B.C. “ProCredit Bank” S.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2021

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

FINANCIAL STATEMENTS

31 DECEMBER 2021

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Independent Auditors' Report
(free translation[1])

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

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

Opinion

1. We have audited the financial statements of Banca Comerciala "ProCredit Bank" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2021 are identified as follows:

• Total equity:	MDL 663,839,179
• Net profit for the year:	MDL 86,142,154

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Law no.271/2017 and related amendments ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Moldova, including the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information – Management's Report

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

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

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

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

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

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

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

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

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

6. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. 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.
8. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

11. 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.

29 April 2022

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

Nicoleta Rusu

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Romanian version

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

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

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

Administrator of ICS KPMG Moldova S.R.L.

Irina Rubeli

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Romanian version

Director

ICS KPMG Moldova S.R.L.

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

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

	Notes	31 December 2021	31 December 2020
Interest income calculated using the effective interest method	8	225,262,493	196,396,784
Other interest income	8	70,409	398,657
Interest expense	8	(78,093,174)	(79,432,913)
Net interest income		**147,239,728**	**117,362,528**
Fee and commission income	9	54,328,059	50,476,712
Fee and commission expenses	9	(16,098,772)	(13,955,722)
Net fee and commission income		**38,229,287**	**36,520,990**
Net trading income	10	58,321,700	62,302,575
Other operating income	11	329,835	163,189
Operating income		**244,120,550**	**216,349,282**
Personnel expenses	12	(50,084,941)	(46,328,472)
General and administrative expenses	13	(93,114,340)	(74,458,311)
Depreciation and amortization		(14,260,602)	(17,764,342)
Operating expenses		**(157,459,883)**	**(138,551,125)**
Net (loss) / release on allowances for credit risk losses	31	11,542,978	(31,933,358)
Profit before tax		**98,203,646**	**45,864,798**
Income tax expense	14	(12,061,491)	(5,895,288)
Net profit for the year		**86,142,154**	**39,969,510**
Other comprehensive income of the period		-	-
Total comprehensive income for the year		**86,142,154**	**39,969,510**

These financial statements were signed by the executive management of the Bank on 29 April 2022, represented by:

Please refer to original financial statements signed in Romanian language

Irina Coroi - Jovmir
Chairperson of the Management Board

Elena Gornet
Chief Accountant

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

The notes on pages 5 to 122 are an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

Assets	**Note**	**31 December 2021**	**31 December 2020**
Cash and cash equivalents with NBM	15	115,749,696	124,015,828
Mandatory reservers with NBM	15	700,116,016	760,605,505
Loans and advances to banks	16	256,853,040	243,075,017
Loans and advances to customers	19	3,322,868,200	3,117,682,408
Finance lease receivables	20	0	8,386,677
Investments in debt securities	17	718,770,745	639,494,896
Investments in equity securities	18	1,200,000	1,200,000
Current tax assets		0	2,510,088
Deferred tax assets	22	2,085,645	2,228,935
Intangible assets	24	1,331,771	1,782,934
Property, plant and equipment	23	32,487,092	28,593,157
Other assets	21	26,647,172	15,513,829
Total assets		**5,178,109,376**	**4,945,089,275**
Liabilities			
Deposits from customers	25	2,793,274,461	2,771,665,198
Borrowed funds	26	1,533,405,100	1,387,416,939
Current tax liabilities		1,300,254	-
Subordinated debt	29	131,795,018	138,569,357
Provisions for other risks and loan commitments	27	10,011,645	8,666,578
Other liabilities	28	44,483,719	32,619,810
Total Liabilities		**4,514,270,197**	**4,338,937,883**
Equity			
Share capital	30	406,550,000	406,550,000
Statutory reserve	30	12,586,138	10,587,662
General reserve for bank risks	30	19,287,002	25,581,098
Retained earnings		225,416,039	163,432,633
Total equity		**663,839,179**	**606,151,392**
Total equity and liabilities		**5,178,109,376**	**4,945,089,275**

These financial statements were signed by the executive management of the Bank on 29 April 2022, represented by:

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Irina Coroi - Jovmir
Chairperson of the Management Board

Elena Gornet
Chief Accountant

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts are in MDL unless otherwise stated)

	Share Capital	General reserve for bank risks	Statutory Reserves	Retained earnings	Total
Balance at 1 January 2020	**406,550,000**	**40,025,680**	**6,208,522**	**183,742,922**	**636,527,124**
Net profit for the year	-	-	-	39,969,510	**39,969,510**
Total comprehensive income for the year	-	-	-	**39,969,510**	**39,969,510**
Dividends paid				(70,345,242)	**(70,345,242)**
Appropriation of reserves		(14,444,582)	4,379,140	10,065,443	-
Balance at 31 December 2020	**406,550,000**	**25,581,098**	**10,587,662**	**163,432,633**	**606,151,392**
Balance at 1 January 2021	**406,550,000**	**25,581,098**	**10,587,662**	**163,432,633**	**606,151,392**
Net profit for the year	-	-	-	86,142,154	**86,142,154**
Total comprehensive income for the year	-	-	-	**86,142,154**	**86,142,154**
Dividends paid	-	-	-	(28,454,368)	**(28,454,368)**
Appropriation of reserves	-	(6,294,096)	1,998,476	4,295,620	-
Balance at 31 December 2021	**406,550,000**	**19,287,002**	**12,586,138**	**225,416,039**	**663,839,179**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts are in Moldovan Leu (MDL) unless otherwise stated)

For the year ended 31 December	Note	2021	2020
Cash flow from operating activities			
Net profit for the year		86,142,154	39,969,510
Adjustments for:			
- Depreciation and amortisation		14,485,801	18,068,341
- Impairment loss / (release) and write-offs of financial assets, provisions for other risks and loan commitments		(11,542,978)	31,933,358
- Interests income		(225,332,902)	(196,795,441)
- Interest expenses		78,093,174	79,432,913
- Gains/Lossees from foreign currency reevaluation		(972,565)	93,173
- Provisions		232,311	2,785,728
- Tax expense		12,061,491	5,895,288
Net profit adjusted with non-monetary elements		**(46,833,514)**	**(18,617,130)**
Changes in:			
- Mandatory reserves with NBM		47,109,567	(251,496,248)
- Loans and advances to banks		4,494,776	(70,257)
- Loans and advances to customers		(273,293,594)	(611,407,696)
- Finance lease receivables		8,711,902	1,455,581
- Other assets		(11,136,322)	(3,145,797)
- Deposits from customers		67,881,464	519,068,341
- Other liabilities		23,640,357	(522,862)
Interest received		222,488,657	228,565,691
Dividends received		271,139	156,788
Interest paid		(81,253,151)	(80,677,073)
Income tax paid		(8,107,859)	(8,694,078)
Net cash used in operating activities		**(46,026,578)**	**(225,384,740)**
Cash Flow from investing activities			
Aquisition of property, plant and equipment		(17,928,572)	(15,290,098)
Acquisition of intangible assets		0	(1,491,556)
Net cash used in investing activities		**(17,928,572)**	**(16,781,654)**
Cash flow from financing activities			
Proceeds from borrowings from other financial institutions		230,722,240	306,208,223
Repayment of borrowings to other financial institutions		(24,144,686)	(2,190,159)
Payments of lease liabilities		(10,565,404)	(11,369,342)
Dividends paid		(28,454,368)	(70,345,242)
Net cash from financing activity		**167,557,782**	**222,303,480**
Net increase/ (decrease) in cash and cash equivalents		**103,602,632**	**(19,862,914)**
Cash and cash equivalents at 1 January	**15**	**992,666,451**	**1,010,104,103**
Effect of exchange rate fluctuations on cash and cash equivalents held		(8,344,416)	2,425,261
Cash and cash equivalents at 31 December	**15**	**1,087,924,667**	**992,666,450**

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The notes on pages 5 to 122 are an integral part of these financial statements.

1 GENERAL INFORMATION

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

Currently the Bank has a licence that allows it to engage in all banking activities.

The Bank's registered office is located at the following address:
of. 901, 65, Stefan cel Mare si Sfant Street, MD - 2012, Chisinau, Republic of Moldova

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

As at 31 December 2021 the Bank had divisions in Chişinău and Bălţi, 4 branches and 1 agency which offer the full range of banking services and operations.

As of 31 December 2021 the Bank Board (supervisory body) comprised the following members:

- Mr. Ivan Smiljkovic – President of the Bank Board
- Ms. Elena Godea – Member of the Bank Board;
- Ms. Stela Ciobu – Member of the Bank Board;
- Mr. Dietrich Ohse – Member of the Bank Board;
- Ms. Jovanka Joleska Popovska – Member of the Bank Board.

As at 31 December 2021 the Management Board of the Bank (executive body) comprised of the following members:

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

As at 31 December 2021 and 2020 the shareholders of the Bank were the following:

	31 December 2021	**31 December 2020**
	%	%
ProCredit Holding AG & Co. KGaA	100	100
	100	**100**

The Bank's number of employees as at 31 December 2021 was 146 (31 December 2020: 143).

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

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2 OPERATING ENVIRONMENT OF THE BANK

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

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

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

3 BASIS OF PREPARATION

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

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

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

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

3 BASIS OF PREPARATION (CONTINUED)

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

Compliance with national law

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

These financial statements of the Bank were approved for issue by the Bank Board (supervisory body) on 29 April 2022.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Changes in the accounting policies

The accounting policies presented in these financial statements were applied consistently in the financial statements ending on 31 December 2021, respectively 31 December 2020.

During 2021, the Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

4.2 Comparative financial statements

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

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

For the purpose of preparing these financial statements, certain comparative information has been reclassified to comply with the presentation requirements applicable for the financial year ended on 31 December 2021.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Conversion of foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates, i.e. the functional currency: the Moldovan leu (“MDL”). The financial statements of the Bank are presented in Moldovan Lei, which is the Bank’s presentation currency.

(b) Transactions and balances

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

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of investments in equity securities denominated in foreign currency and classified as FVOCI financial instruments, translation differences are recognised in other comprehensive income (“OCI”).

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

The exchange rates for the year 2021 and 2020 are presented below:

		2021		2020
	USD	**EUR**	**USD**	**EUR**
Closing rate at 31 December	17.7452	20.0938	17.2146	21.1266
Average rate	17.6816	20.9255	17.3201	19.7436

4.4 Cash and cash equivalents

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Mandatory reserves with the NBM

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

4.6 Loans and advances to banks

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

4.7 Loans and advances to customers

Loans and advances are initially recognised at fair value plus transactions costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and advances. Their carrying amount may be reduced as a consequence of using an expected credit loss allowance account (see Note 4.10 for the accounting policy for impairment of loans, and Note 19, Note 31 for details on impairment of loans)

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

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

4.8 Investments in debt securities

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

As of 31 December 2021 and 2020, the Bank does not hold investments in debt securities measured at FVOCI, or FVTPL.

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Investments in equity securities

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

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

4.10 Financial assets and financial liabilities

i. Recognition and initial measurement

The Bank initially recognizes financial assets and liabilities at the date on which they are originated. A financial asset or financial liability, not measured at FVTPL, is measured initially at fair value plus transaction costs that are directly attributable to acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

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

ii. Classification

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

Differentiation is made between the following business models: “hold to collect”, “hold to collect and sell” and “other”. Financial assets are assigned to the “hold to collect” business model if their objective is solely to collect contractual cash flows through interest and principal payments (according to SPPI). The statement of financial position items allocated to this business model are: “Mandatory reserves with NBM”, “Loans and advances to banks”, “Loans and advances to customers” “Finance lease receivables” “Investments in debt securities”, and “Other financial assets”, “Cash and cash equivalents”. “Derivative financial assets” are allocated to the “Other” business model and are measured at fair value through profit or loss.

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

ii. Classification (continued)

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

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

The Bank does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under “Other assets” / “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Other liabilities” / “Derivative financial liabilities”.

Gains and losses arising from changes in their fair value are immediately recognised in the statement of profit or loss of the period.

- **Financial assets at amortised costs**

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

Amortised premiums and discounts are accounted for over the respective terms in the statement of profit or loss under “Interest income calculated using the effective interest method”. The decreases in expected credit losses are basically recognised using a three-stage model (please see paragraph “Impairment” below). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the statement of profit or loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

ii. Classification (continued)

"Investments in debt securities" allocated to this business model are those financial assets that are generally held considering the "SPPI" criteria, in order to collect contractual cash flows but can be sold as needed.
At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income under "Revaluation reserve".
As of 31 December 2021 and 31 December 2020, the Bank has no investments in debt securities classified at FVOCI.
For an equity instrument that is not held for trading, the Bank may irrevocably elect to present the subsequent changes in fair value through other comprehensive income (OCI). The election is made on an instrument-by-instrument basis.

- **Other financial liabilities at amortised cost**

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

Reclassification of financial assets and financial liabilities

If the Bank changes its business model for the management of its financial assets, all affected financial assets are reclassified. It is estimated that such changes will be very rare. Such changes are determined by the Bank's management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Consequently, a change in the Bank's business model will occur only if the Bank either begins or ceases an activity that is significant to its operations.
A change in the objective of the Bank's business model must be made before the date of reclassification, applying reclassification prospectively from the date of reclassification. In the event of reclassifications, the Bank does not restate previously recognized gains, losses (including impairment gains or losses) or interest. The Bank does not reclassify financial liabilities.

iii. Derecognition

Financial assets measured at amortized cost are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. In addition, when financial assets measured at amortized cost are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

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

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

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

iv. Changes of financial assets and financial liabilities

If the terms of a financial asset are modified, the Bank assesses whether the cash flows are substantially different. If the contractual terms are substantially altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the modified financial asset is subsequently recognized, such modified financial asset being considered as a "new" asset. The criteria set at Bank level to evaluate changes leading to derecognition of financial assets are developed having in mind that they must reflect changes that are substantial enough (either quantitatively or qualitatively) to satisfy the derecognition requirements in IFRS 9 paragraph 3.2.3. On the quantitative side, these criteria refer to a significance threshold of 10% by analogy to the derecognition trigger set by IFRS 9 paragraph B3.3.6 for modifications of financial liabilities. On the qualitative side, these criteria refer to contractual modifications that are substantially changing the nature of the risks associated with the pre-existing loan contract. During 2021 and 2020, the Bank did not have any changes that would result in the derecognition of the original instrument.

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

If such a modification is carried out because of the financial difficulties of the borrower, then the gain or loss is presented together with "Net (loss) / release on allowances for credit risk losses". In other cases, it is presented as "Interest income calculated using the effective interest rate method". The gain or loss from the modifications of financial assets for the years ended 31 December 2021 and 2020 were not significant.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

v. Offsetting financial instruments

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

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

vi. Fair value measurement

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

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

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

(a) Level 1 Inputs

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

(b) Level 2 Inputs

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vi. Fair value measurement (continued)

(c) Level 3 Inputs

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

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

vii. Impairment

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

Increase in expected credit loss allowances

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

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

Reversal of loss allowances

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

Write-offs, subsequent recoveries and direct write-offs

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

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

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

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

Restructured financial assets

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial assets and financial liabilities (continued)

vii. Impairment (continued)

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

4.11 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives.

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

(b) Other intangible assets

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

4.12 Premises and equipment

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

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Premises and equipment (continued)

The assets’ residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.
Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss.

4.13 Impairment of non-financial assets

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

4.14 Leases

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

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

When initiating or revaluing a contract that contains a lease component, the Bank allocates the equivalent value of the contract to each lease component based on the relative value of the individual prices.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Leases (continued)

However, for the lease of land and buildings in which the Bank is a lessee, the Bank has chosen not to separate the non-lease components and books the lease and non-lease components as a single component.

i. Lessee

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

The right of use of the asset is subsequently amortized using the straight-line method from the commencement date until the earliest date between the end of life of the right of use or the end of the lease term. The estimated useful lives of right-of-use asset are determined in the same way as for property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted by certain revaluations of lease liabilities.

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

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Leases (continued)

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

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

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

ii. Lessor

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

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

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

4.15 Income tax

Current tax

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

Deferred tax

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Income tax (continued)

The principal temporary differences arise from depreciation of property, plant and equipment and other liabilities presented in Note 22. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

The tax effects of income tax losses carried over from previous fiscal periods are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets are recognised where it is probable that future taxable profit will be available will be available for use against such losses.

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

4.16 Liabilities to banks and customers

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

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

4.17 Provisions

Provisions are recognised if:

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

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be not occur within one year.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial guarantee contracts

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

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

Any increase in liabilities relating to guarantees is taken to profit or loss under “Depreciation and amortization expenses”.

4.19 Loan commitments

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Subordinated debt

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

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost. Interests, fees and commissions which are part of the effective interest are accounted for in the statement of profit or loss under “Interest expense”.

4.21 Share capital

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

4.22 Interest income and expense

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23 Fee and commission income and expenses

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

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

4.24 Net trading income

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

4.25 Employee benefits

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

4.26 Dividends

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

Dividends payment is treated as a distribution of profit for the period in which they are declared and approved, according to applicable law, by the General Meeting of Shareholders.

4.27 Contingent assets and liabilities

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Use of assumptions and estimates

The Bank's financial reporting and its financial result are influenced by Management's assumptions, estimates, and judgements which necessarily have to be made in the course of preparation of the financial statements. All estimates and assumptions required are the best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and considered appropriate under the given circumstances.

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

a. See also Note 4.15, Note 14 and Note 22: recognition of deferred income tax assets: availability of future profit for the use of tax losses.
b. See also Note 33: determining the fair value of instruments that are not traded in an active market.
c. Impairment of credit exposures in accordance with IFRS 9.

Expected Credit Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in other comprehensive income (FVOCI), and for off-balance-sheet commitments and financial guarantees. Expected credit losses are recorded on the basis of a model that classifies credit exposures in three stages. The Bank reports the following items from the statement of financial position, "Mandatory reserves with NBM", "Loans and advances to banks", "Loans and advances to customers", "Finance lease receivables", "Investments in debt securities" and "Other financial assets" at net value (after including the reductions for expected impairment losses).

Measurement of ECLs is a significant estimate that involves the determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 31. The following components have a major impact on expected credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs of the models to reduce any differences between expected credit loss estimates and actual credit loss experience.
In determining the impairment for credit risk, management incorporates forward-looking information, exercises professional judgement and uses estimates and assumptions. The estimation of expected credit losses involves forecasting future macroeconomic conditions over 3 years. The macroeconomic scenarios applied have been changed from those applied at 31 December 2020 to reflect the worsening of the macroeconomic outlook due to the COVID-19 pandemic and macroeconomic turmoil at the end of 2021 manifested by rising energy prices, possible supply disruptions and rising inflation that have created new uncertainties. More details about assumptions and judgements made are described in Note 31.4 Credit risk. The incorporation of forward-looking elements reflects the Bank's expectations and involves the creation of scenarios, including an assessment of the probability for each scenario.

Also, due to the COVID-19 pandemic and macroeconomic turmoil at the end of 2021, management applies supplementary judgement when determining the need for post-model adjustments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

SPPI testing

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

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

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

6 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

During the year ended 31 December 2021, there were no new standards that would become applicable to the Bank.

7 NEW ACCOUNTING PRONOUNCEMENTS NOT YET IN FORCE

The following new and amended standards are in effect for annual periods beginning after 1 January 2021, and may be applied prior to that date. The Bank has not adopted any of these new and amended standards in advance and they are not expected to have a significant impact on the Bank's financial statements when they enter into force.

- Classification of debt into current or long-term debt (Amendments to IAS 1);
- References to the Conceptual Framework (Amendments to IFRS 3);
- Property, plant and equipment - Receivables before expected use (Amendments to IAS 16);
- Onerous contracts - Cost of fulfilling a contract (Amendments to IAS 37);
- Presentation of accounting policies (Amendments to IAS 1);
- Definition of accounting estimates (Amendments to IAS 8);
- Deferred tax on assets and liabilities arising from a single transaction (Amendments to IAS 12);
- Lease concessions related to COVID-19 after 30 June 2021 (Amendments to IFRS 16);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Annual improvements to IFRS 2018-2020.

8 NET INTEREST INCOME

Interest and similar income	**2021**	**2020**
Mandatory reserves with NBM	3,149,491	2,067,270
Placements with NBM	218,945	77,123
Investments in debt securities	19,711,454	16,147,428
Loans and advances to banks	72	625
Loans and advances to customers*	202,182,531	178,104,338
Total interest income calculated using the effective interest method	**225,262,493**	**196,396,784**
Interest income from finance lease receivables	70,409	398,657
Total interest income	**225,332,902**	**196,795,441**
Interest expense:		
Interest expenses on liabilities to banks	874,709	1,295,648
Interest expenses on liabilities to banks (related parties)	120,333	0
Interest expenses on deposits from customers	36,530,073	41,040,567
Interest expenses on deposits from customers (related parties)	352,798	450,730
Interest expenses on liabilities to IFI's	2,341,638	7,177,344
Interest expenses on liabilities to OGP AE	14,119,133	11,174,990
Interest expenses on borrowings from related parties	14,253,930	8,960,278
Interest expenses on subordinated debt	8,542,617	8,395,331
Interest expenses on lease liabilities	957,943	938,025
Total interest expenses	**78,093,174**	**79,432,913**
Net interest income	**147,239,728**	**117,362,528**

*Interest income from impaired loans for the year ended 31 December 2021 represented MLD 6,417 thousand (2020: MLD 2,842 thousand).

9 NET FEE AND COMMISSION INCOME

Fee and commission income	2021	2020
Payment transfers and transactions	20,350,624	18,271,894
Account maintenance fee	13,122,108	13,255,781
Letters of credit and guarantees	3,818,907	3,195,998
Debit/credit cards	12,291,252	11,331,837
Fee income from lending activity	3,451,826	3,132,758
Other fee and commission income	1,293,342	1,288,444
Total fee and commission income	**54,328,059**	**50,476,712**
Fee and commission expenses		
Payment transfers and transactions	429,491	389,796
Payment transfers and transactions with related parties	7,722,981	4,835,332
Fees for credit/debit cards	4,706,461	5,934,613
Fee expenses from lending activity	3,239,839	2,795,982
Total fee and commission expenses	**16,098,772**	**13,955,722**
Net fee and commission income	**38,229,287**	**36,520,990**

10 NET TRADING INCOME

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

Trading result	2021	2020
Net gains less loses from foreign currency transactions	59,294,265	62,143,368
Net gains less loses from derivatives	-	66,034
Revaluation of balances in foreign currencies	(972,565)	93,173
Total	**58,321,700**	**62,302,575**

11 OTHER OPERATING INCOME

Other operating income	2021	2020
Dividend income from FVOCI equity instruments	271,139	156,788
Other operating income	58,696	6,401
Total	**329,835**	**163,189**

12 PERSONNEL EXPENSES

Personnel expenses can be broken down as follows:

	2021	2020
Salary expenses	(38,422,818)	(35,497,613)
Social security contributions	(9,866,534)	(6,751,861)
Medical contributions	(1,324)	(1,652,714)
Other remuneration expenses	(1,750,579)	(2,077,880)
Expenses related to unused vacations accruals	(43,686)	(348,404)
Income from provisions with employees	-	-
Total	**(50,084,941)**	**(46,328,472)**

13 ADMINISTRATIVE EXPENSES

	2021	2020
Communication and IT expenses	(45,914,909)	(39,197,752)
Service management fees	(8,503,943)	(6,924,918)
Court and notary fees	(4,008,085)	(2,735,923)
Advertising and marketing services	(2,400,197)	(1,497,693)
Transportation expenses	(609,085)	(1,608,998)
Audit and consulting services	(2,644,530)	(2,543,873)
Other taxes	(9,617,175)	(6,672,288)
Training expenses	(3,926,754)	(1,230,301)
Utility expenses	(969,959)	(1,094,110)
Insurance expenses	(1,215,267)	(723,925)
Office rent	(160,072)	(248,646)
Expenses with the contribution to the Deposit Guarantee Fund	(858,185)	(838,311)
Expenses with the contribution to the Banking Resolution Fund	(7,499,103)	(2,612,188)
Construction, repairs and maintenance	(1,522,387)	(1,334,008)
Security service	(606,266)	(626,026)
Office supplies	(139,511)	(96,321)
Provision expenses (claims)	(30,306)	(2,775,771)
Net result from derecognition of non-financial assets	(50,397)	(432,630)
Other administrative expenses	(2,438,208)	(1,264,628)
Total	**(93,114,340)**	**(74,458,311)**

14 INCOME TAX EXPENSE

	2021	2020
Current tax	(11,918,201)	(6,637,015)
Deferred tax (Note 22)	(143,290)	741,727
Total	**(12,061,491)**	**(5,895,288)**

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

15 CASH AND CASH EQUIVALENTS AND MANDATORY RESERVERS WITH NBM

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

	31 December 2021	31 December 2020
Cash on hand	108,094,193	124,015,828
Cash and cash equivalents with NBM, less mandatory reserves	7,655,603	-
Expected credit loss allowance	(100)	-
	115,749,696	**124,015,828**
Mandatory reserves with NBM	703,465,865	764,244,777
Expected credit loss allowance	(3,349,848)	(3,639,273)
	700,116,017	**760,605,504**
Total cash and cash equivalents with NBM	**815,865,713**	**884,621,332**

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

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

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

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

	31 December 2021	31 December 2020
Cash on hand (Note 15)	108,094,193	124,015,828
Cash and cash equivalents with NBM, less mandatory reserves (Note 15)	7,655,603	-
Investments in debt securities (Nota 17)	718,863,462	639,578,978
Loans and advances to banks, that are considered as cash (Nota 16)	253,311,409	229,071,644
Cash and cash equivalents	**1,087,924,667**	**992,666,450**

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 2021 the reserve ratio established by the National Bank of Moldova was 26% for MDL and other non-convertible currencies (2020: 32%) and 30% for convertible currencies (2020: 30%).

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

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16 LOANS AND ADVANCES TO BANKS

	Classification	Rating agency	31 December 2021	31 December 2020
Correspondent accounts in banks in OECD countries:				
DZ BANK AG	AA-	Fitch Ratings	152,554,159	175,764,952
THE BANK OF NEW YORK MELLON	AA-	Fitch Ratings	51,018,496	21,338,384
PROCREDIT BANK AG*	BBB	Fitch Ratings	43,775,138	27,302,108
Less expected credit loss allowance			(23)	(20)
			247,347,770	**224,405,424**
Correspondent accounts in banks in non-OECD countries:				
BCR CHISINAU SA	A	Fitch Ratings	5,963,616	4,666,200
Less expected credit loss allowance			(64)	(50)
			5,963,552	**4,666,150**
Guarantee placements in banks:				
PROCREDIT BANK GEORGIA	BB+	Fitch Ratings	3,549,040	3,442,920
PROCREDIT BANK AG	BBB	Fitch Ratings	-	10,563,300
Less expected credit loss allowance			(7,322)	(2,776)
			3,541,718	**14,003,444**
Total			**256,853,040**	**243,075,017**

16. LOANS AND ADVANCES TO BANKS

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

	2021	2020
	Stage 1	**Stage 1**
Balance at 1 January	(2,847)	(47)
Increase due to origination and acquisition	(12)	(128)
Decrease due to derecognition	492	131
Increase due to remeasurement of loss allowance	(22,970)	(8,370)
Decrease due to remeasurement of loss allowance	17,905	5,571
Changes due to updates of ECL methodology		-
Net change due to foreign exchange movements	23	(3)
Balance at 31 December	**(7,409)**	**(2,847)**

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17 INVESTMENTS IN DEBT SECURITIES

	31 December 2021	31 December 2020
Certificates issued by the National Bank of Moldova	718,863,462	639,578,978
Expected credit loss allowance	(92,717)	(84,082)
Net carrying amount	**718,770,745**	**639,494,896**

Movement of investments in debt securities	**2021**	**2020**
	Stage 1	**Stage 1**
Balance at 1 January	639,578,978	629,473,750
New financial assets	13,684,573,030	11,753,957,800
Release due to derecognition	(13,605,288,546)	(11,743,852,572)
Balance at 31 December	**718,863,462**	**639,578,978**

Debt securities mandatorily classified as at amortised cost by the Bank represent securities held in a “held to collect” business model. Investments in debt securities represent short-term certificates issued by the National Bank of Moldova. For the presentation purposes, the Bank has classified the investments in debt securities at Stage 1 (Note 31). The interest rate on debt securities during the year was 2.65%, 3.65%, 4.65%, 5.50%, and 6.50% at the end of the 2021.

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

As at 31 December 2021 and 2020, the sovereign rating assigned to the Republic of Moldova by Moody’s was “B3” with a stable outlook. In April 2022 the rating agency Moody's changed the outlook of the Moldovan government's ratings from stable to negative.

As at 31 December 2021 and 2020 there were no debt securities pledged as collateral.

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18 INVESTMENTS IN EQUITY SECURITIES

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

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

Equity investments represent 9.84% of shares owned in“Biroul istoriilor de credit” SRL in the amount of MDL 1,200,000. The Bank measures these investments at fair value through other comprehensive income.

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

As at 31 December 2021 and 2020 equity investments have not been pledged.

19 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021	31 december 2020
Loans and advances to customers	3,437,485,120	3,239,525,555
Expected credit loss allowance	(114,616,920)	(121,843,147)
Total loans and advances to customers	**3,322,868,200**	**3,117,682,408**

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers can be analysed as follows:

In thousands MDL

	31 Dec 2021			31 Dec 2020		
	Gross amount	**ECL Allowance**	**Carrying amount**	**Gross amount**	**ECL Allowance**	**Carrying amount**
Individuals						
Consumer loans	8,060	(217)	7,843	1,441	(69)	1,373
Mortgage	83,069	(1,760)	81,309	30,613	(781)	29,832
Legal entities						
Loans to agriculture	993,634	(50,307)	943,327	974,789	(50,300)	924,489
Loans to the food industry	253,727	(4,763)	248,964	293,511	(7,376)	286,135
Loans to the productive industry	377,566	(4,577)	372,990	330,543	(5,013)	325,530
Trade credits	1,198,231	(29,429)	1,168,802	1,090,302	(35,018)	1,055,284
Loans granted to natural persons practicing activity	25,287	(1,137)	24,150	34,457	(3,128)	31,329
Loans for transport, telecommunications and network development	200,135	(6,959)	193,176	180,244	(9,055)	171,189
Loans for services	270,337	(15,213)	255,124	274,791	(10,644)	264,146
Other loans	27,438	(255)	27,183	28,835	(458)	28,377
Total	**3,437,485**	**(114,617)**	**3,322,868**	**3,239,526**	**(121,842)**	**3,117,684**

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

in thousands MDL

	31 Dec 2021			31 Dec 2020		
Legal entities	Loan size up to 50k EUR	Loan size from 50 to 500k EUR	Loan size more than 500k EUR	Loan size up to 50k EUR	Loan size from 50 to 500k EUR	Loan size more than 500k EUR
Loans to agriculture	82,953	808,539	102,142	74,891	792,245	107,653
Loans to the food industry	9,963	161,353	82,410	8,372	138,243	146,897
Loans to the productive industry	24,539	178,581	174,447	19,446	148,563	162,534
Trade credits	68,064	767,436	362,731	61,315	777,581	251,406
Loans granted to natural persons practicing activity	2,475	22,812	0	5,666	28,791	0
Loans for transport, telecommunications and network development	25,661	129,929	44,545	23,152	121,094	35,998
Loans for services	14,716	214,748	40,873	17,298	209,551	47,942
Other loans	6,464	10,289	10,685	9,285	9,186	10,364
Total	**234,835**	**2,293,686**	**817,834**	**219,425**	**2,225,253**	**762,793**

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20 LEASING

	31 December 2021	31 December 2020
Finance lease receivables	-	8,741,583
Expected credit loss allowance	-	(354,906)
Finance lease amount	**-**	**8,386,677**
Fair value of lease receivables	**-**	**8,800,274**

Finance leases under IFRS 16

Finance lease receivables amount	31 December 2021	31 December 2020
Less than one year	-	1,942,992
Between one and two years	-	1,872,716
Between two and three years	-	1,801,381
Between three and four years	-	1,730,616
Between four and five years	-	1,659,021
More than five years	-	802,454
	-	**9,809,179**
Future interest on finance lease receivables	-	(1,067,597)
Net finance lease receivables	**-**	**8,741,583**

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

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20 LEASES (CONTINUED)

I. Right-of-use assets

	2021	2020
Balance at 1 January	18,758,581	17,692,450
Depreciation charge for the year	(9,763,625)	(9,718,143)
Additions	16,220,416	11,080,922
Disposals	(206,272)	(296,648)
Balance at 31 December	**25,009,100**	**18,758,581**
Maturity analysis of undiscounted lease liability		
Less than one year	10,327,425	9,727,970
Between one and two years	10,155,422	5,029,407
Between two and three years	6,750,921	4,784,972
Between three and four years	-	2,688,571
Between four and five years	-	-
Total gross lease liability, 31 December	**27,233,768**	**22,230,920**

II. Amounts recognized in profit or loss

Leases according IFRS 16	**2021**	**2020**
Interest on lease liabilities	957,943	938,025
Depreciation expenses	9,763,625	9,718,143

III. Amount recognized in statement of Cash Flows	**2021**	**2020**
Total cash outflow for leases	10,565,404	11,369,342

21 OTHER ASSETS

Other assets are as follows:

Other financial assets	**31 December 2021**	**31 December 2020**
Transit and suspended accounts	19,886,843	9,739,788
Derivatives	218,613	35,075
Other receivables	2,510,593	1,060,310
Expected credit loss allowance	(132,996)	(100,955)
Total financial assets	**22,483,053**	**10,734,218**

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21 OTHER ASSETS (CONTINUED)

Other non-financial assets	31 December 2021	31 December 2020
Prepaid expenses	2,070,813	2,356,518
Spare parts and consumables	44,071	52,058
Settlements with third parties	2,049,036	2,331,657
Prepaid taxes	199	39,378
Total non-financial assets	**4,164,119**	**4,779,611**
Total other assets	**26,647,172**	**15,513,829**

22 DEFERRED TAX ASSET

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

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

	2021	2020
Current tax expense		
Current year	12,160,630	6,723,010
Changes in estimates related to prior years	(242,429)	(85,995)
	11,918,201	**6,637,015**
Deferred tax expense / (savings)		
Origination and reversal of temporary differences	179,007	(372,090)
Derecognition of temporary differences	(35,717)	(369,637)
	143,290	**(741,727)**
Total	**12,061,491**	**5,895,288**

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22 DEFERRED TAX ASSETS (CONTINUED)

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of 12 % (2020: 12%).

b. Reconciliation of effective tax rate

	2021	2021	2020	2020
Profit before tax		98,203,646		45,864,798
Income tax calculated at 12% tax rate (2020: 12%)	12%	11,784,438	12%	5,503,776
Tax effect of:				
Tax-exempt income	-0.1%	(64,719)	0.0%	(8,828)
Non-deductible expenses				
Accelerated depreciation rate	-0.1%	(81,521)	0.0%	13,798
Provisions and commitments	0.0%	13,655	0.0%	5,601
Expenses from revaluation of fixed assets and other assets	0.0%	3,845	0.0%	5,030
Loss on disposal of fixed assets	0.0%	1,757	-0.1%	(35,523)
Costs associated with payments to employees that cannot qualify for salary payments	0.0%	40,265	0.0%	238
Other non-deductible expenses	0.5%	462,911	1.1%	497,192
Changes in estimates relating to prior years	-0.2%	(242,429)	-0.2%	(85,995)
Total income tax expense	**12.1%**	**11,918,201**	**12.9%**	**5,895,288**

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22 DEFERRED TAX ASSETS (CONTINUED)

Deferred tax receivables

	1 January 2021	Recognised in profit or loss	31 December 2021
Assets			
Property, plant and equipment	1,346,938	(179,007)	1,167,931
Deferred tax receivables	**1,346,938**	**(179,007)**	**1,167,931**
Liabilities			
Other Liabilitites	692,604	30,474	723,078
Accural for unpaid vacations	189,393	5,242	194,635
Deferred tax receivables	**881,997**	**35,717**	**917,713**
Deferred tax receivables	**2,228,935**	**(143,290)**	**2,085,645**

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

23 PROPERTY, PLANT AND EQUIPMENT

See accounting policy in Note 4.12

	Land and buildings	Equipment	IT equipment	Vehicles	Other assets	Assets under constructio n	Total
Gross carrying amount							
Balance at 1 January 2020	**35,748,972**	**28,097,508**	**17,833,414**	**4,688,566**	**10,018,833**	**1,182,307**	**97,569,599**
Additions	11,080,922	-	-	-	-	4,209,176	15,290,098
Transfers		610,164	4,029,645	-	346,937	(4,986,745)	-
Disposals	7,947,890	1,051,086	92,858		232,620	-	9,324,455
							-
Balance at 31 December 2020	**38,882,004**	**27,656,585**	**21,770,201**	**4,688,566**	**10,133,149**	**404,738**	**103,535,242**
Balance at 1 January 2021	**38,882,004**	**27,656,585**	**21,770,201**	**4,688,566**	**10,133,149**	**404,738**	**103,535,242**
Additions	16,220,416	-	-	-	-	1,708,156	17,928,572
Transfers	-	300,890	1,057,266	-	754,737	(2,112,894)	-
Disposals	12,419,834	115,495	234,764	-	1,229,668	-	13,999,761
							-
Balance at 31 December 2021	42,682,586	27,841,981	22,592,703	4,688,566	9,658,219	0	107,464,054

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23 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Equipment	IT equipment	Vehicles	Other assets	Assets under construction	Total
Accumulated depreciation and impairment losses							
Balance at 1 January 2020	17,661,511	22,057,685	15,188,874	3,818,130	7,770,185	-	66,496,384
Depreciation for the year	10,112,101	3,790,420	1,684,141	595,915	1,283,581	-	17,466,158
Disposals	7,651,242	1,043,736	92,858		232,620	-	9,020,457
Balance at 31 December 2020	20,122,370	24,804,368	16,780,157	4,414,044	8,821,146	-	74,942,085
Balance at 1 January 2021	20,122,370	24,804,368	16,780,157	4,414,044	8,821,146	-	74,942,085
Depreciation for the year	9,764,678	1,673,738	1,505,252	116,772	748,998	-	13,809,438
Disposals	12,213,562	115,495	234,764	-	1,210,741	-	13,774,562
Balance at 31 December 2021	17,673,486	26,362,611	18,050,645	4,530,816	8,359,403	-	74,976,961
Net carrying amount							
Balance at 1 January 2020	18,087,462	6,039,823	2,644,540	870,436	2,248,647	1,182,307	31,073,215
Balance at 31 December 2020	18,759,634	2,852,217	4,990,044	274,522	1,312,003	404,738	28,593,157
Balance at 31 December 2021	25,009,100	1,479,370	4,542,058	157,750	1,298,816	0	32,487,092

As at 31 December 2021, property, plant and equipment includes right-of-use assets of MDL 25,009,100 related to leased branches and office premises (see Note 20)

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24 INTANGIBLE ASSETS

	Software	Other Intangible Assets	Intangible Assets in process	Total
Net carrying amount				
Balance at 1 January 2020	**7,497,937**	**152,348**	**108,413**	**7,758,697**
Acquisitions	1,265,686	6,584	219,287	1,491,556
Transfers	327,699	-	(327,699)	-
Disposals	-	-	-	-
Balance at 31 December 2020	**9,091,322**	**158,932**	**-**	**9,250,254**
Balance at 1 January 2021	**9,091,322**	**158,932**	**-**	**9,250,254**
Acquisitions	-	-	-	-
Transfers	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2021	**9,091,322**	**158,932**	**-**	**9,250,254**
Accumulated amortization and impairment losses				
Balance at 1 January 2020	**7,127,795**	**41,339**	**-**	**7,169,135**
Amortisation for the year	274,554	23,630	-	298,185
Disposals	-	-	-	-
Balance at 31 December 2020	**7,402,349**	**64,970**	**-**	**7,467,319**
Balance at 1 January 2021	**7,402,349**	**64,970**	**-**	**7,467,319**
Amortisation for the year	427,082	24,082		451,163
Disposals	-	-	-	-
Balance at 31 December 2021	**7,829,431**	**89,052**	**-**	**7,918,483**
Net carrying amount				
Balance at 1 January 2020	**370,141**	**111,009**	**108,413**	**589,562**
Balance at 31 December 2020	**1,688,972**	**93,962**	**-**	**1,782,934**
Balance at 31 December 2021	**1,261,891**	**69,880**	**-**	**1,331,771**

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25 DEPOSITS FROM CUSTOMERS

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

	31 December 2021	31 December 2020
Current accounts	**980,808,034**	**925,278,517**
-private individuals	88,702,714	84,638,776
-legal entities	892,105,320	840,639,741
Saving accounts	**956,799,829**	**850,529,658**
-private individuals	512,269,652	448,978,465
-legal entities	444,530,177	401,551,193
Term deposit accounts	**855,666,598**	**995,857,024**
-private individuals	691,775,344	713,388,904
-legal entities	163,891,254	282,468,120
Total	**2,793,274,461**	**2,771,665,199**

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

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

26 BORROWED FUNDS

	31 December 2021	31 December 2020
Borrowings from International Financial Institutions	634,059,060	770,907,854
Borrowings from OGP AE	513,266,104	467,146,867
Borrowings from related parties	386,079,936	149,362,218
Total	**1,533,405,100**	**1,387,416,939**

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26 BORROWED FUNDS (CONTINUED)

26.1 Liabilities to International Financial Institutions (IFIs)

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

	Maturity	Currency	31 December 2021	31 December 2020
European Investment Bank	24 May 2023	EUR	11,322,699	35,955,297
European Investment Bank	24 May 2023	USD	48,728,352	84,883,513
European Investment Bank	7 December 2028	EUR	93,783,569	105,649,065
European Investment Bank	28 November 2029	EUR	100,488,985	105,656,756
European Bank of Reconstruction and Development (DCFTA)	15 November 2023	EUR		71,222,582
European Bank of Reconstruction and Development (DCFTA) warranty comission	15 Noiembrie 2023	EUR		17,605
European Bank of Reconstruction and Development (DCFTA)	15 May 2025	EUR		126,945,866
Council of Europe Development Bank (CEB)	25 June 2024	EUR	68,887,062	103,934,090
Council of Europe Development Bank (CEB)	25 June 2024	USD	21,309,644	31,010,079
Council of Europe Development Bank (CEB)	02 August 2027	EUR	190,891,100	105,633,000
European Investment Bank	08 October 2028	EUR	98,647,649	-
Total			**634,059,060**	**770,907,854**

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 2021 and 2020 financial years, the Bank complied with all the covenants required by the creditors.

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26 BORROWED FUNDS (CONTINUED)

26.2 Borrowed Funds from OGP AE

Financing projects	Currency	31 December 2021	31 December 2020
Inclusive Rural Economic & Climate Resilience Programme ("IFAD")	EUR	7,615,960	6,753,430
	MDL	189,593,848	163,565,486
	USD	118,537	336,287
Wine Sector Restructuring Program	EUR		159,828
	MDL		
Rural Investment and Services Project ("RISP")	MDL	22,075,736	37,386,122
	USD		
Competitiveness enhancement project (CEP)	EUR	36,829,477	45,993,050
	MDL	52,628,939	39,183,364
	USD	4,354,892	6,271,927
Livada Moldovei	EUR	169,953,182	146,565,883
	MDL	30,095,533	20,931,491
Total		**513,266,104**	**467,146,867**

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26 BORROWED FUNDS (CONTINUED)

26.3 Loans from related parties

		Maturity	Currency	Original Value	31 December 2021	31 December 2020
ProCredit Holding AG	Loan	27 Octombrie 2023	EUR	7,000,000	141,178,717	148,836,879
ProCredit Holding AG	Warranty comission		EUR		947,377	408,713
	Warranty comission		USD		70,578	116,627
European Bank of Reconstruction and Development (DCFTA)	Loan	15 November 2023	EUR	10,000,000	45,155,256	
European Bank of Reconstruction and Development (DCFTA)	Loan	15 May 2025	EUR		120,743,812	
European Bank of Reconstruction and Development (DCFTA)	Loan	10 February 2026	EUR	15,000,000	77,892,084	
European Bank of Reconstruction and Development (DCFTA)	Front-end fee		EUR		92,112	
	Front-end fee		USD			
	Total				**386,079,936**	**149,362,218**

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27 PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

	31 December 2021	31 December 2020
At the beginning of the period	**8,666,578**	**5,104,535**
Additions	3,437,315	5,634,232
Uses	-	-
Releases	(2,092,248)	(2,072,188)
At as 31 December	**10,011,645**	**8,666,578**

The provisions consist of provisions for off-balance sheet items, e.g. guarantees, loan commitments in the amount of MDL 4,892,025 (2020: MDL 3,617,063) and provisions for imminent losses from ongoing transactions in the amount of MDL 5,119,619 (2020: MDL 5,049,515).

28 OTHER LIABILITIES

	31 December 2021	31 December 2020
Other inancial liabilities		
Lease liabilities	25,541,112	20,585,982
Transit accounts	10,396,720	3,796,337
Liabilities for support programs	540,008	540,008
Liabilities for goods and services	5,032,291	5,706,212
Accruals for unused vacation	1,621,962	1,578,275
Other financial liabilities	853,997	354,360
Total other financial liabilities	**43,986,088**	**32,561,174**
Other non-financial liabilities		
Non-income tax liabilities	460,893	57,031
Liabilities to social fund on employees' contributions	35,133	-
Liabilities to employees	1,604	1,604
Total other non-financial liabilities	**497,631**	**58,636**
Total other liabilities	**44,483,719**	**32,619,810**

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

Liabilities for support programs are related to amounts received from sources obtained from the OGP AE under the Ministry of Finance as a part of Refinancing Agreements, such as Inclusive Rural Economic & Climate Resilience Programme ("IFAD") and Rural Investment and Services Project ("RISP").

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28 OTHER LIABILITIES (CONTINUED)

As at 31 December 2021 and 31 December 2020 liabilities for support programs have the following structure:

	31 December 2021	31 December 2020
Liabilities for support programs		
European Investment Bank	-	-
OGP AE	540,008	540,008
Total liabilities for support programs	**540,008**	**540,008**

29 SUBORDINATED DEBT

	31 December 2021	31 December 2020
Subordinated debt	131,795,018	138,569,357
Total	**131,795,018**	**138,569,357**

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

30 CAPITAL AND RESERVES

a. Share capital

As at 31 December 2021 and 31 December 2020 the shareholder structure was as follows:

	31 December 2021			31 December 2020		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount in MDL**	**Size of stake in %**	**Number of shares**	**Amount in MDL**
ProCredit Holding	100%	406,550	406,550,000	100%	406,550	406,550,000
With voting rights	100%	406,550	406,550,000	100%	406,550	406,550,000
Non-voting rights	-	-	-	-	-	-
Total	**100%**	**406,550**	**406,550,000**	**100%**	**406,550**	**406,550,000**

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30 CAPITAL AND RESERVES (CONTINUED)

During 2021 the Bank did not issue shares (2020: zero). The total number of ordinary shares authorised and issued at the end of the year constituted 406,550 shares with a nominal value of MDL 1,000 per share.

b. General reserve for bank risks

According to the regulations of the National Bank of Moldova, starting from 2012, banks shall allocate to reserves from the retained earnings an amount representing the difference between the adjustment on impairment of assets calculated under prudential requirements of the National Bank of Moldova and ECL allowance calculated in accordance with IFRS. Thus, as at 31 December 2021 the balance of the general reserve for bank risks amounts to MDL 19,287,002 (as at 31 December 2020: MDL 25,581,098). These reserves are non-distributable.

c. Statutory reserve

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents at least 10% of the share capital of the Bank. According to Bank’s statute it can only be used to absorb losses and/or to increase its share capital. In 2021, the Bank formed statutory reserves in the amount of 5% of the profit of previous years amounting to MDL 1,998,476. The balance of of statutory reserves as of 31 December 2021 amounted to MDL 12,586,138 (31 December 2020: MDL 10,587,662).

31 RISK MANAGEMENT

31.1 Management of the general risk profile of the bank

The core component of the Bank's socially responsible business model is the informed and transparent approach to risk management. This is also reflected in its risk culture, which results in well-balanced decision-making processes. The Bank aims to maintain a sustainable and adequate level of liquidity and capital at all times, and to achieve consistent results.

The Bank's risk management principles and risk strategy have not changed compared to the previous year. On the contrary, during the COVID-19 pandemic, the conservative approach to risks proved to be appropriate to deal with uncertainties, such as those caused by the global COVID-19 pandemic. Like the rest of the world, Moldova has been severely affected by COVID-19, starting in 2020 and this has had an impact on the Bank. At the beginning of 2021, with the first vaccines, vaccination against COVID-19 was launched, which contributed to a considerable reduction in the number of infected people. With the lifting of restrictions in other countries and better control of the pandemic, economic activities have resumed, including foreign trade. The year 2021 was marked by a strong economic recovery for the Republic of Moldova, even if the prices of energy resources increased and there was a strong increase in inflation, especially towards the end of the year. Managing the potential impact of the COVID-19 pandemic on the quality of the loan portfolio has been a priority for the Bank.

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31 RISK MANAGEMENT (CONTINUED)

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

The bank has implemented all necessary and possible preventive security measures in the branches and the central office to protect the health of our staff and customers. Since the summer of 2021, vaccination of all employees has been promoted throughout the Bank to reach a rate of about 99% by the end of 2021. Continuity of operations has been fully ensured in the back office and front office in 2020 and 2021. Bank employees Banks have been able to operate and communicate remotely efficiently throughout the crisis. The bank's IT infrastructure was fully operational, with no performance degradation. Access to the Bank's systems was provided through the secure VPN channel.

During 2021, there was a strong economic recovery with a GDP growth of 13.9%, after a recession of 7.4% in 2020. However, the economic crisis continues, with uncertainty remaining high about the degree of economic recovery in 2022 against the background of rising energy prices, blockages in supply chains and rising inflation, but also the military conflict between Russia and Ukraine that broke out on February 24, 2022.
The Bank complied with its internal limits and all prudential requirements applicable at any time during 2021. Notwithstanding the above uncertainties, the Bank's overall risk profile remains low. It is based on an overall assessment of individual risks, as set out below.

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

a) Concentration on core activities

In its operations, the bank focuses on core business, focusing on serving small and medium business customers as well as individuals. Income is primarily generated from interest on loans and commissions from operations on accounts and payments. All other operations are carried out in support of basic activities. The rest of the bank's operations are carried out to support the core business. The main risks assumed by the bank in its day-to-day operations are: credit risk, interest rate risk, liquidity risk and operational risk. At the same time, ProCredit Bank takes steps to avoid or limit other associated risks associated with banking operations.

b) Diversification and transparent services

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

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31 RISK MANAGEMENT (CONTINUED)

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

c) Careful staff selection and continuous training

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

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

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

In accordance with the General Risk Management Policy, which establishes the general principles used within ProCredit Bank S.A. for the general risk management,appetite is set at the "medium" level, and the general risk tolerance - at the "medium-high" level. A level of risk appetite and tolerance is also established for each individual risk, as follows:

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

31 RISK MANAGEMENT (CONTINUED)

31.2 Organization of the risk management function

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

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

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

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

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.3 Management of individual risks

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

31.4 Credit risk

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

The main factors that affected credit risk in 2020 were also present in 2021,like the outbreak of the COVID-19 pandemic and the severe drought that affected agricultural producers. As a result, further efforts were made during this time to assess the impact on the Bank's loan portfolio and risk reduction strategy. In 2021 we focused our efforts on the segments of the portfolio that had a higher impact due to the extension of restrictions. In the case of agricultural producers, at the beginning of 2021 we continued to change the payment schedules for customers who had payment difficulties confirmed by the financial analysis. At the end of 2021, a positive dynamics of restructured loans in the agricultural sector was recorded, they decreased by about 11% compared to the beginning of 2020 due to the payment of loans according to the modified payment schedules. The macroeconomic turmoil of late 2021 manifested by rising energy prices, possible supply disruptions and rising inflation have created new uncertainties about the potential impact on the quality of the loan portfolio. As a result, the sectors that could be impacted are dynamically monitored by the quality indicators.

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

	31 December 2021	**31 December 2020**
Cash and cash equivalents	115,749,696	124,015,828
Mandatory reserves with NBM	700,116,017	760,605,504
Loans and advances to banks	256,853,040	243,075,017
Investments in debt securities	718,770,745	639,494,896
Loans and advances to customers	3,322,868,200	3,117,682,408
Finance lease receivables	0	8,386,677
Other financial assets	22,483,053	10,734,218
Total	**5,136,840,757**	**4,903,994,549**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

	31 December 2021	31 December 2020
Financial guarantees	180,690,377	166,035,153
Loan commitments	466,554,002	508,264,809
Total	**647,244,378**	**674,299,962**

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

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

Loss allowances

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

Three-stage approach

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

- **Stage 1** comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3.

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Generally, all exposures are allocated to Stage 1 upon initial recognition. For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For exposures with a remaining term of less than 12 months, the shorter contractual maturity is applied.

- **Stage 2** comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity. Qualitative and quantitative information is used to determine whether there is a significant increase in credit risk:
• Comparing PD to maturity "remaining lifetime PD" of an exposure at each reporting date with "remaining lifetime PD" at the origin of the asset. A significant increase in credit risk is considered to exist if the difference between the two PDs exceeds a certain limit. with a factor of 2.5. In this case, the asset is transferred from Stage 1 to Stage 2. A transfer from Stage 2 to Stage 1 is possible when the associated credit risk is significantly reduced.
• When one of the following events is detected:
- contractual payments are overdue by more than 30 days but not by more than 90 days.
- standard or restructured events under observation.

- **Stage 3** includes all exposures, i.e. as of the reporting date, there is both a significant increase in credit risk and objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.
Stage 3 credit exposures are those exposures for which at least one of the following events occurs:
• Contract payments are more than 90 days late;
• Indices of significant financial difficulties of the debtor, reflected in the insufficient repayment capacity;
• Repayment of the loan is not possible without the guarantee;
• Initiation of bankruptcy proceedings;
• Trial or fraud;
• The bank initiated legal enforcement proceedings against the client;
• Credit fraud events;
- • Impaired restructuring events;

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Restructuring a credit exposure is generally driven by the economic problems facing the customer, which adversely affect the ability to pay, largely due to the significantly changed macroeconomic environment in which the Bank's customers currently operate. Restructuring follows a thorough and careful individual analysis of the client's modified ability to pay. The decision to restructure a credit exposure is always taken by a credit committee and is aimed at fully recovering the credit exposure. If a credit exposure is restructured, credit parameters are changed.
Restructured loans are loans whose conditions have changed due to the deterioration of the debtor's financial position and in which case the Bank has made concessions that it would not have made in other situations. The gross value of restructured loans, as defined above, amounted to 136,144 thousand lei (ECL of 43,019 thousand lei), representing 3.96% of the total portfolio as of December 31, 2021 compared to 169,203 thousand lei (ECL of 47,129 thousand lei) which represented 5.21% of the total portfolio as of December 31, 2020.

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

- *Exposure at Default (EAD)*

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

- *Probability of default (PD)*

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

- *Loss Given Default (LGD)*

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

Establishing reductions in credit losses for the financial year 2021 has been impacted by the COVID-19 pandemic and the macroeconomic turmoil of late 2021 manifested by rising energy prices, possible supply disruptions and rising inflation. The parameters are calculated by weighting the three scenarios in the table below:

Scenarios	Weight	GDP, %	
		2020	2021
Mean	50%	-0.46%	0.41%
Advers	25%	-4.50%	-4.06%
Optimistic	25%	4.29%	5.16%

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

The **risk classification** system for small and medium clients comprises an important part of the process for determining an increase in credit risk and, consequently, the classification of the loan portfolio. Prior to initial disbursement, each credit exposure is assigned one of the risk classes – 1 to 8 (1 being the best and 8 the worst). Assigning a risk class implies an extensive analysis of multiple qualitative and quantitative criteria at client level, which are assessed in regular basis to identify the increase in credit risk through the classes.
ProCredit Bank grants new loan exposures to performing clients. Additional exposures for clients with risk classification 6, 7 or 8 are not allowed.

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2020	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents					
Balances at National Bank of Moldova, excluding mandatory reserves	1.19%	124,015,828	-	-	124,015,828
Gross carrying amount		**124,015,828**	-	-	**124,015,828**
Expected credit loss allowance		-	-	-	-
Net carrying amount		**124,015,828**	-	-	**124,015,828**
					-
Mandatory reserves with NBM	1.19%	764,244,777	-	-	764,244,777
Gross carrying amount		**764,244,777**	-	-	**764,244,777**
Expected credit loss allowance		(3,639,273)	-	-	(3,639,273)
Net carrying amount		**760,605,505**	-	-	**760,605,505**
Loans and advances to banks	0.06%-0.99%	243,077,864	-	-	243,077,864
Gross carrying amount		**243,077,864**	-	-	**243,077,864**
Expected credit loss allowance		(2,847)	-	-	(2,847)
Net carrying amount		**243,075,017**	-	-	**243,075,017**
Investments in debt securities	1.19%	639,578,978	-	-	639,578,978
Gross carrying amount		**639,578,978**	-	-	**639,578,978**
Expected credit loss allowance		(84,082)	-	-	(84,082)
Net carrying amount		**639,494,896**	-	-	**639,494,896**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

31 December 2021	12 month PD ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers, net					
Risk Grade 1		-	-	-	-
Risk Grade 2	-	289,420,779			289,420,779
Risk Grade 3	0.95	1,176,653,914			1,176,653,914
Risk Grade 4	1.71	1,242,909,703			1,242,909,703
Risk Grade 5	3.76	282,153,449			282,153,449
Risk Grade 6	9.33	57,577,095			57,577,095
Risk Grade 6	24.49		124,419,082		124,419,082
Risk Grade 7	5.84 - 32.65		21,197,586		21,197,586
Risk Grade 8	65.68			89,185,989	89,185,989
No risk classification	100.00	142,200,929	5,134,735	6,631,858	153,967,522
Gross carrying amount		**3,190,915,869**	**150,751,404**	**95,817,848**	**3,437,485,120**
Expected credit loss allowance		(47,078,368)	(17,301,457)	(50,237,096)	(114,616,921)
Net carrying amount		**3,143,837,501**	**133,449,947**	**45,580,752**	**3,322,868,200**
Finance lease receivables					
Grade 5	9.44	-	-	-	-
Gross carrying amount		-	-	-	-
Expected credit loss allowance		-	-	-	-
Net carrying amount		-	-	-	-

"No risk classification" exposures represent the exposures under EUR 50,000 (calculated based on on-balance and off-balance sheet exposure), which are not eligible for small and medium categorisation. "No risk classification" exposures do not include loans and advances to customers in Stage 3 which are assigned risk class, but whose exposure has decreased below EUR 50,000 as at 31 December 2021.

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

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

“No risk classification” exposures represent the exposures under EUR 50,000 (calculated based on on-balance and off-balance sheet exposure), which are not eligible for small and medium categorisation. “No risk classification” exposures do not include loans and advances to customers in Stage 3 which are assigned risk class, but whose exposure has decreased below EUR 50,000 as at 31 December 2020.

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of credit commitments and guarantees

31 Dec 2021	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Risk Grade 1	-	-	-	-
Risk Grade 2	92,584,526			**92,584,526**
Risk Grade 3	162,841,956			**162,841,956**
Risk Grade 4	122,179,641			**122,179,641**
Risk Grade 5	17,475,347			**17,475,347**
Risk Grade 6	6,083,041	5,162,429	1,200,000	**12,445,470**
Risk Grade 7		290,000		**290,000**
Risk Grade 8			4,707,840	**4,707,840**
No risk classification	53,879,222	0	150,000	**54,029,222**
Total	**455,043,733**	**5,452,429**	**6,057,840**	**466,554,002**
Guarantees				
Risk Grade 1	-	-	-	-
Risk Grade 2	75,989,535	-	-	75,989,535
Risk Grade 3	55,780,594	-	-	55,780,594
Risk Grade 4	34,581,748	-	-	34,581,748
Risk Grade 5	10,360,363	-	-	10,360,363
Risk Grade 6	800,000	-	-	800,000
Risk Grade 7	-	-	-	-
Risk Grade 8	-	-	-	-
No risk classification	3,178,137	-	-	3,178,137
Total	**180,690,377**	-	-	**180,690,377**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

31 Dec 2020	Stage 1	Stage 2	Stage 3	Total
Credit commitments				
Risk Grade 1	-	-	-	-
Risk Grade 2	108,682,444			**108,682,444**
Risk Grade 3	202,841,455			**202,841,455**
Risk Grade 4	129,351,473			**129,351,473**
Risk Grade 5	10,174,861			**10,174,861**
Risk Grade 6	4,009,505	6,860,430		**10,869,936**
Risk Grade 7		690,000		**690,000**
Risk Grade 8			2,000,000	**2,000,000**
No risk classification	43,203,221	301,420	150,000	**43,654,641**
Total	**498,262,959**	**7,851,850**	**2,150,000**	**508,264,809**
Guarantees				
Risk Grade 1	-	-	-	-
Risk Grade 2	54,212,804			**54,212,804**
Risk Grade 3	63,952,546			**63,952,546**
Risk Grade 4	40,909,307			**40,909,307**
Risk Grade 5	2,162,248			**2,162,248**
Risk Grade 6	485,912	200,000		**685,912**
Risk Grade 7	-	-	-	-
Risk Grade 8	-	-	-	-
No risk classification	4,112,336			**4,112,336**
Total	**165,835,153**	**200,000**	-	**166,035,153**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Analysis of assets quality exposed to credit risk (continued)

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

In thousands lei

	Stage 1		Stage 2		Stage 3	
31 December 2021:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Individuals	**91,129**	**1,977**	**0**	**0**	**0**	**0**
Consumer loans	8,060	217	0	0	0	0
Mortgage	83,069	1,760	0	0	0	0
Legal entities	**3,099,787**	**45,101**	**150,751**	**17,301**	**95,818**	**50,237**
Loans to agriculture	849,093	14,888	91,632	10,406	52,909	25,012
Loans to the food industry	249,847	3,283	2,111	167	1,769	1,313
Loans to the productive industry	377,566	4,577	0	0	0	0
Trade credits	1,162,392	14,803	16,591	2,501	19,248	12,125
Loans granted to natural persons practicing activity	24,157	557	586	128	544	452
Loans for transport, telecommunications and network development	165,027	3,053	33,465	3,140	1,644	767
Loans for services	244,454	3,703	6,179	942	19,704	10,568
Other loans	27,251	239	187	17	0	0
Total	**3,190,916**	**47,078**	**150,751**	**17,301**	**95,818**	**50,237**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

	Stage 1		Stage 2		Stage 3	
31 December 2020:	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**	**Exposure**	**Expected credit loss allowance**
Individuals	**32,022**	**832**	**0**	**0**	**33**	**18**
Consumer loans	1,408	51	0	0	33	18
Mortgage	30,613	781	0	0	0	0
Legal entities	**2,916,248**	**41,746**	**177,436**	**29,556**	**113,787**	**49,690**
Loans to agriculture	814,723	11,563	105,766	18,524	54,300	20,213
Loans to the food industry	285,440	5,743	5,904	488	2,167	1,145
Loans to the productive industry	328,618	3,822	0	0	1,925	1,191
Trade credits	1,034,928	12,881	15,971	3,097	39,403	19,040
Loans granted to natural persons practicing activity	29,019	659	2,175	345	3,263	2,125
Loans for transport, telecommunications and network development	142,716	2,292	29,296	3,586	8,233	3,177
Loans for services	252,464	4,349	17,831	3,497	4,496	2,799
Other loans	28,341	437	494	21	0	0
Total	**2,948,270**	**42,578**	**177,436**	**29,556**	**113,820**	**49,708**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Breakdown of loan portfolio by days in arrears:

In thousands lei

	Current	1 up to 30 days	31 up to 60 days	61 up to 90 days	91 up to 180 days	> 180 days	Other impairment indicators	Total	Impairment allowance	Net loan amount
31 Dec 2021										
Individuals	**89,514**	**1,615**	**0**	**0**	**0**	**0**	**0**	**91,129**	**1,977**	**89,152**
Consumer loans	8,058	2	0	0	0	0	0	8,060	217	7,843
Mortgage	81,455	1,614	0	0	0	0	0	83,069	1,760	81,309
Legal entities	**3,188,148**	**75,821**	**14,960**	**230**	**8,335**	**9,048**	**49,813**	**3,346,356**	**112,640**	**3,233,717**
Loans to agriculture	927,854	21,552	0	0	0	0	44,227	993,634	50,307	943,327
Loans to the food industry	251,958	0	439	0	0	1,329	0	253,727	4,763	248,964
Loans to the productive industry	377,566	0	0	0	0	0	0	377,566	4,577	372,990
Trade credits	1,132,963	47,820	3,904	136	921	7,717	4,771	1,198,231	29,429	1,168,802
Loans granted to natural persons practicing activity	21,246	3,598	159	80	0	0	204	25,287	1,137	24,150
Loans for transport, telecommunications and network development	198,492	0	0	0	1,644	0	0	200,135	6,959	193,176
Loans for services	250,633	2,852	10,458	14	5,771	0	610	270,337	15,213	255,124
Other loans	27,437	0	0	0	0	2	0	27,438	255	27,183
Total	**3,277,662**	**77,437**	**14,960**	**230**	**8,335**	**9,048**	**49,813**	**3,437,485**	**114,617**	**3,322,868**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

	Current	1 up to 30 days	31 up to 60 days	61 up to 90 days	91 up to 180 days	> 180 days	Other impairment indicators	Total	Impairment allowance	Net loan amount
31 Dec 2020										
Individuals	**32,021**	**0**	**0**	**0**	**33**	**0**	**0**	**32,055**	**850**	**31,205**
Consumer loans	1,408	0	0	0	33	0	0	1,441	69	1,373
Mortgage	30,613	0	0	0	0	0	0	30,613	781	29,832
Legal entities	**3,003,992**	**129,790**	**3,219**	**746**	**7,497**	**22,408**	**39,818**	**3,207,471**	**120,993**	**3,086,478**
Loans to agriculture	875,651	65,470	1,733	13	1,443	1,017	29,463	974,789	50,300	924,489
Loans to the food industry	266,764	25,266	0	0	0	1,481	0	293,511	7,376	286,135
Loans to the productive industry	328,618	0	0	0	0	1,925	0	330,543	5,013	325,530
Trade credits	1,043,386	25,459	0	432	0	15,343	5,681	1,090,302	35,018	1,055,284
Loans granted to natural persons practicing activity	31,128	902	1,296	300	288	175	368	34,457	3,128	31,329
Loans for transport, telecommunications and network development	172,011	0	0	0	5,766	2,467	0	180,244	9,055	171,189
Loans for services	257,601	12,694	190	0	0	0	4,307	274,791	10,644	264,146
Other loans	28,833	0	2	0	0	0	0	28,835	458	28,377
Total	**3,036,014**	**129,790**	**3,219**	**746**	**7,530**	**22,408**	**39,818**	**3,239,526**	**121,843**	**3,117,682**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2021	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount as of 1 January	**2,948,171,649**	**177,473,087**	**113,880,619**	**3,239,525,356**
New financial assets originated	1,137,373,799	-	-	**1,137,373,799**
Derecognitions	(352,960,934)	(26,232,495)	(16,854,143)	**(396,047,572)**
Decrease due to write- offs	-	-	(16,925,123)	**(16,925,123)**
Changes in interest accrual	1,384,685	(342,370)	569,547	**1,611,861**
Changes in the principal and disbursement fee amount	(358,935,864)	(55,054,436)	(29,500,297)	**(443,490,597)**
Transfer from stage 1 to Stage 2	(195,683,959)	195,683,959	-	-
Transfer from stage 1 to Stage 3	(7,494,612)	-	7,494,612	-
Transfer from stage 2 to Stage 1	97,616,456	(97,616,456)	-	-
Transfer from stage 2 to Stage 3	-	(39,360,263)	39,360,263	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	360,423	-	(360,423)	-
Net modifications due to foreign exchange fluctuations	(78,995,586)	(3,801,065)	(1,765,944)	**(84,562,596)**
Gross outstanding amount as of 31 December	**3,190,836,056**	**150,749,961**	**95,899,111**	**3,437,485,128**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Loans and advances to customers movement:

2020	Stage 1	Stage 2	Stage 3	Total
Gross outstanding amount	**2,238,500,809**	**178,752,705**	**76,636,935**	**2,493,890,449**
Increases due to origination and acquisition	1,429,334,963	-	-	1,429,334,963
Variations due to changes without derecognition (net)				-
Decrease due to derecognitions	(294,390,591)	(31,712,115)	(10,240,202)	(336,342,909)
Decrease in the allowance account due to write-offs outside the statement of financial position	-	-	(14,027,592)	(14,027,592)
Changes in interest accrual	2,962,986	378,990	1,334,677	4,676,654
Changes in the principal and disbursement fee amount	(398,316,423)	(75,992,456)	(17,203,551)	(491,512,430)
Transfer from stage 1 to Stage 2	(411,428,149)	411,428,149		-
Transfer from stage 1 to Stage 3	(36,389,330)		36,389,330	-
Transfer from stage 2 to Stage 1	280,214,366	(280,214,366)		-
Transfer from stage 2 to Stage 3		(37,742,515)	37,742,515	-
Transfer from stage 3 to Stage 2		-	-	-
Transfer from stage 3 to Stage 1	56,667		(56,667)	-
Net modifications due to foreign exchange fluctuations	137,626,351	12,574,696	3,305,175	153,506,222
Gross outstanding amount as of 31 December	**2,948,171,649**	**177,473,087**	**113,880,619**	**3,239,525,356**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as of 1 january 2021	**(42,845,590)**	**(29,289,149)**	**(49,708,408)**	**(121,843,148)**
New financial assets originated	(20,035,291)	0	0	(20,035,291)
Derecognitions	4,878,012	3,388,353	10,697,381	18,963,746
Transfer from stage 1 to Stage 2	4,351,218	(4,351,218)	0	0
Transfer from stage 1 to Stage 3	2,934,559	0	(2,934,559)	0
Transfer from stage 2 to Stage 1	(2,609,102)	2,609,102	0	0
Transfer from stage 2 to Stage 3	0	8,421,023	(8,421,023)	0
Transfer from stage 3 to Stage 2	0	0	0	0
Transfer from stage 3 to Stage 1	(10,612)	0	10,612	0
Increase in credit risk	(30,114,766)	(18,090,990)	(32,579,679)	(80,785,436)
Decrease in credit risk	35,136,194	20,105,875	14,687,099	69,929,168
Decrease in the allowance account due to write-offs outside the statement of financial position	0	0	16,925,123	16,925,123
Increases due to changes without derecognition	0	0	0	0
Decreases due to changes without derecognition	0	0	0	0
Net modifications due to foreign exchange fluctuations	1,237,039	(94,453)	1,086,331	2,228,917
Closing balance as of 31 Decembrie 2021	**(47,078,340)**	**(17,301,457)**	**(50,237,124)**	**(114,616,921)**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

2020	Stage 1	Stage 2	Stage 3	Total
Opening Balance	**(31,807,313)**	**(13,361,400)**	**(41,688,826)**	**(86,857,539)**
New financial assets originated	(26,871,206)	-	-	(26,871,206)
Derecognitions	2,777,906	1,123,022	4,095,238	7,996,166
Transfer from stage 1 to Stage 2	7,972,277	(7,972,277)	-	-
Transfer from stage 1 to Stage 3	1,700,070	-	(1,700,070)	-
Transfer from stage 2 to Stage 1	(8,428,484)	8,428,484	-	-
Transfer from stage 2 to Stage 3	-	7,382,750	(7,382,750)	-
Transfer from stage 3 to Stage 2	-	-	-	-
Transfer from stage 3 to Stage 1	(430)	-	430	-
Increase in credit risk	(31,624,844)	(59,151,009)	(25,580,011)	(116,355,864)
Decrease in credit risk	45,690,203	35,296,161	9,976,643	90,963,0106
Decrease in the allowance account due to write-offs outside the statement of financial position	-	-	14,162,544	14,162,544
Increases due to changes without derecognition	-	-	-	-
Decreases due to changes without derecognition	-	-	-	-
Net modifications due to foreign exchange fluctuations	(2,253,769)	(1,034,881)	(1,591,606)	(4,880,256)
Closing balance as of 31 Decembrie	**(42,845,590)**	**(29,289,149)**	**(49,708,408)**	**(121,843,148)**

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

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Movement of expected credit loss allowance for credit commitments

			2021			**2020**
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Opening Balance	**3,388,336**	**198,549**	**30,178**	**2,252,193**	**578,598**	**-**
New financial assets originated	1,264,589			1,346,469		
Derecognitions	(85,689)	(49,692)		(237,466)	(5,974)	
Increase in credit risk	4,055,259	1,366,960	1,254,767	3,993,931	1,012,712	27,990
Decrease in credit risk	(5,157,659)	(1,236,123)	(102,953)	(4,299,829)	(1,111,903)	(13,757)
Transfer from stage 1 to Stage 2	(98,458)	98,458		(209,010)	209,010	
Transfer from stage 1 to Stage 3	(52,860)		52,860	(15,945)		15,945
Transfer from stage 2 to Stage 1	75,504	(75,504)		495,000	(495,000)	
Transfer from stage 2 to Stage 3		(64,228)	64,228			
Transfer from stage 3 to Stage 2						
Transfer from stage 3 to Stage 1						
Net modifications due to foreign exchange fluctuations	(34,668)	(3,729)	3,902	62,993	11,108	-
Closing balance	**3,354,352**	**234,691**	**1,302,982**	**3,388,336**	**198,549**	**30,178**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Movement of expected credit loss allowance for certificates issued by NBM

	2021	2020
	Stage 1	**Stage 1**
Balance at 1 January	**(84,082)**	**(52,794)**
New financial assets originated	(2,460,781)	(2,108,586)
Release due to derecognition	2,452,146	2,077,299
Variations due to the actualization of estimation methodology	-	-
Balance at 31 December	**(92,717)**	**(84,082)**

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

	2021	2020
	Stage 1	**Stage 1**
Balance at 1 January	**(3,639,272)**	**(2,302,725)**
New financial assets originated	(1,154,922)	(3,156,083)
Release due to derecognitions	1,379,591	1,945,488
Net modifications due to foreign exchange fluctuations	64,755	(125,953)
Balance at 31 December	**(3,349,848)**	**(3,639,273)**

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

	2021	2020
	Stage 1	**Stage 1**
Balance at 1 January	**-**	**-**
New financial assets originated	(633)	(826)
Release due to derecognition	533	826
Balance at 31 December	**(100)**	**-**

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

As of 31 December 2021 the Bank doesn’t have financial leasing contracts. See below the loss allowances movement for the finance lease receivables:

	2021	2020
	Stage 1	**Stage 1**
Balance at 1 January	**(354,906)**	**(440,025)**
Decreases due to recognition	340,881	0
Increase in credit risk	0	(94,490)
Decrease in credit risk	14,426	216,189
Net modifications due to foreign exchange fluctuations	(401)	(36,579)
Balance at 31 December	**0**	**(354,906)**

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

2021	**Investments in debt securities**	**Finance lease receivables**	**Balances with the NBM**	**Loans and advances to banks**	**Loans and advances to customers**	**Other financial assets**	**Total**
Net remeasurement of loss allowance		11,204	226,185	(5,063)	(10,856,267)	(180,900)	(10,804,841)
New financial assets originated or purchased	(2,460,781)	-	-	(12)	(20,035,291)	(1,126,913)	(23,622,997)
Decrease due to recognition	2,452,146	340,881	-	492	18,963,746	135,362	21,892,627
Total	**(8,635)**	**352,085**	**226,185**	**(4,582)**	**(11,927,813)**	**(1,172,450)**	**(12,535,211)**
Recoveries of amounts previously written off	-	-	-	-	24,078,189	-	24,078,189
Discounting effect	-	-	-	-	-	-	-
Total	**(8,635)**	**352,085**	**226,185**	**(4,582)**	**12,150,376**	**(1,172,450)**	**11,542,978**

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Collateral

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

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

	Mortgage	Cash collateral	Other (collateral)
31 December 2021	46.9%	16.7%	36.4%
31 December 2020	47.7%	11.7%	40.6%

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

As in previous years, the Bank registered as collaterals guarantees, based on the Guarantee Agreement ("InnovFin SME Guarantee Facility") dated 21 January 2016 concluded between The European Investment Fund (as Guarantor), BC ProCredit Bank SA (as Intermediary) and ProCredit Holding AG & CO.KGAA (as Coordination entity). According to the signed agreement the Guarantor issues an irrevocable and unconditional financial guarantee in favour of the Intermediary relating to portfolio, in the rate of 50% or 80% for investments in current assets, intended to mitigate the effects caused by COVID-19. In 2021 the European Investment Fund coordinated to increase the volume of the approved portfolio financed with the InnovFin guarantee from EUR 70 million to EUR 90 million. At the end of 2021, the Bank had financed 410 loans with InnovFin guarantee.

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

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

	Unsecured loans	Loans collateralised by:			
		real estate (mortgage)	**deposits**	**financial guarantee facility**	**other**
La 31 decembrie 2021:					
Individuals	**5,780,968**	**78,623,212**	**974,815**	**0**	**5,750,023**
Consumer loans	3,467,778	1,682,702	0	0	2,909,666
Mortgage	2,313,190	76,940,510	974,815	0	2,840,358
Legal entities	**12,533,252**	**1,523,383,905**	**27,715,472**	**543,993,889**	**1,238,729,582**
Loans to agriculture	623,542	375,140,800	1,927,543	72,256,855	543,685,386
Loans to the food industry	0	144,731,676	0	21,062,324	87,932,556
Loans to the productive industry	367,977	233,682,556	9,823,185	63,575,454	70,117,313
Trade credits	8,929,957	492,147,961	139,328	355,628,998	341,385,015
Loans granted to natural persons practicing activity	0	24,032,793	0	0	1,253,904
Loans for transport, telecommunications and network development	795,135	53,501,920	10,959,008	12,546,895	122,332,528
Loans for services	1,156,845	185,959,980	4,870,330	16,923,006	61,426,946
Other loans	659,796	14,186,219	-3,922	2,000,357	10,595,934
Total	**18,314,221**	**1,602,007,117**	**28,690,287**	**543,993,889**	**1,244,479,606**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

	Unsecured loans	Loans collateralised by:			
		real estate (mortgage)	deposits	financial guarantee facility	other
La 31 decembrie 2020:					
Individuals	**1,958,616**	**28,427,462**	**0**	**0**	**1,668,535**
Consumer loans	1,213,283	0	0	0	227,835
Mortgage	745,333	28,427,462	0	0	1,440,700
Legal entities	**4,525,128**	**1,523,633,795**	**4,392,862**	**374,388,348**	**1,309,272,393**
Loans to agriculture	150,373	313,641,708	0	75,642,267	585,354,586
Loans to the food industry	0	202,924,540	0	0	90,586,747
Loans to the productive industry	420,035	229,737,563	4,393,416	44,637,946	51,354,056
Trade credits	945,632	470,246,959	0	228,383,056	390,725,934
Loans granted to natural persons practicing activity	0	26,561,158	0	0	7,895,713
Loans for transport, telecommunications and network development	1,044,054	56,260,205	0	6,170,850	116,768,864
Loans for services	964,038	200,711,874	0	19,554,230	53,560,606
Other loans	1,000,996	23,549,788	-554	0	13,025,886
Total	**6,483,743**	**1,552,061,257**	**4,392,862**	**374,388,348**	**1,310,940,928**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

In thousands lei

	Individuals		*Legal entities*								**Total**
	Consumer loans	**Mortgage**	**Loans to agriculture**	**Loans to the food industry**	**Loans to the productive industry**	**Trade credits**	**Loans granted to natural persons practicing activity**	**Loans for transport, telecommunications and network development**	**Loans for services**	**Other loans**	**Total**
31 Dec. 2021:											
Unsecured loans	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by:											
real estate (mortgage)	5,598	120,113	576,317	202,953	439,490	865,441	65,971	71,808	472,732	93,745	2,914,166
deposits	0	1,005	1,000	0	5,829	78	0	3,318	5,618	295	17,142
financial guarantee facility	0	0	48,273	15,854	45,939	267,434	0	8,946	11,735	1,600	399,781
other	5,000	4,033	869,390	159,096	139,065	634,919	1,941	191,729	96,533	98,941	2,200,648
Total	**10,598**	**125,150**	**1,494,980**	**377,903**	**630,323**	**1,767,871**	**67,912**	**275,802**	**586,618**	**194,581**	**5,531,737**

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

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

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

		Individuals								*Legal entities*	**Total**
	Consumer loans	**Mortgage**	**Loans to agriculture**	**Loans to the food industry**	**Loans to the productive industry**	**Trade credits**	**Loans granted to natural persons practicing activity**	**Loans for transport, telecommunications and network development**	**Loans for services**	**Other loans**	**Total**
31 Dec. 2020:											
Unsecured loans	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by:											0
real estate (mortgage)	0	43,192	570,679	303,282	475,835	910,547	97,102	66,412	461,615	75,065	3,003,728
deposits	0	0	0	0	4,998	0	0	0	0	565	5,563
financial guarantee facility	0	0	48,350	0	31,455	166,972	0	4,982	13,250	0	265,008
other	405	2,071	953,989	123,407	91,726	725,198	10,267	192,120	94,165	108,096	2,301,445
Total	**405**	**45,263**	**1,573,017**	**426,689**	**604,013**	**1,802,717**	**107,369**	**263,515**	**569,030**	**183,726**	**5,575,744**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The effect of collateral at 31 December 2021:

	Over-collateralised assets		Under-collateralised assets		Total Carrying value of the assets, net	Total Fair value of collateral
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral		
Individuals						
Consumer loans	4,473,093	11,135,062	3,369,597	-	7,842,690	11,135,062
Mortgage	76,994,225	137,312,019	4,314,761	969,605	81,308,985	138,281,624
Legal entities						
Loans to agriculture	920,792,215	1,971,827,062	22,535,207	16,732,187	943,327,423	1,988,559,250
Loans to the food industry	234,800,613	479,986,694	14,162,932	10,591,492	248,963,545	490,578,186
Loans to the productive industry	345,700,787	756,734,685	27,289,073	21,341,334	372,989,860	778,076,019
Trade credits	1,070,321,905	2,296,388,313	98,480,536	86,212,598	1,168,802,441	2,382,600,912
Loans granted to natural persons practicing activity	24,149,760	75,250,512			24,149,760	75,250,512
Loans for transport, telecommunications and network development	155,006,558	323,355,364	38,169,810	19,269,768	193,176,368	342,625,131
Loans for services	240,266,016	659,960,423	14,858,219	9,241,201	255,124,235	669,201,624
Other loans	26,525,105	239,287,832	657,788	-	27,182,893	239,287,832
Total	**3,099,030,278**	**6,951,237,966**	**223,837,922**	**164,358,185**	**3,322,868,200**	**7,115,596,152**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

The effect of collateral at 31 December 2020:

	Over-collateralised assets		Under-collateralised assets			
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral	Total Carrying value of the assets, net	Total Fair value of collateral
Individuals						
Consumer loans	219,029	405,229	1,153,563	-	1,372,592	405,229
Mortgage	28,621,970	52,158,344	1,210,311	146,854	29,832,280	52,305,198
Legal entities						
Loans to agriculture	896,640,955	2,038,902,960	27,847,721	23,002,116	924,488,676	2,061,905,076
Loans to the food industry	217,278,178	521,024,592	68,856,828	51,877,100	286,135,006	572,901,692
Loans to the productive industry	325,125,668	726,726,643	403,885	-	325,529,553	726,726,643
Trade credits	1,043,178,772	2,421,790,722	12,104,971	13,731,920	1,055,283,743	2,435,522,642
Loans granted to natural persons practicing activity	31,328,593	117,557,860			31,328,593	117,557,860
Loans for transport, telecommunications and network development	170,348,196	360,207,259	840,580	312,136	171,188,776	360,519,395
Loans for services	260,981,618	647,769,387	3,164,870	2,137,451	264,146,487	649,906,838
Other loans	27,383,127	225,022,681	993,576	-	28,376,702	225,022,681
Total	**3,001,106,105**	**7,111,565,676**	**116,576,303**	**91,207,577**	**3,117,682,408**	**7,202,773,253**

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31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

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

			Gross exposure			Fair value of collateral
As at 31 December 2021:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	18,314,221	-	-	-	-	-
Loans collateralised by:						
- mortgage	1,516,196,372	28,409,334	57,401,411	2,679,062,807	86,040,439	149,062,532
- deposits	28,690,287	-	-	17,141,994	-	-
- financial guarantee	527,109,619	14,167,984	2,716,286	386,858,789	11,010,513	1,912,073
- other assets	1,100,605,370	108,174,085	35,700,151	1,949,020,482	179,244,523	72,382,789
Total	**3,190,915,869**	**150,751,404**	**95,817,848**	**5,032,084,072**	**276,295,475**	**223,357,394**

			Gross exposure			Fair value of collateral
As at 31 December 2020:	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Unsecured loans	5,897,026	303,123	283,595	-	-	-
Loans collateralised by:						
- mortgage	1,425,120,200	41,110,984	77,088,491	2,686,751,829	110,915,069	206,061,429
- deposits	4,392,862	-	-	5,562,777	-	-
- financial guarantee	371,286,026	3,102,322	-	262,822,177	2,186,142	-
- other assets	1,141,573,623	132,919,152	36,448,153	2,037,686,561	202,372,886	61,385,079
Total	**2,948,269,736**	**177,435,581**	**113,820,238**	**4,992,823,344**	**315,474,097**	**267,446,507**

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

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

Credit portfolio risk from customer lending

Diversifying the portfolio of credit exposure is a very effective tool in reducing credit risk. The core business of the Bank, lending to small (exposures up to EUR 500,000) and medium enterprises (exposures more than EUR 500,000), necessitated a high degree of standardisation in lending processes and ultimately, led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors.

Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any related entity. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

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

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

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

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

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

31 RISK MANAGEMENT (CONTINUED)

31.4 Credit risk (continued)

In thousands lei

	Individuals		**Legal entities**								**Total**
	Consumer loans	Mortgage	Loans to agriculture	Loans to the food industry	Trade credits	Loans granted to natural persons practicing activity	Loans for transport, telecom. and network development	Loans for services	Other loans	Consumer loans	
31 Dec 2021											
< 50,000 EUR	8,060	20,332	82,953	9,963	24,539	68,064	2,475	25,661	14,716	6,464	**263,228**
50,000 to 500,000 EUR	0	62,737	808,539	161,353	178,581	767,436	22,812	129,929	214,748	10,289	**2,356,423**
> 500,000 EUR	0	0	102,142	82,410	174,447	362,731	0	44,545	40,873	10,685	**817,834**
Total	**8,060**	**83,069**	**993,634**	**253,727**	**377,566**	**1,198,231**	**25,287**	**200,135**	**270,337**	**27,438**	**3,437,485**
31 Dec 2020											
< 50,000 EUR	1,441	8,898	74,891	8,372	19,446	61,315	5,666	23,152	17,298	9,285	**229,765**
50,000 to 500,000 EUR	0	21,715	792,245	138,243	148,563	777,581	28,791	121,094	209,551	9,186	**2,246,968**
> 500,000 EUR	0	0	107,653	146,897	162,534	251,406	0	35,998	47,942	10,364	**762,793**
Total	**1,441**	**30,613**	**974,789**	**293,511**	**330,543**	**1,090,302**	**34,457**	**180,244**	**274,791**	**28,835**	**3,239,526**

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

31 RISK MANAGEMENT (CONTINUED)

31.5. Counterparty risk, including issuer risk

The Bank defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty and issuer risks evolve especially from the Bank's need to keep liquid assets to reduce liquidity risk, i.e. to make a liquidity reserve for possible stress periods. The liquidity reserve is usually placed with highly rated OECD banks with short maturities. Furthermore, the Bank has a structural exposure towards the National Bank of Moldova in the form of mandatory reserve, which size depends on the amount of deposits taken from customers or other funds used to fund the bank's operations.

The counterparty and issuer risks are managed according to the Bank's Counterparty Risk Management Policy (including Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the Treasury Policy, which specifies the set of permissible transactions and rules for their processing. Counterparty risk is managed in accordance with the principle that liquidity should be placed securely and, to the extent possible, in a diversified manner.

Exposures to counterparties are managed on the basis of a system of limits. The Bank only concludes transactions with counterparties that have been previously analyzed and for which limits have been approved. As a general rule, the Bank applies limits of up to 10% of its capital on exposures to banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group ALCO Committee.

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

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

During 2021, the risk management function has closely monitored the credit quality of its counterparties, following the ratings given by rating agencies, news and other available information. In 2021, no counterparty of the Bank was demoted, and the counterparty risk remained stable.

31 RISK MANAGEMENT (CONTINUED)

31.5. Counterparty risk, including issuer risk (continued)

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

	31 December 2021	%	31 December 2020	%
Loans and advances to banks, including:	**256,853,040**	**5.13%**	**243,075,017**	**5.10%**
- OECD banks	247,347,770	4.94%	234,968,146	4.93%
- non-OECD banks	9,505,270	0.19%	8,106,871	0.17%
Exposure with NBM, including:	**1,426,542,265**	**28.50%**	**1,400,100,400**	**29.36%**
- Mandatory reserves	700,116,017	13.98%	760,605,504	15.95%
-Nostro account at NBM	7,655,503	0.15%	-	0.00%
- Certificates of NBM	718,770,745	14.36%	639,494,896	13.41%
Loans and advances to customers	**3,322,868,200**	**66.37%**	**3,117,682,408**	**65.37%**
Finance lease receivables	**-**	**0.00%**	**8,386,677**	**0.18%**
Total	**5,006,263,504**	**100.00%**	**4,769,244,503**	**100.00%**

The total exposure to banks increased in 2021 compared to the end of 2020, amounting to MDL 256.9 million (2020: MDL 243.1 million). Exposure towards the NBM also increased compared to the previous year, amounting to MDL 1,426.5 million (2020: MDL 1,400.1 million). The norm of required reserves decreased from 760,6 million MDL in december 2020 till 700,1 million MDL at 31 december 2021, largely as a result of the decrease in reserves in Moldovan lei, being conditioned by the decrease of the norm of required reserves in lei from 32% to 26% at the end of 2021. Thus, at the end of 2021 the exposures to banking groups accounted for 5.1% of total exposures to counterparties, and to NBM – 28.5% (2020: 5.1% and 29.4%, respectively).

The exposure is distributed across three OECD and two non-OECD banking groups.
The exposure to the National Bank of Moldova is primarily related to the mandatory reserve requirement. Other exposures to the National Bank of Moldova relate to a Nostro account, overnight placements and NBM certificates with a maturity up to 14 days. As at the end of 2021 the Bank had NBM certificates in the statement of financial position amounting to MDL 720 million (2020: 640 million).

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk

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

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

The Bank's Treasury Unit is responsible for continuous monitoring the developments of exchange rates and foreign currency markets. The Treasury Unit also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at the end of the day; long or short open positions for speculative purposes are not permitted.

According to group-wide policy, derivatives may only be used for hedging purposes to close positions of the Bank as well as for liquidity purposes. Permissible FX derivatives are currency forwards and currency swaps. The Bank's foreign currency exposures are monitored and controlled on a daily basis by the Bank's risk controlling function.

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

The Bank aims to close currency positions and ensure that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and currency position limits. This mechanism helps to ensure that the Bank's OCP does not exceed approved limits. Exceptions from the limit or strategic positions are subject to approval by the Supervisory Board.

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

31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

As at 31 December 2021	EUR	USD	Other currencies	MDL	Total
Assets					
Cash and cash equivalents	24,093,370	16,901,256	-	74,755,070	115,749,696
Balances with National Bank of Moldova	324,319,429	78,837,359	-	296,959,228	700,116,016
Cash and balances with National Bank of Moldova	348,412,799	95,738,615	-	371,714,298	815,865,712
Loans and advances to banks	161,602,640	59,750,646	35,499,753	-	256,853,040
Loans and advances to customers	1,799,005,674	342,008,411	-	1,181,854,115	3,322,868,200
Finance lease receivables	-	-	-	-	-
Investments in debt securities	-	-	-	718,770,745	718,770,745
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	2,625,689	14,956,559	6,533	4,894,272	22,483,053
Total assets	**2,311,646,803**	**512,454,232**	**35,506,287**	**2,278,433,429**	**5,138,040,750**
Liabilities					
Due to customers	1,080,169,407	303,714,626	33,602,111	1,375,788,317	2,793,274,461
Borrowed funds	1,164,429,041	74,582,003	-	294,394,056	1,533,405,100
Subordinated debt	131,795,018	-	-	-	131,795,018
Provisions	1,986,319	2,484,559	7,213	5,533,554	10,011,645
Other financial liabilities	29,609,145	10,395,453	-	3,981,490	43,986,088
Total liabilities	**2,407,988,929**	**391,176,642**	**33,609,324**	**1,679,697,418**	**4,512,472,313**
Derivatives net position SWAPs	**(105,624,712)**	**106,471,200**			**846,488**
Net position	9,282,585	14,806,390	1,896,963	598,736,011	624,721,948
Off-balance sheet exposures	203,052,967	42,653,422	2,393,210	399,144,779	647,244,378

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31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

As at 31 December 2020	**EUR**	**USD**	**Other currencies**	**MDL**	**Total**
Assets					
Cash and cash equivalents	17,089,729	24,536,692	-	82,389,406	124,015,828
Balances with National Bank of Moldova	337,677,509	88,747,000	-	334,180,996	760,605,505
Cash and balances with National Bank of Moldova	356,382,925	113,708,326	-	414,530,087	884,621,338
Loans and advances to banks	154,974,632	73,337,074	14,763,311	-	243,075,017
Loans and advances to customers	1,822,933,362	211,949,984	-	1,082,798,862	3,117,682,208
Finance lease receivables	8,386,677	-	-	-	8,386,677
Investments in debt securities	-	-	-	639,494,896	639,494,896
Investments in equity securities	-	-	-	1,200,000	1,200,000
Other financial assets	1,180,492	6,395,706	488	3,157,533	10,734,218
Total assets	**2,342,242,401**	**404,966,456**	**14,763,799**	**2,143,221,693**	**4,905,194,350**
Liabilities					
Due to customers	1,133,441,170	339,538,375	12,861,659	1,285,823,994	2,771,665,198
Borrowings	1,003,732,044	122,618,433	-	261,066,462	1,387,416,939
Subordinated debt	138,569,357	-	-	-	138,569,357
Provisions	932,265	2,592,828	7,363	5,134,122	8,666,578
Other financial liabilities	23,858,208	3,858,150	-	4,844,817	32,561,174
Total liabilities	**2,300,533,044**	**468,607,786**	**12,869,022**	**1,556,869,396**	**4,338,879,247**
Net position	1,072,421	(20,990,521)	1,873,890	584,330,289	566,286,079
Off-balance sheet exposures	**232,822,422**	**76,207,817**	**2,343,430**	**362,926,293**	**674,299,962**

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31 RISK MANAGEMENT (CONTINUED)

31.6 Foreign Currency Risk (continued)

To assess the Bank’s currency risk for for the calculation of the economic capital, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is ten years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the Bank has significant currency positions. As of December 31, 2020, the maximum loss (VAR) at a 95% confidence level is MDL 2,337,887, (2020: 3,677,436 MDL).

Overall, in 2021 currency risk was low as the Bank managed to keep its currency positions within the limits set in the Foreign Currency Risk Management Policy. The table below shows the impact on the Bank’s profit of changes in foreign exchange rates against local currency, assuming that all other market variables remain constant:

		31 December 2021	31 decembrie 2020
Estimated change of exchange rates, (%)	Currency	Impact, Profit/(Loss), MDL’000	Impactul, Profit/ (Pierdere), MDL’000
	USD	3,603	(2,806)
+25	EUR	2,506	430
	USD	(3,603)	2,806
-25	EUR	(2,506)	(430)

31.7 Interest rate risk

Interest rate risk is the risk of incurring losses due to changes in market interest rates and results mainly from the differences between the repricing maturities of assets and liabilities. The purpose of managing interest rate risk is to keep these differences as small as possible in all currencies.

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

The impact on the economic value analyzes the potential losses incurred by the Bank under certain changes in the interest rates on assets and liabilities. Economic value impact indicator is based on various parallel changes in interest rate curves. The magnitude of the interest rate shock is essentially determined on the basis of a historical analysis of the corresponding yield curves. For each currency, the indicator only includes the parallel change scenario that results in a loss. Limits are set in relation to the regulated capital for the impact of economic value and in relation to the planned net interest income for the effect on interest income.

The impact on economic valueshould not exceed 15% of the capital for all currencies, with a reporting limit set at 10 % as early warning indicator.
During 2021, the impact on the economic value of capital was permanently below 10%. At 31 December 2021, this indicator was 5.9% (2020: 7.7%), decreasing compared to the previous year due to the change in the structure of assets and bonds sensitive to interest rates.

In addition, the Bank analyses the impact on interest rate earnings for the past 12 months. For this index a capital limit of 25% of the net interest income forecast for the current year according to the Business Plan. In 2021, this indicator was permanently respected.

During the year 2021, the Bank regularly monitored the evolution of market rates. As a result of the NBM's monetary policy decisions on the multi-stage rate increase during 2021 (from 2.65% at the beginning of 2021 to 6.50% at the end of the year), market interest rates started to increase significantly towards the end of the year. The evolution of interest rates on loans and deposits was analyzed in the ALCO committees and, if necessary, the rates for the products offered by the Bank were adjusted, in order to reduce the interest rate risk.
The tables below show the Bank's exposure to interest rate risk as of December 31, 2021 and December 31, 2020. The table includes the Bank's financial assets and liabilities at their carrying amounts, classified according to the nearest date between the date of the contractual change in interest and due date.

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31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

2021	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets						
Cash and cash equivalents	115,749,696	115,749,696				
Mandatory reserves with NBM	700,116,016	700,116,016				
Loans and advances to banks	256,853,040	256,853,040				
Loans and advances to customers	3,322,868,200	1,396,902,904	1,036,981,779	753,933,538	103,372,544	31,677,434
Finance lease receivables	-	-	-	-	-	-
Investments in debt securities	718,770,745	718,770,745				
Investments in equity securities	1,200,000					1,200,000
Total financial assets	**5,115,557,697**	**3,188,392,401**	**1,036,981,779**	**753,933,538**	**103,372,544**	**32,877,434**
Liabilities						
Deposits from customers	2,793,274,461	1,835,410,248	347,312,862	322,895,902	272,461,488	15,193,961
Borrowed funds	1,533,405,100	523,603,979	769,061,571	32,637,073	167,782,626	40,319,852
Subordinated debt	131,795,018		131,795,018			
Total financial liabilities	**4,458,474,579**	**2,359,014,227**	**1,248,169,450**	**355,532,975**	**440,244,113**	**55,513,813**
Net exposure to interest rate	**657,083,117**	**829,378,174**	**(211,187,671)**	**398,400,563**	**(336,871,570)**	**(22,636,379)**

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31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

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

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31 RISK MANAGEMENT (CONTINUED)

31.7 Interest rate risk (continued)

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

(‘000 MDL)

	2021		2020	
	Impact on economic value	**Impact on profit or loss**	**Impact on economic value**	**Impact on profit or loss**
MDL	-30.161	-27.669	-49.972	-11.338
EUR	-6.346	-1.506	35	6.904
USD	-2.886	0	-1.811	-1.502
Total	**39.393**	**29.175**	**51.818**	**19.744**

At the end of 2021, the Bank's interest rate risk is assessed as medium-low.

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31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk

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

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

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

Treasury Unit manages liquidity on a daily level using daily cash flow report. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key instrument for measuring liquidity risk is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank’s liquidity situation in a risk scenario (stress test).

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

The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which estimates if the Bank has sufficient liquidity in relation to the liquidity inflows and outflows due within the next 30 days. It must not fall below 1. This implies that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 30 days. As of 31.12.2021 the Sufficient Liquidity Indicator of the Bank was equal to 3.5 (31.12.2020:2.7).

Another key liquidity risk indicator is the "survival period". The survival period is the period during which the Bank can fulfill all its payment obligations without the need to generate additional (still uncontracted) funds, i.e. the period in which the Bank has no negative liquidity gaps in any of the maturity bands. The defined limit for minimum survival period is at least 90 days for the level of aggregated currencies, as well as for the foreign currencies and the national currency separately. At the end of 2021, survival period for all currencies was over 90 days.

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

The Bank also minimizes its dependence on the interbank market. The Liquidity Risk Management Policy stipulates that the total amount of interbank loans may not exceed 40% of its available funding lines and overnight funds must not exceed 4% of total liabilities. Throughout 2021 these indicators registered 0%, as the Bank did not use either interbank credit lines or overnight loans for liquidity management.

Regulated liquidity indicators (Principles I and III) were also complied with. A new liquidity indicator became applicable in October 2020, namely the Liquidity Coverage Ratio (LCR) indicator with the following limits: 60% from 1 October 2020; 70% starting with January 1, 2021; 80% starting with January 1, 2022; 100% starting with January 1, 2023. As of December 31, 2021, the LCR indicator was 322% (December 31, 2020: 277%).

This is complemented by the early warning indicators.

Another important early warning indicator is the concentration of deposits, calculated as share of 5 largest depositors, non-financial clients, or of all depositors, non-financial clients, with a share of more than 1% in the total non-financial clients deposit portfolio (where all deposits of one client are considered as one), which can be withdrawn within the next 30 days from the total non-financial clients deposits. Depositor concentrations are monitored in order to avoid dependence on a small number of large depositors.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy also defines reporting triggers. If the sufficient liquidity indicator drops below 1.2%, if the liquidity position on one of maturity bands becomes negative, or if the depositor concentration rises above 7%, the ALCO must decide on appropriate measures.

In order to protect the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Bank's liquidity reserve target is determined by the ALCO.

Facts and figures concerning liquidity risk

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

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

As at 31 December 2021	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1-5 years	More than 5 years	Total
Assets								
Cash and cash equivalents	115,749,696	115,749,696	-	-	-	-	-	115,749,696
Mandatory reserves with NBM	700,116,016	700,116,016	-	-	-	-	-	700,116,016
Loans and advances to banks	256,853,040	253,296,591	-	-	3,549,040	-	-	256,845,631
Loans and advances to customers	3,322,868,200	133,532,379	242,602,841	281,159,440	616,242,668	2,170,710,895	359,125,913	3,803,374,135
Finance lease receivables	-	-	-	-	-	-	-	-
Investments in debt securities	718,770,745	720,000,000	-	-	-	-	-	720,000,000
Investments in equity securities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	22,483,053	22,616,049	-	-	-	-	-	22,616,049
Total financial assets	**5,138,040,750**	**1,945,318,140**	**242,602,841**	**281,159,440**	**619,791,708**	**2,170,710,895**	**360,325,913**	**5,619,901,528**
Liabilities								
Deposits from customers	2,793,274,461	1,989,137,397	98,278,286	114,864,513	290,429,159	329,950,725	-	2,793,274,461
Borrowed funds	1,533,405,100	12,150,679	17,967,790	173,776,183	151,629,439	1,059,733,868	196,640,596	1,533,405,100
Subordinated debt	131,795,018	-	-	4,396,068	4,420,222	162,619,372	-	131,795,018
Provisions	10,011,645	1,960	43,439	5,300,762	2,278,600	1,188,397	1,198,488	10,011,645
Other financial liabilities	43,986,088	18,001,380	1,693,685	2,316,736	4,690,592	17,283,695	-	43,986,088
Total financial liabilities	**4,512,472,313**	**2,019,291,415**	**117,983,199**	**300,654,261**	**453,448,013**	**1,570,776,058**	**197,839,084**	**4,659,992,030**
Financial guarantees	180,690,377	10,722,061	14,834,912	30,801,684	50,446,097	73,885,622	-	180,690,377
Loan commitments	466,554,002	2,292,085	20,777,589	31,416,754	69,239,261	227,003,171	115,825,142	466,554,002
Net liquidity gap	**625,568,437**	**(73,980,684)**	**124,619,642**	**(19,494,821)**	**166,343,695**	**599,934,837**	**162,486,829**	**959,909,498**

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

31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

As at 31 December 2020	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1-5 years	More than 5 years	Total
Assets								
Cash and cash equivalents	124,015,828	124,015,828	-	-	-	-	-	124,015,828
Mandatory reserves with NBM	760,605,505	760,605,505	-	-	-	-	-	760,605,505
Loans and advances to banks	243,075,017	229,071,644	-	-	3,442,920	10,563,300	-	243,077,864
Loans and advances to customers	3,117,682,408	130,151,033	192,476,470	251,611,739	517,178,654	2,122,488,587	368,247,947	3,582,154,430
Finance lease receivables	8,386,677	164,274	329,215	486,896	962,608	7,063,733	802,454	9,809,179
Investments in debt securities	639,494,896	640,000,000	-	-	-	-	-	640,000,000
Investments in equitysecurities	1,200,000	-	-	-	-	-	1,200,000	1,200,000
Other financial assets	10,734,218	10,835,173	-	-	-	-	-	10,835,173
Total financial assets	**4,905,194,549**	**1,894,843,457**	**192,805,685**	**252,098,635**	**521,584,182**	**2,140,115,619**	**370,250,402**	**5,371,697,979**
Liabilities								
Deposits from customers	2,771,665,198	1,817,968,665	85,234,091	161,339,479	529,310,452	203,879,892	-	2,797,732,579
Borrowed funds	1,387,416,939	18,407,003	15,010,016	140,469,884	292,907,503	809,118,978	187,568,686	1,463,482,069
Subordinated debt	138,569,357	-	-	4,622,021	4,647,417	37,103,146	143,144,127	189,516,710
Provisions	8,666,578	1,598	23,527	5,149,302	458,079	2,086,414	947,658	8,666,578
Other financial liabilities	32,561,174	12,565,662	853,841	2,251,585	4,247,944	12,642,142	-	32,561,173
Total financial liabilities	**4,338,879,246**	**1,848,942,927**	**101,121,475**	**313,832,270**	**831,571,394**	**1,064,830,573**	**331,660,470**	**4,491,959,110**
Financial guarantees	166,035,153	7,552,078	7,131,535	21,611,120	45,109,679	84,630,741	-	166,035,153
Loan commitments	508,264,809	801,420	23,171,364	19,176,320	82,647,697	252,598,619	129,869,389	508,264,809
Net liquidity gap	**566,315,303**	**45,900,529**	**91,684,210**	**(61,733,635)**	**(309,987,212)**	**1,075,285,046**	**38,589,931**	**879,738,870**

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31 RISK MANAGEMENT (CONTINUED)

31.8 Liquidity risk (continued)

Due to the fact that not all cash flows will occur in the future as specified within the contracts, the Bank applies assumptions, especially regarding deposit withdrawals. Assumptions regarding deposit withdrawals are calculated based on the historical behavior of deposits in the last 10 years. That output rate is used as the basis for calculating liquidity indicators.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the available assets of the Bank should always exceed the expected debts, as calculated by applying the abovementioned assumptions.

The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity if it has a positive one. This calculation includes positive excess values from the previous time buckets.

For stress situations the Bank approved a contingency funding plan, where all the steps to be taken in case of liquidity problems are described and the responsible persons. At the end of 2021 the Bank had a contracted stand-by credit line with ProCredit Holding AG & Co. KGaA in amount EUR 3.0 million, which may be withdrawn anytime if necessary. Moreover, the Bank has set at ALCO the values of the minimum liquidity reserve in all significant currencies, for stressful situations. Additional liquidity reserves approved by the Bank still contains two credit lines offered by ProCredit Holding AG & Co. KGaA amounted to USD 5.0 million and EUR 5.0 million respectively.

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

With the onset of the COVID-19 pandemic, the risk management function continuously monitored and assessed the impact of the crisis on the Bank's liquidity position, in order to take appropriate measures in a timely manner. Developments were assessed on a daily basis based on liquidity risk indicators, monitoring of regulatory measures and market trends. If necessary, ALCO meetings were convened more often than once a month.
The bank had sufficient liquidity available at any time in 2020 to meet all its financial obligations in a timely manner.

31 RISK MANAGEMENT (CONTINUED)

31.9 Taxation risk

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

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

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

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

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

31.10 Business environment

The year 2021 was marked by a slight recovery of the economy, the relaunch of external financing, but also by an energy crisis towards the end of the year, which will influence the country's economic evolution in 2022. The national economy remains on an upward trajectory.

According to preliminary data from the National Bureau of Statistics, in 2021, the Gross Domestic Product amounted to 241.9 billion lei, current (market) prices. Compared to 2020, in real terms, GDP in 2021 increased by 13.9%, against the background of a decrease of the indicator in question in 2020 compared to 2019 by 8.3%. Thus, compared to the level of the pre-crisis year, 2019, GDP in 2021 increased by 4.5% in real terms.

The industrial sector rebounded after the pandemic crisis of 2020. In 2021 the volume of industrial production increased by 12.1%. This evolution was due to the recovery, after the pandemic crisis, of the manufacturing industry (+11.4%), the extractive industry (+11.9%), as well as the increase of the production of the energy sector (+16.1%).

After a year of severe drought, 2021 has been a particularly good year for agriculture. Global agricultural production grew by a record 50%. The increase in global agricultural production was determined by the significant increase in vegetable production (by 75.5%).

31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

The evolution of retail and trade in services indicates an improvement in demand from the population. In 2021, the retail trade of goods increased by 12%, and the trade in market services provided to the population - 1.7 times (in comparable prices).

Against the background of decreases in the crisis period of 2020, investment activity increased moderately in 2021. The volume of investments in fixed assets increased by 4.8%, amounting to about 29.6 billion lei.

The current account deficit widened to 11.6% of GDP in 2021 and was mainly financed by cash and foreign currency deposits. External debt decreased by 7.3 p. p. to 65.9% of GDP. In 2021, health and social protection were the main drivers of spending growth (+11.9%). Revenue collection continued to increase (+23.5%). The budget deficit, largely financed by external debt, has reached 2% of GDP.

Inflation rate, in December 2021, was 13,9% compared to December 2020 (0.4%), higher the lower limit of the range of 5.0% ±1.5 percentage points stipulated in the Medium-Term Monetary Policy Strategy.

The banking sector, during the year 2021, according to the data presented by the banks, is characterized by high liquidity, by the increase of assets, loans, own funds, deposits of individuals and legal entities. Also, the profit for the year compared to the previous year increased to pre-pandemic size.

Despite a slight increase in the amount of non-performing loans, the quality of the loan portfolio improved compared to the end of the previous year, due to the higher growth rate of the loan portfolio compared to non-performing loans and the decrease in the share of expired loans by 1.4 p. p. to 3.1%.

As of 31.12.2021, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova. 1 bank was supervised under the early intervention regime applied on 11.01.2019, following the finding of a group of persons acting in concert who acquired and possessed a qualified holding in the share capital of the bank in the amount of 52.55% without prior written approval of NBM. Subsequently, by the Decision of the Executive Committee of the NBM from 09.04.2021, the term of appointment of the temporary administrators of B.C. "ENERGBANK" S.A. was extended until 29.04.2022.

During the 2021, the National Bank of Moldova continued the process of prudential supervision of banks in the Republic of Moldova, pursuing compliance with legal requirements, in order to prevent and limit the risks specific to banking.

During the 2021 there were no significant changes in the shareholding structure of licensed banks in the Republic of Moldova.

31 RISK MANAGEMENT (CONTINUED)

31.10 Business environment (continued)

Total assets amounted to 118.5 billion lei, increasing during 2021 by 14.2% (14.7 billion lei).

In the structure of assets, the largest share belonged to the item in the balance sheet "Loans and advances at amortized cost", which constituted 46.1% (54.6 billion lei), increasing by 2.8 p.p. The share of funds at the NBM was 19.2% (22.7 billion lei), decreasing by 2.5 p.p. The share of banks' investments in state securities and in the certificates of the National Bank (CBN) constituted 15.9% (18.8 billion lei), decreasing by 1.7 p.p. The rest of the assets, which constitute 18.8% (22.3 billion lei), are maintained by banks in other banks, in cash, tangible assets, intangible assets, etc. and their share increased by 1.4 p.p.

The gross (prudential) balance of loans constituted 47.6% of total assets or 56.4 billion lei, increasing during the analyzed period by 23.5% (10.7 billion lei). At the same time, the volume of new loans granted during the 2021 increased by 38.7% compared to the same period of the previous year.

The largest increases in the loan portfolio were recorded in loans granted for the purchase / construction of real estate - by 45.0% (3.5 billion lei) amounting to 11.4 billion lei and in consumer loans - by 40.2% (3.0 billion lei) amounting to 10.5 billion lei.

During the reference period, the share of non-performing loans (substandard, doubtful and compromised) in total loans decreased by 1.2 p.p, constituting 6.1% on 31.12.2021, the mentioned indicator ranging from 2.1% to 11.3%, depending on the bank.

At the same time, non-performing loans in absolute value increased by 2.7% (90.8 billion lei), amounting to 3.5 billion lei.

On 31.12.2021, the profit in the banking system amounted to 2.3 billion lei, increasing by 53.3% (800.7 million lei) compared to the end of the previous year.

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

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk

The Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes (eg failure of data processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) and/or external events (eg criminal activities, natural disasters). This definition also takes into account fraud risk, ICT risk, legal risk, reputational risk, and outsourcing risk. The operational risk management aims at identifying, analyzing and evaluating all material risks at an early stage and avoiding their recurrence.

One of the key components of operational risk management is the detailed recording of risk events resulting from operational risks. In this context, a risk event database (RED) has been developed to ensure that all risk events identified in the bank with realized or potential losses from operational risks are recorded, analyzed and communicated effectively. This uniform structure, predefined for documenting risk events, ensures that adequate attention is paid to the implementation of corrective and / or preventive measures necessary to reduce or avoid operational and fraud risk.

The table below provides an overview of gross and net losses due to operating losses from 2020-2021.

Key operational risk figures for 2021

Gross losses, in EUR	2,116.57
Net current losses, in EUR	1,388.83
Number of risk events	92

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

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

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31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk (continued)

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

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

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

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

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

31 RISK MANAGEMENT (CONTINUED)

31.11 Operational risk (continued)

Other operational risk factors that the Bank assessed at the beginning of the Covid 19 pandemic are the following:
- suspension of the activity of outsourcing companies or their inability to comply with the terms of the contract;
- suspension of the activity of companies - service providers and office supplies.

Until now, the companies to which the Bank has outsourced the processes of material importance, including the international company QUIPU Gmbh to which its IT services have been outsourced continue to offer the services normally, without any deviations.

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

31.12 Reputational Risk

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

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

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

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

31 RISK MANAGEMENT (CONTINUED)

31.12 Reputational risk (continued)

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

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

31.13 Compliance risk

Compliance risk refers to the current or future risk of impairment of profits and capital, which may result in fines, damages and / or termination of contracts, or that may affect the bank's reputation as a result of violations or non-compliance with the legal framework, normative acts, agreements, recommended practices or ethical standards. The level of compliance risk is determined according to the impact of a legislative change and / or the lack of compliance with a certain existing, new or modified normative act. When assessing the level of risk, consideration is given to not only the potential financial impact, but also the non-financial impact (legal, operational or reputational).
The Risk Management Department, Compliance and AML function is responsible for providing consultations on the Bank's compliance on the regulatory framework, its own standards, as well as codes of conduct established by markets or industry, and by providing information on developments in this area.

Regular compliance checks are part of existing processes and procedures. The Bank conducts the annual compliance risk assessment. In 2021, the Bank implemented performance indicators to assess the efficiency of the compliance function. The analysis of the indicators is carried out quarterly and reported to the Risk Committee.
The Risk Management Department, Compliance and AML presents a quarterly report on compliance risk to the Risk Committee.
Considering that compliance is a part of the Bank's core values and corporate culture, it is crucial to ensure that all staff of the bank understand each other's role in conducting transparent and compliance-oriented activities. This is the responsibility of the Compliance Officer, the Human Resources Unit, as well as the governing bodies. The Bank has approved the Compliance Policy within the BC "ProCredit Bank" S.A.

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

31 RISK MANAGEMENT (CONTINUED)

31.14 The risk of money laundering and terrorist financing

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

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

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

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

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

In the context of the Covid 19 pandemic, the risk of money laundering and terrorist financing was effectively monitored and managed. No increase in this risk was observed.

31.15 Business Risk (including Strategic Risk)

The risk related to the conduct of business is the risk of losses resulting from unexpected changes in the volume of activity and / or margins. Depending on the definition, this may include the risk of declining business volume, rising prices (with staff, information technology, etc.) and declining revenues (due to factors such as competition). The strategic risk is the current or future risk of affecting profits and capital caused by changes in the business environment or by adverse business decisions, by improper implementation of decisions or by the lack of reaction to changes in the business environment.

31 RISK MANAGEMENT (CONTINUED)

31.15 Business risk (including Strategic Risk) (continued)

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

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

31.16 Regulatory and economic risk

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

32 CAPITAL MANAGEMENT

In managing capital, the Bank is guided by the principle that it cannot take higher risks than it is able to bear. In this context the Bank has the following objectives:

- compliance with regulatory capital requirements;
- ensuring the adequacy of internal capital;
- ensuring that the Bank has an adequate level of capital to withstand even crisis conditions;
- ensuring that the Bank implements its ongoing growth plans while pursuing its business strategy.

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

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

According to the regulations of the National Bank of Moldova, the minimum capital adequacy ratios are set at 5.5% for the CET1 ratio, 7.5% for the Tier I and 10.0% for the Total Own Funds Ratio. In addition, according to the NBM Regulation on bank capital buffers, the Bank applies the following capital buffers: capital conservation buffer - 2.5%, systemic risk buffer - 1.0%. Also, following the SREP decision of 30 September 2021, the bank maintained an additional own funds requirement of 2.73%, consisting of at least 1.49% basic level 1 own funds and 2.05% level 1 own funds.

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32 CAPITAL MANAGEMENT (CONTINUED)

During 2021, the Bank maintained a sufficient level of capital adequacy and as at 31 December 2021 it recorded a rate of total equity of 23.14% (December 2020: 25.04%).

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

	31 December 2021	**31 December 2020**
Basic level I own funds	553,628,265	535,091,720
Level I own funds	553,628,265	535,091,720
Level II own funds	118,474,240	138,522,106
Total own funds	**672,102,505**	**673,613,826**

	Limit	**31 December 2021**	**31 December 2020**
Basic level I own funds rate	5.50%	19.06%	19.89%
Level I own funds rate	7.50%	19.06%	19.89%
Total own funds rate	10.00%	23.14%	25.04%

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

In 2021, the Bank revised the ICAAP Policy, including the methodologies for calculating the internal capital. The Bank set a limit of 10% for the internal capital adequacy rate, and on 31 December 2021 this limit was respected, the internal capital rate amounting to 16.61%.

The Bank continuously monitored the evolution of its own funds rates and the adequacy of internal capital, as well as carried out crisis forecasts and simulations, in order to detect vulnerabilities and risks to which it is exposed in a timely manner.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Please see Note 4.11 on Bank’s Accounting Policy on fair value assessment. The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Bank’s statement of financial position at their fair value as at 31 December 2021 and 31 December 2020:

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2021	Carrying Value	Level 1	Level 2	Level 3	Fair Value Total
Financial Assets					
Cash and cash equivalents and with NBM	115,749,696	115,749,696	-	-	115,749,696
Mandatory reserves with NBM	700,116,016	-	700,116,016	-	700,116,016
Loans and advances to banks	256,853,040	-	256,853,040	-	256,853,040
Loans and advances to customers	3,322,868,200	-	-	3,459,896,643	3,459,896,643
Finance lease receivables	-	-	-	-	-
Investments in debt securities	718,770,745	-	718,770,745	-	718,770,745
Investments in equity securities	1,200,000	-	-	1,200,000	1,200,000
Other financial assets	22,483,053	-	-	22,483,053	22,483,053
Total Financial Assets	**5,138,040,750**	**115,749,696**	**1,675,739,801**	**3,483,579,696**	**5,275,069,193**
Financial Liabilities					
Deposits from customers	2,793,274,461	-	1,937,607,863	860,098,100	2,797,705,963
Borrowed funds	1,533,405,100	-	-	1,533,492,997	1,533,492,997
Subordinated debt	131,795,018	-	-	131,750,281	131,750,281
Other financial liabilities	43,986,088	-	-	43,986,088	43,986,088
Total Financial Liabilities	**4,502,460,668**	**-**	**1,937,607,863**	**2,569,327,467**	**4,506,935,330**

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

31 December 2021	Fair value	Valuation technique	Inputs used
Financial Assets			
Loans and advances to customers	3,459,896,643	Discounted cash flows (“DCF”)	Incremental borrowing rate
Finance lease receivables	-	Discounted cash flows (“DCF”)	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows (“DCF”)	Incremental borrowing rate
Other financial assets	22,483,053	Discounted cash flows (“DCF”)	Incremental borrowing rate
Financial Liabilities		Discounted cash flows (“DCF”)	Incremental borrowing rate
Deposits from customers	860,098,100	Discounted cash flows (“DCF”)	Incremental borrowing rate
Borrowed funds	1,533,492,997	Discounted cash flows (“DCF”)	Incremental borrowing rate
Subordinated debt	131,750,281	Discounted cash flows (“DCF”)	Incremental borrowing rate
Other financial liabilities	43,986,088	Discounted cash flows (“DCF”)	Incremental borrowing rate
31 December 2020			
Financial Assets			
Loans and advances to customers	3,224,713,332	Discounted cash flows (“DCF”)	Incremental borrowing rate
Finance lease receivables	8,800,274	Discounted cash flows (“DCF”)	Incremental borrowing rate
Investments in equity securities	1,200,000	Discounted cash flows (“DCF”)	Incremental borrowing rate
Other financial assets	10,734,218	Discounted cash flows (“DCF”)	Incremental borrowing rate
Financial Liabilities			
Deposits from customers	999,162,377	Discounted cash flows (“DCF”)	Incremental borrowing rate
Borrowed funds	1,342,073,602	Discounted cash flows (“DCF”)	Incremental borrowing rate
Subordinated debt	165,081,803	Discounted cash flows (“DCF”)	Incremental borrowing rate
Other financial liabilities	32,561,174	Discounted cash flows (“DCF”)	Incremental borrowing rate

There were no changes in the valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2021 (2020: zero). Market rates were extracted from the reports published by the National Bank of Moldova for December 2021 and December 2020 on term loans, term deposits and interbank loans.

34 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2021 the Bank had no significant capital commitments (2020: zero).

Tax contingencies

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

Loan related commitments

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

	31 December 2021	31 December 2020
Guarantees	180,690,377	166,035,153
Expected credit loss allowance	(1,016,042)	(1,094,205)
	179,674,334	**164,940,947**
Commitments to extend credit:		
- Revocable commitments to extend credit	425,258,449	470,742,464
- Irrevocable commitments to extend credit	41,295,552	37,522,346
Expected credit loss allowance	(3,875,983)	(2,522,858)
	462,678,018	**505,741,952**
Total	**642,352,353**	**670,682,899**

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.

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34 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Compliance with law

The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. No breach of financial covenants was reported as at 31 December 2021 (31 December 2020: zero).

Legal proceedings

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

35 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

As at 31 December 2020	Contractual amount	Assets	Fair value: Liabilities
Fair value from derivatives			
Swaps	42,253,200	35,075	162,200
Total derivatives with third parties	**42,253,200**	**35,075**	**162,200**

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36 RELATED PARTY TRANSACTIONS

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

Transactions of the Bank with group companies

According to the group's strategy, the Parent Bank acts as an additional provider of funds (including subordinated debt) for its subsidiaries.

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

			2021			2020
	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates	ProCredit Holding	Other Procredit Group companies	Key management and other affiliates
Interest income		67	1,423,908	-	625	613,053
Interest expense	20,427,846	2,841,833	500,636	17,806,339	-	291,980
Fees and commissions income	-		110,276	-	-	218,992
Fees and commissions expense	5,328,688	2,394,293		4,835,332	-	-
Personel expenses			4,670,885	-	-	4,450,740
General and administrative expenses	7,839,274	35,743,896		6,924,918	31,571,496	-
Training related fees		3,107,294	-	-	2,254,796	-

The table above discloses all income and expenses items derived from transactions with ProCredit Bank’s Group companies including Quipu GmbH Germany (the group’s IT provider), and ProCredit Holding AG & Co. KGaA under common control of the Supervisory Board chairman of the Parent Bank.

Expenses related to other related parties include mainly fees paid to ProCredit Academy, in the amount of MDL 3,107,294 (2020: MDL 2,254,796) and Quipu MDL 38,138,188.37 (2020: MDL 31,571,496). The members of the Bank Board (supervisory body) received during the year 2021 - MDL 118,010 compensation from ProCredit Bank (2020: MDL 115,486).

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

			31-Dec-21			31-Dec-20
	ProCredit Holding	**Other Procredit Group companies**	**Key management and their affiliates**	**ProCredit Holding**	**Other Procredit Group companies**	**Key management and their affiliates**
Assets						
Cash and cash equivalents and accounts		47,324,178	-	-	41,308,333	-
Loans and advances to customers		31,054	19,729,183	-	108,809	22,976,789
Liabilities						
Due to banks				-	1,495,317	-
Borrowed funds	142,196,672	243,883,264		149,362,218	-	-
Subordinated debt	131,795,018			138,569,357	-	-
Deposits from customers	1,019		13,137,503	105,774,884	-	31,294,930
Other liabilities		2,208,407				
Off-balance sheet items						
Guarantees	1,515,385,800	221,031,800	-	1,395,922,200	-	-

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

In 2021 the Bank had borrowings granted to related parties in the amount of MDL 19,729,183.

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

During 2021, the Bank has granted loans to related parties in the amount of MDL 19,729,183, therefore expected credit loss allowance for loans and advances to banks were formed in the amount of MDL 562,517.

37 MANAGEMENT COMPENSATION

During the reporting period, total compensation paid to the management of the Bank was MDL 3,298,331 (2020: MDL 3,298,196).

During 2021, total compensation from ProCredit Bank paid to the Bank Board (supervisory body) was MDL 118,010 (2020: MDL 115,486).

38 SUBSEQUENT EVENTS

On 24 February 2022 the Russian army invaded Ukraine, thus sparking an extensive military conflict on the territory of Ukraine. Moldova's airspace was closed between 24 February 2022 – 25 April 2022 for security reasons. On 24 February 2022 a state of emergency was declared in the Republic of Moldova for a period of 60 days, the main purpose of the state of emergency is to facilitate the movement and accommodation of refugees and other actions if necessary. Starting with 24 February 2022, the NBM organized meetings with the banks' management and issued official letters, the main messages being:

- Banks are liquid and should allow withdrawals to calm panic;
- The NBM will provide cash in MDL as needed;
- The NBM will also support non-cash foreign exchange needs;
- The lack of cash in foreign currency has been resolved (it has been imported);
- AML measures must be applied continuously.

Correspondent banks have informed the bank about the suspension of the processing of international payments with Russia and Belarus, due to complex international sanctions, which must be applied immediately. However, customers who exported goods before the events could receive funds.

On 25 February 2022 the IT service provider QUIPU Gmbh informed the bank that the operational requests will be processed as usual. In the case of urgent security requests, Ukraine and Moldova have priority.

Taking into account the situation described above, the Bank monitors the liquidity situation on a daily basis, which is at a comfortable level. The Bank has also conducted crisis simulations on credit risk, in order to identify the impact on capital adequacy in the event of non-repayment of loans to customers related to the countries affected by the war: Russian Federation, Ukraine, Belarus.

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38 SUBSEQUENT EVENTS (CONTINUED)

The bank organized a meeting of the business continuity group, where it assessed possible threats and developed an action plan.

In addition, the bank cannot remain indifferent to the suffering of refugees coming from the territory of Ukraine. The bank and its employees are involved in providing accommodation for refugee families and helping orphaned children. These initiatives will be continued to provide people with support.

39 ABBREVIATIONS

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

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

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