B.C. “ProCredit Bank” S.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2022

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

FINANCIAL STATEMENTS

31 DECEMBER 2022

CONTENTS **PAGE**

Statement of profit or loss and other comprehensive income		1
Statement of financial position		2
Statement of changes in equity		3
Statement of cash flow		4
Notes to the financial statements:		
1	General information	5
2	Operating environment of the Bank	6
3	Basis of preparation	6
4	Significant accounting policies	7
5	Critical accounting estimates and judgements	24
6	Adoption of new or revised standards and interpretations	26
7	New accounting pronouncements not yet in force	26
8	Net interest income	27
9	Net fee and commission income	28
10	Net trading income	28
11	Other operating income	28
12	Personnel expenses	29
13	Administrative expenses	29
14	Income tax expense	30
15	Cash and cash equivalents and Mandatory reservers with NBM	30
16	Loans and advances to banks	32
17	Investments in Debt Securities	33
18	Investments in Equity Securities	34
19	Loans and advances to customers	34
20	Leasing	36
21	Other assets	36
22	Deferred tax asset	37
23	Property, plant and equipment	40
24	Intangible Assets	42
25	Deposits from customers	43
26	Borrowed funds	43
27	Provisions for other risks and loan commitments	47
28	Other liabilities	47
29	Subordinated debt	48
30	Capital and reserves	48
31	Risk management	49
32	Capital management	109
33	Fair value of financial assets and liabilities	110
34	Contingent liabilities and commitments	114
35	Derivative Financial Instruments	115
36	Related party transactions	116
37	Management compensation	119
38	Subsequent events	119
39	Abbreviations	120

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

	Notes	2022	2021
Interest income calculated using the effective interest method	8	395,722,764	225,262,493
Other interest income	8	58,722	70,409
Interest expense	8	(146,045,000)	(78,093,174)
Net interest income		**249,736,486**	**147,239,728**
Fee and commission income	9	56,243,648	54,328,059
Fee and commission expenses	9	(18,907,713)	(16,098,772)
Net fee and commission income		**37,335,935**	**38,229,287**
Net trading income	10	63,350,847	58,321,700
Other operating income	11	289,824	329,835
Operating income		**350,713,092**	**244,120,550**
Personnel expenses	12	(58,946,062)	(50,084,941)
General and administrative expenses	13	(108,756,062)	(93,114,340)
Depreciation and amortization		(14,009,023)	(14,260,602)
Operating expenses		**(181,711,147)**	**(157,459,883)**
Net (loss) / release on allowances for credit risk losses	31	(41,232,172)	11,542,978
Profit before tax		**127,769,773**	**98,203,645**
Income tax expense	14	(16,302,924)	(12,061,491)
Net profit for the year		**111,466,849**	**86,142,154**
Other comprehensive income of the period		-	-
Total comprehensive income for the year		**111,466,849**	**86,142,154**

These financial statements were signed by the executive management of the Bank on 21 April 2023, represented by:

Please refer to original financial statements signed in Romanian language

Irina Coroi - Jovmir
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 120 are an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

Assets	Note	31 December 2022	31 December 2021
Cash and cash equivalents with NBM	15	130,790,537	115,749,696
Mandatory reservers with NBM	15	1,256,158,585	700,116,016
Loans and advances to banks	16	260,745,466	256,853,040
Loans and advances to customers	19	3,440,222,095	3,322,868,200
Investments in debt securities	17	985,668,939	718,770,745
Investments in equity securities	18	1,200,000	1,200,000
Deferred tax assets	22	2,109,200	2,085,645
Intangible assets	24	971,209	1,331,771
Property, plant and equipment	23	36,911,031	32,487,092
Other assets	21	6,736,472	26,647,171
Total assets		**6,121,513,534**	**5,178,109,376**
Liabilities			
Deposits from customers	25	3,335,522,886	2,793,274,461
Borrowed funds	26	1,836,180,404	1,533,405,100
Current tax liabilities		650,570	1,300,254
Subordinated debt	29	133,691,451	131,795,018
Provisions for other risks and loan commitments	27	9,653,878	10,011,645
Other liabilities	28	30,178,167	44,483,719
Total Liabilities		**5,345,877,356**	**4,514,270,197**
Equity			
Share capital	30	406,550,000	406,550,000
Statutory reserve	30	16,892,691	12,586,138
General reserve for bank risks	30	-	19,287,002
Retained earnings		352,193,487	225,416,039
Total equity		**775,636,178**	**663,839,179**
Total equity and liabilities		**6,121,513,534**	**5,178,109,376**

These financial statements were signed by the executive management of the Bank on 21 April 2023, represented by:

Please refer to original financial statements signed in Romanian language

Irina Coroi - Jovmir
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 120 are an integral part of these financial statements.

B.C. “ProCredit Bank” S.A.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts are in MDL unless otherwise stated)

	Share Capital	General reserve for bank risks	Statutory Reserves	Retained earnings	Total
Balance at 1 January 2021	**406,550,000**	**25,581,098**	**10,587,662**	**163,432,633**	**606,151,393**
Net profit for the year	-	-	-	86,142,154	**86,142,154**
Total comprehensive income for the year	-	-	-	**86,142,154**	**86,142,154**
Dividends paid	-	-	-	(28,454,368)	**(28,454,368)**
Appropriation of reserves	-	(6,294,096)	1,998,476	4,295,620	-
Balance at 31 December 2021	**406,550,000**	**19,287,002**	**12,586,138**	**225,416,039**	**663,839,179**
Balance at 1 January 2022	**406,550,000**	**19,287,002**	**12,586,138**	**225,416,039**	**663,839,179**
Correction related to previous years	-	-	-	330,150	**330,150**
Balance at 1 January 2022 (restated)	**406,550,000**	**19,287,002**	**12,586,138**	**225,746,189**	**664,169,329**
Net profit for the year	-	-	-	111,466,849	**111,466,849**
Total comprehensive income for the year	-	-	-	**111, 466,849**	**111,466,849**
Dividends paid	-	-	-	-	-
Appropriation of reserves	-	(19,287,002)	4,306,553	14,980,449	-
Balance at 31 December 2022	**406,550,000**	-	**16,892,691**	**352,193,487**	**775,636,178**

* 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 120 are an integral part of these financial statements.

B.C. “ProCredit Bank” S.A.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

For the year ended 31 December	Note	2022	2021
Cash flow from operating activities			
Net profit for the year		111,466,849	86,142,154
Adjustments for:			
- Depreciation and amortisation		14,010,283	14,485,801
- Impairment loss / (release) and write-offs of financial assets, provisions for other risks and loan commitments		41,232,172	(11,542,978)
- Interests income		(395,781,486)	(225,332,902)
- Interest expenses		(146,045,000)	78,093,174
- Gains/Lossees from foreign currency reevaluation		1,465,411	(972,565)
- Provisions		44,536	232,311
- Tax expense		16,302,924	12,061,491
- Other adjustments		330,151	-
Net profit adjusted with non-monetary elements		**(356,974,160)**	**(46,833,514)**
Changes in:			
- Mandatory reserves with NBM		(530,276,521)	47,109,567
- Loans and advances to banks		10,625,059	4,494,768
- Loans and advances to customers		(138,895,697)	(273,293,594)
- Finance lease receivables		-	8,711,902
- Other assets		19,288,879	(11,136,322)
- Deposits from customers		483,829,792	67,881,463
- Other liabilities		(3,605,592)	23,640,357
Interest received		425,675,392	222,488,657
Dividends received		236,568	271,139
Interest paid		166,660,661	(81,253,151)
Income tax paid		(16,976,163)	(8,107,859)
Net cash used in operating activities		**59,588,218**	**(46,026,587)**
Cash Flow from investing activities			
Aquisition of property, plant and equipment		(17,983,442)	(17,928,572)
Acquisition of intangible assets		(90,217)	-
Net cash used in investing activities		**(18,073,659)**	**(17,928,572)**
Cash flow from financing activities			
Proceeds from borrowings from other financial institutions		412,622,513	230,722,240
Repayment of borrowings to other financial institutions		(153,961,691)	(24,144,686)
Payments of lease liabilities		(11,179,066)	(10,565,404)
Dividends paid		-	(28,454,368)
Net cash from financing activity		**247,481,756**	**167,557,782**
Net increase/ (decrease) in cash and cash equivalents		**288,996,315**	**103,602,623**
Cash and cash equivalents at 1 January	15	**1,087,924,666**	**992,666,456**
Effect of exchange rate fluctuations		439,602	(8,344,413)
Cash and cash equivalents at 31 December	15	**1,377,360,583**	**1,087,924,666**

* 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 120 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 etc.

As at 31 December 2022 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 2022 the Bank Board (supervisory body) comprised the following members:

- Ms. Sandrine Laurence Edwige Massiani – President of the Bank Board
- Ms. Elena Godea – Member of the Bank Board;
- Ms. Stela Ciobu – Member of the Bank Board;
- Ms. Olga Bulat – Member of the Bank Board;
- Ms. Jovanka Joleska Popovska – Member of the Bank Board.

As at 31 December 2022 the Management Board of the Bank (executive body) comprised of the following members:

- Ms. Coroi-Jovmir Irina – Chairperson of the Management Board;
- Mr. Domentii Vladimir – Deputy Chairperson of the Management Board;
- Mr. Taracanov Andrei – Deputy Chairperson of the Management Board.

As at 31 December 2022 and 2021 the shareholders of the Bank were the following:

	31 December 2022	31 December 2021
	%	%
ProCredit Holding AG & Co. KGaA	100	100
	100	**100**

The Bank's number of employees as at 31 December 2022 was 160 (31 December 2021: 146).

Abbreviations. A glossary of various abbreviations used in this document is included in Note 39.

* 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.

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 war in the neighboring country Ukraine.

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

3 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the presented periods, unless otherwise specified.

The Bank did not early adopt any standards 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 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 Management of the Bank on 21 April 2023.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Changes in the accounting policies

The accounting policies presented in these financial statements were applied consistently in the financial statements ending on 31 December 2022, respectively 31 December 2021.

During 2022, 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 2022.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (“MDL”). The financial statements of the Bank are presented in Moldovan Lei, 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 (“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 and classified as FVOCI financial instruments, translation differences are recognised in other comprehensive income (“OCI”).

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

The exchange rates for the year 2022 and 2021 are presented below:

	2022		2021	
	USD	**EUR**	**USD**	**EUR**
Closing rate at 31 December	19.1579	20.3792	17.7452	20.0938
Average rate	18.9032	19.8982	17.6816	20.9255

4.4 Cash and cash equivalents

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 securities eligible for refinancing with the National Bank of Moldova, and loans and advances to banks and amounts due from other Banks.

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Mandatory reserves with the NBM

Mandatory reserves with the NBM are carried at amortised cost and represent interest bearing mandatory 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 because: (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.

4.7 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 of using 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 or 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 securties 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 2022 and 2021, the Bank does not hold investments in debt securities measured at FVOCI or FVTPL.

* 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)

4.9 Investments in equity securities

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

Fair value gains and losses on such equity securities are never reclassified to 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 the cost of 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, not measured at FVTPL, is measured initially at fair value plus 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 (according to SPPI). 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”. “Derivative financial assets” are allocated to the “Other” business model and are measured at fair value through profit or loss.

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

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 "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". The decreases in 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)

"Investments in debt 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 other comprehensive income under "Revaluation reserve".

As of 31 December 2022 and 31 December 2021, the Bank has no investments in debt securities 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 the 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

Financial assets measured at amortized cost 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 financial assets measured at amortized cost 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 the 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 settled – 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. Changes 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 changes leading to derecognition of financial assets are developed having in mind that they must reflect changes 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 derecognition 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 the risks associated with the pre-existing loan contract. During 2022 and 2021, the Bank did not have any changes that would result in the derecognition of the original instrument.

If a 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 rate at the time of the modification. Any cost or fees incurred or received adjust the gross carrying amount of the modified financial asset and are 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 (loss) / release on allowances for credit risk losses". In other cases, it is presented as "Interest income calculated using the effective interest rate method". The gain or loss from the modifications of financial assets for the years ended 31 December 2022 and 2021 were 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 is 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 have been received for selling an asset or would have been 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 Bank 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 the central bank.

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 "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" and for credit commitments and financial guarantees issued. 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 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

A financial asset is written-off (either partially or in full) when there is no reasonable expectation of recovering it 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 against the related allowance for expected credit risk losses.

Subsequent recoveries of previously written-off amounts are recognized when cash flows are received and are recorded as decreases in expenses on credit risk losses in the statement of profit or loss.

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 financial assets

Restructured financial assets which are considered to be individually significant are assessed for excpected credit risk losses on an individual basis. The amount of the loss is calculated as the difference between the restructured financial asset’s carrying amount and the present value of its estimated future cash flows discounted at the loan’s original effective interest rate (specific to impairment).

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

* 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)

4.10 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

The management of the Bank continuously reviews renegotiated loans to ensure that all relevant agreed lending conditions are met and that future payments are likely to occur. Financial assets 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 Tangible assets

Land and buildings comprise mainly branches and offices. All tangible assets 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	30-40 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 Tangible assets (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 the carrying amount. These are included in the 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 assesses 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.

* 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)

4.14 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, including VTA, 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 its 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, plant 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Income tax (continued)

The principal temporary differences arise from depreciation of tangible assets and other liabilities presented in 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 carried over from previous fiscal periods 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 will be available for use against such losses.

Starting from 2012, the 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 settled – 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 in the financial statements at fair value on the date on which the guarantee was given. After initial recognition, the liabilities of the Bank under such guarantees are measured at the highest of the initial measurement, less the amortization calculated to recognize in the profit or loss the fee income received on a linear basis over the life of the guarantee and the best estimate of the expenses necessary to settle any financial obligation arising at the date of the statement of financial position. These estimates are determined on the basis of experience of similar transactions and past loss history, supplemented by management judgment.

Any increase in liabilities relating to guarantees is taken to profit or loss under “Depreciation and amortization 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 a loan commitment and for which the Bank cannot separately distinguish between the ECL component of the loan commitment from the ECL component of the loan, the ECL of the loan commitment is recognised together with the ECL for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

4 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. Interests, fees and commissions which are part of the effective interest are accounted for 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 MDL 1,000 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, under "Interest income calculated using the effective interest method" and "Interest expense".
Interest income and expense are recognised in the statement of profit or loss on an accrual basis of accounting.

The effective interest rate (EIR) is the rate that accurately updates the estimated future cash flows of the financial instrument over the estimated life of the financial instrument or, as the case may be, over a shorter period, to the net carrying amount of the financial asset or financial liability. Future cash flows are estimated taking into account all contractual terms of the instrument. The EIR calculation includes all fees and points paid or received between the parties to the contract that are incremental and directly attributable to the specific credit agreement, transaction costs and all other premiums or rebates. For financial assets at FVTPL, transaction costs are recognized in profit or loss on initial recognition.
Interest income / interest expense is calculated by applying the EIR to the gross carrying amount of non-impaired financial assets (ie the amortized cost of the financial asset before adjusting for any expected credit loss reduction) or the amortized cost of the financial liability. For impaired financial assets, interest income is calculated by applying the EIR to the amortized cost of impaired financial assets (ie gross carrying amount less the provision for expected credit losses (ECL)). For financial assets originated or acquired with impaired credit (POCI), the EIR reflects the ECLs in determining the future cash flows that are expected to be received from the financial asset.
Payments received on written-off loans are not recognized in net interest income, but in "Net (loss) / release on allowances for credit risk losses".

* 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)

4.23 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 depreciated (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

4.24 Net trading income

Net trading income is the difference in the revaluation of the foreign currency position and the gain or loss on foreign currency transactions.

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 statement of profit or loss on the date on which the right to receive such dividends is established are this dividends are likely to be collected. Dividends are reflected as a component of “Net trading income”.

Dividends payment is treated as a distribution of profit for the period in which they are declared and approved, according to applicable law, 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 Management’s assumptions, estimates, and judgements which necessarily have to be made in the course of preparation of the financial statements. All estimates and assumptions required are the 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 considered appropriate under the given circumstances.

Management’s 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 income tax assets: availability of future profit for the use of tax 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 commitments and financial guarantees. Expected credit losses are recorded on the basis of a model that classifies credit exposures in three stages. The Bank reports the following items from the statement of financial position, “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” at net value (after including the reductions for expected impairment losses).

Measurement of ECLs is a significant estimate that involves the 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 expected 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 of the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

In determining the impairment for credit risk, management incorporates forward-looking information, exercises professional judgement and uses estimates and assumptions. The estimation of expected credit losses involves forecasting future macroeconomic conditions over 3 years. The macroeconomic scenarios applied have been changed from those applied at 31 December 2021 to reflect the worsening of the macroeconomic outlook because of the conflict in the region and macroeconomic turmoil manifested by rising energy prices, supply disruptions and rising inflation that have created new uncertainties. More details about assumptions and judgements made are described in Note 31.4 Credit risk. The incorporation of forward-looking elements reflects the Bank’s expectations and involves the creation of scenarios, including an assessment of the probability for each scenario.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 valuation, 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 "SICR" credit risk. 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

Standards and amendments in force mandatory from January 1st 2022:

- Reference to the conceptual framework - Amendments to IFRS 3;
- Property, plant and equipment: receipts before the intended use - Amendments to IAS 16;
- IAS 16 Property, plant and equipment (amendment – Receipts before intended use) - In May 2020, IASB issued amendments to IAS 16;
- Onerous contracts - Costs for fulfilling a contract - Amendments to IAS 37;
- IFRS 9 "Financial instruments" - Commissions in the "10%" test for the derecognition of financial liabilities.

Mentioned modifications did not have a significant impact on the financial statements of the Bank.

7 NEW ACCOUNTING PRONOUNCEMENTS NOT YET IN FORCE

The following new and amended standards are in effect for annual periods beginning after 1 January 2023 and may be applied prior to that date. The Bank has not adopted any of these new and amended standards in advance and they are not expected to have a significant impact on the Bank's financial statements when they enter into force.

- Amendments to IAS 1: Classification of passive accounts as current or non-current;
- Presentation of accounting policies (Amendment to IAS 1 and IFRS Practice Statement 2);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Deferred tax on assets and liabilities arising from a single transaction (Amendments to IAS 12);

The Bank does not expect mentioned changes to have a significant impact on the financial statements.

8 NET INTEREST INCOME

Interest and similar income	**2022**	**2021**
Mandatory reserves with NBM	58,003,944	3,149,491
Placements with NBM	3,073,014	218,945
Investments in debt securities	110,535,303	19,711,454
Loans and advances to banks	449,025	72
Loans and advances to customers*	223,720,200	202,182,531
Total interest income calculated using the effective interest method	**395,781,486**	**225,262,493**
Interest income from finance lease receivables	-	70,409
Total interest income	**395,781,486**	**225,332,902**
Interest expense:		
Interest expenses on liabilities to banks	971,265	874,709
Interest expenses on liabilities to banks (related parties)	226,834	120,333
Interest expenses on deposits from customers	82,360,824	36,530,073
Interest expenses on deposits from customers (related parties)	237,790	352,798
Interest expenses on liabilities to IFI's	9,801,085	2,341,638
Interest expenses on liabilities to OGP AE	23,384,792	14,119,133
Interest expenses on borrowings from related parties	19,451,145	14,253,930
Interest expenses on subordinated debt	8,598,316	8,542,617
Interest expenses on lease liabilities	1,012,949	957,943
Total interest expenses	**146,045,000**	**78,093,174**
Net interest income	**249,736,486**	**147,239,728**

*Interest income from impaired loans for the year ended 31 December 2022 represented MLD 5,928 thousand (2021: MLD 6,417 thousand).

9 NET FEE AND COMMISSION INCOME

Fee and commission income	**2022**	**2021**
Payment transfers and transactions	20,966,033	20,350,624
Account maintenance fee	12,484,947	13,122,108
Letters of credit and guarantees	3,969,113	3,818,907
Debit/credit cards	15,221,768	12,291,252
Fee income from lending activity	2,077,245	3,451,826
Other fee and commission income	1,524,542	1,293,342
Total fee and commission income	**56,243,648**	**54,328,059**
Fee and commission expenses		
Payment transfers and transactions	794,977	429,491
Payment transfers and transactions with related parties	8,371,116	7,722,981
Fees for credit/debit cards	6,450,295	4,706,461
Fee expenses from lending activity	3,291,325	3,239,839
Total fee and commission expenses	**18,907,713**	**16,098,772**
Net fee and commission income	**37,335,935**	**38,229,287**

10 NET TRADING INCOME

Income from foreign currency operations refers to foreign exchange transactions with and for customers. The Bank does not engage in any foreign currency trading on its own account. In addition, this item includes the result from foreign currency operations and unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IFRS 9.

Trading result	**2022**	**2021**
Net gains less loses from foreign currency transactions	61,885,436	59,294,265
Net gains less loses from derivatives	-	-
Revaluation of balances in foreign currencies	1,465,411	(972,565)
Total	**63,350,847**	**58,321,700**

11 OTHER OPERATING INCOME

Other operating income	**2022**	**2021**
Dividend income from FVOCI equity instruments	236,568	271,139
Other operating income	53,256	58,696
Total	**289,824**	**329,835**

* 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.

12 PERSONNEL EXPENSES

Personnel expenses can be broken down as follows:

	2022	2021
Salary expenses	(44,806,363)	(38,422,818)
Social security contributions	(11,465,657)	(9,866,534)
Medical contributions	-	(1,324)
Other remuneration expenses	(2,430,513)	(1,750,579)
Expenses related to unused vacations accruals	(243,529)	(43,686)
Total	**(58,946,062)**	**(50,084,941)**

13 ADMINISTRATIVE EXPENSES

	2022	2021
Communication and IT expenses	(53,488,375)	(45,914,909)
Service management fees	(8,822,685)	(8,503,943)
Court and notary fees	(3,405,796)	(4,008,085)
Advertising and marketing services	(5,093,689)	(2,400,197)
Transportation expenses	(1,431,125)	(609,085)
Audit and consulting services	(2,052,433)	(2,644,530)
Other taxes	(11,225,482)	(9,617,175)
Training expenses	(4,131,666)	(3,926,754)
Utility expenses	(1,709,773)	(969,959)
Insurance expenses	(1,438,592)	(1,215,267)
Office rent	(231,177)	(160,072)
Expenses with the contribution to the Deposit Guarantee Fund	(835,909)	(858,185)
Expenses with the contribution to the Banking Resolution Fund	(8,284,925)	(7,499,103)
Construction, repairs and maintenance	(2,419,578)	(1,522,387)
Security service	(503,906)	(606,266)
Office supplies	(160,298)	(139,511)
Provision expenses (claims)	-	(30,306)
Net result from derecognition of non-financial assets	(1,894,900)	(50,397)
Other administrative expenses	(1,625,753)	(2,438,209)
Total	**(108,756,062)**	**(93,114,340)**

14 INCOME TAX EXPENSE

	2022	2021
Current tax	(16,326,480)	(11,918,201)
Deferred tax (Note 22)	23,556	(143,290)
Total	**(16,302,924)**	**(12,061,491)**

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

15 CASH AND CASH EQUIVALENTS AND MANDATORY RESERVERS WITH NBM

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

	31 December 2022	31 December 2021
Cash on hand	130,790,537	108,094,193
Cash and cash equivalents with NBM, less mandatory reserves	-	7,655,603
Expected credit loss allowance	-	(100)
	130,790,537	**115,749,696**
Mandatory reserves with NBM	1,264,468,673	703,465,865
Expected credit loss allowance	(8,310,088)	(3,349,849)
	1,256,158,585	**700,116,016**
Total cash and cash equivalents with NBM	**1,386,949,122**	**815,865,713**

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

15 CASH AND CASH EQUIVALENTS AND MANDATORY RESERVERS WITH NBM (CONTINUED)

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

	31 December 2022	31 December 2021
Cash on hand (Note 15)	130,790,537	108,094,193
Cash and cash equivalents with NBM, less mandatory reserves (Note 15)	-	7,655,603
Investments in debt securities (Nota 17)	985,824,274	718,863,462
Loans and advances to banks, that are considered as cash (Nota 16)	260,745,771	253,311,409
Cash and cash equivalents	**1,377,360,583**	**1,087,924,666**

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 2022 the reserve ratio established by the National Bank of Moldova was 37% for MDL and other non-convertible currencies (2021: 26%) and 45% for convertible currencies (2021: 30%).

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

16 LOANS AND ADVANCES TO BANKS

	Classification	Rating agency	31 December 2022	31 December 2021
Correspondent accounts in banks in OECD countries:				
DZ BANK AG	AA-	Fitch Ratings	141,469,979	152,554,159
THE BANK OF NEW YORK MELLON	AA-	Fitch Ratings	58,903,219	51,018,496
PROCREDIT BANK AG	BBB	Fitch Ratings	59,757,018	43,775,138
Less expected credit loss allowance			(296)	(23)
			260,129,920	**247,347,770**
Correspondent accounts in banks in non-OECD countries:				
BCR CHISINAU SA	A	Fitch Ratings	615,555	5,963,616
Less expected credit loss allowance			(9)	(64)
			615,546	**5,963,552**
Guarantee placements in banks:				
PROCREDIT BANK GEORGIA	BB+	Fitch Ratings	-	3,549,040
PROCREDIT BANK AG	BBB	Fitch Ratings	-	-
Less expected credit loss allowance			-	(7,322)
			-	**3,541,718**
Total			**260,745,466**	**256,853,040**

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

	2022	2021
	Stage 1	**Stage 1**
Balance at 1 January	(7,409)	(2,847)
Increase due to origination and acquisition	(8,845)	(12)
Decrease due to derecognition	14,190	492
Increase due to remeasurement of loss allowance	(45,603)	(22,970)
Decrease due to remeasurement of loss allowance	48,260	17,905
Changes due to updates of ECL methodology	-	-
Net change due to foreign exchange movements	(898)	23
Balance at 31 December	**(305)**	**(7,409)**

* 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.

17 INVESTMENTS IN DEBT SECURITIES

	31 December 2022	31 December 2021
Certificates issued by the National Bank of Moldova	985,824,274	718,863,462
Expected credit loss allowance	(155,335)	(92,717)
Net carrying amount	**985,668,939**	**718,770,745**

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 debt securities during the year was 8.50%, 10.50%, 12.50%, 15.50%, 18.50%, 21.50%, and 20.00% at the end of the 2022.

For financial assets with a maturity of less than 12 months, the PD will reflect the remaining maturity and the certificates issued by the NBM have a maturity of only 14 days.

As of April 2022, the sovereign rating assigned to the Republic of Moldova by Moody's was "B3" with a negative outlook.

As at 31 December 2022 and 2021 there were no debt securities pledged as collateral.

18 INVESTMENTS IN EQUITY SECURITIES

	Fair value at 31 December 2022	Dividend income recognised for the year 2022
Investment in equity shares of non-OCDE countryes	1,200,000	236,568
Total investments in equity securities	**1,200,000**	**236,568**

	Fair value at 31 December 2021	Dividend income recognised for the year 2021
Investment in equity shares of non-OCDE countroes	1,200,000	271,139
Total investments in equity securities	**1,200,000**	**271,139**

Equity investments represent 9.12% of shares owned in “Biroul istoriilor de credit” SRL in the amount of MDL 1,200,000. The Bank measures these investments at fair value through other comprehensive income.

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

As at 31 December 2022 equity investments have not been pledged.

19 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2022	31 december 2021
Loans and advances to customers	3,597,087,794	3,437,485,120
Expected credit loss allowance	(156,865,699)	(114,616,920)
Total loans and advances to customers	**3,440,222,095**	**3,322,868,200**

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers can be analysed as follows:

In thousands MDL

	31 Dec 2022			31 Dec 2021		
	Gross amount	**ECL Allowance**	**Carrying amount**	**Gross amount**	**ECL Allowance**	**Carrying amount**
Individuals						
Consumer loans	15,134	(1,483)	13,651	8,060	(217)	7,843
Mortgage	174,419	(23,314)	151,105	83,069	(1,760)	81,309
Legal entities						
Loans to agriculture	925,747	(74,063)	851,684	993,634	(50,307)	943,327
Loans to the food industry	245,006	(6,847)	238,159	253,727	(4,763)	248,964
Loans to the productive industry	350,699	(4,931)	345,768	377,567	(4,577)	372,990
Trade credits	1,426,458	(29,897)	1,396,561	1,198,231	(29,429)	1,168,802
Loans granted to natural persons practicing activity	34,875	(2,040)	32,835	25,287	(1,137)	24,150
Loans for transport, telecommunications and network development	201,387	(7,297)	194,090	200,135	(6,959)	193,176
Loans for services	198,043	(6,730)	191,313	270,337	(15,213)	255,124
Other loans	25,320	(264)	25,056	27,438	(255)	27,183
Total	**3,597,088**	**(156,866)**	**3,440,222**	**3,437,485**	**(114,617)**	**3,322,868**

* 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.

20 LEASING

The Bank rents a number of offices for the bank's branches. Leases are usually for a period of 1 to 7 years.

I. Right-of-use assets

	2022	2021
Balance at 1 January	25,009,100	18,758,581
Depreciation charge for the year	(10,218,941)	(9,763,625)
Additions	3,105,434	16,220,416
Disposals	-	(206,272)
Balance at 31 December	**17,895,593**	**25,009,100**
Maturity analysis of undiscounted lease liability		
Less than one year	10,141,541	10,327,425
Between one and two years	11,085,787	10,155,422
Between two and three years	7,802,612	6,750,921
Between three and four years	-	-
Between four and five years	-	-
Total gross lease liability, 31 December	**29,029,940**	**27,233,768**

II. Amounts recognized in profit or loss

Leases according IFRS 16	**2022**	**2021**
Interest on lease liabilities	1,012,949	957,943
Depreciation expenses	10,218,941	9,763,625

III. Amount recognized in statement of Cash Flows	**2022**	**2021**
Total cash outflow for leases	11,179,066	10,565,404

21 OTHER ASSETS

Other assets are as follows:

Other financial assets	**31 December 2022**	**31 December 2021**
Transit and suspended accounts	233,976	19,886,843
Derivatives	-	218,613
Other receivables	3,009,465	2,510,593
Expected credit loss allowance	(40,041)	(132,996)
Total financial assets	**3,203,400**	**22,483,053**

21 OTHER ASSETS (CONTINUED)

Other non-financial assets	**31 December 2022**	**31 December 2021**
Prepaid expenses	2,766,103	2,070,813
Spare parts and consumables	234,886	44,071
Settlements with third parties	531,884	2,049,036
Prepaid taxes	199	198
Total non-financial assets	**3,533,072**	**4,164,118**
Total other assets	**6,736,472**	**26,647,171**

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

	2022	**2021**
Current tax expense		
Current year	16,556,900	12,160,630
Changes in estimates related to prior years	(230,421)	(242,429)
	16,326,479	**11,918,201**
Deferred tax expense / (savings)		
Origination and reversal of temporary differences	45,505	179,007
Derecognition of temporary differences	(69,060)	(35,717)
	(23,555)	**143,290**
Total	**16,302,924**	**12,061,491**

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 % (2021: 12%).

b. Reconciliation of effective tax rate

	2022		2021	
Profit before tax		127,769,773		98,203,645
Income tax calculated at 12% tax rate (2021: 12%)	12%	15,332,373	12%	11,784,437
Tax effect of:				
Tax-exempt income	0.0%	(19,044)	-0.1%	(64,719)
Non-deductible expenses				
Accelerated depreciation rate	-0.1%	(104,523)	-0.1%	(81,521)
Provisions and commitments	0.0%	51,621	0.0%	13,655
Expenses from revaluation of fixed assets and other assets	0.0%	50,066	0.0%	3,845
Loss on disposal of fixed assets	0.0%	72	0.0%	1,757
Costs associated with payments to employees that cannot qualify for salary payments	0.0%	-	0.0%	40,265
Other non-deductible expenses	1.0%	1,246,335	0.5%	462,911
Changes in estimates relating to prior years	-0.2%	(230,421)	-0.2%	(242,429)
Total income tax expense	**12.8%**	**16,326,479**	**12.1%**	**11,918,201**

* 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 receivables

	1 January 2022	Recognised in profit or loss	31 December 2022
Assets			
Property, plant and equipment	1,167,932	(45,505)	1,122,427
Deferred tax receivables	**1,167,932**	**(45,505)**	**1,122,427**
Liabilities			
Other Liabilitites	723,078	39,837	762,915
Accural for unpaid vacations	194,635	29,223	223,858
Deferred tax receivables	**917,713**	**69,060**	**986,773**
Deferred tax receivables	**2,085,645**	**23,555**	**2,109,200**

	1 January 2021	Recognised in profit or loss	31 December 2021
Assets			
Property, plant and equipment / investment property	1,346,938	(179,006)	1,167,932
Deferred tax receivables	**1,346,938**	**(179,006)**	**1,167,932**
Liabilities			
Other Liabilitites	692,604	30,474	723,078
Accruals for unpaid vacations	189,393	5,242	194,635
Deferred tax receivables	**881,997**	**35,716**	**917,713**
Deferred tax receivables	**2,228,935**	**(143,290)**	**2,085,645**

23 PROPERTY, PLANT AND EQUIPMENT

See accounting policy in Note 4.12

	Land and buildings	**Equipment**	**IT equipment**	**Vehicles**	**Other assets**	**Assets under construction**	**Total**
Gross carrying amount							
Balance at 1 January 2021	**38,882,004**	**27,656,585**	**21,770,201**	**4,688,565**	**10,133,149**	**404,738**	**103,535,242**
Additions	16,220,416	-	-	-	-	1,708,156	17,928,572
Transfers	-	300,890	1,057,266	-	754,738	(2,112,894)	-
Disposals	12,419,834	115,495	234,764	-	1,229,668	-	13,999,761
							-
Balance at 31 December 2021	**42,682,586**	**27,841,980**	**22,592,703**	**4,688,565**	**9,658,219**	**-**	**107,464,053**
Balance at 1 January 2022	**42,682,586**	**27,841,980**	**22,592,703**	**4,688,565**	**9,658,219**	**-**	**107,464,053**
Additions	3,105,434	-	-	-	-	14,878,008	17,983,442
Transfers	4,681,521	1,056,646	2,896,413	-	1,045,387	(9,679,967)	-
Disposals	421,164	641,817	1,598,726	630,974	1,407,914	-	4,700,595
							-
Balance at 31 December 2022	**50,048,377**	**28,256,809**	**23,890,390**	**4,057,591**	**9,295,692**	**5,198,041**	**120,746,900**

* 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.

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 2021	**20,122,370**	**24,804,368**	**16,780,157**	**4,414,044**	**8,821,146**	**-**	**74,942,085**
Depreciation for the year	9,764,678	1,673,738	1,505,252	116,772	748,998	-	13,809,438
Disposals	12,213,562	115,495	234,764	-	1,210,741	-	13,774,562
Balance at 31 December 2021	**17,673,486**	**26,362,611**	**18,050,645**	**4,530,816**	**8,359,403**	**-**	**74,976,961**
Balance at 1 January 2022	**17,673,486**	**26,362,611**	**18,050,645**	**4,530,816**	**8,359,403**	**-**	**74,976,961**
Depreciation for the year	10,230,761	1,254,448	1,486,579	116,772	469,685	-	13,558,245
Disposals	421,164	641,817	1,597,468	630,974	1,407,914	-	4,699,337
Balance at 31 December 2022	**27,483,083**	**26,975,242**	**17,939,756**	**4,016,614**	**7,421,174**	**-**	**83,835,869**
Net carrying amount							
Balance at 1 January 2021	**18,759,634**	**2,852,217**	**4,990,044**	**274,521**	**1,312,003**	**404,738**	**28,593,157**
Balance at 31 December 2021	**25,009,100**	**1,479,369**	**4,542,058**	**157,749**	**1,298,816**	**-**	**32,487,092**
Balance at 31 December 2022	**22,565,294**	**1,281,567**	**5,950,634**	**40,977**	**1,874,518**	**5,198,041**	**36,911,031**

As at December 31, 2022, the amount of MDL 17,895,594 represents the right to use the branches and leased premises (see Note 20), and the amount of MDL 4,669,701 represents the costs of improvement (repair) of the leased headquarters (1.95 million lei) and a leased subdivision (2.72 million lei).

24 INTANGIBLE ASSETS

	Software	Other Intangible Assets	Intangible Assets in process	Total
Net carrying amount				
Balance at 1 January 2021	**9,091,322**	**158,932**	**-**	**9,250,254**
Acquisitions	-	-	-	-
Transfers	-		-	-
Disposals	-		-	-
Balance at 31 December 2021	**9,091,322**	**158,932**	**-**	**9,250,254**
Balance at 1 January 2022	**9,091,322**	**158,932**	**-**	**9,250,254**
Acquisitions	2,619	-	87,598	90,217
Transfers	64,562	23,036	(87,598)	-
Disposals	367,541	18,077	-	385,618
Balance at 31 December 2022	**8,790,962**	**163,891**	**-**	**8,954,853**
Accumulated amortization				
Balance at 1 January 2021	**7,402,349**	**64,970**	**-**	**7,467,319**
Amortisation for the year	427,082	24,082	-	451,164
Disposals	-		-	-
Balance at 31 December 2021	**7,829,431**	**89,052**	**-**	**7,918,483**
Balance at 1 January 2022	**7,829,431**	**89,052**	**-**	**7,918,483**
Amortisation for the year	425,448	25,331	-	450,779
Disposals	367,541	18,077	-	385,618
Balance at 31 December 2022	**7,887,338**	**96,306**	**-**	**7,983,644**
Net carrying amount				
Balance at 1 January 2021	**1,688,973**	**93,962**	**-**	**1,782,935**
Balance at 31 December 2021	**1,261,891**	**69,880**	**-**	**1,331,771**
Balance at 31 December 2022	**903,624**	**67,585**	**-**	**971,209**

25 DEPOSITS FROM CUSTOMERS

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

	31 December 2022	31 December 2021
Current accounts	**922,467,240**	**980,808,034**
-private individuals	122,478,147	88,702,714
-legal entities	799,989,093	892,105,320
Saving accounts	**1,454,618,504**	**956,799,829**
-private individuals	714,779,726	512,269,652
-legal entities	739,838,778	444,530,177
Term deposit accounts	**958,437,142**	**855,666,598**
-private individuals	842,379,153	691,775,344
-legal entities	116,057,989	163,891,254
Total	**3,335,522,886**	**2,793,274,461**

Savings accounts are 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 during which the account holders 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 2022	31 December 2021
Borrowings from International Financial Institutions	826,480,311	634,059,060
Borrowings from OGP AE	446,364,826	513,266,104
Borrowings from related parties	563,335,267	386,079,936
Total	**1,836,180,404**	**1,533,405,100**

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	31 December 2022	31 December 2021
European Investment Bank	24 May 2023	EUR	-	11,322,699
European Investment Bank	24 May 2023	USD	10,832,319	48,728,352
European Investment Bank	7 December 2028	EUR	81,695,967	93,783,569
European Investment Bank	28 November 2029	EUR	95,383,799	100,488,985
Council of Europe Development Bank	25 June 2024	EUR	39,544,253	68,887,062
Council of Europe Development Bank	25 June 2024	USD	11,556,756	21,309,644
Council of Europe Development Bank	02 August 2027	EUR	173,910,010	190,891,100
European Investment Bank	08 October 2028	EUR	101,718,990	98,647,649
European Investment Bank	23 April 2029	USD	135,588,352	-
European Investment Bank	17 September 2029	EUR	176,249,865	-
Total			**826,480,311**	**634,059,060**

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 2022 and 2021 financial years, the Bank complied with all the covenants required by the creditors.

* 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.

26 BORROWED FUNDS (CONTINUED)

26.2 Borrowed Funds from OGP AE

Financing projects	Currency	31 December 2022	31 December 2021
Inclusive Rural Economic & Climate Resilience Programme (“IFAD”)	EUR	7,000,524	7,615,960
	MDL	124,709,276	189,593,848
	USD	2,501,597	118,537
Rural Investment and Services Project (“RISP”)	MDL	15,287,595	22,075,736
	USD		
Competitiveness enhancement project (CEP)	EUR	33,306,141	36,829,477
	MDL	35,542,933	52,628,939
	USD		4,354,892
Livada Moldovei	EUR	193,659,151	169,953,182
	MDL	34,357,609	30,095,533
Total		**446,364,826**	**513,266,104**

* 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.

26 BORROWED FUNDS (CONTINUED)

26.3 Loans from related parties

		Maturity	Currency	Original Value	31 December 2022	31 December 2021
ProCredit Holding AG	Loan	27 Octombrie 2023	EUR	7,000,000	144,092,832	141,178,717
ProCredit Holding AG	Warranty comission		EUR		1,191,438	947,377
	Warranty comission		USD		277,465	70,578
European Bank of Reconstruction and Development (DCFTA)	Loan	15 November 2023	EUR	10,000,000	22,983,392	45,155,256
European Bank of Reconstruction and Development (DCFTA)	Loan	15 May 2025	EUR		87,731,794	120,743,812
European Bank of Reconstruction and Development (DCFTA)	Loan	10 August 2027	EUR	15,000,000	305,966,728	77,892,084
European Bank of Reconstruction and Development (DCFTA)	Front-end fee		EUR		1,091,618	92,112
	Front-end fee		USD			
	Total				**563,335,267**	**386,079,936**

* 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.

27 PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

	31 December 2022	31 December 2021
At the beginning of the period	**10,011,645**	**8,666,578**
Additions	2,391,962	3,437,315
Uses	-	-
Releases	(2,749,729)	(2,092,248)
At as 31 December	**9,653,878**	**10,011,645**

The provisions consist of provisions for off-balance sheet items, e.g. guarantees, loan commitments in the amount of MDL 4,347,608 (2021: MDL 4,892,026) and provisions for imminent losses from ongoing transactions in the amount of MDL 5,306,270 (2021: MDL 5,119,619).

28 OTHER LIABILITIES

	31 December 2022	31 December 2021
Other inancial liabilities		
Lease liabilities	18,888,400	25,541,112
Transit accounts	2,265,587	10,396,720
Liabilities for support programs	280,008	540,008
Liabilities for goods and services	5,816,353	5,032,291
Accruals for unused vacation	1,865,490	1,621,962
Other financial liabilities	170,624	853,996
Total other financial liabilities	**29,286,462**	**43,986,089**
Other non-financial liabilities		
Non-income tax liabilities	796,361	460,893
Liabilities to social fund on employees’ contributions	88,475	35,133
Liabilities to employees	6,869	1,604
Total other non-financial liabilities	**891,705**	**497,630**
Total other liabilities	**30,178,167**	**44,483,719**

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 OGP AE 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”).

* 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.

28 OTHER LIABILITIES (CONTINUED)

As at 31 December 2022 and 31 December 2021 liabilities for support programs have the following structure:

	31 December 2022	31 December 2021
Liabilities for support programs		
European Investment Bank	-	-
OGP AE	280,008	540,008
Total liabilities for support programs	**280,008**	**540,008**

29 SUBORDINATED DEBT

	31 December 2022	31 December 2021
Subordinated debt	133,691,451	131,795,018
Total	**133,691,451**	**131,795,018**

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 2022 and 31 December 2021 the shareholder structure was as follows:

	31 December 2022			31 December 2021		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount in MDL**	**Size of stake in %**	**Number of shares**	**Amount in MDL**
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**

30 CAPITAL AND RESERVES (CONTINUED)

During 2022 the Bank did not issue shares (2021:as well). 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 2022 the balance of the general reserve for bank risks amounts to MDL 0.00 (as at 31 December 2021: MDL 19,287,002). 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 it can only be used to absorb losses and/or to increase its share capital. In 2022, the Bank formed statutory reserves in the amount of 5% of the profit of previous years amounting to MDL 4,307,108. The balance of of statutory reserves as of 31 December 2022 amounted to MDL 16,892,691 (31 December 2021: MDL 12,586,138).

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, in times of crisis such as drought, war in Ukraine and resulting migration, energy and security crisis, the conservative approach to risks proved to be appropriate to deal with uncertainties, such as those caused by the events mentioned above. Like the rest of the neighboring countries of Ukraine, Moldova has been significantly affected by the security crisis and this has had an impact on the Bank in the first months after the start of the war. In addition, the significant increase in the prices of energy resources contributed to the strong increase in inflation. Managing the potential impact of the events described above on the liquidity and quality of the loan portfolio has been a priority for the Bank.

32 RISK MANAGEMENT

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

On 24.02.2022, the Russian army invaded Ukraine, thus breaking out an extensive military conflict on the territory of Ukraine. The airspace of Moldova was closed for the period 24.02.2022 - 25.04.2022 for security reasons. On 24.02.2022, a state of emergency was declared in the Republic of Moldova for a period of 60 days, which was last extended on 04.02.2023 for the next 60 days. The main causes of the state of emergency are persistent risks and threats related to national security, as well as the supply of energy resources of the Republic of Moldova for the cold period of the year and the facilitation of the movement and accommodation of refugees from Ukraine. Starting from 24.02.2022, the NBM organized meetings with bank management and issued official letters, the main messages being:

- Banks are liquid and should allow withdrawals to calm panic;
- NBM will provide cash liquidity in MDL as much as necessary;
- NBM will also support non-cash foreign exchange needs;
- The lack of cash in foreign currency was solved;
- AML measures must be applied continuously.

In the first days of the war, the correspondent banks informed the Bank about the suspension of the processing of international payments with Russia and Belarus, due to complex international sanctions, which must be applied immediately. An exception to mentioned interdiction being customers who exported goods before the military events. During 2022, the correspondent banks have relaunched the processing of payments to/from Russia and Belarus (except for RUB in the case of the correspondent bank of BC "ProCredit Bank" SA) under conditions of compliance with the applied international sanctions.
On 25.02.2022 IT service provider QUIPU Gmbh informed the Bank that operational requests will be processed as usual. In the case of urgent requests related to security, the group's banks in Ukraine and Moldova have priority.

The Bank continues daily monitoring of the liquidity situation, which is at a comfortable level. Also, the Bank carried out crisis simulations on the credit risk, in order to identify the impact on the loan portfolio and on capital adequacy:

1. in case of non-repayment of loans to customers who have links with the countries affected by the war: the Russian Federation, Ukraine, Belarus;
2. in case of non-payment of loans to customers who are sensitive to the energy crisis.

The Bank organized business continuity group meetings where possible threats were assessed and an action plan was developed.

Additionally, the Bank could not remain indifferent to the suffering of refugees coming from the territory of Ukraine. The bank and employees were involved in providing accommodation for refugee families, help for orphaned children.

31 RISK MANAGEMENT

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

According to the preliminary data, the GDP recorded a decrease of 5.9% in the year 2022, after a strong economic recovery with a GDP growth of 13.9% in 2021. The main causes that affected the growth of the economy were the difficult situation in agriculture, affected by drought, the war in Ukraine which led to the loss of sales markets in Russia, Ukraine and Belarus, affected investments and consumption power, but also inflation, which was mainly determined by the increase in import prices for energy products, agri-food and construction materials. However, the economic crisis continues, with uncertainty remaining high about the degree of economic recovery in 2023 against the backdrop of rising energy prices, supply chain bottlenecks and rising inflation, as well as the military conflict between Russia and Ukraine that broke out on 24 February 2022.
Notwithstanding the aforementioned uncertainties, the overall risk profile of the Bank was at a "medium-low" level throughout 2022. This is based on an overall assessment of individual risks, as presented below.

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 for account operations and payments. All other operations are carried out in support of basic activities. The rest of the bank's operations are carried out to support the core business. The main risks assumed by the bank in its day-to-day operations are: credit risk, including counterparty risk, liquidity risk, currency risk, interest rate risk, and operational risk. At the same time, ProCredit Bank takes steps to avoid or limit other associated risks associated with banking operations.

b) Diversification and transparent services

The Bank's concept of providing responsible banking services involves a high degree of diversification both on credit and on deposits. In terms of customer groups, diversification is done by economic sectors, customer groups and revenue groups. Credit portfolio diversification is a central pillar of the Credit Risk Management Policy. Another distinctive feature of the Bank's approach is the strategy of providing services that are as simple as possible for everyone to understand. This fact contributes to maintaining a high degree of transparency not only in customer relations, but also from the perspective of risk management. The high degree of diversification and the simple and transparent banking services lead to the reduction of the general risk profile of the bank.

31 RISK MANAGEMENT (CONTINUED)

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

c) Prudent 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 risks.

d) The Bank's general risk profile

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 accordance with the General Risk Management Policy, which establishes the general principles used within ProCredit Bank S.A. for the general risk management,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”;
g) business risk (including strategic risk): risk appetite level - “medium”, risk tolerance level - “medium-high”.

31 RISK MANAGEMENT (CONTINUED)

31.2 Organization of the risk management function

Risk appetite provides the framework for risk management. This is a conscious decision on the extent to which the Bank is prepared to take risks to achieve its strategic objectives. The key elements of risk management in the Bank are presented below:

- The Risk Management Strategy addresses all significant risks arising from the implementation of the Business Strategy and defines the risk management objectives and measures. The strategies are reviewed annually by the Bank's Management Body.
- The annual risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the risk management strategy and processes.
- All risks taken are managed to ensure an adequate level of capital and liquidity.
- Risk management policies and standards are updated and approved at least annually. They specify responsibilities at bank and group level and set minimum management, monitoring and reporting requirements.
- Monitoring and control of material risks and possible risk concentrations is carried out with the help of comprehensive analysis tools. For all significant risks, early warning indicators (reporting thresholds) and limits are established and appropriate use is monitored. The effectiveness of the measures, limits and methods chosen is continuously checked.
- Crisis simulations are performed periodically for significant risks.
- The Risk Management, Compliance and AML Department reports periodically and ad hoc on the Bank's risk profile.
- Adequate processes and procedures have been established for an effective internal control system. It is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front office and back office functions down to the Management Committee level.
- All new or significantly changed products/services, business processes, tools, IT systems or organizational structures undergo a thorough review (new risk approval process) before being implemented or used for the first time. This also applies to activities in new markets and through new distribution channels. This ensures that new risks are assessed and that all necessary preparations and tests are completed before a new or significantly modified product is introduced for the first time.

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 bank's governing body (the Board of Directors and the Management Committee) is responsible for risk management throughout the bank. The risk management function and the compliance function are performed by the Risk Management, Compliance and AML Department, which is responsible for managing the financial (including credit risk), operational (including ICT risk), reputational, compliance, as well as the risk of money laundering. of money and terrorist financing.

31 RISK MANAGEMENT (CONTINUED)

31.2 Organization of the risk management function (continued)

At the Executive Board level, several specialized internal committees are established to address individual risks, such as market and liquidity risks (ALCO), financial risks (Financial Risk Committee), operational risks (Operational Risk Committee), compliance risk (Compliance Committee), money laundering risk and terrorist financing (AML Committee).
The committees monitor the risk profile of the institution and propose / take decisions on limiting and minimizing certain risks.

The Risk Management, Compliance and AML Department ensures the identification, assessment, monitoring and control of all significant risks to which the bank is exposed: credit risk, including concentration risk and risks arising from foreign currency lending of borrowers exposed to foreign exchange risk, risk counterparty, liquidity risk, interest rate and currency risk, strategic risk, operational risk, including ICT risk, reputational risk, compliance risk, business risk (including strategic risk), regulatory and economic risk, model risk, AML risk. Additionally, the Department of Risk Management, Compliance and AML is responsible for internal capital adequacy assessment process (ICAAP). Moreover, departmental AML specialists are responsible for implementing the principles of identifying customers / suspicious transactions and preventing and combating money laundering and terrorist financing.

The Risk Management, Compliance and AML Department within the Bank is an autonomous unit, separate from the operations performed with customers (the activity related to granting loans or attracting deposits) or the trading operations. The head of the department reports regularly to the Bank's Board, through the Bank Board's Risk Committee. In addition, the Head of Department and Specialists report to the appropriate risk departments within ProCredit Holding AG (PCH), which is located in Frankfurt, Germany.

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 factors that affected credit risk in 2022 were the conflict in the region, energy crisis and the severe drought that affected agricultural producers. As a result, further efforts were made during this time to assess the potential impact on the Bank's loan portfolio and risk reduction strategy. In 2022 we focused our efforts on the sectors of the portfolio that had been impacted by the above mentioned risks. In the case of agricultural producers, at the end of 2022 we change the payment schedules for customers who had payment difficulties confirmed by the financial analysis. Still at the end of 2022, the share of restructured loans in total loan portfolio was lower compared to the same period of 2021 year, it decreased by about 1,06% compared to 2021 due to the payment of loans according to the modified payment schedules in the period 2020-2021 and due to a less significant number of restructured loans in 2022 year. The conflict in the region and the energy crisis of 2022 lead to rising energy prices, supply disruptions and rising inflation have created new uncertainties about the potential impact on the quality of the loan portfolio. As a result, the sectors that could be impacted by the energy crisis and the drought were analyzed thoroughly to be able to identify the potential worsening, as well these sectors were dynamically monitored through the prism of quality indicators.

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

	31 December 2022	31 December 2021
Cash and cash equivalents	130,790,537	115,749,696
Mandatory reserves with NBM	1,256,158,585	700,116,016
Loans and advances to banks	260,745,466	256,853,040
Investments in debt securities	985,668,939	718,770,745
Loans and advances to customers	3,440,222,095	3,322,868,200
Finance lease receivables	-	-
Other financial assets	3,203,400	22,483,053
Total	**6,076,789,022**	**5,136,840,750**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

	31 December 2022	31 December 2021
Financial guarantees	212,700,451	180,690,377
Loan commitments	509,103,939	466,554,002
Total	**721,804,390**	**647,244,379**

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.

* 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)

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. Qualitative and quantitative information is used to determine whether there is a significant increase in credit risk:

• Comparing PD to maturity “remaining lifetime PD” of an exposure at each reporting date with “remaining lifetime PD” at the origin of the asset. A significant increase in credit risk is considered to exist if the difference between the two PDs exceeds a certain limit. with a factor of 2.5. In this case, the asset is transferred from Stage 1 to Stage 2. A transfer from Stage 2 to Stage 1 is possible when the associated credit risk is significantly reduced.
• When one of the following events is detected:
- contractual payments are overdue by more than 30 days but not by more than 90 days.
- standard or restructured events under observation.

- **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.

Stage 3 credit exposures are those exposures for which at least one of the following events occurs:
• Contract payments are more than 90 days late;
• Indices of significant financial difficulties of the debtor, reflected in the insufficient repayment capacity;
• Repayment of the loan is not possible without the guarantee;
• Initiation of bankruptcy proceedings;
• Trial or fraud;
• The bank initiated legal enforcement proceedings against the client;
• Credit fraud events;
• Impaired restructuring events;

- **POCI** (Purchased or Originated Credit Impaired) are impaired exposures but are recorded separately and differ from other Stage 3 exposures in recognizing credit loss reductions.

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Restructuring a credit exposure is generally driven by the economic problems facing the customer, which adversely affect the ability to pay, largely due to the significantly changed macroeconomic environment in which the Bank's customers currently operate. Restructuring follows a thorough and careful individual analysis of the client's modified ability to pay. The decision to restructure a credit exposure is always taken by a credit committee and is aimed at fully recovering the credit exposure. If a credit exposure is restructured, credit parameters are changed.
Restructured loans are loans whose conditions have changed due to the deterioration of the debtor's financial position and in which case the Bank has made concessions that it would not have made in other situations. The gross value of restructured loans, as defined above, amounted to 87,679 thousand lei (ECL of 41,087 thousand lei), representing 2.44% of the total loan portfolio as of December 31, 2022 compared to 136,144 thousand lei (ECL of 43,019 thousand lei), representing 3.96% of the total portfolio as of December 31, 2021.

Calculation of expected credit loss (ECL)
The following parameters are used in the calculation of expected credit loss:

- *Exposure at Default (EAD)*

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.

- *Probability of default (PD)*

The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of 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.

- *Loss Given Default (LGD)*

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

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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.

Establishing reductions in credit losses for the financial year 2022 has been impacted by the conflict in the region and energy crisis, manifested by rising energy prices, possible supply disruptions and rising inflation. The parameters are calculated by weighting the three scenarios in the table below:

Scenarios	Weight	GDP, %	
		2021	2022
Mean	50%	0.41%	1.60%
Advers	40%	-4.06%	-2.87%
Optimistic	10%	5.16%	6.35%

In anticipation of the continuing uncertainty caused by the above points, including in the long term, additional adjustments were made to the macroeconomic factors used in determining the parameters of the ECL model (those forecast by the MFI). These adjustments were based on the latest forecasts (GDP) of the IMF World Economic Outlook Database and Economist Inelligence Unit (EIU), taking into account long-term forecasts. In addition, adjustments have been made to the PDs to ensure that existing and future macroeconomic turmoil is considered appropriate.

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 2022	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents					
Balances at National Bank of Moldova, excluding mandatory reserves	1.19%	130,790,537	-	-	130,790,537
Gross carrying amount		**130,790,537**	**-**	**-**	**130,790,537**
Expected credit loss allowance		-	-	-	-
Net carrying amount		**130,790,537**	**-**	**-**	**130,790,537**
					-
Mandatory reserves with NBM	1.19%	1,264,468,673	-	-	1,264,468,673
Gross arrying amount		**1,264,468,673**	**-**	**-**	**1,264,468,673**
Expected credit loss allowance		(8,310,088)	-	-	(8,310,088)
Net carrying amount		**1,256,158,585**	**-**	**-**	**1,256,158,585**
Loans and advances to banks	0.06%-0.99%	260,745,770	-	-	260,745,770
Gross carrying amount		**260,745,770**	**-**	-	**260,745,770**
Expected credit loss allowance		(304)	-	-	(304)
Net carrying amount		**260,745,466**	**-**	-	**260,745,466**
					-
Investments in debt securities	1.19%	985,824,274	-	-	985,824,274
Gross carrying amount		**985,824,274**	**-**	-	**985,824,274**
Expected credit loss allowance		(155,335)	-	-	(155,335)
Carrying amount		**985,668,939**	**-**	-	**985,668,939**

* 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 2021	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents					
Balances at National Bank of Moldova, excluding mandatory reserves	1.19%	115,749,796	-	-	115,749,796
Gross carrying amount		**115,749,796**	-	-	**115,749,796**
Expected credit loss allowance		(100)	-	-	(100)
Net carrying amount		**115,749,696**	**-**	**-**	**115,749,696**
					-
Mandatory reserves with NBM	1.19%	703,465,864	-	-	703,465,864
Gross carrying amount		**703,465,864**	-	-	**703,465,864**
Expected credit loss allowance		(3,349,848)	-	-	(3,349,848)
Net carrying amount		**700,116,016**	**-**	**-**	**700,116,016**
Loans and advances to banks	0.06%-0.99%	256,860,449	-	-	256,860,449
Gross carrying amount		**256,860,449**	-	-	**256,860,449**
Expected credit loss allowance		(7,409)	-	-	(7,409)
Net carrying amount		**256,853,040**	**-**	-	**256,853,040**
					-
Investments in debt securities	1.19%	718,863,462	-	-	718,863,462
Gross carrying amount		**718,863,462**	-	-	**718,863,462**
Expected credit loss allowance		(92,717)	-	-	(92,717)
Net carrying amount		**718,770,745**	**-**	-	**718,770,745**

* 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 2022	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers, net					
Risk Grade 1	-	-	-	-	-
Risk Grade 2	0.53	689,775,734	-	-	689,775,734
Risk Grade 3	0.59	1,054,611,232	-	-	1,054,611,232
Risk Grade 4	3.44	910,146,460	-	-	910,146,460
Risk Grade 5	11.18	395,604,572	-	-	395,604,572
Risk Grade 5	11.18-32.23	-	5,237,011	-	5,237,011
Risk Grade 6	32.23	92,335,549	-	-	92,335,549
Risk Grade 6	19.51-38.57	-	62,928,564	-	62,928,564
Risk Grade 7	89.45	4,091,199	49,594,933	-	53,686,132
Risk Grade 8	100.00	-	-	82,088,071	82,088,071
No risk classification	0.31-100.00	232,450,924	7,011,440	11,212,105	250,674,469
Gross carrying amount		**3,379,015,670**	**124,771,948**	**93,300,176**	**3,597,087,794**
Expected credit loss allowance		(75,063,109)	(26,328,910)	(55,473,680)	(156,865,699)
Net carrying amount		**3,303,952,561**	**98,443,038**	**37,826,496**	**3,440,222,095**

"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 2022.

* 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 2021	**12 month PD ranges**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers, net					
Risk Grade 1	-	-	-	-	-
Risk Grade 2	0.95	289,420,779	-	-	289,420,779
Risk Grade 3	1.71	1,176,653,914	-	-	1,176,653,914
Risk Grade 4	3.76	1,242,909,703	-	-	1,242,909,703
Risk Grade 5	9.33	282,153,449	-	-	282,153,449
Risk Grade 6	24.49	57,577,095	-	-	57,577,095
Risk Grade 6	5.84-32.65	-	124,419,082	-	124,419,082
Risk Grade 7	65.68	-	21,197,586	-	21,197,586
Risk Grade 8	100.00	-		89,185,989	89,185,989
No risk classification	0.02-100.00	142,200,929	5,134,736	6,631,859	153,967,524
Gross carrying amount		**3,190,915,869**	**150,751,404**	**95,817,848**	**3,437,485,121**
Expected credit loss allowance		(47,078,368)	(17,301,457)	(50,237,096)	(114,616,921)
Carrying amount		**3,143,837,501**	**133,449,947**	**45,580,752**	**3,322,868,200**

"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 2021.

* 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 credit commitments and guarantees

31 Dec 2022	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Risk Grade 1	-	-	-	-
Risk Grade 2	127,396,184	-	-	127,396,184
Risk Grade 3	182,353,020	-	-	182,353,020
Risk Grade 4	120,813,259	-	-	120,813,259
Risk Grade 5	15,189,773	-	-	15,189,773
Risk Grade 6	9,646,115	1,923,213	-	11,569,328
Risk Grade 7	60,000	950,000	-	1,010,000
Risk Grade 8	-	-	-	-
No risk classification	46,846,949	2,775,426	1,150,000	50,772,375
Total	**502,305,300**	**5,648,639**	**1,150,000**	**509,103,939**
Guarantees				
Risk Grade 1	-	-	-	-
Risk Grade 2	93,242,304	-	-	93,242,304
Risk Grade 3	62,389,249	-	-	62,389,249
Risk Grade 4	45,188,024	-	-	45,188,024
Risk Grade 5	7,706,740	-	-	7,706,740
Risk Grade 6	-	220,095	-	220,095
Risk Grade 7	-	-	-	-
Risk Grade 8	-	-	-	-
No risk classification	3,954,039	-	-	3,954,039
Total	**212,480,356**	**220,095**	**-**	**212,700,451**

* 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)

31 Dec 2021	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Risk Grade 1	-	-	-	-
Risk Grade 2	92,584,526	-	-	**92,584,526**
Risk Grade 3	162,841,956	-	-	**162,841,956**
Risk Grade 4	122,179,641	-	-	**122,179,641**
Risk Grade 5	17,475,347	-	-	**17,475,347**
Risk Grade 6	6,083,041	5,162,429	1,200,000	**12,445,470**
Risk Grade 7	-	290,000	-	**290,000**
Risk Grade 8	-	-	4,707,840	**4,707,840**
No risk classification	53,879,222	-	150,000	**54,029,222**
Total	**455,043,733**	**5,452,429**	**6,057,840**	**466,554,002**
Guarantees				
Risk Grade 1	-	-	-	-
Risk Grade 2	75,989,535	-	-	75,989,535
Risk Grade 3	55,780,594	-	-	55,780,594
Risk Grade 4	34,581,748	-	-	34,581,748
Risk Grade 5	10,360,363	-	-	10,360,363
Risk Grade 6	800,000	-	-	800,000
Risk Grade 7	-	-	-	-
Risk Grade 8	-	-	-	-
No risk classification	3,178,137	-	-	3,178,137
Total	**180,690,377**	-	-	**180,690,377**

* 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)

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

In thousands lei

	Stage 1		Stage 2		Stage 3	
31 December 2022:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Individuals	**182,313**	**22,123**	**2,916**	**193**	**4,324**	**2,481**
Consumer loans	13,841	1,426	1,292	57	-	-
Mortgage	168,472	20,697	1,624	136	4,324	2,481
Legal entities	**3,196,703**	**52,940**	**121,856**	**26,136**	**88,976**	**52,993**
Loans to agriculture	790,270	16,330	67,714	17,429	67,763	40,304
Loans to the food industry	233,927	4,685	9,256	1,200	1,823	962
Loans to the productive industry	346,630	4,458	4,069	473	-	-
Trade credits	1,394,533	17,938	20,863	4,737	11,062	7,222
Loans granted to natural persons practicing activity	33,701	1,712	720	47	453	280
Loans for transport, telecommunications and network development	183,070	3,836	14,631	1,487	3,687	1,974
Loans for services	189,242	3,717	4,613	763	4,188	2,251
Other loans	25,330	264	(10)	-	-	-
Total	**3,379,016**	**75,063**	**124,772**	**26,329**	**93,300**	**55,474**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

	Stage 1		Stage 2		Stage 3	
31 December 2021:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Individuals	**91,129**	**1,977**	**-**	**-**	**-**	**-**
Consumer loans	8,060	217	-	-	-	-
Mortgage	83,069	1,760	-	-	-	-
Legal entities	**3,099,787**	**45,101**	**150,751**	**17,301**	**95,818**	**50,237**
Loans to agriculture	849,093	14,888	91,632	10,406	52,909	25,012
Loans to the food industry	249,847	3,283	2,111	167	1,769	1,313
Loans to the productive industry	377,566	4,577	-	-	-	-
Trade credits	1,162,392	14,803	16,591	2,501	19,248	12,125
Loans granted to natural persons practicing activity	24,157	557	586	128	544	452
Loans for transport, telecommunications and network development	165,027	3,053	33,465	3,140	1,644	767
Loans for services	244,454	3,703	6,179	942	19,704	10,568
Other loans	27,251	237	187	17	-	-
Total	**3,190,916**	**47,078**	**150,751**	**17,301**	**95,818**	**50,237**

* 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)

Breakdown of loan portfolio by days in arrears:

In thousands lei

	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
31 Dec 2022										
Individuals	**183,781**	**5,772**	**-**	**-**	**-**	**-**	**-**	**189,553**	**24,797**	**164,756**
Consumer loans	14,979	154	-	-	-	-	-	15,133	1,482	13,651
Mortgage	168,802	5,618	-	-	-	-	-	174,420	23,315	151,105
Legal entities	**3,133,921**	**213,937**	**7,534**	**2,164**	**18,877**	**-**	**31,102**	**3,407,535**	**132,069**	**3,275,466**
Loans to agriculture	784,596	97,333	5,689	-	10,948	-	27,182	925,748	74,064	851,684
Loans to the food industry	240,023	3,227	-	-	-	-	1,756	245,006	6,847	238,159
Loans to the productive industry	348,515	2,183	-	-	-	-	-	350,698	4,930	345,768
Trade credits	1,313,748	102,464	-	2,164	6,853	-	1,230	1,426,459	29,898	1,396,561
Loans granted to natural persons practicing activity	31,205	3,216	95	-	-	-	359	34,875	2,040	32,835
Loans for transport, telecommunications and network development	196,659	3,077	-	-	1,076	-	575	201,387	7,297	194,090
Loans for services	193,855	2,437	1,750	-	-	-	-	198,042	6,729	191,313
Other loans	25,320	-	-	-	-	-	-	25,320	264	25,056
Total	**3,317,702**	**219,709**	**7,534**	**2,164**	**18,877**	**-**	**31,102**	**3,597,088**	**156,866**	**3,440,222**

* 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)

In thousands lei

	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
31 Dec 2021										
Individuals	**89,513**	**1,616**	**-**	**-**	**-**	**-**	**-**	**91,129**	**1,977**	**89,152**
Consumer loans	8,058	2	-	-	-	-	-	8,060	217	7,843
Mortgage	81,455	1,614	-	-	-	-	-	83,069	1,760	81,309
Legal entities	**3,188,149**	**75,821**	**14,960**	**230**	**8,335**	**9,048**	**49,813**	**3,346,356**	**112,640**	**3,233,716**
Loans to agriculture	927,854	21,552	-	-	-	-	44,228	993,634	50,307	943,327
Loans to the food industry	251,958	-	439	0	0	1,329	-	253,726	4,762	248,964
Loans to the productive industry	377,566	-	-	-	-	-	-	377,566	4,576	372,990
Trade credits	1,132,963	47,819	3,904	136	921	7,717	4,771	1,198,231	29,429	1,168,802
Loans granted to natural persons practicing activity	21,246	3,598	159	80	-	-	204	25,287	1,137	24,150
Loans for transport, telecommunications and network development	198,492	-	-	-	1,644	-	-	200,136	6,960	193,176
Loans for services	250,633	2,852	10,458	14	5,770	-	610	270,337	15,213	255,124
Other loans	27,437	-	-	-	-	2	-	27,439	256	27,183
Total	**3,277,662**	**77,437**	**14,960**	**230**	**8,335**	**9,048**	**49,813**	**3,437,485**	**114,617**	**3,322,868**

* 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)

Loans and advances to customers movement:

2022	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January	**3,190,836,056**	**150,749,961**	**95,899,111**	**3,437,485,128**
New financial assets originated	1,206,476,212	-	-	1,206,476,212
Variations due to changes without derecognition (net)	-	-	-	-
Derecognitions	(349,290,665)	(13,624,591)	(4,700,197)	(367,615,453)
Decrease due to write- offs	-	-	(8,324,904)	(8,324,904)
Changes in interest accrual	2,346,800	(894,178)	273,258	1,725,880
Changes in the principal and disbursement fee amount	(631,836,298)	(71,372,321)	(26,917,597)	(730,126,216)
Transfer from stage 1 to Stage 2	(230,944,634)	230,944,634	-	-
Transfer from stage 1 to Stage 3	(21,078,571)	-	21,078,571	-
Transfer from stage 2 to Stage 1	150,047,156	(150,047,156)	-	-
Transfer from stage 2 to Stage 3	-	(19,935,452)	19,935,452	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	5,030,651	-	(5,030,651)	-
Net modifications due to foreign exchange fluctuations	57,324,156	(1,049,485)	1,087,133	57,361,804
Gross outstanding amount as of 31 December	**3,378,910,863**	**124,771,412**	**93,300,176**	**3,596,982,451**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2021	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount	**2,948,171,649**	**177,473,087**	**113,880,619**	**3,239,525,355**
Increases due to origination and acquisition	1,137,373,799	-	-	**1,137,373,799**
Variations due to changes without derecognition (net)	-	-	-	-
Decrease due to derecognitions	(352,960,934)	(26,232,495)	(16,854,143)	**(396,047,572)**
Decrease in the allowance account due to write-offs outside the statement of financial position	-	-	(16,925,123)	**(16,925,123)**
Changes in interest accrual	1,384,685	(342,370)	569,547	**1,611,862**
Changes in the principal and disbursement fee amount	(358,935,864)	(55,054,436)	(29,500,297)	**(443,490,597)**
Transfer from stage 1 to Stage 2	(195,683,959)	195,683,959	-	-
Transfer from stage 1 to Stage 3	(7,494,612)	-	7,494,612	-
Transfer from stage 2 to Stage 1	97,616,456	(97,616,456)	-	-
Transfer from stage 2 to Stage 3	-	(39,360,263)	39,360,263	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	360,423	-	(360,423)	-
Net modifications due to foreign exchange fluctuations	(78,995,587)	(3,801,065)	(1,765,944)	(84,562,596)
Gross outstanding amount as of 31 December	**3,190,836,056**	**150,749,961**	**95,899,111**	**3,437,485,128**

* 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:

2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as of 1 january	**(47,078,341)**	**(17,301,456)**	**(50,237,124)**	**(114,616,921)**
New financial assets originated	(16,830,146)	-	-	(16,830,146)
Derecognitions	2,878,467	977,472	3,267,125	7,123,064
Transfer from stage 1 to Stage 2	7,425,331	(7,425,331)	-	-
Transfer from stage 1 to Stage 3	1,544,105	-	(1,544,105)	-
Transfer from stage 2 to Stage 1	(6,155,641)	6,155,641	-	-
Transfer from stage 2 to Stage 3	-	4,471,073	(4,471,073)	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	(40,587)	-	40,587	-
Increase in credit risk	(58,847,185)	(35,973,046)	(26,854,052)	(121,674,283)
Decrease in credit risk	43,886,876	22,918,881	17,030,344	83,836,101
Decrease in the allowance account due to write-offs outside the statement of financial position	-	-	8,324,904	8,324,904
Increases due to changes without derecognition	-	-	-	-
Decreases due to changes without derecognition	-	-	-	-
Net modifications due to foreign exchange fluctuations	(1,845,990)	(152,144)	(1,030,286)	(3,028,420)
Closing balance as of 31 Decembrie	**(75,063,111)**	**(26,328,910)**	**(55,473,680)**	**(156,865,701)**

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:

2021	Stage 1	Stage 2	Stage 3	Total
Opening Balance	**(42,845,590)**	**(29,289,149)**	**(49,708,409)**	**(121,843,148)**
New financial assets originated	(20,035,291)	-	-	(20,035,291)
Derecognitions	4,878,012	3,388,353	10,697,381	18,963,746
Transfer from stage 1 to Stage 2	4,351,218	(4,351,218)	-	-
Transfer from stage 1 to Stage 3	2,934,559	-	(2,934,559)	-
Transfer from stage 2 to Stage 1	(2,609,102)	2,609,102	-	-
Transfer from stage 2 to Stage 3	-	8,421,023	(8,421,023)	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	(10,612)	-	10,612	-
Increase in credit risk	(30,114,767)	(18,090,990)	(32,579,679)	(80,785,436)
Decrease in credit risk	35,136,194	20,105,875	14,687,099	69,929,168
Decrease in the allowance account due to write-offs outside the statement of financial position	-	-	16,925,123	16,925,123
Increases due to changes without derecognition	-	-	-	-
Decreases due to changes without derecognition	-	-	-	-
Net modifications due to foreign exchange fluctuations	1,237,039	(94,453)	1,086,331	2,228,917
Closing balance as of 31 Decembrie	**(47,078,340)**	**(17,301,457)**	**(50,237,124)**	**(114,616,921)**

Depreciation expenses differ from the amount presented in the profit or loss statement as a result of the recovery of amounts previously written off as irrecoverable in a total amount of MDL 11,913,738 (2021: MDL 24,078,189). The recovery value was credited directly to the resumption of depreciation in the profit or loss account for the current year.

* 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)

Movement of expected credit loss allowance for credit commitments

			2022			2021
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Opening Balance	**3,354,352**	**234,691**	**1,302,982**	**3,388,336**	**198,549**	**30,178**
New financial assets originated	1,080,948	77,075	-	1,264,589	-	-
Derecognitions	(119,114)	(28,274)	(204,913)	(85,689)	(49,692)	-
Increase in credit risk	5,984,418	1,497,246	1,590	4,055,259	1,366,960	1,254,767
Decrease in credit risk	(6,402,971)	(1,348,455)	(1,098,069)	(5,157,659)	(1,236,123)	(102,953)
Transfer from stage 1 to Stage 2	(333,740)	333,740	-	(98,458)	98,458	-
Transfer from stage 1 to Stage 3	-	-	-	(52,860)		52,860
Transfer from stage 2 to Stage 1	293,832	(293,832)	-	75,504	(75,504)	-
Transfer from stage 2 to Stage 3	-	-	-		(64,228)	64,228
Transfer from stage 3 to Stage 2	-	-	-	-	-	-
Transfer from stage 3 to Stage 1	1,590	-	(1,590)	-	-	-
Net modifications due to foreign exchange fluctuations	16,578	(476)	-	(34,668)	(3,729)	3,902
Closing balance	**3,875,893**	**471,715**	**-**	**3,354,354**	**234,691**	**1,302,982**

* 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)

Movement of expected credit loss allowance for certificates issued by NBM

	2022	2021
	Stage 1	**Stage 1**
Balance at 1 January	**(92,717)**	**(84,082)**
New financial assets originated	(4,358,037)	(2,460,781)
Release due to derecognition	4,295,419	2,452,146
Variations due to the actualization of estimation methodology	-	-
Balance at 31 December	**(155,335)**	**(92,717)**

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

	2022	2021
	Stage 1	**Stage 1**
Balance at 1 January	**(3,349,848)**	**(3,639,272)**
New financial assets originated	(6,235,522)	(1,154,922)
Release due to derecognitions	1,389,853	1,379,591
Net modifications due to foreign exchange fluctuations	(114,571)	64,755
Balance at 31 December	**(8,310,088)**	**(3,349,848)**

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

	2022	2021
	Stage 1	**Stage 1**
Balance at 1 January	**(100)**	**-**
New financial assets originated	(7,486)	(633)
Release due to derecognition	7,586	533
Balance at 31 December	**-**	**(100)**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

As of 31 December 2022 the Bank doesn’t have financial leasing contracts. See below the loss allowances movement for the finance lease receivables:

	2022	2021
	Stage 1	**Stage 1**
Balance at 1 January	**-**	**(354,906)**
Decreases due to recognition	-	-
Increase in credit risk	-	340,881
Decrease in credit risk	-	-
Net modifications due to foreign exchange fluctuations	-	14,426
	-	(401)
Balance at 31 December	**-**	**-**

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.

2022	**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	-	-	(4,847,148)	2,390	(38, 119,575)	(417,220)	(43, 381,553)
New financial assets originated or purchased	(4,358,037)	-	-	(8,845)	(16,830,146)	-	(21,197,028)
Decrease due to recognition	4,295,418	-	-	14,190	7,123,064	-	11,432,672
Total	**(62,619)**	**-**	**(4,847,148)**	**7,735**	**(47,826,657)**	**(417,220)**	**(53, 145,909)**
Recoveries of amounts previously written off	-	-	-	-	11,913,737	-	11,913,737
Discounting effect	-	-	-	-	-	-	-
Total	**(62,619)**	**-**	**(4,847,148)**	**7,735**	**(35,912,920)**	**(417,220)**	**(41, 232,172)**

2021	**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	-	11,204	226,185	(5,063)	(10,856,267)	(180,900)	(10,804,841)
New financial assets originated or purchased	(2,460,781)	-	-	(12)	(20,035,291)	(1,126,913)	(23,622,997)
Decrease due to recognition	2,452,146	340,881	-	492	18,963,745	135,363	21,892,627
Total	**(8,635)**	**352,085**	**226,185**	**(4,583)**	**(11,927,813)**	**(1,172,450)**	**(12,535,211)**
Recoveries of amounts previously written off	-	-	-	-	24,078,189	-	24,078,189
Discounting effect	-	-	-	-	-	-	-
Total	**(8,635)**	**352,085**	**226,185**	**(4,583)**	**12,150,376**	**(1,172,450)**	**11,542,978**

* 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)

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 2022	45.5%	11.9%	42.7%
31 December 2021	46.9%	16.7%	36.4%

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

As in previous years, 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 the signed agreement the Guarantor issues an irrevocable and unconditional financial guarantee in favour of the Intermediary relating to portfolio, in the rate of 50% or 80% for investments in current assets, intended to mitigate the effects caused by COVID-19. In 2021 the European Investment Fund coordinated to increase the volume of the approved portfolio financed with the InnovFin guarantee from EUR 70 million to EUR 90 million.

Additionally, the Bank also registeres active loans with guarantees, based on DCFTA Agreement Initiative East - Guarantee Facility – Guarantee Agreement dated 26.10.2017. The contract, in the amount of 28 million euros was fully assimilated in 2020.

On 14.04.2022 the Bank has signed the agreement with the Organization for the development of eterpreneurship (ODA). The maximum guarantee rate varys from 50% to 80% from the loan amount, and the maximum guaranteed amount is 7 000 000 lei.

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.

* 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 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:

	Unsecured loans	Loans collateralised by:			
		real estate (mortgage)	**deposits**	**financial guarantee facility**	**other**
La 31 decembrie 2022:					
Individuals	**10,627,069**	**167,692,211**	**911,620**	**-**	**10,321,942**
Consumer loans	3,669,893	4,808,541	-	-	6,655,224
Mortgage	6,957,176	162,883,670	911,620	-	3,666,718
Legal entities	**3,116,253**	**1,461,432,134**	**12,374,801**	**412,084,989**	**1,518,526,775**
Loans to agriculture	224,471	328,634,109	-	31,903,796	564,984,726
Loans to the food industry	-	81,115,136	-	11,626,284	152,264,929
Loans to the productive industry	190,255	166,537,847	7,731,069	10,843,346	165,396,323
Trade credits	1,738,757	643,850,678	90,511	331,890,282	448,888,079
Loans granted to natural persons practicing activity	-	29,515,302	4,550,403	-	809,121
Loans for transport, telecommunications and network development	394,650	45,720,609	-	12,124,730	143,147,261
Loans for services	-	162,767,900	5,618	510,097	34,758,782
Other loans	568,120	3,290,553	(2,800)	13,186,454	8,277,554
Total	**13,743,322**	**1,629,124,345**	**13,286,421**	**412,084,989**	**1,528,848,717**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

	Unsecured loans	Loans collateralised by:			
		real estate (mortgage)	deposits	financial guarantee facility	other
La 31 decembrie 2021:					
Individuals	**5,780,969**	**78,623,212**	**974,815**	**-**	**5,750,024**
Consumer loans	3,467,779	1,682,702	-	-	2,909,666
Mortgage	2,313,190	76,940,510	974,815	-	2,840,358
Legal entities	**12,533,252**	**1,523,383,905**	**27,715,472**	**543,993,889**	**1,238,729,582**
Loans to agriculture	623,542	375,140,800	1,927,543	72,256,855	543,685,386
Loans to the food industry	-	144,731,676	-	21,062,324	87,932,556
Loans to the productive industry	367,977	233,682,556	9,823,185	63,575,454	70,117,313
Trade credits	8,929,957	492,147,961	139,328	355,628,998	341,385,015
Loans granted to natural persons practicing activity	-	24,032,793	-	-	1,253,904
Loans for transport, telecommunications and network development	795,135	53,501,920	10,959,008	12,546,895	122,332,528
Loans for services	1,156,845	185,959,980	4,870,330	16,923,006	61,426,946
Other loans	659,796	14,186,219	-3,922	2,000,357	10,595,934
Total	**18,314,221**	**1,602,007,117**	**28,690,287**	**543,993,889**	**1,244,479,606**

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

In thousands lei

	Individuals		*Legal entities*								**Total**
	Consumer loans	**Mortgage**	**Loans to agriculture**	**Loans to the food industry**	**Loans to the productive industry**	**Trade credits**	**Loans granted to natural persons practicing activity**	**Loans for transport, telecommunications and network development**	**Loans for services**	**Other loans**	**Total**
31 Dec. 2022:											
Unsecured loans	-	-	-	-	-	-	-	-	-	-	-
Loans collateralised by:											
real estate (mortgage)	12,447	949,165	550,544	158,809	341,687	1,098,897	66,705	91,650	456,346	76,758	3,803,008
deposits	-	1,019	-	-	6,008	78	5,300	-	5,698	387	18,490
financial guarantee facility	-	-	19,725	7,926	8,177	247,758	-	9,185	410	7,089	300,270
other	12,642	8,307	876,203	278,438	244,118	743,181	1,622	268,760	55,522	112,036	2,600,829
Total	**25,089**	**958,491**	**1,446,472**	**445,173**	**599,990**	**2,089,914**	**73,627**	**369,595**	**517,976**	**196,270**	**6,722,597**

* 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

	Individuals		*Legal entities*								**Total**
	Consumer loans	**Mortgage**	**Loans to agriculture**	**Loans to the food industry**	**Loans to the productive industry**	**Trade credits**	**Loans granted to natural persons practicing activity**	**Loans for transport, telecommunications and network development**	**Loans for services**	**Other loans**	**Total**
31 Dec. 2021:											
Unsecured loans	-	-	-	-	-	-	-	-	-	-	-
Loans collateralised by:											
real estate (mortgage)	5,598	120,110	576,317	202,953	439,490	865,441	65,971	71,809	472,732	93,745	2,914,166
deposits	-	1,005	1,000	-	5,829	77	-	3,318	5,618	295	17,142
financial guarantee facility	-	-	48,273	15,854	45,939	267,434	-	8,946	11,735	1,600	399,781
other	5,000	4,034	869,390	159,096	139,065	634,919	1,941	191,729	96,533	98,941	2,200,648
Total	**10,598**	**125,149**	**1,494,980**	**377,903**	**630,323**	**1,767,871**	**67,912**	**275,802**	**586,618**	**194,581**	**5,531,737**

* 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 effect of collateral at 31 December 2022:

	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		
Individuals						
Consumer loans	10,260,448	26,172,536	3,390,313	-	13,650,761	26,172,536
Mortgage	139,900,478	971,316,905	11,204,319	5,455,213	151,104,797	976,772,118
Legal entities						
Loans to agriculture	839,628,579	1,892,232,572	12,055,284	9,158,005	851,683,863	1,901,390,577
Loans to the food industry	235,266,914	607,780,090	2,892,432	1,460,337	238,159,346	609,240,427
Loans to the productive industry	344,986,291	780,782,574	781,648	466,676	345,767,939	781,249,250
Trade credits	1,261,713,236	2,694,131,403	134,847,914	124,645,447	1,396,561,150	2,818,776,850
Loans granted to natural persons practicing activity	32,834,904	79,395,782	-	-	32,834,904	79,395,782
Loans for transport, telecommunications and network development	193,717,939	435,610,988	372,552	-	194,090,491	435,610,988
Loans for services	191,312,679	563,628,711	-	-	191,312,679	563,628,711
Other loans	24,507,443	241,834,042	548,722	-	25,056,165	241,834,042
Total	**3,274,128,911**	**8,292,885,603**	**166,093,184**	**141,185,678**	**3,440,222,095**	**8,434,071,281**

* 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 effect of collateral at 31 December 2021:

	Over-collateralised assets		Under-collateralised assets			
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral	Total Carrying value of the assets, net	Total Fair value of collateral
Individuals						
Consumer loans	4,473,093	11,135,062	3,369,597	-	7,842,690	11,135,062
Mortgage	76,994,225	137,312,019	4,314,760	969,605	81,308,985	138,281,624
Legal entities						
Loans to agriculture	920,792,216	1,971,827,062	22,535,207	16,732,188	943,327,423	1,988,559,250
Loans to the food industry	234,800,613	479,986,694	14,162,932	10,591,492	248,963,545	490,578,186
Loans to the productive industry	345,700,787	756,734,685	27,289,073	21,341,334	372,989,860	778,076,019
Trade credits	1,070,321,905	2,296,388,313	98,480,536	86,212,599	1,168,802,441	2,382,600,912
Loans granted to natural persons practicing activity	24,149,760	75,250,512	-	-	24,149,760	75,250,512
Loans for transport, telecommunications and network development	155,006,558	323,355,364	38,169,810	19,269,767	193,176,368	342,625,131
Loans for services	240,266,016	659,960,423	14,858,219	9,241,201	255,124,235	669,201,624
Other loans	26,525,105	239,287,832	657,788	-	27,182,893	239,287,832
Total	**3,099,030,278**	**6,951,237,966**	**223,837,922**	**164,358,186**	**3,322,868,200**	**7,115,596,152**

* 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 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 2022:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	12,653,568	1,089,753	-	-	-	-
Loans collateralised by:						
- mortgage	1,517,111,765	50,618,191	61,394,390	3,499,475,102	145,008,661	158,523,983
- deposits	11,343,264	1,943,156	-	16,598,618	1,891,305	-
- financial guarantee	407,496,082	2,832,462	1,756,445	297,115,075	2,273,084	881,537
- other assets	1,430,410,990	68,288,386	30,149,341	2,390,653,659	148,700,139	61,475,546
Total	**3,379,015,669**	**124,771,948**	**93,300,176**	**6,203,842,454**	**297,873,189**	**220,881,066**

			Gross exposure			Fair value of collateral
As at 31 December 2021:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	18,314,221	-	-	-	-	-
Loans collateralised by:						
- mortgage	1,516,196,372	28,409,335	57,401,411	2,679,062,807	86,040,439	149,062,532
- deposits	28,690,287	-	-	17,141,994	-	-
- financial guarantee	527,109,619	14,167,984	2,716,286	386,858,789	11,010,513	1,912,073
- other assets	1,100,605,370	108,174,085	35,700,151	1,949,020,482	179,244,523	72,382,789
Total	**3,190,915,869**	**150,751,404**	**95,817,848**	**5,032,084,072**	**276,295,475**	**223,357,394**

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.

* 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)

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 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 Loan Portfolio Management Committee of the Bank.

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 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.

During 2022, 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. In 2022, no counterparty of the Bank, with which the Bank has exposures, was demoted, and the counterparty risk remained stable.

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 2022	%	31 December 2021	%
Loans and advances to banks, including:	**260,745,466**	**4.39%**	**256,853,040**	**5.13%**
- OECD banks	260,129,920	4.38%	247,347,770	4.94%
- non-OECD banks	615,546	0.01%	9,505,270	0.19%
Exposure with NBM, including:	**2,241,827,524**	**37.72%**	**1,426,542,264**	**28.50%**
- Mandatory reserves	1,256,158,585	21.14%	700,116,016	13.98%
-Nostro account at NBM	-	0.00%	7,655,503	0.15%
- Certificates of NBM	985,668,939	16.59%	718,770,745	14.36%
Loans and advances to customers	**3,440,222,095**	**57.89%**	**3,322,868,200**	**66.37%**
Finance lease receivables	**-**	**0.00%**	**-**	**0.00%**
Total	**5,942,795,085**	**100.00%**	**5,006,263,504**	**100.00%**

The total exposure to banks increased in 2022 compared to the end of 2021, amounting to MDL 260.7 million (2021: MDL 256.9 million). Exposure towards the NBM also increased considerably compared to the previous year, amounting to MDL 2,241.8 million (2021: MDL 1,426.5 million), as a result of the increase in liquidity in Moldovan lei and the increase in mandatory reserve norms. The total amount of required reserves increased from 700.1 million lei in December 2021 to 1,256.2 million lei on December 31, 2022, being conditioned by the increase of the norm of mandatory reserves in lei from 26% to 34%, and the increase of norm of mandatory reserves in freely convertible currency from 30% to 45% at the end of 2022. Thus, at the end of 2022 the Bank's exposure to banking groups accounted for 4.3% of the total exposures, and to the NBM – 37.7% (2021: 5.1% and 28.5% respectively).

The exposure is distributed across three OECD and one non-OECD banking groups.
The exposure to the National Bank of Moldova is primarily related to the mandatory reserve requirement. Other exposures to the National Bank of Moldova relate to a Nostro account, overnight placements and NBM certificates with a maturity up to 14 days. As at the end of 2022 the Bank had NBM certificates in the statement of financial position amounting to MDL 990 million (2021: 720 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 Financial Risks Committee and 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 2022	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents	38,456,773	34,364,828	-	57,968,936	130,790,537
Balances with National Bank of Moldova	467,853,970	190,668,228	-	597,636,387	1,256,158,585
Loans and advances to banks	147,653,125	105,911,579	7,180,762	-	260,745,466
Loans and advances to customers	2,004,456,308	329,014,132	-	1,106,751,655	3,440,222,095
Finance lease receivables	-	-	-	-	-
Investments in debt securities	-	-	-	985,668,939	985,668,939
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	1,470,073	177,281	38,596	1,517,450	3,203,400
Total assets	**2,659,890,249**	**660,136,048**	**7,219,358**	**2,750,743,367**	**6,077,989,022**
Liabilities					
Due to customers	1,040,082,495	477,756,515	6,251,200	1,811,432,676	3,335,522,886
Borrowed funds	1,465,526,501	160,756,490	-	209,897,413	1,836,180,404
Subordinated debt	133,691,451	-	-	-	133,691,451
Provisions	522,252	2,678,585	3,715	6,449,326	9,653,878
Other financial liabilities	23,487,652	2,036,542	-	3,762,268	29,286,462
Total liabilities	**2,663,310,351**	**643,228,132**	**6,254,915**	**2,031,541,683**	**5,344,335,081**
Derivatives net position SWAPs	-	-	-	-	-
Net position	(3,420,102)	16,907,916	964,443	719,201,684	733,653,941
Off-balance sheet exposures	178,284,440	91,451,230	2,304,020	449,764,700	721,804,390

* 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)

As at 31 December 2021	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents	24,093,370	16,901,256	-	74,755,070	115,749,696
Balances with National Bank of Moldova	324,319,429	78,837,359	-	296,959,228	700,116,016
Loans and advances to banks	161,602,641	59,750,646	35,499,753	-	256,853,040
Loans and advances to customers	1,799,005,674	342,008,411	-	1,181,854,115	3,322,868,200
Finance lease receivables	-	-	-	-	-
Investments in debt securities	-	-	-	718,770,745	718,770,745
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	2,625,689	14,956,559	6,533	4,894,272	22,483,053
Total assets	**2,311,646,803**	**512,454,231**	**35,506,286**	**2,278,433,430**	**5,138,040,750**
Liabilities					
Due to customers	1,080,169,407	303,714,626	33,602,111	1,375,788,317	2,793,274,461
Borrowings	1,164,429,041	74,582,003	-	294,394,056	1,533,405,100
Subordinated debt	131,795,018	-	-	-	131,795,018
Provisions	1,986,319	2,484,559	7,213	5,533,554	10,011,645
Other financial liabilities	29,609,145	10,395,454	-	3,981,490	43,986,089
Total liabilities	**2,407,988,930**	**391,176,642**	**33,609,324**	**1,679,697,417**	**4,512,472,313**
Derivatives net position SWAPs	**(105,624,712)**	**106,471,200**	**-**	**-**	**846,488**
Net position	9,282,585	14,806,389	1,896,962	598,736,013	624,721,949
Off-balance sheet exposures	203,052,967	42,653,422	2,393,210	399,144,779	647,244,378

* 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. 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, 2022, the maximum loss (VAR) at a 95% confidence level is MDL 1,988,380 (2021: 2,337,887 MDL).

Overall, in 2022 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 2022 Impact, Profit/(Loss), MDL’000	31 decembrie 2021 Impactul, Profit/ (Pierdere), MDL’000
	USD	4,200	3,603
+25	EUR	(857)	2,506
	USD	(4,200)	(3,603)
-25	EUR	857	(2,506)

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. The purpose of managing interest rate risk is to keep these differences as small as possible in all currencies.

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 indicators for the management of interest rate risk are the economic value impact and interest income impact. The risk is measured regularly, at least quarterly. Assets and liabilities are distributed on interest rate bands according to the terms of the contract, thus aggregating individual contracts into homogeneous groups. Interest-bearing spot deposits and savings accounts with unspecified contractual interest are included in the risk-measurement model based on analyzes of currency-specific historical data. In addition, regularly updated assumptions about planned business developments are used to calculate the impact on interest income.

* 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)

31.7 Interest rate risk (continued)

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. The magnitude of the interest rate shock is essentially determined on the basis of a historical analysis of the corresponding yield curves. For each currency, the indicator only includes the parallel change scenario that results in a loss. Limits are set in relation to the regulated capital for the impact of economic value and in relation to the planned net interest income for the effect on interest income.

The impact on economic valueshould not exceed 15% of the capital for all currencies, with a reporting limit set at 10 % as early warning indicator.
During 2022, the impact on the economic value of capital was permanently below 10%. At 31 December 2022, this indicator was 5.5% (2021: 5.9%), decreasing 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 25% of the net interest income forecast for next 12 months. In 2022, the Bank permanently respected the limit established for that indicator.

During 2022, the Bank regularly monitored the evolution of market rates. As a result of the NBM's monetary policy decisions regarding the increase of the base rate in several stages during 2022 (from 6.50% at the beginning of 2022 to 20.00% at the end of the management year), interest rates on the market increased significantly both to loans as well as to deposits. The evolution of interest rates on loans and deposits was analyzed within the ALCO committees and, if necessary, the rates on the products offered by the Bank were adjusted, in order to reduce the interest rate risk.

The tables below show the Bank's exposure to interest rate risk as of December 31, 2022 and December 31, 2021. 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)

2022	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets						
Cash and cash equivalents	130,790,537	130,790,537	-	-	-	-
Mandatory reserves with NBM	1,256,158,585	1,256,158,585	-	-	-	-
Loans and advances to banks	260,745,466	260,745,466	-	-	-	-
Loans and advances to customers	3,440,222,095	1,518,614,209	974,749,808	726,869,279	193,874,135	26,114,664
Finance lease receivables	-	-	-	-	-	-
Investments in debt securities	985,668,939	985,668,939	-	-	-	-
Investments in equity securities	1,200,000	-	-	-	-	1,200,000
Total financial assets	**6,074,785,622**	**4,151,977,736**	**974,749,808**	**726,869,279**	**193,874,135**	**27,314,664**
Liabilities						
Deposits from customers	3,335,522,886	2,200,383,973	382,627,784	631,215,755	113,882,550	7,412,824
Borrowed funds	1,836,180,404	1,302,627,543	309,451,689	52,579,696	149,295,687	22,225,789
Subordinated debt	133,691,451	69,870	133,621,581	-	-	-
Total financial liabilities	**5,305,394,741**	**3,503,081,386**	**825,701,054**	**683,795,451**	**263,178,237**	**29,638,613**
Net exposure to interest rate	**769,390,881**	**648,896,350**	**149,048,754**	**43,073,828**	**(69,304,102)**	**(2,323,949)**

* 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)

31.7 Interest rate risk (continued)

2021	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets						
Cash and cash equivalents	115,749,696	115,749,696	-	-	-	-
Mandatory reserves with NBM	700,116,016	700,116,016	-	-	-	-
Loans and advances to banks	256,853,040	256,853,040	-	-	-	-
Loans and advances to customers	3,322,868,200	1,396,902,904	1,036,981,779	753,933,538	103,372,544	31,677,435
Finance lease receivables	-	-	-	-	-	-
Investments in debt securities	718,770,745	718,770,745	-	-	-	-
Investments in equity securities	1,200,000	-	-	-	-	1,200,000
Total financial assets	**5,115,557,697**	**3,188,392,401**	**1,036,981,779**	**753,933,538**	**103,372,544**	**32,877,435**
Liabilities						
Deposits from customers	2,793,274,461	1,835,410,248	347,312,862	322,895,902	272,461,488	15,193,961
Borrowed funds	1,533,405,100	523,603,979	769,061,570	32,637,073	167,782,626	40,319,852
Subordinated debt	131,795,018	-	131,795,018	-	-	-
Total financial liabilities	**4,458,474,579**	**2,359,014,227**	**1,248,169,450**	**355,532,975**	**440,244,114**	**55,513,813**
Net exposure to interest rate	**657,083,118**	**829,378,174**	**(211,187,671)**	**398,400,563**	**(336,871,570)**	**(22,636,378)**

* 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)

31.7 Interest rate risk (continued)

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

('000 MDL)

	2022		2021	
	Impact on economic value	**Impact on profit or loss**	**Impact on economic value**	**Impact on profit or loss**
MDL	-31.570	-54.992	-30.161	-27.669
EUR	-9.122	-2.789	-6.346	-1.506
USD	-744	0	-2.886	0
Total	**41.436**	**57.781**	**39.393**	**29.175**

On December 31, 2022, the Bank recorded a significant increase in the impact on interest income (57.9 million MDL) compared to the end of 2022 (29.2 million MDL). This increase is the result of the NBM's restrictive monetary policy which led to an increase in interest rates on deposits, which contributed to the increase in liquidity. The excess liquidity in MDL, formed by the attraction of deposits on the one hand and the decrease in the credit portfolio in MDL due to high rates, on the other hand, was placed in NBM certificates, which have a short revaluation period (14 days) compared to fixed rate term deposits for terms of 6 months and above.

At the end of 2022, the Bank's interest rate risk is assessed as medium-low.

* 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)

31.8 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- Sufficient Liquidity Indicator), 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 31.12.2022 the Sufficient Liquidity Indicator of the Bank was equal to 4.0 (31.12.2021: 3.5).

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 2022, 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 3% of total liabilities. Throughout 2022 these indicators registered 0%, as the Bank did not use either interbank credit lines or overnight loans for liquidity management.

The regulated liquidity indicators (Principle I, principle III and LCR) were also complied with. The liquidity coverage ratio (LCR) represents the coverage of net liquidity outflows with high-quality liquid assets over a 30-day time horizon under a crisis scenario. The following limits were established for the respective indicator: 60% starting from October 1, 2020; 70% starting January 1, 2021; 80% starting January 1, 2022; 100% starting January 1, 2023. On December 31, 2022, the LCR indicator was 257% (December 31, 2021: 322%).

The indicators mentioned above are 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 6.5%, 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 2022	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	130,790,537	130,790,537	-	-	-	-	-	130,790,537
Mandatory reserves with NBM	1,256,158,585	1,256,158,585	-	-	-	-	-	1,256,158,585
Loans and advances to banks	260,745,466	260,745,466	-	-	-	-	-	260,745,466
Loans and advances to customers	3,440,222,095	151,947,012	331,726,617	358,436,442	635,182,121	2,172,814,647	446,065,717	4,096,172,556
Finance lease receivables	-	-	-	-	-	-	-	-
Investments in debt securities	985,668,939	990,000,000	-	-	-	-	-	990,000,000
Investments in equity securities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	3,203,400	3,243,441	-	-	-	-	-	3,243,441
Total financial assets	**6,077,989,022**	**2,792,885,041**	**331,726,617**	**358,436,442**	**635,182,121**	**2,172,814,647**	**447,265,717**	**6,738,310,585**
Liabilities								
Deposits from customers	3,335,522,886	2,436,051,289	61,017,530	118,600,872	616,566,334	171,241,666	-	3,403,477,691
Borrowed funds	1,836,180,404	10,867,826	43,570,354	150,466,566	310,993,729	1,219,633,187	216,198,749	1,951,730,411
Subordinated debt	133,691,451	-	-	4,458,507	4,483,004	155,987,607	-	164,929,118
Provisions	9,653,878	12,482	49,068	5,486,750	657,113	2,314,667	1,133,798	9,653,878
Other financial liabilities	29,286,462	11,307,168	912,481	2,757,829	5,575,869	8,733,115	-	29,286,462
Total financial liabilities	**5,344,335,081**	**2,458,238,765**	**105,549,433**	**281,770,524**	**938,276,049**	**1,557,910,242**	**217,332,547**	**5,559,077,560**
Financial guarantees	212,700,451	7,681,971	20,837,402	15,595,234	79,271,003	89,314,841	-	212,700,451
Loan commitments	509,103,939	15,017,566	37,411,376	67,476,111	54,780,286	259,707,344	74,711,256	509,103,939
Net liquidity gap	**733,653,941**	**334,646,276**	**226,177,184**	**76,665,918**	**(303,093,928)**	**614,904,405**	**229,933,170**	**1,179,233,025**

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

As at 31 December 2021	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	115,749,696	115,749,696	-	-	-	-	-	115,749,696
Mandatory reserves with NBM	700,116,016	700,116,016	-	-	-	-	-	700,116,016
Loans and advances to banks	256,853,040	253,296,591	-	-	3,549,040	-	-	256,845,631
Loans and advances to customers	3,322,868,200	133,532,379	242,602,841	281,159,440	616,242,668	2,170,710,895	359,125,913	3,803,374,136
Finance lease receivables	-	-	-	-	-	-	-	-
Investments in debt securities	718,770,745	720,000,000	-	-	-	-	-	720,000,000
Investments in equitysecurities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	22,483,053	22,616,049	-	-	-	-	-	22,616,049
Total financial assets	**5,138,040,750**	**1,945, 310,731**	**242,602,841**	**281,159,440**	**619,791,708**	**2,170,710,895**	**360,325,913**	**5,619,901,528**
Liabilities								
Deposits from customers	2,793,274,461	1,989,137,397	98,278,286	114,864,513	290,429,159	329,950,725	-	2,822,660,080
Borrowed funds	1,533,405,100	12,150,679	17,967,790	173,776,183	151,629,440	1,059,733,868	196,640,596	1,611,898,556
Subordinated debt	131,795,018	-	-	4,396,068	4,420,222	162,619,372	-	171,435,662
Provisions	10,011,645	1,959	43,439	5,300,762	2,278,600	1,188,397	1,198,488	10,011,645
Other financial liabilities	43,986,089	18,001,380	1,693,685	2,316,736	4,690,592	17,283,695	-	43,986,088
Total financial liabilities	**4,512,472,313**	**2,019,291,415**	**117,983,200**	**300,654,262**	**453,448,013**	**1,570,776,057**	**197,839,084**	**4,659,992,031**
Financial guarantees	180,690,377	10,722,061	14,834,912	30,801,684	50,446,097	73,885,622	-	180,690,376
Loan commitments	466,554,002	2,292,085	20,777,589	31,416,754	69,239,261	227,003,171	115,825,142	466,554,002
Net liquidity gap	**625,568,437**	**(73,980,684)**	**124,619,641**	**(19,494,822)**	**166,343,695**	**599,934,838**	**162,486,829**	**959,909,497**

* 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)

31.8 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. 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 2022 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. Moreover, the Bank has set at ALCO the values of the minimum liquidity reserve in all significant currencies, for stressful situations. 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 outbreak of the war in Ukraine, a massive withdrawal of customer deposits was witnessed throughout the banking system. 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. The bank had sufficient liquidity available at any time in 2022 to meet all its financial obligations in a timely manner.

31 RISK MANAGEMENT (CONTINUED)

31.9 Business environment

The year 2022 was affected by the increase in foreign prices, the war near the border with the Republic of Moldova, disruptions in supply chains, which have a negative impact on foreign and domestic demand. The socio-economic developments recorded during 2022 were negatively influenced by the unprecedented regional situation, caused by the war in the neighboring country and the energy crisis. In addition, the current year is marked by a severe drought, which has compromised a good part of plant production, with implicit effects on the livestock sector, consumer prices, exports, the supply of raw materials to the food industry, etc.

The gross domestic product (GDP) decreased by 10.3% in the third quarter 2022 and by 4.1% in 9 months 2022 cumulatively. The severe drought, inflationary pressures in the context of the constant increase in the prices of energy resources and the complicated situation in the region are the basic factors that have significantly influenced the economic activity.

The energy crisis, the war in the neighboring country, the increase in prices are the basic factors that decreased industrial production by 5.1% in 2022. The manufacturing industry is the branch most affected by the conflict in the region and the effects of the pandemic, the decrease of which (-4.5 %) produced the greatest negative impact on the industrial sector. Also, the energy sector is in decline (-8.4%), being strongly affected by the increase in the prices of energy resources. The result of the extractive industry is also negative (-4.9%), being influenced by the decrease in construction activity.

31 RISK MANAGEMENT (CONTINUED)

31.9 Business environment (continued)

The severe drought in the summer of 2022 significantly affected the agricultural sector. Global agricultural production in all categories of households in 2022 was lower than that obtained in 2021 by 29.8% (in comparable prices). The decrease in agricultural production was determined by the decrease in both vegetable production by 36.8% and animal production by 2.6%.

Investments decreased in 2022. The volume of investments in fixed assets decreased by 11.6%, amounting to approximately 31.9 million. lei. The decrease in foreign investments (-33.1%), investments financed by external credits and loans (by 31.3%), as well as the own investments of economic agents (-6.3%) were the basic factors that influenced the decrease in investments . At the same time, investments financed by domestic loans remain on the rise (+1%), but significantly tempering their growth compared to previous periods.

The inflation rate, in December 2022, was 30.2% compared to December 2021 (13.9%), significantly exceeding the upper limit of the variation range of the inflation target established by the National Bank of Moldova (5% +/- 1.5%). The increase in food prices and service tariffs are the main factors that keep inflation on the upward trend.

In January-December 2022, the state debt increased mainly from the external debt account. The state debt managed by the Government at the end of December 2022 reached the level of 94.7 million. lei, registering a 21.7% increase compared to the same situation from the previous year and a 21.6% increase compared to the beginning of the year.

During 2022, the banking sector successfully faced external challenges, and the National Bank of Moldova continued the process of prudential supervision of banks, pursuing compliance with legal requirements, in order to ensure the stability and viability of the banking system.

The financial situation of the banking sector, according to the data presented by the banks, is characterized by the increase in assets, loans, own funds, the ratio of own funds, deposits of individuals, deposits of legal entities and bank deposits. The profit for the year compared to the same period of the previous year increased, mainly as a result of the increase in interest income and non-interest income.

At the same time, there was an increase in absolute value of expired loans, non-performing loans and, as a result, the deterioration of the quality indicators of the loan portfolio compared to the end of the previous year.

31 RISK MANAGEMENT (CONTINUED)

31.9 Business environment (continued)

As of 31.12.2022, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova. 1 bank was supervised under the early intervention regime applied on 11.01.2019. During the year AS "IuteCredit Europe" acquired the qualified holding in a size that reaches and exceeds the level of 50.0% of the share capital of B.C. "ENERGBANK" S.A., becoming the majority shareholder of the bank.

Total assets amounted to 131.4 billion lei, increasing during 2022 by 10.9% (12.9 billion lei).

In the structure of assets, the largest share belonged to the item "Loans and advances at amortized cost", which constituted 44.7% (58.7 billion lei), decreasing by 1.4 p.p. from the end of the previous year.

The gross (prudential) balance of loans constituted 46.9% of total assets or 61.6 billion lei, increasing during the 2022 by 9.3% (5.3 billion lei).

In 2022, the largest increase in absolute value was recorded in loans granted to trade, by 1,743.7 million lei (14.4%) to 13.9 billion lei, in loans granted to the food industry – by 978.9 million lei (26.6%) up to 4.4 billion lei, for loans granted for the purchase / construction of real estate - by 865.7 million lei (7.6%) up to 12.3 billion lei, for loans granted to the non-banking financial environment - by 665.0 million lei (36.9%) up to 2.5 billion lei.

At the same time, the biggest decrease in absolute value was recorded in consumer loans, by 474.4 million lei (4.5%) to 10.0 billion lei.

During the reference period, the share of non-performing loans (substandard, doubtful and compromised) in total loans increased by 0.3 p.p., constituting 6.4% on 31.12.2022, the mentioned indicator varying from 1.8% to 9.2%, depending on the bank.

At the same time, non-performing loans in absolute value increased by 14.7% (510.0 million lei) up to 4.0 billion lei.

In 2022, expired credits increased by 15.3% (266.7 million lei) up to 2.0 billion lei. The share of expired loans in total loans was 3.3%, increasing by 0.2 p.p. compared to 31.12.2021, ranging from 0.8% to 8.5%, depending on the bank.

At the same time, during the reference period, there was an increase in the total balance of deposits, by 4.9 billion lei or by 5.4%, constituting 95.0 billion lei.

On 31.12.2022, the profit in the banking system amounted to 3.6 billion lei, increasing by 58.6% (1.3 billion lei) compared to the end of the previous year.

On 31.12.2022, the return on assets was 2.9%, increasing by 0.9 p.p. compared to the end of the previous year, and the return on capital was 16.9%, increasing by 4.6 p.p. compared to the end of the previous year.

31 RISK MANAGEMENT (CONTINUED)

31.10 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.
The table below provides an overview of gross and net losses due to operating losses from 2022.

Key operational risk figures for 2022

Gross losses, in EUR	4,426.59
Net current losses, in EUR	22,569.68
Number of risk events	118

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/ processes 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.

* 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)

31.10 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.

Considering that the war on the territory of Ukraine was accompanied by a high risk of cyber attacks in the region, the Bank's IT service provider paid maximum attention to protecting the Bank's infrastructure from cyber attack risks.

At the same time, the outsourcing of IT services and infrastructure to a German company significantly contributed to mitigating the physical security risk of the Bank's IT infrastructure.

31.11 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)

31.11 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 2022 reputational risk was monitored and managed as a whole with operational risk. No significant reputational risk events were identified, including no increase in the level of reputational risk.

31.12 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 2021, 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 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 Human Resources Unit, as well as the Governing Bodies. The Bank has approved the Compliance Policy within the BC “ProCredit Bank” S.A.

In 2022 compliance risk has been effectively monitored and managed. No significant compliance risk events were identified, including no increase in the level of compliance risk.

31 RISK MANAGEMENT (CONTINUED)

31.13 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 2022 the risk of money laundering and terrorist financing was effectively monitored and managed. No increase in this risk was observed.

31.14 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.

* 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)

31.14 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.

31.15 Regulatory and economic risk

Regulatory and economic risk is included in the category of significant risks due to uncertainties related to the regulatory framework and macroeconomic developments in the country. That risk cannot be quantified and that no risk appetite and no limits will be set to control the risk exposure. Instead, the Risk Management, Compliance and AML Department is constantly monitoring policy, macroeconomic developments and legislative changes in order to take any measures to mitigate the impact of that risk on the Bank.

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;
- ensuring that the Bank has an adequate level of capital to withstand even crisis conditions;
- 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 the 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%, but also a systemic risk buffer for credit risk exposures related to resident natural persons, with the exception of natural persons practicing entrepreneurial activity - 0.07%. Also, following the SREP decision the year of 2021, the bank maintained an additional own funds requirement of 5.01%, consisting of at least 2.76% basic level 1 own funds and 3.76% level 1 own funds.

32 CAPITAL MANAGEMENT (CONTINUED)

During 2022, the Bank maintained a sufficient level of capital adequacy and as at 31 December 2022 it recorded a rate of total equity of 23.66% (December 2021: 23.14%).

In the tables below are the regulated capital adequacy indicators and equity value as at 31 December:

	31 December 2022	31 December 2021
Basic level I own funds	663,198,121	553,628,265
Level I own funds	663,198,121	553,628,265
Level II own funds	93,447,294	118,474,240
Total own funds	**756,645,415**	**672,102,505**

	Limit	31 December 2022	31 December 2021
Basic level I own funds rate	5.50%	20.74%	19.06%
Level I own funds rate	7.50%	20.74%	19.06%
Total own funds rate	10.00%	23.66%	23.14%

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.

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, in order to detect vulnerabilities and risks to which it is exposed in a timely manner.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Please see Note 4.11 on Bank’s Accounting Policy on fair value assessment. The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Bank’s statement of financial position at their fair value as at 31 December 2022 and 31 December 2021:

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2022	Carrying Value	Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents and with NBM	130,790,537	130,790,537	-	-	130,790,537
Mandatory reserves with NBM	1,256,158,585	-	1,256,158,585	-	1,256,158,585
Loans and advances to banks	260,745,466	-	260,745,466	-	260,745,466
Loans and advances to customers	3,440,222,095	-	-	3,625,135,142	3,625,135,142
Finance lease receivables	-	-	-	-	-
Investments in debt securities	985,668,939	-	985,668,939	-	985,668,939
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	3,203,400	-	-	3,203,400	3,203,400
Total Financial Assets	**6,077,989,022**	**130,790,537**	**2,502,572,990**	**3,629,538,542**	**6,262,902,069**
Financial Liabilities					
Deposits from customers	3,335,522,886	-	2,377,085,744	963,142,122	3,340,227,866
Borrowed funds	1,836,180,404	-	-	1,824,666,773	1,824,666,773
Subordinated debt	133,691,451	-	-	164,929,118	164,929,118
Other financial liabilities	29,286,462	-	-	29,286,462	29,286,462
Total Financial Liabilities	**5,334,681,203**	**-**	**2,377,085,744**	**2,982,024,475**	**5,359,110,219**

* 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 2021	Carrying Value	Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents and with NBM	115,749,696	115,749,696	-	-	115,749,696
Mandatory reserves with NBM	700,116,016	-	700,116,016	-	700,116,016
Loans and advances to banks	256,853,040	-	256,853,040	-	256,853,040
Loans and advances to customers	3,322,868,200	-	-	3,459,896,643	3,459,896,643
Finance lease receivables	-	-	-	-	-
Investments in debt securities	718,770,745	-	718,770,745	-	718,770,745
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	22,483,053	-	-	22,483,053	22,483,053
Total Financial Assets	**5,138,040,750**	**115,749,696**	**1,675,739,801**	**3,483,579,696**	**5,275,069,193**
Financial Liabilities					
Deposits from customers	2,793,274,461	-	1,937,607,863	860,098,100	2,797,705,963
Borrowed funds	1,533,405,100	-	-	1,533,492,997	1,533,492,997
Subordinated debt	131,795,018	-	-	131,750,281	131,750,281
Other financial liabilities	43,986,089	-	-	43,986,089	43,986,089
Total Financial Liabilities	**4,502,460,668**	**-**	**1,937,607,863**	**2,569,327,467**	**4,506,935,330**

* 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)

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

31 December 2022	Fair value	Valuation technique	Inputs used
Financial Assets			
Loans and advances to customers	3,625,135,142	Discounted cash flows ("DCF")	Incremental borrowing rate
Finance lease receivables	-	Discounted cash flows ("DCF")	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial assets	3,203,400	Discounted cash flows ("DCF")	Incremental borrowing rate
Financial Liabilities		Discounted cash flows ("DCF")	Incremental borrowing rate
Deposits from customers	3,340,227,866	Discounted cash flows ("DCF")	Incremental borrowing rate
Borrowed funds	1,824,666,773	Discounted cash flows ("DCF")	Incremental borrowing rate
Subordinated debt	164,929,118	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial liabilities	29,286,462	Discounted cash flows ("DCF")	Incremental borrowing rate
31 December 2021			
Financial Assets			
Loans and advances to customers	3,459,896,643	Discounted cash flows ("DCF")	Incremental borrowing rate
Finance lease receivables	-	Discounted cash flows ("DCF")	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial assets	22,483,053	Discounted cash flows ("DCF")	Incremental borrowing rate
Financial Liabilities			
Deposits from customers	2,797,705,963	Discounted cash flows ("DCF")	Incremental borrowing rate
Borrowed funds	1,533,492,997	Discounted cash flows ("DCF")	Incremental borrowing rate
Subordinated debt	131,750,281	Discounted cash flows ("DCF")	Incremental borrowing rate
Other financial liabilities	43,986,089	Discounted cash flows ("DCF")	Incremental borrowing rate

There were no changes in the valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2022 (2021: zero). Market rates were extracted from the reports published by the National Bank of Moldova for December 2022 and December 2021 on term loans, term deposits and interbank loans.

* 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.

34 CONTINGENT LIABILITIES AND COMMITMENTS

Both on December 31, 2022 and on December 31, 2021, the Bank had no significant capital commitments.

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 2022	31 December 2021
Guarantees	212,700,451	180,690,377
Expected credit loss allowance	(896,954)	(1,016,042)
	211,803,497	**179,674,335**
Commitments to extend credit:		
- Revocable commitments to extend credit	473,090,695	425,258,449
- Irrevocable commitments to extend credit	36,013,244	41,295,552
Expected credit loss allowance	(3,450,654)	(3,875,983)
	505,653,285	**462,678,018**
Total	**717,456,782**	**642,352,353**

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 law

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 2022 (31 December 2021: as well).

Legal proceedings

Periodically 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 amounts 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 2022	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	-	-	-
	-	-	-
Total derivatives with third parties	**-**	**-**	**-**

As at 31 December 2021	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	106,471,200	218,613	667,200
	-	-	-
Total derivatives with third parties	**106,471,200**	**218,613**	**667,200**

* 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

The ultimate parent company of the Bank is ProCredit Holding AG& Co. KGaA. The parties affiliated to the Bank are the Parent Bank, other companies from the ProCredit group and other persons recognized as such, according to the affiliation criteria described in the Law on the activity of banks no. 202 of 06.10.2017.

Transactions of the Bank with group companies

According to the group’s strategy, the Parent Bank 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.

* 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)

	2022			2021		
	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates
Interest income	-	276,522	1,178,545	-	67	1,423,908
Interest expense	11,315,924	4,806,272	184,025	20,427,846	2,841,833	500,636
Fees and commissions income	-	-	85,829	-	-	110,276
Fees and commissions expense	10,971,217	1,064,241		5,328,688	2,394,293	
Personel expenses	-	-	4,405,812	-	-	4,670,885
General and administrative expenses	11,027,724	45,416,304	-	7,839,274	35,743,896	-
Training related fees	-	4,211,369	-	-	3,107,294	-

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 Parent Bank.

Expenses related to other related parties include mainly fees paid to ProCredit Academy, in the amount of MDL 4,211,369 (2021: MDL 3,107,294) and Quipu MDL 45,416,304 (2021: MDL 38,138,188).

* 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-22			31-Dec-21		
	ProCredit Holding	Other Procredit Group companies	Key management and their affiliates	ProCredit Holding	Other Procredit Group companies	Key management and their affiliates
Assets						
Cash and cash equivalents and accounts	-	59,658,153	-	-	47,324,178	-
Loans and advances to customers	-	-	16,576,792	-	31,054	19,729,183
Liabilities						
Due to banks						
Borrowed funds	146,636,372	417,773,532	-	142,196,672	243,883,264	-
Subordinated debt	133,691,451	-	-	131,795,018	-	-
Deposits from customers	419	-	17,973,139	1,019	-	13,137,503
Other liabilities	-	2,685,497	-	-	2,208,407	-
Off-balance sheet items						
Guarantees	1,822,367,032	-	21,000	1,515,385,800	221,031,800	-

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.

* 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.

As of 31st of December 2021 the balance of loans to related parties was MDL 16,576,792, and the balance of expected credit loss allowance for mentioned loans was MDL 453,627.

37 MANAGEMENT COMPENSATION

During the reporting period, total compensation paid to the management of the Bank was MDL 3,540,896 (2021: MDL 3,298,331).

During 2022, total compensation from ProCredit Bank paid to the Bank Board (supervisory body) was MDL 158,449 (2021: MDL 147,365).

38 SUBSEQUENT EVENTS

On 30.03.2023, the state of emergency in the Republic of Moldova was extended for a period of 60 days. The main causes of the extension of the state of emergency are persistent risks and threats related to national security, as well as the supply of energy resources of the Republic of Moldova for the cold period of the year and the facilitation of the movement and accommodation of refugees from Ukraine.

Other significant subsequent events up to the date of issuance of these financial statements have not occurred.

* 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.

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
NBM	National Bank of Moldova
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 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
OGP AE	External Assistance Program Management Office
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