ProCredit Bank

Part of the ProCredit Group

Disclosure Report for the year 2016

(in accordance with National Bank of Romania regulation No. 5/2013)

ProCredit Bank SA

CONTENTS

1 INTRODUCTION

ProCredit Bank S.A. (the “Bank” or “ProCredit Bank”) was established in Romania in May 2002 (up to November 2004 the Bank was known as Microfinance Bank MIRO S.A). As of the end of 2016, the main shareholder of the Bank is ProCredit Holding. ProCredit Bank S.A. is the sole bank of Romania with 100% German shareholding.

ProCredit Holding is the parent company of a global group of banks. At the end of 2016 the group was operating in Germany, Eastern Europe and Latin America. ProCredit Holding is responsible for maintaining an adequate level of equity for the group and ensuring that all reporting, risk management, anti-money laundering fraud and terrorism financing prevention standards and compliance obligations required under German and European banking regulations are met. ProCredit Holding plays an important role in determining the group’s human resources policies and in the development and delivery of curricula in the ProCredit academies. Moreover, ProCredit Holding sets the overall policy guidelines and standards regarding the material areas of banking operations in order to ensure that appropriate organisational structures and processes are in place in the ProCredit banks. These guidelines and standards are supplemented by the exchange and dissemination of best practices. Optimal IT solutions are a central part of implementing the business and risk strategies of the group. Quipu GmbH, a 100% owned subsidiary of ProCredit Holding, develops software solutions especially for the ProCredit group.

At a consolidated level the ProCredit group is supervised by the German Federal Financial Supervisory Authority - BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) and of Deutsche Bundesbank (the Central Bank of Federal Republic of Germany).

According to Fitch rating agency, the investment rating of ProCredit Holding is BBB (the latest review being performed in 2016). Furthermore, the same agency confirmed in 2016 the credit rating of the Bank at BBB – with a stable outlook.

The Bank operates through the Head Office located in Bucharest and through its network consisting of 6 branches and 11 agencies located in Romania.

The current registered office of the Bank is located at: 62 – 64 Buzesti Street, Sector 1, Bucharest, Romania.

2 INFORMATION PUBLICATION PURPOSE

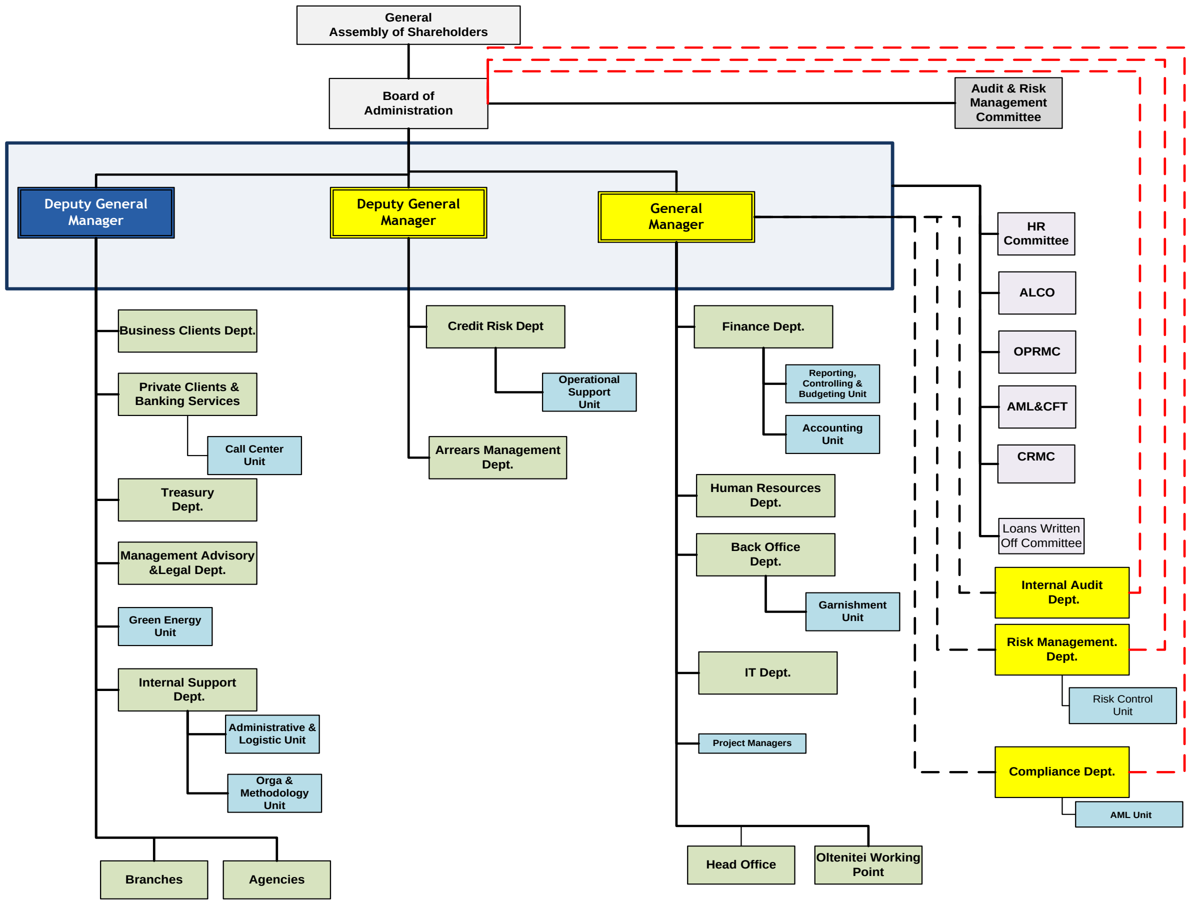
This report and the published annual financial statements are intended to meet the public information requirements in force on December 31, 2016, according to Regulation no. 5/2013 of the National Bank of Romania. Confidential information, the information protected by law or the publication of information, which would weaken the competitive position of the Bank, shall not be contemplated by this public information. The published information is based on the audited financial statements as at December 31, 2016.

3 ORGANIZATIONAL STRUCTURE

A. ORGANIZATIONAL CHART

The organizational structure of ProCredit Bank S.A. (hereinafter the “Bank”) is established under the Decision of the Bank's Board of Administration, materialized in the Bank's Organizational Chart, which is an integral part of the Internal Regulation Framework and according to the Constitutive Act of the Bank and the relevant legislation and business practice specific requirements adopted by the Bank.

On December 31, 2016, the chart of the Bank was the following:



B. MAIN BODIES

GENERAL ASSEMBLY OF SHAREHOLDERS

The General Assembly of the Shareholders ("GAS") consists of the Banks' shareholders.

The ***General Assembly of the Shareholders*** is the supreme decision-making body of the Bank. The General Assembly of the Shareholders conducts two types of meetings: Ordinary General Assembly of Shareholders and the Extraordinary General Assembly of Shareholders (collectively "General Assembly of Shareholders").

The Ordinary General Assembly of Shareholders is convened at least once a year within five months as of the end of the financial year. Except for the items included in the agenda, the Ordinary General Assembly of Shareholders is authorized to resolve the following:

a) to discuss, approve or modify the financial situations based on the reports of the Board of Administration and of the Financial Auditor;

b) to determine the allocation and distribution of the profits, and respectively, the establishment of the dividends to be distributed to the shareholders;

c) to appoint, remove, assess the performance and decide upon the remuneration of the members of the Board of Administration, and to decide upon their discharge from management;

d) to approve the selection process, the eligibility criteria, the independence criteria, and the level of the material interests in transactions or other areas impacting on the credit institution of the members of the Board of Administration;

e) to appoint the Financial Auditor, or denounce the contract with it;

f) to approve the company's strategy on a short, medium and long term;

g) to approve the lease or pledge, of one or more of the bank's units;

h) to determine the revenues and expenditures budget and to approve the business plan for the next fiscal year.

The Board of Administration represented by the Chairperson will call the Ordinary General Assembly of Shareholders by issuing written notices to each shareholder no later than 30 days before the established date of the meeting, indicating the date, time and location of the meeting as well as the meeting agenda. The notices for the convening of the Ordinary General Assembly of Shareholders can be also sent by electronic means, having incorporated, attached or logically associated the extended electronic signature.

As a rule, the Ordinary General Assembly of Shareholders takes place at the Bank's Head Office. At the suggestion of the Chairperson of the Board of Administration, it may, however, be conducted at another place, including one not located in Romania, provided, however, that such place does not place undue burden upon any of the shareholders.

The Extraordinary Assembly of Shareholders shall be authorized to make decisions on the following:

a) increase of the Bank's registered share capital;

b) change of the Bank's scope of activity;

c) decrease of the registered capital or re-capitalization thereof through issuance of new shares;

d) limitation of the Bank's duration of operation;

e) merger or division of the Bank;

f) anticipated dissolution of the Bank;

g) issuance of bonds;

h) conversion of one category of bonds into another category or into shares;

i) any other amendment to this Constitutive Act, as well as any other decision which requires the approval of the Extraordinary General Assembly of Shareholders, according to this Constitutive Act;

j) approval of new shareholders;

k) change of the Bank's head office;

l) approval of the Policy for selecting, assessing, monitoring and planning the succession of the Board of Administration members.

The Extraordinary General Assembly of Shareholders can delegate part of its competences to the Board of Administration, in compliance with Law no. 31/1990 regarding commercial companies. The Extraordinary General Assembly of Shareholders may be called any time deemed necessary by the Board of Administration represented by the Chairperson or at the request of the majority of the Board of Administration members by issuing notices as provided by the following paragraph. If the meeting agenda includes matters implying changes to the Constitutive Act of the Bank, the draft of the suggested modifications will be attached to the notices.

The Chairperson of the Board of Administration shall call an Extraordinary General Assembly of Shareholders by issuing written notices to each Shareholder no later than 30 days before the established date of the meeting, indicating the date, time and location of the meeting as well as the meeting agenda. Notwithstanding the previous sentence, an Extraordinary General Assembly of Shareholders may also take place at any time without written invitation by unanimous consent of all shareholders. The notices for the convening of the Extraordinary General Assembly of Shareholders can be also sent by electronic means, having incorporated, attached or logically associated the extended electronic signature.

The Chairperson of the Board of Administration is obliged to convene an Extraordinary General Assembly of Shareholders upon the request of shareholders representing at least 5% (five percent) of the share capital.

As a rule, an Extraordinary General Assembly of Shareholders takes place at the Bank's Head Office. At the suggestion of the Chairperson of the Board of Administration, it may, however, be conducted at another place, including one not located in Romania, provided, however, that such place does not place undue burden upon any of the Shareholders.

Notwithstanding any provision in this Constitutive Act to the contrary, the decisions regarding: the modification of the Bank's scope of activity, the reduction or increase in the Bank's registered capital, the modification of the legal statute of the Bank and the merger, division or dissolution of the Bank shall be approved by the affirmative vote of more than 75% of the outstanding share capital of the Bank.

THE BOARD OF ADMINISTRATION

The Bank adopts the unitary administration system, therefore it is governed and supervised by the Board of Administration, a collective deliberative body consisting of 5 members, in charge of the Bank's administration according to the prerogatives it is given by the Constitutive Act, General Assembly of Shareholders decisions and according to Romanian law. In the decision making process, in case of a tie vote, the vote of the Chairperson, or, in his/her absence, the vote of the Vice-Chairperson, shall be determinative.

The members of the Board of Administration are appointed by the Ordinary General Assembly of the Shareholders, except for the first administrators, which have been appointed through the Constitutive Act. The Ordinary General Assembly of the Shareholders, that appoints the Board of Administration, appoints the Chairperson of the Board and he can be revoked only by it.

In case the Chairperson is temporarily unable to fulfill his/her attributions, during the period of this inability his/her attributions will be exercised by the Vice-Chairperson or, in his/her absence, the Board of Administration can appoint another administrator with fulfilling the function of Chairperson.

The members of the Board of Administration are appointed for a period of 4 (four) years, and their mandate shall be prolonged with consecutive terms of 4 (four) years each, in case they are not expressively revoked by the Ordinary General Assembly of the Shareholders.

The Board of Administration shall have full powers to carry out all necessary and useful acts for performing the scope of activity of the Bank, according to the Romanian law and the Constitutive Act, with the exception of the powers reserved by law for the General Assembly of Shareholders.

On December 31, 2016 the Board of Administration of ProCredit Bank consisted of the following members:

Chairman	Rainer Peter Ottenstein
Member	Gian Marco Felice
Member	Ilir Aliu
Member	Antje Marielle Gerhold
Member	Helen Alexander

AUDIT AND RISK MANAGEMENT COMMITTEE (ARMC)

The Bank's Board of Administration designated an Audit and Risk Management Committee. This operates as a permanent advisory committee, is directly subordinated to the Board of Administration and is completely independent of the Bank's Managers.

On December 31, 2016 the Audit and Risk Management Committee of ProCredit Bank consisted of the following members:

Chairman	Rainer Peter Ottenstein
Member	Gian Marco Felice
Member	Ilir Aliu

The Committee assists the Board in relation to the audit activity by monitoring:

a) the quality and integrity of the financial statement of the Bank;

b) the relationship with Bank's external auditors;

c) the performance of the Bank's internal audit function;

d) effectiveness of internal control and risk management system;

e) the Bank's compliance with legal and regulatory requirements.

The Committee assists the Board in relation to the risk management activity by monitoring:

a) the global management of the Bank's risks;

b) the Bank's risk profile;

c) the implementation of decisions of the Board of Administration regarding risk management.

BANK MANAGERS

The executive management of the Bank is delegated by the Board of Administration to at least two managers, one of which shall hold the position of General Manager, and the others shall act as Deputy General Managers. The exact number of Managers shall be established by the Board of Administration through the organizational chart approved by the Board of Administration. The Bank's Managers must meet the conditions provided by the regulations applicable to credit institutions.

The Bank is represented in relationship to third parties by any of the Managers acting individually, or, to the extent permitted by law and the NBR norms and regulations, by any other employee of the bank specifically empowered to represent the bank, either pursuant to a power of attorney granted in writing by a Manager or according to the rights and duties attached to the position held by such employees according to the job descriptions, the Bank's internal regulations and procedures and the organizational structure of the Bank. Incidentally, for specific purposes, also other persons may be empowered to represent the Bank. Any document by which representation powers are granted will specify if the empowered person is permitted to empower also other persons for the purposes of the respective document. Under no circumstances are the Bank Managers allowed to delegate to other Bank's employees such competences that belong exclusively to them under the law and the norms of the National Bank of Romania.

Besides the rights and duties established by the Board of Administration, the Bank Managers shall implement the general strategies and policies concerning the activity of credit institutions, as approved by the Board of Administration.

The credit policy provides the obligation of the Bank's Managers to approve the credit risks exposures which exceed a certain ceiling established as an absolute amount or as a percentage of the own funds, as well as those entailing a high credit risk level or which are not specific to the business carried out by the credit institution.

On December 31, 2016 the management of the bank was ensured by:

General Manager	Antje Marielle Gerhold
Deputy General Manager	Mariana Dimitrova Petkova

4 BUSINESS MODEL AND STRATEGY

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who would like to save. In our operations, we adhere to a number of core principles: we value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on a sound financial analysis.

In our operations with business clients, we focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing substantial resources in financial education, we aim to promote a culture of savings and financial responsibility.

In addition to business clients, we also address private individuals that are associated with our business clients, as well as other private clients who want a reliable, transparent bank mainly for payments and savings. We focus on building a savings culture, and reducing the level of cash in the economy. We do not promote consumer finance, but instead focus on easy access and longer-term savings. ProCredit Bank does not provide complex investment products or asset management services. We put emphasis on “clarity, simplicity and security” since we believe this is what people are looking for. For their daily transactions our clients use e-banking and our 24/7 services for cash and non-cash transactions. Our positioning is built around progressiveness, convenience of modern technology and friendly, competent service provided by our Client Advisers.

The main competitive advantages of ProCredit Bank are represented by the individual understanding of every customer and by the provision of high quality services. We reach our clients with well-positioned network of Branches and Service Points, and a user-friendly state-of-the-art e-Banking platform. With our modern outlet network we offer convenient and comprehensive 24/7 services. Service Points are equipped with a modern, spacious and attractive 24/7 Zone which offers a comprehensive service enabling clients to carry out all day-to-day transactions via self-service machines during and outside opening hours, and also addressing the specific needs of our business clients.

Our competitive strengths in reaching and retaining our target customers lie in our staff: their proactive, professional and responsible approach geared to understanding and responding to individual client needs and building long-term client relationships. In addition, we have an organization which facilitates wise and rapidly devolved decision-making which can respond to client needs while managing risk effectively. Our staff is specialized, carefully selected and well-trained. We heavily invest into the recruitment and professional development of our employees in order to serve the customers in a professional and responsible manner.

5 ORGANIZATION OF THE INTERNAL CONTROL SYSTEM’S FUNCTIONS

RISK MANAGEMENT

Throughout 2016, the Bank continued to monitor all relevant risks and further refined its risk management tools. The core element of an effective risk management system is a well developed “risks awareness culture” – a corporate culture in which embedded risks are recognized by each employee, the potential impact of these risks is fully understood, and responsibility for controlling individual risks is assumed by the relevant staff members in accordance with their specified duties and tasks.

The Bank’s prudent risk management policies are defined on a comprehensive, wide institutional basis by the Bank’s Managers and approved by the Board of Administration. The risk management functions are ensured by the Risk Management Department and the Credit Risk Department, established at the level of Head Office. The decisions regarding the decrease of or the acceptance of exposures to risk are made within the Risk Management Committees.

ProCredit Bank aims at identifying, measuring, assessing, monitoring and controlling the risks it encounters effectively and to permanently maintain the capital at a level which is appropriate to the assumed risks. Central to our risk management strategy is our simple and transparent business model, a thorough understanding of our customers, well-trained staff, and a conservative approach to financial risks. The Code of Conduct complements the risk management strategy.

According to its internal by-laws, the Bank is not involved in speculative operations and maintains its currency position closed.

The principles, the risk profile and main instruments used for risk management shall be established by the Bank's Board of Administration by means of risk management policies and strategies. Thus, the Bank has defined risk management policies and strategies for credit risks, counterparty risk, foreign currency risk, interest rate risk, liquidity risk, operational risk, fraud risk, reputational risk and the risk related to outsourced activities. Moreover, the Bank has in place an Internal Capital Adequacy Assessment Process (ICAAP) in line with the established risk profile, as well as a general framework for stress testing on the risk profile and capital adequacy. The risk management and control process shall be carried both at the level of the Bank, as a whole, and at the level of every defined business line.

The Bank’s Managers are responsible for implementing the risk management strategy and for the functionality of the Risk Management Committees, according to their statutes. The Audit and Risk Management Committee is a Board level committee responsible for addressing all significant risks from the strategic perspective.

The upper management level committees that are: the Assets and Liabilities Management Committee, the Credit Risk Management Committee, the Operational Risk Management Committee and the Committee for Preventing and Combating Money Laundering and Terrorism Activities Funding address the individual risks.

The Risk Management Department develops and implements risk management and operational control. The department permanently monitors all relevant risks and risks positions on a continuous basis, through regular quantitative and qualitative reports to ensure that the total amount of all risks incurred does not exceed the risk-bearing potential of the Bank All processes and operational areas (including branches) shall be regularly assessed, on a regular basis, by the Internal Audit Department, being subject to a risk assessments. Among other things, the audit missions are designed to identify fraud risks and to notify the Bank's Managers so that they can take preventive measures.

The Bank's exposure to risks and the current capital adequacy situation are presented in the Management Risk Report which is prepared on a monthly basis. This report is reviewed in the Audit and Risk Management Committee meetings. The Audit and Risk Management Committee informs the Board of Administration on a quarterly basis through the Risk Profile and ICAAP Report about the developments on the risk profile and capital adequacy topics. The decisions of the upper management committees are executive decisions. The relevant operational areas are represented in each committee, so as to ensure that the various business lines and the risk management function are closely connected.

Audit and Risk Management Committee (ARMC)

The main duty of the ARMC is to support the Board of Administration in ensuring that the bank maintains a risk profile within the limits defined by the Bank's risk appetite. Accordingly, the ARMC reviews all the topics regarding the implementation of the policies, procedures and methods used in the management of credit risk (including counterparty risk), market risk (interest rate and foreign exchange risk), liquidity risk (including funding risk), operational risk (including legal risk), reputational risk, risk associated with the business (including strategic risk), compliance risk and the management of any other risk categories that could become relevant for the bank's activity. ARMC monitors on a monthly basis the capital adequacy ratio, from the perspective of the regulations in force, as well as from the perspective of economic capital calculated for internal purposes. The Committee meets on a monthly basis.

Credit Risk Management Committee (CRMC)

The CRMC is a monitoring and decision-making committee whose main duty is to monitor developments and trends in the loan portfolio and to analyse them in relation to the risk appetite established for credit risk and, whenever necessary, to approve corrective measures. The committee's meetings are held once per month, but it may be convened whenever necessary.

Operational Risk Management Committee (OPRC)

At a minimum, the agenda for the ordinary meetings of the OPRC must include the following topics: operational risk exposure (as derived from the operational risk database) and required action plans in order to address operational risk events. The assessment of the operational risk exposure also includes information security elements and the risks related to outsourced activities. The regular meetings of the OPRC are held once a month, but it may also be convened whenever required.

Assets and Liabilities Committee (ALCO)

The ALCO agenda is different in accordance with the type of meeting. During the monthly meetings the committee addresses mainly issues specific to the risk profile, liquidity risk, market risk, counterparty risk, FX risk, business risk and, to a certain extent, compliance risk. During its meetings the focus is on the short term liquidity management. The committee can be convened in extraordinary meeting whenever necessary.

Written off Loans Committee

The Loans Written off Committee has as its main objective monitoring and taking the accounting write off decision for non-performing loans. The loans being monitored and evaluated are non-performing loans in amiable recovery, as well as in recovery by judicial enforcement.

Committee for Preventing and Combating Money Laundering and Terrorism Activities Funding (AML&CFT)

The main objective of this committee is to monitor activities from the area of “know-your-customer” practices, the prevention and fight against money laundering and terrorism financing. The decisions of the committee are implemented by those departments whose areas of activity include measures decided by the committee. The AML&CFT Committee is convened whenever necessary, but at least on a quarterly basis.

CREDIT RISK

The management of credit risk is the responsibility of the Credit Risk Management Committee. The Credit Risk Department is responsible for the identification and the evaluation of the credit risk at client level, while the Risk Management Department bears the same responsibilities at loan portfolio level. The Risk Management Department, through a specialized operational structure, namely Risk Control Unit, assesses the compliance of the controlled compartments with the provisions of the Credit Risk Management Policy and Strategy and lending procedures and the quality of the portfolio in the controlled compartments.

The Bank’s credit products have a low level of complexity. The Bank does not engage in operations with financial derivative instruments with its clients. Moreover, our transparency strategy with the clients ensures that they have a good understanding of the obligations that appear from a loan contract, thus avoiding future problems at repayment. The lending process as a whole is designed to minimize the risk associated with individual loans: the credit analysis focuses on the customer’s cash flow, and only subsidiary on the collateralized assets; each loan is analysed and approved by a credit committee; loans are carefully monitored by business client advisers, who bear responsibility for their clients’ adherence to the agreed repayment plans and to the scheduling of repayments in monthly instalments. All these measures are applied to the majority of loan products, allowing problems to be identified quickly. Loans in arrears are monitored by specialized staff, at the level of the head office, thus ensuring an appropriate level of collection of the overdue debts. When a loan becomes irrecoverable on an amiable basis, the bank starts the execution process to ensure the recovery of the respective loan collaterals.

On December 31, 2016 the average amount of a loan from the outstanding loan portfolio was EUR 22,787 (December 31st 2015: EUR 16,415). The non-performing loan portfolio was 6.28% (December 31st 2015: 7.51%) while Non-performing loans coverage ratio was 52.51% (December 31st 2015: 51.88%).

The Board of Administration establishes limits for the Bank’s exposure to credit risk, the compliance of which is monitored by the Audit and Risk Management Committee and by the Credit Risk Management Committee. The Bank's exposure to counterparty risk (including issuer risk) is monitored by the Audit and Risk Management Committee and the Assets and Liabilities Management Committee.

MARKET RISK

ProCredit Bank is exposed to foreign currency risk and interest rate risk. The management of these risks is performed by the Assets and Liabilities Management Committee. The Committee also monitors the limits established by the Board of Administration for the exposure to these risks.

Foreign Currency risk

The Bank is exposed to foreign currency risk, carrying out operations in foreign currencies, especially in Euro. In order to avoid the losses generated by the fluctuation of the FX rates, the Bank adopted a strategy of closing the currency positions on a daily basis. ProCredit Bank does not use derivatives for hedging purposes, choosing a strategy for closing positions by minimising the currency mismatch between assets and liabilities. The currency position is monitored on a daily basis at the level of Treasury Department, Back Office Department and Risk Management Department. The monitoring results are submitted to the Assets and Liabilities Management Committee (ALCO).

Interest rate risk

The bank aims to ensure that balance sheet structure is balanced across all maturities. Interest rate risk is managed mainly using maturity gap analysis and scenarios analysis which measure the impact of the market interest rates' evolution on the economic value of the Bank and on its P&L. The Bank's economic value impact under the assumptions of the Basel II standard scenario does not exceed, at any given moment, 10% of the Bank's capital.
The Board of Administration establishes limits for the Bank's exposure to market risks, whose compliance is monitored by the Audit and Risk Management Committee and by the Assets and Liabilities Management Committee.

LIQUIDITY RISK (INCLUDING FINANCIAL RISK)

The Bank's position regarding the liquidity risk is carefully monitored and analysed, usually on a bi-monthly basis, during the meetings of the Assets and Liabilities Committees. The liquidity risk was mitigated by the well-diversified retail deposits.

The funding risk is a component of the liquidity risk which expresses the risk that the Bank will not dispose of sufficient funds to finance the development of its own business. Throughout 2016, the Bank used the funding attracted from ProCredit Holding / ProCredit Bank AG (Germany) and also the funds attracted from European Investment Fund (EIF) under the JEREMIE programme. The Bank maintained a comfortable level of the loan portfolio – deposits coverage ratio (79.47% at the end of 2016). The customer deposits have a high granularity, the Top 10 depositors representing approximately 13% of the total amounts attracted from customers.

The Board of Administration establishes limits for the Bank's exposure to liquidity risk, the compliance of which is monitored by the Audit and Risk Management Committee and by the Assets and Liabilities Management Committee.

OPERATIONAL RISK

For monitoring and controlling the operational risk, ProCredit Bank maintains an operational risk event database ("RED") and it has established an Operational Risk Management Committee. An important component of the management of this risk is represented by the continuous efforts made in order to increase the awareness of the employees regarding this source of risk and to encourage them to report the detected incidents.

The Bank also has an information security policy and a business continuity and recovery plan in case of disaster. The monitoring and the management of the information security incidents are performed by the Information Security Officer from Risk Management Department.

The Board of Administration establishes limits for the Bank's exposure to operational risk, whose compliance is monitored by the Audit and Risk Management Committee and by the Operational Risk Management Committee.

BUSINESS RISK (INCLUDING STRATEGIC RISK)

The Bank considers the business risk (including the strategic risk) as a significant risk because, following the changes in the business environment in past years, mainly caused by the financial crisis, we have encountered significant problems in achieving the business goals. In these circumstances, the Bank's Board of Administration defined a target risk profile for this risk, in order to ensure a better control of the risk exposure.

The Board of Administration sets limits for the Bank's exposure to business risk, whose compliance is monitored by the Audit and Risk Management Committee and by the Assets and Liabilities Management Committee.

COMPLIANCE, REPUTATIONAL AND LEGAL RISKS

The management of the compliance risk is performed in three committees of the Bank. The compliance with the financial covenants included in the refinancing contracts is monitored on a monthly basis in the ALCO meetings (The Assets and Liabilities Management Committee). The risks related to money laundering and terrorism activity funding are managed by the Committee for Preventing Money Laundering and Terrorism Activity Funding. The monitoring of the legislative regulations and of their implementation is performed within the Operational Risk Management Committee. The organizational structure of the bank includes the Compliance Department which has the role of supporting the Bank's Managers in the efficient management of compliance risk.

Our reputation in the market remains central to our success in raising deposits and funds via the capital market. Our reputational risk is low given our commitment to transparency and responsibility in every aspect of our company policy and corporate culture. There were no significant negative events affecting our reputation in 2016. Fitch Ratings reconfirmed the long-term individual rating of the bank (BBB-) considering the stable outlook of our business model.
As of December 31, 2016 there was no significant legal action filed against the Bank.

INTERNAL CAPITAL ADEQUACY PROCESS

During 2016, the Bank continued to develop its approach regarding the internal capital adequacy process. This process is based on the assessment, monitoring and internal control of capital adequacy from two complementary perspectives: determination, based on current and provisioned position, of the economic capital needed for covering each significant risk and the use of economic capital calculation techniques in order to calculate the additional capital needed for the risks that are underestimated or not covered by the regulatory framework.

The Board of Administration established through the Internal Capital Adequacy Assessment Process (ICAAP) Policy, limits both for the economic capital needed for each significant risk, and for the general limits for capital adequacy, the compliance of these limits being monthly monitored within the Audit and Risk Management Committee.

During 2016, the Bank performed regular stress tests on the risk profile and capital adequacy within the business planning process. The goal of this process is to assess the Bank's exposure to significant risks, under alternative conditions and to ensure that in adverse conditions we will continue to observe the solvency limits and risk appetite.

6 CAPITAL MANAGEMENT

The capital management of the Bank has the following objectives:

- Ensuring that the Bank's capital is permanently adequate, both as to volume and as quality in order to cover the (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continuing growth while following its business strategy.

The internal capital adequacy assessment process of ProCredit Bank SA is governed by the Bank's Internal Capital Adequacy Assessment Process (ICAAP) Policy. The main tools used to assess and monitor the capital adequacy of the Bank are the Regulatory capital ratios, the Internal Capital Requirement, the Tier 1 leverage ratio and the risk bearing capacity. These tools are monitored on a monthly basis by the Bank's Managers, the Audit and Risk Management Committee and ultimately by the Board of Administration.

External minimum capital requirements are imposed and monitored by the local banking system supervisory authority, namely National Bank of Romania. Capital adequacy is calculated based on the International Financial Reporting Standards figures and are reported to the Bank's Managers and Audit and to the Risk Management Committee on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance.

	As at December 31st	
Indicators	**2016**	**2015**
Common Equity Tier 1 Capital (CET1) / Risk Weighted Assets	16.19%	14.84%
Tier 1 Capital / Risk Weighted Assets	16.16%	14.84%
Tier 1 + Tier 2 Capital / Risk Weighted Assets	20.43%	18.90%

in LEI	As at 31 December 2016	2015
Ordinary share capital	159,681,721	159,681,721
Capital reserve	1,273,775	1,273,775
Legal reserves	3,322,312	3,039,032
Accumulated losses	-8,576,178	-13,019,544
Less other intangibles	-6,014,652	-6,018,420
Less other regulatory adjustment	-395,615	-32,790
Common Equity Tier I	**149,291,363**	**144,923,774**
Tier I capital	**149,291,363**	**144,923,774**
Qualifying Subordinated liabilities	39,734,625	39,589,375
Other regulatory adjustment	-288,322	-
Tier II capital	**39,446,303**	**39,589,375**
Regulatory adjustment		-
Total regulatory capital	**188,737,666**	**184,513,149**

in RON	2016	2015
RWA on balance	692,953,961	756,718,678
RWA off balance	5,777,897	4,504,839
RWA from operational risk	225,316,000	215,288,350
Total RWA	**924,047,858**	**976,511,867**

The regulatory capital ratios are complemented by internal capital requirements. Under Basel III Pillar I framework, the Bank calculates capital charges for credit and market risks using Standardized Approach and for operational risk using the Basic Indicator Approach. Under Basel III Pillar II framework, the Bank calculates additional capital charges for risks not covered by Pillar I or not fully covered by Pillar I.

During 2016 the Bank has updated its internal capital adequacy assessment process in the course of regular ongoing review of its risk management methodologies.

As of 31st, December 2016 the internal capital requirement expressed as a ratio of regulatory capital over risk-weighted assets was well in excess of minimum limit of 8% established through the capital management policy and in line with the limits set by the National Bank Romania.

7 PERSONNEL REMUNERATION POLICY

The Bank’s personnel remuneration policy establishes the principles which underline the salary and benefits packages granted to the Bank’s employees.

The remuneration policy is accessible to all the employees of the Bank.

The Bank’s personnel remuneration policy is in line with the Bank’s culture and values, and it is permanently evaluated and correlated with the Bank’s medium- and long-term organizational objectives and its strategy. Therefore, personal integrity, professionalism, social responsibility, open communication and transparency will also be among the principles which underlie the personnel remuneration policy. The policy is elaborated so as to allow and promote a healthy and efficient risk management without encouraging excessive risk taking, which could overwhelm the Bank’s risk bearing capacity and to avoid potential conflicts of interests.

The Bank’s Board of Administration adopts and reviews the general principles of the remuneration policy, on a regular basis, at least once a year, and it is responsible with its implementation.
The Human Resources Committee assists and coordinates the consistent enforcement of the remuneration policy and evaluates the manner in which it is implemented.

The compliance with the remuneration policies and procedures makes the object of an independent internal evaluation performed annually by the Internal Audit Department. This evaluation will target at least the manner in which the remuneration policy is drafted and implemented, along with its effects. The result of this evaluation will be presented to the Board of Administration.

Principles of the Personnel Remuneration Policy:

ProCredit Bank's remuneration policy is based on the following principles:

The wage and benefits package consists of:

- the net salary, with a strictly fixed component, in compliance with the salary structure in force;
- meal tickets, according to the applicable legislation in force;
- preferential conditions for loans and banking services, as stipulated in the Bank's procedures and in compliance with the legislation in force;
- medical services based on the decisions made within the Human Resources Committee, the contracts signed by the Bank and the option of each employee.

The salary and benefits package does not include bonuses or incentives, either financial or tangible, which could encourage the excessive assumption of risks, by their correlation to the individual quantitative performances and results, or with the Bank's financial results.

Within ProCredit Bank S.A., it is forbidden to establish and negotiate salaries based on any discrimination of sex, sexual orientation, genetic features, age, nationality, race, color, ethnicity, religion, political option, social origin, disabilities or situation, family responsibility, syndicate membership or activity.

The level of the remuneration for the Bank's Managers is established by the Board of Administration. Their remuneration consists of only a fixed component, and it does not include incentives correlated with the Bank's performance.

The remuneration of the key personnel (as defined within the Policy and Strategy regarding the Exposure to Related Parties) consists exclusively of a fixed component, and it does not contain incentives correlated with the Bank's performance; it is established and approved by the Board of Administration.

Individual salaries are established and reviewed periodically based on the salary structure in force. The criteria considered for the approval of the salary increase are:

- Fulfillment of the tasks and attributions according to the job description, and the Bank's procedures and internal regulations;
- Professional results obtained during the year, the quanlity of the performed work, as well as the personal involvement of the employee;
- Abilities of the employee;

The individual evaluation process, carried out annually, takes into account both personal and professional abilities, such as the assimilated knowledge, the qualifications, personal development, team work ability, contribution to the performance and results of the team, involvement and proactive behavior and degree of knowledge of the procedures and compliance with them.

The salary negotiated and established individually for each employee of the Bank is confidential, and this confidentiality obligation appertains both to ProCredit Bank, and to its employees.

In 2016 the total compensation paid to the management of the bank amounted to:

in LEI	**1.1.-31.12.2016**	**1.1.-31.12.2015**
Management board salaries	794,687	1,621,007
Total	**794,687**	**1,621,007**

8 RELATED PARTY TRANSACTIONS

The Bank entered into a number of banking transactions with related parties in the normal course of business. The ultimate parent company of the bank is ProCredit Holding AG & Co. KGaA. During the year concluded **on December 31, 2016** and the year concluded **on December 31**, 2015, the following transactions were performed with the shareholders and other related parties of the Bank and the Group:

	As at 31 December	
in LEI	**2016**	**2015**
Assets		
Loans and advances to banks	80,348,168	56,790,084
Other receivable	1,587,158	59,720
Total Assets	**81,935,326**	**56,849,803**
Liabilities		
Liabilities to banks (including ProCredit Holding)	128,120,926	140,130,892
Liabilities to customers	288,513	25,821
Subordinated debt	39,747,892	39,595,984
Other payable	783,710	26,963
Total Liabilities	**168,941,041**	**179,779,660**
Off-balance sheet positions		
Credit line	45,411,000	45,245,000
Loan commitment	-	-
Total Off-balance sheet positions	**45,411,000**	**45,245,000**

in LEI	**1.1.-31.12.2016**	**1.1.-31.12.2015**
Income	11,346	3,399
Expense	18,619,025	18,618,454
Net income	**-18,607,679**	**-18,615,056**

9 OVERVIEW OF THE FINANCIAL RESULTS OF THE BANK

Statement of Profit or Loss

in LEI	**Note**	**1.1-31.12. 2016**	**1.1-31.12. 2015**
Interest and similar income		93,785,468	132,452,928
Interest and similar expenses		-19,772,026	-31,803,656
Net interest income	(20, 26)	**74,013,442**	**100,649,272**
Allowance for impairment losses on loans and advances		-1,530,840	-20,072,846
Net interest income after allowances	(9, 27)	**72,482,602**	**80,576,426**
Fee and commission income		15,832,220	18,856,514
Fee and commission expenses		-5,851,058	-6,271,530
Net fee and commission income	(21, 28)	**9,981,162**	**12,584,984**
Net result from foreign exchange transactions	(29)	4,799,109	5,164,270
Net result from available-for-sale financial assets	(30)	24,403	21,349

Operating income		**87,287,276**	**98,347,030**
Personnel expenses	(32)	-31,671,233	-41,216,900
Administrative expenses	(32)	-26,504,198	-27,105,516
Operating lease expenses		-8,759,090	-10,631,765
Depreciation and amortisation	(39, 40)	-8,572,904	-7,291,058
Net other operating income/expense	(31)	-6,114,253	-1,523,122
Operating expenses		**-81,621,679**	**-87,768,361**
Operating result		**5,665,597**	**10,578,669**
Income tax (expenses)/ income	(14, 33)	-938,950	-2,188,655
Profit/Loss for the year		**4,726,647**	**8,390,014**

Statement of Financial Position

in LEI		As at 31 December	
Assets	**Note**	**2016**	**2015**
Cash and cash equivalents	(7, 34)	161,982,624	213,902,304
Loans and advances to banks	(8, 35)	82,723,222	58,852,673
Available-for-sale financial assets	(9, 36)	85,892,086	40,845,734
Loans and advances to customers	(8, 37)	1,058,522,504	1,146,591,114
Allowance for losses on loans and advances to customers	(9, 38)	-50,599,964	-63,559,880
Property, plant and equipment	(11, 14, 40)	18,786,004	19,124,008
Intangible assets	(10, 39)	6,014,652	6,018,420
Deferred tax assets	(14, 42)	3,723,605	4,664,719
Other assets	(43)	16,664,299	19,016,067
Out of which: Current tax assets		*3,162,175*	*3,304,712*
Total assets		**1,383,709,032**	**1,445,455,159**
Liabilities			
Liabilities to banks	(15, 44)	128,121,992	139,586,959
Liabilities to customers	(15, 45)	839,706,432	903,805,097
Liabilities to international financial institutions	(46)	211,951,422	204,804,619
Other liabilities	(48)	5,437,405	6,297,126
Provisions	(16, 47)	3,063,686	423,178
Subordinated debt	(18, 49)	39,747,892	39,595,984
Total liabilities		**1,228,028,830**	**1,294,512,964**
Equity			
Share capital	(19, 50)	159,681,721	159,681,721
Share premium		1,273,775	1,273,775
Legal reserve		3,322,312	3,039,032
Accumulated loss		-8,576,178	-13,019,544
Revaluation reserve from available-for-sale financial instruments		-21,428	-32,790
Total equity		**155,680,202**	**150,942,194**
Total equity and liabilities		**1,383,709,032**	**1,445,455,159**

Part of the
ProCredit Group

ProCredit Bank

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