

 Part of the
ProCredit Group



ProCredit Bank

FINANCIAL STATEMENTS

For the Year 2016

ProCredit Bank SA





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Independent Auditors' Report (free translation¹)

To the shareholders of
ProCredit Bank Romania S.A.

Opinion

1. We have audited the accompanying financial statements of ProCredit Bank Romania S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, and the income statement, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.
2. In our opinion, the accompanying financial statements as at and for the year ended 31 December 2016 give a true and fair view of the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

3. We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹ TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.



Other Information - Administrators' Report

4. The Other information comprises the Administrators' Report. The Administrators are responsible for the preparation and presentation of the Administrators' Report in accordance with the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions and for such internal control as Administrators determine is necessary to enable the preparation and presentation of Administrators' Report that is free from material misstatement, whether due to fraud or error.

The Administrators' Report presented from page 1 to 8 is not part of the financial statements.

Our opinion on the financial statements does not refer to the Administrators' Report.

In connection with our audit of the financial statements as at and for the year ended 31 December 2016, our responsibility is to read the Administrators' Report attached to the financial statements and, in doing so, consider whether there is a material inconsistency between the Administrators' Report and the financial statements, whether the Administrators' Report includes, in all material respects, the information required by the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions and whether, based on our knowledge and understanding of the Bank obtained during our audit of the financial statements, the information included in the Administrators' Report is materially misstated. We are required to report in respect of these matters. Based on the work performed we report that:

- a) in the Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements;
- b) the Administrators' Report identified above include, in all material respects, the information required by the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

In addition, based on our knowledge and understanding of the entity and its environment acquired during our audit of the financial statements as at and for the year ended 31 December 2016, we have not identified information included in the Administrators' Report that is materially misstated.

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

5. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary



to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

6. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
7. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
10. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

11. This report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

For and on behalf of KPMG Audit S.R.L.:

Furtuna Cezar-Gabriel

**Refer to the original signed
Romanian version**

registered with the Chamber of
Financial Auditors of Romania
under no 1526/20.11.2003

**Refer to the original signed
Romanian version**

registered with the Chamber of
Financial Auditors of Romania
under no 9/2001

Bucharest, 27 April 2017



ProCredit Bank

 Part of the
ProCredit Group

Financial Statements 31 December 2016

Prepared in accordance with International
Financial Reporting Standards as endorsed
by the European Union

- Free translation* -


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 Profit or Loss and Other Comprehensive Income

in LEI	Note	1.1-31.12. 2016	1.1-31.12. 2015
Profit for the year		4,726,647	8,390,014
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from available-for-sale financial assets		13,526	73,553
Change in deferred tax on revaluation reserve from available for sale assets		-2,164	-11,768
Other comprehensive income for the year, net of tax		11,362	61,785
Total comprehensive income for the year		4,738,008	8,451,798

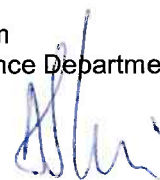
The Statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 56.

The financial statements were reviewed and authorized for issue by the Board of Administration on 27 April 2017 and were signed on its behalf by:

Mariana Dimitrova Petkova
Deputy General Manager




Andreea Ichim
Head of Finance Department





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
<i>Out of which: Current tax assets</i>		<i>3,162,175</i>	<i>3,304,712</i>
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

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 56

The financial statements were reviewed and authorized for issue by the Board of Administration on 27 April 2017 and were signed on its behalf by:

Mariana Dimitrova Petkova
Deputy General Manager



Andreea Ichim
Head of Finance Department



Statement of Changes in Equity

in LEI	Attributable to equity holders of the Bank					
	Share capital	Share premium	Legal reserve	Accumulated loss	Revaluation reserve AFS	Total
Balance at January 1, 2016	159,681,721	1,273,775	3,039,032	-13,019,544	-32,790	150,942,194
Profit of the year 2016	-	-	-	4,726,647	-	4,726,647
Revaluation of afs securities	-	-	-	-	11,362	11,362
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income of the year 2015	-	-	-	4,726,647	11,362	4,738,008
Distributed dividends from profit 2015	-	-	-	-	-	-
Transfer to legal reserve	-	-	283,280	-283,280	-	-
Share Capital increase	-	-	-	-	-	-
Transactions with shareholders recorded directly in equity	-	-	-	-	-	-
Balance at December 31, 2016	159,681,721	1,273,775	3,322,312	-8,576,178	-21,428	155,680,202
Balance at January 1, 2015	159,681,721	1,273,775	2,510,099	-20,880,626	-94,574	142,490,395
Profit of the year 2015	-	-	-	8,390,014	-	8,390,014
Revaluation of afs securities	-	-	-	-	61,784	61,784
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income of the year 2015	-	-	-	8,390,014	61,784	8,451,798
Distributed dividends from profit 2014	-	-	-	-	-	-
Transfer to legal reserve	-	-	528,933	-528,933	-	-
Share Capital increase	-	-	-	-	-	-
Transactions with shareholders recorded directly in equity	-	-	-	-	-	-
Balance at December 31, 2015	159,681,721	1,273,775	3,039,032	-13,019,544	-32,790	150,942,194

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 56.

Mariana Dinitrova Petkova
Deputy General Manager



Andreea Ichim
Head of Finance Department



Cash Flow Statement

in LEI	Nota	1.1.-31.12.2016	1.1.-31.12.2015
Net profit after tax		4,726,647	8,390,014
Cash flows from operating activities			
Adjustments for:			
Allowance for impairment losses on loans and advances		4,213,600	24,586,110
Depreciation and amortisation		8,572,905	7,291,058
Other provisions		2,640,508	11,365
Net result from fixed assets		6,636,503	1,170,160
Dividends Income		-24,403	-21,349
Net income from recoveries from write-off loans		-5,655,618	-8,488,605
Other (including FX)		-2,984,033	-3,053,385
Income tax expense/revenue		938,950	2,188,655
Operating profit before changes in operating assets and liabilities		19,065,060	32,074,022
Change in minimum compulsory reserve		22,643,399	28,463,228
Change in loans and advances to customers		76,550,710	22,754,346
Change in other assets		2,351,769	-5,147,974
Change in deposits from banks		-11,316,873	-10,385,250
Change in deposits from customers		-61,277,005	-71,313,458
Change in other liabilities		10,397,181	39,564,310
Net cash from operating activities		58,427,767	36,009,224
Cash flows from investing activities			
Dividends received		24,403	21,349
Purchase of property, plant and equipment / intangible assets		-15,171,043	-16,803,498
Proceeds from sale of property, plant and equipment		303,405	485,786
Net cash used in investing activities		-14,843,234	-16,296,362
Proceeds from borrowings		35,501,692	136,223,755
Repayment of borrowings		-39,445,604	-184,005,437
Cash flow used in financing activities		-3,943,912	-47,781,682
Net increase in cash and cash equivalents			
Cash and cash equivalents at 31 December previous year		188,855,581	216,924,400
Net increase/(decrease) in cash and cash equivalents		39,640,620	-28,068,819
Cash and cash equivalents at 31 December	(34)	228,496,201	188,855,581
Cash flows from operating activities include:			
Interest received		104,075,203	134,548,515
Interest paid		-22,756,059	-34,952,288
Fees and commissions received		15,832,220	18,856,514
Fees and commissions paid		-5,851,058	-6,271,530
		91,300,305	112,181,211

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

Notes to the Financial Statements

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Notes to the Financial Statements

A. Basis of Preparation

1) Compliance with International Financial Reporting Standards as endorsed by the European Union

ProCredit Bank S.A ("the Bank" or "ProCredit") prepares its financial statements according to International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). EU-endorsed IFRS may differ from the IFRS as published by the International Accounting Standards Board (IASB) if the EU does not adopt certain new or amended IFRS.

These financial statements of the Bank for the fiscal year 2016 were reviewed and authorized for issue by the Board of Administration on 27 April 2017 and were signed on its behalf by Mariana Dimitrova Petkova as Deputy General Manager and by Andreea Ichim as Head of Finance Department.

These financial statements have been prepared on the going concern assumption.

2) Use of estimates and judgements

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

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

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

(a) Impairment of credit exposures

To determine the bank-wide rates to be applied for collective loan loss provisioning, the Bank performed an evaluation of the quality of the loan portfolio, taking into account historical loss experiences. This migration analysis is based on statistical data from 2010 up to and including 2016 and therefore it reflects both, average losses during a period of constant growth and favourable economic environments as well the impact of the global recession.

To determine total allowances for impairment of financial assets that are evaluated individually for impairment the Bank uses best estimates of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Further information on the Bank's accounting policy on loan loss provisioning can be found in note (9) and note (53)

(b) Recognition and valuation of deferred tax assets

The Bank recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised (for the Bank's accounting policy on income taxes see note (14)). The profit projection is based on the latest business planning as approved by the Board of Administration of the Bank and therefore necessarily and appropriately reflects management's view of future business prospects. The tax planning period of the bank is three years. For details of the recognised amounts see notes (33) and (42).



(c) Functional and presentation currency

These financial statements are prepared in Romanian Lei ("LEI"), which is the Bank's functional currency.

All amounts are presented in LEI, unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of \pm one unit (LEI, EUR, %, etc).

The fiscal year of the Bank is the calendar year.

(d) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(e) Litigation

In the ordinary course of business, the Bank is routinely defendant in, or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. In view of the inherent difficulty of predicting the outcome of such matters, the Bank cannot state what the eventual outcome of such matters will be.

(f) Determination of fair values

Determination of fair value for both financial instruments carried at fair value in the financial statements and financial instruments carried at amortized cost and for which the fair value is disclosed encompasses significant judgements and uncertainties related to the current market conditions. For more information on determination of fair values, please refer to note 25.

3) Accounting developments

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

Standards adopted by the European Union

(a) IFRS 9 Financial Instruments (effective date: annual periods starting from January 1, 2018)

This standard replaces the provisions of IAS 39 „Financial instruments: recognition and evaluation” regarding the classification and assessment of financial assets.

Financial assets shall be classified by using one of two evaluation methods: at amortized cost and at fair value. A financial asset can be evaluated at amortized cost provided that the two following conditions are observed: assets must be held within the business model of the company, the objective being the management based on contractual return and cash flows at the dates specified according to the contractual terms must be represented only by principal and interest. Subsequent profit or loss from the value adjustments of assets measured at fair value are reflected in the income statement, excepting investments in capital instruments not held for trading, for which the standard allows the fair value measurement upon the initial recognition, the subsequent value modifications being recognized under the comprehensive income.

Incurred loss model from IAS 39 is replaced by expected loss model. Also, disclosure requirements are substantial.

The standard introduces new requirements on classification and evaluation, depreciation and hedge accounting.

Currently, the Bank is in the process of analysing the implementation impact of this standard.

IFRS 9 will be effective starting 2018 January 1, bringing major changes focusing on three areas:



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- Classification and measurement of financial assets;
- Impairment;
- Hedge accounting.

Classification and measurement of financial assets

The objective of the new way of classification and measurement: simplification by replacing the four categories of financial assets covered by IAS 39 respectively: assets at fair value through P&L, loans and receivables, HTM - assets held until maturity and AFS - available-for-sale with three new categories: assets measured at amortized cost, assets at fair value through P&L and assets valued at fair value through capital accounts.

Principles of classification of assets:

- IAS 39 Classification is based on the intention of keeping the assets to maturity or trading intent
- IFRS 9: classification is done based on a complex documentation about:
 - Identify business model;
 - Identify the characteristics of cash flow generated by each financial asset

Impairment of assets

Conceptual principles:

IAS 39:

Coverage with adjustments for impairment losses as well as those produced but unidentified; the standard prohibits the establishment of allowances for future losses;

Dividing assets into two categories in order to determine the impairment:

- performing assets, with 12 month expected credit losses;
- impaired assets with lifetime expected credit losses.

IFRS 9:

- The adjustments are made for impairment losses and for future estimated losses;
- Dividing assets into three categories in order to determine the impairment:
 - not impaired assets (stage 1) with 12 month expected credit loss;
 - not impaired assets with a significant increase in credit risk (stage 2), with lifetime expected credit losses;
 - impaired assets (stage 3) with lifetime expected credit losses.

IFRS 9 implementation implications and challenges identified by the Bank for area classification and measurement of assets and impairment area (Bank does not use hedge accounting) refers to:

- The more fair association of business model with the assessing and recording of assets;
- Possible challenges in identifying historical data for assets with possible implications for their proper classification;
- Modification of incurred costs related to regulatory changes, development models and systems;
- Changes in the impairment (particularly those related to assets classified in stage 2).

Standards that have not been adopted by the European Union

(a) *IFRS 15 – Revenue from Contracts with Customers (Effective for annual periods beginning on or after January 2018, 1)*

Issued on May 28, 2014 the standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC – 31. The standard is applicable to contracts with customers, other than insurance, financial instruments, leasing.

This standard prescribes a single model for the analysis of customer contracts and two approaches for revenue recognition - at a specific moment in time or during the contract, depending on the time of fulfilling the obligation under the contract.

The Bank does not believe that these amendments will have a significant effect on the individual financial statements as most contracts with customers are subject to other standards.

(b) *IFRS 16 – Leases (Effective for annual periods beginning on or after January 2019, 1)*

IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of leases. The overall impact of the standard has not being yet assessed by the Bank.

(c) Amendments to IAS 7 – Disclosure initiatives (Effective for annual periods beginning on or after January 2017, 1)

The Bank expects that the amendments will have a minor impact on the financial statements.

(d) IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after January 2018, 1)

The Bank does not expect that the interpretation will have a material impact on the financial statement as the Bank.

(e) Amendments to IAS 40 – Transfers of Investment Property (Effective for annual periods beginning on or after January 2018, 1)

The Bank does not expect that the interpretation will have a material impact on the financial statement as the Bank.

There was no early adoption of any standards, amendments and interpretations not yet effective.





B. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4) Measurement basis

These financial statements have been prepared under the amortised cost convention, unless IFRS require recognition at fair value. Financial instruments measured at fair value for accounting purposes on an on-going basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. The measurement techniques applied to the balance sheet positions are specified in the accounting policies listed below.

5) Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables, and available-for-sale financial assets. The bank holds no held-to-maturity instruments and no instruments carried at fair value through profit and loss. Management determines the classification of financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the amount of allowance for impairment of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note 9) on the accounting policy for impairment of credit exposures, and notes (27), (38), and (53) for details regarding impairment of credit exposures. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been calculated at the valuation date if there had not been any impairment.

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as: (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

At initial recognition, available-for-sale financial assets are recorded at fair value including transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices in active markets or values calculated with a valuation technique based on currently observable market data. For very short-term financial assets it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity in other comprehensive income in the position "revaluation reserve from available-for-sale financial assets", until the financial asset is derecognised or impaired (for details on impairment, see note (9)). At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "gains and losses from available-for-sale financial assets". Interest is calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive the payment is established.



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

6) Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements presented in LEI, which is the functional currency of the Bank.

(b) Transactions and balances

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

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

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

The reporting exchange rates and average rates for the period used in the balance sheet and the income statement are listed in section (66) of these notes.

7) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents includes cash, cash balances in ATM, balances with less than three months' maturity from the date of acquisition when eligible for discounting with central banks, other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value, and bills of exchange and other bills eligible for discounting with central banks.

Generally, all cash and cash equivalent items are recognised at their nominal value. Treasury bills and other money market instruments that qualify as cash equivalents are classified as available-for-sale financial assets and measured at fair value.

For the purposes of the statement of cash flows, cash and cash equivalents include cash balances on hand, unrestricted balances held at central bank, and cash balances in ATM, available-for-sale financial assets and current accounts with banks and placements with other banks with less than 90 days original maturity and are used by the Bank in the management of its short-term commitments.

8) Loans and advances to banks/customers

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

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

All loans and receivables from banks as well as loans and receivables from customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under net interest income. Impairment of loans is recognised in separate allowance accounts (see note (9)).



For the purposes of the cash flow statement, claims to banks with a remaining maturity of less than three months from the date of acquisition are recognised under cash and cash equivalents (see note (34)).

9) Allowance for losses on loans and advances and impairment of available-for-sale financial assets

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

- Impairment of loans and advances

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Losses from expected future events are not recognised.

- Individually assessed loans and advances

Credit exposures are considered individually significant if they exceed EUR 30,000. For such credit exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the bank:

- delinquencies in contractual payments of interest or principal, reflected in more than 30 days debt service;
- debtor's significant financial difficulties, caused either by certain factors specific to their activity, or certain major changes of the economic environment in which they operate (e.g. debtor's financial performance category D or E, debtor's risk category 8);
- breach of covenants or conditions, unless the bank decides to waive or modify the covenant or conditions;
- initiation of bankruptcy proceedings;
- initiation of foreclosure procedures by the Bank;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group;
- the bank, for either economic or legal reasons related to the debtor's significant financial difficulties, grants them a concession that they would not enjoy otherwise (e.g. restructuring operation by the reduction of interest rate or by offering a grace period or moratorium more than three, respectively twelve months (agricultural and other seasonal businesses)).

An individual assessment can also be carried out in cases of credit exposure below EUR 30,000 if they show signs of impairment. Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.

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

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

- Collectively assessed loans and advances

There are two cases in which credit exposures are collectively assessed for impairment:



- individually insignificant credit exposures that show objective evidence of impairment;
- groups of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

For the purposes of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears and on the restructured/non-restructured status, single or multiple restructuring, with insolvency procedures started or not. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the so defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics (migration analysis). After a qualitative analysis of this statistical data, management prescribed appropriate rates as the basis for portfolio-based impairment allowances.

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

Reversal of impairment

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

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the income statement.

Restructured credit exposures

Restructured credit exposures which show signs of impairment and which are considered to be individually significant are provisioned on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans with arrears more than 30 days and which are individually insignificant or restructured loans which do not show signs of impairment are collectively assessed for impairment.

Assets acquired in exchange for loans (repossessed property)

Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in "net other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "net other operating income", together with any realised gains or losses on disposal.

(b) Assets classified as available for sale

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



- deterioration of the ability or willingness of the debtor to service the obligation;
- a political situation which may significantly impact the debtor's ability to repay the loan;
- additional events that make it unlikely that the carrying amount may be recovered.

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

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

10) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses (see Note 12).

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

11) Property, plant and equipment

Land and buildings comprise mainly branches and offices investments. All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see Note 40). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the bank in a different pattern.

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

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

– Buildings	40 years
– Leasehold improvements	shorter of rental contract life or useful life
– Furniture and equipment	4 – 16 years
– Motor vehicles	6 years



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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

The bank does not hold investment property.

12) Impairment of non-financial assets

Non-financial assets are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash Generating Unit (CGU) is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A CGU carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

13) Leases

The Bank is not engaged in finance leases. In operating leases the Bank acts only as lessee. The total payments made under operating leases are charged to the income statement under administrative expenses on a straight-line basis over the period of the lease. The leasing objects are recognised by the lesser.

The Bank applies IFRIC 4, which requires it to determine if an arrangement contains a lease. The relevant contracts and agreements of the bank do not contain any leases which would lead to a disclosure according to IAS 17.

14) Income tax

Current income tax

Income tax payable on profits is calculated on the basis of the applicable tax law and is recognised as an expense in the period in which profits arise.

Deferred income tax

Deferred income tax is recognised in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in conformity with IFRS adopted by EU. Deferred tax assets and liabilities are determined using the tax rate (and law) that has been enacted as of the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax planning period is three years.

The main temporary differences arise from revaluation of certain financial assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax related to fair value remeasurement of available-for-sale investments, which are charged directly to equity in other comprehensive income, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss. For informational reasons, the presentation is made on a gross basis.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Changes of deferred taxes related to fair value re-measurement of available-for-sale financial instruments are charged to the Statement of Other Comprehensive Income. The presentation in the Statement of Other Comprehensive Income is made on a gross basis. At the time of sale, the respective deferred taxes are recognised in the Statement of Profit or Loss together with the deferred gain or loss.

The tax rate used to calculate the current and deferred tax position as at 31 December 2016 was 16% (31 December 2015: 16%).

Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization.

Effective from 1 January 2012, IFRS implementation has been consideration for the revision of tax legislation in order to introduce particular rules for the treatment of adjustments resulted at the implementation stage and afterwards. The Authority regulated in time the tax implications on both, tax neutrality of IFRS implementation and on budgetary sources, by often amending related legislation.

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

It is expected that also in the future the tax framework will be subject to frequent amendments as a consequence of the state budgetary needs or as a result of the Romania's obligations as an EU Member State. Given the precedents, they may have retroactive application.

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

15) Liabilities to banks and customers

Liabilities to banks and customers are recognised initially at fair value net of transaction costs incurred. They are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

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

16) Provisions

Provisions are recognised when:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount can be reliably estimated.





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

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the bank, they are not recognised in the financial statements but are disclosed off-balance sheet unless the probability of settlement is remote (see note (61)).

The provisions for off-balance sheet credit risks relates primarily to undrawn lending commitments, letters of credit and letters of guarantee. Provisions related to off-balance sheet credit exposures are determined at each balance sheet date, by applying the provisioning rates, which are reviewed on annual basis and are set based on the loss rates determined through migration analysis, to the irrevocable off-balance sheet credit exposure.

Contribution to the Deposit Guarantee Fund

The retail deposits and certain legal entity deposits, including SME deposits, are guaranteed up to EUR 100,000 by the Bank Deposit Guarantee Fund (the "Fund") according to the regulations in force (Law 311/2015 regarding the deposit guarantee scheme and the Deposit Guarantee Fund).

The Romanian credit institutions are obliged to pay an annual contribution to the Deposit Guarantee Fund ("FGBD-Fondul de Garantare a Depozitelor Bancare"), in order to guarantee the clients' deposits in case of the credit institution's insolvency, as well as an annual contribution to the Resolution Fund ("Fondul de Rezolutie").

The Bank applied IFRIC 21 "Taxes", as this contribution to the Fund corresponds to a tax that needs to be fully recognized as an expense at the time the generating event occurs.

17) Post-employment benefits and other employee benefits

(a) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

(b) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of comprehensive income as incurred.

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the statement of comprehensive income as incurred. The Bank does not have any further obligations.

The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.



18) Subordinated debt

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

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the income statement under “net interest income”.

19) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds as (negative) capital reserve.

Dividends on ordinary shares are treated as an appropriation of profit in the period in which they are approved by the Bank's shareholders.

20) Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, are recognised within “interest income” and “interest expense” in the income statement using the effective interest rate method. Interest income and expense are recognised in the income statement in the period in which they arise.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis and interest on available-for-sale investment securities calculated on effective interest basis.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

21) Fee and commission income and expenses

Fee and commission income and expenses other than those related to the origination of a financial instrument are recognised on an accrual basis when the service has been provided.

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

Other fees and commission income, including account servicing fees, foreign currency transactions fees, fees for guarantees given and opening of letter of credit fees are recognised as the related services are performed on an accrual basis.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

22) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.



23) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

24) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured subsequent to initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

25) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The same standard defines a fair value hierarchy which categorises into three levels the inputs used in valuation techniques to measure fair value.

Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs

Unobservable inputs for the asset or liability.



C. Notes to the Statement of profit or loss and other comprehensive income

26) Net interest income

in LEI

Interest and similar income	1.1.-31.12.2016	1.1.-31.12.2015
Interest income from		
Cash and cash equivalents and loans and advances to banks	184,489	393,640
Interest income from available-for-sale assets	367,284	572,608
Interest income from loans and advances to customers	93,233,695	131,486,679
Total interest income	93,785,468	132,452,928
Interest and similar expenses	1.1.-31.12.2016	1.1.-31.12.2015
Interest expenses on		
Liabilities to banks	8,011,269	9,528,469
Liabilities to customers	7,661,481	17,179,435
Liabilities to international financial institutions	1,697,847	2,748,204
Subordinated debt	2,401,429	2,347,548
Total interest expenses	19,772,026	31,803,656
Net interest income	74,013,442	100,649,272

The interest income from loans and advances to customers for the year ended 31 December 2016 includes interest income on impaired loans amounting to LEI 3,857,478 (2015: LEI 3,957,340).

27) Allowance for impairment losses on loans and advances

There is no allowance for impairment on loans and advances to banks and available for sale assets.

Risk provisions on loans and advances to customers are reflected in the income statement as follows:

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Increase of impairment charge	38,431,360	64,412,086
Increase of impairment charge off balance sheet items	49,731	40,206
Release of impairment charge	-34,217,760	-39,825,976
Release of impairment charge off balance sheet items	-47,141	-42,770
Net recoveries of sold and written-off loans	-2,685,351	-4,510,700
Total	1,530,840	20,072,846

The Bank has sold in two tranches non-performing credit exposures in amount of LEI 20,079,522 with a sale price of LEI 4,889,772.

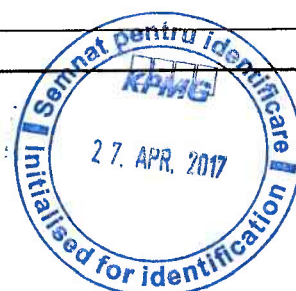
28) Net fee and commission income

in LEI		
Fee and commission income	1.1.-31.12.2016	1.1.-31.12.2015
Payment transfers and transactions	6,696,697	8,944,074
Account maintenance fee	4,090,704	4,788,479
Letters of credit and guarantees	163,229	175,512
Debit/ credit cards	3,553,951	3,353,781
Other fee and commission income	1,327,640	1,594,668
Total fee and commission income	15,832,220	18,856,514
Fee and commission expenses	1.1.-31.12.2016	1.1.-31.12.2015
Payment transfers and transactions	1,162,989	855,342
Account maintenance fee	178,154	339,202
Letters of credit and guarantees	16,561	15,388
Other fee and commission expenses	4,493,354	5,061,598
Total fee and commission expenses	5,851,058	6,271,530
Net fee and commission income	9,981,162	12,584,984

29) Net result from foreign exchange transactions

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

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Currency transactions	4,969,906	5,116,438
Revaluation general	-170,797	47,833
Total	4,799,109	5,164,270



30) Net result from available-for-sale financial assets

This item includes the gains or losses from disposal of available-for-sale financial assets as well as impairment losses and gains from reversal of impairment.

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Net result from disposal of available-for-sale financial assets	24,403	21,349
Total	24,403	21,349

31) Net other operating income/expenses

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Other operating income	2,891,335	8,076,073
Other operating expenses	9,005,588	9,599,195
Total	-6,114,253	-1,523,122

This item includes net result from the disposal/sale of tangible and intangible assets (RON -2 mio), expenses for "Fondul de Garantare a Depozitelor in Sistemul Bancar" (RON -2 mio), provisions for decommissioning of fixed assets and (RON -2 mio) and other operating income/expenses.

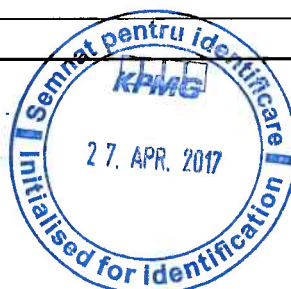
32) Personnel and administrative expenses

Personnel expenses can be broken down as follows:

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Salary expenses	24,329,654	31,781,208
Social security expenses	5,444,349	7,226,164
<i>out of which pension contribution</i>	3,782,142	5,032,783
Other personnel expenses	629,539	885,425
Training and recruiting expenses	1,267,691	1,324,103
Total	31,671,233	41,216,899

"Administrative expenses" include the following items:

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Communication and IT expenses	8,523,392	6,780,931
Transport	2,573,206	3,543,025
Office supplies	1,030,921	1,332,004
Security service	577,068	897,854
Marketing, advertising and entertainment	515,189	602,470
Construction, repairs and maintenance	1,122,187	912,560
Other tax expenses	4,911,771	5,359,566
Consultancy, Legal and Audit fees	2,476,850	3,491,931
Insurance	512,603	603,798
Utilities	714,530	1,027,173
Other administrative expenses	3,546,481	2,554,205
Total	26,504,198	27,105,516



The total expense booked in relation with the bank's external auditor in 2016, for audit of IFRS Financial Statements of the Bank was 54.007 LEI (2015: 56.007 LEI).

33) Income tax expenses/income

This item includes all taxes on income. Income tax expenses were as follows:

in LEI	1.1.-31.12.2016	1.1.-31.12.2015
Current tax expense	-	-
Deferred tax (expense)/income	-938,950	-2,188,655
Total	-938,950	-2,188,655

D. Notes to the Statement of Financial Position

34) Cash and cash equivalents

Cash and cash equivalents comprise the following items:

in LEI	As at 31 December	
	2016	2015
Cash in hand	36,435,519	60,137,881
Balances at central banks excluding mandatory reserves	23,472,377	29,046,296
Mandatory reserve deposits	102,074,729	124,718,128
Total cash and cash equivalents	161,982,624	213,902,304



The following cash equivalents have been considered as cash for the cash flow statements:

in LEI	As at 31 December	
	2016	2015
Cash equivalents recognized in the balance sheet statement	161,982,624	213,902,304
Available-for-sale financial assets	85,865,084	40,818,732
Loans and advances to banks with a maturity up to 3 months, which qualify as cash for the cash flow	82,723,222	58,852,673
Minimum reserve with central bank	-102,074,729	-124,718,128
Total cash equivalents for cash flow statement	228,496,201	188,855,581

The cash held with the Central Bank ensures compliance with the minimum reserve requirements. These funds are not available for the Bank's daily business. At 31 December 2016 the minimum mandatory reserves rates established by the National Bank of Romania for raised funds with maturity lower than 2 years and for funds raised with residual maturity greater than 2 years, which foresee contractual clauses regarding reimbursements, withdrawals, anticipated transfers, are as follows: 8% for funds raised denominated in LEI and 12% for funds raised denominated in foreign currency for period January – September 2016 and 10% for funds raised denominated in foreign currency starting October 2016 (31 December 2015: 8% for funds raised denominated in LEI and 12% for funds raised denominated in foreign currency).



35) Loans and advances to banks

Loans and advances to banks are as follows:

in LEI	As at 31 December	
	2016	2015
Loans and advances to banks in OECD countries	2,162,918	1,889,280
Loans and advances to banks in non-OECD countries	36,540,936	13,918,485
Loans and advances to banks in Group Banks	44,019,368	43,044,908
Total	82,723,222	58,852,673

Loans and advances to Banks comprise of current accounts held at other banks and deposits with banks. Current accounts held at other banks are at the immediate disposal of the Bank. The deposits with banks are unencumbered.

36) Available-for-sale financial assets

This balance sheet item primarily includes securities with fixed interest rates, most of which are treasury bills.

in LEI	As at 31 December	
	2016	2015
Available-for-sale financial assets		
Fixed interest rate securities (banks and Tbills)	85,865,084	40,818,732
Shares in companies located in non-OECD countries	27,002	27,002
Total available-for-sale financial assets	85,892,086	40,845,734

37) Loans and advances to customers

Loans and advances to customers are as follows:

in LEI	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
As at December 31, 2016						
Business loans	757,986,630	-38,287,668	719,698,962	71.6%	6,139	60.2%
Agricultural loans	298,539,625	-12,131,267	286,408,359	28.2%	3,997	39.2%
Housing improvement loans	1,118,279	-130,501	987,778	0.1%	26	0.3%
Consumer loans *	857,769	-50,236	807,533	0.1%	25	0.2%
Other loans	20,201	-293	19,908	0.0%	10	0.1%
Total	1,058,522,504	-50,599,964	1,007,922,540	100.0%	10,197	100.0%

* consumer loans also include overdrafts to private individuals

in LEI	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
As at December 31, 2015						
Business loans	777,811,761	-44,353,179	733,458,582	67.8%	7,909	52.6%
Agricultural loans	365,247,511	-18,518,636	346,728,874	31.9%	7,034	46.8%
Housing improvement loans	1,032,867	-84,218	948,649	0.1%	38	0.3%
Consumer loans *	1,347,646	-81,561	1,266,084	0.1%	37	0.2%
Other loans	1,151,331	-522,286	629,044	0.1%	26	0.2%
Total	1,146,591,114	-63,559,880	1,083,031,234	100.0%	15,044	100.0%

* consumer loans also include overdrafts to private individuals



38) Allowance for losses on loans and advances

Allowance for impairment losses on loans and advances cover the risks which arise from the category "loans and receivables" (see also note (9) and note (53)). In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, lump-sum specific provisions and a general allowance were formed to cover impairment loss relating to the customer loan portfolio as a whole:

in LEI	As at 31 December	
	2016	2015
Allowance for impairment on loans and advances to customers		
Specific impairment	29,375,965	32,966,131
Allowance for individually insignificant impaired loans	12,375,479	20,052,490
Allowance for collectively assessed loans	8,848,521	10,541,259
Total	50,599,964	63,559,880

The following table shows the development of allowances for impairment losses for loans and advances to customers over time:

in LEI	As at 31 December	
	2016	2015
As at January 1		
Allowance for impairment on loans and advances to customers	63,559,880	78,816,210
Additions	38,431,360	64,412,086
Amount used for write offs/portfolio sale	-17,231,278	-39,745,965
Releases	-34,217,760	-39,825,976
Exchange rate adjustments	57,761	-96,474
As at December 31	50,599,964	63,559,880

39) Intangible assets

The development of intangible assets is shown in the following tables:

in LEI	As at 31 December	
	2016	2015
Net book value at January 1	6,018,420	3,647,249
Total acquisition costs at January 1	26,927,563	20,929,481
Additions	3,625,641	6,060,466
Disposals	168,212	62,384
Total acquisition costs at December 31	30,384,992	26,927,563
Accumulated depreciation January 1	20,909,143	17,282,231
Depreciation	3,614,134	3,630,103
Accumulated depreciation for disposal	152,938	3,191
Accumulated depreciation at December 31	24,370,340	20,909,143
Net book value at December 31	6,014,652	6,018,420

40) Property, plant and equipment

The development of property, plant and equipment was as follows:

in LEI As at December 31, 2016	Land and buildings	Leasehold improvements	Furnitures and fixtures	IT and other equipment	Total
Net book value at January 1, 2016	2,350,646	4,786,376	2,239,412	9,747,573	19,124,008
Total acquisition costs at January 1, 2016	3,165,867	14,344,959	4,195,406	27,305,448	49,011,679
Additions	-	5,401,381	1,791,528	4,352,492	11,545,401
Disposals	3,165,867	5,899,189	1,492,277	4,181,051	14,738,384
Total acquisition costs at December 31, 2016	-	13,847,151	4,494,657	27,476,889	45,818,696
Accumulated depreciation January 1, 2016	815,221	9,558,583	1,955,993	17,557,874	29,887,671
Depreciation	66,035	1,515,944	455,411	2,921,382	4,958,771
Accumulated depreciation for disposal	881,255	3,627,568	915,444	2,389,482	7,813,750
Accumulated depreciation at December 31, 2016	-	7,446,958	1,495,960	18,089,774	27,032,692
Net book value at December 31, 2016	-	6,400,192	2,998,697	9,387,115	18,786,004

in LEI As at December 31, 2015	Land and buildings	Leasehold improvements	Furnitures and fixtures	IT and other equipment	Total
Net book value at January 1, 2015	2,429,888	3,610,410	926,113	6,672,274	13,638,684
Total acquisition costs at January 1, 2015	3,165,867	16,969,133	3,421,909	27,117,355	50,674,264
Additions	-	3,288,296	1,639,625	5,815,111	10,743,032
Disposals	-	5,912,470	866,129	5,627,018	12,405,617
Total acquisition costs at December 31, 2015	3,165,867	14,344,959	4,195,406	27,305,448	49,011,679
Accumulated depreciation January 1, 2015	735,979	13,358,723	2,495,796	20,445,081	37,035,579
Depreciation	79,242	1,257,654	207,091	2,149,556	3,693,542
Accumulated depreciation for disposal	-	5,057,794	746,894	5,036,763	10,841,450
Accumulated depreciation at December 31, 2015	815,221	9,558,583	1,955,993	17,557,874	29,887,671
Net book value at December 31, 2015	2,350,646	4,786,376	2,239,412	9,747,573	19,124,008





41) Operating lease commitments

in LEI	As at 31 December	
	2016	2015
Operating lease commitments		
- no later than one year	6,626,011	8,781,545
- later than one year and no later than five years	19,106,343	24,406,553
- later than five years	419,961	1,013,548
Total	26,152,315	34,201,646

Operating lease commitments result from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements.

42) Income taxes

Deferred income taxes are recognised in full, under the balance sheet method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the applicable local tax rate.

The table below shows the changes in deferred income taxes and the underlying business transactions:

in LEI	As at 31 December	
	2016	2015
Deferred taxes		
At January 1	4,664,719	6,865,143
Available-for-sale securities:		
- fair value remeasurement	-2,164	-11,768
Charges to income statement	-938,950	-2,188,655
Total	3,723,605	4,664,719

in LEI		
	2016	2015
Deferred tax assets / liabilities		
Other provisions	475,719	61,314
Tax loss carried forward	3,865,964	5,034,044
Temp. differences, Equity reserve afs	4,082	6,246
Other temporary differences	-622,160	-436,885
Total	3,723,605	4,664,719

The following table show the business activities to which the profit and loss from deferred taxes is related:

in LEI	1.1.-	1.1.-
	31.12.2016	31.12.2015
Deferred tax charges		
Other provisions	414,405	2,190
Tax loss carried forward	-1,168,080	-1,753,960
Other temporary differences	-187,439	-448,653
Total	-941,114	-2,200,424



The effective tax reconciliation is shown in the following table:

in LEI	1.1.- 31.12.2016	1.1.- 31.12.2015
Profit/(loss) before tax	5,665,597	10,578,670
Tax expected	906,495	1,692,587
Tax effects of items which are not deductible:		
- non-taxable income	-2,229,886	-2,301,156
- non-tax deductible expenses	2,722,086	2,501,927
Income tax expense for the year according to IFRS	1,398,696	1,893,358
Changes in deferred tax assets	-941,114	-2,200,423
Changes in deferred tax liabilities	2,164	11,768
Current taxes	-938,950	-2,188,655

43) Other assets

Other assets are as follows:

in LEI	As at 31 December	
	2016	2015
Prepayments	5,371,775	8,162,985
Reposessed properties	441,770	716,712
Claims from customs and taxes	5,086,366	5,904,477
Guarantees	982,224	839,689
Other inventory items	162,272	343,044
Assets to be sold	2,284,799	0
Others	2,335,094	3,049,159
Total	16,664,299	19,016,067

Reposessed properties as shown in the above table are carried at the lower of the previous carrying amount of the written-off loan and fair value less cost to sell. Reposessed properties are sold at the highest possible price, typically via public auction. Most reposessed property consists of land and buildings.

44) Liabilities to banks

in LEI	As at 31 December	
	2016	2015
Liabilities to banks in OECD countries	128,121,992	139,586,959
Liabilities to banks in non-OECD countries	-	-
Total	128,121,992	139,586,959



45) Liabilities to customers

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

in LEI	As at 31 December	
	2016	2015
Current accounts	276,573,788	241,374,766
-private individuals	85,972,924	80,929,451
-legal entities	190,600,864	160,445,315
Savings accounts*	58,970,026	54,758,280
-private individuals	32,526,518	22,788,366
-legal entities	26,443,508	31,969,914
Term deposit accounts	498,390,647	606,335,569
-private individuals	379,388,232	487,338,088
-legal entities	119,002,415	118,997,481
Other liabilities to customers	5,771,972	1,336,483
Total	839,706,432	903,805,097

*including Collateral Deposits

The category "legal entities" includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

46) Liabilities to international financial institutions

Liabilities to international financial institutions are an important source of financing for the Bank. Medium- to long-term loans from international financial institutions are reported under this item.

The following table gives a detailed breakdown for this item:

in LEI	Due	As at 31 December	
		2016	2015
European Investment Bank ("EIB")	2024	113,310,686	132,885,975
European Investment Fund ("EIF")	2025	98,640,736	71,918,644
Total		211,951,422	204,804,619

47) Provisions

in LEI	As at 31 December	
	2016	2015
As at January 1	423,178	411,813
Additions	3,076,841	423,421
Used	-383,215	-369,528
Released	-47,141	-42,770
Exchange rate adjustments	-5,978	243
As at December 31	3,063,686	423,178



in LEI	As at 31 December	
	2016	2015
Provisions for imminent losses from off-balance sheet items	36,576	39,963
Other provisions	2,632,296	0
Provisions for untaken vacation	394,813	383,215
Total	3,063,686	423,178

For the provisions for untaken vacation and for off-balance sheet items the outflow of economic benefits is expected during the three months following the balance sheet date. In other provisions position, the Bank recognized provisions for closing of outlets, decision which was taken in December 2016.

Provisions for imminent losses from pending transactions include provisions for legal cases against the Bank.

48) Other liabilities

in LEI	As at 31 December	
	2016	2015
Deferred income	83,616	257,204
Accrued payables	1,380,011	1,172,552
Liabilities for goods and services	2,800,159	3,602,260
Liabilities to employees	648	520
Liabilities from social insurance contributions	732,690	803,859
Liabilities to state budget	440,281	460,731
Others	-	-
Total	5,437,405	6,297,126

49) Subordinated debt

The subordinated debt can be broken down as follows:

in LEI Received from (principal)	Due	As at 31 December	
		2016	2015
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	13,623,300	13,573,500
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	9,082,200	9,049,000
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	17,029,125	16,966,875
Total		39,734,625	39,589,375

Accrued interest on subordinated debt		2016	2015
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany		13,267	6,609
Total		39,747,892	39,595,984

Creditors' claims for repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, they will only be paid after the claims of all non-subordinated creditors have first been satisfied.

50) Share capital

As at 31 December 2016 (compared to 2015), the shareholder structure was as follows:

in LEI Shareholder	Size of stake in %	2016		Size of stake in %	2015	
		Number of shares	Amount		Number of shares	Amount
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	99.9994	16,177,044	159,680,734	99.9994	16,177,044	159,680,734
IPC - Internationale Projekt Consult GmbH Frankfurt am Main, Germany	0.0006	100	987	0.0006	100	987
Capital total	100.0%		159,681,721	100.0%		159,681,721

The par value per share is LEI 10.00.

Share premium:

	Date	LEI
Premium paid by ProCredit Holding AG & Co. KGaA	April 2008	1,273,775
As at December 31, 2016		1,273,775

Reserves:

in LEI	As at 31 December	
	2016	2015
Legal reserve	3,322,312	3,039,032
General banking risks reserve	6,166,252	6,166,252
Total	9,488,564	9,205,284

Legal reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Bank's statutory gross profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Bank's share capital.

The general banking risks reserve include amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, are separately disclosed as appropriations of profit. The general banking risks reserve was appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks until the end of 2006 as required by local legislation. In the Statement of the Financial position is presented under Accumulated loss.





E. Risk Management

51) Management of the overall Bank risk profile

1. The risk profile and the risk appetite

The main principle behind the risk management framework of ProCredit Bank SA is that the Bank is not allowed to take more risk than it is capable of bearing. Therefore, the Board of Administration establishes an overall risk profile and a risk profile for each of the significant risks identified by the Bank. The main purpose of these risk profiles is that of defining the risk appetite as the acceptable limits within which the Bank's activity should be pursued in order to reach the business goals.

The significant risks acknowledged by the Bank are: credit risk, counterparty risk (including issuer risk), liquidity risk, interest rate risk, foreign currency risk, business risk (including strategic risk), operational risk, compliance risk and reputational risk. The Bank evaluates the risk exposure to each significant risk through the risk profile indicators on a monthly basis, and compares the results with the defined risk appetite. The outcome of this analysis is reported regularly to the Board of Administration.

Currently, the Bank's overall risk appetite is established as the medium-low to medium interval, while the overall risk tolerance is established as the low to medium-high interval. The risk profile targets for each significant risk are medium-high for credit risk, medium for liquidity risk, interest rate risk, operational risk and business risk (including strategic risk), and medium-low for counterparty risk, foreign currency risk, reputational risk and compliance risk.

2. 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 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.

The following table shows the Bank's capital adequacy ratios, calculated according to the provisions of Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investments firms ("CRR") corroborated with Regulation (National Bank of Romania) no. 5/2013 on prudential requirements for credit institutions.



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

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 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.

52) Management of individual risks

In 2016, neither the management practices nor the reporting process of individual risks have been materially modified, although several methodologies have been updated on course of the regular review process.

The Bank places special emphasis on the general understanding of the factors driving risk and on the ongoing analysis and company-wide discussion of possible risk developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, fully understood and properly addressed.

The risk management processes include a reporting component to ProCredit Holding AG & Co. KGaA, in line with the provisions included in the Procredit Group's risk management policies.

53) Credit risk

Credit risk is defined as the potential that a counterparty to a credit transaction will fail to meet its obligations towards the Bank in accordance with agreed terms. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk (counterparty risk). It is further divided into credit default



risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk the Bank faces.

(a) Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on an extensive implementation of the bank's lending principles:

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

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

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The high quality of the loan portfolio compared with the overall banking sector reflects the application of the above lending principles and the results of the application of early warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank's strategy for managing arrears in the current economic crisis that is affecting a large number of its clients. Once arrears occur, the Bank follows up on the non-repayment of the credit exposures, and by so doing typically identifies the potential for default on a credit exposure. Strict rules are applied regarding credit exposures for which, in the Bank's view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank's recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

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

Breakdown of loan portfolio by days in arrears

At December 31, 2016

in LEI	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	Total
Loans to customers							
Individually assessed loans							
Business	13,806,639	621,947	1,713,988	869,340	1,698,051	28,650,816	47,360,780
Agricultural	3,609,627	-	754,396	-	543,382	3,173,855	8,081,260
Collectively assessed loans							
Business	693,302,058	9,130,488	1,940,109	1,401,839	2,156,717	3,270,853	711,202,065
Agricultural	273,336,700	6,368,276	2,883,231	2,071,218	3,239,591	1,983,133	289,882,149
Housing	907,523	-	92,735	15,957	102,064	-	1,118,279
Consumer	845,793	5,401	5,806	769	-	-	857,769
Other	20,201	-	-	-	-	-	20,201
Total	985,828,541	16,126,112	7,390,265	4,359,123	7,739,806	37,078,656	1,058,522,504



At December 31, 2015							
in LEI	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	Total
Loans to customers							
Individually assessed loans							
Business	10,054,990	2,069,975	14,144,884	1,125,045	1,567,642	23,023,163	51,985,699
Agricultural	3,648,408	-	1,006,408	1,324,689	3,150,712	2,107,341	11,237,558
Collectively assessed loans							
Business	691,084,868	21,888,133	2,459,751	1,615,817	3,266,710	6,307,071	726,622,349
Agricultural	330,563,561	7,194,374	4,099,509	3,078,876	7,073,103	2,000,529	354,009,952
Housing	836,385	43,014	39,105	101,224	-	13,140	1,032,867
Consumer	1,271,596	48,352	-	-	25,428	2,269	1,347,646
Other	335,066	-	-	-	-	19,977	355,043
Total	1,037,794,874	31,243,847	21,749,657	7,245,651	15,083,595	33,473,490	1,146,591,114

The quality of the loan portfolio is monitored on an on-going basis. The main indicator for loan portfolio quality is the portfolio at risk (PaR 30), which the Bank defines as all outstanding credit exposures with one or more payment of interest and/or principal in delay by more than 30 days. This indicator was chosen because the most of credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans, credit line and overdraft facilities. No collateral is deducted and no other exposure-reducing measures are applied when determining PaR.

Additionally, the quality of credit operations is checked by the Risk Control Unit which is responsible for monitoring the Bank's credit operations and compliance with its procedures. The unit, made up of experienced lending staff, ensures compliance both in terms of form and substance with the lending policy and procedures through on-site checks and system screening.

in LEI As at December 31, 2016	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Write-offs	Write-offs as % of loan portfolio
Total	1,058,522,504	50,599,964	56,567,851	5.34%	20,241,873	1.91%

in LEI As at December 31, 2015	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Write-offs	Write-offs as % of loan portfolio
Total	1,146,591,114	63,559,880	77,552,393	6.76%	39,745,965	3.47%

The Bank directly reduced the loans fully covered with impairment provisions amounting to LEI 162,351 (31 December 2015: LEI 2,656,844). Moreover, portion of the non-performing loan portfolio was sold during 2016, with the gross amount of LEI 20,079,522 (31 December 2015: LEI 37,089,122). The sell agreements have taken place in August and October 2016, realizing a proceed of LEI 4,889,772.

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the bank's clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit



committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan.

Forborne loans are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

As at 31 December 2016, the Bank applied EBA definition in force at this date in regards to forborne loans and in consequence classifies as impaired the forborne nonperforming exposures. The loan portfolio contained forborne loans with an outstanding of LEI 69,955,968 representing 6% of total outstanding portfolio (31 December 2015: LEI 82,263,020).

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

Individually significant credit exposures are reviewed for impairment on an individual basis (= specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates; 30 or more days in arrears is considered as objective evidence of impairment. For all unimpaired credit exposures, portfolio-based allowances for impairment are made, again based on historical loss experience.

Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. Mortgages are revaluated yearly by professional appraisals.

The Bank holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipment's and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired, except for mortgage interests over property which are reassessed yearly

The collateral presented at the minimum level between loan exposure and collateral value, can be classified into the following categories:

In LEI	As at 31 December	
	2016	2015
Mortgage	602,157,936	639,179,223
Cash collateral	7,787,889	6,029,714
Guarantees	98,656,771	74,793,001
Inventories	125,076,431	168,985,887
Other	107,721	1,039,480
Total	833,786,748	890,027,305

The Bank holds collateral and other credit enhancements against certain of its credit exposures.

The table below sets out the collateral amount at market value held against different types of loan product.

In LEI	2016		2015	
	Loan exposure*	Collateral Value	Loan exposure*	Collateral Value
Business	754,430,422	1,296,681,000	771,962,648	1,265,379,569
Agricultural	293,842,937	580,241,927	358,088,886	540,886,962
Housing	1,106,396	4,518,203	1,023,648	4,423,382
Consumer	852,464	4,067,968	1,341,609	5,458,319
Other	20,041	336,196	350,715	1,958,822
Total	1,050,252,259	1,885,845,294	1,132,767,506	1,818,107,054

*loan principal-unamortized disbursement fee



As of 31 December 2016, the Bank's portfolio consisted of a number of 61 customers – companies undergoing insolvency procedures (excluding exposures for which insolvency request is not yet approved) with a total gross exposure of LEI 29,857,539 (LEI 25,023,907 at 31 December 2015) and for which the Bank recorded impairment adjustments amounting LEI 21,010,136.

As of 31 December 2016, the Bank's total exposures (on balance and irrevocable off balance) are amounting LEI 1,020,299,928 (LEI 1,097,665,541 at 31 December 2015) and represent the maximum credit risk loss that would be recognized at the reporting date if the clients would not respect the contractual terms, all the collaterals will have no value and no amount would be recovered.

(b) Credit portfolio risk from customer lending

Lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 250,000, constitutes a supplementary area of the Bank's business in terms of its overall strategic focus. Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent. Overall, the loan portfolio of the Bank includes 188 credit exposures of more than EUR 250,000.

in LEI

As at December 31, 2016	Business	Agricultural	Housing	Consumer	Other	Total
0-50.000 EUR	184,877,616	99,068,505	970,483	217,499	20,201	285,154,303
50.000-250.000 EUR	351,757,215	101,675,266	147,797	640,270	-	454,220,547
Over 250.000 EUR	221,351,799	97,795,854	-	-	-	319,147,654
Total	757,986,630	298,539,625	1,118,279	857,769	20,201	1,058,522,504

in LEI

As at December 31, 2015	Business	Agricultural	Housing	Consumer	Other	Total
0-50.000 EUR	286,873,152	179,306,425	866,493	637,660	355,043	468,038,773
50.000-250.000 EUR	307,459,619	112,351,681	166,374	709,986	-	420,687,659
Over 250.000 EUR	184,275,277	73,589,405	-	-	-	257,864,682
Total	778,608,048	365,247,511	1,032,867	1,347,646	355,043	1,146,591,114

The structure of the loan portfolio is monthly reviewed by Credit Risk Management Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

According to the Credit Risk Management Policy and Strategy, all exposures exceeding EUR 1 mil. are approved by the Board of Administration. No single large credit exposure may exceed 25% of the Bank's regulatory capital.

Larger credit exposures are particularly analysed and monitored by the responsible employees through regular monitoring activities enabling early detection of risks. Full information about any related parties is typically collected prior to lending.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee which is responsible for the approval of the allowances for loan losses built against these exposures. The realisable net value of collateral held is taken into account when deciding on the allowance for impairment.



For the calculation of the individual impairment a discounted cash flow approach is applied. The individual impairment of credit exposures to customers is as follows:

in LEI As at December 2016	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	47,360,780	25,814,788	21,545,992
Agricultural	8,081,260	3,561,176	4,520,084
Total	55,442,041	29,375,965	26,066,076

in LEI As at December 2015	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	51,985,699	27,705,432	24,280,268
Agricultural	11,237,558	5,260,700	5,976,858
Total	63,223,258	32,966,131	30,257,126

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, generally a lump-sum approach is applied; the impairment is determined depending on the number of days in arrears. In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country. For all unimpaired credit exposures a portfolio-based impairment is calculated (see also note (9)).

in LEI As at December 2016	Gross outstanding amount	Allowance for lump-sum specific & portfolio based impairment	Net outstanding amount
Business	710,625,849	12,472,879	698,152,970
Agricultural	290,458,365	8,570,091	281,888,274
Housing improvement	1,118,279	130,501	987,778
Consumer	857,769	50,236	807,533
Other	20,201	293	19,908
Total	1,003,080,463	21,224,000	981,856,464

in LEI As at December 2015	Gross outstanding amount	Allowance for lump-sum specific & portfolio based impairment	Net outstanding amount
Business	726,622,349	17,145,933	709,476,416
Agricultural	354,009,952	13,257,936	340,752,016
Housing improvement	1,032,867	84,218	948,649
Consumer	1,347,646	81,561	1,266,084
Other	355,043	24,100	330,942
Total	1,083,367,856	30,593,749	1,052,774,108



54) Financial risk

(a) Counterparty and issuer risk

Conceptual risk management framework

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Bank. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks arise especially from the Bank's need to invest liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. The liquidity is placed in the interbank market with short maturities, typically up to three months. Foreign exchange transactions are also concluded with short maturities, up to two days. The Bank's needs to finance its lending activities through deposits taking of customers funds and IFIs results in a significant exposure towards National Bank of Romania due to the mandatory reserves requirements.

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

No transactions are performed unless the counterparty has been previously approved. The approval of counterparties, along with exposure limits and maximum tenors, lies with the Bank's ALCO, for exposure limits below the competence thresholds stated in the dedicated policy, and with the Board of Administration through the Audit and Risk Management Committee, for all others. The approval is based on a thorough assessment that takes into account the financial situation of the counterparties, its reputation and its policy on AML activities.

The risk management policies forbid the Bank to conduct any speculative trading activities. For the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (T-bills, bonds or certificates). The inherent issuer risk is managed by the provisions of the Bank's Treasury Policy. Among other requirements, the policy stipulates that the securities should preferably be issued by the government or central bank of the country of operation, or by sovereigns or international and/or multinational institutions with very high credit ratings (international rating of AA- or better).

Facts and figures concerning counterparty and issuer risk

The main reason for incurring counterparty and issuer risk is to keep liquid assets for liquidity risk management purposes, i.e. as a reserve for times of potential stress. These funds are held as cash in commercial bank or central bank accounts, as interbank placements, and in treasury bills issued by Romanian Ministry of Finance. As mentioned above, a substantial part of the Bank's exposure consists of the mandatory reserve required by the central bank and held in a specific central bank account. The Bank did not engage in any transaction with derivatives throughout 2016.

The following table provides an overview of the types of counterparts and issuers with whom the Bank concludes transactions.



in LEI	2016	in %	2015	in %
Cash and cash equivalents				
Central banks	125,547,106	42.7	153,764,424	60.7
Mandatory reserve	102,074,729	34.7	124,718,128	49.3
Other exposures	23,472,377	8.0	29,046,296	11.5
Loans and advances to banks				
Banking groups	82,721,364	28.1	58,849,036	23.2
ProCredit Group	80,348,168	27.3	56,790,069	22.4
OECD banks	2,162,918	0.7	1,889,280	0.7
Governments	210,278	0.1	169,687	0.1
Available-for-sale financial assets				
Governments	85,669,172	29.1	40,585,686	16.0
Total	293,937,642	100.0	253,199,146	100.0

None of the above exposures are neither past due nor impaired.

(b) Foreign currency risk

Conceptual risk management framework

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

Due to the close economic links between Romania and the Euro area countries, a significant part of the customer funds and of the customer loan portfolio is denominated in Euro. The Bank's operations in other foreign currencies are at a low level and therefore do not pose a significant risk exposure.

Currency risk management is guided by the Foreign Currency Risk Management Policy and Strategy, which is approved by the Board of Administration.

The Treasury Department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury Department also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. The Bank did not engage in any foreign currency derivative transactions in 2016. The Bank's foreign currency exposure is monitored and controlled on a daily basis by the Back Office Department and is reported to ALCO by the Risk Management Department.

Developments in the foreign exchange markets and the currency positions are regularly reported to the Bank's ALCO, which is authorised to take strategic decisions with regard to treasury activities. The Bank's exposure to foreign currency risk is reported on a monthly basis to the Audit and Risk Management Committee and quarterly to the Board of Administration.

The Bank aims to keep a closed currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early



warning indicators and limits. In cases where the positions cannot be brought back above 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the bank's ALCO have to be informed and appropriate measures taken. This mechanism helps to ensure that the bank's total OCP does not exceed 10% of regulatory capital. Exemptions from the limit or strategic positions are subject to approval by the Board of Administration.

Facts and figures concerning foreign currency risk

The following table shows the distribution of the Bank's balance sheet items across its material operating currencies, which are USD and EUR.

in LEI As at December 31, 2016	Total	RON	EUR	USD	Other currencies
Assets					
Cash and cash equivalents	161,982,624	114,709,324	44,835,852	2,437,448	-
Loans and advances to banks	82,723,222	211,722	80,742,120	784,249	985,131
Available-for-sale financial assets	85,892,086	85,892,086	-	-	-
Loans and advances to customers	1,058,522,504	777,160,108	281,184,467	177,929	-
Allowance for losses on loans and advances to customers	-50,599,964	-30,780,344	-19,818,553	-1,068	-
Other assets	45,188,560	42,817,252	2,145,360	212,698	13,249
Total assets	1,383,709,033	990,010,149	389,089,247	3,611,257	998,381
Liabilities					
Liabilities to banks	128,121,992	128,120,926	1,066	-	-
Liabilities to customers	839,706,432	605,701,653	228,925,670	4,258,217	820,892
Liabilities to international financial institutions	211,951,422	91,665,184	120,286,239	-	-
Provisions	3,063,687	3,047,402	15,850	434	-
Other liabilities	5,437,405	4,601,527	797,880	37,998	0.00
Subordinated debt	39,747,892	-	39,747,892	-	-
Total liabilities	1,228,028,830	833,136,692	389,774,597	4,296,649	820,892
Net position	155,680,202	156,873,457	-685,351	-685,392	177,488
Open SPOT position (asset/liabilities) third parties	-3,859	-2,214,412	1,498,563	711,990	-
Credit commitments	134,835,088	127,772,351	6,894,478	168,259	-



in LEI
As at December 31, 2015

	Total	RON	EUR	USD	Other currencies
Assets					
Cash and cash equivalents	213,902,304	138,321,508	71,795,985	3,784,811	-
Loans and advances to banks	58,852,673	171,974	55,973,594	2,418,359	288,746
Available-for-sale financial assets	40,845,734	40,845,734	0	-	-
Loans and advances to customers	1,146,591,114	790,920,460	355,660,787	9,867	-
Allowance for losses on loans and advances to customers	-63,559,880	-40,884,147	-22,675,050	-684	-
Other assets	48,823,213	47,715,669	902,797	190,132	14,614
Total assets	1,445,455,158	977,091,199	461,658,113	6,402,486	303,361

in LEI
As at December 31, 2015

Liabilities to banks	139,586,959	128,238,546	11,348,413	-	-
Liabilities to customers	903,805,097	632,566,093	264,249,065	6,589,728	400,211
Liabilities to international financial institutions	204,804,619	56,942,449	147,862,170	-	-
Provisions	423,178	403,514	19,664	-	-
Other liabilities	6,297,126	5,670,904	624,273	1,949	0.00
Subordinated debt	39,595,984	-	39,595,984	-	-
Total liabilities	1,294,512,964	823,821,506	463,699,569	6,591,678	400,211
Net position	150,942,193	153,269,692	-2,041,457	-189,192	-96,850
Open SPOT position (asset/liabilities) third parties	-1,925	-1,464,866	1,131,125	331,816	
Credit commitments	106,582,450	96,570,126	9,680,508	331,816	-

(c) Interest rate risk

Conceptual risk management framework

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a four-year fixed interest rate loan is funded with a six-month term deposit, as well as from incongruence between the interest type of the assets and liabilities, e.g. a fixed interest rate loan is financed through a variable interest rate financing facility. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

The Bank's approach to measuring and managing interest rate risk is guided by the Interest Rate Risk Management Policy and Strategy which is approved by the Board of Administration.

The main indicators for managing interest rate risk measures are the potential impact on the economic value of all assets and liabilities and the interest earnings impact. The indicator economic value impact analyses the potential



loss that the Bank would incur in the event of very unfavourable movements (shocks) of the interest rates on assets and liabilities. For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. During 2016 for the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven years. The shocks for local currency also differentiate between internally driven interest rates and market interest rates, in order to capture the basis risk. The non-netted total economic value impact on the bank's balance sheet in the standard scenario (the interest rate shocks are applied in each currency in the direction which negatively affects the Bank) must not exceed 15% of its regulatory capital for all interest rate risk relevant currencies. A reporting trigger for the indicator is set at 10% providing an early warning signal.

The non-netted total potential impact of interest rate risk on the Bank's expected earnings over the next twelve months in the standard scenario is also regularly analysed. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective. The non-netted total 12 months interest earnings impact on the bank's balance sheet in the standard scenario must not exceed 10% of its regulatory capital for all interest rate risk relevant currencies. A reporting trigger for the indicator is set at 5% providing an early warning signal.

Interest rate risk is regularly discussed by the Bank's Assets and Liabilities Management Committee. The indicators are also reported to the Audit and Risk Management Committee and to the Board of Administration.

In order to limit its interest rate risk, the Bank aims to match as much as possible the repricing maturities of its interest bearing assets and liabilities (natural hedge).

in LEI As at December 31, 2016	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non Interest bearing	Total
Assets								
Cash and cash equivalents	102,074,729	-	-	-	-	-	59,907,895	161,982,625
Loans and advances to banks	22,705,500	13,623,300	-	-	-	-	46,394,422	82,723,222
Available-for-sale financial assets	-	52,828,308	32,840,864	-	-	-	222,914	85,892,086
Loans and advances to customers	288,402,764	221,998,954	338,926,294	121,274,785	17,564,079	216,797	70,138,833	1,058,522,504
Total financial assets	413,182,993	288,450,562	371,767,157	121,274,785	17,564,079	216,797	176,664,064	1,389,120,436
Liabilities								
Liabilities to banks	-	-	104,520,000	22,470,000	-	-	1,131,992	128,121,992
Liabilities to customers	142,036,665	164,426,419	156,776,869	85,909,254	5,146,909	45,782	285,364,534	839,706,432
Liabilities to international financial institutions	-	-	113,324,772	-	-	-	98,626,650	211,951,422
Subordinated debt	-	-	-	-	-	39,734,625	13,267	39,747,892
Total financial liabilities	142,036,665	164,426,419	374,621,641	108,379,254	5,146,909	39,780,407	385,136,444	1,219,527,739
Total interest sensitivity gap	271,146,328	124,024,143	-2,854,484	12,895,531	12,417,169	-39,563,610	-208,472,380	169,592,697

in LEI As at December 31, 2015	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non Interest bearing	Total
Assets								
Cash and cash equivalents	124,718,128	-	-	-	-	-	89,184,176	213,902,304
Loans and advances to banks	13,573,500	-	-	-	-	-	45,279,173	58,852,673
Available-for-sale financial assets	-	31,704,427	8,881,259	-	-	-	260,048	40,845,734
Loans and advances to customers	22,347,435	301,856,881	624,130,584	118,526,194	38,570,975	602,610	40,556,435	1,146,591,114
Total financial assets	160,639,063	333,561,308	633,011,843	118,526,194	38,570,975	602,610	175,279,833	1,460,191,825
Liabilities								
Liabilities to banks	-	11,311,250	-	22,470,000	104,520,000	-	1,285,709	139,586,959
Liabilities to customers	158,085,914	186,074,345	160,937,793	126,771,349	23,384,013	-	248,551,684	903,805,097
Liabilities to international financial institutions	-	-	-	19,996,674	71,907,232	41,003,281	71,897,431	204,804,619
Subordinated debt	-	-	-	-	-	39,589,375	6,609	39,595,984
Total financial liabilities	158,085,914	197,385,595	160,937,793	169,238,023	199,811,245	80,592,656	321,741,433	1,287,792,660
Total interest sensitivity gap	2,553,149	136,175,713	472,074,050	-50,711,829	-161,240,270	-79,990,047	-146,461,600	172,399,166



Facts and figures concerning interest rate risk

As specified above, the main interest rate risk indicators are the economic value impact indicator and the interest earnings impact. The economic value impact indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items and quantifies the loss in value of the bank given certain changes of interest rates. As described above, the calculation of the economic value impact indicator is based on different parallel shifts of the interest rate curves. For EUR and USD a shift of +/- 200 bps is applied; for the local currency the shift is defined in terms of a historical worst case (+/- 542 bps for internal rates and +/- 295 bps for market rates, as of December 2016).

The following table presents the economic value impact and interest earnings indicator under the standard scenario, as of December 2016 and December 2015.

in '000 EUR		2016	
Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	-542 bps/ -295 bps	978	-744
EUR	-200 bps	-1107	-397
USD	-200 bps	0.1	0.0
Total		-130	-1141

in '000 EUR		2015	
Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	-576 bps/ -272 bps	-14	-25
EUR	-200 bps	-1146	-197
USD	-200 bps	-1	-5
Total		-1161	-228

(d) Liquidity risk

Conceptual risk management framework

The Bank's liquidity risk management (LRM) system is tailored to the specific characteristics of the Bank. On the assets side the loan portfolio is the largest single component, and is primarily funded by clients' deposits, on liabilities side. The loan portfolio is characterised by a large number of exposures to small businesses and is therefore highly diversified. The majority of the loans are disbursed as instalment term loans, and the default rate is low. Therefore, cash flows are highly predictable. All of these factors justify the use of a relatively simple and straightforward LRM system.

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

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



The standards that the Bank applies in this area are established through the Liquidity Risk Management Policy and Strategy and the Treasury Policy. Limit breaches and exceptions to these policies are subject to decisions of the Board of Administration. The local requirements are complemented by the tools used at the ProCredit group level, thus enhancing local liquidity risk management.

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

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

The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. It must not fall below 1. This implies that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 30 days. Another important indicator, Liquidity Coverage Ratio (LCR) that came in force in 2015, with the following limits: starting October 1st, 2015 of at least 60%; 70% starting January 1st, 2016; 80% starting January 1st, 2017 and at least 100% starting January 1st, 2018.

This is complemented by the early warning indicators, the foremost being the highly liquid assets indicator, which relates highly liquid assets to customer deposits and also the liquidity coverage indicator.

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps in later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines that can be drawn by the Bank with some time delay, and other assets which take some time to liquidate.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy and Strategy also defines reporting triggers. If the highly liquid asset indicator drops below 10%, or if the depositor concentration rises above 15%, or the liquidity coverage indicator is below 90% the ALCO takes decisions on appropriate measures.

In order to safeguard the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The Bank has a liquidity contingency plan that establishes the measures that should be taken if a crisis situation appears at the level of the Bank or the banking system. The liquidity contingency plan is supported by a stand-by line from ProCredit Holding, amounting to EUR 10 million at the end of December 2016.

The internal liquidity management framework complements the regulatory framework, composed of the Liquidity Indicator and of the Liquidity Coverage Ratio, both at comfortable levels at the end of December 2016 (LCR stood at 195%).

The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. According to the bank's internal guidelines a significant depositor concentration exists if the 10 largest depositors exceed 15% of total customer deposits. This serves as an early warning signal and requires the reasons and mitigating measures to be reported to the ALCO and to the Audit and Risk Management Committee.

The Bank also minimises its dependency on the interbank market. The policies stipulate that the total amount of money market liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. Higher limits need to be approved by Board of Administration.



Facts and figures concerning liquidity risk

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

in LEI As at December 31, 2016	Carrying Amount	Gross amount*	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Assets								
Cash and cash equivalents	161,982,624	161,987,964	161,987,964	-	-	-	-	-
Loans and advances to banks	82,723,222	82,864,624	46,535,824	36,328,800	-	-	-	-
Available-for-sale financial assets	85,892,086	86,027,002	-	53,000,000	33,000,000	-	-	27,002
Loans and advances to customers	1,058,522,504	1,214,229,902	74,617,838	87,726,143	115,336,235	279,114,304	468,091,209	189,344,173
Other assets	16,664,299	5,636,587	1,094,442	-	2,726,569	1,815,576	-	-
Financial assets	1,405,784,735	1,550,746,080	284,236,069	177,054,943	151,062,804	280,929,879	468,091,209	189,371,176
Off Balance sheet commitment (assets)	45,411,000	45,411,000	45,411,000	-	-	-	-	-
Total assets	1,451,195,735	1,596,157,080	329,647,069	177,054,943	151,062,804	280,929,879	468,091,209	189,371,176
Liabilities								
Liabilities to banks	128,121,992	128,121,992	129,389	559,375	104,963,228	22,470,000	-	-
Liabilities to customers	839,706,432	845,203,144	425,231,491	166,452,751	159,209,538	87,834,530	6,428,751	46,084
Liabilities to international financial institutions	211,951,422	211,951,423	-	33,725	-	24,332,944	59,196,482	128,388,272
Other liabilities	5,437,405	4,570,078	3,563,296	-	-	1,006,783	-	-
Provisions	3,063,686	3,063,687	-	2,632,296	36,576	394,814	-	-
Subordinated debt	39,747,892	39,747,892	-	-	13,267	-	-	39,734,625
Financial liabilities	1,228,028,830	1,232,658,217	428,924,175	169,678,147	264,222,609	136,039,071	65,625,234	168,168,981
Off Balance sheet commitment (irrevocable liabilities)	8,397,207	8,397,207	8,397,207	-	-	-	-	-
Total liabilities	1,236,426,037	1,241,055,424	437,321,383	169,678,147	264,222,609	136,039,071	65,625,234	168,168,981
Open position	177,755,905	318,087,863	-144,688,107	7,376,796	-113,159,805	144,890,809	402,465,975	21,202,194
Open position including off Balance sheet commitments	214,769,698	355,101,655	-107,674,314	7,376,796	-113,159,805	144,890,809	402,465,975	21,202,194

*undiscounted cash flow for financial assets and liabilities

in LEI As at December 31, 2015	Carrying Amount	Gross amount*	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Assets								
Cash and cash equivalents	213,902,304	213,902,304	213,902,304	-	-	-	-	-
Loans and advances to banks	58,852,673	58,863,310	45,289,588	13,573,722	-	-	-	-
Available-for-sale financial assets	40,845,734	41,027,002	-	32,000,000	9,000,000	-	-	27,002
Loans and advances to customers	1,146,591,114	1,374,138,034	83,067,290	78,133,964	140,335,528	317,805,001	561,040,497	193,755,753
Other assets	19,016,067	7,465,725	8,500	-	-	1,639,885	5,817,341	-
Financial assets	1,479,207,892	1,695,396,375	342,267,682	123,707,686	149,335,528	319,444,886	566,857,838	193,782,755
Off Balance sheet commitment (assets)	45,245,000	45,245,000	45,245,000	-	-	-	-	-
Total assets	1,524,452,892	1,740,641,375	387,512,682	123,707,686	149,335,528	319,444,886	566,857,838	193,782,755
Liabilities								
Liabilities to banks	139,586,959	147,904,936	186,224	12,226,577	2,325,766	25,673,044	107,493,326	-
Liabilities to customers	903,805,097	915,580,509	402,689,376	190,432,710	167,013,605	130,378,950	25,065,867	-
Liabilities to international financial institutions	204,804,619	214,726,548	-	95,517	72,248,143	21,886,481	78,011,404	42,485,003
Other liabilities	6,297,126	10,090,202	4,840,408	459,947	507,592	488,437	3,236,415	557,403
Provisions	423,178	423,178	-	-	39,963	383,215	-	-
Subordinated debt	39,595,984	63,541,211	-	-	-	2,412,368	8,446,591	52,682,252
Financial liabilities	1,294,512,964	1,352,266,584	407,716,008	203,214,750	242,135,070	181,222,496	222,253,602	95,724,658
Off Balance sheet commitment (irrevocable liabilities)	8,904,416	8,904,416	8,904,416	-	-	-	-	-
Total liabilities	1,303,417,380	1,361,171,000	416,620,424	203,214,750	242,135,070	181,222,496	222,253,602	95,724,658
Open position	184,694,929	343,129,791	-65,448,327	-79,507,064	-92,799,541	138,222,390	344,604,235	98,058,097
Open position including off Balance sheet commitments	221,035,513	379,470,375	-29,107,743	-79,507,064	-92,799,541	138,222,390	344,604,235	98,058,097

*undiscounted cash flow for financial assets and liabilities

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

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

The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity, if it has a positive one. This calculation includes positive excess values from the previous time buckets. The expected liquidity gap is the basis for the sufficient liquidity indicator which, as at end of December 2016 stood at 2.95, with a minimum limit of 1.

The Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In order to further diversify its sources of funds, the bank also maintains relationships with other banks, especially for short-term liquidity lines. In addition, ProCredit Holding and ProCredit Bank Germany provides short- and long-term funding.

In order to maintain a high level of diversification among its customer deposits, the bank has implemented a concentration trigger, which aims at ensuring that the ten largest customer deposits do not exceed 15% of total deposits. The ten largest customer deposits in total deposits made up 13.4% as at December 2016, below the warning limit of 15% established through the Liquidity Risk Management Policy and Strategy.

55) Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel definition, the bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This category includes all "risk events" in the areas of personnel, processes, and information technology. A dedicated Operational Risk Management Policy and Strategy establishes the principles of operational risk management.

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database. While the Corporate Culture, the Governance Framework, and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

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

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

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

• Identification

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

• Evaluation / quantification

- Agreed standards to quantify risks





- **Monitoring and control**
 - Process owners' responsibility to monitor risks
 - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring in the Operational Risk Management Committee and Audit and Risk Management Committee
 - Management summaries for the significant risk events
 - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
 - Transfer of risk to an insurer, if appropriate
- **Issue tracking / follow-up tables for material action plans**
 - Follow-up of the measures taken by the Operational Risk Management Committee or by the Bank's Managers

To constantly enhance the professional standards of the Bank, in 2016 it continued to make use of local training facilities, the regional ProCredit Academy and the international ProCredit Academy in Fürth, Germany. Training programmes for candidates for management positions include various sessions focusing explicitly on operational risk management. Risk awareness training is delivered annually to all staff as well as to all newly hired employees.

56) Reputational risk

Reputational risk is recognised as a significant risk to which the Bank is exposed. It is defined as the current or future risk that the profits or capital would be negatively affected due to the unfavourable image of the Bank as perceived by clients, counterparties, shareholders, investors or supervisory authorities.

The Bank monitors all events with potential reputational implications through operational risk events identification, continuous monitoring of the media exposure and monthly monitoring of customer complaints. The monitoring results are reported to the Operational Risk Management Committee that may take measures to mitigate the effects of a reputational risk event.

The Bank aims to keep the degree of responsibility and professionalism of its employees at a high level in order to mitigate its exposure to reputational risk. Therefore, the various training programmes specified in the previous section have become part of the Bank's organisational culture. Relationships with clients have always been based on the principles of transparency and responsibility, thus fostering a good image for the Bank.

57) Compliance Risk

The Compliance risk is defined as the risk to suffer the sanctions set by the regulatory framework, to register significant losses or reputational impact by not complying with the regulatory framework provisions, internal regulations or other applicable best practices.

The management of compliance risk is performed at the Bank level within three committees. The financial covenants included in the refinancing contracts of the Bank are monitored on a monthly basis within the ALCO and reported to the Audit and Risk Management Committee. The risks regarding money laundering and financing of terrorism activities are monitored in the AML&CFT on a quarterly basis. The changes in legislation and their implementation are monitored in the OPRC on a monthly basis.

The Bank's organizational structure includes the Compliance Department that has the role of assisting the Bank's Managers in order to properly manage the compliance risk.



58) Business Risk (including strategic risk)

The strategic risk represents the current or future risk of negative impact on earnings and capital arising from changes in the business environment or from adverse business decisions, improper implementation of decisions, or lack of response to changes in the business environment.

The Bank includes the business risk (which includes the strategic risk) in the category of significant risks as, according to the developments of the past years in terms of the changes in the business environment mostly triggered by the financial crisis, we faced significant problems regarding the achievement of the business objectives. In these circumstances, the Bank's Board of Administration defines the business risk target profile in order to control the Bank's exposure to this risk.

The exposure to this risk is monitored regularly in the monthly meetings of the ALCO.

59) Organization of the risk management function

The ultimate responsibility for the risk management of the Bank lies with the Bank's Managers and with the Board of Administration. The risk management function is located at the level of Risk Management Department, which is responsible for the management all significant risks.

The Risk Management Department is subordinated to the General Manager from an administrative point of view and to the Board of Administration from a functional point of view.

The Risk Management Department is responsible for the identification, evaluation, monitoring and reporting of risk exposures. The Risk Management Department includes the Risk Control Unit, through which it monitors the lending and banking services related processes, both at branch and head office level, in order to ensure consistency with internal regulations (e.g. lending and banking services internal regulations) and to identify, monitor and report operational risks. The personnel of Risk Management Department is independent of the activities monitored and controlled, as is not performing any business related activities. The Risk Management Department reports regularly to the corresponding organisational units at ProCredit Holding.

The Bank's exposure to risks is monitored and controlled by the Audit and Risk Management Committee, a permanent, specialized committee of the Board of Administration. Detailed monitoring of specific risks is performed by various other committees, at Bank level: the Credit Risk Management Committee (credit risk), the Assets and Liabilities Management Committee (counterparty risk, liquidity risk, and market risks), the Operational Risk Management Committee (operational risk and reputational risk) and the AML&CFT Committee (anti-money laundering and combating the financing of terrorism).

The Bank's risk policies address all significant risks and set standards that enable risks to be identified early and to be managed appropriately. The Risk Management Department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits approved. The results of the monitoring are reported to the specialized committees at Bank level, to the Audit and Risk Management Committee and to the Board of Administration.



F. Additional Notes

60) Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank.

2016						
in LEI						
Financial assets	Category	Carrying value	Total fair value	Level 1	of which Level 2	Level 3
Cash and balances at central bank	AFV	161,982,624	161,982,624	161,982,624	-	-
Loans and advances to banks	LaR	82,723,222	82,723,222	-	2,375,053	80,348,169
Available-for-sale financial assets including cash equivalents	AfS	85,892,086	85,892,086	-	85,865,084	27,002
Loans and advances to customers	LaR	1,058,522,504	1,087,890,271	-	-	1,087,890,271
Total		1,389,120,436	1,418,488,204	161,982,624	88,240,137	1,168,265,442
Financial Liabilities	Category	Carrying value	Total fair value	Level 1	Level 2	Level 3
Liabilities to banks	AFV	128,121,992	128,121,992	-	-	128,121,992
Liabilities to customers	AC	839,706,432	829,364,561	-	-	829,364,561
Liabilities to international financial institutions	AC	211,951,422	211,856,261	-	-	211,856,261
Subordinated debt	AC	39,747,892	39,747,892	-	-	39,747,892
Total		1,219,527,739	1,209,090,706	-	-	1,209,090,706
Categories: AFV - At Fair value; LaR - Loans and Receivables, AfS - Available-for-sale; AC - Amortised cost						
2015						
in LEI						
Financial assets	Category	Carrying value	Total fair value	Level 1	of which Level 2	Level 3
Cash and balances at central bank	AFV	213,902,304	213,902,304	213,902,304	-	-
Loans and advances to banks	LaR	58,852,673	58,852,674	-	3,241,764	55,610,910
Available-for-sale financial assets including cash equivalents	AfS	40,845,734	40,845,734	-	40,818,732	27,002
Loans and advances to customers	LaR	1,146,591,114	1,160,353,330	-	-	1,160,353,330
Total		1,460,191,825	1,473,954,043	213,902,304	44,060,496	1,215,991,242
Financial Liabilities	Category	Carrying value	Total fair value	Level 1	Level 2	Level 3
Liabilities to banks	AFV	139,586,959	139,586,959	-	-	139,586,959
Liabilities to customers	AC	903,805,097	897,249,390	-	-	897,249,390
Liabilities to international financial institutions	AC	204,804,619	204,826,531	-	-	204,826,531
Subordinated debt	AC	39,595,984	39,595,984	-	-	39,595,984
Total		1,287,792,660	1,281,258,864	-	-	1,281,258,864
Categories: AFV - At Fair value; LaR - Loans and Receivables, AfS - Available-for-sale; AC - Amortised cost						

The item "cash and balances at central banks" includes cash at hand and balances at central banks including mandatory reserve disclosed under "cash and cash equivalents" (see note 34).

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates.

For the fair value measurement of financial instruments which are carried at fair value only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique. The valuation techniques applied are references to the current fair value of other instruments that are substantially the same and discounted cash flow analysis using observable market parameters, e.g. interest rates and foreign exchange rate.

Level 2 debt investments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

The fair value of loans and advances to customers was determined using the discounted cash flow method, using the current market rates for end of the year, published by the Bank on its website for loans with similar default risks and similar remaining terms to maturity.

The fair value of liabilities to customers was determined using the discounted cash flow method, using the current market rates for end of the year, published by the Bank on its website for deposits with similar remaining terms to maturity. For deposits with no stated maturity (i.e. Current Accounts and Saving Accounts) the fair value it's equal to carrying value in the balance sheet.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates.

In case observable market rates are not available to determine the fair value of financial liabilities measured at amortized cost, ProCredit Bank Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. Treasury department rates are determined considering the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. These internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with the arms lengths principle.

There have been no transfers between the input levels of the fair value hierarchy.

61) Contingent liabilities and commitments

in LEI	As at 31 December	
	2016	2015
Sureties and guarantees	4,553,768	5,299,989
Performance bonds	3,698,737	3,604,427
Documentary and commercial letters of credit	144,703	-
Commitments to extend credit	126,437,880	97,678,034
Total	134,835,088	106,582,450

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. It is expected that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements. An estimate of the amount and timing of outflow is not practicable.

62) Related party transactions

The Bank entered into a number of banking transactions with related parties in the normal course of business.

The list of related parties and description of the nature of relationship is as follows:

Name	Relationship
ProCredit Holding AG & Co. KGaA	Shareholder
ProCredit Bank Germany	Bank of the group
ProCredit Bank Bulgaria	Bank of the group





ProCredit Bank Macedonia
 ProCredit Bank Serbia
 ProCredit Academy Macedonien
 Shipeke Kosovo - Quipu Ges.
 ProCredit Academy
 Quipu GmbH

Bank of the group
 Bank of the group
 Group company
 Group company
 Group company
 Group company

The ultimate parent company of the bank is ProCredit Holding AG & Co. KGaA. During the year ended 31 December 2016 and the year ended 31 December 2015 the following transactions were carried out with the shareholders and other related parties from the Bank and Group:

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

in LEI	As at 31 December	
	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

63) Management compensation

During the reporting period, 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

The members of the Supervisory Board didn't receive any compensation from the Bank.

64) Number of Employees

	2016		2015	
	Average	At year end	Average	At year end
General Manager	1	1	0	0
Deputy General Manager	1	1	2	1
Head Office Staff	157	159	209	178
Branches/Agencies Staff	142	100	265	193
Total Staff		261		372

65) Significant post-balance sheet events

In accordance with the decisions taken by the Extraordinary General Assembly of Shareholders convened in December 2016 and January 2017, and following the National Bank of Romania approval in January 2017, the subordinated loans granted by ProCredit Holding A.G.&CO.KGaA., in aggregate amount of EUR 8.750.000 has been converted into social capital. At the end of January 2017, the level of social capital reached LEI 201.151.690.

66) Exchange rates

For the balance sheet and the income statement the following exchange rates were applied for convenience translation:

Currency code	2016		2015	
	At balance sheet date	Average for the year	At balance sheet date	Average for the year
EUR	4.5411	4.4908	4.5245	4.4450
USD	4.3033	4.0592	4.1477	4.0057

67) Address and general information

ProCredit Bank S.A. is domiciled in Romania. The Bank was established in Romania in July 2002 (until November 2004 the Bank was known as Microfinance Bank MIRO S.A.), and is licensed by the National Bank of Romania to conduct banking activities.

The Bank operates through its head office located in Bucharest and through its network consisting of 6 branches (31 December 2015: 9) and 11 agencies (31 December 2015: 14) located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,
 Bucharest, Sector 1
 Romania



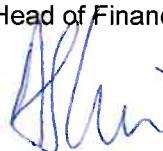
The Bank is managed by a Board of Directors made up of 5 members (31 December 2015: 5 members); lead by a Chairperson. The composition of the Board of Directors was as follows:

Position	31 December 2016	31 December 2015
Chairperson	Rainer Peter Ottenstein	Antje Marielle Gerhold
Member	Gian Marco Felice	Gian Marco Felice
Member	Antje Marielle Gerhold	Rainer Peter Ottenstein
Member	Helen Alexander	Helen Alexander
Member	Iliu Aliu	Iliu Aliu

Mariana Dimitrova Petkova
Deputy General Manager




Andreea Ichim
Head of Finance Department




 Part of the
ProCredit Group



ProCredit Bank

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headoffice@procreditbank.ro



Administrator's Report for the year 2016

ProCredit Bank SA



General Information

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).

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.

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.

Our business results in 2016 were influenced by the strategic reorientation towards small and medium-sized business clients and the exit of the former micro and very small business client category. In order to support the operation and development of our business clients in this challenging environment, we continued to provide professional financial solutions and adequate, transparent and affordable services.

The key competitive advantages of the bank in the market are the following:

- Strong focus on the target market that allows the bank to position itself as one of the leading banks in the niche of providing lending and banking services to small and medium-sized businesses;
- Strong client relationship model based on well-trained staff (Business Client Advisors), who can dedicate time to the SME clients in order to understand their individual needs and provide tailored financing solutions;
- Better credit risk assessment of the client, as illustrated by the significantly lower default rates of the bank compared to the market;
- Modern, convenient and focused outlet network with state-of-the-art 24/7 service offering including e-banking.

Our approach on recruitment and training continued to be based on constant long-term investment in our staff. The quality of the staff, especially the quality of our Business Client Advisors proved to be central in understanding the clients' needs and in providing tailor-made financial services to our SME clients.

At the end of 2016, compared to 2015, the main indicators were:

Indicators	31.12.2015 ('000 LEI)	31.12.2016 ('000 LEI)	% change
Total loan portfolio	1,146,591	1,058,523	-7.68%
Total assets	1,445,455	1,383,709	-4.27%
Total customers deposits	903,805	839,706	-7.09%
Borrowed funds	244,401	251,699	2.99%
Share capital	159,682	159,682	0.00%
Equity	150,942	155,680	3.14%

Financials results

The total assets decreased by 4.27%, as compared to 2015, mostly due to the decrease of the loan portfolio by 7.68% and also through the decrease of the cash and cash equivalents, its value reaching Lei 162 million at the end of 2016 (31 December 2015: Lei 213.9 million). The main reason for the evolution was the streamline of the outlet network on the basis of the strategic reorientation towards small and medium-sized business clients and the exit of the very small business client category.

The Bank maintained, throughout 2016, an adequate level of capital adequacy.

In 2016, the Bank recorded a net profit of Lei 4.7 million, decreasing as compared to the previous year (31 December 2015: Lei 8.4 million). The largest part of the Bank's incomes came from the lending operations, which accounted for more than 84% of the total incomes. Fees that are not related to the lending activity, represent a relatively small part of the total income, but the net fee income this year amounted to LEI 10 million. The cost income ratio at the end of 2016 was 84.3% (31 December 2015: 71.5%).

Business Clients

The main business strategic direction remained the same, namely to focus on Small and Medium business clients; the Bank made a clear-cut decision to cease serving most of the former Very Small clients. The bank positioning is based on a much focused specialized business model – being a high quality SME bank - and on being a part of an international, Germany-based banking group.

The strategic changes mentioned above led to a growth of loan portfolio for the main business lines (Small and Medium) around Lei 86 million, but in the same time, the level of the exit loan portfolio decreased with Lei 173 million. Moreover, the Bank sold in 2016 a part of its nonperforming loan portfolio to specialized recovery companies, in amount of Lei 20.1 mil in order to maximize the recoveries and to optimize the recovery process. As result, the gross loan portfolio decreased with 7.68% compared to previous year, reaching a total volume of Lei 1,058 million.

As in previous years, in 2016 the Bank focused on the quality of the loan portfolio and kept it under control by identifying potential problems with the clients in a timely manner, and intensively working out the problematic exposures.

Banking Services

In view of servicing its clients in a modern, fast, cost-effective and reliable manner which shall be further reflected in increasing efficiency and reduce overall costs by shifting the basic transactions towards automated channels, the bank continued in 2016 the implementation of the modern self-service, 24-hour zones. The concept of 24-hour zones provides clients with the possibility to perform various cash and non-cash operations via modern banking terminals, any time of the day, including outside regular working hours. By end of 2016, this new concept of servicing clients via the 24-hour zones and the advising zone has been implemented in all the business units.

Development and implementation of the 24-hour zones concept implied a shift from outlets with a mere operational role to business units with a more advisory role. By way of consequence, the staff in front office were offered intensive internal trainings on how to support clients in the process of adaptation to the use of alternative channels for conducting their business operations so that more quality time and focus is dedicated to advising the clients on the services that best suit their needs. Regular meetings and trainings of client advisers are envisaged for 2017 as to ensure that not only the efficiency in front office will continue to increase but also the clients' access to the bank's services and implicitly their satisfaction.

Due to the joint institutional efforts put into automating clients and their banking operations and transactions, the overall automation degree at the level of all business units stands at 97%, the biggest share coming from card transactions (i.e. POS and ATMs operations), namely 57%, while the Internet Banking penetration in total number of outgoing transfers increased to 93% from 60% at the end of 2015. The challenges remaining to be tackled with in 2017 is represented by increasing of Internet Banking penetration by clients and reducing to a minimum cash transactions in general and cash transactions performed at front-desk in particular. Cash transactions at desk gradually decreased since 2015 when the implementation of the 24/7 zones started and currently accounts for only 3% of the total transactions and operations.

The main source of funding for the Bank remains the customer funds. In 2016, the bank continued to mobilize deposits from private individuals, the focus being on the middle-age, middle-income savers, such as independent professionals, self-employed, freelancers but also the owners, managers and family members of its business clients. At the same time, in 2016, compared to previous years, more funding was attracted from business clients as a direct consequence of the bank's strategy of becoming the sole financial partner for Small business clients and one of the main partners for Medium business clients. The current process of shifting towards bigger SME clients, with stable business and comprehensive banking needs beyond mere financing will lead to an increase of customer funds stemming from business clients. Moreover, the bank will continue on the one hand to strengthen its position of "house bank" for SMEs and on the other hand to focus on maintaining and developing relationship with clients with real long term saving potential.

Branch Network

In 2016, the Bank continued the project of refurbishing the remaining locations in order to offer clients 24/7 access to high quality banking services. While exiting some locations that were not positioned in areas with high target client's concentration, three of the main branches, Timisoara, Brasov and Cluj, and one Service Point, Pitesti, were relocated in Business Centres in order to offer better conditions and a higher accessibility for our clients; all the new locations have fully equipped 24/7 zones in order to be able to offer excellent services to our customers not only by our advisers, but also outside working hours. By the end of 2016 the outlet network was restructured, thus the number of branches decreased to 6 and the number of service points reached 11. This consolidation continued the strategic refocussing on our core client groups, small and medium-sized businesses and the exit of less formal and stable businesses.

Staff and Staff Development

ProCredit Bank's employees has been representing, since the very beginning of its business activity, the most important resource of the institution, which is why in 2016, as it happened in the previous years, the main concern was the staff selection, training and continuous development. In 2016, ProCredit Bank continued to invest heavily in the professional training of its new employees that from the very beginning of their activity are entering into ProCredit Entry Programme. Being organized at the international level since 2015, the programme proved to be a very good opportunity to broaden the general knowledge of our participants, mainly from cultural diversity point of view. As the participants are having different educational backgrounds and different previous experiences, the 6-month training programme gives them an opportunity for further exchange of views and experiences within the theoretical training that is organized in one of the training centres in Bulgaria, Serbia or Kosovo. Last year, Romania sent participants in seven ProCredit Entry Programmes, four developed in Bulgaria and three in Serbia. The participants that graduated the programme in 2016, continued their professional development with further local specialized theoretical and practical trainings in the very beginning for the client adviser function and later on for different other positions both within branches and Head Office.

Besides the preparation for the new colleagues, last year a strong emphasis continued to be put on the quality of all personnel, intensive trainings being provided on both national and Group level. Thus, nine employees, including both managers and specialist staff, attended ProCredit Academy in Germany and ProCredit Regional Academy in Macedonia. Additionally a strong focus continued to be placed on English knowledge in order to provide the necessary language skills for further Group level trainings organized for all ProCredit Banks' staff. Thus, 37 participants from Romania attended the 6 weeks language courses in both Furth and Veles Language Centres. Besides these above mentioned, 52 colleagues from both Head Office and Branches participated in regional seminars or were part of international exchange programmes at the Group level, aiming to increase the professional standards of our staff and to enhance the understanding of our Group business strategy.

Business Ethics and Environmental Standards

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. The five ProCredit values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which translates ProCredit group's ethical principles into practical guidelines for all ProCredit staff. In order to ensure that staff fully understands all of the principles that have been defined, induction seminars now have a

separate section for the study of the Code of Conduct and its importance for all the members of our team. And to ensure that the employees respect their commitment to the high ethical standards and that they are informed about the new subjects and evolutions of an ethical nature for our institution, refreshment seminars are regularly organized for our employees. These events allow the existing staff to analyse recent case studies and to discuss any unclear aspects.

Another manner of ensuring that our institution adheres to the highest ethical standards is our consistent application of international best-practice methods and procedures to protect ourselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorist activities. The important focus here is the "know your customer" principle, and, in line with this principle, the performance of a sound reporting activity and the compliance with the applicable regulations. At group level, updated policies are introduced for the prevention of money laundering and fraud, to ensure compliance with both German and Romanian regulatory standards.

ProCredit Bank has implemented an environmental management system based on continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which are deemed environmentally hazardous and appear on our institution's exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank is also able to raise its clients' overall level of environmental awareness. The Bank only provides financing for environmentally sound projects. Thus, ProCredit Bank's clients must comply with the requirements stipulated by local health, safety and environmental legislation. When conducting credit analyses and making lending decisions, and also when monitoring loans, the bank invariably gives due consideration to ecological and environmental factors.

Risk Management

During 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 "risk 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 and risk control 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 statutes, the Bank does not engage in speculative operations and maintains its currency position closed.

The principles, the risk profile and the main instruments used in the management of risks are set by the Bank's Board of Administration through the risk management policies and strategies. Thus, the Bank has defined risk management policies and strategies for the credit risk, counterparty risk, foreign currency risk, interest rate risk, liquidity risk, operational risk, fraud risk, reputational risk and the risks 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 is carried out both at the level of the Bank as a whole, and at the level of each 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 monitors all relevant risks and risk 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 areas of operations (including branches) are 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 alert 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 Audit and Risk Management Committee and the upper management committees operate in accordance with the bank's overall risk policy and their powers are defined by the authority delegated to them by the Board of Administration. The Audit and Risk Management Committee is subordinated consultative committee of the Board of Administration and also fulfils the function of informing to the Board of Administration with regard to Bank's exposure to risks. 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.

Asset and Liability Management 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.

AML&CFT Committee

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 Internal 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 loan officers, 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, both on the level of the branches and in 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, 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 Funding 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 Risk, Reputational Risk, Legal Risk

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.

Outlook

After a challenging 2016, ProCredit Bank will continue to develop and strengthen a sustainable basis for its activity on the Romanian banking market.

The Bank will continue to focus on its core client groups, small and medium sized business clients and will serve private clients with a focus on convenient savings and transactional services. The Bank aims to become a preferred partner for SMEs in the locations where we are present, focussing on high quality in customer care and analysis.

In order to maintain and develop its competitiveness in the market, the Bank has developed strong and reliable partnerships with the key players within the SME financing and development support sector: the Romanian Guarantee Funds (FNGCIMM, FGCR), APIA, MADR – out of the local authorities; EIB and EIF (under CIP and JEREMIE programs. and INNOFIN) as representatives of external institutions who support the local SMEs.

The Bank considers that the main growth engine will be the small and medium business, both urban and agro.

The business with private individuals will continue to concentrate on attracting customer funds. In this case, the Bank wants to focus on middle-class savers. However, the strategic goal of the bank in terms of funding is to attract more funding from business clients by establishing long term relationships with them and becoming the sole financial partner for Small business clients and one of the main partners for Medium business clients.

The Bank is currently consolidating its staff structure and number of business network units. Management acknowledges the importance of providing intensive trainings to existing staff with the purpose to increase professional standards and efficiency.

The number of employees will be stable in 2017 and beyond. ProCredit Bank will continue, like in the previous years, to invest both in training its staff and in improving internal processes in order to ensure, on the one hand, business efficiency and competitiveness in the Romanian banking market, and on the other hand, high quality customer service. Building long-term relationships and the in-depth knowledge of the clients' needs remain key to achieving these objectives.

Events after Report Date

In accordance with the decisions taken by the Extraordinary General Assembly of Shareholders convened in December 2016, respective January 2017, and following the National Bank of Romania approval in January 2017 the subordinated loans granted by ProCredit Holding A.G.&CO.KG&A., in aggregate amount of EUR 8,750,000 has been converted into social capital. At the end of January 2017, the level of social capital reached LEI 201151,690.

Rainer Peter Ottenstein
Chairperson of the Board of Administration



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