B.C. “PROCREDIT BANK” S.A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENTS **PAGE**

The notes on pages 6 to 110 are an integral part of these financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BC ProCredit Bank SA

Report on the audit of the financial statements

Our opinion

In our opinion, ProCredit Bank's SA (the "Bank") the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Please refer to the original signed Romanian version

Florin Deaconescu	Constantin Barbaros
Partner, empowered by	Licensed auditor
Power of attorney dated 29 March 2017,	License: AIF Nr. 0020
on behalf of ICS PricewaterhouseCoopers Audit SRL	issued on 01 October 2013
License: A MMII Nr. 053478	
issued on 9 February 2007, extended on 15 February 2017	

Chisinau, 24 April 2018

B.C. “PROCREDIT BANK” S.A.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income		265,466,373	412,889,702
Interest and similar expenses		(111,108,368)	(217,380,869)
Net interest income		154,358,005	195,508,833
Allowance for impairment losses on loans and advances	8	(20,636,871)	(62,611,927)
Net interest income after allowances		133,721,134	132,896,906
Fee and commission income	9	34,609,390	33,989,807
Fee and commission expenses	9	(12,482,176)	(10,021,685)
Net fee and commission income		22,127,214	23,968,122
Gains less losses from trading in foreign currencies		23,991,648	29,595,484
Other operating income	11	1,143,652	1,741,614
Operating income		180,983,648	188,202,126
Personnel expenses	12	(42,556,836)	(40,967,145)
Administrative expenses	13	(89,478,953)	(101,506,764)
Other operating expenses	11	(4,211,563)	(5,634,636)
Operating expenses		(136,247,352)	(148,108,545)
Profit before tax		44,736,296	40,093,581
Income tax (expenses)/credit	14	(7,740,058)	(6,673,230)
Net Profit for the year		36,996,238	33,420,351
Total comprehensive income for the year		36,996,238	33,420,351

These financial statements were approved for issue on 25 April 2018 and signed by:

Please refer to original financial statements signed in Romanian language

Olga Bulat
Chairman of the Management Board

Elena Gornet
Chief Accountant

The notes on pages 6 to 110 are an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017
(All amounts in Moldovan Leu (MDL) unless otherwise stated)

	Notes	31 December 2017	31 December 2016
Assets			
Cash and balances with National Bank of Moldova	15	535,754,491	570,033,781
Loans and advances to banks	17	220,745,452	234,918,772
Investment securities held to maturity	16	718,954,104	738,850,057
Available for sale equity instruments	18	1,200,000	1,200,000
Loans and advances to customers, including finance lease receivables, net	19, 20, 21	1,912,040,586	1,945,144,562
Investment property		-	2,776,716
Intangible assets	22	1,304,068	2,653,990
Property and equipment	23	32,287,405	38,077,674
Deferred tax assets	24	1,493,327	931,805
Assets held for sale		-	1,832,837
Other assets	25	10,433,806	19,114,505
Total assets		3,434,213,239	3,555,534,699
Liabilities			
Borrowings	26	402,331,828	220,026,677
Liabilities to customers	27	1,743,191,634	2,006,438,636
Liabilities to International Institutions	28	612,440,654	687,623,871
Other liabilities	29	18,752,867	19,684,835
Provisions	30	6,382,960	4,458,642
Subordinated debt	31	135,540,268	138,725,248
Total liabilities		2,918,640,211	3,076,957,908
Equity			
Share capital	32	406,550,000	406,550,000
Reserve for bank risks		60,140,419	49,796,154
Retained earnings		48,882,609	22,230,637
Shareholders' equity		515,573,028	478,576,791
Total liabilities and shareholder's equity		3,434,213,239	3,555,534,699

These financial statements were approved for issue on 25 April 2018 and signed by:

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Olga Bulat
Chairman of the Management Board

Elena Gornet
Chief Accountant

The notes on pages 6 to 110 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in MDL unless otherwise stated)

	Share capital	Reserve for bank risks	Retained earnings/ Accumulated loss	Total
Balance at 1 January 2016	406,550,000	38,606,439	-	445,156,439
Net profit for the year 2016	-	-	33,420,351	33,420,351
Total comprehensive income for the year 2016	-	-	33,420,351	33,420,351
Allocation of reserves	-	11,189,714	(11,189,714)	-
Balance at 31 December 2016	406,550,000	49,796,153	22,230,637	478,576,790
Balance at 1 January 2017	406,550,000	49,796,153	22,230,637	478,576,790
Profit for the year 2017	-	-	36,996,238	36,996,238
Total comprehensive income	-	-	36,996,238	36,996,238
Allocation of reserves	-	10,344,266	(10,344,266)	-
Balance at 31 December 2017	406,550,000	60,140,419	48,882,609	515,573,028

The notes on pages 6 to 110 are an integral part of these financial statements.

	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Interest received	269,948,638	406,806,431
Interest paid	(112,612,254)	(215,598,940)
Fees and commissions received	39,114,305	34,327,571
Fees and commissions paid	(3,320,622)	(6,495,016)
Proceeds from assets written-off in prior years	19,046,251	14,833,968
Other income received	1,138,002	1,741,614
Income received from trading in foreign currencies	36,512,118	28,035,102
Payments to employees	(40,800,648)	(43,707,222)
Payments to suppliers	(89,035,537)	(94,676,550)
Cash flows from operating activities before working capital changes	119,990,253	125,266,958
(Increase) / decrease in operating assets		
(Increase) / decrease of due from banks	41,899,898	79,728,521
Loans and advances to customers	(16,377,082)	339,096,404
Other assets	8,920,534	16,015,985
Increase/ (decrease) in operating liabilities		
Increase / (decrease) in liabilities to customers	(260,283,829)	(114,639,314)
Increase / (decrease) in other liabilities	(672,622)	(14,327,894)
Net cash used in operating activities before taxes	(106,522,849)	431,140,660
Income taxes paid	(8,301,580)	(6,374,128)
Net cash used in operating activities	(114,824,429)	424,766,532
Cash flow used in investing activities		
Acquisitions for investment property	-	(1,035,317)
Aquisition of property and equipment	(5,348,844)	(4,026,386)
Acquisitions of intangible assets	(82,917)	(112,087)
Net cash flows used in investing activities	(5,431,761)	(5,173,790)

The notes on pages 6 to 110 are an integral part of these financial statements.

	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from financing activities		
Proceeds from long term borrowings	341,025,177	147,627,470
Repayment of long term borrowings	(232,368,966)	(223,421,091)
Repayment of subordinated debt	-	(3,857,999)
Net cash flows from financing activities	108,656,211	(79,651,620)
Foreign currency exchange differences	(15,665,092)	1,555,690
Net increase in cash and cash equivalents	(27,265,071)	341,496,812
Cash and cash equivalents at the beginning of the year	1,074,618,588	733,121,776
Cash and cash equivalents at the end of the year (Note 15)	1,047,353,517	1,074,618,588

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:

B.C. ProCredit Bank S.A.
of. 901, 65, Stefan cel Mare si Sfant Street
MD - 2012, Chisinau
Republic of Moldova

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

As at 31 December 2017 the Bank has 4 branch and 2 agencies in Chisinau and Balti which offer the full range of banking services and operations.

As at 31 December 2017 the Board of Directors of the Bank is comprised of the following members:

- Ms. Svetlana Tolmacheva Dingarats– President of the Board of Directors;
- Mr. Vitalis Ritter – Member of the Board of Directors;
- Ms. Stela Ciobu - Member of the Board of Directors;
- Mt. Dietrich Ohse – Member of the Board of Directors;
- Mrs. Jovanka Joleska Popovska – Member of the Board of Directors.

As at 31 December 2017 the Management Board of the Bank is comprised of the following members:

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

As at 31 December 2017 the shareholders of the Bank were the following:

	2017	**2016**
	%	%
ProCredit Holding AG & Co. KGaA	82.09	82.09
KfW	14.10	14.10
Stiching DOEN – Postcode Loterij/ Sponsor Loterij/ BankGiro Loterij	3.81	3.81
	100%	100%

The Bank's number of employees as at 31 December 2017 was 195 (31 December 2016: 221).

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.

3 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

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

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

The fiscal year of the Bank is the calendar year.

3.1 Compliance with national law

For supervisory purposes the institution qualifies as a commercial Bank according to the banking licence issued by the National Bank of Moldova, authorising it to conduct banking activities in the Republic of Moldova and is therefore supervised by the National Bank of Moldova.

These financial statements of the Bank for the fiscal year 2017 were approved for issue by the Management Board on 25 April 2018.

3.2 Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods, as well if the revision affects both the current period and future periods.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and management’s judgements and estimates for certain items are especially critical for the Bank’s results and financial situation due to their materiality in amount. This applies to the following positions:

Impairment of loans

The Bank’s regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To determine the rates to be applied for portfolio - based loan loss provisioning, the Bank performed an evaluation of the loan portfolio quality, taking into account the historical loss experience. This analysis is based on statistical data from years 2008 – 2017 of ProCredit Bank Moldova including those taken over from SA ProCredit and therefore it reflects not only average losses during a period of constant growth but also average losses during a period of global recession.

Further information on the Bank's accounting policy on loan loss provisioning can be found in note 4.6.

Impairment of losses on individually significant loans are based on estimated discounted future cash flows of the individual loans, taking into account the repayment and sales of any assets held as collateral for these loans or contractual flows for those exposures that were reviewed for impairment based thereof.

If the expected cash flows would increase by 20%, impairment loss for collectively assessed loans would be estimated at a value lower by MDL 4,783,011 (2016: 5,850,988) where cash-flows would decrease by 20 %, the impairment loss for collectively assessed loans, would be estimated at a value higher by MDL 4,783,011 (2016: 5,850,988), respectively.

Held-to-maturity financial assets

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale, if the whole category would be reclassified as of 31 December 2017 the effect on profit of loss account or other comprehensive income would be insignificant, as securities have quie a short maturity, 14 days from the disbursement day.

		31 December 2017		31 decembrie 2016	
Interest rate change (%)	**Currency**	**Impact, Profit/(Loss)**	**Impact on equity**	**Impact, Profit/(Loss)**	**Impact on equity**
+10	MDL	74,522	74,522	145,463	145,463
-10	MDL	(74,522)	(74,522)	(145,463)	(145,463)

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Measurement basis

These financial statements have been prepared under the historic cost convention, except for state securities held for sale which are measured at fair value.

Other financial assets and liabilities and non–financial assets and liabilities are stated at amortized cost, revalued amount or historical cost. Non-current assets held for sale are stated at the lowest net book value amount and fair value, less costs of sale.

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

The financial year begins on 1 January and ends on 31 December and includes all operations performed by the Bank. All the effective figures that reflect financial and economic results of the Bank's activity during the financial year are included in the financial statements of the financial year.

4.2 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss account, loans and receivables, held-to-maturity investments and available-for-sale financial assets. In the reporting period there were no financial assets classified as at fair value through profit or loss. Management determines the classification of financial assets at initial recognition.

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

This category has two sub-categories: financial assets held for trading (“trading assets”), including the derivatives held, and financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.

Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit and loss. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in profit and loss of the period. Together with interest earned on financial instruments designated at fair value through profit or loss they are shown as “net result from financial assets at fair value through profit or loss”.

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.
As at 31 December 2017 and 31 December 2016 the Bank has no financial assets measured at fair value through profit or loss.

(b) Loans and receivables

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

Loans and receivables are initially recognised at fair value plus transactions costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see Note 4.6 for the accounting policy for impairment of loans, and Note 20 for details on impairment of loans).

If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in profit and loss. The upper limit on the release of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(c) Held–to-maturity investments

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

(d) Available–for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite amount of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available for sale financial assets are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on current observable market. For very short-term financial assets it is assumed that the fair value is best reflected by the transaction price itself.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income (OCI) in the position "revaluation reserve from available-for-sale financial instruments", until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in OCI is recognised in profit or loss as "gains and losses from available for sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit and loss under interest and similar income. Dividends on available for sale equity instruments are recognised in profit and loss when the entity's right to receive the payment is established.

Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

In this category the Bank classifies equity investments held.

4.3 Conversion of foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates, i.e. the functional currency: the Moldovan leu. The financial statements of the Bank are presented in Moldovan leu, which is the Bank's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement within trading result (income from operations with foreign currency).

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in the amortised cost of securities and other changes in the carrying amount of the available-for-sale assets. Translation differences related to changes in the amortised cost are recognised in profit and loss, while other changes in the carrying amount are recognised in OCI.

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

The exchange rates for the year 2017 and 2016 are presented below:

		2017		2016
	USD	EUR	USD	EUR
Closing rate	17.1002	20.4099	19.9814	20.8895
Average rate	18.4902	20.8282	19.9238	22.0548

4.4 Cash and balances with National Bank of Moldova

For the purposes of the statement of financial position, cash and balances with the National Bank of Moldova comprise cash on hand, current accounts and balances with an initial maturity of less than three months with the National Bank of Moldova.

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

4.5 Loans and receivables

The amounts reported under loans and receivables from customers consist mainly of loans and advances to customers.

In addition to overnight and short-term deposits, the amounts reported under receivables from Banks include current account balances.

All loans and receivables to Banks as well as loans and receivables to customers fall under the category “loans and receivables” and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in profit or loss under interest income. Impairment of loans is recognised on separate allowance accounts (Note 20). For the purposes of the cash flow statement, loans to banks with a remaining maturity of less than three months from the reporting date are treated as cash equivalents (Note 15).

4.6 Allowance for impairment losses on loans and advances

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

Impairment of loans and advances

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

Individually assessed loans and advances

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collectively assessed loans and advances

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

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

For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of more than 30 days are considered to be an indicator of impairment.

This characteristic is relevant for the estimation of future cash flows for the thus defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant loans (collective impairment) and for unimpaired loans (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics (migration analysis), grouped with a comparable risk profile.

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

Reversal of impairment

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

Writing off loans and advances

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

- Non-performing and non-secured loans under EUR 10,000 shall be written off after 180 days of arrears;
- Non-performing and non-secured loans of EUR 10,000 and up to EUR 30,000 shall be written off after 360 days of arrears; and
- Non-performing loans of EUR 30,000 and over shall be collaterised and will be written off after 360 days of arrears unless the Bank decides to keep the loan active, for instance to complete security recovery process.

Restructured loans

Restructured loans which are considered to be individually significant are assessed for impairment on an individual basis. The amount of the loss is measured as the difference between the restructured loan’s carrying amount and the present value of its estimated future cash flows discounted at the loan’s original effective interest rate (specific impairment). Restructured loans which are individually insignificant are collectively assessed for impairment.

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

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

(b) Assets classified as available for sale

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

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

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

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

If, in a subsequent period, the fair value of an available for sale instrument increases and the increase can be objectively related to an event occurring after the impairment loss had been recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in result of the period.

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

4.7 Investment property

Investment property is held either in order to earn rental income or capital gains or both, but not for sale in the ordinary course of business, use in production or services or for administrative purposes. Investment properties were acquired through the exercise of rights on pledged collateral from non performing loans. They are stated at cost less accumulated depreciation and impairment losses, both in initial recognition and subsequent measurement being tested annually for impairment. Cost includes expenditures directly attributable to the acquisition of investment property.

Any gain or loss on disposal of investment property (calculated as the difference between net proceeds and the carrying amount) is recognized in the Statement of profit or loss and other comprehensive income. At transfer of Investment property to Property, plant and equipment, its cost will be the cost of the property at the date of reclassification. Investment properties are derecognised on disposal.

4.8 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 12 years.

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

(b) Other intangible assets

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

4.9 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment are stated at historical cost less scheduled depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

4.10 Assets held for sale

The Bank recognizes its own long-term assets as available for sale only in provision that its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are stated at the lowest between book value and fair value less cost to sell. The Bank does not amortize the assets held for sale.

Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

4.11 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).

4.12 Leases

ProCredit Bank as the lessee

Finance lease

The Bank did not enter in any finance lease transactions under the reported period as a lessee.

Operating lease

Operating leases are all lease agreements which do not qualify as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The total payments made under operating leases are charged to profit and loss under administrative expenses on a straight-line basis over the period of the lease.

ProCredit Bank as the lessor

Finance leases

The Bank recognises assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.

Minimum lease payments under finance leases are divided proportionally between interest expense and reduction of the due to lease. Leasing interest expense is allocated to each period of the lease so as to produce a constant interest rate for the remaining leasing liability. Contingent rents are recognized as expenses in the period they are incurred.

Operating leases

The Bank has not entered into any operating lease.

4.13 Income tax

Current income tax

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

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment and tax losses carried forward (Note 24). However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Starting from 2012, the corporate income tax rate is 12%.

4.14 Liabilities to banks and customers

Liabilities to banks and customers are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the repayment is recognised in profit and loss over the period of the borrowings using the effective interest rate method.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged or, cancelled or when it expires

4.15 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.

4.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit and loss the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

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

4.17 Subordinated debt

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

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

4.18 Share capital

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

4.19 Interest income and expense

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received in respect of written-off loans are not recognised in net interest income but in allowances for loan losses.

4.20 Fee and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Up-front fees for granting loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

4.21 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.

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Bank from 1 January 2017, but did not have any material impact on the Bank:

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017) The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

6 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Bank is currently assessing the impact of the new standard on its financial statements.

Based on an analysis of the Bank's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Bank is expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

Impact assessment

The Bank expects the implementation of IFRS 9 to result in an increase in the impairment allowance of no more than approximately MDL 38 million as a result of the introduction of the new expected credit loss impairment model.

The Bank will continue to test, validate and refine the new methodologies, accounting processes, internal controls and governance framework required by the adoption of IFRS 9. As such, the estimation of expected credit losses and related impacts remains subject to change until finalization of the financial statements for the year ending 31 December 2018.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

The new standard also introduces expanded disclosure requirements and changes in presentation.

These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a bank is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a bank when it first applies the new Standard. The Bank is currently assessing the impact of the amendment on its financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the amendments on its financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Bank is currently assessing the impact of the amendments on its financial statements.

Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Bank is currently assessing the impact of the amendments on its financial statements.Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank’s financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

The following other new pronouncements are not expected to have any material impact on the Banks when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

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

7 NET INTEREST INCOME

	2017	2016
Interest and similar income		
Interest income from cash and investments held to maturity	60,482,167	101,005,074
Interest income from loans and advances to customers	204,984,206	311,631,364
Other interest income	-	253,264
Total interest income	265,466,373	412,889,702
Interest and similar expenses		
Interest expenses on liabilities to customers	299,544	130,533,229
Interest expenses on liabilities to international financial Institutions	47,982,814	63,013,020
Interest expenses on other borrowed funds	38,995,010	13,563,064
Interest expenses on subordinated debt	14,134,184	10,271,556
Interest expense on liabilities to banks	9,696,816	-
Total interest expenses	111,108,368	217,380,869
Net interest income	154,358,005	195,508,833

The interest income on impaired financial assets is MDL 3,492,757 (2016: MDL 6,394,734).

Interest expense on liabilities to banks are related to overnight deposits of other banks.

8 ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Movements in allowance on loans and advances to customers are presented below:

	2017	2016
Net increase of impairment charge	39,683,122	77,445,895
Recoveries	(19,046,251)	(14,833,968)
Total	20,636,871	62,611,927

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

	2017	**2016**
Increase of impairment charge	124,998,676	173,603,479
Release of impairment charge	(73,947,773)	(107,271,507)
Write-off	(61,208,674)	(63,262,310)
Net increase of impairment charge	(10,157,771)	3,069,662
Recovery of written-off loans	(19,046,251)	(14,833,968)
Total	(29,204,022)	(11,764,306)

The increase / (decrease) of impairment charge can be analysed as follows:

	2017	**2016**
Individually assessed loans	18,811,021	27,068,170
Non-significant individually assessed loans	31,953,549	52,934,800
Collectively assessed loans	(11,081,448)	(2,557,075)
Total	39,683,122	77,445,895

9 NET FEE AND COMMISSION INCOME

	2017	**2016**
Fee and commission income		
Payment transfers and transactions	16,321,666	20,579,292
Account maintenance fee	4,050,516	3,300,441
Letters of credit and guarantees	2,316,717	2,039,611
Debit/credit cards	9,162,743	5,342,593
Other fee and commission income	2,757,748	2,727,870
Total fee and commission income	34,609,390	33,989,807
Fee and commission expenses		
Payment transfers and transactions	6,770,136	5,242,773
Fees for credit/debit card business	5,712,040	4,778,912
Total fee and commission expenses	12,482,176	10,021,685
Net fee and commission income	22,127,214	23,968,122

Other fee and commission income are computed from income from e-banking MDL 2,088,480 (2016: MDL 2,294,203), income from issuance of the balance confirmation certificates MDL 152,406 (2016: MDL 155,237) and other banking services.

10 GAINS LESS LOSSES FROM TRADING IN FOREIGN CURRENCIES

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

	2017	**2016**
Net gains less loses from foreign currency transactions	36,512,118	28,035,102
Revaluation of balances in foreign currencies	(12,520,470)	1,560,382
Total	23,991,648	29,595,484

11 OTHER OPERATING RESULTS

	2017	**2016**
Other operating income:		
Investment income	-	977,701
Income from disposal of long term assets	411,640	447,816
Income from disposal of other assets	117,146	102,575
Other operating income	614,866	213,522
	1,143,652	1,741,614
Other operating expense:		
Deposits guarantee fund contributions	541,499	747,688
Disposal of long term assets	2,291,185	1,997,415
Disposal of other assets	1,174,920	1,290,525
Other operating expense	203,959	1,599,008
	4,211,563	5,634,636

12 PERSONNEL EXPENSES

Personnel expenses can be broken down as follows:

	2017	2016
Salary expenses	33,938,357	32,127,207
Pension contributions	7,224,688	7,409,928
Medical contributions	1,393,791	1,430,010
Total	42,556,836	40,967,145

13 ADMINISTRATIVE EXPENSES

	2017	2016
Communication and IT expenses	25,911,223	26,446,623
Office rent	14,395,834	17,761,738
Depreciation of fixed assets, including leasehold and amortisation of intangible assets	12,807,044	16,200,558
Court and notary fees	5,377,739	6,502,164
Service management fees	5,242,307	5,710,293
Training expenses	5,137,983	4,368,636
Transportation expenses	4,511,050	5,549,717
Impairment charges on other assets that are not loans	4,126,151	4,686,970
Other administrative expenses	3,362,387	2,625,604
Professional services	2,653,602	3,096,750
Construction, repairs and maintenance	1,662,783	1,210,560
Utilities	1,375,287	3,413,550
Other taxes	996,152	1,215,181
Security service	781,198	945,035
Advertising and marketing services	572,968	1,172,576
Office supplies	565,245	600,809
Total	89,478,953	101,506,764

Most of the impairment charges on other assets that are not loans include impairment of investment property.

14 INCOME TAX EXPENSES/(CREDIT)

	2017	2016
Current tax	8,301,580	6,374,128
Deferred tax (Note 24)	(561,522)	299,102
Total	7,740,058	6,673,230

Since 2012 the income tax rate was 12%. Please refer to Note 24 for calculation of current and deferred income tax.

15 CASH AND BALANCES WITH NATIONAL BANK OF MOLDOVA

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

	31 December 2017	31 December 2016
Cash on hand	111,074,001	109,514,377
Mandatory reserve	424,680,490	460,519,404
Total cash	535,754,491	570,033,781

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

	31 December 2017	31 December 2016
Cash and balance with National Bank of Moldova	535,754,491	570,033,781
Investment securities held to maturity (less than 3 months)	718,954,104	738,850,057
Loans and advances to banks, which qualify as cash	217,325,412	226,254,154
Minimum reserve with NBM	(424,680,490)	(460,519,404)
Cash and cash equivalents	1,047,353,517	1,074,618,588

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 2017 the reserve rate established by the National Bank of Moldova was 40% for MDL and other non-convertible currencies (2016: 35%) and 14% for convertible currencies (2016: 14%).

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

Balances with the commercial banks and National Bank of Moldova are neither expired nor impaired. These balances are not pledged.

16 INVESTMENT SECURITIES HELD TO MATURITY

	31 December 2017	31 December 2016
As at the beginning of the period	738,850,057	258,595,286
Additions	14,409,243,828	13,128,043,808
Maturity	14,429,139,781	12,647,789,037
As at 31 December	718,954,104	738,850,057

Investment securities held to maturity represent short-term certificates issued by the National Bank of Moldova. Due to the fact that these financial instruments have 14 days maturity, the fluctuation in fair value of these financial instruments was not significant and thus no changes in fair value of investment securities held to maturity were recorded by the Bank during the year. For presentation purposes, the Bank has classified the treasury bills at Level 1 (Note 34). The interest rate on treasury bills during the year varied between 6.5% and 9%.

According to Moody's rating agency, Republic of Moldova is classified in B3 rating category.

As at 31 December 2017 and 31 December 2016 there were no securities pledged as collateral.

17 LOANS AND ADVANCES TO BANKS

Correspondent accounts and loans and advances to banks	**Classification**	**Rating agency**	**31 December 2017**	**31 December 2016**
Loans and advances to banks in OECD countries:				
COMMERZBANK AG GERMANY	A-	Fitch	-	8,664,618
Correspondent accounts with banks in OECD countries:				
DZ BANK AG	AA-	Fitch	33,994,267	66,023,805
THE BANK OF NEW YORK MELLON	AA-	Fitch	9,410,554	119,000,544
PROCREDIT BANK AG	BBB	Fitch	172,721,363	38,972,950
Correspondent accounts in banks in non-OECD countries:				
BCR CHISINAU*	A-	Fitch	1,199,228	2,256,855
Guarantee placements in banks in non-OECD countries:				
PROCREDIT BANK GEORGIA	BB	Fitch	3,420,040	-
			220,745,452	234,918,772

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

18 AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

Available-for-sale financial investments are as follows:

	31 December 2017	31 December 2016
Equity investments in non-OECD countries	1,200,000	1,200,000

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

Equity investments available for sale are measured at cost because for there is no quoted market price for them in an active market and fair value cannot be determined reliable. The Bank did not record provisions for impairment of investment securities available for sale, as predicted no objective evidence of impairment of these assets. As at 31 December 2017 equity securities available for sale have not been pledged.

19 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers can be analysed as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
At 31 December 2017						
Business loans	1,413,239,768	(85,633,664)	1,327,606,104	68.3%	1,491	34.2%
Loan size up to 50 kEUR	221,621,691	(14,778,939)	206,842,752	10.6%	966	22.2%
Loan size from 50 to 250 kEUR	629,554,581	(27,192,527)	602,362,054	31.0%	453	10.4%
Loan size more than 250 kEUR	562,063,496	(43,662,198)	518,401,298	26.7%	72	1.7%
Agricultural loans	529,687,958	(16,633,136)	513,054,822	26.4%	661	15.2%
Loan size up to 50 kEUR	102,151,328	(6,125,579)	96,025,749	4.9%	445	10.2%
Loan size from 50 to 250 kEUR	287,385,150	(8,802,431)	278,582,719	14.3%	194	4.5%
Loan size more than 250 kEUR	140,151,480	(1,705,126)	138,446,354	7.1%	22	0.5%
Housing improvement loans	2,816,711	(153,030)	2,663,681	0.1%	19	0.4%
Loan size up to 50 kEUR	2,816,711	(153,030)	2,663,681	0.1%	19	0.4%

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
At 31 December 2017						
Consumer loans	66,263,738	(10,503,988)	55,759,750	2.94%	486	18.20%
Loan size up to 50 kEUR	45,241,733	(5,750,268)	39,491,465	2.08%	455	17.03%
Loan size from 50 to 250 kEUR	21,022,005	(4,753,720)	16,268,285	0.86%	31	1.16%
Other loans	87,496	(1,543)	85,953	0.00%	14	0.52%
Loan size up to 50 kEUR	87,496	(1,543)	85,953	0.00%	14	0.52%
Total	2,012,095,671	(112,925,361)	1,899,170,310	100.00%	2,671	100.00%

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
At 31 December 2016						
Business loans	1,610,423,361	(118,993,010)	1,491,430,351	77.26%	2,976	68.35%
Loan size up to 50 kEUR	482,411,649	(48,798,541)	433,613,108	22.46%	2,456	56.41%
Loan size from 50 to 250 kEUR	649,670,693	(31,497,212)	618,173,481	32.02%	460	10.56%
Loan size more than 250 kEUR	478,341,019	(38,697,257)	439,643,762	22.77%	60	1.38%
Agricultural loans	452,707,341	(26,830,639)	425,876,702	22.06%	1,167	26.80%
Loan size up to 50 kEUR	174,999,973	(17,038,509)	157,961,464	8.18%	1,032	23.70%
Loan size from 50 to 250 kEUR	189,683,957	(8,597,569)	181,086,388	9.38%	125	2.87%
Loan size more than 250 kEUR	88,023,411	(1,194,561)	86,828,850	4.50%	10	0.23%
Housing improvement loans	4,794,692	(283,046)	4,511,646	0.23%	36	0.83%
Loan size up to 50 kEUR	4,794,692	(283,046)	4,511,646	0.23%	36	0.83%

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio (%)	Number of outstanding loans	Share of total number (%)
At 31 December 2016						
Consumer loans	9,291,773	(1,011,443)	8,280,330	0.43%	164	3.77%
Loan size up to 50 kEUR	8,812,623	(801,395)	8,011,228	0.41%	162	3.72%
Loan size from 50 to 250 kEUR	479,150	(210,048)	269,102	0.01%	2	0.05%
Other loans	341,625	(5,090)	336,535	0.02%	11	0.25%
Loan size up to 50 kEUR	341,625	(5,090)	336,535	0.02%	11	0.25%
Total	2,077,558,792	(147,123,228)	1,930,435,564	100.0%	4,354	100.0%

Breakdown of loan portfolio by days in arrears:

	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	Net loan amount
31 December 2017										
Business	1,255,729,323	56,521,662	4,092,388	1,856,089	7,035,806	60,102,791	27,901,709	1,413,239,768	85,633,662	1,327,606,315
Agriculture	488,688,011	14,894,909	2,497,620	1,873,845	5,812,700	3,577,455	12,343,418	529,687,958	16,633,137	513,054,611
Housing	2,128,990	111,425	19,076	-	-	-	557,219	2,816,711	153,030	2,663,681
Retail	38,214,220	10,626,332	2,822,132	683,325	2,234,751	5,138,978	6,544,001	66,263,738	10,503,989	55,759,750
Other	87,196	180	-	24	68	28	-	87,496	1,543	85,953
Total	1,784,847,740	82,154,508	9,431,216	4,413,283	15,083,325	68,819,252	47,346,347	2,012,095,671	112,925,361	1,899,170,310
31 December 2016										
Business	1,291,076,264	142,505,651	5,120,358	1,750,684	6,455,777	5,537,824	157,976,803	1,610,423,361	118,993,010	1,491,430,351
Agriculture	381,921,423	22,901,069	1,303,335	1,734,561	3,530,028	903,889	40,413,036	452,707,341	26,830,639	425,876,702
Housing	4,033,059	55,158	-	-	16,569	-	689,906	4,794,692	283,046	4,511,646
Retail	6,394,422	1,311,119	12,403	-	529,925	-	1,043,904	9,291,773	1,011,443	8,280,330
Other	341,625	-	-	-	-	-	-	341,625	5,090	336,535
Total	1,683,766,793	166,772,997	6,436,096	3,485,245	10,532,299	6,441,713	200,123,649	2,077,558,792	147,123,228	1,930,435,564

Credit quality analysis are disclosed in note 33 – Risk management.

Consumer loans are loans granted by the Bank to individuals with no business activity, bearing an average interest rate of 15.16% (2016: 17.24%) for an average period of 5.4 years (2016: 4.6 years), repayable in instalments according to loan schedules, mostly on a monthly basis.

Business loans represent loans granted by the Bank to individuals-entrepreneurs and legal entities practicing manufacturing business. Business loans bear an average interest rate of 6.51% (2016:16.03%) for an average period of 3.35 years (2016: 2.95 years), repayable in instalments according to loan schedules, mostly on a monthly basis.

Business loans category also includes business overdrafts that bear an average interest rate 14.40% (2016: 17.38%) for an average period of 2.1 years (2016: 1.9 years).

Additionaly, business loans category includes one financial lease item, contracted during the year 2016, which was included in Investment property as at 31.12.2015.This was one off transaction, as the finance lease is not the main activity of the Bank. Interest rate applied is 4.5% for the period of 9.9 years, refer to Note 21.

Agricultural loans represent loans granted by the Bank to individuals-entrepreneurs and legal entities practicing agricultural business. Agricultural loans bear an average interest rate of 8.75% (2016: 18.07%) for an average period of 3.9 years (3.6 years), repayable in instalments according to loan schedules.

Housing improvement loans represent loans granted by the Bank to individuals-entrepreneurs and legal entities practicing real estate construction or renovation business. Loans bear an average interest rate of 11.08% (2016: 17.2%) for an average period of 6.9 years (2016: 6 years), repayable in instalments according to loan schedules, mostly on a monthly basis.

Loans included in "Other" category represent loans granted by the Bank to its employees. Other loans bear an average interest rate of 16.44% (2016: 17.82%) for an average period of 4.6 years (2016:3.6 years), repayable in instalments according to loan schedules, mostly on a monthly basis.

The quality of the loan portfolio is monitored on an ongoing basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Bank defines as all credit exposures outstanding with one or more payment of interest and/or principal in delay by more than 30 days. This measure was chosen because the vast majority of credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. For some debtors a grace period of 1 year may be granted.

No collateral is deducted and no other exposure-reducing measures are applied when determining PAR.

	Loan portfolio	Allowance for impairment	Portfolio at Risk (>30 days)	Net write -offs	Net write-offs as % of loan portfolio
31 December 2017	2,012,095,671	(112,925,361)	97,747,076	61,208,674	3.04%
31 December 2016	2,077,558,792	(147,123,228)	163,771,584	63,262,310	3.05%

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank’s clients operate. Restructurings follow a thorough, careful and individual analysis of the client’s changed payment capacity.

The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

The following table shows watch and impaired restructured credit exposures:

As at 31 December 2017	**Loan Portfolio**	**Restructured loans in % of loan portfolio**
Total loans to customers	2,012,095,671	
of which:		
Standard – restructured	26,118,563	1.30%
Supervised – restructured	41,384,145	2.06%
Impaired – restructured	55,551,873	2.76%
Total	123,054,581	6.12%
As at 31 December 2016		
Loans to customers	2,077,558,792	
of which:		
Standard – restructured	106,028,248	5.10%
Supervised - restructured	55,278,968	2.66%
Impaired – restructured	71,346,755	3.43%
Total	232,653,972	11.20%

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

Individually significant and some individually insignificant credit exposures are reviewed for impairment on an individual basis (specific impairment).

Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates; more than 30 days in arrears is considered as objective evidence of impairment. The rates of depreciation are calculated based on the analysis of migration of the loan portfolio.

Allowance for impairment on restructured loans	**Gross value**	**Allowance for impairment**	**Net outstanding amount**
As at 31 December 2017			
Individually assessed loans	100,680,399	55,786,486	44,893,913
Non-significant individually assessed loans	5,054,066	2,050,559	3,003,507
Collectively assessed loans	17,320,116	813,034	16,507,082
Total	123,054,581	58,650,079	64,404,502

As at 31 December 2016

Individually assessed loans	128,649,796	70,505,865	58,143,931
Non-significant individually assessed loans	20,951,272	8,761,843	12,189,429
Collectively assessed loans	83,052,904	3,707,871	79,345,033
Total	232,653,972	82,975,579	149,678,393

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

According to the Credit Policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised.

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

	Mortgage	Cash collateral	Other (pledges)
31 December 2017	57%	3%	39%
31 December 2016	57%	1%	42%

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

During the year 2017 the Bank registered as collaterals guarantees, based on the Guarantee Agreement (“InnovFin SME Guarantee Facility”) dated 21 January 2016 concluded between The European Investment Fund (as Guarantor) and BC ProCredit Bank SA (as Intermediary) and ProCredit Holding AG & CO.KGAA (as Coordination entity), according to which the Guarantor issues an irrevocable and unconditional financial guarantee in favour of the Intermediary relating to portfolio, in the rate of 50%. For LLP calculation, the financial guarantees under this contract are treated as cash.

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

Information about collateral (based on primary guarantee) as at 31 December is as follows:

	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Other loans	Total
As at 31 December 2017:						
Unsecured loans	3,838,710	2,778,164	315,793	3,755,691	85,953	10,774,311
Loans collateralised by:						
- real estate (mortgage)	803,857,134	175,507,483	2,347,888	40,769,309	-	1,022,481,814
- deposits	5,280,322	-	-	-	-	5,280,322
- financial guarantee facility	11,353,955	8,205,351	-	-	-	19,559,306
- other	503,275,983	326,563,824	-	11,234,750	-	841,074,557
Total loans and advances to customers	1,327,606,104	513,054,822	2,663,681	55,759,750	85,953	1,899,170,310
As at 31 December 2016:						
Unsecured loans	35,487,350	12,262,128	696,289	4,023,894	336,535	52,806,196
Loans collateralised by:						
- real estate (mortgage)	974,121,213	190,611,857	3,807,587	2,833,638		1,171,374,295
- deposits	8,144,508	81,160	-	-	-	8,225,668
- financial guarantee facility	9,305,649	11,941,447	-	-	-	21,247,096
- other	464,371,631	210,980,110	7,770	1,422,798	-	676,782,309
Total loans and advances to customers	1,491,430,351	425,876,702	4,511,646	8,280,330	336,535	1,930,435,564

The effect of collateral at 31 December 2017:

	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
Business	1,304,782,761	3,729,596,825	22,823,343	14,616,042	1,327,606,104	3,744,212,867
Agriculture	500,261,792	1,279,760,195	12,793,030	6,522,371	513,054,822	1,286,282,566
Housing improvement	2,347,888	7,246,106	315,793	-	2,663,681	7,246,106
Consumer	50,731,483	254,688,869	5,028,267	356,169	55,759,750	255,045,038
Other	-	-	85,953	-	85,953	-
Total	1,858,123,924	5,271,291,995	41,046,386	21,494,582	1,899,170,310	5,292,786,577

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

The effect of collateral at 31 December 2016:

	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**
Business	1,417,304,687	4,034,139,544	74,125,664	28,021,596	1,491,430,351	4,062,161,140
Agriculture	405,061,308	1,207,664,839	20,815,394	5,974,247	425,876,702	1,213,639,086
Housing improvement	3,815,357	23,473,067	696,289	-	4,511,646	23,473,067
Consumer	8,280,330	16,125,545	-	-	8,280,330	16,125,545
Other	-	-	336,535	-	336,535	-
Total	1,834,461,682	5,281,402,995	95,973,882	33,995,843	1,930,435,564	5,315,398,838

20 ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES AND FINANCE LEASE RECEIVABLES

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

	31 December 2017	31 December 2016
Allowance for impairment on loans and advances to Customers		
Specific impairment	84,396,459	99,963,070
Allowance for individually insignificant impaired loans	4,796,590	18,127,697
Allowance for collectively assessed loans	23,915,054	29,254,941
Total	113,108,103	147,345,708

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

	31 December 2017	31 December 2016
As at the beginning of the period	147,345,708	152,604,286
Additions	124,998,676	174,661,092
Write-off	(61,208,674)	(64,319,923)
Released	(73,947,773)	(107,271,507)
Exchange rate adjustments	(11,199,696)	(1,565,312)
Unwinding effect	(12,880,138)	(9,893,552)
As at 31 December	113,108,103	147,345,708

21 FINANCE LEASE RECEIVABLE

	31 December 2017	31 December 2016
Finance lease receivable, gross	13,053,018	14,931,478
Provision for impairment of finance lease receivable	182,742	222,479
Net finance lease amount	12,870,276	14,708,999
Fair value of lease receivable	12,264,678	14,613,523

	31 December 2017	31 December 2016
Gross finance lease receivable	13,053,018	14,931,478
- up to 1 year	1,572,449	2,251,887
- from 1 to 5 years	6,122,970	8,113,135
- more than 5 years	5,357,599	4,566,457

	31 December 2017	31 December 2016
Net finance lease receivable	12,870,276	14,708,999
- up to 1 year	1,550,122	2,212,390
- from 1 to 5 years	6,038,626	7,991,896
- more than 5 years	5,281,528	4,504,713

Fair value of collateral for the lease agreement is 23,799,800 MDL.

As at 31 December 2017, finance lease receiveable had no days overdue. As at 31 December 2017 the Bank had one finance leasing agreement (31 December 2016 one).

As at 31 December 2017 the Bank recorded unearned finance income in amont 605,598 MDL (31 December 2016: 95,476 MDL).

22 INTANGIBLE ASSETS

As at 31 December 2017	**Software**	**Other intangible assets**	**Intangible assets in progress**	**Total**
Net book value as at 1 January 2017	2,156,845	25,043	472,101	2,653,989
Additions	69,794	-	14,904	84,698
Disposals	(1,780)	-	-	(1,780)
Depreciation charge	(1,427,520)	(5,319)	-	(1,432,839)
Net book value as at 31 December 2017	797,339	19,724	487,005	1,304,068
As at 31 December 2017:				
Cost	18,942,921	112,635	487,005	19,542,561
Accumulated depreciation	(18,145,582)	(92,911)	-	(18,238,493)
Net book value as at 31 December 2017	797,339	19,724	487,005	1,304,068

All Bank's software was purchased from third party companies or from the ProCredit Group entities.

During 2017 Bank did not recognise any impairment losses on its intangible assets.

As at 31 December 2016	**Software**	**Other intangible assets**	**Intangible assets in progress**	**Total**
Net book value as at 1 January 2016	4,652,158	30,689	472,101	5,154,948
Additions	112,087	-	-	112,087
Depreciation charge	(2,607,399)	(5,646)	-	(2,613,045)
Net book value as at 31 December 2016	2,156,846	25,043	472,101	2,653,990
As at 31 December 2016				
Cost	19,793,491	112,636	472,101	20,378,228
Accumulated depreciation	(17,636,645)	(87,593)	-	(17,724,238)
Net book value as at 31 December 2016	2,156,846	25,043	472,101	2,653,990

23 PROPERTY AND EQUIPMENT

At 31 December 2017	Land and buildings	Equipment	IT eqipment	Vehicles	Other assets	Assets under construction	Total
Net book value at 1 January 2017	4,749,344	15,759,086	6,497,660	3,144,881	6,719,862	1,206,840	38,077,673
Transfers	287,925	2,251,564	1,584,836	-	619,362	(4,743,687)	-
Additions	-	-	-	-	-	7,613,792	7,613,792
Disposals	(1,548,832)	(86,718)	(65,740)	-	(563,658)	-	(2,264,948)
Depreciation charge	(1,418,051)	(4,690,185)	(2,219,081)	(1,014,832)	(1,796,963)	-	(11,139,112)
Net book value as at 31 December 2017	2,070,386	13,233,747	5,797,675	2,130,049	4,978,603	4,076,945	32,287,405
As at 31 December 2017							
Cost	8,597,290	29,834,019	17,351,434	5,057,546	11,414,871	4,076,945	76,332,105
Accumulated depreciation	(6,526,904)	(16,600,272)	(11,553,759)	(2,927,497)	(6,436,268)	-	(44,044,700)
Net book value as at 31 December 2017	2,070,386	13,233,747	5,797,675	2,130,049	4,978,603	4,076,945	32,287,405

During 2017 Bank did not recognise any impairment losses on its property and equipment.

At 31 December 2016	Land and buildings	Equipment	IT eqipment	Vehicles	Other assets	Assets under construction	Total
Net book value at 1 January 2016	7,246,873	18,739,485	8,139,787	4,335,961	6,618,474	1,669,562	46,750,142
Transfers	749,531	2,191,221	905,028	-	2,609,018	(6,454,798)	-
Additions	-	-	-	-	-	6,006,831	6,006,831
Disposals	(1,259,824)	(66,354)	(65,914)	(30,116)	(543,482)	(14,755)	(1,980,445)
Depreciation charge	(1,987,236)	(5,105,265)	(2,481,241)	(1,160,964)	(1,964,148)	-	(12,698,854)
Net book value as at 31 December 2016	4,749,344	15,759,087	6,497,660	3,144,881	6,719,862	1,206,840	38,077,674
As at 31 December 2016							
Cost	11,101,300	29,123,250	16,793,448	5,807,563	12,204,017	1,206,840	76,236,418
Accumulated depreciation	(6,351,956)	(13,364,163)	(10,295,788)	(2,662,682)	(5,484,155)	-	(38,158,744)
Net book value as at 31 December 2016	4,749,344	15,759,087	6,497,660	3,144,881	6,719,862	1,206,840	38,077,674

During 2016 Bank did not recognise any impairment losses on its property and equipment.

There are no assets related to finance leases.

24 DEFERRED TAXES

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

	2017 Deferred taxes	2017 Current tax	2017 Total tax	2016 Deferred taxes	2016 Current tax	2016 Total tax
Profit before tax	-	44,736,296	44,736,296	-	40,093,581	40,093,581
Tax calculated at applicable rate of (12%) (2016: 12%)	-	5,368,356	5,368,356	-	4,811,230	4,811,230
Tax effects of:						
Additional income tax for prior years	-	301,580	301,580	-	-	-
Additional estimated income tax for the year	-	338,765	338,765	-	-	-
Income which is exempt from taxation	-	(38,709)	(38,709)	-	(37,098)	(37,098)
Deferred income on loans	-	-	-	142,784	(142,784)	-
Temporary differences and non-deductible expenses:						
Accelerated tax depreciation	(329,744)	345,315	15,571	(185,970)	225,454	39,484
Provisions and accruals	(231,778)	306,000	74,222	346,380	(403,767)	(57,387)
Expenses from revaluation of fixed assets and other assets	-	495,138	495,138	-	562,436	562,436
Loss on disposal of fixed assets	-	267,031	267,031	-	235,108	235,108
The costs associated with making payments in favor of employees who can not be qualified as payroll payments	-	103,011	103,011		404,288	404,288
Other non deductible expenses	-	815,093	815,093	(4,092)	719,261	715,169
Tax charge	(561,522)	8,301,580	7,740,058	299,102	6,374,128	6,673,230

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of 12 % (2016: 12%).

Deferred income tax assets are attributable to the following items:

	31 December 2017	31 December 2016
Deferred tax assets		
Tax losses carried forward	-	-
Deferred tax from accelerated depreciation	899,855	570,111
Other provisions	459,434	253,361
Other accruals	134,038	108,333
Total	1,493,327	931,805

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

	31 December 2017	31 December 2016
Accelerated tax depreciation	(329,744)	(185,970)
Deferred income on loans	-	142,784
Other provisions	(206,074)	346,380
Other accruals	(25,705)	(4,092)
Total	(561,522)	299,102

In accordance with tax legislation, starting May 2015, the deduction of allowances for impairment of assets is permitted for tax purposes according to IFRS.

Movements in the deferred income tax account are as follows:

	31 December 2017	31 December 2016
As at 1 January	931,805	1,230,907
Income statement charge	561,522	(299,102)
As at 31 December	1,493,327	931,805

25 OTHER ASSETS

Other assets are as follows:

	31 December 2017	31 December 2016
Financial		
Advances given	-	4,287,260
Cash in transit from DropBox	1,577,148	4,220,708
Transit and suspense accounts	1,548,467	1,188,101
Other receivables	122,414	85,128
	3,248,029	9,781,197
Non financial		
Prepaid expenses	2,644,083	3,054,147
Spare parts and consumables	143,581	496,351
Settlements with third parties	2,447,874	3,382,435
Prepaid taxes	1,950,239	2,400,375
	7,185,777	9,333,308
Total	10,433,806	19,114,505

In 2016 Bank launched a new product “DropBox”. Small and Medium clients have an option to drop their petty cash in excedents in a special secure placements. Before counted and checked these amounts are accounted as cash in transit.

Advances balance as at 31 December 2016 relates to the agreement with ProCredit Bank Georgia according to which it should transfer 200,000 USD as pre-payment deposit.

26 BORROWED FUNDS

	31 December 2017	31 December 2016
Borrowed funds	402,331,828	220,026,677
Total	402,331,828	220,026,677

Borrowed funds mainly represent loans from the Credit Line Directorate under the Ministry of Finance in the amount of MDL 213,338,271 (2016: MDL 216,390,529). Also, during the year 2017 there was contracted a new loan facility from ProCredit Holding, no. PCH 301, in amount of EUR 9,000,000, outstanding balance as at 31 December 2017 is MDL 183,689,180.

The borrowings presented above have floating interest rate.

27 LIABILITIES TO CUSTOMERS

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

	31 December 2017	31 December 2016
Current accounts	724,599,664	624,395,476
- private individuals	70,637,368	67,652,057
- legal entities	653,962,296	556,743,419
Savings accounts	364,772,654	496,053,414
- private individuals	355,242,220	496,053,414
- legal entities	9,530,434	-
Term deposit accounts	653,819,316	885,989,746
- private individuals	597,137,970	807,998,251
- legal entities	56,681,346	77,991,495
Total	1,743,191,634	2,006,438,636

28 LIABILITIES TO INTERNATIONAL FINANCIAL INSTITUTIONS

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

	Maturity	Currency	Original amount	31 December 2017	31 December 2016
European Investment Bank	24 May 2023	EUR	20,000,000	301,716,171	404,839,178
European Bank of Reconstruction and Development	24 July 2017	USD	5,000,000		19,044,321
European Bank of Reconstruction and Development	24 February 2020	USD	8,000,000	85,699,094	119,766,632
The European Fund For Southeast Europe S.A., SICAV-SIF	29 September 2019	USD	7,000,000	143,001,104	143,973,740
Council of Europe Development Bank	30 June 2017	EUR	10,000,000	30,614,850	-
		USD		51,409,435	-
				612,440,654	687,623,871

*Loan from European Bank of Reconstruction and Development was granted in MDL, denominated in USD, in amount equivalent to USD 8,000,000. Interest rate applied is as for the loan in MDL. The Bank is required by its borrowing agreements to comply with certain financial ratios. As of the balance sheet date of these financial statements, and during 2017 and 2016 financial years, the Bank was complying with all the covenants required by the creditors.

29 OTHER LIABILITIES

	31 December 2017	31 December 2016
Financial liabilities		
Liabilities for goods and services	6,838,821	4,914,983
Liabilities for support programs	8,502,312	7,631,589
Liabilties for cash deposited in DropBox	1,577,148	4,220,708
Transit accounts	1,495,586	2,511,373
	18,413,867	19,278,653
Non-financial liabilities		
Non-income tax liabilities	308,566	397,214
Liabilities to social fund on employees’ contributions	-	8,968
Liabilities to employees	30,434	-
	339,000	406,182
Total	18,752,867	19,684,835

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

Liabilities for support programs are related to amounts received from:

- European Investment Bank, which granted EUR 1,300,000 to the Bank, payable in 3 separate tranches, along with the General Investment Agreement. Destination of this grant is creation of loss absorbtion cushion in relation to the loans, financed from sources of the main Agreement. At the moment, PCB obtained first tranche of this Grant (EUR 400,000).
- Sources obtained from the Credit Line Directorate under the Ministry of Finance as a part of Refinancing Agreements, such as Inclusive Rural Economic & Climate Resilience Programme (“IFAD”) and Rural Investment and Services Project (“RISP”).

As at 31 December 2017 and 31 December 2016 liabilities for support programms have the following structure:

	31 December 2017	31 December 2016
European Investment Bank	6,682,986	6,912,263
Credit Line Directorate:	1,819,326	719,326
- IFAD	1,699,326	599,326
- RISP	120,000	120,000
	8,502,312	7,631,589

30 PROVISIONS

	31 December 2017	31 December 2016
At the beginning of the period	4,458,642	6,223,446
Additions	5,128,332	3,269,247
Used	(1,887,197)	(3,364,727)
Releases	(1,316,817)	(1,669,324)
At as 31 December	6,382,960	4,458,642

The provisions consist of provisions for off-balance sheet items, e.g. guarantees, credit commitments in the amount of MDL 2,554,343 (2016: MDL 2,347,307) and provision related to staff reduction in the amount of MDL 2,550,000 (2016: MDL 87,065).

31 SUBORDINATED DEBTS

	31 December 2017	31 December 2016
Subordinated debt	135,540,268	138,725,248
Total	135,540,268	138,725,248

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 2023.

32 SUBSCRIBED CAPITAL

As at 31 December 2017 and 31 December 2016 the shareholder structure was as follows:

	31 December 2017			31 December 2016		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount**	**Size of stake in %**	**Number of shares**	**Amount**
ProCredit Holding	82.09%	333,717	333,717,000	82.09%	333,717	333,717,000
Kreditanstalt für Wiederaufbau	14.10%	57,333	57,333,000	14.10%	57,333	57,333,000
DOEN	3.81%	15,500	15,500,000	3.81%	15,500	15,500,000
Voting Capital	100%	406,550	406,550,000	100%	406,550	406,550,000
Non-Voting Capital	-	-	-	-	-	-
Total	100%	406,550	406,550,000	100%	406,550	406,550,000

During the 2017 the Bank did not issue shares (2016: nil). The total number of ordinary shares authorised and issued at the end of the year constituted 406,550 shares with a nominal value of MDL 1,000 per share.

There were no dividends declared for the 2017 and 2016 financial years.

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 calculated in accordance with IFRS. Thus, as at 31 December 2017 the Bank allocated to other reserves an amount of MDL 10,344,266 (2016: MDL 11,189,714).

33 RISK MANAGEMENT

33.1 Management of the general risk profile of the Bank

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

In October 2017, the Parliament of the Republic of Moldova approved the Law on Banking Activity. This law was developed by the National Bank of Moldova in the light of the European legislative framework (Directive 2013/36 / EU and CRD IV / CRR package) for the implementation of Basel III standards in the banking system of the Republic of Moldova. The law entered into force as at 1st January 2018. By applying the European banking regulatory and supervisory framework, stricter provisions and tougher prudential requirements will be imposed, with the underlying aim being to mitigate the effects of financial crises. At the same time, during the year 2018, based on the aforementioned law, the National Bank of Moldova (NBM) will elaborate the new secondary framework of regulations related to banks' activity, which will imply the tightening of the prudential rules in the following areas:

- rules on capital adequacy, liquidity and leverage effect;
- NBM monitoring techniques and instruments;
- infrastructure requirements and internal governance systems;
- risk management requirements - improving the risk management system in banks;
- transparency and publication requirements.

As part of the ProCredit Group, which is supervised by BaFin (German Financial Supervisory Authority) and at European level - by EU supervisors, ProCredit Bank largely complies with Basel III standards. Throughout 2018, the Bank will continue to implement the necessary measures to adjust its areas of activity to the new national regulatory requirements.

a. Capital management – objectives

The Bank's indicators include, in addition to prudential capital ratios, regulated by the NBM, a calculation of Basel III capital ratios (basic level 1 own funds (CET1), level 1 own funds, total own funds) and indicators within the internal capital adequacy assessment process (ICAAP).

The capital management of the Bank has the following objectives:

- Ensuring that the Bank has a sufficient volume and quality of capital at all times to cope with (potential) losses, including those arising from different risks even under extreme circumstances;
- Compliance with prudential indicators of capital set by the National Bank of Moldova;
- Compliance with capital ratios according to Basel III requirements;
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

b. Capital management – processes and procedures

The capital management of ProCredit Bank is governed by the Capital Management Policy and the Policy on Internal Capital Adequacy Assessment Process. Capital prudential indicators and indicators according to Basel III and the internal capital adequacy indicators are monitored on a monthly basis by the Bank's Risk Management Committee.

c. Capital management - compliance with internal and external capital requirements

External minimum capital requirements are imposed and monitored by the National Bank of Moldova. Capital adequacy is calculated monthly and reported quarterly to the Bank's Risk Committee. Additionaly, Risk Management, Compliance and AML Department prepare forecasts to ensure not only current but also future compliance with capital requirements for a period of six months, and stress tests for various crisis scenarios.

The following table shows the indicators of the risk wighted capital adequacy, calculated according to the Regulations of the National Bank of Moldova.

	Limit	31 December 2017	31 December 2016
Total Regulatory Capital		587,951,438	563,094,145
Risk weighted assets		1,819,760,278	1,737,410,877
Capital adequacy ratio	16%	32.31%	32.41%

During the reporting period all the capital requirements were met, maintaining capital adequacy at the level of 32.31% as at 31 December 2017 (2016: 32.41%), the norm being 16%.

Sufficient capital is monitored additionally using an uniform method of calculating capital adequacy in the Group, in accordance with the recommendations of the Basel Committee (Basel III).

According to the Capital Management Policy capital indicators under Basel III(CRR capital ratios) are calculated based on reported financial statements at Group level. The target for common capital Ratio (Common Equity Tier I) is> 8.0%, the limit is set at 7.0%. The target for Tier 1 capital is> 10.0% and the limit – 9.0%. For total capital ratio is defined a target > 12.0% and a limit of> 11.0%. The aim is to ensure that Basel III capital ratios are above the targets defined, in order not to allow a descent below the set limits.

	Limit (min%)	31 December 2017
Common capital ratio	7.00%	19.83%
Tier 1 capital ratio	9.00%	19.83%
Total capital ratio	11.00%	25.07%

For the purpose of maintenance of the adequate level of capital, even in critical situations, the Bank uses direct subordinated debts, issued by ProCredit Holding AG Direct & Co. KGaA that acts as an additional instrument for the capital management. As at 31 December 2017 amount of subordinated debts was MDL 133,822,874 (EUR 6,556,763).

Addditionally to the indicators, mentioned above, the Bank calculates leverage ratio as per Regulation nr. 575/2013 of the European Parlament and of the Council from 26 June 2013 on prudential requirements for the credit institutions and investment companies.The Banks set the minimal level of this indicator as 5% with a target rate of 6%. At the end of 2017, the Bank had a leverage ratio at the level of 14.2% (2016: 13.1%).

d. The internal capital adequacy assessment process

In addition to complying with the regulatory capital requirements set out in the Capital Management Policy, the Bank uses internal procedures to determine its specific risk positions and the level of capital required to cover those positions.

The risk taking potential of the Bank is defined as the Bank’s equity (net of intangibles) plus subordinated debt, which amounted to MDL 646,6 million as of the end of December 2017 (2016: MDL 612,0 million). The Resources Available to Cover Risk were set at 60% of the risk-taking potential, i.e. MDL 388 million. For calculating potential losses in the different risk categories the following concepts were used: credit risk, counterparty risk, market risks, operational risk.

Other risks were assessed as not sufficiently relevant to the Bank, or relevant, but not quantifiable, e.g. liquidity risk.

The table below shows the distribution of the resources available to cover risk among the different risk categories as determined by the Risk Management Committee and the level of utilisation as of 31 December 2017.

Risk Factor	**Details**	**Reporting trigger (in %)**	**Reporting trigger (in MDL)**	**Actual (in MDL)**	**Limit Used (in % of limit)**
Credit Risk (Clients)		33.0%	213,377, 508	24,154,594	11%
Counterparty Risk		5.0%	32,329,925	17,989,060	56%
Market Risk	Interest Rate Risk	10.0%	64,659,851	30,722,854	48%
	Currency Risk	2.0%	12,931,970	6,351,801	49%
Operational Risk		10.0%	64,659,851	33,407,595	52%
Resources Available to Cover Risk		60.0%	387,959,105	134,430,486	29%

December 2016

Risk Factor	Details	Reporting trigger (in %)	Reporting trigger (in MDL)	Actual (in MDL)	Limit Used (in % of limit)
Credit Risk (Clients)		33.0%	201,946, 303	36,958,061	18%
Counterparty Risk		5.0%	30,597,925	19,591,818	64%
Market Risk	Interest Rate Risk	10.0%	61,195,849	43,632,465	71%
	Currency Risk	2.0%	12,239,170	2,370,246	19%
Operational Risk		10.0%	61,195,849	31,877,896	52%
Resources Available to Cover Risk		60.0%	367,175,096	134,430,486	37%

The utilization level of risk bearing capacity of the Bank in terms of credit risk decreased in 2017 compared to the end of 2016. This happened due to the decrease of credit portfolio on the one hand and decrease of the amount of credits past due 30 days on the other. Due to this, the economic capital required to cover credit risk remained at a low level using only 11.3% of the reporting trigger (2016: 18.3%). Usage limits of the counterparty risk and currency risk remained low, reflecting a conservative approach to risk management. Usage limit of interest rate risk has increased compared to last year due to the increased impact over the interest income (Interest Earnings Indicator), as indicator to assess required economic capital.

For calculation of the economic capital required to cover operational risk the Bank uses standard methodology as per Basel III requirements. As at 31 December 2017 the Bank's the internal capital to cover operational risk 5.2% from the potential risk assumption (2016: 5.2%) that shows a low level of the operational risk.

All risks combined measured by the methods set out in the policies of the group are below 60% of the Bank's total risk bearing capacity.

33.2 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.

Risk Committees set forth in the Bank are responsible for ensuring the proper management of risks incurred and identify solutions for improving the level of risk in general. The Credit Risk Committee is convened to ensure a proper management of risks associated with credit exposures.

Risk Committee aims to monitor and manage all financial risks of the Bank, related to capital adequacy, operational , including information security, and compliance risks, ALCO Committee is responsible for managing the Bank's assets and liabilities as well as currency and liquidity risk analysis.

a. Credit risk

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

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

	2017	2016
Cash and balances with National Bank of Moldova	535,754,491	570,033,781
Available for sale equity instruments	1,200,000	1,200,000
Loans and advances to banks	220,745,452	234,918,772
Investment securities held to maturity	718,954,104	738,850,057
Loans and advances to customers, including financial lease receivables, net	1,912,040,586	1,945,144,562
Other financial assets	3,248,029	9,781,197
Total	3,391,942,662	3,499,928,369

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

	2017	2016
Financial guarantees	89,465,120	63,913,248
Credit commitments	330,400,866	306,476,271
Total	419,865,986	370,389,519

33.3 Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank’s lending principles:

- intensive analysis of the debt capacity of the Banks’ clients;
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties;
- rigorous avoidance of overindebting the Bank’s clients;
- building a personal and long-term relationship with the client and maintaining regular contact;
- strict monitoring of loan repayment;
- practising tight arrears management;
- exercising strict collateral collection in the event of default;
- investing in well-trained and highly motivated staff;
- implementing carefully designed and well-documented processes;
- rigorous application of the “four-eyes principle”.

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk.

The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for individually significant credit exposures that are risk-relevant; the information collected from the clients, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the client; in particular for individually insignificant credit exposures, the liquid funds and creditworthiness of the client; and the collateral requirements.

As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client’s history with the Bank and the higher the turnover of the client with the Bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures, and most decisions on individually insignificant exposures, are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The high quality of the loan portfolio reflects the application of the above lending principles and the results of the application of early warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank’s strategy for managing arrears in the current economic crisis that is affecting a large number of its clients. Once arrears occur, the Bank rigorously follows up on the non-repayment of the credit exposures, and by so doing typically identifies any potential for default on a credit exposure.

Strict rules are applied regarding credit exposures for which, in the Bank’s view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank’s recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

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

Credit portfolio risk from customer lending

Diversifying the portfolio of credit exposure is a very effective tool in reducing credit risk. The core business of the Bank, lending to small (exposures up to EUR 250,000) and medium (exposures >EUR 250,000) enterprises, necessitated a high degree of standardisation in lending processes and ultimately, led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors.

Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent. Overall, the loan portfolio of the Bank includes 95 credit exposures of more than EUR 250,000 (2016: 63 credit exposures).

As at 31 December 2017	**Business**	**Agriculture**	**Housing**	**Retail**	**Lease**	**Other**	**Total**
< 50,000 EUR	221,621,691	102,151,328	2,816,711	45,241,733	-	87,496	371,918,959
50,000 la 250,000 EUR	629,554,581	287,385,150	-	21,022,005	-	-	937,961,736
> 250,000 EUR	562,063,496	140,151,480	-	-	13,053,018	-	715,267,994
Total	1,413,239,768	529,687,958	2,816,711	66,263,738	13,053,018	87,496	2,025,148,689
As at 31 December 2016							
< 50,000 EUR	482,411,649	174,999,972	4,794,692	8,812,623	-	341,625	671,360,561
50,000 la 250,000 EUR	649,670,693	189,683,957	-	479,150	-	-	839,833,800
> 250,000 EUR	478,341,019	88,023,412	-	-	14,931,478	-	581,295,909
Total	1,610,423,361	452,707,341	4,794,692	9,291,773	14,931,478	341,625	2,092,490,270

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

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

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Management Committee of the Bank.

Full information about any related parties is typically collected prior to lending. All in all, these results in a high portfolio quality and comparatively little need for allowance for individual impairment.

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

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

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

Loans and advances to customers and finance lease receivables can be analysed as follows:

	31 December 2017	31 December 2016
Neither past due nor impaired	1,797,900,759	1,698,698,270
Past due but not impaired	50,135,797	203,960,664
Individually impaired	177,112,133	189,831,336
Total gross loan portfolio	2,025,148,689	2,092,490,270
Allowance for impairment	(113,108,103)	(147,345,708)
Total net loan portfolio	1,912,040,586	1,945,144,562

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

As at 31 December 2017:

Type of clients	Business	Agricultural	Housing improvement	Finance lease	Consumer	Other	Total	Allowance for portfolio-based impairment	Net amount
Medium	808,001,526	223,518,222	-	13,053,018	-	-	1,044,572,766	13,028,099	1,031,544,667
Small	433,478,857	252,003,382	-	-	-	-	685,482,239	8,981,277	676,500,962
PI and exit portfolio	14,248,940	13,166,407	2,128,991	-	38,214,220	87,196	67,845,754	1,256,060	66,589,694
Grand Total	1,255,729,323	488,688,011	2,128,991	13,053,018	38,214,220	87,196	1,797,900,759	23,265,436	1,774,635,323
As at 31 December 2016:									
Medium	685,934,731	139,147,994	-	14,931,478	-	-	840,014,203	12,395,195	827,619,008
Small	503,084,762	199,527,049	-	-	-	-	702,611,811	10,595,831	692,015,980
PI and exit portfolio	102,056,770	43,246,380	4,033,059	-	6,394,422	341,625	156,072,256	3,204,670	152,867,586
Grand Total	1,291,076,263	381,921,423	4,033,059	14,931,478	6,394,422	341,625	1,698,698,270	26,195,696	1,672,502,574

Bank considers medium size loans to be bearing less risk as comparing to other loans. These are mostly corporate clients which have well established accounting and reporting departments with some corporate governance policies in place. Private clients are considered to be bearing hiegher risks, since of of these are loans of small amounts which may have a worse monitoring or clients may have quite low incomes. Small loans are considered to bear a medium level of risk as compared to the previous two categories, since these are loans for clients with a higher income and a better monitoring of their cashflows. For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, generally a collective approach is applied; the impairment is determined depending on the number of days in arrears. In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country. For all unimpaired credit exposures a portfolio-based impairment is calculated.

Past due but not impaired	**31 December 2017**	**31 December 2016**
Business	25,873,705	167,075,668
in arrears up to 30 days	23,237,243	147,987,367
in arrears 31 - 90 days	1,186,800	7,094,701
in arrears over 90 days	1,449,662	11,993,600
Agricultural	14,396,415	34,787,379
in arrears up to 30 days	13,058,392	27,315,566
in arrears 31 - 90 days	527,219	3,037,897
in arrears over 90 days	810,804	4,433,917
Housing improvement	130,501	71,727
in arrears up to 30 days	111,425	55,158
in arrears 31 - 90 days	19,076	-
in arrears over 90 days	-	16,569
Consumer	9,734,876	2,025,889
in arrears up to 30 days	6,656,026	1,483,561
in arrears 31 - 90 days	998,913	12,403
in arrears over 90 days	2,079,937	529,925
Other	300	-
in arrears up to 30 days	180	-
in arrears 31 - 90 days	24	-
in arrears over 90 days	96	-
Total	50,135,797	203,960,664
Allowance for portfolio-based impairment	(649,618)	(3,059,246)
Allowance for collective impairment	(4,796,591)	(18,127,697)
Net outstanding amount	44,689,588	182,773,721

For the calculation of the individual impairment a discounted cash flow approach is applied.

The individual impairment of credit exposures to customers is as follows:

	31 December 2017	31 December 2016
Impaired loans individually assessed		
Business	131,636,740	152,271,429
in arrears up to 30 days	33,284,419	14,845,973
in arrears 31 - 90 days	4,761,677	4,914,966
in arrears over 90 days	65,688,935	111,207,487
other signs of impairment	27,901,709	21,303,004
Agricultural	26,603,532	35,998,539
in arrears up to 30 days	2,373,277	5,581,698
in arrears 31 - 90 days	3,844,246	1,714,733
in arrears over 90 days	8,579,351	18,815,387
other signs of impairment	11,806,658	9,886,720
Housing improvement	557,219	689,906
other signs of impairment	557,219	689,906
Consumer	18,314,642	871,462
in arrears up to 30 days	5,115,134	-
in arrears 31 - 90 days	2,506,544	-
in arrears over 90 days	5,293,792	-
other signs of impairment	5,399,172	871,462
Total	177,112,133	189,831,336
Allowance for individual impairment	(84,396,458)	(99,963,069)
Total	92,715,675	89,868,266

a. Counterparty and issuer risk

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 excess liquidity is usually placed with highly rated OECD banks with short maturities. Foreign exchange transactions are also concluded with short maturities, typically up to two days. Furthermore, as a result of the Bank’s strong efforts to finance its lending activities with retail deposits, there is also an exposure towards the National Bank of Moldova. This is because the National Bank of Moldova requires banks operating in its territory to hold a mandatory reserve in a National Bank of Moldova account, the size of which depends on the amount of deposits taken from customers or other funds used to fund the bank’s operations.

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

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

The Treasury Policy prohibits the Bank to carry on activities of speculative trading. 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 certificates from the National Bank of Moldova does not require approval.

The inherent issuer risk is managed by the provisions of the Bank’s conservative Treasury Policy, which is compliant with the ProCredit Group Treasury Policy. Among other requirements, the policy states that securities should be issued by the Government or the Central Bank of the country of operation, or by international and/or multinational institutions with a high credit rating (rated international AA- or more).

Facts and figures concerning counterparty and issuer risk

The main reason for incurring counterparty and issuer risk is to keep liquid assets for liquidity risk management purposes, i.e. as a reserve for times of potential stress. These funds are held as cash in commercial bank or National Bank of Moldova accounts, as interbank placements, and as securities. As mentioned above, a substantial part of the Bank's exposure consists of the mandatory reserve required by the National Bank of Moldova and held in a specific National Bank of Moldova account (mandatory reserves in foreign currency), and mandatory reserves in MDL maintained on Nostro account with NBM.

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

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

	31 December 2017	%	31 December 2016	%
Group of banks	220,745,452	16.2%	234,918,772	16.38%
- OECD banks	216,126,184	15.8%	232,661,917	16.22%
- non-OECD banks	4,619,268	0.3%	2,256,855	0.16%
National Bank of Moldova	1,143,634,594	83.8%	1,199,369,461	83.62%
- Mandatory reserves	424,680,490	31.1%	460,519,404	32.11%
- Other placements at NBM	718,954,104	52.7%	738,850,057	51.51%
	1,364,380,046	100.0%	1,434,288,233	100.0%

According to Moody's rating agency, Republic of Moldova is assigned B3 rating.

Interbank placements, FX transactions and derivative transactions are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries. The total exposure to banks decreased in 2017 compared to the end of 2016, amounting to MDL 220,7 million (2016: MDL 234,9 million). Exposure towards the NBM, viceversa, has slightly decreased as compared to previous year, but remained at a high level, one of the reasons being the high mandatory reserve ratio in lei - 40%. Thus, in 2017 the exposures to banking groups accounted for 16.2% of total exposures, and to NBM – 83.8% (2016: 16.4% and 83.6%, respectively).

For 2017 year 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 relates to a Nostro account with NBM and NBM certificates with a maturity up to 14 days. As at the end of the year the Bank had NBM certificates in financial statements amounting to MDL 720 million (2016: 740 million).

The maturity of all Bank exposures is extremely short: with maturity of one day (overnight placements, foreign exchange transactions, cash transactions), at sight (Nostro accounts) or up to 1 month (deposits, certificates of NBM).

b. Foreign currency risk

Conceptual risk management framework

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Currency risk management is guided by the Foreign Currency Risk Management Policy, and amendments as well as exceptions to this policy are decided by the ALCO Group or Group Risk Management Committee.

The Bank's Treasury Unit is responsible for continuously 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 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 – from the Risk Management, Compliance and AML Department.

Developments on the foreign exchange markets and the currency positions are regularly reported to the Bank's ALCO Commitee, which is authorised to take strategic decisions with regard to treasury activities. In cases where exceptions to the Foreign Currency Risk Management Policy may be needed or violations to group limits may have occurred, the Risk Management, Compliance and AML Department reports to Group ALCO or Risk Management Committee and proposes appropriate measures. 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 limits.

Thus, the internal limit for each foreign currency positions should not exceed 3% of total regulatory capital of the Bank. In exceptional cases (repayment of loans by international financial institutions, funding received) the ALCO Committee approves a new target for open currency positions for a very short time. This mechanism helps to ensure that the Bank’s total OCP does not exceed 10 % of regulatory capital. Exceptions from the limit or strategic positions are subject to approval by the ALCO Committee or Risk Management Committee at Group level.

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

As at 31 December 2017	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and balances with National Bank of Moldova	158,926,362	52,137,381	-	324,690,748	535,754,491
Investment securities held to maturity	-	-	-	718,954,104	718,954,104
Available for sale equity instruments	-	-	-	1,200,000	1,200,000
Loans and advances to banks	112,831,163	105,853,725	2,034,400	26,164	220,745,452
Loans and advances to customers, gross	924,490,178	431,828,114	1,632	668,828,765	2,025,148,689
Adjustments for impairment losses	(34,500,851)	(52,092,166)	-	(26,515,086)	(113,108,103)
Other financial assets	18,165	1,487,998	-	1,741,866	3,248,029
Total assets	1,161,765,017	539,215,052	2,036,032	1,688,926,561	3,391,942,662
Liabilities					
Borrowings	243,352,155	12,770,585		146,209,089	402,331,828
Due to customers	648,097,571	289,482,590	516,800	805,094,673	1,743,191,634
Due to international financial institutions	135,167,531	248,572,925		228,700,197	612,440,654
Other financial liabilities	984,174	(11,897,875)	1,545,395	27,782,173	18,413,867
Provisions	528,856	360,017		5,494,087	6,382,960
Subordonated debt	135,540,268	-	-	-	135,540,268
Total liabilities	1,163,670,555	539,288,242	2,062,195	1,213,280,219	2,918,301,211
Net position	(1,905,538)	(73,190)	(26,163)	475,646,342	473,641,451
Off-balance sheet exposures	73,117,712	55,158,019	-	255,901,261	384,176,992

As at 31 December 2016	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and balances with National Bank of Moldova	112,470,177	70,268,649	-	387,294,955	570,033,781
Investment securities held to maturity	-	-	-	738,850,057	738,850,057
Available for sale equity instruments	-	-	-	1,200,000	1,200,000
Loans and advances to banks	80,830,072	151,611,777	2,476,923	-	234,918,772
Loans and advances to customers, gross	787,007,107	489,884,876	2,987	815,595,300	2,092,490,270
Adjustments for impairment losses	(24,762,268)	(69,733,090)	-	(52,850,350)	(147,345,708)
Other financial assets	20,188	4,294,121	-	5,466,888	9,781,197
Total assets	955,565,276	646,326,333	2,479,910	1,895,556,850	3,499,928,369
Liabilities					
Borrowings	21,397,592	14,227,426	-	184,401,659	220,026,677
Due to customers	660,779,680	359,624,453	1,423,893	984,610,610	2,006,438,636
Due to international financial institutions	130,824,341	274,014,837	-	282,784,693	687,623,871
Other financial liabilities	7,913,142	2,093,893	-	9,271,618	19,278,653
Subordonated debt	138,725,248	-	-	-	138,725,248
Total liabilities	959,640,003	649,960,609	1,423,893	1,461,068,580	3,072,093,085
Net position	(4,074,727)	(3,634,276)	1,056,017	434,488,270	427,835,284
Off-balance sheet exposures	98,381,153	78,418,725		193,589,641	370,389,520

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 seven years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the Bank has significant currency positions. The maximum loss (VaR) at a 99% confidence level is 6,351,801 MDL (2016: 2,370,246 MDL).

Overall, in 2017 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 a reasonably possible changes in foreign exchange rates against local currency, assuming that all other market variables remain constant:

Estimated change of exchange rates, (%)	Currency	31 December 2017 Impact, Profit/(Loss), MDL'000	31 decembrie 2016 Impactul, Profit/ (Pierdere), MDL'000
+10	USD	(1,296)	(401)
	EUR	(671)	(284)
-10	USD	1,296	401
	EUR	671	284

c. Interest rate risk

Facts and figures concerning interest rate risk

One of the key interest rate risk indicators is the economic value impact. It measures the impact of changes in interest rates on all on and off-balance sheet positions that are sensitive to interest rates and quantifies losses incurred by the Bank in terms of certain changes in the interest rate. As described above, the assessment of the economic value impact indicator is based on various parallel changes in interest rate curves. According to the policy, for EUR and USD change of + / -200 basis points is applied and for local currency change is determined based on worst case for the last 7 years.

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

During 2017, the impact on the economic value of capital was permanently below 10%. At 31 December 2017, this indicator was 5.7% (2016: 1.4%), increasing compared to the previous year due to the change in the structure of assets and bonds sensitive to interest rates.

In addition to the long-term analysis of the economic value impact indicator, the Bank analyses the short-term interest rate risk. This measure quantifies the potential decline of interest rate earnings within the next 12 months. A reporting trigger has been set for this measure which assumes that the interest earnings impact within the next 12 months should not exceed 10% of the Bank’s regulatory capital.

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

This scenario analysis shows the following impact of an interest rate fluctuation on the Bank’s profit as at 31 December 2017, following an interest rate reasonably possible changes of +/- 200 bps on EUR/USD and a possible shift for local currency of +/- 510 bps for internal rates and +/- 550 bps for market rates (December 2016: +/-500 bps for internal rates and , and +/- 800 bps market rates):

			2017			2016
	Interest rate change	Impact on profit and loss	Impact on equity	Interest rate change	Impact on profit and loss	Impact on equity
	5.1% / 5.5%	26,500	(31,500)	5.0% / 8.0%	40,960	40,960
MDL	(5.1% / 5.5%)	(26,500)	31,500	(5.0% / 8.0%)	(40,960)	(40,960)
	2.00%	3,536	(1,172)	2.0%	(139)	(139)
EUR	(2.00%)	(3,536)	1,172	(2.0%)	139	139
	2.00%	(687)	(3,713)	2.0%	(2,533)	(2,533)
USD	(2.00%)	687	3,713	(2.0%)	2,533	2,533

Overall, the Bank’s interest rate risk is assessed to be low.

d. Liquidity risk

Conceptual risk management framework

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The Treasury 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 are constantly monitored by the Risk Management, Compliance and AML Department.

In addition to the requirements set by the local regulatory authorities, the standards that the Bank applies in this area are guided by the Liquidity Risk Management Policy and the Treasury Policy. Limit breaches and exceptions to these policies are subject to decisions of the Group or Risk Management Committee.

Treasury Unit manages liquidity on a daily level using a cash flow analysis. 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 worst-case scenario (stress test).

Based on the gap analysis, a set of key liquidity risk indicators and early warning indicators are calculated on at least a monthly basis and are closely monitored. The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. It must not fall below 1. This implies that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 30 days.

This is complemented by the early warning indicators, foremost amongst which is the highly liquid assets indicator, which relates highly liquid assets to customer deposits. The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank with some time delay, and other assets which take some time to liquidate.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy also defines reporting triggers. If the highly liquid asset indicator drops below 10%, if the short-term liquidity position becomes negative, or if the depositor concentration rises above 15%, the Bank's ALCO must be involved in decisions on appropriate measures.

In order to safeguard the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Bank's liquidity reserve target is determined by the ALCO. The results of these stress tests are also used to determine liquidity sources provided by ProCredit Holding AG & Co. KGaA to the Bank, if necessary.

The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 10 largest depositors exceed 15% of total customer deposits. This serves as an early warning signal and requires the reasons and mitigating measures to be reported to the Bank's ALCO and the Risk Management Committee. Concentrations of bank deposits was below this indicator during 2017, accounting for 12% at the end of the year (2016: 11%).

The Bank also minimises its dependency on the interbank market. The Liquidity Risk Management Policy stipulates that the total amount of interbank liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. During 2017 these indicators were 0%, as the Bank didn't use interbank loans or overnight funding for liquidity management purposes.

Higher limits must be approved by Group ALCO.

Facts and figures concerning liquidity risk

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

As at 31 December 2017	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More than 5 years	Total
Assets								
Cash and balances with NBM	535,754,491	535,754,491	-	-	-	-	-	535,754,491
Investment securities held to maturity	718,954,104	720,000,000	-	-	-	-	-	720,000,000
Loans and advances to banks	1,200,000	1,200,000	-	-	-	-	-	1,200,000
Available for sale equity investments	220,745,452	220,745,452	-	-	-	-	-	220,745,452
Loans and advances to customers	1,912,040,586	105,927,178	159,966,094	185,706,814	480,672,011	1,219,558,312	79,590,901	2,231,421,310
Other financial assets	3,248,029	3,248,029	-	-	-	-	-	3,248,029
Total financial assets	3,391,942,662	1,586,875,150	159,966,094	185,706,814	480,672,011	1,219,558,312	79,590,901	3,712,369,282

As at 31 December 2017	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More than 5 years	Total
Liabilities								
Borrowings	402,331,828	9,094,891	5,827,170	32,458,025	24,391,912	343,100,522	12,608,928	427,481,448
Due to customers	1,743,191,634	1,329,891,551	70,045,534	149,485,547	312,076,931	92,358,412	-	1,953,857,975
Due to international financial institutions	612,440,654	-	40,966,249	24,604,436	112,139,756	468,361,357	23,233,101	669,304,899
Other financial liabilities	18,413,867	18,413,867	-	-	-	-	-	18,413,867
Subordinated debt	135,540,268	-	-	3,442,222	2,721,065	21,723,913	135,428,748	163,315,948
Total financial liabilities	2,911,918,251	1,357,400,309	116,838,953	209,990,230	451,329,664	925,544,204	171,270,777	3,232,374,137
Net liquidity gap	480,024,411	229,474,841	43,127,141	(24,283,416)	29,342,347	294,014,108	(91,679,876)	479,995,145
Commulative liquidity gap		229,474,841	272,601,982	248,318,566	277,660,913	571,675,021	479,995,145	
Financial guarantees	89,465,120	89,465,120	-	-	-	-	-	89,465,120
Loan commitments	352,734,181	352,734,181	-	-	-	-	-	352,734,181

As at 31 December 2016	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More than 5 years	Total
Assets								
Cash and balances with NBM	570,033,781	570,033,781	-	-	-	-	-	570,033,781
Investment securities held to maturity	738,850,057	740,000,000	-	-	-	-	-	740,000,000
Loans and advances to banks	234,918,772	228,651,922	-	6,266,850	-	-	-	234,918,772
Available for sale equity investments	1,200,000	-	-	1,200,000	-	-	-	1,200,000
Loans and advances to customers	1,945,144,562	154,211,584	156,825,246	214,912,324	506,532,394	1,249,329,622	93,593,285	2,375,404,455
Other financial assets	9,781,197	9,781,197	-	-	-	-	-	9,781,197
Total financial assets	3,499,928,369	1,702,678,484	156,825,246	222,379,174	506,532,394	1,249,329,622	93,593,285	3,931,338,205

As at 31 December 2016	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More than 5 years	Total
Liabilities								
Borrowings	220,026,677	12,680,250	2,690,437	33,798,761	27,591,797	151,988,483	15,799,298	244,549,026
Due to customers	2,006,438,636	1,225,446,540	170,752,955	209,509,042	311,613,957	135,382,100	-	2,052,704,594
Due to international financial institutions	687,623,871	26,692,611	45,968,636	25,513,764	79,831,890	554,936,537	67,814,070	800,757,508
Other financial liabilities	19,278,653	19,278,653	-	-	-	-	-	19,278,653
Subordinated debt	138,725,248	6,251,304	-	5,202,992	5,214,406	41,663,927	150,445,170	208,777,799
Total financial liabilities	3,072,093,085	1,290,349,358	219,412,027	274,024,559	424,252,050	883,971,047	234,058,539	3,326,067,580
Net liquidity gap	427,835,284	412,329,126	(62,586,781)	(51,645,385)	82,280,344	365,358,575	(140,465,254)	605,270,625
Commulative liquidity gap		412,329,126	349,742,345	298,096,960	380,377,304	745,735,879	605,270,625	
Financial guarantees	63,913,249	63,913,249	-	-	-	-	-	63,913,249
Loan commitments	304,768,235	304,768,235	-	-	-	-	-	304,768,235

Due to the fact that not all cash flows will occur in the future as specified within the contracts, the Bank applies assumptions, especially regarding deposit withdrawals. These assumptions are very conservative.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month.

The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity if it has a positive one. This calculation includes positive excess values from the previous time buckets. On an operational level, the gap report is divided into the most important currencies (EUR, USD and local currency).

In order to ensure that the Bank has a sufficient level of funds in the event that its customers suddenly wish to withdraw their deposits, the Bank monitors the relation of highly liquid assets to customer deposits. As a general rule, the Bank is always prepared to pay out at least 10% of all customer deposits. These amounts are held in highly liquid assets, which can quickly be converted into cash. During 2017 highly liquid assets were always well above the reporting trigger of 10%. As at the end of 2017 the indicator was at the level of 58% for all currencies (2016: 53%).

As mentioned above, the Bank also performs stress test calculations in order to safeguard the liquidity of the Bank. The result is analysed and the Bank's liquidity reserve target is determined by the Bank's ALCO. The results of the stress tests are also used to determine liquidity standby lines provided by ProCredit Holding AG & Co. KGaA to the Bank if necessary. As at 31 December 2017 the Bank had a positive liquidity gap of MDL 763,1 million for all currencies for the period of time less the 1 month according to the internal worst-case stress test calculation.

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 2017 the Bank had contracted a stand-by credit line to ProCredit Holding AG & Co. KGaA in amount EUR 3.0 million, which may be withdrawn anytime if necessary. Additional liquidity reserves approved by the Bank still contains two credit lines offered by ProCredit Holding AG & Co. KGaA amounted to USD 5.0 million and EUR 5.0 million respectively.

The Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), such as EBRD, European Fund for Southeast Europe, European Investment Bank, Council of Europe Bank (CEB) which provide allocations under targeted financing programmes (e.g. for lending to SMEs, lending within the energy efficiency program). In addition, ProCredit Holding provides short- and long-term funding.

e. Taxation risk

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

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

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

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

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

f. Business environment

The 2017 year was a stable one for the Moldovan economy, as compared to prior years, it was affected by domestic, global and regional context. The economic crisis in the Russian Federation and Ukraine continued to affect the region. On the other hand, advanced economies in Europe and the United States ended the year on a positive note with slight growths in GDPs.

Internally, according to the preliminary data published by the National Statistics, in the 2017 GDP increased by 4.5% as compared to year 2016. The positive evolution of GDP was mainly determined by domestic demand and exports, mainly to EU countries, as well as an increase in agriculture harvest during the year 2017 as compared to 2016. Annual inflation rate for 2016 was of 4.1%. The macro-economic development of Moldova was influenced by the political stability within the country during 2017.

In 2016 Republic of Moldova signed a 3 years agreement with International Monetary Fund, which will allow Republic of Moldova to access about USD 182.7 mln. All agreements were in force during 2017 period.

Moldova's banking sector was subject to significant changes during the year 2017, with a series of regulatory acts being enforced. The top 3 banks continued to be under special supervision from the National Bank of Moldova.

The factors listed above could impact the ability of the Bank’s debtors to repay their outstanding loans. Deteriorating operating conditions for customers may also have an impact on the management cash flow forecasts and assessment of the impairment of financial and non-financial assets.

To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessment.

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

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

- constantly monitoring its liquidity position and over-dependence on specific funds;
- forecasting on short-term basis its net liquidity position;
- obtaining commitment from the shareholders regarding the latter’s continuous support of the Bank’s operations in Moldova;
- examining terms and conditions of financing agreements and considering the implications of obligations imposed and risks identified such as approaching maturity dates or the implications of any terms or covenants that may have been breached or which may be breached in the foreseeable future.

Given the fact that the market conditions and uncertainties are likely to continue to exist in 2017 and perhaps later, other effects may be felt beyond the dates of these financial statements.

g. Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel II, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This category includes all “risk events” in the areas of personnel, processes, and information technology. A dedicated Operational Risk Management Policy was implemented in 2009 and has been further developed and updated annually since then. The principles outlined in this document have been designed to effectively manage the Bank’s operational risk exposure.

They are in compliance with Basel II requirements towards “standard approach”.

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database.

While the Corporate Culture, the Governance Framework and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

The overall objectives of the Bank's approach to the management of operational risks are:

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

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

- **Identification**
  - Annual operational and fraud risk assessments
  - New Risk Approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks

- **Evaluation/quantification**
  - Agreed standards to quantify risks

- **Mitigation and treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer or other party

- **Monitoring and control**
  - Process owners' responsibility to monitor risks
  - risk indicators (KRIs) and operational risk reports, calculation and monitoring of economic capital for coverage of operational risk

- **Communication, escalation, documentation**
  - Escalation levels to management bodies, regular reporting, risk committees
  - RED, management summary documents for risk events

- **Issue tracking/follow-up tables for material action plans**
  - Follow-up tools used in banks

To constantly enhance the professional standards of the Bank, it has continued to make use of local training facilities in 2017, including regional academies and the international ProCredit Academy in Fürth, Germany. Risk awareness training is delivered annually to all staff as well as to all new employees.

h. Compliance risk

Compliance risk refers to current or future risk of profits and capital which may result in fines, damages and/or contracts termination, or which may affect the bank’s reputation due to violations of or non-compliance with the legal framework, regulatory acts, agreements, recommended practices or ethical standards.
The Management Risk, Compliance and AML Department is responsible for providing consultations regarding the compliance of the Bank’s activities to the legal provisions, the internal policies and procedures and to the codes of conduct established in the market or for the industry. The Department provides information related to the evolutions in these domains and it is preparing a quarterly report on compliance risk for being presented to the Management Board and the Supervisory Board at the Risk Committee.
The compliance is a part of the Bank’s core values and corporate culture. All the staff should understand each other’s role in conducting transparent and compliance oriented activities. The awareness of this role should be ensured by the compliance function, HR Section and the Management.
Bank has a Policy on compliance and Rules on evaluation of the compliance risk.

33.2 Organisation of the risk management function

The risk management function comprises various organisational units, including the Credit Risk department and the Risk Management, Compliance and AML department which covers such risks areas as operational risk management, market risk management, financial risk management, compliance risk management, information security and business continuity. as well as the prevention of money laundering.

Responsibility for capital management and for the process of internal capital adequacy assessment process (ICAAP) lies with the Risk Management, Compliance & AML Department and Finance Department. These organisational units report to the Board of Directors of the Bank, to the Bank’s Risk Management Committee, which meets on a quarterly basis, and the Assets and Liabilities

Committee (ALCO), which meets monthly. Specialised committees are established to address individual risks such as market risks (ALCO), credit risks (Credit Risk Committee), financial, operational, information security and compliance risks (Risk Committee) and AML Committee.

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

The Bank's risk policies address all risk categories and set standards that enable risks to be identified early and to be managed appropriately. The Risk Management, Compliance and AML Department carries out regular monitoring to ensure that total risk exposure does not exceed the limits agreed, i.e., that sufficient capital is available to cover even unlikely potential losses.

The respective risk positions of the Bank are described in a standard General Risk Report which is done on a quarterly basis. This risk report is presented to the local risk committees and to ProCredit Holding AG & Co. KGaA.

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurements are analysed by level in the fair value hierarchy as described below. Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Financial instruments not measured at fair value:

Cash and cash equivalents

The fair value of cash and cash equivalents approximates to their carrying amount.

Loans and advances to customers

Loans are reduced by impairment amount for loan losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Interest-bearing borrowings

The fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The table below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value as at 31 December 2017 and 31 December 2016:

					31 December 2017
	Carrying Value				Fair Value
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and balances with National Bank of Moldova	535,754,491	111,074,001	424,680,490		535,754,491
Investment securities held to maturity	718,954,104	718,954,104	-		718,954,104
Available for sale equity investments	1,200,000	-	-	1,200,000	1,200,000
Loans and advances to banks	220,745,452	-	220,745,452		220,745,452
Loans and advances to customers, including finance lease receivables, gross	1,912,040,586	-	-	1,915,878,720	1,915,878,720
Other financial assets	3,248,029	-	-	3,248,029	3,248,029
Total	3,391,942,662	830,028,105	645,425,942	1,920,326,749	3,395,780,796
Financial Liabilities					
Borrowings	402,331,828	-	417,140,697	-	417,140,697
Due to customers	1,743,191,634	-	1,089,272,458	657,099,878	1,746,372,336
Due to international financial institutions	612,440,654	-	655,950,631	-	655,950,631
Subordinated liabilities	135,540,268	-	-	135,540,268	135,540,268
Other financial liabilities	18,413,867	-	-	18,413,867	18,413,867
Total	2,911,918,251	-	2,162,363,786	811,054,013	2,973,417,799

					31 December 2016
	Carrying Value				Fair Value
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and balances with National Bank of Moldova	570,033,781	109,514,377	460,519,404	-	570,033,781
Investment securities held to maturity	738,850,057	738,850,057		-	738,850,057
Available for sale equity investments	1,200,000	-	-	1,200,000	1,200,000
Loans and advances to banks	234,918,772	-	234,918,772	-	234,918,772
Loans and advances to customers, including finance lease receivables, gross	1,945,144,562	-	-	1,938,807,191	1,938,807,191
Other financial assets	9,781,197	-	-	9,781,197	9,781,197
Total	3,499,928,369	848,364,434	695,438,176	1,949,788,388	3,493,590,998
Financial Liabilities					
Borrowings	220,026,677	-	220,026,677	-	220,026,677
Due to customers	2,006,438,636	-	1,119,649,542	889,163,145	2,008,812,687
Due to international financial institutions	687,623,871	-	724,942,940	-	724,942,940
Subordinated liabilities	138,725,248	-	-	138,725,248	138,725,248
Other financial liabilities	19,278,653	-	-	19,278,653	19,278,653
Total	3,072,093,085	-	2,064,619,159	1,047,167,046	3,111,786,205

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

	Fair value	Valuation technique	Inputs used
31 December 2017			
Assets carried at fair value:			
Balances with National Bank of Moldova	424,680,490	Discounted cash flows ("DCF")	Incremental borrowing rate
Loans and advances to banks	220,745,452	Discounted cash flows ("DCF")	Incremental borrowing rate
Liabilities carried at fair value:			
Borrowings	417,140,697	Discounted cash flows ("DCF")	Incremental borrowing rate
Due to international financial institutions	655,950,631	Discounted cash flows ("DCF")	Incremental borrowing rate
Due to customers	1,089,272,458	Discounted cash flows ("DCF")	Incremental borrowing rate
31 December 2016			
Assets carried at fair value:			
Balances with National Bank of Moldova	460,519,404	Discounted cash flows ("DCF")	Incremental borrowing rate
Loans and advances to banks	234,918,772	Discounted cash flows ("DCF")	Incremental borrowing rate
Liabilities carried at fair value:			
Borrowings	220,026,677	Discounted cash flows ("DCF")	Incremental borrowing rate
Due to international financial institutions	724,942,940	Discounted cash flows ("DCF")	Incremental borrowing rate
Due to customers	1,119,649,542	Discounted cash flows ("DCF")	Incremental borrowing rate

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2017 (2016: nil).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017:

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change (%)	Sensitivity of fair value measurement
ASSETS AT FAIR VALUE						
Loans and advances to customers	1,915,878,720	DCF	Market rate	10.33%/ 10.40%	+/- 10	19,858,083
Other financial assets	3,248,029	DCF	Market rate	10.33%/ 10.40%	+/- 10	33,666
Total assets recurring fair value measurements						19,891,749
LIABILITIES AT FAIR VALUE						
Due to customers	657,099,878	DCF	Market rate	10.33%/ 10.40%	+/- 10	6,810,840
Subordinated liabilities	135,540,268	DCF	Market rate	10.33%/ 10.40%	+/- 10	1,404,875
Other financial liabilities	18,413,867	DCF	Market rate	10.33%/ 10.40%	+/- 10	190,860
Total liabilities recurring fair value measurements						8,406,575

Market rates were extracted from the reports published by National Bank of Moldova for December 2017 on term credits, term deposits and interbank loans.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change (%)	Sensitivity of fair value measurement
ASSETS AT FAIR VALUE						
Loans and advances to customers	1,938,807,191	DCF	Market rate	10.77%/ 12.74%	+/- 10	22,784,826
Other financial assets	9,781,197	DCF	Market rate	10.77%/ 12.74%	+/- 10	114,948
Total assets recurring fair value measurements						22,899,774
LIABILITIES AT FAIR VALUE						
Due to customers	888,366,016	DCF	Market rate	10.77%/ 12.74%	+/- 10	10,440,061
Subordinated liabilities	138,725,248	DCF	Market rate	10.77%/ 12.74%	+/- 10	1,630,297
Other financial liabilities	19,278,653	DCF	Market rate	10.77%/ 12.74%	+/- 10	226,562
Total liabilities recurring fair value measurements						12,296,920

Market rates were extracted from the reports published by National Bank of Moldova for December 2016 on term credits, term deposits and interbank loans.

35 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2017 the Bank had no significant capital commitments (2016: nil).

Tax contingencies

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

Credit related commitments

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

	31 December 2017	31 December 2016
Guarantees	90,018,864	64,290,324
Commitments to extend credit:		
- Revocable commitments to extend credit	280,643,066	260,298,904
- Irrevocable commitments to extend credit	51,758,399	46,177,367
Less impairment provision	2,554,343	2,347,307
Total	419,865,986	368,419,288

As at 31 December 2017 provision created for gurantees is MDL 553,745.

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.

Compliance with covenants

The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. No breach of financial covenants was reported as at 31 December 2017 (2016: nill).

Legal proceedings.

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

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	1,488,675	2,033,025
Later than 1 year and not later than 5 years	9,725,575	19,894,608
Later than 5 years	15,738,482	20,846,050
Total operating lease commitments	26,952,732	42,773,683

36 RELATED PARTY TRANSACTIONS

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

Transactions of the Bank with group companies

According to the group’s strategy, the holding company acts as an additional provider of funds (including subordinated debt) for its subsidiaries.

All transactions with group companies are performed on the same terms, including interest rates and securities, as for transactions of a similar nature with third parties.

	2017			2016		
	ProCredit Holding	Other Procredit Group companies	Other related parties	ProCredit Holding	Other Procredit Group companies	Key management and related parties
Interest income	-	21,810	100,812	-	54,464	77,502
Interest expense	6,951,664	-	-	10,271,556	-	-
Fees and commissions expense	7,684,246	26,643,523	74,593	9,125,752	16,155,959	-
Training Related Fees	-	5,826,444	-	-	5,928,028	-

The table above discloses all income and expenses items derived from transactions with ProCredit Bank's group companies including Quipu GmbH Germany (the group's IT provider), and ProCredit Holding AG & Co. KGaA under common control of the chairman of the holding company's supervisory board, and KfW, being the Bank's second largest shareholder.

Expenses related to other related parties include mainly fees paid for staff training in the ProCredit Academy, entity under common control, in the amount of MDL 5,826,444 (2016: MDL 5,928,028) and Quipu MDL 20,249,647 (2016: MDL 15,958,295). Salary expenses to related parties (determined according to NBM regulations) amount to MDL 26,643,523 (2016: MDL 16,155,959). Supervisory Board members did not receive any reward from ProCredit Bank.

	31 December 2017			31 December 2016		
	ProCredit Holding	**Other Procredit Group companies**	**Other related parties**	**ProCredit Holding**	**Other Procredit Group companies**	**Key management and related parties**
Assets						
Cash and balances	-	176,141,403	-	-	38,972,950	-
Loans and advances to customers	57,652	-	1,621,782	115,035	9,061	163,761
Other assets	-	-	-	-	-	-
Liabilities						
Due to banks	-	1,640,859	-	-	458,958	-
Borrowed funds	185,540,482	-	-	-	-	-
Subordinated debt	135,926,244	-	-	139,666,285	-	-
Due to customers	-	-	9,675,474	7,521	-	8,088,969
Off-balance sheet items	-	-	-	-	-	-
Guarantees	646,773,250	-	-	643,034,000	-	2,450

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.

Loans granted to other related parties bear an interest rate in the range of min 10.00% - max 16.5% for an average period of 3 years, repayable in instalments according to loan schedules, mostly on a monthly basis (the average interest rate for loans granted to key management and their related parties in 2016 had an interest rate in the range of min 16.50% - max 22.75%).

Subordinated borrowings from ProCredit Holding AG & Co. KGaA are with floating interest rate Euribor 6m +7.0% and have a maturity of more than 5 years.

Provision for Loans and advances as at 31 December 2017 was estimated in amount 2,447 MDL (31 December 2016: 16,481 MDL)

37 MANAGEMENT COMPENSATION

During the reporting period, total compensation paid to the management of the Bank was MDL 2,962,973 (2016: MDL 2,513,600).

The members of the Supervisory Board do not receive any compensation from ProCredit Bank, and there are no long-term compensation plans.

38 SUBSEQUENT EVENTS

At 13 March 2018 ProCredit Holding AG & Co. KGaA acquired 72,833 ordinary shares of B.C. ”ProCredit Bank” S.A and becam the sole owner of the Bank, owing 406,550 ordinary shares which represent 100% of Bank’s share capital.

No other significant subsequent events took place after the reporting date.