evaluating and monitoring these risks and for the Bank's actual exposure to the respective risks. The risk management function within the Bank is carried out by the Risk Management, Compliance and AML Department which ensures the management of financial, operational, compliance, information security and business continuity risks, as well as the risk of money laundering and terrorist financing. Also, the risk management function is responsible for the capital management and the internal capital adequacy assessment process (ICAAP). The Risk Management, Compliance and AML Department of the Bank is an autonomous unit, separated from customer operations (lending or deposit activity) or trading and reports directly to the Supervisory Board through the Risk Committee, held quarterly, addressing significant risks to which the Bank is exposed. At the Executive Board level, specialized internal committees are set up to address individual risks, such as market and liquidity risks (ALCO), credit risk (Credit Risk Committee), financial risks (Financial Risk Committee), operational risks (Operational Risk Committee), information security risk (Information Security Committee), compliance risk (Compliance Committee), money laundering risk and terrorist financing (AML Committee)

The Bank’s risk policies address all significant risk categories and set standards that allow risks to be identified in a timely manner and managed appropriately. The Risk Management Department, Compliance and AML conducts regular monitoring to ensure that the total risk exposure does not exceed the established limits, namely that the Bank has sufficient capital to cover even the unlikely potential losses.

31.3 Management of individual risks

The Bank places a special emphasis on understanding the risk factors and a continuous review and discussion about possible developments / scenarios and their potential negative impact. The main objectives of risk management include ensuring that all significant risks are recognized at the time they are fully understood and properly described.

31.4 Credit risk

Credit risk is defined as the probability 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 one of most significat risk faced by the Bank.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The following table shows the maximum exposure to credit risk as at 31 December:

	31 December 2019	31 December 2018
Cash and cash equivalents with NBM	179,240,450	188,185,925
Mandatory reserves with NBM	481,268,040	512,524,575
Loans and advances to banks	214,461,966	142,754,526
Loans and advances to customers	2,407,032,911	2,079,338,464
Finance leases	8,979,566	10,862,416
Investments in debt securities	629,420,955	775,402,073
Investments in equity securities	1,200,000	1,200,000
Other financial assets	7,442,487	3,816,381
Total	**3,929,046,375**	**3,714,084,360**

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

	31 December 2019	31 December 2018
Financial guarantees	119,501,634	106,281,229
Credit commitments	423,593,646	328,174,750
Total	**543,095,280**	**434,455,979**

The Bank uses indicators for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk.

In addition, asset quality indicators have been introduced, on the basis of which the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and on additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, as well as restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio indicators allow for a clear overview of the portfolio quality, and represent one of the most important tools for the credit risk management process.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loss allowances

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below

Three-stage approach

Loans and advances to customers are broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- **Stage 1** comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3. Generally, all exposures are allocated to Stage 1 upon initial recognition. For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.
- **Stage 2** comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- **Stage 3** includes all defaulted exposures, i.e. as of the reporting date, there is both a significant increase in credit risk and objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.

Calculation of expected credit loss (ECL)

The following parameters are used in the calculation of expected credit loss:

- <u>Exposure at Default (EAD)</u>

EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. Based on historical data, estimates are made of the potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities. For financial guarantees, the EAD corresponds to the guaranteed amount.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

- *Probability of default (PD)*

The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters differentiate the risk levels of exposures according to the customer. There are used statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. In addition, the PDs over the remaining lifetime of an exposure are estimated. \

- *Loss Given Default (LGD)*

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our debtors. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. For PDs and LGDs, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors in the forecast year.

The **risk classification** system for small and medium clients comprises an important part of the process for determining an increase in credit risk and, consequently, the classification of the loan portfolio. Prior to initial disbursement, each credit exposure is assigned one of the risk classes – 1 to 8 (1 being the best and 8 the worst). Assigning a risk class implies an extensive analysis of multiple qualitative and quantitative criteria at client level, which are assessed in regular basis to identify the increase in credit risk through the classes.

ProCredit Bank grants new loan exposures to performing clients. Additional exposures for clients with risk classification 6, 7 or 8 are not allowed.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk

The following tables provides an overview of the respective gross and net amounts of allowances for expected credit losses on financial assets

31 December 2019	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents with NBM	1.19%	179,240,450	-	-	179,240,450
Gross carrying amount		**179,240,450**	**-**	**-**	**179,240,450**
Expected credit loss allowance		-			-
Carrying amount		**179,240,450**	**-**	**-**	**179,240,450**
Mandatory reserves with NBM	1.19%	483,570,765	-	-	483,570,765
Gross carrying amount		**483,570,765**	**-**	**-**	**483,570,765**
Expected credit loss allowance		(2,302,725)	-	-	(2,302,725)
Carrying amount		**481,268,040**	**-**	**-**	**481,268,040**
Loans and advances to banks	0.06%-0.99%	214,462,013	-	-	214,462,013
Gross carrying amount		**214,462,013**	**-**	**-**	**214,462,013**
Expected credit loss allowance		(47)	-	-	(47)
Carrying amount		**214,461,966**	**-**	**-**	**214,461,966**
Investments in debt securities	1.19%	629,473,750	-	-	629,473,750
Gross carrying amount		**629,473,750**	**-**	**-**	**629,473,750**
Expected credit loss allowance		(52,794)	-	-	(52,794)
Carrying amount		**629,420,955**			**629,420,955**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2018	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents with NBM	1.19%	188,185,925	-	-	188,185,925
Gross carrying amount		**188,185,925**	**-**	**-**	**188,185,925**
Expected credit loss allowance		-	-	-	-
Carrying amount		**188,185,925**	**-**	**-**	**188,185,925**
Mandatory reserves with NBM	1.19%	514,976,854	-	-	514,976,854
Gross carrying amount		**514,976,854**	**-**	**-**	**514,976,854**
Expected credit loss allowance		(2,452,279)	-	-	(2,452,279)
Carrying amount		**512,524,575**	**-**	**-**	**512,524,575**
Loans and advances to banks	0.06%-0.99%	142,779,509	-	-	142,779,509
Gross carrying amount		**142,779,509**	**-**	**-**	**142,779,509**
Expected credit loss allowance		(24,984)	-	-	(24,984)
Carrying amount		**142,754,526**	**-**	**-**	**142,754,526**
Investments in debt securities	1.19%	779,112,143	-	-	779,112,143
Gross carrying amount		**779,112,143**	**-**	**-**	**779,112,143**
Expected credit loss allowance		(3,710,070)	-	-	(3,710,070)
Carrying amount		**775,402,073**	**-**	**-**	**775,402,073**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2019	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers, net					
Risk Grade 1		-	-	-	-
Risk Grade 2	1.83 - 7.07	233,913,040	-	-	233,913,040
Risk Grade 3	23.04 - 26.61	-	11,526,684	-	11,526,684
Risk Grade 3	1.83 - 7.07	1,090,340,365	-	-	1,090,340,365
Risk Grade 3	7.07 - 26.61	-	13,280,100	-	13,280,100
Risk Grade 3	100.00%	-	-	605,781	605,781
Risk Grade 4	2.63 - 10.66	805,664,704	-	-	805,664,704
Risk Grade 4	4.79 - 26.61	-	18,443,279	-	18,443,279
Risk Grade 4	100.00%	-	-	4,252,792	4,252,792
Risk Grade 5	1.60 - 26.61	89,865,648	-	-	89,865,648
Risk Grade 5	1.60 - 69.96	-	83,084,716	-	83,084,716
Risk Grade 6	7.07 - 26.61	3,736,316	-	-	3,736,316
Risk Grade 6	2.25 - 26.61	-	35,227,377	-	35,227,377
Risk Grade 6	100.00%	-	-	138,798	138,798
Risk Grade 7	7.07%	1,166,705	-	-	1,166,705
Risk Grade 7	34.79 - 69.96	-	13,341,716	-	13,341,716
Risk Grade 8	7.07%	121,149	-	-	121,149
Risk Grade 8	100.00%	-	-	69,826,548	69,826,548
No risk classification	5.41 - 100	13,753,140	3,848,957	1,752,635	19,354,732
Gross carrying amount		**2,238,561,067**	**178,752,829**	**76,576,554**	**2,493,890,450**
Expected credit loss allowance		(31,807,320)	(13,361,400)	(41,688,818)	(86,857,539)
Carrying amount		**2,206,753,747**	**165,391,429**	**34,887,736**	**2,407,032,911**
Finance leases					
Grade 5	10.66%	9,419,592	-	-	9,419,592
Gross carrying amount		**9,419,592**	-	-	**9,419,592**
Expected credit loss allowance		(440,025)	-	-	(440,025)
Carrying amount		**8,979,566**	-	-	**8,979,566**

“No risk classification” exposures represent the exposures under EUR 50,000 (calculated based on on-balance and off-balance sheet exposure), which are not eligible for small and medium categorisation. “No risk classification” exposures do not include loans and advances to customers in Stage 3 which are assigned risk class, but whose exposure has decreased below EUR 50,000 as at 31 December 2019.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2018	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers, net					
Risk Grade 1		-	-	-	-
Risk Grade 2	2.84 - 3.41	226,200,956	-	-	226,200,956
Risk Grade 3	2.84 - 3.41	1,186,385,004	-	-	1,186,385,004
Risk Grade 4	2.84 - 3.41	497,319,351	-	-	497,319,351
Risk Grade 4	12.30 - 44.88	-	2,159,466	-	2,159,466
Risk Grade 5	2.84 - 3.41	115,467,167	-	-	115,467,167
Risk Grade 6	19.68 - 44.88	-	27,358,154	-	27,358,154
Risk Grade 6	100.00%	-	-	359,631	359,631
Risk Grade 7	44.88%	-	3,817,364	-	3,817,364
Risk Grade 8	44.88%	-	271,438	-	271,438
Risk Grade 8	100.00%	-	-	97,041,190	97,041,190
No risk classification	2.84 - 100	14,395,904	4,022,103	2,552,465	20,970,472
Gross carrying amount		**2,039,768,382**	**37,628,525**	**99,953,286**	**2,177,350,193**
Expected credit loss allowance		(24,001,099)	(8,280,223)	(65,730,408)	(98,011,729)
Carrying amount		**2,015,767,283**	**29,348,302**	**34,222,879**	**2,079,338,464**
Finance leases					
Grade 5	2.84%	11,015,873	-	-	11,015,873
Gross carrying amount		**11,015,873**	**-**	**-**	**11,015,873**
Expected credit loss allowance		(153,457)	-	-	(153,457)
Carrying amount		**10,862,416**	**-**	**-**	**10,862,416**

“No risk classification” exposures represent the exposures under EUR 50,000 (calculated based on on-balance and off-balance sheet exposure), which are not eligible for small and medium categorisation. “No risk classification” exposures do not include loans and advances to customers in Stage 3 which are assigned risk class, but whose exposure has decreased below EUR 50,000 as at 31 December 2018.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

Disclosure of the exposure by types of loans and the client risk class:

31 December 2019:	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Other loans	Total
Risk classification 1	-	-	-	-	-	-
Risk classification 2	184,062,131	60,742,742	634,851	-	-	**245,439,724**
Risk classification 3	795,586,857	308,074,381	-	565,009	-	**1,104,226,246**
Risk classification 4	584,923,070	241,090,694	-	2,347,011	-	**828,360,775**
Risk classification 5	99,456,418	72,500,233	-	993,713	-	**172,950,364**
Risk classification 6	8,072,079	30,612,422	-	417,990	-	**39,102,491**
Risk classification 7	12,394,377	1,301,196	-	812,847	-	**14,508,421**
Risk classification 8	47,383,658	17,534,569	-	5,029,469	-	**69,947,697**
No risk classification	2,175,421	915,069	10,920,705	5,336,641	6,895	**19,354,731**
Gross exposure	**1,734,054,011**	**732,771,306**	**11,555,556**	**15,502,681**	**6,895**	**2,493,890,450**
Expected credit loss allowance	(57,747,856)	(25,440,188)	(288,084)	(3,381,393)	(18)	**(86,857,539)**
Net exposure	**1,676,306,155**	**707,331,118**	**11,267,472**	**12,121,288**	**6,877**	**2,407,032,911**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2018:	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Other loans	Total
Risk classification 1	-	-	-	-	-	-
Risk classification 2	164,646,417	61,554,539	-	-	-	**226,200,956**
Risk classification 3	828,770,769	356,765,814	-	848,422	-	**1,186,385,004**
Risk classification 4	293,091,038	202,605,889	-	3,781,890	-	**499,478,818**
Risk classification 5	91,139,570	22,592,866	-	1,734,732	-	**115,467,167**
Risk classification 6	21,006,488	5,804,791	-	871,213	35,293	**27,717,785**
Risk classification 7	2,133,316	479,448	-	1,204,600	-	**3,817,364**
Risk classification 8	68,538,949	17,314,917	522,769	10,935,994	-	**97,312,628**
No risk classification	4,085,732	4,132,895	1,529,769	11,176,895	45,180	**20,970,471**
Gross exposure	**1,473,412,277**	**671,251,160**	**2,052,538**	**30,553,746**	**80,473**	**2,177,350,194**
Expected credit loss allowance	(66,306,298)	(21,077,028)	(302,287)	(10,317,559)	(8,557)	**(98,011,729)**
Net exposure	**1,407,105,979**	**650,174,132**	**1,750,251**	**20,236,187**	**71,916**	**2,079,338,464**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

The following table discloses the exposure by loan type and stage:

	Stage 1		Stage 2		Stage 3	
31 December 2019:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Business loans	1,590,014,100	22,520,675	91,027,948	6,486,354	53,011,964	28,740,827
Agricultural loans	631,429,659	8,892,885	83,928,227	6,757,935	17,413,420	9,789,368
Housing improvement loans	10,553,985	246,335	947,616	23,250	53,954	18,499
Consumer loans	6,563,038	147,418	2,842,427	93,850	6,097,216	3,140,125
Other loans	285	7	6,610	11	-	-
Total	**2,238,561,068**	**31,807,320**	**178,752,828**	**13,361,400**	**76,576,554**	**41,688,818**

	Stage 1		Stage 2		Stage 3	
31 December 2018:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Business loans	1,378,734,768	16,325,524	25,986,139	5,808,989	68,691,371	44,171,785
Agricultural loans	646,189,593	7,424,383	7,451,544	1,659,415	17,610,023	11,993,231
Housing improvement loans	1,444,719	24,447	85,050	18,489	522,769	259,352
Consumer loans	13,354,124	225,982	4,070,499	785,537	13,129,123	9,306,040
Other loans	45,180	764	35,293	7,793	-	-
Total	**2,039,768,383**	**24,001,099**	**37,628,525**	**8,280,223**	**99,953,285**	**65,730,408**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Breakdown of loan portfolio by days in arrears:
31 December 2019

	Current	1 up to 30 days	31 up to 60 days	61 up to 90 days	91 up to 180 days	> 180 days	Other impairment indicators	Total	Impairment allowance	Net loan amount
Business	1,634,888,193	53,958,076	2,978,410	1,765,881	1,176,244	27,859,394	11,427,814	1,734,054,011	57,747,856	1,676,306,155
Agriculture	688,272,538	31,025,935	815,417	519,797	-	7,687,946	4,449,674	732,771,306	25,440,188	707,331,118
Housing	9,406,513	2,095,089	-	-	53,954	-	-	11,555,556	288,084	11,267,472
Retail	8,790,882	2,750,599	352,802	495,604	1,204,960	1,475,222	432,613	15,502,681	3,381,393	12,121,288
Other	6,848	-	28	-	19	-	-	6,895	18	6,877
Total	**2,341,364,974**	**89,829,698**	**4,146,657**	**2,781,281**	**2,435,177**	**37,022,561**	**16,310,102**	**2,493,890,450**	**86,857,539**	**2,407,032,911**

31 December 2018

	Current	1 up to 30 days	31 up to 60 days	61 up to 90 days	91 up to 180 days	> 180 days	Other impairment indicators	Total	Impairment allowance	Net loan amount
Business	1,359,706,334	54,296,426	12,578,796	203,713	942,058	32,712,176	12,972,773	1,473,412,277	66,306,298	1,407,105,979
Agriculture	641,237,118	14,615,074	4,003,747	-	593,366	8,758,409	2,043,446	671,251,160	21,077,028	650,174,132
Housing	1,967,488	85,050	-	-	-	-	-	2,052,538	302,287	1,750,251
Retail	14,216,066	5,606,909	1,580,233	1,307,841	429,258	5,056,459	2,356,979	30,553,746	10,317,559	20,236,187
Other	43,891	35,592	769	51	-	170	-	80,473	8,557	71,916
Total	**2,017,170,896**	**74,639,052**	**18,163,544**	**1,511,606**	**1,964,682**	**46,527,215**	**17,373,198**	**2,177,350,194**	**98,011,729**	**2,079,338,464**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross outstanding amount as of 1 January	**2,039,720,840**	**37,593,232**	**100,036,121**	**2,177,350,194**
New financial assets originated	1,201,240,478	-	-	1,201,240,478
Modification of contractual cash flows that did not result in derecognition	-	-	-	-
Derecognitions	(296,229,685)	(22,765,606)	(14,771,036)	(333,766,327)
Decrease of loss allowances due to write- offs	-	-	(8,940,606)	(8,940,606)
Changes in interest accrual	1,178,182	(334,044)	6,321,523	7,165,661
Changes in the principal and disbursement fee amount	(476,942,468)	(30,185,847)	(26,825,868)	(533,954,183)
Transfer from stage 1 to Stage 2	(269,791,049)	269,791,049	-	-
Transfer from stage 1 to Stage 3	(9,232,712)	-	9,232,712	-
Transfer from stage 2 to Stage 1	62,004,379	(62,004,379)	-	-
Transfer from stage 2 to Stage 3	-	(13,551,568)	13,551,568	-
Transfer from stage 3 to Stage 2	-	1,669,026	(1,669,026)	-
Transfer from stage 3 to Stage 1	-	-	-	-
Net modifications due to foreign exchange fluctuations	(13,447,156)	(1,459,158)	(298,453)	(15,204,767)
Gross outstanding amount as of 31 December 2019	**2,238,500,809**	**178,752,705**	**76,636,935**	**2,493,890,449**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2018	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January	**1,772,357,199**	**51,587,723**	**236,034,343**	**2,059,979,265**
New financial assets originated	1,034,029,345	-		1,034,029,345
Modification of contractual cash flows that did not result in derecognition	-	-	-	-
Derecognitions	(255,981,810)	(9,533,430)	(20,244,411)	(285,759,651)
Decrease of loss allowances due to write- offs	-	-	(74,224,677)	(74,224,677)
Changes in interest accrual	(535,991)	199,587	(7,814,379)	(8,150,783)
Changes in the principal and disbursement fee amount	(450,135,337)	(19,770,933)	(36,321,057)	(506,227,327)
Transfer from stage 1 to Stage 2	(36,661,382)	36,661,382	-	-
Transfer from stage 1 to Stage 3	(2,029,604)	-	2,029,604	-
Transfer from stage 2 to Stage 1	16,484,658	(16,484,658)	-	-
Transfer from stage 2 to Stage 3	-	(10,758,211)	10,758,211	-
Transfer from stage 3 to Stage 2	-	6,242,228	(6,242,228)	-
Transfer from stage 3 to Stage 1	453,240	-	(453,240)	-
Net modifications due to foreign exchange fluctuations	(38,259,477)	(550,456)	(3,486,046)	(42,295,979)
Gross outstanding amount as of 31 December 2018	**2,039,720,841**	**37,593,232**	**100,036,121**	**2,177,350,194**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The following table shows the movement in allowances for expected credit losses for loans and advances to customers:

2019	Stage 1	Stage 2	Stage 3	Total
Opening Balance	**(24,001,077)**	**(8,272,430)**	**(65,738,222)**	**(98,011,729)**
New financial assets originated	(17,224,852)	-	-	**(17,224,852)**
Derecognitions	3,757,284	3,169,829	6,833,514	**13,760,627**
Transfer from stage 1 to Stage 2	4,832,891	(4,832,891)	-	-
Transfer from stage 1 to Stage 3	701,245	-	(701,245)	-
Transfer from stage 2 to Stage 1	(1,038,321)	1,038,321	-	-
Transfer from stage 2 to Stage 3	-	2,862,960	(2,862,960)	-
Transfer from stage 3 to Stage 2	-	(343,897)	343,897	-
Transfer from stage 3 to Stage 1	-	-	-	-
Increase in credit risk	(18,632,663)	(28,860,159)	(13,078,470)	**(60,571,292)**
Decrease in credit risk	19,664,868	21,619,224	25,208,880	**66,492,972**
Write-offs	-	-	8,353,998	**8,353,998**
Increase due to modifications that did not result in derecognition	-	-	-	-
Decrease due to modifications that did not result in derecognition	-	-	-	-
Net modifications due to foreign exchange fluctuations	133,312	257,644	(48,218)	**342,738**
Closing balance as of 31 Decembrie 2019	**(31,807,313)**	**(13,361,400)**	**(41,688,826)**	**(86,857,539)**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The following table shows the movement in allowances for expected credit losses for loans and advances to customers:

2018	Stage 1	Stage 2	Stage 3	Total
Opening Balance	**(21,251,444)**	**(8,748,322)**	**(137,967,842)**	**(167,967,607)**
New financial assets originated	(11,091,629)	-		**(11,091,629)**
Derecognitions	3,385,801	1,191,765	7,543,178	**12,120,745**
Transfer from stage 1 to Stage 2	503,255	(503,255)	-	-
Transfer from stage 1 to Stage 3	24,128	-	(24,128)	-
Transfer from stage 2 to Stage 1	(228,734)	228,734	-	-
Transfer from stage 2 to Stage 3	-	2,946,518	(2,946,518)	-
Transfer from stage 3 to Stage 2	-	(1,778,361)	1,778,361	-
Transfer from stage 3 to Stage 1	(7,796)	-	7,796	-
Increase in credit risk	(9,628,216)	(67,427,707)	(40,588,937)	**(117,644,860)**
Decrease in credit risk	13,849,490	65,332,718	44,633,664	**123,815,872**
Write-offs	-	-	60,126,683	**60,126,683**
Increase due to modifications that did not result in derecognition	-	-	-	-
Decrease due to modifications that did not result in derecognition	-	-	-	-
Net modifications due to foreign exchange fluctuations	444,067	485,478	1,699,522	**2,629,067**
Closing balance as of 31 Decembrie 2018	**(24,001,077)**	**(8,272,430)**	**(65,738,222)**	**(98,011,729)**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Movement of expected credit loss allowance for certificates issued by NBM

	2019	2018
	Stage 1	**Stage 1**
Balance at 1 January	**(3,710,070)**	**(20,155,188)**
New financial assets originated	(56,323,752)	(3,710,070)
Release due to derecognition	57,036,318	20,155,188
Variations due to the actualization of estimation methodology	2,944,709	-
Balance at 31 December	**(52,795)**	**(3,710,070)**

Disclosure on movement of expected credit loss allowance for mandatory reserves with NBM

	2019	2018
	Stage 1	**Stage 1**
Balance at 1 January	**(2,452,279)**	**(11,905,510)**
New financial assets originated	(1,088,802)	(11,924,205)
Derecognitions	1,225,240	21,253,466
Net modifications due to foreign exchange fluctuations	13,115	123,969
Balance at 31 December	**(2,302,725)**	**(2,452,279)**

Disclosure on movement of expected credit loss allowance for cash balances at NBM:

	2019	2018
	Stage 1	**Stage 1**
Balance at 1 January	**(230,899)**	**-**
Increase in credit risk	(562,329)	(230,899)
Decrease in credit risk	793,228	-
Balance at 31 December	**-**	**(230,899)**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Disclosure on movement of expected credit loss allowance for finance leases

As of December 31, 2019, no payments from financial lease were past-due. On December 31, 2019, the Bank had concluded a financial leasing contract (December 31, 2018 - one). See below the loss allowances movement for the finance lease receivable:

	2019	2018
Balance at 1 January	**(153,457)**	**(171,715)**
Increase in credit risk	(306,098)	(7,189)
Decrease in credit risk	18,994	18,250
Net modifications due to foreign exchange fluctuations	535	7,197
Balance at 31 December	**(440,025)**	**(153,457)**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors. Below are described the main movements in the tables above:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- **Foreign exchange translations of assets denominated in foreign currencies and other movements; and**
- write-offs of allowances related to assets that were written off during the period.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Amounts arising from Expected Credit Losses (ECL):

2019	Investments in debt securities	Finance leases	Balances with the NBM	Loans and advances to banks	Loans and advances to customers	Other financial assets	Total
Net remeasurement of loss allowance	59,981,027	(286,526)	369,027	26,182	17,221,024	(943,063)	76,367,670
New financial assets originated or purchased	(56,323,752)	-	-	-	(17,224,852)	(885,793)	(74,434,397)
Total	**3,657,275**	**(286,526)**	**369,027**	**26,182**	**(3,828)**	**(1,828,857)**	**1,933,274**
Recoveries of amounts previously written off	-	-	-	-	18,060,464	-	18,060,464
Discounting effect	-	-	-	-	(1,676,728)	-	(1,676,728)
Total	**3,657,275**	**(286,526)**	**369,027**	**26,182**	**16,379,908**	**(1,828,857)**	**18,317,010**

2018	Investments in debt securities	Finance leases	Balances with the NBM	Loans and advances to banks	Loans and advances to customers	Other financial assets	Total
Net remeasurement of loss allowance	341,836,220	18,258	9,105,486	(8,265)	(22,097,488)	775,635	329,629,846
New financial assets originated or purchased	(325,391,102)	-	-	-	(11,091,629)	(757,125)	(337,239,856)
Total	**16,445,118**	**18,258**	**9,105,486**	**(8,265)**	**(33,189,117)**	**18,510**	**(7,610,010)**
Recoveries of amounts previously written off	-	-	-	-	23,044,910	-	23,044,910
Adjustments on implementation of IFRS 9	-	-	-	-	2,749,987	-	2,749,987
Total	**16,445,118**	**18,258**	**9,105,486**	**(8,265)**	**(7,394,221)**	**18,510**	**18,184,887**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Collateral

According to credit policy, only very small credit exposures and / or credit exposures on short term can be released without being fully guaranteed.

Credit exposures with a higher risk profile are always covered by strong collateral, usually through mortgages. The collateral can be classified into the following categories:

	Mortgage	Cash collateral	Other (collateral)
31 December 2019	46.3%	12.4%	41.2%
31 December 2018	53.3%	6.2%	40.4%

Cash collateral includes deposits and, starting from 2016, financial guarantee facility.

During the years 2019 and 2018 the Bank registered as collaterals guarantees, based on the Guarantee Agreement (“InnovFin SME Guarantee Facility”) dated 21 January 2016 concluded between The European Investment Fund (as Guarantor) and BC ProCredit Bank SA (as Intermediary) and ProCredit Holding AG & CO.KGAA (as Coordination entity), according to which the Guarantor issues an irrevocable and unconditional financial guarantee in favour of the Intermediary relating to portfolio, in the rate of 50%. During 2018 the Bank also registered as collateral guarantees, based on DCFTA Agreement Initiative East - Guarantee Facility – Guarantee Agreement dated 26.10.2017, according to which the Guarantor issues a financial guarantee in favour of the Intermediary relating to portfolio, in the rate up to 70%. For expected credit loss calculation, the financial guarantees under this contract are treated as cash.

Other collateral represents pledges and guarantees from legal entities and private individuals.

The bank holds for loans to customers, mortgage guarantees on land and buildings, deposits and as other pledges- collateral in the form of pledge on machinery, equipment. Fair value estimates are based on the value of collateral assessed at the date the loan is granted and are regularly updated.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The category “Mortgage” includes land, residential and commercial buildings, “Other pledges”, includes pledges on movable assets (cars, equipment, stocks, etc.). Information about collateral (based on primary guarantee) for each loan category as at 31 December is as follows:

	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Other loans	Total
As at 31 December 2019:						
Unsecured loans	13,662,102	1,541,899	467,783	932,331	6,895	16,611,009
Loans collateralised by:						
-real estate (mortgage)	929,844,638	193,640,446	11,087,773	13,238,674	-	1,147,811,532
-deposits	3,628,815	-	-	-	-	3,628,815
-financial guarantee facility	264,552,085	39,513,832	-	-	-	304,065,917
-other	522,366,372	498,075,129	-	1,331,676	-	1,021,773,177
Total loans and advances to customers	**1,734,054,011**	**732,771,306**	**11,555,556**	**15,502,681**	**6,895**	**2,493,890,450**
As at 31 December 2018:						
Unsecured loans	431,552	3,067,731	72,357	876,255	80,473	4,528,369
Loans collateralised by:						
- real estate (mortgage)	867,187,110	243,755,578	1,980,180	24,850,813	-	1,137,773,681
- deposits	2,473,938	-	-	-	-	2,473,938
- financial guarantee facility	115,980,677	14,214,022	-	-	-	130,194,699
- other	487,339,000	410,213,829	-	4,826,677	-	902,379,507
Total loans and advances to customers	**1,473,412,277**	**671,251,160**	**2,052,538**	**30,553,746**	**80,473**	**2,177,350,194**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Presentation of the collateral amounts based on exposure by type and principal collateral for each exposure

As at 31 December 2019:	**Business loans**	**Agricultural loans**	**Housing improvement loans**	**Consumer loans**	**Other loans**	**Total**
Collateral type:						
- mortgage	1,835,337,476	416,012,384	18,544,233	68,056,379	-	**2,337,950,472**
- deposits	5,567,637	-	-	-	-	**5,567,637**
- financial guarantee	181,199,246	26,597,633	-	-	-	**207,796,879**
- other assets	1,043,791,993	784,113,796	-	4,113,361	-	**1,832,019,150**
Total	**3,065,896,352**	**1,226,723,813**	**18,544,233**	**72,169,741**	**-**	**4,383,334,138**

As at 31 December 2018:	**Business loans**	**Agricultural loans**	**Housing improvement loans**	**Consumer loans**	**Other loans**	**Total**
Collateral type:						
- mortgage	1,817,367,253	511,441,179	4,860,954	139,358,330	-	**2,473,027,716**
- deposits	6,342,429	-	-	-	-	**6,342,429**
- financial guarantee	79,756,067	10,012,902	-	-	-	**89,768,969**
- other assets	1,005,563,415	657,860,303	-	15,588,693	-	**1,679,012,411**
Total	**2,909,029,165**	**1,179,314,383**	**4,860,954**	**154,947,023**	**-**	**4,248,151,525**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The effect of collateral at 31 December 2019:

2019	**Over-collateralised assets**		**Under-collateralised assets**		**Total Carrying value of the assets, net**	**Total Fair value of collateral**
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**		
Business	1,587,444,819	3,885,039,383	88,861,336	67,628,133	1,676,306,155	3,952,667,516
Agriculture	698,702,122	1,592,896,283	8,628,996	5,680,740	707,331,118	1,598,577,023
Housing improvement	10,810,729	20,635,167	456,743	-	11,267,472	20,635,167
Consumer	11,168,248	80,788,083	953,041	253,931	12,121,288	81,042,014
Other	-	-	6,877	-	6,877	-
Total	**2,308,125,918**	**5,579,358,916**	**98,906,993**	**73,562,804**	**2,407,032,911**	**5,652,921,720**

2018	**Over-collateralised assets**		**Under-collateralised assets**		**Total Carrying value of the assets, net**	**Total Fair value of collateral**
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**		
Business	1,357,601,356	3,631,369,283	49,504,623	46,850,712	1,407,105,979	3,678,219,996
Agriculture	630,527,498	1,497,582,485	19,646,634	13,235,695	650,174,132	1,510,818,180
Housing improvement	1,679,118	4,860,954	71,133	-	1,750,251	4,860,954
Consumer	18,956,173	167,807,211	1,280,014	1,777,569	20,236,187	169,584,779
Other	-	-	71,916	-	71,916	-
Total	**2,008,764,144**	**5,301,619,933**	**70,574,320**	**61,863,976**	**2,079,338,464**	**5,363,483,909**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The following table represents the sum of the exposure by stages and the level of their coverage with collateral:

			Gross exposure			Fair value of collateral
As at 31 December 2019:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	13,558,877	16,730	3,035,402	-	-	-
Loans collateralised by:						
- mortgage	1,019,508,339	72,633,689	55,669,503	2,016,741,230	201,786,353	119,422,889
- deposits	3,628,815	-	-	5,567,637	-	-
- financial guarantee	296,326,108	7,739,809	-	202,378,748	5,418,132	-
- other assets	905,538,928	98,362,600	17,871,649	1,636,072,161	162,436,632	33,510,358
Total	**2,238,561,068**	**178,752,828**	**76,576,554**	**3,860,759,775**	**369,641,116**	**152,933,247**

			Gross exposure			Fair value of collateral
As at 31 December 2018:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	3,380,253	376,284	771,833	-	-	-
Loans collateralised by:						
- mortgage	1,033,447,013	25,421,200	78,905,467	2,199,327,707	92,394,375	181,305,633
- deposits	2,473,938	-	-	6,342,429	-	-
- financial guarantee	130,194,699	-	-	89,768,969	-	-
- other assets	870,272,481	11,831,041	20,275,985	1,603,734,123	38,010,894	37,267,394
Total	**2,039,768,383**	**37,628,525**	**99,953,285**	**3,899,173,229**	**130,405,269**	**218,573,027**

The fair value of residential real estate collateral at the end of the reporting period was estimated by indexing the values determined by the Bank’s internal appraisal staff at the time of loan inception for the average changes in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank’s internal appraisal staff by considering the condition and location of the assets accepted as collateral

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Credit portfolio risk from customer lending

Diversifying the portfolio of credit exposure is a very effective tool in reducing credit risk. The core business of the Bank, lending to small (exposures up to EUR 250,000) and medium enterprises (exposures more than EUR 250,000), 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.

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 157 credit exposures of more than EUR 250,000 (2018: 125 credit exposures).

Portfolio structure is reviewed regularly by the Risk Management Department and Prevention and Combating Money Laundering in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, the exposure to certain sectors of the economy is limited.

The Bank follows a rule that limits concentration risk in its loan portfolio by ensuring that large exposures (greater than 10% of regulatory capital) require the approval of the Risk Management Committee at Group level. No 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 expected credit loss allowance.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

As at 31 December 2019	Business	Agriculture	Housing	Retail	Other	Total
< 50,000 EUR	126,586,809	59,583,537	2,716,751	8,850,165	6,895	197,744,157
50,000 la 250,000 EUR	740,689,313	496,202,221	3,389,182	6,652,516	-	1,246,933,232
> 250,000 EUR	866,777,890	176,985,547	5,449,623	-	-	1,049,213,060
Total	**1,734,054,011**	**732,771,306**	**11,555,556**	**15,502,681**	**6,895**	**2,493,890,450**
As at 31 December 2018						
< 50,000 EUR	153,947,515	70,737,918	2,052,538	17,934,562	80,473	244,753,005
50,000 la 250,000 EUR	655,992,275	388,579,989	-	12,619,184	-	1,057,191,449
> 250,000 EUR	663,472,487	211,933,253	-	-	-	875,405,740
Total	**1,473,412,277**	**671,251,160**	**2,052,538**	**30,553,746**	**80,473**	**2,177,350,194**

31 RISK MANAGEMENT (CONTINUED)

3.15. Counterparty risk, including issuer risk

The Bank defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty and issuer risks evolve especially from the Bank’s need to keep liquid assets to reduce liquidity risk, i.e. to make a liquidity reserve for possible stress periods. The liquidity reserve is usually placed with highly rated OECD banks with short maturities. Furthermore, the Bank has a structural exposure towards the National Bank of Moldova in the form of mandatory reserve, which size 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. Counterparty risk is managed in accordance with the principle that liquidity should be placed securely and, to the extent possible, in a diversified manner.

Exposures to counterparties are managed on the basis of a system of limits. The Bank only concludes transactions with counterparties that have been previously analyzed and for which limits have been approved. 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 ALCO Committee.

The Bank ensures through its ALCO Committee that each counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, typically performed by the Risk Management Department, Compliance and AML function in collaboration with the Treasury Unit.

The Treasury Policy prohibits the Bank to carry on activities of speculative transactioning. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (T-bills, bonds or certificates) with the prior approval of the Risk Management Committee at Group level. Placing liquidity in National Bank of Moldova certificates does not require approval.

31 RISK MANAGEMENT (CONTINUED)

3.15. Counterparty risk, including issuer risk (continued)

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

	31 December 2019	%	31 December 2018	%
Loans and advances to banks, including:	**214,461,966**	**5.73%**	**142,754,526**	**4.00%**
- OECD banks	210,349,037	5.62%	136,833,173	3.83%
- non-OECD banks	4,112,929	0.11%	5,921,352	0.17%
Exposure with NBM, including:	**1,110,688,995**	**29.69%**	**1,336,184,428**	**37.44%**
- Mandatory reserves	481,268,040	12.86%	512,524,575	14.36%
- Cash in Nostro accounts with NBM	-	0.00%	48,257,780	1.35%
- Certificates issued by NBM	629,420,955	16.82%	775,402,073	21.73%
Loans and advances to customers	**2,407,032,911**	**64.34%**	**2,079,338,464**	**58.26%**
Finance leases	**8,979,566**	**0.24%**	**10,862,416**	**0.30%**
Total	**3,741,163,438**	**100.00%**	**3,569,139,834**	**100.00%**

The total exposure to banks increased in 2019 compared to the end of 2018, amounting to MDL 214.5 million (2018: MDL 142.8 million). Exposure towards the NBM, vice versa, has decreased as compared to the previous year, amounting to MDL 1,110.7 million (2018: MDL 1,287.9 million), due to increase of loan portfolio in national currency. One of the reasons of a high exposure to the NBM is high ratio of mandatory reserves in MDL – 42.5% as well as those in convertible currency – 17% as of 31 December 2019. Thus, at the end of 2019 the exposures to banking groups accounted for 16.2% of total exposures, and to NBM – 83.8% (2018: 10.0% and 90.0%, respectively).

The exposure is distributed across three OECD and one non-OECD banking groups.
The exposure to the National Bank of Moldova is primarily related to the mandatory reserve requirement. Other exposures to the National Bank of Moldova relate to a Nostro account, overnight placements and NBM certificates with a maturity up to 14 days. As at the end of 2019 the Bank had NBM certificates in the statement of financial position amounting to MDL 630 million (2018: 780 million).

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk

Currency risk is the risk that the Bank will suffer losses due to fluctuations in the foreign exchange rate. Currency risk may have adverse effects on revenue and may lead to lower own funds rates. When the Bank's assets and liabilities are denominated in foreign currency and the bank maintains an open foreign currency position the Bank’s results may be negatively affected in case of exchange rates unfavorably move.

Currency risk management is guided by the Foreign Currency Risk Management Policy, which established limits for open foreign currency positions.

The Bank’s Treasury Unit is responsible for continuous monitoring the developments of exchange rates and foreign currency markets. The Treasury Unit also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at the end of the day; long or short open 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 and currency swaps. The Bank's foreign currency exposures are monitored and controlled on a daily basis by the Bank’s risk controlling function.

Developments on the foreign exchange markets and the currency positions are regularly reported to the Bank’s ALCO Committee, which is authorised to take strategic decisions with regard to treasury activities. The Bank's exposure to currency risk is reported quarterly within the Risk Committee.

The Bank aims to close currency positions and ensure 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 currency position limits. This mechanism helps to ensure that the Bank’s OCP does not exceed 10 % of bank’s capital. Exceptions from the limit or strategic positions are subject to approval by the Supervisory Board.

The following table shows the distribution of the Bank’s balance sheet positions of significant operating currencies, which are USD and EUR.

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk

As at 31 December 2019	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents with NBM	38,248,464	17,933,261	-	123,058,725	179,240,450
Mandatory reserves with NBM	121,037,466	41,297,108	-	318,933,465	481,268,040
Loans and advances to banks	101,974,886	109,372,002	3,115,078	-	214,461,966
Loans and advances to customers	1,294,056,120	266,944,999	-	846,031,792	2,407,032,911
Finance lease	8,979,566	-	-	-	8,979,566
Investments in debt securities	-	-	-	629,420,955	629,420,955
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	850,647	4,001,755	6,462	2,583,624	7,442,487
Total assets	**1,565,147,149**	**439,549,125**	**3,121,540**	**1,921,228,561**	**3,929,046,375**
Liabilities					
Due to customers	758,834,996	236,464,701	1,907,382	1,165,005,175	2,162,212,253
Borrowed funds	662,093,183	173,467,940	-	159,379,085	994,940,208
Subordinated debt	126,330,935	-	-	-	126,330,935
Provisions	1,156,532	2,433,430	10,425	1,504,148	5,104,535
Other financial liabilities	26,154,430	10,737,485	-	5,491,586	42,383,501
Total liabilities	**1,574,570,076**	**423,103,555**	**1,917,807**	**1,331,379,994**	**3,330,971,432**
Net position	(9,422,927)	16,445,570	1,203,733	589,848,567	598,074,943
Off-balance sheet exposures	**211,486,289**	**42,696,592**	**2,258,110**	**286,654,289**	**543,095,280**

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

As at 31 December 2018	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents with NBM	35,444,332	23,727,708	-	129,013,884	188,185,925
Mandatory reserves with NBM	82,710,007	31,337,752	-	398,476,815	512,524,575
Loans and advances to banks	89,181,536	47,913,385	5,659,605	-	142,754,526
Loans and advances to customers	1,038,908,945	345,738,000	-	694,691,519	2,079,338,464
Finance lease	10,862,416	-	-	-	10,862,416
Investments in debt securities	-	-	-	775,402,073	775,402,073
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	687,399	2,705,829	311	422,843	3,816,381
Total assets	**1,257,794,637**	**451,422,674**	**5,659,915**	**1,999,207,134**	**3,714,084,360**
Liabilities					
Due to customers	530,241,985	206,536,516	2,595,406	1,199,066,657	1,938,440,564
Borrowings	579,666,765	257,736,335	-	265,327,655	1,102,730,756
Subordinated debt	129,588,717	-	-	-	129,588,717
Provisions	633,168	2,307,221	30,161	745,855	3,716,404
Other financial liabilities	7,687,457	4,942,790	12,777	6,256,269	18,899,293
Total liabilities	**1,247,818,091**	**471,522,862**	**2,638,344**	**1,471,396,436**	**3,193,375,733**
Net position	9,976,546	(20,100,188)	3,021,571	527,810,698	520,708,627
Off-balance sheet exposures	**140,887,319**	**40,245,014**	**2,165,110**	**251,158,535**	**434,455,979**

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

To assess the Bank’s currency risk for for the calculation of the economic capital, 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 eight 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 MDL 2,805,332 (2018: MDL 2,756,696).

Overall, in 2019 currency risk was low as the Bank managed to keep its currency positions within the limits set in the Foreign Currency Risk Management Policy. The table below shows the impact on the Bank’s profit of changes in foreign exchange rates against local currency, assuming that all other market variables remain constant:

Estimated change of exchange rates, (%)	Currency	31 December 2019 Impact, Profit/(Loss), MDL’000	31 decembrie 2018 Impactul, Profit/ (Pierdere), MDL’000
	USD	(29)	(5,025)
+25	EUR	(312)	2,494
	USD	29	5,025
-25	EUR	312	(2,494)

31.7 Interest rate risk

Interest rate risk is the risk of incurring losses due to changes in market interest rates and results mainly from the differences between the repricing maturities of assets and liabilities.

To manage interest rate risk, the Bank primarily issues variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans to customers.

The most important indicator for the management of interest rate risk is the economic value impact and interest income impact. The impact on the economic value analyzes the potential losses incurred by the Bank under certain changes in the interest rates on assets and liabilities. Economic value impact indicator is based on various parallel changes in interest rate curves. According to the policy, EUR and USD applies a change of + / -200 basis points and for MDL the applied shock is determined based on the biggest historical fluctuation of interest rates for the last 7 years.

31 RISK MANAGEMENT (CONTINUED)

31.7 Foreign currency risk (continued)

MDL shocks are different for the internal rates, the Bank's specific rates and the external rates, i.e. the market. The potential economic impact on the Bank's balance sheet in the worst case scenario (the interest rate shocks being applied to each currency in a direction that adversely affects the Bank) should not exceed 15% of the capital for all currencies, with a reporting limit set at 10 % as early warning indicator.

During 2019, the impact on the economic value of capital was permanently below 10%. At 31 December 2019, this indicator was 3,7% (2018: 1,4%), increasing compared to the previous year due to the change in the structure of assets and bonds sensitive to interest rates.

In addition, the Bank analyses the impact on interest rate earnings for the past 12 months. For this index a capital limit of 10% was established for all currencies relevant to interest rate risk.

The model for calculating the risk indicators of interest rate assumes that exactly the same structure of the balance sheet is used, that each cash flow is renewed by the same amount with interest rates only post-shock.

This scenario analysis shows the following impact of an interest rate fluctuation on the Bank’s profit as at 31 December 2019, following an interest rate shock of 200 basic points in EUR/USD and a possible change for MDL, from the perspective of historical fluctuations of 1300 basic points for internal rates and 1110 basic points for market rates (December 2018: 420 basic points for internal rates and as well as market rates), considering that the Bank is sensitive to the increase of long-term interest rates. At the same time, in the short term, when calculating the impact of interest income over the next 12 months, the Bank is sensitive to decrease of interest rates in the MDL, where a shock of 380 basis points for both internal rates and for market rates was considered. The magnitude of the shock for the local currency stems from the historical analysis of interest rates on time deposits with a maturity of 6-12 months but the shock can be adjusted if the Bank is sensitive to decrease of interest rates and the application of the shock would result in negative rates. Thus, for this purpose, the refinancing cost of the Bank was used to quantify the impact indicator on interest income.

The total result of the risk indicators (the economic value impact and the interest earnings impact) is equal to the sum of the absolute values of the indices per currency.

The tables below show the Bank's exposure to interest rate risk as of December 31, 2019 and December 31, 2018. The table includes the Bank's financial assets and liabilities at their carrying amounts, classified according to the nearest date between the date of the contractual change in interest and due date.

31 RISK MANAGEMENT (CONTINUED)

31.7 Foreign currency risk (continued)

2019	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets						
Cash and balances with NBM	179,240,450	179,240,450	-	-	-	-
Mandatory reserves with NBM	481,268,040	481,268,040	-	-	-	-
Loans and advances to banks	214,461,966	214,461,966	-	-	-	-
Loans and advances to customers	2,407,032,911	809,230,606	913,570,342	119,741,386	546,525,690	17,964,887
Finance leases	8,979,566	368,952	344,425	688,849	5,510,793	2,066,547
Investments in debt securities	629,420,955	629,420,955	-	-	-	-
Investments in equity securities	1,200,000	-	-	-	-	1,200,000
Total financial assets	**3,920,403,888**	**2,313,990,969**	**913,914,766**	**120,430,236**	**552,036,483**	**20,031,435**
Liabilities						
Deposits from customers	2,162,212,253	1,406,538,176	188,996,026	296,435,279	270,242,773	-
Borrowed funds	994,940,208	276,284,895	718,655,313	-	-	-
Subordinated debt	126,330,935	-	126,330,935	-	-	-
Total financial liabilities	**3,283,483,396**	**1,682,823,070**	**1,033,982,274**	**296,435,279**	**270,242,773**	**-**
Net exposure to interest rate	**636,920,492**	**631,167,898**	**(120,067,508)**	**(176,005,043)**	**281,793,710**	**20,031,435**

31 RISK MANAGEMENT (CONTINUED)

31.7 Foreign currency risk (continued)

2018	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Cash and balances with NBM	188,185,926	188,185,926	-	-	-	-
Mandatory reserves with NBM	512,524,575	512,524,575	-	-	-	-
Loans and advances to banks	142,754,526	142,754,526	-	-	-	-
Loans and advances to customers	2,079,338,464	687,442,157	808,905,478	186,601,371	381,642,307	14,747,153
Finance leases	10,862,416	394,475	360,963	721,927	5,775,416	3,609,635
Investments in debt securities	775,402,073	775,402,073	-	-	-	-
Investments in equity securities	1,200,000	-	-	-	-	1,200,000
Total financial assets	**3,709,067,980**	**2,306,703,732**	**809,266,441**	**187,323,297**	**387,417,722**	**18,356,787**
Liabilities						
Deposits from customers	1,938,440,564	1,437,117,079	89,210,464	266,552,642	145,560,380	-
Borrowed funds	1,102,730,756	252,077,338	607,739,576	226,418,864	16,494,978	-
Subordinated debt	129,588,717	-	129,588,717	-	-	-
Total financial liabilities	**3,170,760,036**	**1,689,194,416**	**826,538,756**	**492,971,506**	**162,055,357**	**-**
Net exposure to interest rate	**538,307,944**	**617,509,316**	**(17,272,315)**	**(305,648,209)**	**225,362,365**	**18,356,787**

At the end of the year, the Bank's interest rate risk is assessed as low.

31 **RISK MANAGEMENT (CONTINUED)**

31.7 Foreign currency risk (continued)

The table below shows the impact indicator on economic value and interest income in the baseline scenario:

			2019			2018
	Interest rate change	**Impact on profit or loss**	**Impact on equity**	**Interest rate change**	**Impact on profit or loss**	**Impact on equity**
MDL	13,0%/ 11,1% (ascending shock) 3,8%% (descending shock)	-10.632	-20.136	4.2%	2.543	-24.326
EUR	2%	-11.506	812	2%	5.438	3.063
USD	2%	-490	-1.241	2%	179	-60
Total		**22.628**	**22.189**		**8.160**	**27.448**

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk

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 an interest rates higher than the market one.

The Bank’s ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The Treasury Unit manages the Bank’s liquidity on a daily basis and is responsible for the execution of the ALCO decisions. Compliance with strategies, policies and limits is constantly monitored by the Risk Management Department, Compliance and AML functions.

In addition to the requirements set by the National Bank of Moldova, the Bank applies other tools for assessment of this risk established in Liquidity Risk Management Policy and the Treasury Policy. Limit breaches and exceptions to these policies are subject to decisions of the Supervisory Board.

Treasury Unit manages liquidity on a daily level using daily liquidity risk report. 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 instrument 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 risk scenario (stress test).

Based on the gap analysis, a set of key liquidity risk indicators and early warning indicators are calculated and are closely monitored.

The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which estimates if the Bank has sufficient liquidity in relation to the liquidity inflows and outflows 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. As of 31.12.2019 the Sufficient Liquidity Indicator of the Bank was equal to 3,3 (31.12.2018: 1,8).

Another key liquidity risk indicator is the "survival period". The survival period is the period during which the Bank can fulfill all its payment obligations without the need to generate additional (still uncontracted) funds, i.e. the period in which the Bank has no negative liquidity gaps in any of the maturity bands. The defined limit for minimum survival period is at least 90 days for the level of aggregated currencies, as well as for the foreign currencies and the local currency separately. At the end of 2019, survival period for all currencies was over 90 days.

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

The Bank also minimizes its dependence on the interbank market. The Liquidity Risk Management Policy stipulates that the total amount of interbank loans may not exceed 40% of its available funding lines and overnight funds must not exceed 4% of total liabilities. Throughout 2019 these indicators were equal to 0%, as the Bank did not use either interbank credit lines or overnight loans for liquidity management.

This is complemented by the early warning indicators.

Another important early warning indicator is the concentration of deposits, calculated as share of 5 largest depositors, non-financial customers, or of all depositors, non-financial clients, with a share of more than 1% in the total non-financial customer deposit portfolio (where all deposits of one client are considered as one), which can be withdrawn within the next 30 days from the total non-financial customer deposits. The reporting threshold is set at the assumptions regarding the outflows of deposits, used in the risk scenario for the deposits of such clients. This indicator shows a possible liquidity risk that may arise from the concentration that restricts a possible concentration of funding. As at 31 December 2019, the reporting trigger for the Bank was set at 11% and the Bank recorded a value of 8.2% for this indicator.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy also defines reporting triggers. If the sufficient liquidity indicator drops below 1.2%, if the liquidity position on one of maturity bands becomes negative, or if the depositor concentration rises above 11%, the ALCO must decide on appropriate measures.

In order to protect 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.

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.

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

As at 31 December 2019	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1-5 years	More than 5 years	Total
Assets								
Cash and balances with NBM	179,240,450	179,240,450	-	-	-	-	-	179,240,450
Mandatory reserves with NBM	481,268,040	481,268,040	-	-	-	-	-	481,268,040
Loans and advances to banks	214,461,966	201,389,903	-	-	3,441,860	9,630,250	-	214,462,013
Loans and advances to customers	2,407,032,911	130,765,482	187,960,656	232,861,414	443,297,968	1,515,072,181	213,109,947	2,723,067,648
Finance leases	8,979,566	156,264	308,892	464,340	909,906	6,698,686	2,244,054	10,782,142
Investments in debt securities	629,420,955	630,000,000	-	-	-	-	-	630,000,000
Investments in equity securities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	7,442,487	7,501,528	-	-	-	-	-	7,501,528
Total financial assets	**3,929,046,375**	**1,630,321,667**	**188,269,548**	**233,325,754**	**447,649,734**	**1,531,401,117**	**216,554,001**	**4,247,521,821**
Liabilities								
Deposits from customers	2,162,212,253	1,252,769,651	51,895,915	90,339,598	302,880,321	524,253,617	-	2,222,139,102
Borrowed funds	994,940,208	7,661,647	33,735,898	78,360,045	90,894,778	697,357,734	142,754,705	1,050,764,807
Subordinated debt	126,330,935	-	-	4,236,913	4,236,913	33,825,847	138,950,965	181,250,638
Provisions	5,104,535	2,935	40,848	2,357,442	440,892	1,822,229	440,188	5,104,535
Other financial liabilities	42,383,500	17,620,195	1,512,253	1,730,385	10,563,856	10,956,811	-	42,383,500
Total financial liabilities	**3,330,971,431**	**1,278,054,428**	**87,184,914**	**177,024,383**	**409,016,760**	**1,268,216,238**	**282,145,858**	**3,501,642,582**
Financial guarantees	119,501,634	1,540,624	13,782,005	9,560,389	17,320,156	77,298,461	-	119,501,634
Loan commitments	423,593,646	9,204,200	25,888,111	29,119,054	42,623,640	181,329,782	135,428,860	423,593,646
Net liquidity gap	**598,074,944**	**352,267,239**	**101,084,634**	**56,301,371**	**38,632,974**	**263,184,879**	**(65,591,857)**	**745,879,239**

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

As at 31 December 2018	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1-5 years	More than 5 years	Total
Assets								
Cash and balances with NBM	188,185,925	188,185,925						188,185,926
Mandatory reserves with NBM	512,524,575	512,524,575						512,524,575
Loans and advances to banks	142,754,526	142,754,526						142,754,526
Loans and advances to customers	2,079,338,464	101,381,789	176,664,073	212,940,960	468,423,672	1,208,221,716	111,040,109	2,278,672,319
Finance leases	10,862,416	168,036	318,563	485,065	956,442	7,054,547	3,873,536	12,856,189
Investments in debt securities	775,402,073	780,000,000						780,000,000
Investments in equity securities	1,200,000						1,200,000	1,200,000
Other financial assets	3,816,381	3,995,212			(97,570)			3,897,642
Total financial assets	**3,714,084,361**	**1,729,010,063**	**176,982,636**	**213,426,025**	**469,282,544**	**1,215,276,263**	**116,113,645**	**3,920,091,176**
Liabilities								
Deposits from customers	1,938,440,564	1,380,808,989	57,635,093	94,204,493	272,781,201	163,383,717		1,968,813,493
Borrowed funds	1,102,730,756	6,378,131	90,645,612	74,014,877	357,911,505	553,680,106	96,623,964	1,179,254,196
Subordinated debt	129,588,717	0	0	6,122,470	4,554,520	157,961,136	0	168,638,126
Provisions	3,716,404	2,376,248	71,601	112,776	626,410	529,369	0	3,716,404
Other financial liabilities	18,899,294	18,759,444			139,850			18,899,294
Total financial liabilities	**3,193,375,735**	**1,408,322,812**	**148,352,305**	**174,454,616**	**636,013,487**	**875,554,329**	**96,623,964**	**3,339,321,513**
Financial guarantees	106,281,229	6,016,985	5,401,822	5,614,789	49,174,893	40,021,312	51,428	106,281,229
Loan commitments	328,174,750	14,815,747	30,163,855	46,453,710	82,071,250	114,486,707	40,183,480	328,174,750
Net liquidity gap	**520,708,625**	**320,687,251**	**28,630,330**	**38,971,409**	**(166,730,942)**	**339,721,935**	**19,489,681**	**580,769,664**

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

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 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 available assets of the Bank should always exceed the expected debts, as calculated by applying the abovementioned 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.

For stress situations the Bank approved a contingency funding plan, where all the steps to be taken in case of liquidity problems are described and the responsible persons. At the end of 2019 the Bank had a contracted stand-by credit line with ProCredit Holding AG & Co. KGaA in amount EUR 3.0 million, which may be withdrawn anytime if necessary. Additional liquidity reserves approved by the Bank still contains two credit lines offered by ProCredit Holding AG & Co. KGaA amounted to USD 5.0 million and EUR 5.0 million respectively.

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, European Fund for Southeast Europe, European Investment Bank, Council of Europe Bank (CEB) which provide allocations under targeted financing programmes (e.g. for lending to SMEs, lending within the energy efficiency program). In addition, ProCredit Holding provides short- and long-term funding.

31.9 Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization. The Bank strictly comply with the legal norms regarding taxes and duties.

Effective from 1 January 2012, IFRS implementation has been consideration for the revision of tax legislation in order to introduce particular rules for the treatment of adjustments resulted at the implementation stage and afterwards.

In this context, careful analysis was performed in identification of differences in accounting treatment, having tax impact, both in terms of current tax and deferred tax.

31 RISK MANAGEMENT (CONTINUED)

31.9 Taxation risk (continued)

It is expected that also in the future the tax framework will be subject to further amendments. Given the precedents, they may have retroactive application.

Tax liabilities of the Bank are opened to a general tax inspection for a period of four years.

31.10 Business environment

2019 was highlighted by challenges and uncertainties for the Moldovan economy, generated by both domestic and regional circumstances.

Internally, the political instability in the country, especially in the first half of 2019, formed a precautionary state in the business environment, which reduced economic agents' appetite for investment in the economy. Additionally, against the backdrop of political turmoil, the NBM tightened monetary policy, decreasing the base rate from 6.5% as it was at 31 December 2018 to 5.5% as it is as 31 December 2019. Inflation rate, in December 2019, was 7.5% compared to December 2018, exceeding the upper limit of the inflation target range set by the NBM.

However, 2019 is the fourth consecutive year in which there is economy growth - 3.6% in real terms, largely due to the increase in domestic consumption. According to preliminary data published by the National Institute of Statistics, the internal trade of goods and services increased in 2019, demonstrating an increase in consumption by the population and economic agents. Partially the increase of the consumption of goods and services is due to the monthly average salary increase but also to the increase in the pace and the volume of consumer and mortgage lending granted to the population by both the banking and non-banking sectors. The microfinance sector reached a new record in the volume of loans granted to the population in 2019.

At the same time, in the banking sector during the year the process of selling the share control package of two large banks, subsequently acquired by foreign shareholders, took place. The NBM lifted the intensive supervision regime from the largest bank but it was applied to another bank. Thus, at the end of 2019 in the banking sector, there were two banks supervised by the NBM under the early intervention regime and a bank with a significant share of shares blocked by the NBM and subject to sale.

Throughout 2019, the banking sector continued the trend of consolidating its own funds and increasing its loan portfolio. The growth of the loan portfolio was predominantly in the national currency following the boost of the lending to private individuals. The most intense growth was recorded in loans granted for the purchase of real estate, the volume of which increased 1.6 times compared to December 2018. At the same time, the volume of deposits increased, especially of deposits of private individuals. It is worth mentioning that during the reference period the share of non-performing loans in banks' loan portfolios has decreased.

31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

The outlook for the development of the regional economy, however, is very uncertain for the next period. The world economy has slowed its growth rates. The International Monetary Fund (IMF) has downgraded the forecast of the global economy. The forecast of economic growth in the countries of the European Union - the main trading partner of our country (to which about 65% of the exports of domestic goods) has been revised. For the Russian Federation a weak growth is forecasted due to lower oil prices and insufficient structural reforms. In addition, the occurrence and spread of coronavirus may have adverse effects on global economic growth.

Thus, the negative shocks in the evolution of the economies of the main trading partners of the Republic of Moldova can negatively influence exports, remittances, industrial activity, and impact the economy of the country in general and the financial situation of the Bank's debtors in particular. The factors listed above could affect the ability of the Bank's borrowers to repay their loans under contract terms. Impairment of customers’ operating conditions may also have an impact on managing cash flow forecasts and assessing the impairment of financial and non-financial assets.

To the extent that information is available, management has analyzed various stress scenarios and reflected revised estimates of future cash flows.

Management is unable to predict all developments which could have an impact on the Moldovan financial institutions sector and consequently what effect, if any, they could have on these financial statements.

Management believes it is taking all the necessary measures to support the sustainability and growth of the bank’s business in the current circumstances by:

- constantly monitoring its liquidity position and over-dependence on specific funds;
- forecasting on short-term basis its net liquidity position;
- obtaining commitment from the shareholders regarding the latter’s continuous support of the Bank’s operations in Moldova;
- examining terms and conditions of financing agreements and considering the implications of obligations imposed and risks identified;
- accessing various external financing sources to support the growth of the credit portfolio.

Given the fact that the market conditions and uncertainties are likely to continue to exist in 2020 and perhaps later, other effects may be felt beyond the dates of these financial statements.

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. 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.

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), Risk Indicators 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 Bank’s operational risks
to be able to identify critical issues as early as possible
to avoid losses caused by operational risks

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, mitigation, monitoring and control, documentation and communication, and follow up of action plans.

- **Identification** of risk is carried our through the following methods:
  - Annual operational and fraud risk assessments;
  - Analysis of key risk indicators;
  - New Risk Approval (NRA) process;
  - Risk identification and documentation in the Risk Event Database (RED);
  - Ad hoc identification of potential and current risks

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk (continued)

- **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, calculation and monitoring of risk tolerance indicators.

- **Communication, escalation, documentation**
  - Escalation levels to the Supervisory Board and the Management Board: through Risk Committee and Operational Risk Management Committee;
  - Escalation levels to the Supervisory Board: quarterly at the Risk Committee;
  - RED, management of summary documents (management summary) for risk events;

- **Monitoring of changes in action / follow up plans 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 2019, including the international ProCredit Academy in Fürth, Germany. Risk awareness training is delivered annually to all staff as well as to all new employees.

31.12 Reputational Risk

Reputational risk is the current or future risk of impairment of profits and capital or liquidity, as determined by the adverse perception of the Bank's image by counterparties, shareholders, investors or supervisory authorities.

31 RISK MANAGEMENT (CONTINUED)

31.12 Reputational risk (continued)

Reputational risk is managed within the Bank in accordance with the Reputational Risks Management Policy within BC "ProCredit Bank" SA. Managing reputational risk within the Bank, first and foremost, is preventive. Thus, in order to avoid the losses generated by the interruption of activities due to uncontrollable external factors, the Bank has defined emergency response plans (business continuity plans) to allow the activity to continue even in exceptional situations.

The internal culture ensures that all Bank employees know and understand that they must carry out their activity in a responsible and transparent manner, respecting the Code of Conduct and minimizing the Bank's reputational risk.

Responsible for monitoring the appearance of the Bank's name in the local media is the Banking Services Unit. Any extraordinary mentions (both positive and negative) are reported to the Bank's Management Board and the Risk Management, Compliance and AML Department, which analyzes the respective reputational risk. In addition, the Banking Services Unit immediately informs the Legal Unit about any extraordinary mention of the Bank in the media, so that the Legal Unit can provide an ad hoc legal consultation to the Management Board, if necessary.

The Risk Management Department, Compliance and AML function submits a quarterly report to the Risk Committee. In case of a negative scenario regarding the reputational risk, the Banking Services Unit in collaboration with the Management Board, the Legal Unit and the Risk Management, Compliance and AML Department, will develop a communication strategy to manage the reputational risk in a proper way.

Details on efficient management of reputational risk are described in the Reputational Risks Management Policy within B.C. „ProCredit Bank" S.A.

31.13 Risk of compliance

Compliance risk refers to the current or future risk of impairment of profits and capital, which may result in fines, damages and / or termination of contracts, or that may affect the bank's reputation as a result of violations or non-compliance with the legal framework, normative acts, agreements, recommended practices or ethical standards. The level of compliance risk is determined according to the impact of a legislative change and / or the lack of compliance with a certain existing, new or modified normative act. When assessing the level of risk, consideration is given to not only the potential financial impact, but also the non-financial impact (legal, operational or reputational).

The Risk Management Department, Compliance and AML function is responsible for providing consultations on the Bank's compliance on the regulatory framework, its own standards, as well as codes of conduct established by markets or industry, and by providing information on developments in this area.

31 RISK MANAGEMENT (CONTINUED)

31.13 Compliance risk (continued)

The department presents a quarterly report on compliance risk to the Risk Committee.

Considering that compliance is part of the Bank's core values and corporate culture, it is crucial to ensure that all staff of the bank understand each other's role in conducting transparent and compliance-oriented activities. This is the responsibility of the Compliance Officer, the Human Resources Unit, as well as the governing bodies.

The Bank has approved the Compliance Policy within the BC. "ProCredit Bank" S.A.

31.14. Business Risk (including Strategic Risk)

The strategic risk is the current or future risk of affecting profits and capital caused by changes in the business environment or by adverse business decisions, by improper implementation of decisions or by the lack of reaction to changes in the business environment. Business risk is minimized through a structured process regarding business planning, implementation, evaluation and adjustment of the Bank's business strategy and risk strategy. The business risk is regularly monitored by the ALCO Committee, by analyzing the results obtained in relation to the planned ones

32 CAPITAL MANAGEMENT

In managing capital, the Bank is guided by the principle that it cannot take higher risks than it is able to bear. This principle is monitored using the capital adequacy indicators: Common Equity Tier 1 (CET1), Tier 1 capital, total own funds and indicators established in the Internal Capital Adequacy Assessment Process (ICAAP).

Managing the Bank's capital has the following objectives:

- compliance with regulatory capital requirements;
- ensuring the adequacy of internal capital;
- compliance with internal capital requirements and creation of a sufficient capital buffer to ensure the smooth operation of the Bank;
- ensuring that the Bank implements its ongoing growth plans while pursuing its business strategy.

The Bank's capital management is governed by the Capital Management Policy and the Internal Capital Adequacy Policy. Capital adequacy indicators (internal and regulatory) are monitored monthly within the Financial Risk Committee and Risk Committee.

Additionally, the Risk Management, Compliance and AML Department makes forecasts to ensure compliance with capital requirements not only for the current moment, but also in future for a period of at least six months, as well as stress tests for different crisis scenarios.

Regulatory Capital Adequacy

The new capital adequacy reporting requirements under the new regulatory framework in line with Basel III standards entered into force in 2018.

32 CAPITAL MANAGEMENT (CONTINUED)

Minimum capital adequacy ratios are set at 5.5% for the CET1 ratio, 7.5% for the Tier I and 10.0% for the Total Own Funds Ratio. In addition, according to the NBM Regulation on bank capital buffers, the Bank applies the following capital buffers: capital conservation buffer - 2.5%, systemic risk buffer - 1.0%.

During 2019, the bank maintained a sufficient level of capital adequacy, and as of December 31, 2019, it registered a total equity rate of 25.81%, which decreased compared to the end of 2018, largely due to the decision of the Bank's management bodies to pay dividends to shareholders ("foreseeable dividends"). Even after the decision of the Bank's management bodies to pay dividends, the Bank registered a comfortable level of capitalization.

The Internal Capital Adequacy Assessment Process (ICAAP)

In addition to complying with the regulatory capital requirements set out in the Capital Management Policy, the Bank uses internal procedures to determine its specific risk positions and the level of capital required to cover those positions. The methods used to calculate the economic capital required to cover the risks faced by the Bank are based on statistical models or other procedures that allow the risks to be quantified.

The risk taking potential is defined as the Bank's own capital (excluding intangible assets, total deferred tax assets) plus subordinated debt, and at the end of December 2019 it was MDL 760,7 million (December 2018: MDL 675,0 million). The resources available to cover risks were set at 60% of the risk taking potential, i.e. MDL 456,4 million. Taking into account the risk profile and operating environment of the Bank, the significant risks included in ICAAP to cover potential losses are the following: credit risk, counterparty risk, interest rate risk, currency risk, operational risk. (including reputational risk) The following risks are included in the ICAAP through the buffer: funding risk, strategic risk, model risk.

Other risks have been assessed as not relevant to the Bank, or relevant, but not quantifiable, for example, liquidity risk.

As of 31 December 2019 all combined risks, quantified based on methods established in the ICAAP Policy and Standards are below 60% of the Bank's risk taking potential.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Please see Note 4.11 on Bank's Accounting Policy on fair value assessment. The table below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value as at 31 December 2019 and 31 December 2018:

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2019	Carrying Value	Fair Value Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents with NBM	179,240,450	179,240,450	-	-	179,240,450
Mandatory reserves with NBM	481,268,040	-	481,268,040	-	481,268,040
Loans and advances to banks	214,461,966	-	214,461,966	-	214,461,966
Loans and advances to customers	2,407,032,911	-	-	2,511,183,147	2,511,183,147
Finance leases	8,979,566	-	-	9,428,590	9,428,590
Investments in debt securities	629,420,955	-	629,420,955	-	629,420,955
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	7,442,487	-	-	7,442,487	7,442,487
Total Financial Assets	**3,929,046,375**	**179,240,450**	**1,325,150,961**	**2,529,254,225**	**4,033,645,635**
					0
Financial Liabilities					0
Deposits from customers	2,162,212,253	-	1,224,265,429	941,531,938	2,165,797,366
Borrowed funds	994,940,208	-	-	1,018,183,698	1,018,183,698
Subordinated debt	126,330,935	-	-	172,107,426	172,107,426
Other financial liabilities	42,383,501	-	-	42,383,501	42,383,501
Total Financial Liabilities	**3,325,866,896**	**-**	**1,224,265,429**	**2,174,206,563**	**3,398,471,991**

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2018	Carrying Value	Fair Value Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents with NBM	188,185,926	188,185,926	-	-	188,185,926
Mandatory reserves with NBM	512,524,575	-	512,524,575	-	512,524,575
Loans and advances to banks	142,754,526	-	142,754,526	-	142,754,526
Loans and advances to customers	2,079,338,464	-	-	2,052,914,427	2,052,914,427
Finance leases	10,862,416	-	-	10,947,434	10,947,434
Investments in debt securities	775,402,073	-	775,402,073	-	775,402,073
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	3,816,381	-	-	3,816,381	3,816,381
Total Financial Assets	**3,714,084,361**	**188,185,926**	**1,430,681,174**	**2,068,878,242**	**3,687,745,342**
Financial Liabilities					
Deposits from customers	1,938,440,564	-	1,337,138,401	620,756,158	1,957,894,559
Borrowed funds	1,102,730,756	-	-	1,110,908,198	1,110,908,198
Subordinated debt	129,588,717	-	-	163,735,611	163,735,611
Other financial liabilities	18,899,294	-	-	18,899,294	18,899,294
Total Financial Liabilities	**3,189,659,331**	**-**	**1,337,138,401**	**1,914,299,260**	**3,251,437,662**

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements:

	Fair value	Valuation technique	Inputs used
31 December 2019			
Assets carried at fair value:			
Cash and balances with National Bank of Moldova	481,268,040	Discounted cash flows (“DCF”)	Incremental borrowing rate
Loans and advances to banks	214,461,966	Discounted cash flows (“DCF”)	Incremental borrowing rate
Investments in debt securities	629,420,955	Discounted cash flows (“DCF”)	Incremental borrowing rate
Liabilities carried at fair value:			
Deposits from customers	2,162,212,253	Discounted cash flows (“DCF”)	Incremental borrowing rate
31 December 2018			
Assets carried at fair value:			
Cash and balances with National Bank of Moldova	512,524,575	Discounted cash flows (“DCF”)	Incremental borrowing rate
Loans and advances to banks	142,754,526	Discounted cash flows (“DCF”)	Incremental borrowing rate
Investments in debt securities	775,402,073	Discounted cash flows (“DCF”)	Incremental borrowing rate
Liabilities carried at fair value:			
Deposits from customers	1,938,440,564	Discounted cash flows (“DCF”)	Incremental borrowing rate

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2019 (2018: nil).
Market rates were extracted from the reports published by National Bank of Moldova for December 2019 and December 2018 on term credits, term deposits and interbank loans.

34 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2019 the Bank had no significant capital commitments (2018: nil).

Tax contingencies

Moldovan tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities.

Credit related commitments

Commitments to extend loans represent unused portions of authorisations to extend loans to customers. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

	31 December 2019	31 December 2018
Guarantees	119,501,634	106,281,229
Expected credit loss allowance	(1,423,091)	(1,189,295)
	118,078,543	105,091,934
Commitments to extend credit:		
- Revocable commitments to extend credit	388,809,161	289,181,332
- Irrevocable commitments to extend credit	34,784,485	38,993,418
Expected credit loss allowance	(1,407,700)	(262,164)
	422,185,946	327,912,586
Total	**540,264,490**	**433,004,520**

The above table presents the nominal principal amounts of liabilities and contingent commitments and guarantees, i.e. the amounts at risk, whether contracts are fully drawn upon and clients default.The Bank expects 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.

34 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Compliance with covenants

The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. No breach of financial covenants was reported as at 31 December 2019 (2018: nill).

Legal proceedings

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

35 DERIVATIVE FINANCIAL INSTRUMENTS

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

As at 31 December 2019	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	-	-	-
Total derivatives with third parties	-	-	-

As at 31 December 2018	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	9,760,600	(97,570)	139,850
Total derivatives with third parties	9,760,600	(97,570)	139,850

36 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, which are entities under common control, 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 on the same terms, including interest rates and securities, as for transactions of a similar nature with third parties.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	2019			2018		
	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates
Interest income	-	829,782	157,024	-	923,212	45,637
Interest expense	13,099,724	-	158,368	12,795,218	-	225,447
Fees and commissions income	-	-	45,528	-	-	56,720
Fees and commissions expense	11,008,018	28,429,883	7,368,982	10,737,832	22,443,295	8,433,538
Training Related Fees	-	2,918,546	-	-	5,331,458	-

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.

Expenses related to other related parties include mainly fees paid for staff training in the ProCredit Academy, entity under common control, in the amount of MDL 2,918,546 (2018: MDL 5,331,458) and Quipu MDL 27,737,896 (2018: MDL 22,001,797). The members of the Supervisory Board received during the year 2019 MDL 60,837 compensation from ProCredit Bank (2018: MDL 54,184).

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	31-Dec-19			31-Dec-18		
	ProCredit Holding	Other Procredit Group companies	Key management and their affiliates	ProCredit Holding	Other Procredit Group companies	Key management and their affiliates
Assets						
Cash and balances with banks	9,630,250	25,613,377	-	9,760,600	119,435,585	-
Loans and advances to customers	74,535	514,328	-	69,486	-	-
Liabilities						
Due to banks	-	3,941,016	-	-	495,066	-
Borrowed funds	136,207,935	-	-	178,165,549	34,346,702	-
Subordinated debt	126,330,935	-	-	129,588,717	-	-
Due to customers	6,684	-	9,716,004	6,664	-	10,774,632
Off-balance sheet items						
Guarantees	972,029,500	-	-	807,997,900	-	-

The transactions were made in the ordinary course of business and on the same terms as for comparable transactions with third party entities or individuals. The transactions did not involve more than the normal risk of repayment.

In 2019 and 2018, the Bank had no borrowings granted to related parties.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

Subordinated borrowings from ProCredit Holding AG & Co. KGaA are with floating interest rate and have a maturity of more than 5 years.

In 2019, the bank has no loans granted to related parties, therefore no expected credit loss allowance for Loans and advances as at 31 December 2019 were estimated (31 December 2018: nill).

37 MANAGEMENT COMPENSATION

During the reporting period, total compensation paid to the management of the Bank was MDL 3.072.818 MDL (2018: MDL 2,513,600).

During 2019, total compensation from ProCredit Bank paid to the Supervisory Board was MDL 60,837 (2018: MDL 54,184).

38 SUBSEQUENT EVENTS

Consequences of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (“COVID-19”) a pandemic, and on March 17, 2020, the Parliament of the Republic of Moldova declared a state of emergency on the entire territory of the Republic of Moldova from March 17 to May 15 2020. On 15 May 2020, the Extraordinary National Commission for Public Health declared a state of emergency in public health throughout the Republic of Moldova from 16 May 2020 to 30 June 2020.

In response to the potentially serious threat posed by COVID-19 to public health, the Moldovan authorities have taken measures to counter the epidemic, including the establishment of a special country entry and exit regime, special traffic regime, the introduction of quarantine regime and other mandatory sanitary-anti-epidemiological measures, establishing a special working regime for all entities, prohibiting of meetings, public demonstrations and other mass actions; ordering, if necessary, the rationalization of the consumption of food and other products of strict necessity. The activity of retail stores, markets and shopping centers, etc. was stopped. Earlier, on March 10, 2020, the Ministry of Education, Culture and Research (MECC) issued an order suspending the educational process in public and private institutions, early education, primary, secondary, technical vocational, higher education, extracurricular education and special education throughout the country from March 11 to 23, 2020. On 20 March 2020, the MECC order was extended until March 30, 2020. Some Moldovan companies have also instructed their employees to stay at home and reduced or temporarily suspended commercial operations.

38 SUBSEQUENT EVENTS (CONTINUED)

The broader economic impact of these events includes:
- Decrease or interruption of commercial operations and economic activity in the Republic of Moldova, with a cascading impact both on supply chains and downstream;
- Significant disruptions for enterprises in certain sectors, both in the Republic of Moldova and in markets with high dependence on a foreign supply chain, as well as for export-oriented businesses, with high dependence on foreign markets. Affected sectors include trade and transport, travel and tourism, entertainment, catering, production, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in volatile asset prices and exchange rates.

On March 19, 2020, the Government adopted a law draft on some measures for support of the business environment to counteract the negative effects of the COVID-19 outbreak on the economy. Some of the proposed measures are:
- postponement of the payment of the income tax from the entrepreneurial activity related to the first quarter of 2020, until June 25, 2020;
- reduction of the VAT rate from 20% to 15% for the HORECA sector, starting May 1, 2020;
- additional measures to stimulate commercial banks to provide loans to the economy and citizens on more favorable terms, including by reduction of the base rate;
- use of government-attracted credit resources (through re-crediting) from IFIs for financial support to small and medium-sized businesses;

The National Bank of Moldova also announced a set of measures designed to strengthen the level of liquidity in the financial sector and support the business environment. On March 17, 2020, the decision was issued that allows banks to modify or resign with individual debtors until 31.07.2020 a new schedule of payments accumulated between March-May 2020, including the change of the maturity; the given assets will not require reclassification into a stricter category due to prolongation / renegotiation. On March 27, 2020, the NBM approved a decision allowing licensed banks to postpone or change the maturities of payments and / or the amounts of payments due until June 30, 2020 to loans granted to economic agents whose financial situation has been temporarily affected by the emergency and the economic consequences generated by COVID-19. The modification of the mentioned terms will not cause automatic classifying of the respective credits in a stricter category than the one existing at the date of the decision.

On 20 March 2020, the base rate applied to the main short-term monetary policy operations was reduced by 1.25 percentage points to 3.25% annually. Similarly, interest rates on overnight loans and deposits were reduced to 6.25% and 0.25% respectively. At the same time, the norm of required reserves from funds attracted in Moldovan lei and in non-convertible currency was reduced by 7.0 p.p. until 34% and the norm of required reserves from funds attracted in freely convertible currency was increased by 1.0 pp up to 21% of the norm of required reserves from funds attracted in freely convertible currency.

38 SUBSEQUENT EVENTS (CONTINUED)

Impact on the Bank

The outbreak of the COVID-19 pandemic and its global spread starting February 2020 will have negative effects not only on human health, the global economic and financial environment, but also on the local banking system. The consequences of the pandemic for both the economy and the banking system are unpredictable, everything will depend on its duration, but a global economic crisis is inevitable.

The declaration of a state of emergency by the Moldovan authorities immediately made it challenging for the Bank to remain operational under stress, to deal with numerous risks that may arise because of the crisis - risks known to the institution and new ones. unknown and unassessed so far.

As economic activity will be limited, the Bank assessed the impact of the pandemic crisis on its business, on liquidity and capital positions, but also on other risks to which it is exposed, as well as analyzed a set of measures that have been / will be implemented to reduce the impact in these circumstances.

Liquidity risk, a significant risk faced by the Bank, could increase very rapidly as a result of the COVID-19 crisis, due to large liquidity outflows from customer deposits or use of credit lines to a greater extent than in normal situations, as well as reduction of liquidity inflows from repayment of loans. A potential depreciation of the Moldovan leu against the reference currencies could cause an increased risk of liquidity in the national currency, following the conversion by customers of their funds from lei into foreign currency. A depreciation of the MDL could be caused by the decrease of remittances from abroad due to the economic crisis in the countries where many Moldovan citizens work, but also by the decrease / freezing of exports. The measures that have already been implemented by the Bank since the declaration of the state of emergency in the country, in order to meet the obligations in time and not to admit liquidity insufficiencies, are as follows:

- daily monitoring of liquidity indicators and the evolution of customer deposits, divided by currencies, including intra-day;
- performing crisis simulations on regulated liquidity indicators;
- daily monitoring of liquidity outflows by currencies from credit facilities (lines of credit, overdrafts);
- convening ALCO meetings to take liquidity decisions;

Interest rate risk will also be assessed by the Bank in the context of the COVID-19 crisis. The Bank currently has a low interest rate risk, as most of its loans have floating interest rates, which depend on the Bank's internal refinancing rate (AIR6m) for MDL and Libor / Euribor for USD / EUR, but at the same time the contracts contain minimum interest rate thresholds, which allow the Bank to fix rates if interest rates fall below these thresholds. Interest rates on term deposits are fixed until maturity, but more than half have a maturity of up to 1 year.

38 SUBSEQUENT EVENTS (CONTINUED)

However, monetary policy decisions due to the COVID-19 crisis, namely the decline in the base rate, may influence interest rate risk, as if market rates decline, then the Bank will lower interest rates on newly attracted deposits and existing ones will remain in the portfolio at higher rates until maturity. The Bank constantly monitors the evolution of interest rates on loans and deposits and analyzes the changes within the ALCO committee. One measure that will be implemented by the Bank in the context of the crisis is more frequent monitoring of market rates and adjustment of rates to products, if necessary.

As **credit risk** is a significant risk to which it is exposed, the Bank has conducted an analysis to estimate potential medium-term losses in the loan portfolio and the impact on provisions for asset losses. The measures to be implemented by the Bank to reduce the negative impact on credit risk are the following:

- postponement / modification of the due dates of the payments due in the period March - May 2020 to the credits granted to the individuals, the disposable incomes to which they were affected as a result of the state of emergency.
- postponement / modification of the due dates of payments due until 30 June 2020 to loans granted to legal entities, upon request, the financial situation temporarily affected by the state of emergency and the economic consequences caused by the COVID-19 pandemic
- continuous monitoring of the potential impact at country, economic sector, customer level;

The bank made a forecast of the **adequacy of its own funds** in crisis conditions, even using the hypothesis of a scenario with a chain negative economic effect on companies that will suffer. Thus, even in a crisis situation, the Bank will have a comfortable level of own funds to continue the activity, being able to record rates of own funds well above the limits regulated by the National Bank of Moldova. During the crisis period, the Bank will constantly monitor the evolution of its own funds rates and the adequacy of internal capital, and will carry out crisis forecasts and simulations with a higher frequency than indicated in internal procedures, in order to detect in time the vulnerabilities and risks to which it is exposed. Thus, the management body will be able to take appropriate measures in a timely manner so as not to allow a significant decrease in own funds levels.

At the same time, the Bank assessed the **operational risk** in the context of the Covid 19 pandemic. Taking into account the **risk of contamination of employees**, the Bank took measures to ensure operational continuity through the possibility for most employees to operate remotely. Employees whose duties cannot be performed remotely and require physical presence in the Bank's offices are provided with taxi or the Bank's car to travel to the office, work in shifts, the schedule for operations with customers has been shortened, a distance of at least one meter between customer and employee shall be respected. In order to avoid the crowding of clients in the Bank's offices, the clients are served based on the prior appointment. All the changes to the work schedule, as well as the mandatory requirements to be followed to avoid contamination with the new virus, were announced by the Bank on its website and inside the agencies / branches. At the same time, all offices are equipped with the necessary disinfectant solutions and are cleaned regularly.

38 SUBSEQUENT EVENTS (CONTINUED)

Other **operational risk** factors assessed by the Bank are the following:

- suspension of the activity of outsourcing companies or their inability to comply with the SLA and KPI;
- suspension of the activity of companies - service providers and office supplies

The companies to which the Bank has outsourced the material processes and QUIPU Gmbh to which the e-mail is outsourced have confirmed their commitment to continue providing the services.

The **risk of information security** is significant due to the fact that certain groups of criminals have become more active.

The World Health Organization has specifically warned that, in connection with COVID-19, cybercriminals send phishing emails with malicious links to steal money and sensitive information. The Bank's employees are informed about phishing risks during the annual seminars. At the same time, the Bank has additionally sent information emails to all employees regarding associated risks.

Based on currently publicly available information, the Bank’s current KPI’s and in view of the actions initiated by management, we do not anticipate a direct immediate and significant adverse impact of the Covid – 19 outbreak on the Bank, its operations, financial position and operating results. We cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

39 ABBREVIATIONS

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ALCO	Asset-Liability Committee
DLC	Credit Line Directorate
EAD	Exposure at Default
ECL	Expected Credit Loss
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
HTM	Held To Maturity
ICAAP	Internal Capital Adequacy and Assessment Process
IFI	International Financial Institutions
IFRS	International Financial Reporting Standard
IRB system	Internal Risk-Based system
LGD	Loss Given Default
NBM	National Bank of Moldova
OCI	Other comprehensive income
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest