

 Part of the
ProCredit Group



ProCredit Bank

Disclosure Report for the year 2019
(in accordance with National Bank of Romania regulation No. 5/2013)

ProCredit Bank SA



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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 2019, 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 2019, the Group was operating in Germany, South Eastern and Eastern Europe and South 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 2019). Furthermore, the same agency reconfirmed the long-term individual rating of the Bank (BBB-).

ProCredit Bank S.A. operates through the Head Office located in Bucharest and through its network consisting of 6 branches 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

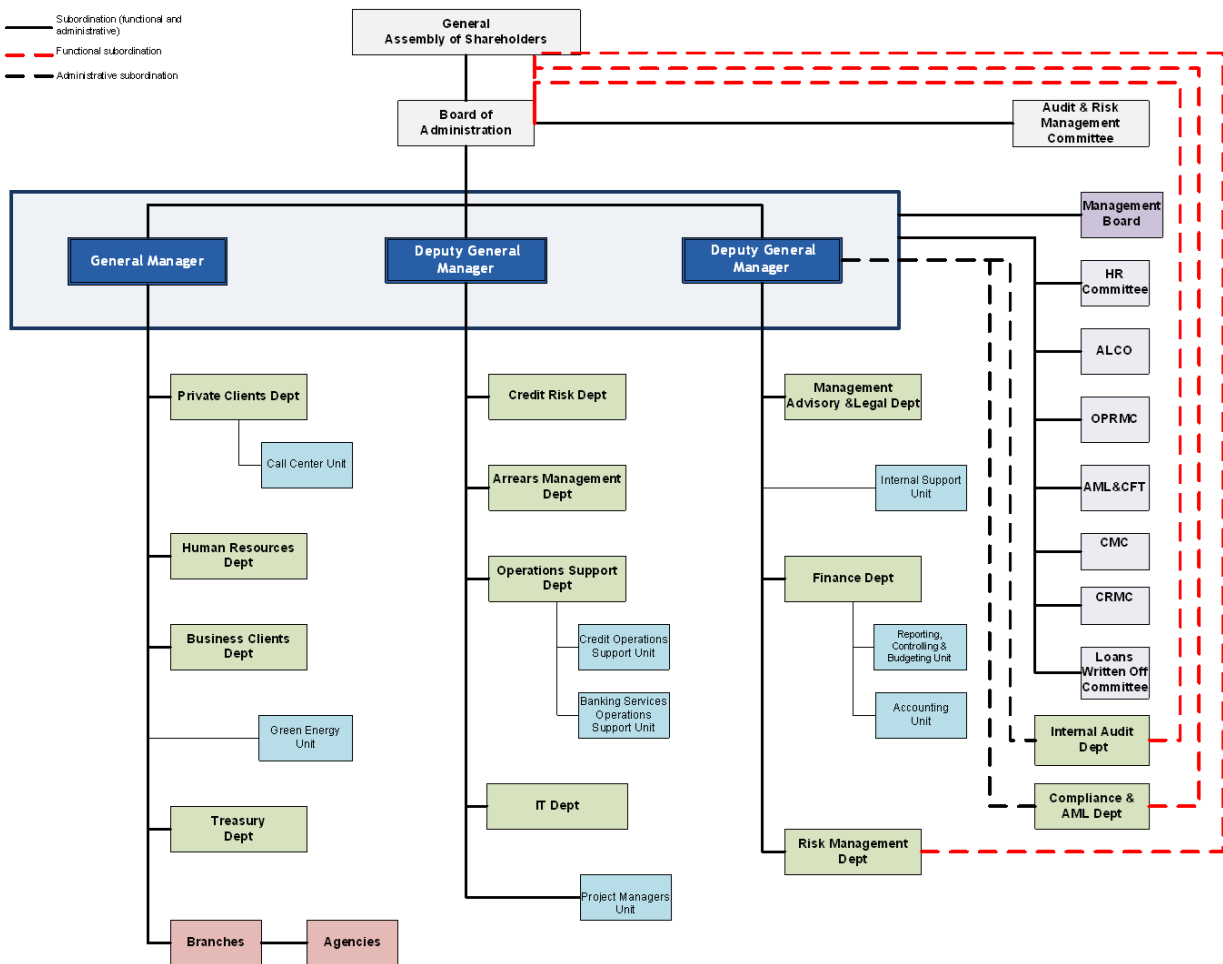
This report and the published annual financial statements are intended to meet the public information requirements in force on December 31, 2019, according to Regulation no. 5/2013 of the National Bank of Romania. Confidential information, the information protected by law or the publication of information, 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, 2019.

3. ORGANIZATIONAL STRUCTURE

A. ORGANIZATIONAL CHART

The organizational structure of ProCredit 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 and the relevant legislation and business practice specific requirements adopted by the Bank. The Bank's statutory bodies are the General Assembly of the Shareholders ("GAS") and the Board of Administration (the "Board").

On December 31, 2019, the organizational chart of the Bank was the following:



B. MAIN BODIES

B.1. GENERAL ASSEMBLY OF SHAREHOLDERS

The General Assembly of the Shareholders 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 from 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 is authorized to decide upon 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.

B.2. THE MANAGEMENT BODY

The Bank adopts the unitary administration system, where the management body of the bank consists of the Board of Administration and the Bank's executive managers that form together the Management Board.

The management body has the ultimate and overall responsibility for the institution and defines, oversees and is accountable for the implementation of the governance arrangements within the institution that ensure effective and prudent management of the institution.

The members of the management body should be fully aware of the structure of the management body, the division of tasks and responsibilities, its committees and within the institution, among key function holders. The management body should fully know and understand the organizational and operational structure of the institution and ensure that it is in accordance with its approved business strategy and risk appetite. The management body should guide and understand the institution's structure, its evolution and limitations and should ensure that the structure is justified and efficient and does not involve undue or inappropriate complexity.

All members of the management body should be informed about the overall activity, financial and risk situation of the institution taking into account the economic environment and about decisions taken that have a major impact on the institution's business.

The duties of the management body are clearly defined distinguishing between the management function and the supervisory function. The management body in its supervisory function and management function should interact effectively. Both functions should provide each other with sufficient information to allow them to perform their respective roles.

THE BOARD OF ADMINISTRATION

The Board of Administration (BoA) is a collective body consisting of five 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 expressly 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.

The Board of Administration focusses on the supervisory function of the management body and performs its role independently from the executive function of the management body.

On December 31, 2019 the Board of Administration of ProCredit Bank consisted of the following members:

Chairman	Rainer Peter Ottenstein
Member	Gian Marco Felice
Member	Iilir Aliu
Member	Marianne Loner
Member	Andrei Georgescu

The members of the Board of Administration actively and effectively participate in order to fulfill their duties and had 15 meetings during 2019. The meetings were held with the participation of the number of members necessary for the meeting according to the provisions of the legislation in force and the Articles of Association of the Bank, registering a presence of approximately 81%.

BANK MANAGERS

The executive management of the Bank is delegated by the Board of Administration to at least two Managers, of which one will hold the position of General Manager, and the others will act as Deputy General Managers. The exact number of Managers is established by the Board of Administration through the organizational chart of the Bank, approved by the Board. 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.

On December 31, 2019 the management of the bank was ensured by:

General Manager	Mariana Dimitrova Petkova
Deputy General Manager	Stefan Manole

C. MANAGEMENT FRAMEWORK

The Internal Regulations Framework is the document through which ProCredit Bank defines its management framework, as well as the general principles governing its activity. The Internal Regulations Framework is elaborated in compliance with the Bank's Constitutive Act, as well as with the applicable regulatory framework, the Bank's Board of Administration approves it and its provisions are mandatory. The provisions of the Internal Regulations Framework are completed by the Bank's strategies, policies and procedures, as well as by the job descriptions defining the specific responsibilities of the Bank's personnel. The Bank's policies and strategies will be approved by the Bank's Board of Administration and their provisions are mandatory. They will be revised whenever necessary, or according to the frequency stipulated in each policy (if the case) and / or in the applicable regulations, and any necessary amendments will be implemented only based on the approval of the Board of Administration.

On December 31, 2019 the Bank has in place the following policies and strategies:

General institutional policies & strategies

- Environmental Policy and Strategy
- Conflict of Interest Management Policy
- Policy regarding the workflow of the management structure
- Policy for selecting, assessing, monitoring and planning the succession of the Bank Managers and the Key Function Holders
- Human Resources Policies and Rulings

Risk management policies & strategies

- General Risk Management Policy
- Credit Risk Management Policy and Strategy
- Collateral Valuation Policy
- Counterparty Risk Management Policy and Strategy
- Policy and Strategy regarding the exposure to related parties
- Liquidity Risk Management Policy and Strategy
- Foreign Currency Risk Management Policy and Strategy
- Interest Rate Risk Management Policy and Strategy
- Operational Risk Management Policy and Strategy
- Reputational Risk Management Policy and Strategy
- Strategic Risk Management Policy and Strategy
- Internal Capital Adequacy Assessment Process (ICAAP) Policy
- Stress Testing Policy

Other internal policies & strategies

- Internal Audit Policy
- Compliance Policy
- Compliance & AML Department Statute
- AML Policy
- Outsourced Activities Policy
- Fraud Prevention Policy and Strategy
- Business Continuity Policy
- Information Security Policy
- Treasury Policy
- Disclosure and Ad-Hoc Reporting Policy
- Funding Policy
- New Products Approval Policy
- Personal Data Protection Policy

D. COMMITTEES OF THE MANAGEMENT BODY

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, 2019 the Audit and Risk Management Committee of ProCredit Bank consisted of the following members:

Chairman	Rainer Peter Ottenstein
Member	Gian Marco Felice
Member	Andrei Georgescu

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.

MANAGEMENT BOARD

The management Board is an operational management body established for the purpose of enabling the Bank's Managers to fulfill the current management activities of the Bank delegated by Board of Administration. The activity, membership and responsibilities of the Management Board is established by the Board of Administration through the approval of the Statute of the Management Board.

Other specialized committees of the upper management

a. The Assets and Liabilities Management Committee is established and functions within ProCredit Bank, as a committee of the upper management, whose main objective is the management of assets and liabilities of the Bank. The decisions of this committee shall be implemented by the departments whose areas include the measures decided by the committee. The indicators specific for the areas covered by the ALCO responsibilities and analyzed within the meetings of this committee, shall be at least the ones regulated by the National Bank of Romania or other bank supervisory authorities and the ones endorsed by the Audit and Risk Management Committee and approved by the Board of Administration. The Assets and Liabilities Management Committee will consist of the following members with voting rights: General Manager; Deputy General Managers; Head of Risk Management Department; Head of Treasury Department / Deputy Head of Treasury Department; Head of Finance Department; Head of Credit Risk Department; Head of Private Clients Department;

Head of Business Clients Department; Head of Internal Audit Department (without voting rights).

b. The Credit Risk Management Committee shall be established within ProCredit Bank, as a committee of the upper management, whose main objective is the management of loan-related risks and the loan portfolio management including: Loan categories, type of exposure, economical sector, the category of the resident counterparty, currency, initial term and estimated profitability and Identification of the market and determination of the loan portfolio. The decisions of this committee shall be implemented by the departments whose areas include the measures decided by the committee. The indicators specific for the areas covered by the CRMC responsibilities and analyzed within the meetings of this committee, shall be at least the ones regulated by the National Bank of Romania or other bank supervisory authorities, and the ones endorsed by the Audit and Risk Management Committee and established by the Board of Administration. The Credit Risk Management Committee consists of the following members with voting right: General Manager; Deputy General Managers; Head of Credit Risk Department; Head of Risk Management Department; Head of Arrears Management Department; Head of Finance Department; Head of Internal Audit Department (without voting rights).

c. The Operational Risk Management Committee shall be established within ProCredit Bank SA, as a committee of the upper management, whose main objective is the management of operational, reputational, legal, compliance and information security related risks, taking into consideration the incidents that might lead to such risks. The Committee has decision authority with regards to actions taken to manage operational risks and reputational risks in the Bank. The decisions of this committee shall be implemented by the departments whose areas include the measures decided by the committee. The indicators specific for the areas covered by the OPRMC responsibilities and analyzed within the meetings of this committee shall be at least the ones regulated by the National Bank of Romania or other bank supervisory authorities and the ones stipulated in the Operational/Reputational Risk Management Policy and Strategy, Fraud Prevention Policy and Strategy, Information Security Policy and Business Continuity Policy. The Operational Risk Management Committee consists of the following members: General Manager; Deputy General Managers ; Head of Risk Management Department; Head of Operations Support Department; Head of Management Advisory and Legal Department; Head of IT Department; Information Security Officer (with voting right); Head of Internal Audit Department; Head of Compliance & AML Department; Head of Finance Department (without voting rights).

d. The Human Resources Committee is responsible for monitoring and deciding, if required, upon the human resources matters at the level of the entire Bank. Wherever necessary the decisions will be further implemented through changes in respective internal regulations. The HR Committee will identify, assess and monitor the risks resulting from all HR related issues and activities, such as: the personnel turnover, inappropriate hiring decisions (if any), lending to employees' policy, etc. Whenever necessary, the HR Committee members can propose further discussions about the risks regarding the Bank's human resources policy within the Audit and Risk Management Committee. The HR Committee consists of the following members, all with voting rights: General Manager; Deputy General Managers; Head of Human Resources Department; Head of Finance Department; Head of Business Clients Department; Head of Private Clients Department; Branch Managers (up to two).

e. The AML & CFT Committee is created within ProCredit Bank, as a committee of the upper management, whose main objective is to monitor the activities related to the fields of “know-your-customer”, preventing and combating the money laundering and terrorism activities funding. The decisions of this committee shall be implemented by the departments whose areas include the measures decided by the committee. The Committee for Preventing and Combating Money Laundering and Terrorism Activities Funding consists of the following members: General Manager; Deputy General Managers; Head of Compliance & AML Department; Head of the Private Clients Department; Head of the Business Clients Department; Head of Management Advisory and Legal Department.

f. 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. The decisions of the Loans Written off Committee will be implemented by the departments whose areas of activity include the measures taken by the committee. The Loans Written off Committee consists of the following members with voting rights: General Manager; Deputy General Managers; Head of Credit Risk Department; Head of Finance Department; Head of Management Advisory and Legal Department.

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 serving SMEs, ProCredit Bank also pursues a direct banking strategy for private clients, particularly the growing middle class. Our comprehensive, integrated account service offer forms the foundation for long-term client relationships. We provide our clients with the possibility to perform all their banking business through online and mobile channels. In addition, our clients have direct access to various savings and financing options.

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, instead the emphasis is on “clarity, simplicity and security”. 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. With our modern outlet network, we offer convenient and comprehensive 24/7 services. Our locations 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 function - The Bank has a robust culture of risk management, extended to both its structures and business lines. Responsibility for risk management lies with the staff of all lines of activity, not being limited to risk specialists or control functions.

The risk management function ensures that all significant risks are properly identified, measured and reported and is actively involved in the risk management strategy of the bank in all significant risk management decisions.

The general risk management framework includes the entire process of policies and systems that enable the bank to manage prudently the potential risks that can be generated by the business activity, thus ensuring that they fit into the bank's risk appetite.

On each line of activity, we manage the risks through various instruments, among which we mention the supervision / control provided by the bank's management structure, the permanent committees of the Bank, the separation of responsibilities, the "four eyes" principle, policies and procedures dedicated to each area of activity. Controls are preventive, detective and corrective, being aligned with the risks and associated business lines / processes. The risk management function is coordinated within the Bank by the Head of the Risk Management Department.

Compliance function - advises the management body on the legal and regulatory framework provisions and standards that the bank must meet and assesses the possible impact of any changes to the legal and regulatory framework on the credit institution's activities.

The compliance function is ensured by the Compliance and AML Department, which is responsible for managing the compliance risk within the Bank and by one of the deputy general managers of the bank, in its quality of AML-CFT Compliance Officer.

In order to ensure a rigorous compliance risk compliance within the bank, the Compliance and AML Department has developed the Compliance Policy of ProCredit Bank, approved by the Board of Administration, which is implemented at the level of the entire Bank and communicated to all staff.

The compliance function has a role in identifying, assessing, monitoring and reporting compliance risk to the management bodies. The findings of the compliance function have to be taken into account by the management bodies in the decision-making process.

The compliance function also has the role of checking whether new products and new procedures are in line with the regulatory framework in force and any amendments thereto included in the adopted regulatory acts, the provisions of which will become applicable subsequently.

The Head of the Compliance Department and AML Department is the coordinator of the Bank's compliance function (except AML-CFT area), and reports directly to the Board of Administration. One of the deputy general managers of the bank is the coordinator of the implementation of Law 129/2019 (AML-CFT).

Internal audit function - assesses whether the quality of the internal control system is effective and efficient. It also assesses the compliance of all the Bank's activities and operational units (including risk management function and compliance function) with the applicable policies and procedures. In this respect, this function is separated from the other two internal control functions. The internal audit function also assesses the extent to which existing policies and procedures remain appropriate and comply with the requirements of the legal and regulatory framework.

The main objectives of this function are:

- To examine and evaluate the suitability and proper functioning of the Bank's risk management, internal control and governance processes, as well as the appropriateness of all activities and processes in general;
- To contribute to the achievement of Bank's objectives by providing independent analyzes and making recommendations for improving activities and processes.

The coordination of the function within the Bank is ensured by the Head of the Internal Audit Department.

The Internal Audit function reports directly to the Board of Administration and the Audit and Risk Management Committee on its findings and proposals on the significant improvement of internal controls.

Internal control functions periodically transmit to the governing bodies official reports on the major deficiencies identified. The type and frequency of these reports is defined in the internal regulations. These reports shall include follow-up measures for previous findings and, for any identified major deficiencies, the relevant risks involved, an impact assessment and recommendations. The governing body must act on the findings of the control functions in a timely and effective manner and should seek appropriate remedial action.

6. RISK MANAGEMENT

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.

Throughout 2019, the Bank continued to monitor all relevant risks and further refined its risk management tools.

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 the following types of risks: 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 risk 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 assessment. 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.

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 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 31st, 2019 the outstanding loan portfolio was EUR 293 mil (December 31st 2018: EUR 248 mil). The non-performing loan portfolio was 2.2 % (December 31st 2018: 3.12%) while Non-performing loans coverage ratio was 58.02% (December 31st 2018: 50.46%).

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, Operation Support 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.

LIQUIDITY RISK (INCLUDING FUNDING RISK)

The Bank's position regarding the liquidity risk is carefully monitored and analysed, usually on 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 2019, the Bank used the funding attracted from ProCredit Holding / ProCredit Bank AG (Germany) and also the funds attracted from European Investment Fund (EIF) under different programmes, such as JEREMIE, Competitiveness Operational Programme, EAFRD Fund of Funds ("AGRI"). In addition, the Bank is using funds attracted from the European Investment Bank and other financial institutions. The level of the loan portfolio – deposits coverage ratio at the end of 2019 was 71%.

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.

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.

COMPLIANCE, AML-CFT, 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 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 and AML Department which has the role of supporting the Bank's Managers in the efficient management of compliance and AML-CFT risks.

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 2019. Fitch Ratings reconfirmed the long-term individual rating of the bank (BBB-).

INTERNAL CAPITAL ADEQUACY PROCESS

During 2019, 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 monitored within the Audit and Risk Management Committee.

During 2019, 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.

7. 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 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 Risk Management Committee. These reports include rolling forecasts to ensure not only current but also future compliance.

in LEI	2019	As at 31 December 2018
Ordinary share capital	251,635,371	199,061,971
Capital reserve	1,273,775	1,273,775
Legal reserves	3,372,009	3,372,009
Accumulated losses	-34,369,715	-18,014,949
Less other intangibles	-4,919,610	-4,559,881
Less other regulatory adjustment	-190,242	-12,973
Common Equity Tier I	216,801,589	181,119,952
Tier I capital	216,801,589	181,119,952
Tier II capital	-	-
Total regulatory capital	216,801,589	181,119,952

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 2019 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 2019 the solvency ratio expressed as a ratio of regulatory capital over risk weighted assets was 22.26%, level above the minimum regulatory limit.

8. 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 remuneration of the members of the Bank's Board of Administration is established by the Ordinary General Assembly of Shareholders.

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) and of the identified personnel 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.

The remuneration of the entire personnel of the Bank, except for the personnel categories defined under the previous paragraphs, is established and approved within the Human Resources Committee, in compliance with the remuneration policy and internal procedures.

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 quality 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.

During the reporting period, total compensation paid to the management of the bank amounted to:

in LEI	1.1.-31.12.2019	1.1.-31.12.2018
Management board salaries	975,706	1,101,534
Total	975,706	1,101,534

During 2019, the members of the Board of Administration received compensation from the Bank in value of EUR 4,500.

9. 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, 2019** and the year concluded **on December 31, 2018**, the following transactions were performed with the shareholders and other related parties of the Bank and the Group:

in LEI	2019	As at 31 December 2018
Assets		
Loans and advances to banks	70,388,440	85,722,057
Other receivable	68,997	112,942
Total Assets	70,457,447	85,834,999
Liabilities		
Liabilities to banks	193,981,337	171,635,812
Liabilities to customers(including ProCredit Holding)	1,316,916	24,074,756
Other payable	533,654	209,706
Total Liabilities	195,831,906	195,920,274
Off-balance sheet positions		
Credit line	47,793,000	46,639,000
Total Off-balance sheet positions	47,793,000	46,639,000

in LEI	1.1.-31.12.2019	1.1.-31.12.2018
Income	20,877	170,123
Expense	25,490,538	20,827,236
Net expense	-25,469,661	-20,657,113

10. OVERVIEW OF THE FINANCIAL RESULTS OF THE BANK

Statement of Profit or Loss and other Comprehensive Income

in LEI	1.1-31.12. 2019	1.1-31.12. 2018
Interest income	75,320,655	63,924,141
Interest expenses	-30,097,808	-18,187,315
Net interest income	45,222,847	45,736,826
Allowance for impairment losses on financial assets	1,178,761	5,015,505
Net interest income after allowances	46,401,608	50,752,332
Fee and commission income	12,865,601	13,055,523
Fee and commission expenses	-5,455,659	-4,225,105
Net fee and commission income	7,409,942	8,830,419
Net result from foreign exchange transactions	4,572,594	3,915,406
Net result from FA at FVTOCI	23,990	29,743
Other operating income	1,168,636	1,753,028
Operating income	59,576,769	65,280,927
Personnel expenses	-25,110,715	-23,093,473
Administrative expenses	-38,018,918	-32,428,729
Operating lease expenses	-281,865	-4,839,881
Depreciation and amortisation	-10,625,807	-5,631,583
Other operating expenses	-2,071,361	-1,000,612
Operating expenses	-76,108,667	-66,994,278
Loss before tax	-16,531,897	-1,713,351
Income tax (expenses)	177,132	-3,527,964
Loss for the year	-16,354,765	-5,241,315
Items that may be reclassified subsequently to profit or loss		
Change in financial assets at fair value through other comprehensive income	-182,645	53,071
Change in deferred tax on revaluation reserve from financial assets at FVOCI	29,616	-5,173
Other comprehensive income for the year, net of tax	-153,029	47,898
Total comprehensive income for the year	-16,507,794	-5,193,417

Statement of Financial Position

in LEI

As at 31 December

Assets	2019	2018
Cash and cash equivalents	252,984,228	177,650,363
Loans and advances to banks	70,676,947	105,976,574
Financial assets at fair value through other comprehensive income	53,640,725	31,853,596
Loans and advances to customers	1,374,558,391	1,131,944,171
Property, plant and equipment	36,852,270	17,519,972
Intangible assets	4,919,610	4,559,881
Deferred tax assets	26,019	-
Other financial assets	2,261,634	2,207,468
Other non-financial assets	5,850,738	7,780,924
Current tax assets	1,702,552	3,197,006
Total assets	1,803,473,114	1,482,689,955
Liabilities		
Liabilities to banks	287,298,391	254,526,875
Liabilities to customers	1,047,483,118	821,512,267
Liabilities to international financial institutions	220,271,673	216,085,511
Other financial liabilities	24,354,085	2,993,072
Other non-financial liabilities	1,255,092	877,932
Provisions	851,869	620,291
Deferred tax liabilities	160,856	341,584
Total liabilities	1,581,675,084	1,296,957,532
Equity		
Share capital	251,635,371	199,061,971
Share premium	1,273,775	1,273,775
Legal reserve	3,372,009	3,372,009
Accumulated loss	-34,369,715	-18,014,949
Revaluation reserve from FA at FVTOCI	-113,411	39,618
Total equity	221,798,030	185,732,423
Total equity and liabilities	1,803,473,114	1,482,689,955

 Part of the
ProCredit Group



ProCredit Bank

ProCredit Bank Romania
Head Office
62 - 64 Buzesti Street, District 1
Bucharest
Phone: +4021-2016000
Fax: +4021-3055663
headoffice@procreditbank.ro