B.C. "ProCredit Bank" S.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2020

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 2020

CONTENTS **PAGE**

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Independent Auditors' Report

(free translation[1])

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

65 Stefan cel Mare si Sfant Blvd., of.901, mun. Chisinau, Republic of Moldova
Unique registration code: 1007600059183

Opinion

1. We have audited the financial statements of Banca Comerciala "ProCredit Bank" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2020 are identified as follows:

• Total equity:	MDL 606,151,393
• Net profit for the year:	MDL 39,969,510

3. The financial statements have been signed with two qualified electronic signatures by Olga Bulat in its capacity of Chairperson of the Management Board of the Bank on 24 May 2021 and by Elena Gornet in its capacity of Chief-Accountant of the Bank on 24 May 2021.
4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

5. 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 *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards) ("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.

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.

Other Information – Management's Report

6. 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, in all material respects:

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

   b) The Management's Report has been prepared 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.

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 the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
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 scepticism 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.

24 May 2021

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

Nicoleta Rusu

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Romanian version

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

Administrator of ICS KPMG Moldova S.R.L.

Tudor Alexandru Grecu

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Romanian version

Partner

ICS KPMG Moldova S.R.L.

171/1 Stefan cel Mare si Sfant Blvd., 8th floor
MD-2004, Chisinau,
Republic of Moldova

registered in the electronic public register
of audit firms under No.1903038

B.C. "ProCredit Bank" S.A.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

	Notes	31 December 2020	31 December 2019
Interest income calculated using the effective interest method	8	196,396,784	201,895,114
Other interest income	8	398,657	463,019
Interest expense	8	(79,432,913)	(82,761,329)
Net interest income		**117,362,528**	**119,596,804**
Net impairment (loss) / release on financial instruments	31	(31,933,358)	18,152,768
Net interest income after impairment (loss) / release on financial instruments		**85,429,170**	**137,749,572**
Fee and commission income	9	50,476,712	57,444,116
Fee and commission expenses	9	(13,955,722)	(13,367,335)
Net fee and commission income		**36,520,990**	**44,076,781**
Net trading income	10	62,302,575	40,348,071
Other operating income	11	163,188	376,668
Operating income		**184,415,923**	**222,551,092**
Personnel expenses	12	(46,328,472)	(40,271,676)
General and administrative expenses	13	(74,458,311)	(62,046,248)
Depreciation and amortization		(17,764,342)	(20,046,079)
Operating expenses		**(138,551,125)**	**(122,364,003)**
Profit before tax		**45,864,798**	**100,187,089**
Income tax expense	14	(5,895,288)	(12,604,298)
Net profit for the year		**39,969,510**	**87,582,791**
Other comprehensive income of the period		-	-
Total comprehensive income for the year		**39,969,510**	**87,582,791**

These financial statements were signed by the executive management of the Bank on 24 May 2021, represented by:

Please refer to original financial statements signed in Romanian language

Olga Bulat
Chairperson 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.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

Assets	Note	31 December 2020	31 December 2019
Cash and cash equivalents	15	124,015,828	179,240,450
Mandatory reservers with NBM	15	760,605,505	481,268,040
Loans and advances to banks	16	243,075,017	214,461,966
Loans and advances to customers	19	3,117,682,408	2,407,032,911
Finance lease receivables	20	8,386,677	8,979,566
Investments in debt securities	17	639,494,896	629,420,955
Investments in equity securities	18	1,200,000	1,200,000
Current tax assets		2,510,088	453,025
Deferred tax assets	22	2,228,935	1,487,208
Intangible assets	24	1,782,934	589,562
Property and equipment	23	28,593,157	31,073,215
Other assets	21	15,513,830	12,311,602
Total assets		**4,945,089,275**	**3,967,518,500**
Liabilities			
Deposits from customers	25	2,771,665,198	2,162,212,253
Borrowed funds	26	1,387,416,939	994,940,208
Subordinated debt	29	138,569,357	126,330,935
Provisions for other risks and loan commitments	27	8,666,578	5,104,535
Other liabilities	28	32,619,810	42,403,445
Total Liabilities		**4,338,937,882**	**3,330,991,376**
Share capital	30	406,550,000	406,550,000
Statutory reserve	30	10,587,662	6,208,522
General reserve for bank risks	30	25,581,098	40,025,680
Retained earnings		163,432,633	183,742,922
Total equity		**606,151,393**	**636,527,124**
Total equity and liabilities		**4,945,089,275**	**3,967,518,500**

These financial statements were signed by the executive management of the Bank on 24 May 2021, represented by:

Please refer to original financial statements signed in Romanian language

Olga Bulat
Chairperson of the Management Board

Elena Gornet
Chief Accountant

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in MDL unless otherwise stated)

	Share Capital	General reserve for bank risks	Statutory Reserves	Retained earnings	Total
Balance at 1 January 2019	**406,550,000**	**18,223,885**	**-**	**124,170,448**	**548,944,333**
Net profit for the year	-	-	-	87,582,791	**87,582,791**
Total comprehensive income for the year	**-**	**-**	**-**	**87,582,791**	**87,582,791**
Appropriation of reserves	-	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**
Balance at 1 January 2020	**406,550,000**	**40,025,680**	**6,208,522**	**183,742,922**	**636,527,124**
Net profit for the year	-	-	-	39,969,510	**39,969,510**
Total comprehensive income for the year	**-**	**-**	**-**	**39,969,510**	**39,969,510**
Dividends paid	-	-	-	(70,345,241)	**(70,345,241)**
Appropriation of reserves	-	(14,444,582)	4,379,140	10,065,442	-
Balance at 31 December 2020	**406,550,000**	**25,581,098**	**10,587,662**	**163,432,633**	**606,151,393**

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

	Note	2020	2019
Cash flow from operating activities			
Net profit for the year		39,969,510	87,582,791
Adjustments for:			
- Depreciation and amortisation		18,068,341	20,458,702
- Impairment loss / (release) on financial instruments		31,933,358	(18,152,768)
- Interests income		(196,795,441)	(202,358,133)
- Interest expenses		79,432,913	82,761,329
- Gains/Lossees from foreign currency reevaluation		93,173	899,310
- Provisions		2,785,728	5,936
- Tax expense		5,895,288	12,604,298
Net profit adjusted with non-monetary elements		**(18,617,130)**	**(16,198,535)**
Changes in:			
- Mandatory reserves with NBM		(251,496,248)	29,163,830
- Loans and advances to banks		(70,257)	612,736
- Loans and advances to customers		(611,407,696)	(320,353,693)
- Finance lease receivables		1,455,581	1,468,441
- Other assets		(3,145,797)	(3,424,976)
- Deposits from customers		519,068,341	232,586,394
- Other liabilities		(522,862)	6,415,129
Interest received		228,565,691	194,983,285
Dividends received		156,788	165,686
Interest paid		(80,677,073)	(88,878,204)
Income tax paid		(8,694,078)	(14,111,833)
Net cash used in operating activities		**(225,384,740)**	**22,428,260**
Cash Flow from investing activities			
Aquisition of property and equipment		(15,290,098)	(2,423,001)
Acquisition of intangible assets		(1,491,556)	(296,369)
Net cash used in investing activities		**(16,781,654)**	**(2,719,370)**
Cash flow from financing activities			
Proceeds from borrowings from other financial institutions		306,208,223	16,792,986
Repayment of borrowings to other financial institutions		(2,190,159)	(111,282,343)
Payments of lease liabilities		(11,369,342)	(9,971,360)
Dividends paid		(70,345,242)	-
Net cash from financial activity		**222,303,480**	**(104,460,717)**
Net increase/ decrease in cash and cash equivalents		**(19,862,914)**	**(84,751,827)**
Cash and cash equivalents at 1 January	15	**1,010,104,103**	**1,097,119,336**
Effect of exchange rate fluctuations on cash and cash equivalents held		2,425,261	(2,263,406)
Cash and cash equivalents at 31 December	15	**992,666,450**	**1,010,104,103**

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

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 2020 and 2019 the Bank had divisions in Chişinău and Bălţi, 4 branches and 2 agencies which offer the full range of banking services and operations.

As of 31 December 2020 the Bank Board (supervisory body) comprised the following members:

- Mr. Ivan Smiljkovic – President of the Bank Board, approved by the National Bank of Moldova on 24 October 2020, took over the mandate from Ms. Svetlana Tolmacheva Dingarats.
- Ms. Elena Godea – Member of the Bank Board;
- Ms. Stela Ciobu – Member of the Bank Board;
- Mr. Dietrich Ohse – Member of the Bank Board;
- Ms. Jovanka Joleska Popovska – Member of the Bank Board.

As at 31 December 2020 the Management Board of the Bank (executive body) comprised of the following members:

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

As at 31 December 2020 and 2019 the shareholders of the Bank were the following:

	31 December 2020	**31 December 2019**
	%	%
ProCredit Holding AG & Co. KGaA	100	100
	100	**100**

The Bank's number of employees as at 31 December 2020 was 143 (31 December 2019: 147).
Abbreviations. A glossary of various abbreviations used in this document is included in Note 39.

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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 OPERATION

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. These policies have been consistently applied to the presented periods, unless otherwise specified.

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 future. In order to assess the reasonability of this assumption, the management reviews forecasts of the future cash inflows. Based on these reviews and on the ongoing support of the ProCredit Group, the management believes that the Bank will be able to continue to operate as a going concern for the foreseeable future and, therefore, this principle was applied in the preparation of these financial statements.

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 were approved for issue by the Bank Board (supervisory body) on 28 April 2021.

Reclassifications

In order to comply with the presentation method at 31 December 2020, the Bank reclassified the following items of profit or loss and other comprehensive income for the period ended 31 December 2019 as set out below.

For the year ended 31 December 2019	**Previously reported**	**Reclassification**	**Reclassified**
Interest income calculated using the effective interest method	210,318,017	(8,422,903)	201,895,114
Net interest income	**128,019,707**	**(8,422,903)**	**119,596,804**
Net impairment (loss) / release on financial instruments	18,317,009	(164,241)	18,152,768
Net interest income after impairment (loss) / release on financial instruments	**146,336,716**	**(8,587,144)**	**137,749,572**
Fee and commission income	49,021,213	8,422,903	57,444,116
Net fee and commission income	**35,653,878**	**8,422,903**	**44,076,781**
Net trading income	40,183,830	164,241	40,348,071
Net profit for the year	**87,582,791**	**-**	**87,582,791**

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 2020, respectively 31 December 2019.

During 2020, the Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

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 2020.

4.3 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.

(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”).

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Conversion of foreign currency (continued)

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 2020 and 2019 are presented below:

	2020		2019	
	USD	EUR	USD	EUR
Closing rate at 31 December	17.2146	21.1266	17.2093	19.2605
Average rate	17.3201	19.7436	17.5751	19.6741

4.4 Cash and cash equivalents

For the purposes of the statement of financial position, cash and cash equivalents, comprise cash on hand.

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.

4.5 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.

4.6 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Loans and advances

Loans and advances 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 loans and advances to customers.

Loans and advances 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 4.10 for the accounting policy for impairment of loans, and Note 19, Note 31 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.

4.8 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 2020 and 2019, the Bank does not hold investments in debt instruments measured at FVOCI, or FVTPL.

4.9 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Investments in equity securities (continued)

Fair value gains and losses on such equity securities are never reclassified to the statement of profit or loss and no impairment is recognized in the statement of 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.

4.10 Financial assets and financial liabilities

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. The fair value of a financial instrument at initial recognition is generally its transaction price.

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.

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: “Mandatory reserves with NBM”, “Loans and advances to banks”, “Loans and advances to customers” “Finance lease receivables” “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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

ii. Classification (continued)

- **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 “Other assets” / “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Other liabilities” / “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.

Amortised premiums and discounts are accounted for over the respective terms in the statement of profit or loss under “Interest income calculated using the effective interest method”. 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

ii. Classification (continued)

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 2020 and 31 December 2019, the Bank has no investments in debt instruments classified at FVOCI.
For 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.

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

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.

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. If the contractual terms are substantially altered due to commercial renegotiations, both at the client’s request and at the Bank’s initiative, the existing financial asset is derecognized and the modified financial asset is subsequently recognized, such modified financial asset being considered as a “new” asset. The criteria set at Bank level to evaluate modifications leading to derecognition of financial assets, are developed having in mind that they must reflect modifications that are substantial enough (either quantitatively or qualitatively) to satisfy the derecognition requirements in IFRS 9 paragraph 3.2.3. On the quantitative side, these criteria refer to a significance threshold of 10% by analogy to the de-recognition trigger set by IFRS 9 paragraph B3.3.6 for modifications of financial liabilities. On the qualitative side, these criteria refer to contractual modifications that are substantially changing the nature of lender’s risks associated with the pre-existing loan contract. During 2020 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 “Net impairment (loss) / release on financial instruments”. 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 2020 and 2019 was not significant.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

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.

The 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. The Bank applies individual observable interest and exchange rates, predominantly from local central banks.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vi. Fair value measurement (continued)

(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 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 lease receivables", "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.

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 financial assets 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).

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

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

Financial assets are written-off (either partially or in full) when there is no reasonable expectation of recovering a financia asset in its entirely or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

When it is decided to write-off in part or in full a financial asset, it is written-off of against the related allowance for expected credit risk losses.

Subsequent recoveries of amounts which have been written off are recognised in the statement of profit or loss under "Net impairment (loss) / release on financial instruments". Uncollectible loans for which no loss allowances have been set aside in full are recognised in the statement of profit or loss as direct write-offs.

Financial assets that are written-off could still be subject to enforcement activities in order to comply with the Bank procedures for recovery of amounts due.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

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.

4.11 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.

4.12 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 statement of profit or 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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Premises and equipment (continued)

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.

4.13 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).

4.14 Leases

At inception of a contract, 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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Leases (continued)

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

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 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Leases (continued)

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.

ii. Lessor

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”.

4.15 Income tax

Current tax

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

Deferred tax

Deferred 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 tax asset is realised or the deferred tax liability is settled.

* 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Income tax (continued)

The principal temporary differences arise from depreciation of property and equipment and tax losses carried forward (Note 22). However, the deferred 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%.

4.16 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 or 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

4.17 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 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 or loss under “General and administrative expenses”.

4.19 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.

* 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 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 the statement of profit or loss under “Interest expense”.

4.21 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.

4.22 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 the statement of profit or loss on an accrual basis of accounting.

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 “Net impairment (loss) / release on financial instruments”.

4.23 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.24 Net trading income

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

4.25 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.

4.26 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.

4.27 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:

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

a. See also Note 4.15, Note 14 and Note 22: recognition of deferred 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

Expected Credit 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 exposures. Expected credit losses are recorded in an approach with various stages. The 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 lease receivables” 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.
In determining the impairment for expected credit losses, management incorporates forward-looking information, exercises judgement and uses estimates and assumptions. The estimation of expected credit losses involves forecasting future economic conditions over 3 years. The macroeconomic scenarios applied have been changed from those applied at 31 December 2019 to reflect the worsening of the macroeconomic outlook due to the COVID-19 pandemic. More details about assumptions and judgements made are described in Note 31.4 Credit risk. The incorporation of forward-looking elements reflects the expectations of the Bank and involves the creation of scenarios, including an assessment of the probability for each scenario. A large part of the impact on the expected credit losses recorded in 2020 is resulting from the COVID-19 pandemic referring to changes to the forward-looking information.

Also, due to the COVID-19 pandemic, management applies supplementary judgement when determining the need for post-model adjustments.

As a measure implemented by the authorities to combat the effects of the Covid-19 pandemic, debtors could request during 2020, the payment postponement of principal and interest until the 30 June 2020 (legal entities) and 31 July 2020 (individuals). Debtors who benefited from the payment moratorium reached a maximum of 13% of the loan portfolio in May 2020. The internal analyzes that contributed to the determination of additional adjustments were based on the information that the Bank was able to access (i.e. financial performance, the industry in which the debtor operates, etc.).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

The Bank also examined the information in its own databases, relating to debtors who requested entry into the payment moratoria programs. All this has led to the consideration of some sectors as being more sensitive / affected by the pandemic crisis, product portfolios with high associated credit risk and types of debtors that could be affected to a greater extent by current events.

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.

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 following new standards and interpretations came into force on 1 January 2020:

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions

(Effective for annual periods beginning on or after 1 June 2020 Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.
The practical expedient will only apply if:

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

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.
- This practical expedient is not available for lessors.

The amendments did not had a material impact on the financial statements of the Bank.

7 NEW ACCOUNTING PRONOUNCEMENTS

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Bank’s right to defer settlement at the end of the reporting period. The Bank’s right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management’s intentions or expectations about whether and when the Bank will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

Under the amendments the balance of the borrowing may be eligible to be reclassified to non-current depending on an assessment of the covenants at the reporting date. Classification cannot be assessed in advance of the reporting date and therefore the impact of the standard cannot be currently estimated.

7 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendment to IAS 16 Property, Plant and Equipment. Property, Plant and Equipment – Proceeds before Intended Use

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

The Bank expects that the amendments, when initially applied, will not have a material impact on its financial statements. However, the quantitative impact of the adoption of the Amendments is not yet determined.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Onerous Contracts – Cost of Fulfilling a Contract

(Effective for annual periods beginning on or after 1 January 2022 Early application is permitted)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Bank expects that the amendments, when initially applied, will not have a material impact on its financial statements. However, the quantitative impact of the adoption of the Amendments is not yet determined as it will depend on the status of the contracts in place at the date of initial application of the amendments.

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7 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Annual Improvements to IFRS Standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Amendment to IFRS 9 Financial Instruments

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

Amendment to Illustrative Examples accompanying IFRS 16 Leases

The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee’s accounting for such reimbursement.

The Bank expects that the amendments, when initially applied, will not have a material impact on the financial statements of the Bank.

8 NET INTEREST INCOME

Interest and similar income	**2020**	**2019**
Mandatory reserves with NBM	2,067,270	11,978,603
Placements with NBM	77,123	277,671
Investments in debt securities	16,147,428	31,442,042
Loans and advances to banks	625	829,782
Loans and advances to customers	178,104,338	157,367,016
Total interest income calculated using the effective interest method	**196,396,784**	**201,895,114**
Interest income from finance lease receivables	398,657	463,019
Total interest income	**196,795,441**	**202,358,133**
Interest expense:		
Interest expenses on liabilities to banks	1,295,648	612,399
Interest expenses on deposits from customers	41,040,567	37,506,527
Interest expenses on deposits from customers (related parties)	450,730	158,368
Interest expenses on liabilities to IFI's	7,177,344	17,948,727
Interest expenses on liabilities to DLC	11,174,990	6,634,469
Interest expenses on borrowings from related parties	8,960,278	9,937,949
Interest expenses on subordinated debt	8,395,331	8,725,596
Interest expenses on lease liabilities	938,025	1,237,294
Total interest expenses	**79,432,913**	**82,761,329**
Net interest income	**117,362,528**	**119,596,804**

9 NET FEE AND COMMISSION INCOME

	2020	**2019**
Fee and commission income		
Payment transfers and transactions	18,271,894	17,513,124
Account maintenance fee	13,255,781	13,250,604
Letters of credit and guarantees	3,195,998	3,219,761
Debit/credit cards	11,331,837	13,838,794
Fee income from lending activity	3,132,758	8,422,903
Other fee and commission income	1,288,444	1,198,930
Total fee and commission income	**50,476,712**	**57,444,116**
Fee and commission expenses		
Payment transfers and transactions	389,796	861,106
Payment transfers and transactions with related parties	4,835,332	4,716,561
Fees for credit/debit cards	5,934,613	6,354,396
Fee expenses from lending activity	2,795,982	1,435,272
Total fee and commission expenses	**13,955,722**	**13,367,335**
Net fee and commission income	**36,520,990**	**44,076,781**

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.

	2020	2019
Net gains less loses from foreign currency transactions	62,143,368	38,981,690
Net gains less loses from derivatives	66,034	467,071
Revaluation of balances in foreign currencies	93,173	899,310
Total	**62,302,575**	**40,348,071**

11 OTHER OPERATING INCOME

	2020	2019
Dividend income from FVOCI equity instruments	156,788	165,686
Other operating income	6,401	210,981
Total	**163,189**	**376,668**

12 PERSONNEL EXPENSES

Personnel expenses can be broken down as follows:

	2020	2019
Salary expenses	35,497,613	30,582,109
Social security contributions	6,751,861	5,885,141
Medical contributions	1,652,714	1,438,737
Other remuneration expenses	2,077,880	2,127,310
Expenses related to unused vacations accruals	348,404	238,379
Total	**46,328,472**	**40,271,676**

13 ADMINISTRATIVE EXPENSES

	2020	2019
Communication and IT expenses	39,197,752	33,814,889
Service management fees	6,924,918	6,003,699
Court and notary fees	2,735,923	3,853,705
Advertising and marketing services	1,497,693	3,779,925
Transportation expenses	1,608,998	3,356,377
Audit and consulting services	2,543,873	2,673,719
Other taxes	6,672,288	2,515,780
Training expenses	1,230,301	2,171,505
Utility expenses	1,094,110	1,117,574
Insurance expenses	723,925	898,915
Office rent	248,646	760,667
Expenses with the contribution to the Deposit Guarantee Fund	838,311	715,689
Expenses with the contribution to the Banking Resolution Fund	2,612,188	-
Construction, repairs and maintenance	1,334,008	709,190
Security service	626,026	608,333
Office supplies	96,321	106,799
Provision expenses (claims)	2,775,771	8,786
Net result from derecognition of non-financial assets	432,630	2,994,595
Other administrative expenses	1,264,628	1,945,290
Total	**74,458,311**	**62,046,248**

14 INCOME TAX EXPENSE

	2020	2019
Current tax	6,637,015	12,598,019
Deferred tax (Note 22)	(741,727)	6,279
Total	**5,895,288**	**12,604,298**

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

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15 CASH AND CASH EQUIVALENTS AND MANDATORY RESERVERS WITH NBM

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

	31 December 2020	31 December 2019
Cash on hand	124,015,828	179,240,450
	124,015,828	**179,240,450**
Mandatory reserves with NBM	764,244,777	483,570,765
Expected credit loss allowance	(3,639,273)	(2,302,725)
	760,605,505	**481,268,040**
Total cash and cash equivalents with NBM	**884,621,333**	**660,508,490**

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 2020	31 December 2019
Cash on hand (Note 15)	124,015,828	179,240,450
Investments in debt securities (Nota 17)	639,578,978	629,473,750
Loans and advances to banks, that are considered as cash (Nota 16)	229,071,644	201,389,903
Cash and cash equivalents	**992,666,450**	**1,010,104,103**

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 2020 the reserve ratio established by the National Bank of Moldova was 32% for MDL and other non-convertible currencies (2019: 42.5%) and 30% for convertible currencies (2019: 17%).

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	2020	2019
Correspondent accounts in banks in OECD countries:				
DZ BANK AG	AA-	Fitch	175,764,952	83,446,735
THE BANK OF NEW YORK MELLON	AA-	Fitch	21,338,384	95,100,553
PROCREDIT BANK AG*	BBB	Fitch	27,302,108	22,171,517
Expected credit loss allowance			(20)	(17)
			224,405,424	**200,718,788**
Correspondent accounts in banks in non-OECD countries:				
BCR CHISINAU**	A	Fitch	4,666,200	671,098
Expected credit loss allowance			(50)	(7)
			4,666,150	**671,091**
Guarantee placements in banks:				
PROCREDIT BANK GEORGIA	BB+	Fitch	3,442,920	3,441,860
PROCREDIT BANK AG*	BBB	Fitch	10,563,300	9,630,250
Expected credit loss allowance			(2,776)	(23)
			14,003,444	**13,072,087**
Total			**243,075,017**	**214,461,966**

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

	2020	2019
	Stage 1	**Stage 1**
Balance at 1 January	(47)	(24,984)
Increase due to origination	(128)	-
Decrease due to derecognition	131	-
Increase due to remeasurement of loss allowance	(8,370)	(2,059,177)
Decrease due to remeasurement of loss allowance	5,571	2,070,647
Changes due to updates of ECL methodology	-	14,595
Net change due to foreign exchange movements	(3)	(1,129)
Balance at 31 December	**(2,847)**	**(47)**

17 INVESTMENTS IN DEBT SECURITIES

	31 December 2020	31 December 2019
Certificates issued by Nationa Bank of Moldova	639,578,978	629,473,750
Expected credit loss allowance	(84,082)	(52,794)
Carrying amount	**639,494,896**	**629,420,955**

Movement of investments in debt securities	2020 Stage 1	2019 Stage 1
Balance at 1 January	**629,473,750**	**779,112,143**
New financial assets originated	11,753,957,800	11,827,950,025
Release due to derecognition	(11,743,852,572)	(11,977,588,418)
Balance at 31 December	**639,578,978**	**629,473,750**

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 31). The interest rate on certificates issued by the NBM during the year was 4,5%, 3,25%, 3,0%, 2,75%, and 2,65% at the end of the year.

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 2020 and 2019, the sovereign rating assigned to the Republic of Moldova by Moody’s was “B3” with a stable outlook.

As at 31 December 2020 and 2019 there were no debt investments securities pledged as collateral.

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18 INVESTMENTS IN EQUITY SECURITIES

	Fair value at 31 December 2020	**Dividend income recognised for the year 2020**
Investment in equity shares of non-OCDE countroes	1,200,000	156,788
Total investments in equity securities	**1,200,000**	**156,788**

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

Equity investments represent 9.84% of shares owned in:”Bureau of Credit History” in the amount of MDL 1,200,000. The Bank measures these investments at fair value through other comprehensive income.

In fair value hierarchy the Bank classified those investments at Level 3 (Note 33).

As at 31 December 2020 and 2019 equity securities at FVOCI have not been pledged.

19 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2020	**31 december 2019**
Loans and advances to customers	3,239,525,555	2,493,890,450
Expected credit loss allowance	(121,843,147)	(86,857,539)
Total loans and advances to customers	**3,117,682,408**	**2,407,032,911**

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers can be analysed as follows:

At 31 December 2020	Gross amount	ECL Allowance	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
Business loans	**2,190,858,153**	**(67,250,535)**	**2,123,607,619**	**68.1%**	**1,081**	**59.3%**
Loan size up to 50 kEUR	144,182,169	(6,432,733)	137,749,436	4.4%	398	21.8%
Loan size from 50 to 250 kEUR	834,544,421	(26,993,700)	807,550,721	25.9%	525	28.8%
Loan size more than 250 kEUR	1,212,131,563	(33,824,102)	1,178,307,461	37.8%	158	8.7%
Agricultural loans	**982,153,418**	**(50,614,593)**	**931,538,826**	**29.9%**	**597**	**32.8%**
Loan size up to 50 kEUR	69,574,944	(4,037,433)	65,537,511	2.1%	169	9.3%
Loan size from 50 to 250 kEUR	582,934,506	(40,038,444)	542,896,062	17.4%	376	20.6%
Loan size more than 250 kEUR	329,643,969	(6,538,716)	323,105,253	10.4%	52	2.9%
Housing improvement loans	**30,613,495**	**(781,215)**	**29,832,280**	**1.0%**	**30**	**1.6%**
Loan size up to 50 kEUR	8,898,180	(340,404)	8,557,776	0.3%	22	1.2%
Loan size from 50 to 250 kEUR	9,005,277	(177,976)	8,827,301	0.3%	6	0.3%
Loan size more than 250 kEUR	12,710,038	(262,835)	12,447,203	0.4%	2	0.1%
Consumer loans	**35,875,399**	**(3,195,826)**	**32,679,573**	**1.0%**	**98**	**5.4%**
Loan size up to 50 kEUR	7,084,213	(1,572,967)	5,511,246	0.2%	75	4.1%
Loan size from 50 to 250 kEUR	28,791,187	(1,622,859)	27,168,327	0.9%	23	1.3%
Other loans	**25,089**	**(979)**	**24,110**	**0.00%**	**16**	**0.9%**
Loan size up to 50 kEUR	25,089	(979)	24,110	0.00%	16	0.9%
Total	**3,239,525,555**	**(121,843,147)**	**3,117,682,408**	**100.0%**	**1,822**	**100.0%**

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2019	Gross amount	ECL Allowance	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
Business loans	**1,734,054,012**	**(57,747,856)**	**1,676,306,156**	**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	**732,771,305**	**(25,440,188)**	**707,331,117**	**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	**6,896**	**(18)**	**6,877**	**0,00%**	**7**	**0,4%**
Loan size up to 50 kEUR	6,896	(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%**

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20 LEASING

	31 December 2020	31 December 2019
Finance lease receivable, gross	8,741,583	9,419,592
Expected credit loss allowance	(354,906)	(440,025)
Net finance lease receivables amount	**8,386,677**	**8,979,566**
Fair value of lease receivable	**8,800,274**	**9,428,590**

Finance leases under IFRS 16

Gross investment in finance lease receivable	31 December 2020	31 December 2019
Less than one year	1,942,992	1,839,401
Between one and two years	1,872,716	1,771,369
Between two and three years	1,801,381	1,707,300
Between three and four years	1,730,616	1,642,266
Between four and five years	1,659,021	1,577,751
More than five years	802,454	2,244,054
	9,809,179	**10,782,142**
Unearned finance income	(1,067,597)	(1,362,550)
Gross investment in finance leases	**8,741,583**	**9,419,592**

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.

20 LEASES (CONTINUED)

I. Right-of-use assets	**2020**	**2019**
Balance at 1 January	17,692,450	27,028,681
Depreciation charge for the year	(9,718,143)	(9,336,231)
Additions	11,080,922	-
Disposals	(296,648)	-
Balance at 31 December	**18,758,581**	**17,692,450**
Maturity analysis of undiscounted lease liability		
Less than one year	9,727,970	7,722,885
Between one and two years	5,029,407	3,610,188
Between two and three years	4,784,972	3,102,289
Between three and four years	2,688,571	2,901,787
Between four and five years	-	2,468,426
Total undiscounted lease liability at 31 December	**22,230,920**	**19,805,574**

II. Amounts recognized in profit or loss

Leases according IFRS 16	**2020**	**2019**
Interest on lease liabilities	938,025	1,237,294
Depreciation and amortisation	9,718,143	9,336,231

III. Amount recognized in statement of Cash Flows	**2020**	**2019**
Total cash outflow for leases	11,369,342	9,971,360

21 OTHER ASSETS

Other assets are as follows:

Other financial assets	**31 December 2020**	**31 December 2019**
Transit and suspense accounts	9,739,788	6,988,007
Derivatives	35,075	-
Other receivables	1,060,310	513,521
Expected credit loss allowance	(100,955)	(59,041)
Total financial assets	**10,734,218**	**7,442,487**

21 OTHER ASSETS (CONTINUED)

Non-financial assets	**31 December 2020**	**31 December 2019**
Prepaid expenses	2,356,518	2,255,477
Spare parts and consumables	52,058	95,619
Settlements with third parties	2,331,657	2,151,178
Prepaid taxes	39,379	366,841
Total non-financial assets	**4,779,612**	**4,869,115**
Total other assets	**15,513,830**	**12,311,602**

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

	2020	**2019**
Current tax expense		
Current year	6,723,010	12,532,335
Changes in estimates related to prior years	(85,995)	65,684
	6,637,015	**12,598,019**
Deferred tax expense		
Origination and reversal of temporary differences	(372,090)	269,166
Derecognition of temporary differences	(369,637)	(262,888)
	(741,727)	**6,279**
Total	**5,895,288**	**12,604,298**

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 % (2019: 12%).

b. Reconciliation of effective tax rate

	2020	2020	2019	2019
Profit before tax		45,864,798		100,187,089
Tax using the bank's domestic tax rate 12% (2019: 12%)	12%	5,503,776	12%	12,022,451
Tax effect of:				
Tax-exempt income	0.0%	(8,828)	-0.5%	(522,838)
Non-deductible expenses				
Accelerated depreciation rate	0.0%	13,798	0.8%	778,539
Provisions and commitments	0.0%	5,601	-0.2%	(232,223)
Expenses from revaluation of fixed assets and other assets	0.0%	5,030	0.1%	53,979
Loss on disposal of fixed assets	-0.1%	(35,523)	0.0%	1,152
Costs associated with payments to employees that cannot qualify for salary payments	0.0%	238	0.0%	3,712
Other non-deductible expenses	1.1%	497,192	0.4%	433,842
Changes in estimates relating to prior years	-0.2%	(85,995)	0.1%	65,684
Total income tax expense	**12.9%**	**5,895,288**	**12.6%**	**12,604,298**

* 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.

22 DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets

	1 January 2020	Recognised in profit or loss	31 December 2020
Arising from Assets			
Property and equipment	974,849	372,090	1,346,938
Deferred tax assets	**974,849**	**372,090**	**1,346,938**
Arising from Liabilities			
Other Liabilitites	364,775	327,829	692,604
Accural for unpaid vacations	147,585	41,808	189,393
Deferred tax assets	**512,360**	**369,637**	**881,997**
Deferred tax assets	**1,487,208**	**741,727**	**2,228,935**

	1 January 2019	Recognised in profit or loss	31 December 2019
Arising from Assets			
Property and equipment	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
Accruals for 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**

23 PROPERTY AND EQUIPMENT

See accounting policy in Note 4.12

	Land and buildings	Equipment	IT equipment	Vehicles	Other assets	Assets under constructio n	Total
Cost							
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	-	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**
Balance at 1 January 2020	**35,748,972**	**28,097,508**	**17,833,414**	**4,688,566**	**10,018,833**	**1,182,307**	**97,569,599**
Additions	11,080,922	-	-	-	-	4,209,176	15,290,098
Transfers	-	610,164	4,029,645	-	346,937	(4,986,745)	-
Disposals	7,947,890	1,051,086	92,858	-	232,620	-	9,324,455
							-
Balance at 31 December 2020	**38,882,004**	**27,656,585**	**21,770,201**	**4,688,566**	**10,133,149**	**404,738**	**103,535,242**

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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 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**
Balance at 1 January 2020	**17,661,511**	**22,057,685**	**15,188,874**	**3,818,130**	**7,770,185**	**-**	**66,496,384**
Depreciation for the year	10,112,101	3,790,420	1,684,141	595,915	1,283,581	-	17,466,158
Disposals	7,651,242	1,043,736	92,858		232,620	-	9,020,457
Balance at 31 December 2020	**20,122,370**	**24,804,368**	**16,780,157**	**4,414,044**	**8,821,146**	**-**	**74,942,085**
Carrying amounts							
Balance at 1 January 2019	**28,114,588**	**11,635,089**	**4,212,131**	**1,694,126**	**3,224,315**	**33,896**	**48,914,146**
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**
Balance at 31 December 2020	**18,759,634**	**2,852,217**	**4,990,044**	**274,522**	**1,312,003**	**404,738**	**28,593,157**

As at 31 December 2020, property and equipment includes right-of-use assets of MDL 18,758,581 related to leased branches and office premises (see Note 20)

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24 INTANGIBLE ASSETS

	Software	Other Intangible Assets	Intangible Assets in process	Total
Cost				
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**
Balance at 1 January 2020	**7,497,937**	**152,348**	**108,413**	**7,758,697**
Acquisitions	1,265,686	6,584	219,287	1,491,556
Transfers	327,699	-	(327,699)	-
Disposals	-	-	-	-
Balance at 31 December 2020	**9,091,322**	**158,932**	**-**	**9,250,254**
Accumulated amortization and impairment losses				
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**
Balance at 1 January 2020	**7,127,795**	**41,339**	**-**	**7,169,135**
Amortisation for the year	274,554	23,630	-	298,185
Disposals	-	-	-	-
Balance at 31 December 2020	**7,402,349**	**64,970**	**-**	**7,467,319**
Carrying amounts				
Balance at 1 January 2019	**457,115**	**30,850**	**-**	**487,964**
Balance at 31 December 2019	**370,141**	**111,009**	**108,413**	**589,562**
Balance at 31 December 2020	**1,688,972**	**93,962**	**-**	**1,782,934**

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 2020	31 December 2019
Current accounts	**925,278,517**	**604,219,842**
-private individuals	84,638,776	53,123,731
-legal entities	840,639,741	551,096,112
Saving accounts	**850,529,658**	**620,045,587**
-private individuals	448,978,465	369,358,496
-legal entities	401,551,193	250,687,091
Term deposit accounts	**995,857,024**	**937,946,824**
-private individuals	713,388,904	843,890,250
-legal entities	282,468,120	94,056,575
Total	**2,771,665,198**	**2,162,212,253**

Savings accounts are on-sight deposit accounts opened for an indefinite period and are intended to accumulate and save money. The holder may fund or withdraw cash from the savings account at any time in accordance with the Bank's fees and commissions conditions. The interest on the savings account is floating.

Term deposits are open for a certain period, the account holders during the term of the deposit account may not make operations of depositing or withdrawing cash, or receiving and transferring, benefiting from an interest for placing funds in the Bank. The interest is set at the time of concluding the deposit contract and is fixed.

26 BORROWED FUNDS

	31 December 2020	31 December 2019
Borrowings from International Financial Institutions	770,907,854	627,888,950
Borrowings from DLC	467,146,867	230,843,323
Borrowings from related parties	149,362,218	136,207,935
Total	**1,387,416,939**	**994,940,208**

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 2020	31 December 2019
European Investment Bank	24 May 2023	EUR	equivalent of 20,000,000	35,955,297	54,684,609
European Investment Bank	24 May 2023	USD	EUR	84,883,513	122,891,802
European Investment Bank	7 December 2028	EUR	10,000,000	105,649,065	96,326,680
European Investment Bank	28 November 2029	EUR	10,000,000	105,656,756	96,340,791
European Bank of Reconstruction and Development (DCFTA)	15 November 2023	EUR		71,222,582	75,539,873
European Bank of Reconstruction and Development (DCFTA)	15 May 2025	EUR	equivalent of 10,000,000	126,945,866	-
European Bank of Reconstruction and Development (DCFTA)	15 Noiembrie 2023	EUR	EUR	17,605	-
European Bank of Reconstruction and Development	24 February 2020	USD	8,000,000	-	17,227,503
Council of Europe Development Bank (CEB)	25 June 2024	EUR	equivalent of 10,000,000	103,934,090	123,477,026
Council of Europe Development Bank (CEB)	25 June 2024	USD	EUR	31,010,079	41,400,665
Council of Europe Development Bank (CEB)	15 May 2026	EUR	10,000,000	105,633,000	-
Total				**770,907,854**	**627,888,950**

*Loan from European Bank of Reconstruction and Development with the maturity on 24 February 2020 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 2020 and 2019 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 2020	31 December 2019
Inclusive Rural Economic & Climate Resilience Programme ("IFAD")	EUR	6,753,430	5,658,998
	MDL	163,565,486	87,958,399
	USD	336,287	548,851
Wine Sector Restructuring Program	EUR	159,828	991,665
	MDL	-	328,626
Rural Investment and Services Project ("RISP")	MDL	37,386,122	9,781,814
	USD	-	29,882
Competitiveness enhancement project (CEP)	EUR	45,993,050	17,390,287
	MDL	39,183,364	37,641,573
	USD	6,271,927	8,433,363
Livada Moldovei	EUR	146,565,883	55,638,695
	MDL	20,931,491	6,441,171
Total		**467,146,867**	**230,843,323**

26.3 Loans from related parties

		Maturity	Currency	Original Value	31 December 2020	31 December 2019
ProCredit Holding AG	Loan	27 September 2021	EUR	7,000,000	148,836,879	135,689,404
ProCredit Holding AG	Warranty comission		EUR		408,712	355,154
	Warranty comission		USD		116,627	163,377
	Total				**149,362,218**	**136,207,935**

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27 PROVISIONS

	31 December 2020	31 December 2019
At the beginning of the period	**5,104,535**	**3,716,404**
Additions	5,634,232	2,839,590
Releases	(2,072,188)	(1,451,459)
At as 31 December	**8,666,578**	**5,104,535**

The provisions consist of provisions for off-balance sheet items, e.g. guarantees, loan commitments in the amount of MDL 3,617,063 (2019: MDL 2,830,790) and provisions for imminent losses from claims and litigations in the amount of MDL 5,049,515 (2019: MDL 2,273,744).

28 OTHER LIABILITIES

	31 December 2020	31 December 2019
Financial liabilities		
Lease liabilities	20,585,982	17,910,417
Transit accounts	3,796,337	10,626,404
Liabilities for support programs	540,008	7,603,985
Liabilities for goods and services	5,706,212	4,970,111
Accruals for unused vacation	1,578,275	1,229,872
Other financial liabilities	354,360	42,711
	32,561,174	**42,383,501**
Non-financial liabilities		
Non-income tax liabilities	57,031	13,694
Liabilities to employees	1,604	6,250
	58,636	**19,944**
Total	**32,619,810**	**42,403,445**

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

Liabilities for support programs are related to amounts received from 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”).

28 OTHER LIABILITIES (CONTINUED)

As at 31 December 2020 and 31 December 2019 liabilities for support programs have the following structure:

	31 December 2020	31 December 2019
Liabilities for support programs		
European Investment Bank	-	6,263,977
Credit Line Directorate	540,008	1,340,008
	540,008	**7,603,985**

29 SUBORDINATED DEBT

	31 December 2020	31 December 2019
Subordinated debt	138,569,357	126,330,935
Total	**138,569,357**	**126,330,935**

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 2020 and 31 December 2019 the shareholder structure was as follows:

	31 December 2020			31 December 2019		
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
With voting rights	100%	406,550	406,550,000	100%	406,550	406,550,000
Non-voting rights	-	-	-	-	-	-
Total	**100%**	**406,550**	**406,550,000**	**100%**	**406,550**	**406,550,000**

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30 CAPITAL AND RESERVES (CONTINUED)

During the 2020 the Bank did not issue shares (2019: 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 bank 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 2020 the balance of general reserve for bank risks amounts of MDL 25,581,098 (as at 31 December 2019: MDL 40,025,680). 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. According to Bank's statute these can be used to absorb losses. In 2020, the Bank formed statutory reserves in the amount of 5% of the profit of previous years amounting to MDL 4,379,140. The balance of of statutory reserves as of 31 December 2020 amounts MDL 10,587,662 (31 December 2019: MDL 6,208,522).

31 RISK MANAGEMENT

31.1 Management of the general risk profile of the bank

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 aims to maintain a sustainable and adequate level of liquidity and capital at all times, and to achieve consistent results.

The Bank's risk management principles and risk strategy have not changed compared to the previous year. On the contrary, during the COVID-19 pandemic, the conservative approach to risks proved to be appropriate. Like the rest of the world, Moldova has been severely affected by COVID-19 and this has had an impact on the Bank. During 2020, the Bank's risk management function continuously monitored and assessed the impact of the pandemic on the institution, ensuring that appropriate measures were taken in a timely manner.

In March 2020, both the Government and the National Bank of Moldova took a series of measures to support the business environment to counteract the negative effects on the economy following the outbreak of COVID-19: postponement of payment of income tax from entrepreneurial activity, reduction of the VAT quota for the HoReCa sector, additional measures to stimulate commercial

31 RISK MANAGEMENT (CONTINUED)

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

banks to provide loans to the economy and citizens on better terms, the application of the moratorium on the payment of loans, and the renegotiation / extension of loans without classifying them in a tougher category, reduction of the base rate and of the norm of required reserves in MDL, restrictions on the payment of dividends.

The bank has implemented all possible and necessary preventive security measures in its offices to protect the health of its employees and customers. Business continuity has always been ensured in both front-office and back-office areas. The bank has taken steps to ensure business continuity by allowing most employees to operate remotely. IT infrastructure has been at a high level of availability. The concept of the "Hausbank" for SMEs and the advanced level of digitalization in the banking sector provided a solid basis for continuing its operations without major limitations.

Developments in 2020 will affect the focus of risk management activities in 2021. The economic and the public health system crisis continues and, despite the positive outlook, uncertainty about the degree of economic recovery in 2021 remains high. Developments in the risk situation are closely monitored. The Bank complied with all key risk indicators as well as all regulatory requirements applicable at any time in the 2020 financial year. Even in light of the uncertainties resulting from the COVID-19 pandemic, the Bank's overall risk profile remains adequate and stable.

The bank 's risk management strategy is based on several basic principles that contribute to effective risk management. Consistent application of these principles reduces the risks to which the institution is exposed.

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.

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.

31 RISK MANAGEMENT (CONTINUED)

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

c) Careful staff selection and continuous training

The provision of responsible banking services is characterized by a long-term relationship not only with customers but also with employees. Therefore, the Bank has set strict standards for staff selection and training; they are based on mutual respect, personal responsibility and long-term commitment and loyalty. The bank has invested intensively and continues to invest in staff training. Training efforts not only produce professional skills, but also, above all, promote a culture of open and transparent communication. From a risk perspective, well-trained employees who are accustomed to thinking critically and expressing their opinions openly are an important factor in managing and reducing risk, especially operational risk and fraud risk.

The Bank carries out its activities, including providing services and performing operations in fully compliance with the management framework of its business. The Bank's activity is carried out in full compliance with the principle that the institution must not assume more risks than it can tolerate. Consequently, risk management considerations must prevail over business considerations when the Bank's capital cannot cover potential losses. Therefore, the Board of the Bank defines the risk profile of the Bank, including the level of capital required to cover the various risks, the appetite and tolerance for significant risks that together express the Bank's appetite and risk tolerance. The risk profile is distributed over each significant risk, and the Bank's Board establishes a risk appetite for significant risks (viewed individually).

The risk management process includes the identification and ongoing assessment of risk positions, the monitoring and control of risks, and the reporting of the level of risk of the Bank to the Governing Body (the Board of the Bank and the Management Committee) through the Risk Committee and the Committees at Executive Committee level. The assessment of individual risk profiles is performed through risk profile indicators. The risk profile for each significant risk contains a number of indicators that have associated a certain weight depending on the importance of each in the overall assessment of exposure to that risk.

In 2020, the Bank implemented the General Risk Management Policy, which establishes the general principles used within ProCredit Bank S.A. for the general risk management, but also the level of appetite and risk tolerance of the Bank, including for each significant risk separately. The Bank's general risk appetite is set at the "medium" level, and the general risk tolerance - at the "medium-high" level. A level of risk appetite and tolerance is also established for each individual risk, as follows:

a) credit risk: risk appetite level - “medium”, risk tolerance level - “medium-high”;
b) counterparty risk: risk appetite level - “low”, risk tolerance level - “medium”;
c) liquidity risk: risk appetite level - “medium”, risk tolerance level - “medium-high”;
d) currency risk: risk appetite level - “low”, risk tolerance level - “medium”;
e) interest rate risk: risk appetite level - “medium”, risk tolerance level - “medium-high”;
f) operational risk: risk appetite level - “medium-low”, risk tolerance level - “medium”;

31 RISK MANAGEMENT (CONTINUED)

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

g) business risk (including strategic risk): risk appetite level - "medium", risk tolerance level - "medium-high".

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.

The risk management function is responsible for identifying the risks to which the Bank is subject, measuring, evaluating and monitoring these risks. The risk management function within the Bank includes various organizational units. The Credit Risks Department is responsible for managing credit risks, and the Risk Management, Compliance and AML Department is responsible for managing the 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 compliance function is also assigned to the Department of Risk Management, Compliance and AML. 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, several 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.

31 RISK MANAGEMENT (CONTINUED)

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.

The main new factor that affected credit risk in 2020 was the outbreak of the COVID-19 pandemic. As a result, further efforts were made during this time to assess the impact on the Bank's loan portfolio and risk reduction strategy. In the context of the international and local aid measures adopted at that time, the Bank adopted a conservative approach offering a moratorium only as a temporary measure for short-term liquidity problems and standardized at bank level a three-month moratorium for those customers in the economic sectors affected by COVID-19, who requested it. The moratorium reached a maximum of 13% of the loan portfolio in May 2020, the share of the loan portfolio under the moratorium gradually decreased and accounted for 0% at the end of the year. In an immediate second step, the loan portfolio was classified according to the potential impact based on the economic sector and customers' financial data. This served as a priority for the monitoring of individual exposures, which started in April 2020 and ended in the second and third quarters of the year. After the successful implementation of these immediate steps, the Bank set out to provide customized solutions for individual customers.
The following table shows the maximum exposure to credit risk as at 31 December:

	31 December 2020	31 December 2019
Cash and cash equivalents	124,015,828	179,240,450
Mandatory reserves with NBM	760,605,504	481,268,040
Loans and advances to banks	243,075,017	214,461,966
Investments in debt securities	639,494,896	629,420,955
Loans and advances to customers	3,117,682,408	2,407,032,911
Finance lease receivables	8,386,677	8,979,566
Other financial assets	10,734,218	7,442,487
Total	**4,903,994,548**	**3,927,846,375**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

	31 December 2020	31 December 2019
Financial guarantees	166,035,153	119,501,634
Loan commitments	508,264,809	423,593,646
Total	**674,299,962**	**543,095,280**

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 SICR.

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. 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.

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.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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 exposures 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 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.

Incorporation of forward-looking information

The provisions of IFRS 9 also require an anticipatory estimate of expected credit losses, which means that PD values must take into account not only the current realities of the economy, but also subsequent possible changes in the economic situation.

In order to achieve this level of anticipation, the Bank conducted historical analyzes and identified key economic variables with an impact on credit risk and expected credit losses for each portfolio. The expert opinion was also taken into account in this process. Key variables were estimated for the next three years. The forecast of these economic variables was made for three years.
The most important macroeconomic indicators used in the ECL calculation are:

- Gross domestic product
- Inflation
- Unemployment rate

The Bank uses 3 scenarios: the baseline scenario (which is most likely the scenario for the economic environment), the optimistic scenario and the pessimistic scenario. The weights of the scenarios are determined both on the basis of a statistical analysis and on the basis of the opinion of the experts, taking into account the possible representative results for each scenario.

The weights of the scenarios were set at another level of concretization (optimistic 0.0, basic 1.0, pessimistic 0.0), in determining the adjustments for impairment on 31 December 2020 compared to 31 December 2019 (optimistic 0.25, basic 0.50, pessimistic 0.25).

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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 entry in a state of non-reimbursement. 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.

- <u>*Probability of default (PD)*</u>

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 exposure 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.

- <u>*Loss Given Default (LGD)*</u>

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 exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.
Data used for the assessment of credit risk parameters are based on multi-year data histories for our debtors. The influence of 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 2020	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents		124,015,828	-	-	124,015,828
Carrying amount		**124,015,828**	**-**	**-**	**124,015,828**
Mandatory reserves with NBM	1.19%	764,244,777	-	-	764,244,777
Gross carrying amount		**764,244,777**	**-**	**-**	**764,244,777**
Expected credit loss allowance		(3,639,273)	-	-	(3,639,273)
Carrying amount		**760,605,505**	**-**	**-**	**760,605,505**
Loans and advances to banks	0.06%-0.99%	243,077,864	-	-	243,077,864
Gross carrying amount		**243,077,864**	**-**	**-**	**243,077,864**
Expected credit loss allowance		(2,847)	-	-	(2,847)
Carrying amount		**243,075,017**	**-**	**-**	**243,075,017**
					-
Investments in debt securities	1.19%	639,578,978	-	-	639,578,978
Gross carrying amount		**639,578,978**	**-**	**-**	**639,578,978**
Expected credit loss allowance		(84,082)	-	-	(84,082)
Carrying amount		**639,494,896**	**-**	**-**	**639,494,896**

* 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.

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
Cash and cash equivalents		179,240,450	-	-	179,240,450
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 2020	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers, net					
Risk Grade 1	-	-	-	-	-
Risk Grade 2	0.96	303,672,435	-	-	303,672,435
Risk Grade 3	1.72	1,068,154,210	-	-	1,068,154,210
Risk Grade 4	3.80	1,266,127,893	-	-	1,266,127,893
Risk Grade 5	9.44	177,118,180	-	-	177,118,180
Risk Grade 6	24.76	32,195,265	-	-	32,195,265
Risk Grade 6	5.83-66.43	-	137,895,257	-	137,895,257
Risk Grade 7	66.24-66.43	-	34,783,590	-	34,783,590
Risk Grade 8	100.00	-		101,981,562	101,981,562
No risk classification	0.02-100.00	101,001,753	4,756,734	11,838,676	117,597,163
Gross carrying amount		**2,948,269,736**	**177,435,581**	**113,820,238**	**3,239,525,555**
Expected credit loss allowance		(42,578,256)	(29,556,494)	(49,708,397)	(121,843,147)
Carrying amount		**2,905,691,480**	**147,879,087**	**64,111,841**	**3,117,682,408**
Finance lease receivables					
Grade 5	9.44	8,741,583	-	-	8,741,583
Gross carrying amount		**8,741,583**	**-**	**-**	**8,741,583**
Expected credit loss allowance		(354,906)	-	-	(354,906)
Carrying amount		**8,386,677**	**-**	**-**	**8,386,677**

“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 2020.

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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 2	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 lease receivables					
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.

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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 2020:	**Business loans**	**Agricultural loans**	**Housing improvement loans**	**Consumer loans**	**Other loans**	**Total**
Risk classification 1	-	-	-	-	-	-
Risk classification 2	228,284,199	65,983,149	-	9,405,087	-	**303,672,435**
Risk classification 3	770,456,477	294,093,679	-	3,604,054	-	**1,068,154,210**
Risk classification 4	901,839,039	356,833,715	-	7,455,139	-	**1,266,127,893**
Risk classification 5	95,666,385	81,451,794	-	-	-	**177,118,180**
Risk classification 6	76,187,327	90,369,575	-	3,533,620	-	**170,090,522**
Risk classification 7	18,202,526	16,581,065	-	-	-	**34,783,590**
Risk classification 8	50,192,168	51,789,394	-	-	-	**101,981,562**
No risk classification	50,030,032	25,051,048	30,613,495	11,877,499	25,089	**117,597,163**
Gross exposure	**2,190,858,153**	**982,153,418**	**30,613,495**	**35,875,399**	**25,089**	**3,239,525,555**
Expected credit loss allowance	(67,250,535)	(50,614,593)	(781,215)	(3,195,826)	(979)	**(121,843,147)**
Net exposure	**2,123,607,619**	**931,538,826**	**29,832,280**	**32,679,573**	**24,110**	**3,117,682,408**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

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	0	-	**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**

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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 2020:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Business loans	2,065,535,795	29,255,948	69,098,479	10,641,969	56,223,879	27,352,617
Agricultural loans	821,691,298	11,831,376	106,162,062	18,569,974	54,300,059	20,213,243
Housing improvement loans	30,613,495	781,215	-	-	-	-
Consumer loans	30,404,058	708,738	2,175,040	344,551	3,296,300	2,142,537
Other loans	25,089	979	-	-	-	-
Total	**2,948,269,736**	**42,578,256**	**177,435,581**	**29,556,494**	**113,820,238**	**49,708,397**

	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**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Breakdown of loan portfolio by days in arrears:

31 December 2020	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	2,089,846,525	63,418,455	191,205	432,054	5,765,935	21,215,771	9,988,209	2,190,858,153	67,250,535	2,123,607,619
Agriculture	883,015,621	65,469,574	1,732,558	13,304	1,442,764	1,017,024	29,462,573	982,153,418	50,614,593	931,538,826
Housing	30,613,495							30,613,495	781,215	29,832,280
Retail	32,513,303	901,557	1,295,513	300,494	321,498	175,491	367,542	35,875,399	3,195,826	32,679,573
Other	24,806	227	51			5		25,089	979	24,110
Total	3,036,013,750	129,789,813	3,219,327	745,852	7,530,197	22,408,293	39,818,324	3,239,525,555	121,843,147	3,117,682,408
31 December 2019										
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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2020	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January 2020	**2,238,500,809**	**178,752,705**	**76,636,935**	**2,493,890,449**
New financial assets originated	1,429,334,963	-	-	1,429,334,963
Derecognitions	(294,390,591)	(31,712,115)	(10,240,202)	(336,342,909)
Decrease due to write- offs	-	-	(14,027,592)	(14,027,592)
Changes in interest accrual	2,962,986	378,990	1,334,677	4,676,654
Changes in the principal and disbursement fee amount	(398,316,423)	(75,992,456)	(17,203,551)	(491,512,430)
Transfer from stage 1 to Stage 2	(411,428,149)	411,428,149	-	-
Transfer from stage 1 to Stage 3	(36,389,330)	-	36,389,330	-
Transfer from stage 2 to Stage 1	280,214,366	(280,214,366)	-	-
Transfer from stage 2 to Stage 3	-	(37,742,515)	37,742,515	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	56,667	-	(56,667)	-
Net modifications due to foreign exchange fluctuations	137,626,351	12,574,696	3,305,175	153,506,222
Gross outstanding amount as of 31 December 2020	**2,948,171,649**	**177,473,087**	**113,880,619**	**3,239,525,356**

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 2019	**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
Derecognitions	(296,229,685)	(22,765,606)	(14,771,036)	(333,766,327)
Decrease 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**

* 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.

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:

2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as of 1 january 2020	**(31,807,313)**	**(13,361,400)**	**(41,688,826)**	**(86,857,539)**
New financial assets originated	(26,871,206)	-	-	(26,871,206)
Derecognitions	2,777,906	1,123,022	4,095,238	7,996,166
Transfer from stage 1 to Stage 2	7,972,277	(7,972,277)	-	-
Transfer from stage 1 to Stage 3	1,700,070	-	(1,700,070)	-
Transfer from stage 2 to Stage 1	(8,428,484)	8,428,484	-	-
Transfer from stage 2 to Stage 3	-	7,382,750	(7,382,750)	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	(430)	-	430	-
Increase in credit risk	(31,624,844)	(59,151,009)	(25,580,011)	(116,355,864)
Decrease in credit risk	45,690,203	35,296,161	9,976,643	90,963,0106
Write-offs	-	-	14,162,544	14,162,544
Net modifications due to foreign exchange fluctuations	(2,253,769)	(1,034,881)	(1,591,606)	(4,880,256)
Closing balance as of 31 Decembrie 2020	**(42,845,590)**	**(29,289,149)**	**(49,708,408)**	**(121,843,148)**

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**
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)

Movement of expected credit loss allowance for certificates issued by NBM

	2020	2019
	Stage 1	Stage 1
Balance at 1 January	**(52,795)**	**(3,710,070)**
New financial assets originated	(2,108,586)	(56,323,752)
Release due to derecognition	2,077,299	57,036,318
Variations due to the actualization of estimation methodology	-	2,944,709
Balance at 31 December	**(84,082)**	**(52,795)**

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

	2020	2019
	Stage 1	Stage 1
Balance at 1 January	**(2,302,725)**	**(2,452,279)**
New financial assets originated	(3,156,083)	(1,088,802)
Release due to derecognitions	1,945,488	1,225,240
Net modifications due to foreign exchange fluctuations	(125,953)	13,116
Balance at 31 December	**(3,639,273)**	**(2,302,725)**

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

	2020	2019
	Stage 1	Stage 1
Balance at 1 January	**-**	**(230,899)**
New financial assets originated	(826)	(562,329)
Release due to derecognition	826	793,228
Balance at 31 December	**-**	**-**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Disclosure on movement of expected credit loss allowance for finance lease receivables

As of December 31, 2020, no payments from financial lease were past-due. On December 31, 2020, the Bank had concluded a financial leasing contract (December 31, 2019 - one). See below the loss allowances movement for the finance lease receivable:

	2020	**2019**
Balance at 1 January	**(440,025)**	**(153,457)**
Increase in credit risk	(94,490)	(306,098)
Decrease in credit risk	216,189	18,994
Net modifications due to foreign exchange fluctuations	(36,579)	535
Balance at 31 December	**(354,906)**	**(440,026)**

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):
The following table shows the reconciliation between:
- the amounts presented in the above tables that reconcile the opening and closing balances of the ECL allowances by class of financial instruments; and
- the heading "Net impairment (loss) / release on financial instruments" in the statement of profit or loss.

2020	**Investments in debt securities**	**Finance lease receivables**	**Balances with the NBM**	**Loans and advances to banks**	**Loans and advances to customers**	**Other financial assets**	**Total**
Net remeasurement of loss allowance	2,077,299	127,512	(1,208,321)	(3,085)	(13,701,346)	634,297	(12,073,645)
New financial assets originated or purchased	(2,108,586)	-	-	-	(30,239,246)	(1,346,469)	(33,694,300)
Total	**(31,287)**	**127,512**	**(1,208,321)**	**(3,085)**	**(43,940,592)**	**(734,820)**	**(45,790,593)**
Recoveries of amounts previously written off	-	-	-	-	14,531,461	-	14,531,461
Discounting effect	-	-	-	-	(674,227)	-	(674,227)
Total	**(31,287)**	**127,512**	**(1,208,321)**	**(3,085)**	**(30,083,358)**	**(734,820)**	**(31,933,358)**

2019	**Investments in debt securities**	**Finance lease receivables**	**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)	76,367,671
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**

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 2020	47.7%	11.7%	40.6%
31 December 2019	46.3%	12.4%	41.3%

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

During the years 2020 and 2019 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), 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%. In 2020, an agreement was signed by which, in order to mitigate the effects caused by COVID-19, the European Investment Fund will guarantee 80% of the investments in current assets. Also in 2020, the European Investment Fund coordinated to increase the volume of the approved portfolio financed with the InnovFin guarantee from EUR 60 million to EUR 70 million. At the end of 2020, the Bank had financed 301 loans with InnovFin guarantee.

During 2020 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%. The contract was concluded in the amount of 28 million euros and by 2020 123 loans were financed with the DCFTA guarantee.

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 2020:						
Unsecured loans	4,374,755	150,373	745,333	1,188,193	25,089	**6,483,743**
Loans collateralised by:						
-real estate (mortgage)	1,147,098,108	341,232,946	28,427,462	26,561,158	-	**1,543,319,674**
-deposits	4,392,862	-	-	-	-	**4,392,862**
-financial guarantee facility	306,915,938	67,472,410	-	-	-	**374,388,348**
-other	728,076,491	573,297,690	1,440,700	8,126,048	-	**1,310,940,928**
Total loans and advances to customers	**2,190,858,153**	**982,153,418**	**30,613,495**	**35,875,399**	**25,089**	**3,239,525,555**
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**

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 2020:	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Other loans	Total
Collateral type:						
- mortgage	2,313,235,679	550,198,698	43,192,324	97,101,626	-	**3,003,728,328**
- deposits	5,562,777	-	-	-	-	**5,562,777**
- financial guarantee	221,679,795	43,328,524	-	-	-	**265,008,319**
- other assets	1,352,465,880	937,319,679	2,070,950	9,588,016	-	**2,301,444,525**
Total	**3,892,944,132**	**1,530,846,901**	**45,263,275**	**106,689,642**	**-**	**5,575,743,949**

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**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The effect of collateral at 31 December 2020:

	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	2,037,242,910	4,940,592,265	86,364,709	68,058,607	2,123,607,619	5,008,650,872
Agriculture	903,691,104	2,002,050,399	27,847,721	23,002,116	931,538,826	2,025,052,515
Housing improvement	28,621,970	52,158,344	1,210,311	146,854	29,832,280	52,305,198
Consumer	31,550,121	116,764,668	1,129,453	-	32,679,573	116,764,668
Other			24,110	-	24,110	-
Total	**3,001,106,105**	**7,111,565,676**	**116,576,303**	**91,207,577**	**3,117,682,408**	**7,202,773,253**

The effect of collateral at 31 December 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	0	11,267,472	20,635,167
Consumer	11,168,248	80,788,083	953,041	253,931	12,121,288	81,042,014
Other	0	0	6,877	0	6,877	0
Total	**2,308,125,918**	**5,579,358,916**	**98,906,993**	**73,562,804**	**2,407,032,911**	**5,652,921,720**

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 2020:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	5,897,026	303,123	283,595	-	-	-
Loans collateralised by:						
- mortgage	1,425,120,200	41,110,984	77,088,491	2,686,751,829	110,915,069	206,061,429
- deposits	4,392,862	-	-	5,562,777	-	-
- financial guarantee	371,286,026	3,102,322	-	262,822,177	2,186,142	-
- other assets	1,141,573,623	132,919,152	36,448,153	2,037,686,561	202,372,886	61,385,079
Total	**2,948,269,736**	**177,435,581**	**113,820,238**	**4,992,823,344**	**315,474,097**	**267,446,507**

			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**

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.

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 500,000) and medium enterprises (exposures more than EUR 500,000), 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 related entity. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

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

The Bank follows a rule that limits concentration risk in its loan portfolio by ensuring that large exposures (greater than 10% of eligible capital) require the approval of the Supervisory Board. No large credit exposure may exceed 15% of the Bank's eligible 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.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

As at 31 December 2020	Business	Agriculture	Housing	Retail	Other	Total
< 50,000 EUR	144,182,169	69,574,944	8,898,180	7,084,213	25,089	229,764,595
50,000 la 250,000 EUR	834,544,421	582,934,506	9,005,277	28,791,187	-	1,455,275,391
> 250,000 EUR	1,212,131,563	329,643,969	12,710,038	-	-	1,554,485,570
Total	**2,190,858,153**	**982,153,418**	**30,613,495**	**35,875,399**	**25,089**	**3,239,525,555**
As at 31 December 2019						
< 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**

31 RISK MANAGEMENT (CONTINUED)

31.5. 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.

Since the outbreak of the COVID-19 pandemic, the risk management function has closely monitored the credit quality of its counterparties, following the ratings given by rating agencies, news and other available information. During 2020, no counterparty of the Bank was demoted, and the counterparty risk remained stable.

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31 RISK MANAGEMENT (CONTINUED)

31.5. Counterparty risk, including issuer risk (continued)

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

	31 December 2020	%	31 December 2019	%
Loans and advances to banks, including:	**243,075,017**	**5.10%**	**214,461,966**	**5.73%**
- OECD banks	234,968,146	4.93%	210,349,037	5.62%
- non-OECD banks	8,106,871	0.17%	4,112,929	0.11%
Exposure with NBM, including:	**1,400,100,400**	**29.36%**	**1,110,688,995**	**29.69%**
- Mandatory reserves	760,605,504	15.95%	481,268,040	12.86%
- Certificates of NBM	639,494,896	13.41%	629,420,955	16.82%
Loans and advances to customers	**3,117,682,408**	**65.37%**	**2,407,032,911**	**64.34%**
Finance lease receivables	**8,386,677**	**0.18%**	**8,979,566**	**0.24%**
Total	**4,769,244,503**	**100.00%**	**3,741,163,438**	**100.00%**

The total exposure to banks increased in 2020 compared to the end of 2019, amounting to MDL 243.1 million (2019: MDL 214.5 million). Exposure towards the NBM also increased compared to the previous year, amounting to MDL 1,400.1 million (2019: MDL 1,110.7 million). This increase occurred, on the one hand, due to the significant increase of the norm of required reserves in freely convertible currency (from 18% at the end of 2019 to 30% in 2020), but also to the increase of liquidity in Moldovan lei. Even if the rate of required reserves in lei decreased in 2020 (from 42.5% to 32%), the amount of required reserves held in lei did not decrease, taking into account the fact that the portfolio of deposits in lei for which the reserves were set up increased. Thus, at the end of 2020 the exposures to banking groups accounted for 14.8% of total exposures to counterparties, and to NBM – 85.2% (2019: 16.2% and 83.8%, respectively).

The exposure is distributed across three OECD and two 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 2020 the Bank had NBM certificates in the statement of financial position amounting to MDL 639.5 million (2019: 629.4 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 approved limits. 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 EUR and USD.

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

As at 31 December 2020	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents	17,089,729	24,536,692	-	82,389,406	124,015,828
Mandatory reserves with NBM	337,677,509	88,747,000	-	334,180,996	760,605,505
Loans and advances to banks	154,974,632	73,337,074	14,763,311	-	243,075,017
Loans and advances to customers	1,822,933,362	211,949,984	-	1,082,798,862	3,117,682,208
Finance lease receivables	8,386,677	-	-	-	8,386,677
Investments in debt securities	-	-	-	639,494,896	639,494,896
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	1,180,492	6,395,706	488	3,157,533	10,734,218
Total assets	**2,342,242,401**	**404,966,456**	**14,763,799**	**2,143,221,693**	**4,905,194,350**
Liabilities					
Due to customers	1,133,441,170	339,538,375	12,861,659	1,285,823,994	2,771,665,198
Borrowed funds	1,003,732,044	122,618,433	-	261,066,462	1,387,416,939
Subordinated debt	138,569,357	-	-	-	138,569,357
Provisions	932,265	2,592,828	7,363	5,134,122	8,666,578
Other financial liabilities	23,858,208	3,858,150	-	4,844,817	32,561,174
Total liabilities	**2,300,533,044**	**468,607,786**	**12,869,022**	**1,556,869,396**	**4,338,879,247**
Net position	41,709,357	(63,641,319)	1,894,778	586,352,298	566,312,532
Off-balance sheet exposures	**232,822,422**	**76,207,817**	**2,343,430**	**362,926,293**	**674,299,962**

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

sAs at 31 December 2019	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents	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 receivables	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
Borrowings	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**

* 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.

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 ten years (the observation period was changed in 2020 from eight to ten 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. As of December 31, 2020, the maximum loss (VAR) at a 95% confidence level is MDL 3,677,436.

Overall, in 2020 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 2020 Impact, Profit/(Loss), MDL’000	31 decembrie 2019 Impactul, Profit/ (Pierdere), MDL’000
	USD	(2,806)	(29)
+25	EUR	430	(312)
	USD	2,806	29
-25	EUR	(430)	312

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 Interest rate 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 2020, the impact on the economic value of capital was permanently below 10%. At 31 December 2020, this indicator was 7.7% (2019: 3.7%), 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 2020, 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, 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 250 basis points for both internal rates and for market rates was considered. The magnitude of the shock for the national 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.

In the context of the COVID-19 crisis, the Bank frequently monitored the evolution of market rates. As a result of the NBM's monetary policy decisions on the multi-stage rate reduction during 2020 (from 5.50% at the beginning of 2020 to 2.65% at the end of the year), market interest rates dropped significantly. The evolution of interest rates on loans and deposits was analyzed in the ALCO committees and, if necessary, the rates for the products offered by the Bank were adjusted, in order to reduce the interest rate risk.
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, 2020 and December 31, 2019. 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 Interest rate risk (continued)

2020	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets						
Cash and cash equivalents	124,015,828	124,015,828	-	-	-	-
Mandatory reserves with NBM	760,605,505	760,605,505	-	-	-	-
Loans and advances to banks	243,075,017	232,511,717	-	-	10,563,300	-
Loans and advances to customers	3,117,682,408	1,311,958,021	959,118,875	691,576,536	147,237,879	7,791,097
Finance lease receivables	8,386,677	501,757	396,124	1,516,626	5,793,175	178,995
Investments in debt securities	639,494,896	639,494,896	-	-	-	-
Investments in equity securities	1,200,000	-	-	-	-	1,200,000
Total financial assets	**4,894,460,332**	**3,069,087,724**	**959,514,999**	**693,093,162**	**163,594,355**	**9,170,092**
Liabilities						
Deposits from customers	2,771,665,198	1,614,872,029	305,819,306	696,266,997	132,954,599	21,752,267
Borrowed funds	1,387,416,939	700,531,660	587,765,228	11,561,194	60,889,662	26,669,195
Subordinated debt	138,569,357	-	138,569,357	-	-	-
Total financial liabilities	**4,297,651,495**	**2,315,403,689**	**1,032,153,892**	**707,828,191**	**193,844,261**	**48,421,462**
Net exposure to interest rate	**596,808,837**	**753,684,035**	**(72,638,893)**	**(14,735,029)**	**(30,249,906)**	**(39,251,370)**

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31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

2019	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Cash and cash equivalents	179,240,450	179,240,450	-	-	-	-
Mandatory reserves with NBM	481,268,040	481,268,040	-	-	-	-
Loans and advances to banks	214,461,966	204,831,716	-	-	9,630,250	-
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 lease receivables	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	**3,921,603,888**	**2,304,360,719**	**913,914,766**	**120,430,236**	**561,666,733**	**21,231,435**
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	**638,120,492**	**621,537,648**	**(120,067,508)**	**(176,005,043)**	**291,423,960**	**21,231,435**

31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

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

(‘000 MDL)

			2020			**2019**
	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) 2,5%% (descending shock)	(49,972)	(11,338)	13,0%/ 11,1% (ascending shock) 2,5%% (descending shock)	(10,632)	(20,136)
EUR	2%	35	6,904	2%	(11,506)	812
USD	2%	(1,811)	(1,502)	2%	(490)	(1,241)
Total		**51,818**	**19,744**		**22,628**	**22,189**

At the end of 2020, the Bank's interest rate risk is assessed as medium.

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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 cash flow 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 31.12.2020 the Sufficient Liquidity Indicator of the Bank was equal to 2.7 (31.12.2019:3.3).

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 national currency separately. At the end of 2020, 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 2020 these indicators registered 0%, as the Bank did not use either interbank credit lines or overnight loans for liquidity management.

Regulated liquidity indicators (Principles I, II and III) were also complied with. A new liquidity indicator became applicable in October 2020, namely the Liquidity Coverage Ratio (LCR) indicator with the following limits: 60% from 1 October 2020; 70% starting with January 1, 2021; 80% starting with January 1, 2022; 100% starting with January 1, 2023. As of December 31, 2020, the LCR indicator was 277%.

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 clients, or of all depositors, non-financial clients, with a share of more than 1% in the total non-financial clients 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 clients deposits. Depositor concentrations are monitored in order to avoid dependence on a small number of large depositors.

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 7%, 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 2020	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 cash equivalents	124,015,828	124,015,828	-	-	-	-	-	124,015,828
Mandatory reserves with NBM	760,605,505	760,605,505	-	-	-	-	-	760,605,505
Loans and advances to banks	243,075,017	229,071,644	-	-	3,442,920	10,563,300	-	243,077,864
Loans and advances to customers	3,117,682,408	130,151,033	192,476,470	251,611,739	517,178,654	2,122,488,587	368,247,947	3,582,154,430
Finance lease receivables	8,386,677	164,274	329,215	486,896	962,608	7,063,733	802,454	9,809,179
Investments in debt securities	639,494,896	640,000,000	-	-	-	-	-	640,000,000
Investments in equity securities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	10,734,218	10,835,173	-	-	-	-	-	10,835,173
Total financial assets	4,905,194,549	1,894,843,457	192,805,685	252,098,635	521,584,182	2,140,115,619	370,250,402	5,371,697,979
Liabilities								
Deposits from customers	2,771,665,198	1,817,968,665	85,234,091	161,339,479	529,310,452	203,879,892	-	2,797,732,579
Borrowed funds	1,387,416,939	18,407,003	15,010,016	140,469,884	292,907,503	809,118,978	187,568,686	1,463,482,069
Subordinated debt	138,569,357	-	-	4,622,021	4,647,417	37,103,146	143,144,127	189,516,710
Provisions	8,666,578	1,598	23,527	5,149,302	458,079	2,086,414	947,658	8,666,578
Other financial liabilities	32,561,174	12,565,662	853,841	2,251,585	4,247,944	12,642,142	-	32,561,173
Total financial liabilities	4,338,879,246	1,848,942,927	101,121,475	313,832,270	831,571,394	1,064,830,573	331,660,470	4,491,959,110
Financial guarantees	166,035,153	7,552,078	7,131,535	21,611,120	45,109,679	84,630,741	-	166,035,153
Loan commitments	508,264,809	801,420	23,171,364	19,176,320	82,647,697	252,598,619	129,869,389	508,264,809
Net liquidity gap	566,315,303	45,900,529	91,684,210	(61,733,635)	(309,987,212)	1,075,285,046	38,589,931	879,738,870

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 cash equivalents	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 lease receivables	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 equitysecurities	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

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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. Assumptions regarding deposit withdrawals are calculated based on the historical behavior of deposits in the last 10 years. That output rate is used as the basis for calculating liquidity indicators.

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 2020 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 European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), 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.

With the onset of the COVID-19 pandemic, the risk management function continuously monitored and assessed the impact of the crisis on the Bank's liquidity position, in order to take appropriate measures in a timely manner. Developments were assessed on a daily basis based on liquidity risk indicators, monitoring of regulatory measures and market trends. If necessary, ALCO meetings were convened more often than once a month.
Despite considerable uncertainty about market liquidity and possible withdrawals of deposits, especially at the beginning of the pandemic crisis, the Bank's liquidity situation remained stable. It is worth mentioning that the balance of deposits even increased during 2020, contrary to fears, which demonstrates the high level of customer confidence in ProCredit Bank, even in stressful situations. The impact of the moratorium on the repayment of several customer loans during the state of emergency on liquidity was accurately forecasted so that the Bank would not encounter difficulties. The bank had sufficient liquidity available at any time in 2020 to meet all its financial obligations in a timely manner.

31 RISK MANAGEMENT (CONTINUED)

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.

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

The 2020 was highlighted by challenges and uncertainties for the Moldovan economy, generated by both domestic and regional circumstances.

The pandemic crisis and drought strongly affected the economy of the Republic of Moldova, the Gross Domestic Product (GDP) decreasing by 7.0% in 2020. Most economic sectors contributed negatively to the evolution of Gross Domestic Product, major influences being noted from the agricultural sector, domestic trade of wholesale and retail goods, industry, professional, scientific and technical activities, real estate transactions, etc. At the same time, on the demand side, the restrictive measures imposed in the context of the spread of the pandemic have led to a sharp decrease in population consumption. The deficit of financial resources and the uncertainties created by the pandemic crisis have led to a decrease in investment activity. The most affected by the crisis were investments from the own sources of economic agents, generating the greatest negative impact on investment activity.

Internally, the political instability in the country, 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 5.5% as it was at 31 December 2019 to 2.65% as it is as 31 December 2020. Inflation rate, in December 2020, was 0.39% compared to December 2019 (7.54%), below the lower limit of the range of 5.0% ±1.5 percentage points stipulated in the Medium-Term Monetary Policy Strategy.

31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

According to the data of the National Bureau of Statistics in 2020, the GDP decreased compared to 2019 by 7.0% on the gross series. The industrial sector decreased by 5.5%, due to the decrease in production in the manufacturing industry (-7.1%). The decrease in external demand from partner countries affected by COVID-19, in conjunction with the drought of 2020, has led to a decrease in production, especially in the exporting and food industries. At the same time, there were increases in the extractive industry (+ 9.5%) and in the production and supply of electricity and heat, gas, hot water and air conditioning (+ 2.3%).

Unfavorable climatic conditions have led to a significant decrease in the volume of agricultural production. In 2020 it decreased by 27.1%. Vegetable production decreased by 35.9%, and animal production - by 3.8%.

Domestic retail trade was on the rise, but trade in services declined largely due to the effects of the pandemic. In 2020, the turnover in retail trade increased with 4.6% (in comparable prices), the other areas of internal trade decreasing: the volume of market services provided to the population - by 15.7% (in comparable prices), the volume of services provided to enterprises - by 15.5% (in current prices), wholesale trade - by 5.6% (in current prices), trade of motor vehicles - by 18.1% (in current prices).

From the beginning of 2020, the national currency marked a non-essential depreciation of 0.03% against the US dollar in nominal terms (from 17.21 lei for 1 US dollar on 01.01.2020 to 17.21 lei on 31.12.2020), and a depreciation of 9.7% against the Euro. The stock of reserve foreign exchange assets of the NBM on 31.12.2020 reached a historical record of 3783.5 million dollars, increasing by 23.7% compared to the level registered on 31.12.2019.

The negative impact of the COVID-19 pandemic and the associated restrictive measures also affected the Balance of Payments. The decrease of the domestic demand in 2020 determined the decrease of the current account deficit by 28.9%. Also, the cessation of economic activity and the uncertain prospects for the future negatively influenced investment activity and, thus, during the reference period capital inflows in the form of foreign direct investment decreased by 8 times.

During 2020, the National Bank of Moldova continued the process of prudential supervision of banks in the Republic of Moldova, pursuing compliance with legal requirements, in order to prevent and limit the risks specific to banking. At the same time, for the period March - July 2020, taking into account the effects generated by the COVID-19 pandemic, the NBM adopted a series of measures in order to maintain the stability of the banking sector and encourage banks to work with borrowers to ensure optimal loan repayment conditions, in accordance with the powers conferred by law.

During 2020, no significant changes were registered in the shareholding structure of licensed banks in the Republic of Moldova, except for BC ”FinComBank” S.A.

31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

The year 2020 is characterized by the increase of assets, credits, own funds, deposits of individuals and deposits of legal entities. The banking sector has a high level of liquidity. At the same time, the quality of the loan portfolio improved compared to the end of the previous year, and the profit obtained in 2020 registered a decrease compared to the similar period of the previous year. Total assets amounted to 103.9 billion lei, increasing during 2020 by 14.6% (13.2 billion lei).
On 31.12.2020, the profit in the banking system amounted to 1.65 billion lei, decreasing by 27.0% (0.6 billion lei) compared to the similar period of the previous year.

The negative effects of the COVID-19 pandemic triggered at the beginning of 2020 are felt in most spheres of the economy, which implicitly affects the banking system, given its role in financial intermediation. Thus, in order to ensure the stability of the banking system by maintaining the critical functions of banks, as well as mitigating the potential effects on economic growth and population, in 2020, the National Bank within the legal framework undertook several actions in this regard. The National Bank offered flexibility to the banks in approaching the economic agents that have contracted bank loans, by postponing or modifying the payment terms and / or the amounts of due payments. The National Bank has also taken similar actions to support individuals consuming bank loans, giving the possibility to flexibly manage the payment obligations of debtors in difficulty. At the same time, the decision was made to relax the capital buffer requirements and recommended that banks refrain from distributing capital in the form of dividends or other forms of distribution.

Regarding short-term forecasts, despite political instability, the interim government has the task of leading the country through the COVID-19 crisis without reversing the hard-to-implement structural reforms, regaining the trust of citizens and international partners, fighting corruption, implementing reforms unfinished on the agenda and ensuring a fair and successful transition through possible early parliamentary elections in 2021.

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.

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31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

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.

31.11 Operational risk

The Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes (eg failure of data processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) and/or external events (eg criminal activities, natural disasters). This definition also takes into account fraud risk, ICT risk, legal risk, reputational risk, and outsourcing risk. The operational risk management aims at identifying, analyzing and evaluating all material risks at an early stage and avoiding their recurrence.
One of the key components of operational risk management is the detailed recording of risk events resulting from operational risks. In this context, a risk event database (RED) has been developed to ensure that all risk events identified in the bank with realized or potential losses from operational risks are recorded, analyzed and communicated effectively. This uniform structure, predefined for documenting risk events, ensures that adequate attention is paid to the implementation of corrective and / or preventive measures necessary to reduce or avoid operational and fraud risk.

Additionally, the bank performs an annual Risk Assessment. Unlike the ex-post analysis of risk events, which have been recorded in the risk event database, these risk assessments are carried out systematically to identify and assess key risks and to assess the adequacy of control processes.

For areas identified as high risk, risk mitigation measures are defined. These two control components complement each other and provide an overview of the operational risk profile for the bank.

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk (continued)

The Bank has established a set of key operational risk indicators (KRIs) that are intended to determine the level of exposure to operational risk. As an effective tool for detecting deviations from the norm and which could indicate the existence an operational risk, these indicators are calculated and analyzed monthly and reported quarterly to the Operational Risk Committee and the Risk Committee.

In addition, key risk indicators have been defined through which the Bank monitors the Bank's exposure to fraud risk (KRI Fraud). These indicators are reviewed on a quarterly basis and, where necessary, preventive measures are agreed.

In order to strengthen operational risk management, all new products and / or activities, as well as outsourcing activities, are analyzed to identify and manage potential risks prior to implementation, through the New Risk Approval (NRA) process.

The Bank has defined detailed internal policies and procedures to ensure the confidentiality, availability and integrity of all information and IT systems that require protection. Periodic checks on information security and business continuity are part of existing processes and procedures. The Bank performs the annual risk assessment on critical information assets. The business continuity framework implemented in the Bank ensures that these risks are understood by all Bank employees, that critical processes are identified and that resources are allocated for business continuity, in accordance with the prioritization of processes. The IT service provider, Quipu GmbH, is part of the ProCredit group and supports the Bank with regard to software and hardware.

In the context of the Covid 19 pandemic, the Bank organized meetings of the Business Continuity Committee from the first days of the virus spread. Thus, taking into account the risk of contamination of employees, the Bank has taken measures to ensure operational continuity by allowing most employees to operate remotely. Employees whose functions cannot be performed remotely and require physical presence in the Bank's offices work in shifts for two weeks, the work schedule with customers has been shortened, the distance of at least one meter between the client and the employee is ensured, protection screens have been installed in front office. In order to avoid the crowd the Bank's offices, the clients are served based on the pre-registration made through Contact Center. Regarding all these changes of the work schedule, as well as the mandatory requirements necessary to avoid contamination with the new virus, the Bank placed announcements both on its website and inside the agencies/branches. At the same time, all offices are equipped with the necessary disinfectant solutions and are processed periodically, including ozone disinfection every two weeks. When identifying cases of contamination between employees, the contact group is clarified and the persons who came into contact with the contaminated person are placed in quarantine.

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk (continued)

Other operational risk factors that the Bank assessed at the beginning of the Covid 19 pandemic are the following:

- suspension of the activity of outsourcing companies or their inability to comply with the terms of the contract;
- suspension of the activity of companies - service providers and office supplies.

Until now, the companies to which the Bank has outsourced the processes of material importance and the international company QUIPU Gmbh to which its e-mail service has been outsourced continue to offer the services normally, without any deviations.

Thus, in the context of the Covid 19 pandemic, the Bank managed to maintain business continuity and guarantee the availability of ICT systems at a high level. In addition, no increase in the risk of fraud or other operational risks was identified.

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.

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 responsible person from Business Department. 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 responsible person from Business Department 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.

31 RISK MANAGEMENT (CONTINUED)

31.12 Reputational risk (continued)

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 Busines Department 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.

In the context of the Covid 19 pandemic, reputational risk was monitored and managed as a whole with operational risk. No reputational risk events were identified, including no increase in the level of reputational risk.

31.13 Compliance risk

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.

Regular compliance checks are part of existing processes and procedures. The Bank conducts the annual compliance risk assessment. In 2020, the Bank implemented performance indicators to assess the efficiency of the compliance function. The analysis of the indicators is carried out quarterly and reported to the Risk Committee. The first reporting will be made for the first quarter of 2021.
The Risk Management Department, Compliance and AML presents a quarterly report on compliance risk to the Risk Committee.
Considering that compliance is a 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.

In the context of the Covid 19 pandemic compliance risk has been effectively monitored and managed. No compliance risk events were identified, including no increase in the level of compliance risk.

31 RISK MANAGEMENT (CONTINUED)

31.14 The risk of money laundering and terrorist financing

Responsible behavior is an integral part of our business model. This is reflected in the Code of Conduct for the Bank's employees, as well as in the content of the introductory courses for new staff and in the programs of ProCredit academies. Preventing money laundering and terrorist financing is a key component of our self-perception. This is reflected in the criteria used to select customers.

The Bank fully complies with all regulatory requirements regarding the prevention of money laundering and terrorist financing. The reviews carried out by supervisors and external auditors do not reveal structural deficiencies in this area. Furthermore, the Bank does not apply simplified precautions in customer relations and / or monitoring of their transactions. This approach is a stricter approach than the requirements of national law. The implementation is regularly reviewed by the ProCredit Group's AML Officer.

Our ethical responsibility is documented in the form of our Code of Conduct and the exclusion list, which contains the basic rules and regulations that all employees of the Bank are required to comply with. AML's policy and the Bank's internal procedures specify how these basic rules should be implemented in practice.

In addition to identifying all contracting parties and clarifying the purpose of the business relationship, collecting customer data always involves identifying the beneficial owner of all funds that are managed in customer accounts. Beneficiary owners are individuals who benefit substantially from a business structure, even if they are not in personal records during our business relationship with a customer.

The Bank uses specialized software to identify payments that may cause suspicion of money laundering and / or terrorist financing. The Bank works closely with law enforcement agencies in preventing and combating money laundering and terrorist financing and regularly reports to the AML Officer at ProCredit Holding.

In the context of the Covid 19 pandemic, the risk of money laundering and terrorist financing was effectively monitored and managed. No money laundering and terrorist financing risk events were identified, including no increase in the level of this risk.

31.15 Business Risk (including Strategic Risk)

The risk related to the conduct of business is the risk of losses resulting from unexpected changes in the volume of activity and / or margins. Depending on the definition, this may include the risk of declining business volume, rising prices (with staff, information technology, etc.) and declining revenues (due to factors such as competition). 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.

31 RISK MANAGEMENT (CONTINUED)

31.15 Business risk (including Strategic Risk) (continued)

Business risk (including Strategic Risk) is minimized through a structured process regarding business planning, implementation, evaluation and adjustment of the Bank's business strategy and risk administration strategy. Additionally, a business risk profile is established in order to control exposure to this risk.

The business risk is regularly monitored by the ALCO Committee, by analyzing the results obtained in relation to the planned ones, but also within the Risk Committee.

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. In this context the Bank 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 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 twelve months, as well as in crisis conditions.

According to the regulations of National Bank of Moldova, the 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%.

In the context of the COVID-19 crisis, in April 2020 the National Bank of Moldova issued a decision allowing banks to temporarily use, until a later date, their own funds maintained to meet the capital conservation buffer, which were previously formed.

During 2020, the Bank maintained a sufficient level of capital adequacy, complying with the minimum requirements imposed by the National Bank of Moldova.

32 CAPITAL MANAGEMENT (CONTINUED)

In addition to complying with the regulatory capital requirements, within Pillar 1 (for credit, market and operational risk), The Bank calculates internal capital requirements within Pillar II for risks not covered by Pillar 1 in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) Policy.

In 2020, the Bank revised the ICAAP Policy, including the methodologies for calculating the internal capital. The Bank set a limit of 10% for the internal capital adequacy rate, and on 31 December 2020 this limit was held.

Following the COVID-19 crisis, the Bank continuously monitored the evolution of its own funds rates and the adequacy of internal capital, as well as carried out crisis forecasts and simulations with a higher frequency than indicated in internal procedures, in order to detect vulnerabilities and risks in a timely manner to which it is exposed. During 2020, several crisis simulations associated with the COVID-19 pandemic situation were carried out in order to analyze the negative effects on the institution and take appropriate measures in a timely manner.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Please see Note 4.10 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 2020 and 31 December 2019:

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2020	Carrying Value	Fair Value Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents	124,015,828	124,015,828	-	-	124,015,828
Mandatory reserves with NBM	760,605,505	-	760,605,505	-	760,605,505
Loans and advances to banks	243,075,017	-	243,075,023	-	243,075,023
Loans and advances to customers	3,117,682,408	-	-	3,224,713,332	3,224,713,332
Finance lease receivables	8,386,677	-	-	8,800,274	8,800,274
Investments in debt securities	639,494,896	-	639,494,896	-	639,494,896
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	10,734,218	-	-	10,734,218	10,734,218
Total Financial Assets	**4,905,194,550**	**124,015,828**	**1,643,175,424**	**3,245,447,824**	**5,012,639,076**
Financial Liabilities					
Deposits from customers	2,771,665,198	-	1,775,808,175	999,162,377	2,774,970,552
Borrowed funds	1,387,416,939	-	-	1,342,073,602	1,342,073,602
Subordinated debt	138,569,357	-	-	165,081,803	165,081,803
Other financial liabilities	32,561,174	-	-	32,561,174	32,561,174
Total Financial Liabilities	**4,330,212,669**	**-**	**1,775,808,175**	**2,538,878,957**	**4,314,687,132**

* 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.

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	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 lease receivables	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**	**4,033,645,636**
Financial Liabilities					
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	42,383,500	-	-	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**

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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:

31 Decembrie 2020	Fair value	Valuation technique	Inputs used
Financial Assets			
Loans and advances to customers	3,224,713,332	Discounted cash flows ("DCF")	Incremental borrowing rate
Finance lease receivables	8,800,274	Discounted cash flows ("DCF")	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial assets	10,734,218	Discounted cash flows ("DCF")	Incremental borrowing rate
Financial Liabilities		Discounted cash flows ("DCF")	Incremental borrowing rate
Deposits from customers	999,162,377	Discounted cash flows ("DCF")	Incremental borrowing rate
Borrowed funds	1,342,073,602	Discounted cash flows ("DCF")	Incremental borrowing rate
Subordinated debt	165,081,803	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial liabilities	32,561,174	Discounted cash flows ("DCF")	Incremental borrowing rate
31 Decembrie 2019			
Financial Assets			
Loans and advances to customers	2,511,183,147	Discounted cash flows ("DCF")	Incremental borrowing rate
Finance lease receivables	9,428,590	Discounted cash flows ("DCF")	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial assets	7,442,487	Discounted cash flows ("DCF")	Incremental borrowing rate
Financial Liabilities			
Deposits from customers	941,531,938	Discounted cash flows ("DCF")	Incremental borrowing rate
Borrowed funds	1,018,183,698	Discounted cash flows ("DCF")	Incremental borrowing rate
Subordinated debt	172,107,426	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial liabilities	42,383,501	Discounted cash flows ("DCF")	Incremental borrowing rate

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2020 (2019: nil).
Market rates were extracted from the reports published by National Bank of Moldova for December 2020 and December 2019 on term loans, term deposits and interbank loans.

34 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2020 the Bank had no significant capital commitments (2019: 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.

Loan 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 2020	**31 December 2019**
Guarantees	166,035,153	119,501,634
Expected credit loss allowance	(1,094,205)	(1,423,091)
	164,940,947	**118,078,543**
Commitments to extend credit:		
- Revocable commitments to extend credit	470,742,464	388,809,161
- Irrevocable commitments to extend credit	37,522,346	34,784,485
Expected credit loss allowance	(2,522,858)	(1,407,700)
	505,741,952	**422,185,946**
Total	**670,682,899**	**540,264,490**

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 2020 (2019: 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 2020	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	42,253,200	35,075	162,200
Total derivatives with third parties	**42,253,200**	**35,075**	**162,200**

As at 31 December 2019 the Bank did not had any swap agreements.

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)

			2020			2019
	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates
Interest income	-	625	613,053	-	829,782	157,024
Interest expense	17,806,339	-	291,980	18,821,913	-	158,368
Fees and commissions income	-	-	218,992	-	-	45,528
Fees and commissions expense	4,835,332	-	-	4,716,561	-	-
Personel expenses	-	-	4,450,740	-	-	7,368,982
General and administrative expenses	6,924,918	31,571,496	-	6,049,742	28,429,883	-
Training related fees	-	2,254,796	-	-	2,918,546	-

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 supervisory board chairman of the holding company.

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 2,254,796 (2019: MDL 2,918,546) and Quipu MDL 31,571,496 (2019: MDL 27,737,896). The members of the Bank Board (supervisory body) received during the year 2020 - MDL 115,486 compensation from ProCredit Bank (2019: MDL 99,810).

* 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.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	31-Dec-20			31-Dec-19		
	ProCredit Holding	**Other Procredit Group companies**	**Key management and their affiliates**	**ProCredit Holding**	**Other Procredit Group companies**	**Key management and their affiliates**
Assets						
Loans and advances to banks	-	41,308,333	-		35,243,627	-
Loans and advances to customers	-	108,809	22,976,789	74,535	514,328	-
Liabilities						
Due to banks	-	1,495,317	-	-	3,941,016	-
Borrowed funds	149,362,218	-	-	136,207,935	-	-
Subordinated debt	138,569,357	-	-	126,330,935	-	-
Deposits from customers	105,774,884	-	31,294,930	6,684	-	9,716,004
Off-balance sheet items						
Guarantees	1,395,922,200	-	-	972,029,500	-	-

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 2020 the Bank had borrowings granted to related parties in the amount of MDL 22,976,789.

* 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.

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 2020, the Bank has loans granted to related parties in the amount of MDL 22,976,789, therefore were estimated expected credit loss allowance for loans and advances to banks in the amount of MDL 480,510.

37 MANAGEMENT COMPENSATION

During the reporting period, total compensation paid to the management of the Bank was MDL 3.298.196 (2019: MDL 3.072.818).

During 2020, total compensation from ProCredit Bank paid to the Bank Board (supervisory body) was MDL 115,486 (2019: MDL 99,810).

38 SUBSEQUENT EVENTS

Covid-19

In the context of the Covid-19 pandemic, on 31 March 2021, the Parliament of the Republic of Moldova adopted a state of emergency for two months, until 30 May 2021. Several restrictions were announced, mainly related to the traffic regime, the working regime for several types of companies, quarantine measures, etc. On 28 April 2021, the Constitutional Court ruled that the institution of the state of emergency was unconstitutional, thus being canceled. The Bank’s management appreciated that these measures did not have a significant impact on the Bank’s activity and on these financial statements.

Changes in management

On 18 January 2021, the Bank’s Board approved the change of the members of the Bank’s Management Board (executive body), namely, based on her own request, the transfer of Ms. Elena Gornet from the position of member of the Management Board, the her main positions, Chief Accountant, and Mr. Vladimir Domentii was approved as a member of the Management Board. Mr. Vladimir Domentii started fulfilling his responsibilities on 30 April 2021, after obtaining the approval of his nomination from the National Bank of Moldova.

The events presented above did not have an impact on the financial statements of the Bank.

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
BNM	Banca Națională a Moldovei
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
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