PROCREDIT BANK SA

FINANCIAL STATEMENTS
31 DECEMBER 2017

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION

FREE TRANSLATION

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PROCREDIT BANK SA

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of ProCredit Bank SA (the "Bank") as at 31 December 2017, and of 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 (IFRS) and National Bank of Romania Order 27/2010, as subsequently amended ("NBR Order 27/2010").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Bank's financial statements, set out on pages 1 to 60, comprise:

- the statement of profit or loss for the financial year ended 31 December 2017;
- the Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the statement of financial position as of that date;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

The financial statements as at 31 December 2017 are identified as follows:

- Total equity and reserves: RON 195,538 thousand;
- Net profit for the year: RON 464 thousand.

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

The Bank's registered office is in Bucharest, str. Buzeşti, nr. 62-64, et.1, 2 si 4, district 1, Romania and the Bank's unique fiscal registration code is RO14622194.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation EU No 537/2014 of the European Parliament and of the Council ("the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

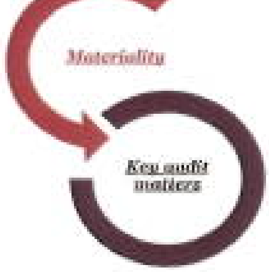
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law. We have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in Romania and that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation no. 537/2014.

The fees for non-audit services that we have provided to the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 32 to the financial statements.

Our audit approach

Overview



Overall materiality:

RON 2,400 thousand

Key audit matters:

- Impairment of loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where Management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	RON 2,400 thousand
How we determined it	Approximately 3% of the Interest and Commission income ("Core income") of the Bank from 2017.
Rationale for the materiality benchmark applied	Core income of the Bank , in our view, is one of the benchmarks against which the performance of the Bank is most commonly measured by its stakeholders, and it is a generally accepted benchmark. We chose 3%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee we would report to them misstatements identified during our audit above RON 120 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers We focused on this area because management makes significant subjective judgements over both, the timing of recognition of impairment losses and the estimation of the size of such impairment, which is a complex area of accounting. The basis of the provision for impairment for loans and advances to customers is described in the significant accounting policies note. An assessment of the provision for impairment for loans and advances to customers is performed individually for loans that are considered significant and have impairment triggers, and collectively for other loans, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, and the amount that is likely to be recovered from the debtor in the event of such default. Statistical models are used for the assessment of the collective impairment for different categories of loans. The categories are determined based on the grouping of loans with similar credit risk characteristics.	We assessed the impairment methodology for compliance with IAS 39 "Financial instruments: classification and measurement". We assessed and tested on a sample basis the design and operating effectiveness of controls over impairment data and calculations. For the loans individually assessed, the controls included those used by management to ensure that the list of loans assessed individually is appropriate and up to date and, in case of collectively assessed loans, that the key inputs to the statistical models are regularly updated. We also tested that client repayments are properly allocated to the correct loans balances and that days past due are accurately calculated by the Bank's system. With respect to collaterals we also assessed and tested controls to ensure that they are properly recorded, that the collateral valuation is regularly assessed by qualified valuators and the Bank applies proper haircuts to the market value of collaterals in respect of timing and cost related to the sale of this items.

Key audit matter	How our audit addressed the key audit matter
See Note 9 – "Allowance for losses on loans and advances and impairment of available for sale financial assets", pages 14-16 and Note 55 – Credit Risk, pages 36-42, to the financial statements.	In addition, we tested on a sample basis i) collateral valuations as per operational system versus valuation reports prepared by the Bank's external valuation experts, and ii) individual impairment assessments performed by the Bank. With respect to the collective impairment provision we verified the re-assessment of key parameters made by management, validated underlying data, re-calculated these parameters which and then recomputed the collective provision for the entire portfolio. At the end of the procedures detailed above we have not identified significant differences from the results of the computation performed by the Bank's Management.

Reporting on other information including the Administrators' Report

The Administrators are responsible for the preparation and fair presentation of other information. The other information comprises the Administrators' Report, but does not include the financial statements and our auditor's report thereon. We obtained these other information prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Administrators' Report.

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

With respect to the Administrators' Report, we read it and we report whether this was prepared in all material respects, in accordance with NBR Order 27/2010 articles 11 - 14.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Administrators' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Administrators' Report has been prepared in accordance with NBR Order 27/2010 articles 11 - 14.

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by EU and the NBR Order 27/2010, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Bank in the General Shareholder meeting on 12 July 2016 to audit the financial statements of ProCredit Bank SA for the financial year ended 31 December 2017. The total period of uninterrupted engagement is of one year covering financial year ended at 31 December 2017.

Refer to the original signed Romanian version

Florin Deaconescu
Statutory auditor registered with
the Chamber of Financial Auditors of Romania under no 1524/13 noiembrie 2003

On behalf of

PricewaterhouseCoopers Audit SRL
Barbu Vacarescu Street, no. 301-311, București
Audit firm registered with
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

Bucharest, 27 April 2018

ProCredit Bank

Part of the ProCredit Group

Financial Statements
31 December 2017

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

- Free translation* -

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

ProCredit Bank

Statement of Profit or Loss

in LEI	Note	1.1-31.12. 2017	1.1-31.12. 2016
Interest and similar income		66,418,599	92,893,701
Interest and similar expenses		-11,441,943	-19,772,026
Net interest income	(20, 26)	**54,976,656**	**73,121,675**
Allowance for impairment losses on loans and advances	(27)	5,834,989	-639,073
Net interest income after allowances	(9, 27)	**60,811,645**	**72,482,602**
Fee and commission income		12,249,958	15,832,220
Fee and commission expenses		-4,027,773	-5,851,058
Net fee and commission income	(21, 28)	**8,222,185**	**9,981,162**
Net result from foreign exchange transactions	(29)	4,267,702	4,799,109
Net result from available-for-sale financial assets	(30)	29,096	24,403
Operating income		**73,330,628**	**87,287,276**
Personnel expenses	(32)	-26,381,662	-31,671,233
Administrative expenses	(32)	-32,196,095	-26,504,198
Operating lease expenses		-6,381,843	-8,759,090
Depreciation and amortisation	(39, 40)	-5,852,175	-8,572,904
Other operating income	(31)	7,607,916	1,580,763
Other operating expense	(31)	-9,132,822	-7,695,017
Operating expenses		**-72,336,681**	**-81,621,679**
Operating result		**993,947**	**5,665,597**
Income tax (expenses)/ income	(14, 33)	-529,547	-938,950
Profit/Loss for the year		**464,400**	**4,726,647**

Statement of Profit or Loss and Other Comprehensive Income

in LEI	Note	1.1-31.12. 2017	1.1-31.12. 2016
Profit for the year		**464,400**	**4,726,647**
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from available-for-sale financial assets		15,653	13,526
Change in deferred tax on revaluation reserve from available for sale assets		-2,505	-2,164
Other comprehensive income for the year, net of tax		**13,149**	**11,362**
Total comprehensive income for the year		**477,549**	**4,738,009**

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 58.

The financial statements were reviewed and authorized for issue by the Board of Administration on 23 April 2018 and were signed on its behalf by:

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

PROCREDIT BANK S.A. BUCHAREST

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ProCredit Bank

Statement of Financial Position

in LEI		As at 31 December	
Assets	**Note**	**2017**	**2016**
Cash and cash equivalents	(7, 34)	193,314,659	161,982,624
Loans and advances to banks	(8, 35)	33,698,553	82,723,222
Available-for-sale financial assets	(9, 36)	51,914,070	85,892,086
Loans and advances to customers	(8, 37)	1,032,119,687	1,058,522,504
Allowance for losses on loans and advances to customers	(9, 38)	-36,119,617	-50,599,964
Property, plant and equipment	(11, 40)	16,367,668	18,786,004
Intangible assets	(10, 39)	4,153,356	6,014,652
Deferred tax assets	(14, 42)	3,191,553	3,723,605
Other financial assets	(43)	2,924,731	3,654,350
Other non-financial assets	(43)	6,802,240	9,847,774
Current tax assets	(43)	3,197,006	3,162,175
Total assets		**1,311,563,906**	**1,383,709,032**
Liabilities			
Liabilities to banks	(15, 44)	239,847,857	128,121,992
Liabilities to customers	(15, 45)	705,010,210	839,706,432
Liabilities to international financial institutions	(46)	167,273,687	211,951,422
Other liabilities	(48)	3,488,526	5,437,405
Provisions	(16, 47)	405,625	3,063,687
Subordinated debt	(18, 49)	-	39,747,892
Total liabilities		**1,116,025,905**	**1,228,028,830**
Equity			
Share capital	(19, 50)	199,061,971	159,681,721
Share premium	(19, 50)	1,273,775	1,273,775
Legal reserve	(19, 50)	3,372,009	3,322,312
Accumulated loss		-8,161,474	-8,576,178
Revaluation reserve from available-for-sale financial instruments		-8,280	-21,428
Total equity		**195,538,001**	**155,680,202**
Total equity and liabilities		**1,311,563,906**	**1,383,709,032**

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 58.

The financial statements were reviewed and authorized for issue by the Board of Administration on 23 April 2018 and were signed on its behalf by:

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

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ProCredit Bank

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, 2017	**159,681,721**	**1,273,775**	**3,322,312**	**-8,576,178**	**-21,428**	**155,680,202**
Profit of the year 2017	-	-	-	464,400	-	464,400
Revaluation of afs securities	-	-	-	-	13,149	13,149
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income of the year 2017	-	-	-	**464,400**	**13,149**	**477,549**
Distributed dividends from profit 2016	-	-	-	-	-	-
Transfer to legal reserve	-	-	49,697	-49,697	-	-
Share Capital increase	39,380,250	-	-	-	-	39,380,250
Transactions with shareholders recorded directly in equity	39,380,250	-	-	-	-	39,380,250
Balance at December 31, 2017	**199,061,971**	**1,273,775**	**3,372,009**	**-8,161,474**	**-8,279**	**195,538,001**
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 2016	-	-	-	**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**

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 58.

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

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Cash Flow Statement

in LEI	Nota	1.1.-31.12.2017	1.1.-31.12.2016
Net profit after tax		**464,400**	**4,726,647**
Cash flows from operating activities			
Adjustments for:			
Allowance for impairment losses on loans and advances		-3,704,867	3,321,833
Depreciation and amortisation		5,852,174	8,572,905
Other provisions		-2,658,062	2,640,508
Net result from fixed assets		7,369,260	6,636,503
Dividends Income		-29,096	-24,403
Net income from recoveries from write-off loans		-2,128,488	-2,685,351
Other (including FX)		2,101,067	-2,984,033
Income tax expense/revenue		529,547	938,950
Operating profit before changes in operating assets and liabilities		**7,795,936**	**21,143,560**
Change in minimum compulsory reserve		16,771,150	22,643,399
Change in loans and advances to customers		17,755,826	74,472,210
Change in other assets		729,619	2,351,769
Change in T-bills		15,653	13,526
Change in deposit from banks		65,993,942	-11,316,873
Change in deposits from customers		-133,353,137	-61,277,005
Change in other liabilities		6,415,251	-859,722
Net cash used in operating activities		**-17,875,760**	**47,170,864**
Cash flows from investing activities			
Dividends received		29,096	24,403
Purchase of property, plant and equipment / intagible assets		-9,047,003	-15,171,043
Proceeds from sale of property, plant and equipment		105,200	303,405
Purchase of AFS		-83,656,061	-85,865,084
Proceeds from sale of AFS		117,633,663	0
Net cash used in investing activities		**25,064,895**	**-100,708,318**
Proceeds from borrowings		91,432,985	35,501,692
Repayment of borrowing		-99,543,605	-39,445,604
Interest paid		-12,794,180	-22,756,059
Cash flow from financing activities		**-8,110,620**	**-3,943,912**
Net increase in cash and cash equivalents			
Cash and cash equivalents at 31 December previous year		142,631,117	188,855,581
Net increase/(decrease) in cash and cash equivalents		-921,484	-46,224,464
Cash and cash equivalents at 31 December	(34)	**141,709,633**	**142,631,117**
Cash flows from operating activities include:			
Interest received		61,214,817	104,075,203
		61,214,817	**104,075,203**

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

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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 adopted by the European Union (EU).

These financial statements of the Bank for the fiscal year 2017 were approved by General Shareholders Assembly on 27 April 2018, reviewed and authorized for issue by the Board of Administration on 23 April 2018 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 were 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 are in conformity with IFRS and 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 2017 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 (55).

(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; key assumptions for 2018 include a net increase in total loan portofolio with 18%, while on liabilities side, the customer funds are planned to increase with 22%.The fiscal loss of the Bank is estimated to be covered with the profit from the tax planning period of the bank(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.

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All amounts are presented in LEI, unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± 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 and 60.

3) Accounting developments

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, 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.

IFRS 9 is effective starting 2018 January 1, bringing major changes focusing on three areas:
- Classification and measurement of financial assets;
- Impairment;
- Hedge accounting.

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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.

Starting 1st of January 2018, the Bank will implement IFRS 9, the new accounting standard for financial instruments. We expect that IFRS 9 implementation will generate an increase of loan loss allowances of approximate 4.2 mio LEI, as a result of introduction of the new credit portfolio depreciation model based on expected losses. ProCredit Bank does not intend to restate comparative financial statements of the year 2017 following the entry into force of the new accounting standard IFRS 9 "Financial Instruments".

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 performed an assessment of these amendments and the consideres the they will have a low impact on the individual financial statements as most contracts with customers are subject to other standards.

IFRS 15 had no significant impact in both financial statements of 2016 and 2017.

(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) *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.

(d) *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.

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B. Summary of Significant Accounting Policies

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

4) Measurement basis

These financial statements were prepared under the amortised cost model, unless IFRS require recognition at fair value. Financial instruments measured at fair value for accounting purposes on an on-going basis include all 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 (55) 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 disbursed 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.

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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.

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 (68) 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.

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, 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- the main assessment tool is debtor's financial performance category. The debtor's financial performance means "the reflection of the economic potential and financial soundness of an entity, obtained based on the analysis of a set of quantitative and qualitative factors", according to the N.B.R. Regulation no.16/12.12.2012, with its subsequent amendments and additions. The debtor's financial performance is assigned to one of the categories A to E (A – the best category and E – the worst category). A credit exposure related to a debtor whose financial performance category belongs to the category "D" or "E" is considered to display signs of impairment. The debtor's financial performance category is determined according to the Bank's procedures on loan and placement classification and the determination and use of specific prudential provisions. Another instrument which is monitored in order to identify debtor's significant financial difficulties is the client risk classification category determined for all small and medium credit exposures according to the Bank's Procedure for credit risk classification for Small and Medium credit exposures. The credit risk classification is an instrument sustaining the assessment of the creditworthiness for granting new credit exposures and ongoing credit risk assessment process associated to outstanding credit exposures. The model contains a set of qualitative and quantitative factors based on the information obtained / determined during the client's financial analysis or monitoring process. The debtors are assigned to one of the categories 1 to 8 (1 – the best category and 8 – the worst category). In this sense, all credit exposures classified in client risk category 8 is considered a sign of impairment;
- 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.

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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 repossessed 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. As of 31.12.2017, all the ISIN's had 0 cupon. Impairments on these investments are recognised when objective evidence exists that the issuer 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).

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.

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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	minimum between 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.

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 leasor.

The Bank applies IFRIC 4, which requires it to determine if an arrangement contains a lease.

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 liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in accordance with IFRS, as 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.

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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 2017 was 16% (31 December 2016: 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 open to a general tax inspection for a period of seven 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 (63)).

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 "Levies", 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 profit or loss 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.-31.12.2017**	**1.1.-31.12.2016**
Interest income from		
Cash and cash equivalents and loans and advances to banks	283,174	184,488
Interest income from available-for-sale assets	314,904	367,284
Interest income from loans and advances to customers	65,820,521	92,341,929
Total interest income	**66,418,599**	**92,893,701**

Interest and similar expenses	**1.1.-31.12.2017**	**1.1.-31.12.2016**
Interest expenses on		
Liabilities to banks	5,361,138	8,011,269
Liabilities to customers	3,959,957	7,661,481
Liabilities to international financial institutions	1,923,619	1,697,847
Subordinated debt	197,229	2,401,429
Total interest expenses	**11,441,943**	**19,772,026**

Net interest income	**54,976,656**	**73,121,675**

27) Allowance for impairment losses on loans and advances

At 31.12.2017, based on management assessment, 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:

At December 31, 2017

	Business	Agriculture	Housing	Consumer	Other	Total
Increase of impairment charge	8,680,898	2,306,543	1,788	677	14	10,989,919
Increase of impairment charge off balance sheet ite	20,512	-	-	-	-	20,512
Release of impairment charge	(8,464,619)	(5,467,034)	(84,266)	(12,284)	(249)	(14,028,453)
Release of impairment charge off balance sheet ite	(22,146)	-	-	-	-	(22,146)
Net recoveries of sold and written-off loans	(1,376,985)	(751,503)	-	-	-	(2,128,488)
Unwinding effect	(412,297)	(254,036)	-	-	-	(666,333)
Total	**(1,574,637)**	**(4,166,031)**	**(82,478)**	**(11,608)**	**(235)**	**(5,834,989)**

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At December 31, 2016

	Business	Agriculture	Housing	Consumer	Other	Total
Increase of impairment charge	12,155,259	6,497,517	37,365	1,984	1	18,692,126
Increase of impairment charge off balance sheet ite	49,731	-	-	-	-	49,731
Release of impairment charge	(10,408,361)	(4,443,444)	(23,856)	(30,847)	(409)	(14,906,916)
Release of impairment charge off balance sheet ite	(47,141)	-	-	-	-	(47,141)
Net recoveries of sold and written-off loans	(1,919,506)	(337,455)	-	-	-	(2,256,960)
Unwinding effect	(624,963)	(266,804)	-	-	-	(891,767)
Total	**(794,980)**	**1,449,815**	**13,510**	**(28,862)**	**(409)**	**639,074**

The Bank has sold non-performing credit exposures in amount of LEI 11.3 million with a sale price of LEI 3,007,140.

28) Net fee and commission income

in LEI

Fee and commission income	**1.1.-31.12.2017**	**1.1.-31.12.2016**
Payment transfers and transactions	3,184,666	6,696,697
Account maintenance fee	5,038,215	4,090,704
Letters of credit and guarantees	154,089	163,229
Debit/ credit cards	3,058,615	3,553,950
Other fee and commission income	814,373	1,327,640
Total fee and commission income	**12,249,958**	**15,832,220**

Fee and commission expenses	**1.1.-31.12.2017**	**1.1.-31.12.2016**
Payment transfers and transactions	868,795	1,162,989
Account maintenance fee	259,652	178,154
Letters of credit and guarantees	16,540	16,561
Debit/ credit cards	947,003	1,546,103
Other fee and commission expenses	1,935,783	2,947,251
Total fee and commission expenses	**4,027,773**	**5,851,058**
Net fee and commission income	**8,222,185**	**9,981,162**

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.-31.12.2017**	**1.1.-31.12.2016**
Currency transactions	4,581,210	4,969,906
Revaluation general	-313,508	-170,797
Total	**4,267,702**	**4,799,109**

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.-31.12.2017	1.1.-31.12.2016
Net result from disposal of available-for-sale financial assets	29,096	24,403
Total	**29,096**	**24,403**

31) Net other operating expense

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Income from disposal of property, plant and equipm.	3,184,555	303,405
Income from reversals of other prov not related to lending	2,655,179	-
Others	1,768,182	1,277,358
Total other operating income	**7,607,916**	**1,580,763**
Expenses for disposal of property, plant and equipm.	7,294,840	4,141,022
Expenses for other provisioan not related to lending	-	793,327
Others	50,202	698,032
Surcharges / tickets	1,164,905	8,822
Expenses for deposit insurance fund	237,712	1,968,624
Expenses for impairment of repros. property	385,163	85,190
Total other operating expenses	**9,132,822**	**7,695,017**
Total	**-1,524,906**	**-6,114,254**

This item includes expense from the disposal of tangible assets (RON 7.3 mio), income from sale of plant and equipments (RON 3 mio) considering the locations closed during the year and the sale of the IT equipments in the process of outsourcing the networking infrastructure.

32) Personnel and administrative expenses

Personnel expenses can be broken down as follows:

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Salary expenses	19,826,332	24,329,654
Social security expenses	4,440,983	5,444,349
out of which pension contribution	*3,087,007*	*3,782,142*
Other personnel expenses	489,192	629,539
Training and recruting expenses	1,625,155	1,267,691
Total	**26,381,662**	**31,671,233**

"Administrative expenses" include the following items:

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Communication and IT expenses	12,482,550	8,523,392
Transport	2,918,381	2,573,206
Office supplies	958,906	1,030,921
Security service	317,431	577,068
Marketing, advertising and entertainment	338,381	515,189

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Construction, repairs and maintenance	1,185,906	1,122,187
Other tax expenses	5,331,647	4,911,771
Consultancy, Legal and Audit fees	3,240,517	2,476,850
Insurance	539,173	512,603
Utilities	470,329	714,530
Other administrative expenses	4,412,874	3,546,481
Total	**32,196,095**	**26,504,198**

The total expense booked in relation with the bank's external auditor in 2017, for audit of IFRS Financial Statements of the Bank was 249,692 LEI (2016: 346,014 LEI).

33) Income tax expenses/income

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

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Current tax expense	-	-
Deferred tax expense	-529,547	-938,950
Total	**-529,547**	**-938,950**

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 2017	2016
Cash in hand	35,792,513	36,435,519
Balances at central banks excluding mandatory reserves	72,218,567	23,472,376
Mandatory reserve deposits	85,303,579	102,074,729
Total cash and cash equivalents	**193,314,659**	**161,982,624**

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

in LEI	As at 31 December 2017	2016
Cash equivalents recognized in the balance sheet statement	193,314,659	161,982,624
Loans and advances to banks with a maturity up to 3 months, which qualify as cash for the cash flow	33,698,554	82,723,222
Minimum reserve with central bank	-85,303,579	-102,074,729
Total cash equivalents for cash flow statement	**141,709,633**	**142,631,117**

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 2017 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 10% for funds raised denominated in foreign currency (31 December 2016: 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).

35) Loans and advances to banks

Loans and advances to banks are as follows:

in LEI	As at 31 December 2017	2016
Loans and advances to banks in OECD countries	-	2,162,918
Loans and advances to banks in non-OECD countries	246,798	36,540,936
Loans and advances to banks in Group Banks	33,451,755	44,019,368
Total	**33,698,553**	**82,723,222**

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. Loans and advances to banks represent nostro accounts to banks which have Fitch ratings from BBB- to BBB.

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 **Available-for-sale financial assets**	As at 31 December 2017	2016
Fixed interest rate securities (Tbills)	51,887,068	85,865,084
Shares in companies located in non-OECD countries	27,002	27,002
Total available-for-sale financial assets	**51,914,070**	**85,892,086**

Available for sale financial assets represent Tbills with Fitch rating BBB-.

37) Loans and advances to customers

Loans and advances to customers are as follows:

in LEI **As at December 31, 2017**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**	**Number of outstanding loans**	**Share of total number**
Business loans	769,447,261	-27,529,922	741,917,339	74.6%	4,007	63.6%
Agricultural loans	260,911,556	-8,502,986	252,408,570	25.3%	2,260	35.9%
Housing improvement loans	1,154,421	-48,023	1,106,398	0.1%	18	0.3%
Consumer loans *	602,457	-38,628	563,829	0.1%	10	0.2%
Other loans	3,992	-58	3,934	0.0%	5	0.1%
Total	**1,032,119,687**	**-36,119,617**	**996,000,070**	**100.0%**	**6,300**	**100.0%**

* consumer loans also include overdrafts to private individuals

in LEI As at December 31, 2016	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	757,966,630	-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

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 (55)). 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 2017	2016
Allowance for impairment on loans and advances to customers		
Specific impairment	19,388,937	29,375,965
Allowance for individually insignificant impaired loans	9,945,134	12,375,479
Allowance for collectively assessed loans	6,785,546	8,848,520
Total	**36,119,617**	**50,599,964**

The following table shows the movement of allowances for impairment losses for loans and advances to customers during 2017:

in LEI As at January 1	2017	2016
Allowance for impairment on loans and advances to customers	50,599,964	63,559,880
Additions	15,464,711	39,323,127
Amount used for write offs/portfolio sale	-11,742,389	-17,231,278
Releases	-18,503,245	-35,109,527
Exchange rate adjustments	300,576	57,762
As at December 31	**36,119,617**	**50,599,964**

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39) Intangible assets

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

in LEI	As at 31 December 2017	2016
Net book value at January 1	6,014,652	6,018,620
Total acquisition costs at January 1	30,384,992	26,927,563
Additions	-43,423	-3,625,641
Disposals	8,186,985	168,212
Total acquisition costs at December 31	**22,241,430**	**30,384,992**
Accumulated depreciationJanuary 1	24,370,340	20,909,143
Depreciation	1,904,719	3,614,135
Accumulated depreciation for disposal	-8,186,985	-152,938
Accumulated amortization at December 31	**18,088,074**	**24,370,340**
Net book value at December 31	**4,153,356**	**6,014,652**

During the years 2017 and 2016, there was no internally developed software.

40) Property, plant and equipment

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

in LEI As at December 31, 2017	Land and buildings	Leasehold improvements	Furnitures and fixtures	IT and other equipment	Total
Net book value at January 1, 2017	-	6,400,192	2,998,697	9,387,115	18,786,004
Total acquisition costs at January 1, 2017	-	13,847,150	4,494,657	27,476,889	45,818,696
Additions	-	4,141,175	874,733	3,987,672	9,003,580
Disposals	-	-6,749,077	-2,198,367	-13,915,615	-22,863,059
Total acquisition costs at December 31, 2017	-	**11,239,248**	**3,171,023**	**17,548,946**	**31,959,217**
Accumulated depreciation January 1, 2017	-	7,446,959	1,495,960	18,089,774	27,032,693
Amortization	-	1,687,681	535,261	1,724,513	3,947,454
Accumulated depreciation for disposal	-	-3,665,264	-1,655,701	-10,067,634	-15,388,599
Accumulated depreciation at December 31, 2017	-	**5,469,376**	**375,520**	**9,746,653**	**15,591,548**
Net book value at December 31, 2017	-	**5,769,872**	**3,321,383**	**7,276,413**	**16,367,668**

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	19,124,007
Total acquisition costs at January 1, 2016	3,165,867	14,344,959	4,195,406	27,305,448	49,011,680
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**	**45,818,697**
Accumulated depreciationJanuary 1, 2016	815,221	9,558,583	1,955,993	17,557,874	29,887,671
Amortization	66,035	1,515,944	455,411	2,921,382	4,958,772
Accumulated depreciation for disposal	-881,256	-3,627,568	-915,444	-2,389,482	-7,813,750
Accumulated depreciation at December 31, 2016	-	**7,446,959**	**1,495,960**	**18,089,774**	**27,032,693**
Net book value at December 31, 2016	**0**	**6,400,192**	**2,998,697**	**9,387,115**	**18,786,004**

41) Operating lease commitments

in LEI	As at 31 December 2017	2016
Operating lease commitments		
- no later than one year	4,904,402	6,626,011
- later than one year but no later than five years	10,735,165	19,106,343
- later than five years	-	419,961
Total	**15,639,567**	**26,152,315**

Operating lease commitments result from non-cancellable rental agreements for properties in which the Bank operates; 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 tax rate.
The table below shows the changes in deferred income taxes and the underlying business transactions:

in LEI **Deferred taxes**	As at 31 December 2017	2016
At January 1	3,723,605	4,664,719
Available-for-sale securities:		
- fair value remeasurement	-2,505	-2,164
Charges to income statement	-529,547	-938,950
Total	**3,191,553**	**3,723,605**

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

in LEI Deferred tax charges	1.1.-31.12.2017	1.1.-31.12.2016
Tax loss carried forward	177,915	792,509
Other temporary differences	351,632	146,441
Total	**529,547**	**938,950**

43) Effective tax reconciliation

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Profit/(loss) before tax	993,947	5,665,597
Tax expected (16%)	159,032	906,496
Tax effects of items which are not deductible:		
- non-taxable income	-1,244,527	-236,061
- non-tax deductible expenses	1,409,852	497,645
Tax effect from other temporary differences	205,190	-229,130
Income tax expense for the year according to IFRS	**529,547**	**938,950**

44) Other assets

Other assets are as follows:

in LEI	As at 31 December 2017	 2016
Assets in course of construction	1,256,888	2,454,411
Repossessed properties	434,774	441,770
Other inventory items	384,462	162,272
Assets to be sold	-	2,284,799
Prepaid expenses	4,319,244	4,179,563
Advance payments	406,872	324,959
Total	**6,802,240**	**9,847,774**

Repossessed 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. Repossessed properties are sold at the highest possible price, typically via public auction. Most repossessed property consists of land and buildings. Prepayments represent only assets in course of construction. Prepaid expenses reffer mainly to IT and rents for bank premises.

Other financial assets are as follows:

in LEI	2017	As at 31 December 2016
Guarantees	741,018	1,123,626
Claims from taxes	999,206	1,822,480
Others	1,184,507	708,244
Total	**2,924,731**	**3,654,350**

Current tax assets are as follows:

in LEI	2017	As at 31 December 2016
Current tax asset	3,197,006	3,162,175
Total	**3,197,006**	**3,162,175**

Current tax assets represent corporate income tax payable according to legislation in force.

45) Liabilities to banks

in LEI	2017	Share of total portfolio	2016	Share of total portfolio
Liabilities to banks in OECD countries	173,847,857	72%	128,121,992	100%
Liabilities to banks in non-OECD countries	66,000,000	28%	-	-
Total	**239,847,857**	**100%**	**128,121,992**	**100%**

46) 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 2017	Share of total portfolio	As at 31 December 2016	Share of total portfolio
Current accounts	**328,049,962**	**47%**	**276,573,788**	**33%**
-private individuals	108,376,769	15%	85,972,924	10%
-legal entities	219,673,193	32%	190,600,864	23%
Savings accounts*	**107,708,259**	**15%**	**58,970,026**	**7%**
-private individuals	75,831,874	10%	32,526,518	4%
-legal entities	31,876,385	5%	26,443,508	3%
Term deposit accounts	**261,149,084**	**37%**	**498,390,647**	**59%**
-private individuals	165,549,689	23%	379,388,232	45%
-legal entities	95,599,395	14%	119,002,415	14%
Other liabilities to customers	**8,102,904**	**1%**	**5,771,971**	**1%**
Total	**705,010,210**	**100%**	**839,706,432**	**100%**

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

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47) Liabilities to international financial institutions

Liabilities to international financial institutions are an important source of financing for the Bank. Medium to longterm loans from international financial institutions are reported under this item. Liabilities to International Financial Institutions (IFIs) are interest-bearing borrowings from specified Financial Institutions. They are initially recognized at the fair value of the consideration received and directly attributable transaction costs. After initial recognition liabilities to IFIs are subsequently measured at amortized cost using the effective interest method.

The following table gives a detailed breakdown for this item:

As of December 2017

in LEI	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due after 2021	without maturity	Total
Liabilities IFI with fixed interest rates	46,019,272				29,887,772		75,907,044
Liabilities IFI with variable interest rates	25,022,598	18,305,964	11,649,250	11,649,250	24,754,656	-15,075	91,366,643
Total	**71,041,870**	**18,305,964**	**11,649,250**	**11,649,250**	**54,642,428**	**-15,075**	**167,273,687**

As of December 2016

in LEI	Due in 2017	Due in 2018	Due in 2019	Due in 2020	Due after 2020	without maturity	Total
Liabilities IFI with fixed interest rates							
Liabilities IFI with variable interest rates	24,366,669	24,324,707	24,324,707	24,324,707	114,630,341	-19,707	211,951,422
Total	**24,366,669**	**24,324,707**	**24,324,707**	**24,324,707**	**114,630,341**	**-19,707**	**211,951,422**

48) Provisions

in LEI	As at 31 December 2017	2016
As at January 1, 2017	3,063,687	423,178
Additions	392,443	3,076,841
Used	-2,981,249	-383,215
Released	-68,008	-47,141
Exchange rate adjustments	-1,248	-5,976
As at December 31, 2017	**405,625**	**3,063,687**

in LEI	As at 31 December 2017	2016
Provisions for restructuring	-	1,078,728
Provisions for imminent losses from off-balance sheet items	33,694	36,576
Other provisions	-	1,553,569
Provisions for untaken vacation	371,931	394,814
Total	**405,625**	**3,063,687**

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.

49) Other financial liabilities

in LEI	As at 31 December 2017	2016
Deferred income	20,023	83,616
Accrued payables	804,782	1,380,011
Liabilities for goods and services	1,765,047	2,800,807
Liabilities from social insurance contributions	552,752	732,690
Liabilities to state budget	345,922	440,281
Total	**3,488,526**	**5,437,405**

50) Liabilities from financing activities

In LEI	2017
Net debt at 1 January 2017	-340,125,781
Cash flows	-8,364,129
Payments on borowings	94,097,075
Payments of interest on borowings	5,228,715
Loans from banks drawn	-91,432,985
Other non-cash movements	-498,885
Net debt at 31 December 2017	-341,095,990

51) Subordinated debt

The subordinated debt can be broken down as follows:

in LEI **Received from (principal)**	**Due**	**As at 31 December 2017**	**2016**
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	-	13,623,300
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	-	9,082,200
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	2025	-	17,029,125
Total		**-**	**39,734,625**

Accrued interest on subordinated debt	**2017**	**2016**
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	-	13,267
Total	**-**	**39,747,892**

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.

52) Share capital

As at 31 December 2017 (compared to 2016), the shareholder structure was as follows:

in LEI		2017	
Shareholder	Size of stake in %	Number of shares	Amount
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	99.9995	20,115,069	199,060,971
ZEITINGER INVEST GMBH ("ZI"), Frankfurt am Main, Germany	0.0005	100	1,000
Capital total	**100.0%**		**199,061,971**

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

The par value per share is LEI 10.00

At the end of December 2017, the level of IFRS share capital was LEI 199,061,971, while the registered share capital was in amount of LEI 201.151.690; the difference in value of LEI 2,089,719 represents IFRS adjustment in accordance with IAS 21 –The effects in changes in Foreign Exchange Rates.

Share premium:

	Date	LEI
Premium paid by ProCredit Holding AG & Co. KGaA	April 2008	1,273,775
As at December 31, 2017		**1,273,775**

Reserves:

	As at 31 December	
in LEI	2017	2016
Legal reserve	3,372,009	3,322,312
General banking risks reserve	6,166,252	6,166,252
Total	**9,538,261**	**9,488,564**

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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, which 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

53) 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 does not 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 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 2017	2016
Ordinary share capital	199,061,971	159,681,721
Capital reserve	1,273,775	1,273,775
Legal reserves	3,372,009	3,322,312
Accumulated losses	-8,625,875	-8,576,178
Less other intangibles	-4,153,356	-6,014,652
Less other regulatory adjustment	-742,207	-395,615
Common Equity Tier I	**190,186,317**	**149,291,363**
Tier I capital	**190,186,317**	**149,291,363**
Qualifying Subordinated liabilities	0	39,734,625
Other regulatory adjustment	0	-288,322
Tier II capital	**0**	**39,446,303**
Regulatory adjustment	-	-
Total regulatory capital	**190,186,317**	**188,737,666**

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 2017 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 2017 the solvency ratio expressed as a ratio of regulatory capital over risk weighted assets was 20.57% well in excess of minimum regulatory limit.

Between 1st of January 2017 and 31st of December 2017, the Bank complied with the NBR imposed capital requirements.

54) Management of individual risks

In 2017, neither the management practices nor the reporting process of individual risks have been materially modified, although several methodologies have been updated in 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.

55) 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 indebting 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. 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, 2017

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	12,555,305	2,127,058	1,126,448	213,441	1,009,627	16,981,413	34,013,292
Agricultural	2,490,467	247,614	86,185	227,779	290,545	2,211,219	5,553,809

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Collectively assessed loans

Business	721,913,209	6,486,174	880,798	612,884	1,330,381	4,210,523	735,433,969
Agricultural	246,282,024	2,822,874	1,038,770	587,121	1,546,464	3,080,494	255,357,747
Housing	976,966	89,173	77,561	-	10,720	-	1,154,420
Consumer	600,437	-	-	2,020	-	-	602,457
Other	3,993	-	-	-	-	-	3,993
Total	**984,822,402**	**11,772,893**	**3,209,762**	**1,643,245**	**4,187,736**	**26,483,649**	**1,032,119,687**

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	28,650,815	47,360,780
Agricultural	3,609,627	0	754,396	0	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	711,202,064
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	0	92,735	15,957	102,064	0	1,118,279
Consumer	845,794	5,401	5,806	769	0	0	857,770
Other	20,201	0	0	0	0	0	20,201
Total	**985,828,542**	**16,126,112**	**7,390,265**	**4,359,123**	**7,739,806**	**37,078,856**	**1,058,522,504**

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.

Furthermore, analysis by credit quality of outstanding loans is constantly performed.

At December 31, 2017

in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
Neither past due nor impaired						
no arrears	246,011,848	720,152,918	600,437	976,966	3,993	967,746,162
Past due but not impaired						
1 - 30 days	2,741,415	5,737,676	-	89,172	-	8,568,263
Loans individually determined to be impaired						
no arrears	2,813,926	15,224,129	-	-	-	18,038,055
1 - 30 days	578,454	1,967,023	-	-	-	2,545,477
31 - 90 days	1,969,144	2,857,902	2,019	77,562	-	4,906,627
91 - 180 days	1,505,057	3,410,396	-	10,720	-	4,926,173
181 - 360 days	710,204	4,759,973				5,470,177
> 360 days	4,581,508	15,337,244				19,918,752

At December 31, 2016

in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
Neither past due nor impaired						
no arrears	273,852,830	690,240,350	831,528	874,915	20,201	965,819,824
Past due but not impaired						
1 - 30 days	5,884,322	7,958,744	5,401	-	-	13,848,467
Loans individually determined to be impaired						
no arrrears	4,234,751	17,212,417	14,265	32,608		21,494,041
1 - 30 days	100,328	1,151,338				1,251,666
31 - 90 days	5,636,995	6,080,390	6,575	108,692		11,832,652
91 - 180 days	3,828,669	3,475,419		102,064		7,406,152
181 - 360 days	2,518,678	2,891,704				5,410,382
> 360 days	2,483,052	28,976,267				31,459,319

Part of the non-performing loan portfolio was sold during the year 2017, with the gross amount of LEI 11,3 million (31 December 2016: LEI 20,079,522). The sell agreements have taken place in May 2017, realizing a proceed of LEI 848,849.

in LEI As at December 31, 2017	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Sold loans	Write-offs	Write-offs as % of loan portfolio
Total	**1,032,119,687**	**36,119,617**	**35,524,393**	**3.44%**	**11,300,000**	**442,389**	**0.04%**

in LEI As at December 31, 2016	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Sold loans	Write-offs	Write-offs as % of loan portfolio
Total	**1,058,522,504**	**50,599,964**	**56,567,850**	**5.34%**	**20,079,522**	**162,351**	**0.02%**

Restructuring of a credit exposure is generally driven 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 2017, 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 44,534,072 representing 4% of total outstanding portfolio (31 December 2016: LEI 64,488,515).

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 and independent 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 as the lower of loan exposure and collateral value, can be classified into the following categories:

In LEI	As at 31 December 2017	2016
Mortgage	594,928,397	602,157,936
Cash collateral	15,590,305	7,787,889
Financial Guarantees	110,566,280	98,656,771
Other	123,341,546	125,184,152
Total	**844,426,528**	**833,786,748**

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	2017 Loan exposure*	2017 Collateral Value	2016 Loan exposure*	2016 Collateral Value
Business	769,447,261	601,554,180	757,986,630	574,366,301
Agricultural	260,911,556	241,211,657	298,539,625	257,610,124
Housing	1,154,421	1,104,436	1,118,279	984,282
Consumer	602,457	556,256	857,769	806,193
Other	3,993	-	20,201	19,848
Total	**1,032,119,687**	**844,426,528**	**1,058,522,504**	**833,786,748**

*loan principal-unamortized disbursement fee

As of 31 December 2017, the Bank's portfolio consisted of 71.85% over-collateralized loans (72.07% at 31 December 2016). The table below sets out the effect of collateral.

As at December 31, 2017 *In LEI*	Over-collateralised assets: Carrying value of the assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Carrying value of the assets	Under-collateralised assets: Fair value of collateral
Agricultural	237,647,730	536,052,635	23,263,826	16,219,246
Business	502,232,702	1,263,144,972	267,214,558	131,109,233
Consumer	594,767	1,841,855	7,690	645
Housing	1,152,430	4,068,021	1,991	1,962
Other	-	-	3,993	2,986
Total	**741,627,629**	**1,805,107,483**	**290,492,058**	**147,334,072**

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As at December 31, 2016 *In LEI*	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Agricultural	244,019,214	570,214,318	54,520,411	27,227,906
Business	516,865,937	1,196,818,577	241,120,693	99,136,527
Consumer	856,408	4,067,968	1,361	-
Housing	1,114,732	4,518,203	3,547	-
Other	20,140	336,196	61	-
Total	**762,876,431**	**1,775,955,262**	**295,646,073**	**126,364,432**

(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. Nevertheless, 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 148 credit exposures of more than EUR 250,000.

in LEI

As at December 31, 2017	Business	Agricultural	Housing	Consumer	Other	Total
0-50.000 EUR	95,987,468	50,269,656	726,911	26,051	3,993	147,014,078
50.000-250.000 EUR	352,511,774	92,222,194	427,510	576,405	-	445,737,883
Over 250.000 EUR	320,948,020	118,419,706	-	-	-	439,367,726
Total	**769,447,261**	**260,911,556**	**1,154,421**	**602,456**	**3,993**	**1,032,119,687**

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	147,796	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**

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 4 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:

Specific impairment

in LEI As at December 2017	Gross outstanding amount	Allowance	Net outstanding amount
Business	33,499,318	16,686,695	16,812,623
Agricultural	6,067,783	2,702,242	3,365,541
Total	**39,567,101**	**19,388,937**	**20,178,164**

in LEI As at December 2016	Gross outstanding amount	Allowance	Net outstanding amount
Business	47,360,781	25,814,789	21,545,992
Agricultural	8,081,260	3,561,176	4,520,084
Total	**55,442,041**	**29,375,965**	**26,066,076**

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)).

Lump - sum & portfolio based impairment

in LEI As at December 2017	Gross outstanding amount	Allowance	Net outstanding amount
Business	735,433,969	10,329,253	725,104,716
Agricultural	255,357,747	6,314,718	249,043,029
Housing improvement	1,154,421	48,023	1,106,398
Consumer	606,449	38,686	567,763
Other	0	0	0
Total	**992,552,586**	**16,730,680**	**975,821,906**

in LEI As at December 2016	Gross outstanding amount	Allowance	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**	**981,856,463**

56) 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 2017.

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

in LEI	2017	in %	2016	in %
Cash and cash equivalents				
Central banks	*157,522,146*	*64.8*	*125,547,106*	*42.7*
Mandatory reserve	*85,303,579*	*35.1*	*102,074,729*	*34.7*
Other balances with Central Bank	*72,218,567*	*29.7*	*23,472,377*	*8.0*
Loans and advances to banks				
Banking groups	33,697,125	*13.9*	*82,721,364*	*28.1*
ProCredit Group	33,451,755	*13.8*	*80,348,168*	*27.3*
OECD banks	*0*	-	*2,162,918*	*0.7*
Governments	*245,370*	*0.1*	*210,278*	*0.1*
Available-for-sale financial assets				
Governments	*51,746,671*	*21.3*	85,669,172	*29.1*
Total	**242,965,942**	**100.0**	**293,937,642**	**100.0**

Excludes accrued interest

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 zone 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 2017. 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-apart from RON- USD and EUR.

in LEI As at December 31, 2017	Total	RON	EUR	USD	Other currencies
Assets					
Cash and cash equivalents	193,314,658	157,424,126	34,335,208	1,555,324	-
Loans and advances to banks	33,698,553	246,655	21,927,049	11,268,268	256,581
Avaliable-for-sale financial assets	51,887,068	51,887,068	-	-	-
Loans and advances to customers	996,000,069	765,939,954	230,060,115	0	-
Other financiar assets	2,924,731	2,924,731	0	0	0
Total assets	**1,277,825,079**	**978,422,534**	**286,322,372**	**12,823,592**	**256,581**
Liabilities					
Liabilities to banks	239,847,857	239,847,010	847	-	-
Liabilities to customers	705,010,210	494,552,023	195,772,398	14,405,903	279,886
Liabilities to international financial institutions	167,273,687	71,448,325	95,825,362	-	-
Provisions	405,625	394,610	11,015	0	-
Other financial liabilities	3,488,527	3,071,529	390,769	26,229	- 0.00
Subordinated debt	0	-	0	-	-
Total liabilities	**1,116,025,906**	**809,313,497**	**292,000,391**	**14,432,132**	**279,886**
Net position	**161,799,173**	**169,109,037**	**-5,678,019**	**-1,608,540**	**-23,305**
Open SPOT position (asset/liabilities) third parties	**2,272**	**-5,670,228**	**4,193,730**	**1,478,770**	-
Credit commitments	**180,316,545**	**172,056,290**	**8,131,188**	**129,067**	-

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
Avaliable-for-sale financial assets	85,865,084	85,865,084	0	-	-
Loans and advances to customers	1,007,922,539	746,379,764	261,365,914	176,861	-
Other financiar assets	3,654,350	3,654,350	0	0	0
Total assets	**1,342,147,819**	**950,820,244**	**386,943,886**	**3,398,558**	**985,131**

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	211,951,423	91,665,184	120,286,239	-	-
Provisions	3,063,686	3,047,402	15,850	434.12	-
Other financcial 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	**114,118,989**	**117,683,552**	**-2,830,711**	**-898,091**	**164,239**
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**	-

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period:

	At 31 December 2017	**At 31 December 2016**
In LEI	**Impact on profit or loss**	**Impact on profit or loss**
EUR strengthening by 20% (2016: strengthening by 30%)	30,661	(5,831)
EUR weakening by 20% (2016: weakening by 30%)	20,441	(3,140)
USD strengthening by 20% (2016: strengthening by 30%)	(126)	4,396
USD weakening by 20% (2016: weakening by 30%)	(84)	2,367
GBP strengthening by 20% (2016: strengthening by 30%)	(925)	(8,697)
GBP weakening by 20% (2016: weakening by 30%)	(616)	(4,683)
Other strengthening by 20% (2016: strengthening by 30%)	-	13,206
Other weakening by 20% (2016: weakening by 30%)	-	7,111
Total	**49,351**	**4,729**

(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 2017 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 that 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, 2017	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	85,303,579	-	-	-	-	-	108,011,080	193,314,659
Loans and advances to banks	31,924,960	-					1,773,593	33,698,553
Available-for-sale financial assets	20,108,258	-	29,788,331	1,990,479			27,002	51,914,070
Loans and advances to customers	82,263,473	255,763,043	463,212,102	93,525,653	82,794,589	33,545	54,527,283	1,032,119,687
Total financial assets	**219,600,270**	**255,763,043**	**493,000,433**	**95,516,132**	**82,794,589**	**33,545**	**164,338,958**	**1,311,046,969**
Liabilities								
Liabilities to banks	103,070,000	30,580,728	104,520,000				1,677,129	239,847,857
Liabilities to customers	143,018,960	30,012,072	77,441,515	109,248,063	7,461,044	-	337,828,555	705,010,209
Liabilities to international financial institutions		46,019,272	91,321,799				29,932,616	167,273,687
Total financial liabilities	**246,088,960**	**106,612,072**	**273,283,314**	**109,248,063**	**7,461,044**	-	**369,438,300**	**1,112,131,753**
Total interest sensitivity gap	**-26,488,690**	**149,150,971**	**219,717,119**	**-13,731,931**	**75,333,543**	**33,545**	**-205,099,342**	**198,915,216**

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	161,982,624
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**	**371,767,158**	**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**	**385,136,443**	**1,219,527,738**
Total interest sensitivity gap	**271,146,328**	**124,024,143**	**-2,854,483**	**12,895,531**	**12,417,170**	**-39,563,610**	**-208,472,379**	**169,592,696**

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 +/- 117 bps for market rates, as of December 2017).

The following table presents the economic value impact and interest earnings indicator under the standard scenario, as of December 2017 and December 2016.

in '000 LEI

2017

Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	-542 bps/ -117 bps	7,466	1,658
EUR	-200 bps	-2	-1,640
USD	-200 bps	9	1
Total		**7,473**	**19**

in '000 LEI

2016

Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	-542 bps/ -295 bps	4,440	-3,377
EUR	-200 bps	-5,029	-1,804
USD	-200 bps	0	-
Total		**-589**	**-5,181**

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(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 2017.

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 2017 (LCR stood at 146%).

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, 2017	Carrying Amount	Gross amount*	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Cash and cash equivalents	193,314,659	193,318,765	193,318,765	-	-	-	-	-
Loans and advances to banks	33,698,553	33,698,553	33,698,553	-	-	-	-	-
Available-for-sale financial assets	51,914,070	52,027,002	20,000,000	-	30,000,000	2,000,000	-	27,002
Loans and advances to customers	1,032,119,687	1,126,836,356	53,116,220	72,600,823	105,400,476	216,096,914	501,716,248	177,905,674
Other assets	2,924,731	2,924,731	104,450	1,080,058	-	-	1,740,223	-
Financial assets	**1,313,971,700**	**1,408,805,407**	**300,237,988**	**73,680,881**	**135,400,476**	**218,096,914**	**503,456,471**	**177,932,676**
Off Balance sheet commitment (assets)	208,435,620	208,435,620	46,597,000	-	-	-	91,682,000	70,156,620
Total assets	**1,522,407,320**	**1,617,241,027**	**346,834,988**	**73,680,881**	**135,400,476**	**218,096,914**	**595,138,471**	**248,089,296**
Liabilities								
Liabilities to banks	239,847,857	241,014,127	23,838,665	112,438,293	104,737,169	-	-	-
Liabilities to customers	705,010,210	708,063,261	479,315,970	30,760,909	77,938,769	111,764,481	8,283,131	-
Liabilities to international financial institutions	167,273,687	169,479,399	53,643	46,100,949	12,862,137	12,810,046	54,532,927	43,119,698
Other financial liabilities	3,488,526	3,488,526	898,675	2,589,852	-	-	-	-
Financial liabilities	**1,115,620,280**	**1,122,045,313**	**504,106,963**	**191,890,003**	**195,538,075**	**124,574,527**	**62,816,058**	**43,119,698**
Off Balance sheet commitment (irevocable liabilities)	-	-	-	-	-	-	-	-
Total liabilities	**1,115,620,280**	**1,122,045,313**	**504,106,963**	**191,890,003**	**195,538,075**	**124,574,527**	**62,816,058**	**43,119,698**
Open position	**198,351,420**	**286,760,094**	**-203,868,965**	**-118,209,121**	**-60,137,599**	**93,522,387**	**440,640,413**	**134,812,978**
Open position including off Balance sheet com	**406,787,040**	**495,195,714**	**-157,271,965**	**-118,209,121**	**-60,137,599**	**93,522,387**	**532,322,413**	**204,969,598**

*undiscounted cash flow for financial assets and liabilities

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	67,726,143	115,336,235	279,114,304	468,091,209	189,344,173
Other assets	3,654,350	3,654,350	697,973	-	-	-	2,956,377	-
Financial assets	**1,392,774,786**	**1,548,763,842**	**283,839,599**	**177,054,943**	**148,336,235**	**279,114,304**	**471,047,586**	**189,371,176**
Off Balance sheet commitment (assets)	45,411,000	45,411,000	45,411,000	-	-	-	-	-
Total assets	**1,438,185,786**	**1,594,174,842**	**329,250,599**	**177,054,943**	**148,336,235**	**279,114,304**	**471,047,586**	**189,371,175**
Liabilities								
Liabilities to banks	128,121,992	130,224,328	131,206	818,925	106,672,991	22,601,206	-	-
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	215,123,837	-	-	-	25,206,283	60,939,386	128,888,209
Other financial liabilities	5,437,405	5,437,405	1,172,971	4,264,434	-	-	-	-
Subordinated debt	39,747,892	39,747,892	39,747,892	-	-	-	-	-
Financial liabilities	**1,224,965,143**	**1,235,736,606**	**466,283,560**	**171,536,110**	**265,882,529**	**135,731,999**	**67,368,117**	**128,934,293**
Off Balance sheet commitment (irrevocable liabilities	8,397,207	8,397,207	8,397,207	-	-	-	-	-
Total liabilities	**1,233,362,350**	**1,244,133,813**	**474,680,767**	**171,536,110**	**265,882,529**	**135,731,999**	**67,368,117**	**128,934,293**
Open position	**167,809,643**	**313,027,236**	**-182,443,961**	**5,518,833**	**-117,546,294**	**143,382,305**	**403,679,469**	**60,436,882**
Open position including off Balance sheet com	**204,823,436**	**350,041,030**	**-145,430,167**	**5,518,833**	**-117,546,293**	**143,382,305**	**403,679,469**	**60,436,883**

*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 2017 stood at 1.16, 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% as at December 2017, below the warning limit of 15% established through the Liquidity Risk Management Policy and Strategy.

57) 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 2017 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.

58) 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.

59) 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.

60) 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.

61) 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 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

62) Fair value of financial instruments

The following tables give 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.

2017

in LEI

Financial assets	Carrying value	Total fair value
Loans and advances to banks	33,698,553	33,698,553
Shares at cost	27,002	27,002
Loans and advances to customers	1,032,119,687	1,028,433,879
Total	**1,065,845,242**	**1,062,159,434**

Financial Liabilities	Carrying value	Total fair value
Liabilities to banks	239,847,857	240,611,751
Liabilities to customers	705,010,210	704,930,220
Liabilities to international financial institutions	167,273,687	168,004,252
Subordinated debt	0	0
Total	**1,112,131,754**	**1,113,546,223**

2016

in LEI

Financial assets	Carrying value	Total fair value
Loans and advances to banks	82,723,222	82,723,222
Shares at cost	27,002	27,002
Loans and advances to customers	1,058,522,504	1,087,890,271
Total	**1,141,272,728**	**1,170,640,496**

Financial Liabilities	Carrying value	Total fair value
Liabilities to banks	128,121,992	129,093,402
Liabilities to customers	839,706,432	840,156,346
Liabilities to international financial institutions	211,951,422	211,856,261
Subordinated debt	39,747,892	39,747,892
Total	**1,219,527,739**	**1,220,853,901**

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2017

in LEI				of which		
Financial assets	**Category**	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets	AfS	51,887,068	51,887,068	-	51,887,068	
Total		**51,887,068**	**51,887,068**	**-**	**51,887,068**	**-**

2016

in LEI				of which		
Financial assets	**Category**	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets	AfS	85,865,084	85,865,084	-	85,865,084	
Total		**85,865,084**	**85,865,084**	**-**	**85,865,084**	**-**

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.

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.

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. 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.

63) Contingent liabilities and commitments

in LEI	As at 31 December 2017	2016
Sureties and guarantees	6,077,665	4,553,768
Performance bonds	2,732,197	3,698,737
Documentary and commercial letters of credit	129,067	144,703
Commitments to extend credit	171,377,617	126,437,880
Total	**180,316,546**	**134,835,088**

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. No irrevocable commitments to extend credit exist.

64) 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
ZEITINGER INVEST GMBH ("ZI"), Frankfurt am Main, Germany	Shareholder
ProCredit Bank Germany	Bank of the group
ProCredit Bank Bulgaria	Bank of the group
ProCredit Bank Macedonia	Bank of the group
ProCredit Bank Serbia	Bank of the group
ProCredit Academy Macedonien	Group company
Shipeke Kosovo - Quipu Ges.	Group company
ProCredit Academy	Group company
Quipu GmBH	Group company

The ultimate parent company of the bank is ZEITINGER INVEST GMBH. During the year ended 31 December 2017 and the year ended 31 December 2016 the following transactions were carried out with the shareholders and other related parties from the Bank and Group:

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Income	63,452	11,346
Expense	18,989,731	18,619,025
Net income	**-18,926,279**	**-18,607,679**

Shareholder's current balances with the Bank other parties in special relationship (at year end)

in LEI	As at 31 December 2017	2016
Assets		
Loans and advances to banks	33,451,755	80,348,168
Other receivable	130,181	1,587,158
Total Assets	**33,581,936**	**81,935,326**
Liabilities		
Liabilities to banks	173,807,227	128,120,926
Liabilities to customers(including ProCredit Holding)	46,426,996	288,513
Subordinated debt	-	39,747,892
Other payable	383,197	783,710
Total Liabilities	**220,617,420**	**168,941,041**
Off-balance sheet positions		
Credit line	46,597,000	45,411,000
Total Off-balance sheet positions	**46,597,000**	**45,411,000**

Loans and advances to banks represent nostro accounts to ProCredit Germany having interest between 0.85% and 1.35%.

Liabilities to banks represent intercompany loans obtained in local currency bearing interest from 1.97% to 5.74%.

65) Management compensation

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

in LEI	1.1.-31.12.2017	1.1.-31.12.2016
Management board salaries	644,148	794,687
Total	**644,148**	**794,687**

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

66) Number of Employees

	2017 Average	2017 At year end	2016 Average	2016 At year end
General Manager	1	0	1	1
Deputy General Manager	2	2	1	1
Head Office Staff	139	128	157	159
Branches/Agencies Staff	79	69	142	100
Total Staff		**199**		**261**

67) Significant post-balance sheet events

There were no events after the balance sheet date.

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68) Exchange rates

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

Currency code	2017 At balance sheet date	Average for the year	2016 At balance sheet date	Average for the year
EUR	4.6597	4.5679	4.5411	4.4908
USD	3.8915	4.0498	4.3033	4.0592

69) 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 2016: 6) and 2 agencies (31 December 2016: 11) located in Romania.Moreover, the Bank designed, during the year 2017, 11 Self-Service areas(24/7 zones).

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 2016:5 members); lead by a Chairperson. The composition of the Board of Directors was as follows:

Position	31 December 2017	31 December 2016
Chairperson	Rainer Peter Ottenstein	Rainer Peter Ottenstein
Member	Gian Marco Felice	Gian Marco Felice
Member	Andrei Georgescu	Antje Marielle Gerhold
Member	Antje Marielle Gerhold	Helen Alexander
Member	Ilir Aliu	Ilir Aliu

Mariana Dimitrova Petkova
Deputy General Manager

Andreea Ichim
Head of Finance Department

ProCredit Bank

Part of the ProCredit Group

Administrator's Report for the year 2017

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, the only bank in Romania with 100% German shareholders is a specialized bank for small and medium-sized enterprises, while at the same a full-fledged bank addressing both business and private clients by providing a wide range of modern banking services. 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 business clients, while the former very small-sized clients segment continues to be exited. The strategic objective of being the bank for SMEs is complemented by a reshaped and forward-looking strategy regarding private individuals.

The Bank operates through the Head Office located in Bucharest and through its network consisting of 6 branches and 2 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 2017 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:

a. 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;
b. 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;
c. Better credit risk assessment of the client, as illustrated by the significantly lower default rates of the bank compared to the market;
d. Modern, convenient and focused outlet network with 24/7 service

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 2017, compared to 2016, the main indicators were:

Indicators	31.12.2016 ('000 LEI)	31.12.2017 ('000 LEI)	% change
Total loan portfolio	1,058,523	1,032,120	-2.49%
Total assets	1,383,709	1,311,563	-5.21%
Total customers deposits	839,706	705,010	-16.04%
Borrowed funds	211,951	167,274	-21.08%
Share capital	159,682	199,062	24.66%
Equity	155,680	195,538	25.60%

ProCredit Bank

Financials results

The total assets decreased by 5.21%, as compared to 2016, mostly due to the decrease of the loan portfolio by 2.49% and also through the decrease of the loans and advances to banks, its value reaching Lei 33.7 million at the end of 2016 (31 December 2016: Lei 82.7 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 2017, an adequate level of capital adequacy.

In 2017, the Bank recorded a net profit of Lei 0.5 million, decreasing as compared to the previous year (31 December 2016: Lei 4.7 million). The largest part of the Bank's incomes came from the lending operations, which accounted for more than 70% 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 8.2 million. The cost income ratio at the end of 2017 was 104% (31 December 2015: 84.3%).

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's positioning stems in a focused and specialized business model – being a high quality SME bank - and in its 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 109 million, but in the same time, the level of the exit loan portfolio decreased with Lei 154 million. Moreover, the Bank sold in 2017 a part of its nonperforming loan portfolio to specialized recovery companies, in amount of Lei 11.3 million in order to maximize the recoveries and to optimize the recovery process. As result, the gross loan portfolio decreased with 2.49% compared to previous year, reaching a total volume of Lei 1,032 million.

As in previous years, in 2017 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 have continuously invested in electronic channels. 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 further developing of this modern concept of doing business, which shifts basic transactions from the front office to the terminals, the Bank will continue to move towards having business units with a more advisory-oriented role, rather than an operational one. Our client advisers are thus able to dedicate more quality time to acquiring new clients of the desired profile and to advise clients on the services that best suit their needs.

Throughout 2017 due to the joint institutional efforts put into automating clients' transactions, the Bank managed to significantly reduce the operational workload of client advisers and thus focus strongly on growing business with private clients. As of end of 2017, the overall automation degree stands at 99%, which is to be translated into our clients understanding and embracing the advantages of the fast, reliable, less costly, no time dependent way of doing their daily operations towards which they also have full control on and less operational risk as well.

The main source of funding for the Bank remains the customer funds. The Bank's private individual client profile are higher and middle-income professionals, such as employees, independent professionals, self-employed, freelancers, plus the owners, managers and family members of our business clients etc. To those clients, the Bank provides straightforward and convenient services with fair and transparent pricing.

In parallel, the Bank strategically aims to also attract more funding from business clients by establishing long-term relationships with them and becoming the sole financial partner for small business clients and the main bank for medium business clients.

Branch Network

The focus on small and medium business clients triggered changes in the outlet network and in the staff structure and number. The outlet network undergone a major streamlining as the number of branches decreased to six, while the number of service points decreased to two. As part of the optimization process, three of the service points, were redesigned and transformed into machines-only locations, offering full range of banking services available to clients round-the-clock. The aforementioned transformation of the outlet network is the natural outcome of the Bank's strategy towards digitalization and automation of banking operations and clients' transactions and consequently of the channels of interaction with clients.

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 2017, as it happened in the previous years, the main concern was the staff selection, training and continuous development. In 2017, 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 Serbia or Kosovo. The participants that graduated the programme in 2017, 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, eight employees, including both managers and specialist staff, attended ProCredit Management Academy ProCredit Bankers Academy in Germany. 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, 16 participants from Romania attended the 6 weeks language courses in the Language Centres. Besides these above mentioned, 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 2017, 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, 2017 the average amount of a loan from the outstanding loan portfolio was EUR 35,091 (December 31st 2016: EUR 22,787). The non-performing loan portfolio was 4.59 % (December 31st 2016: 6.28%) while Non-performing loans coverage ratio was 52.34% (December 31st 2016: 52.51%).

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, Treasury Back Office Unit 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 2017, 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 (68% at the end of 2017). 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 2017. Fitch Ratings reconfirmed the long-term individual rating of the bank (BBB-) considering the stable outlook of our business model.

As of December 31, 2017 there was no significant legal action filed against the Bank.

Internal Capital Adequacy Process

During 2017, 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 2017 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

In 2018, 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 the preferred partner for SMEs focusing on high quality in customer care and analysis.

The main objective of the Bank is building sound and long term relationships with business clients and to become the "Hausbank" for small clients and the main bank for medium clients. This desiderate implies observing and servicing all clients' needs, not exclusively the loan side. The Bank's positioning of as a reliable partner for both financing and banking services will trigger both the development of loan and deposit portfolios from business clients and the increase of fees and commissions income from transactions.

Regarding business clients, the Bank will focus on businesses with a stable, largely shock-resilient business model and a sound management structure. It is our conviction that these clients value an international and highly specialized bank on their side. Moreover, the Bank sees the potential of developing structural and long-term business relationships with small and medium business clients, able to have a loan exposure above EUR 50,000. The remaining very small business clients, with loan exposure below EUR 50,000 will not be actively targeted.

Together with the introduction of the new comprehensive banking services offer for private clients, which includes both electronic services and transactions and attractive saving facilities that shall be marketed in the online environment, the Bank's expectations for the following year is to increase its private clients' portfolio with clients who appreciate a modern and forward-looking approach to banking and that also have the potential to save and to engage into a long-term business partnership with our Bank. To this end, the Bank will continue focusing on investing into technologies and development of digital solutions for providing automated, fast and modern services to the clients while at the same time maintaining a high level of professional service through our Client advisers.

In order to improve 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: EIB and EIF (under CIP, Jeremie, InnovFin and SME Initiative programs) - external institutions who support the local SMEs.

From 2018 onwards, the Bank aims to preserve the current network structure and further improve processes in order to gain efficiency.

The number of employees will be stable in 2018 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

n/a

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Chairperson of the Board of Administration

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