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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 S.A. (the "Bank") as at 31 December 2018, 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 the National Bank of Romania ("NBR") Order 27/2010, "for approving accounting Regulations in accordance with IFRS, applicable to credit institutions" and subsequent amendments ("NBR Order 27/2010").

Our opinion is consistent with our additional report to the Bank's Audit Committee dated 9 May 2019.

What we have audited

The Bank's financial statements, set out on pages 1 to 58, comprise:

- the Statement of Profit or Loss and other Comprehensive Income as at 31 December 2018;
- the Statement of Financial Position for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial statements as at 31 December 2018 are identified as follows:

- Total equity: RON 185,732 thousand;
- Loss for the year: RON 5,241 thousand.

The Bank's registered office is in 62-64 Buzesti street., District 1, Bucharest, 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 regarding statutory audit of annual financial statements and annual consolidated financial statements and regarding changes to other regulations ("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.

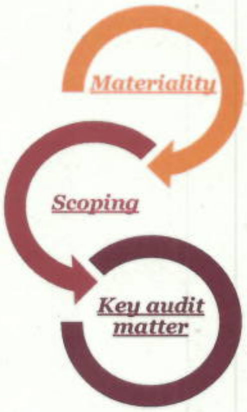
Independence

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 and 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 the 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 Regulation.

The non-audit services that we have provided to the Bank, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 27 "Personnel and administrative expenses" to the financial statements.

Our audit approach



Overall materiality:
RON 1,570 thousands.

We conducted audit work on the Bank as a whole.

Key audit matter:

- Application of IFRS 9 "Financial Instruments" in the calculation of expected credit loss ("ECL") allowances for 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 of 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.

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Overall materiality	RON 1,570 thousands.
How we determined it	Approximately 2% of interest and commission income ("core income") for the year ended 31 December 2018.
Rationale for the materiality benchmark applied	We chose the interest and commission income benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by its stakeholders. We chose 2% beacause based on our professional experience, it is an acceptable quantitative materiality threshold for this benchmark.

Key audit matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
Application of IFRS 9 "Financial Instruments" in the calculation of expected credit loss ("ECL") allowances for loans and advances to customers We focused on this area because this is a new and complex accounting standard requiring the management to implement new models and procedures. In addition, these models and calculations require the management to make complex and subjective judgements over both the timing of recognition of ECL and the estimation of the size of ECL. On 1 January 2018, the Bank adopted IFRS 9, replacing IAS 39 which was previously used for determining the provision for impairment of loans and advances to customers (and	In relation to the implementation of the new ECL models for measuring ECL allowance both on adoption of IFRS 9 on 1 January 2018 and as at 31 December 2018, we assessed the appropriateness of the key assumptions used in the methodologies and models of the Bank and their compliance with the principles and requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. We assessed and tested on a sample basis the design and operating effectiveness of the key controls over ECL data and calculations. The controls included those over the input of critical data into the source systems, and the flow and transfer of data from source systems to the impairment calculation software engine.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Romanian language. 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.

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Key audit matter	How our audit addressed the key audit matter
which is still applied in the comparative financial information for the financial year ending 31 December 2017, included in these financial statements). Under IFRS 9, the basis of creating ECL allowances is significantly different from the previous standard and the new disclosure requirements are also significantly different. For significant loans and advances to customers in Stage 3, the ECL allowances are assessed individually. The key assumptions here being the expected cash flows (from both operating cash flows and recoveries from collateral). The recoveries from collateral are determined based on the value of the collateral to which it is applied an adjusted haircut determined based on the weight for the baseline and pessimistic scenario applied to the initial haircut. For loans and advances to customers in Stage 1 and 2 and Stage 3 (non-significant loans and advances) an assessment of the ECL allowances is performed collectively. The key assumptions being the probability of an account falling into arrears and subsequently defaulting, the definition of significant increase in credit risk, the exposure at the moment of default and the estimated recoveries from defaulted loans. Statistical models are used for determination of the key assumptions including different future macro economic scenarios. As this is the first year of adoption of IFRS 9, there is limited experience available within the Bank to back-test the charge for ECL	We recomputed, on a sample basis, the ECL allowance and verified the reconciliation of the output of ECL calculation software engine with the accounting records. We tested, on a sample basis, the key controls to ensure that repayments are properly allocated to the correct loans balance and that days past due are accurately calculated by the Bank's system. We also tested application of the default definition and tested, on a sample basis, the appropriateness of the default flagging. We assessed the model performance controls for main risk parameters across portfolio. We tested, on a sample basis, the key inputs and assumptions used in determining the parameters used in the ECL allowance computation. With regards to the identification of significant increase in credit risk, we have assessed the adequacy of staging allocation results and tested on a sample basis the appropriateness of the application of quantitative and qualitative staging criteria. We tested the adequacy of the probability of default estimates by performing back-testing and comparing the observed default rate at segment level with the estimated probability of default. For loss given default we checked the computation of the observed loss given default and the incorporation of the forward looking information for the entire portfolio, at segment level and we have re-calculated the parameters based on the same historical datasets used by the Bank.

Key audit matter	How our audit addressed the key audit matter
allowance with actual results. There is also a significant increase in the number of data inputs required for the impairment calculation. This increases the risk around completeness and accuracy of certain data used to create assumptions and operate the models. Therefore, we focused on the design and application of the new comprehensive ECL models introduced by the management to assist them to comply with IFRS 9. Note A 2) - "Use of estimates and judgements", Note B 10) – "Loss Allowances under IFRS9" and Note 50 – "Credit risk" to the financial statements provide detailed information on the ECL for loans and advances to customers and the effect of adoption of new ECL models.	We tested the macroeconomic scenarios employed by the Bank in the ECL estimation process, including assessment of the reasonableness of the forecasted variables, the weights given to alternative scenarios and deviation of estimates to the base scenario. We have tested, on a sample basis, the accuracy of macroeconomic information used by the Bank in analysing historical default patterns. For loans that are assessed individually for impairment, the controls tested included those used by management to ensure that the list of loans assessed individually is complete and that the internal rating of the clients is updated and taken into account at the date of impairment computation. As far as credit collaterals are concerned, we have reviewed and tested controls to ensure that they are properly recorded, that the valuation of guarantees is carried out by qualified valuers, and that the Bank applies appropriate adjustment coefficients to the market values of the collateral in order to account for the time and costs to sell the collaterals. In addition, we tested on a sample basis i) collateral valuations performed by the Bank and by their appointed external valuators using our own valuation specialists, and ii) individual impairment assessments performed by the Bank. At the end of the procedures detailed above we have concluded that the total ECL allowance is within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.

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Reporting on other information including the Administrators' Report

The Administrators are responsible for other information. The other information comprises the Administrators' Report but does not include the financial statements and our auditor's report thereon. We obtained the 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 Administrators' Report and, in doing so, consider whether the Administrators' Report 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 it was prepared, in all material respects, in accordance with NBR Order 27/2010 points 11-14.

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

- the information given in the Administrators' Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and

- the Administrators' Report has been prepared, in all material respects, in accordance with NBR Order 27/2010 points 11-14.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit of the financial statements for the financial year ended 31 December 2018, 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 these financial statements that give a true and fair view in accordance with IFRS 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 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 first appointed as financial auditors of the Bank at the Ordinary General Shareholders Meeting on 12 July 2016. Our appointment has been renewed annually by Ordinary General Shareholders' resolution representing a total period of uninterrupted engagement appointment of 2 years covering the financial years ended 31 December 2017 and 31 December 2018.

Refer to the original signed Romanian version

Florin Deaconescu
Financial auditor
registered with the Public Electronic Register of financial auditors and audit firms under no. 1524

On behalf of

PricewaterhouseCoopers Audit SRL
301-311 Barbu Văcărescu Street, Bucharest
Audit firm
registered with the Public Electronic Register of financial auditors and audit firms under no. 6

Bucharest, 9 May 2019

ProCredit Bank

Part of the ProCredit Group

Financial Statements
31 December 2018

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

Part of the ProCredit Group

Statement of Profit or Loss and other Comprehensive Income

in LEI	Note	1.1-31.12. 2018	1.1-31.12. 2017
Interest income		63,924,141	66,418,599
Interest expenses		-18,187,315	-11,441,943
Net interest income	(22)	**45,736,826**	**54,976,656**
Allowance for impairment losses on financial assets	(23)	5,015,505	5,834,989
Net interest income after allowances		**50,752,331**	**60,811,645**
Fee and commission income		13,055,523	12,249,958
Fee and commission expenses		-4,225,105	-4,027,773
Net fee and commission income	(24)	**8,830,418**	**8,222,185**
Net result from foreign exchange transactions	(25)	3,915,406	4,267,702
Net result from financial assets at fair value through other comprehensive income		29,743	-
Net result from available-for-sale financial assets		-	29,096
Operating income		**63,527,898**	**73,330,628**
Personnel expenses	(27)	-23,093,473	-26,381,662
Administrative expenses	(27)	-32,428,729	-32,196,095
Operating lease expenses		-4,839,881	-6,381,842
Depreciation and amortisation	(34, 35)	-5,631,583	-5,852,175
Other operating income	(26)	1,753,028	7,607,915
Other operating expense	(26)	-1,000,612	-9,132,822
Operating expenses		**-65,241,250**	**-72,336,681**
Profit/Loss before tax		**-1,713,352**	**993,947**
Income tax (expenses)	(28)	-3,527,964	-529,547
Profit/Loss for the year		**-5,241,316**	**464,400**
Items that may be reclassified subsequently to profit or loss			
Change in financial assets at fair value through other comprehensive income		53,071	-
Change in revaluation reserve from available for sale financial assets		-	15,654
Change in deferred tax on revaluation reserve from held to collect and sale financial assets		-5,173	-2,505
Other comprehensive income for the year, net of tax		**47,898**	**13,149**
Total comprehensive income for the year		**-5,193,418**	**477,549**

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 6 to 62.
The financial statements were reviewed and authorized for issue by the Board of Administration on 08 May 2019 and were signed on its behalf by:

Mariana Dimitrova Petkova
General Manager

Andreea Ichim
Head of Finance Department

ProCredit Bank
Part of the ProCredit Group

Statement of Financial Position

in LEI		As at 31 December	
Assets	**Note**	**2018**	**2017**
Cash and cash equivalents	(29)	177,650,363	193,314,659
Loans and advances to banks	(30)	105,976,574	33,698,553
Available-for-sale financial assets	(31)	-	51,887,068
Financial assets at fair value through other comprehensive income	(32)	31,853,596	-
Loans and advances to customers	(33)	1,131,944,171	996,000,070
Property, plant and equipment	(35)	17,519,972	17,510,878
Intangible assets	(34)	4,559,881	4,267,034
Deferred tax assets	(37)	-	3,191,553
Other financial assets	(39)	2,207,468	1,925,528
Other non-financial assets	(39)	7,780,924	6,544,558
Current tax assets	(39)	3,197,006	3,197,006
Total assets		**1,482,689,955**	**1,311,563,907**
Liabilities			
Liabilities to banks	(40)	254,992,673	239,847,857
Liabilities to customers	(41)	821,512,267	705,010,209
Liabilities to international financial institutions	(42)	215,619,713	167,273,687
Other financial liabilities	(44)	2,993,072	2,569,828
Other non-financial liabilities	(45)	877,932	918,700
Provisions	(43)	620,291	405,625
Deferred tax liabilities	(37)	341,584	-
Total liabilities		**1,296,957,532**	**1,116,025,906**
Equity			
Share capital	(47)	199,061,971	199,061,971
Share premium	(47)	1,273,775	1,273,775
Legal reserve	(47)	3,372,009	3,372,009
Accumulated loss		-18,014,950	-8,161,474
Revaluation reserve from financial assets at fair value through other comprehensive income		39,618	-
Revaluation reserve from available-for-sale financial instruments		-	-8,280
Total equity		**185,732,423**	**195,538,001**
Total equity and liabilities		**1,482,689,955**	**1,311,563,907**

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 6 to 62.

The financial statements were reviewed and authorized for issue by the Board of Administration on 08 May 2019 and were signed on its behalf by:

Mariana Dimitrova Petkova
General Manager

Andreea Ichim
Head of Finance Department

ProCredit Bank

Part of the ProCredit Group

Statement of Changes in Equity

in LEI	Attributable to equity holders of the Bank					
	Share capital	**Share premium**	**Legal reserve**	**Accumulated loss**	**Revaluation reserve for financial assets at FVOCI**	**Total**
Balance at January 1, 2018	**199,061,971**	**1,273,775**	**3,372,009**	**-8,161,474**	**-8,280**	**195,538,001**
Change on initial application of IFRS 9 (note 3a)	-	-	-	-4,612,160	-	-4,612,160
Restated balance at January 1, 2018 after IFRS 9 implementation	-	-	-	-12,773,634	-	-
Profit of the year 2018	-	-	-	-5,241,316	-	-5,241,316
Revaluation of financial assets at fair value through other comprehensive income	-	-	-	-	47,898	47,898
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income of the year 2018	**-**	**-**	**-**	**-5,241,316**	**47,898**	**-5,193,418**
Balance at December 31, 2018	**199,061,971**	**1,273,775**	**3,372,009**	**-18,014,950**	**39,618**	**185,732,423**
Balance at January 1, 2017	**159,681,721**	**1,273,775**	**3,322,312**	**-8,576,178**	**-21,429**	**155,680,202**
Profit of the year 2017	-	-	-	464,400	-	464,400
Revaluation of afs securities	-	-	-	-	13,149	13,149
Total comprehensive income of the year 2017	**-**	**-**	**-**	**464,400**	**13,149**	**477,549**
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**	**-8,280**	**195,538,001**

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 6 to 62.

Mariana Dimitrova Petkova
General Manager

PROCREDIT BANK S.A.

Andreea Ichim
Head of Finance Department

ProCredit Bank
Part of the ProCredit Group

Cash Flow Statement

in LEI	Nota	1.1.- 31.12.2018	1.1.- 31.12.2017
Net profit after tax		**-5,241,316**	**464,399**
Cash flows from operating activities			
Adjustments for:			
Allowance for impairment losses on financial assets		-3,334,931	-3,704,867
Depreciation and amortisation		5,631,583	5,852,175
Other provisions		214,666	-2,658,061
Net result from fixed assets		180,405	7,294,840
Dividends Income		-29,743	-29,096
Loss write-off loans		8,150,931	2,539,703
Other (including FX)		19,634	957,071
Income tax expense/revenue		3,527,964	529,547
Financial Assets at fair value through other comprehensive income/ Available for sale financial assets		32,334	9,857
Operating profit before changes in operating assets and liabilities		**9,151,527**	**11,255,568**
Change in minimum compulsory reserve		-7,534,802	16,771,150
Change in loans and advances to customers		-145,372,260	13,087,633
Change in other assets		-1,491,307	5,032,040
Change in deposit from banks		24,634,850	66,000,000
Change in deposits from customers		115,234,106	-133,377,215
Change in other liabilities		387,651	-2,478,425
Proceeds from sale portofolio		9,831,505	4,669,085
Net cash used in operating activities		**4,841,270**	**-19,040,164**
Cash flows from investing activities			
Dividends received		29,743	29,096
Purchase of property, plant and equipment / intagible assets		-6,113,929	-10,124,270
Proceeds from sale of property, plant and equipment		185,660	3,184,555
Purchase of financial assets at fair value through other comprehensive income		-31,278,898	-51,756,528
Proceeds from sale of financial assets at fair value through other comprehensive income		51,756,528	85,694,682
Net cash used in investing activities		**14,579,104**	**27,027,535**
Proceeds from borrowings	(46)	171,403,215	91,432,985
Repayment of borrowing		-132,311,137	-94,097,075
Interest paid		-9,433,530	-6,244,767
Cash flow from financing activities		**29,658,548**	**-8,908,857**
Net increase in cash and cash equivalents			
Cash and cash equivalents at 31 December previous year		141,709,632	142,631,118
Net increase/(decrease) in cash and cash equivalents		49,078,922	-921,486
Cash and cash equivalents at 31 December		**190,788,554**	**141,709,632**
Cash flows from operating activities include:			
Interest received		60,504,578	61,214,817
		60,504,578	**61,214,817**

Mariana Dimitrova Petkova
General Manager

PROCREDIT BANK S.A.

Andreea Ichim
Head of Finance Department

Notes to the Financial Statements

A. Basis of Preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except for the investments at fair value through other comprehensive income and for the financial instruments evaluated at fair value through profit and loss. The main accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements of the Bank for the fiscal year 2018 were approved by General Shareholders Assembly on 09 May 2019, reviewed and authorized for issue by the Board of Administration on 08 May 2019 and were signed on its behalf by Mariana Dimitrova Petkova as 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 under IFRS 9

By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected-Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all funding instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet commitments and financial guarantees. Expected credit losses are recorded in an approach with three stages. The Bank reports the balance sheet items "Cash and cash equivalents", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). The reconciliation of impact arising from adoption of IFRS is disclosed in the transition note 3a.

(b) SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.
As part of the SPPI testing, any clause or covenant that can influence the contractual cash flow should be assessed. In that sense, following aspects are analysed: general terms and conditions of the Bank; template facility contracts (the main focus being on clauses and covenants that can change the contractual cash flow i.e. with monetary elements (fees, commission, penalties) and the expression of the interest rate); contracts that differ from the standard template.

When implementing IFRS 9, the Bank uses an internally developed classification to determine the significant increase in credit risk "SICR". Among other criteria used to determine the stages, the Bank uses a classification that is based on 8 credit risk levels (1 - the lowest risk, 8 - the highest risk), which are then allocated in 3 stages. If the Bank whould classify in Stage 2 the Stage 1 loans that had a 2-level credit risk change (but remained Stage 1) over a 1-year period, the Bank would reclassify from Stage 1 to Stage 2 credit exposures of approximately LEI 11.6 million as at 31 December 2018. If the Bank applied this criteria at the time of the transition, an exposure of approximately LEI 6.8 million would be reclassified from Stage 1 to Stage 2. Impact on allowance for impairment is considered to be immaterial.

(c) Impairment of credit exposures under IAS 39

Under IAS 39, in order 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. The reconciliation of impact arising from adoption of IFRS is disclosed in the transition note 3a.

(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 (including litigations from the ordinary course of business), 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) 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.

3) Accounting developments

(a) Standards, amendments and interpretations that are already effective

IFRS 9 "Financial Instruments" has an impact on the classification and measurement of financial instruments and on the recognition of impairment. The impact of the first application is shown below. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.
This standard replaces the provisions of IAS 39 „Financial instruments: recognition and evaluation" regarding the classification and assessment of financial assets.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018.

The following table presents the reconciliation of financial assets according to IAS 39 with their book values according to IFRS 9:

in LEI	IAS 39 amount 31.12.2017	Reclassifications	Remeasurements	IFRS 9 amount 01.01.2018
Cash and cash equivalents				
Opening balance under IAS 39	193,314,659			
Remeasurement: ECL allowance			-118,142	
Closing balance under IFRS 9				193,196,517
Loans and advances to banks				
Opening balance under IAS 39	33,698,553			
Remeasurement: ECL allowance			-2,442	
Closing balance under IFRS 9				33,696,111
Available for sale financial assets				
Opening balance under IAS 39	51,914,070			
Reclassification to Financial assets at fair value through other comprehensive income (IFRS 9)		-51,914,070		
Closing balance under IFRS 9				-
Financial assets at fair value through other comprehensive income				
Opening balance under IAS 39				
Reclassification from available for sale (IAS 39)		51,914,070		
Remeasurement: ECL allowance			-38,915	
Closing balance under IFRS 9				51,875,155
Provision for loans and advances to customers				
Opening balance under IAS 39	-36,119,617			
Remeasurement: ECL allowance			-4,144,039	
Closing balance under IFRS 9				-40,263,656
Provision for Other assets				
Opening balance under IAS 39	-			
Remeasurement: ECL allowance			-51,443	
Closing balance under IFRS 9				-51,443
Total financial assets	**242,807,665**	**-**	**-4,354,981**	**238,452,684**

The following table presents the reconciliation of impairment allowance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9:

in LEI	Amounts according with IAS39 and IAS37 at 31.12.2017	Remeasurements	Amounts according with IFRS 9 at 01.01.2018
Loss allowances for			
Central Banks	-	-118,142	-118,142
Loans and advances to banks	-	-2,442	-2,442
Financial assets at fair value through other comprehensive income	-	-38,915	-38,915
Loans and advances to customers	-36,119,617	-4,144,038	-40,263,656
Other assets	-	-51,443	-51,443
Off-balance items	-33,694	-257,179	-290,873

The following table presents net impact in equity of implementation IFRS 9:

in LEI	Amount at 31.12.2017	Remeasurements	Amount at 01.01.2018
Accumulated loss (IAS 39)	-8,161,474		
Total impact in Equity from IFRS 9		- 4,612,160	
Accumulated loss (IFRS 9)			-12,773,634

The adoption of IFRS 9 provisions related to the classification and measurement of financial instruments led to the following impact as of 1 January 2018:

"Investment securities available-for-sale" amounting 51,914,070 LEI were remeasured as "Investment securities at fair value through other comprehensive income", while the following categories of financial assets are measured at amortized cost: "Cash and Cash Equivalents", "Loans and advances to Customers, Loans and advances to Banks, Other Financial Assets.

The changes in impairment due to differences in the scope of the impairment requirements in IFRS 9 compared to IAS 39 (incurred loss model according to IAS 39 to expected loss model in accordance with IFRS 9) for Loans and Advances to Customers amounted 4,144,038 LEI.

The impairment adjustment for off-balance sheet credit risk exposures (letters of guarantee and loan commitments) increased in amount of 257,179 LEI, the effect is reflected as a decrease in retained earnings.

IFRS 15 "Revenue from Contracts with Customers" and Clarifications to IFRS 15 "Revenue from Contracts with Customers" have a minor impact on the financial statements. In general, the recognition of proceeds from existing contracts with our customers is transaction-based. Both are effective for annual periods beginning on or after 1 January 2018.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the Bank's financial statements: IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration", Amendments to IAS 40 "Transfers of Investment Property", Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions, Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts".

(b) Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations are issued by the IASB and will have an impact on the Bank's financial statements. These were not applied in preparing these Financial Statements:

Amendments to IFRS 9 "Prepayment Features with Negative Compensation" to address concerns about how certain financial instruments with early repayment arrangements are classified under IFRS 9. The amendments are effective for annual periods beginning on or after 1 January 2019.

IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of existing contracts as lessees. The Bank intends to apply the simplified transition approach (modified retrospective approach) and will not restate comparative amounts for the year prior to first adoption. From 2019 on, existing leases will be reported as "right-of-use" assets under "Property, Plant and Equipment". The standard will affect primarily the accounting for the Bank's operating leases. The standard is applicable for annual periods beginning on or after 1 January 2019.

Annual Improvements to IFRS Standards (2015-2017) will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2019.

Amendments to References to the Conceptual Framework in IFRS Standards will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8: Definition of material will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the Bank's financial statements: IFRS 17 "Insurance Contracts", IFRIC 23 "Uncertainty over Income Tax Treatments", amendments to IAS 19 "Plan amendments, curtailments, and settlements", amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", and amendment to IFRS 3 "Business Combinations".

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

B. Summary of Significant Accounting Policies

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

1) 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 hold to collect and sale, (in 2018) or available for sale (in 2017), 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. Foreign exchange differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in other comprehensive income.

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 (63) of these notes.

2) 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.

3) 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.

4) Dividends

Dividend income is recognised when the right to receive income is established. 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.

5) 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.

6) 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.

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 2018 16% (31 December 2017: 16%).

7) Financial instruments under IFRS 9

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 (as well as IAS 39), all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

(a) Initial recognition and measurement

Initial recognition
Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

Initial measurement
Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the

fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

(b) Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
- The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

Financial assets at amortised cost

A financial asset is classified as "at amortised cost" if the financial asset is allocated to the "hold to collect" business model and the contractual cash flows meet the SPPI criterion. Financial assets at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets are recognised when the principal is advanced to the borrowers. These assets are initially recognised at fair value plus 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 value of its financial assets. As a consequence, their carrying amount may be reduced through the use of an allowance account. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

When financial assets are contractually modified, the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors and it requires significant judgment (whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition). The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected cash flows, change as a result of such modifications.

Financial assets are written-off, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model and passes SPPI test.

The "investment securities" allocated to this business model are those financial assets that passes SPPI test, in order to collect contractual cashflows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Other Comprehensive Income under "Revaluation reserve". If the financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Statement of Profit or Loss in the position "Net result from financial assets at fair value through other comprehensive income". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They 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.

Other financial liabilities at amortised cost
Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(c) Financial guarantees and credit related commitments

Financial guarantees
Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts of the fees charged for the financial guarantees are amortised on a straight line basis over the life of the guarantee.

Credit related commitments
Financial guarantees and commitments to provide a loan are initially recognised at contractual value of amounts granted to customers. The total client loan exposure value is composed by the on-balance carrying amount and the off-balance amount.

8) Financial assets under IAS 39

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 advances to customers*

Loans and advances to customers 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 advances to customers 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. 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 advances to customers 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 aothssumed 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. At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "gains and losses from available-for-sale financial assets". Interest is calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive the payment is established.

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

9) Fair value measurement

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

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

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

(a) Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

(b) Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters. The Bank applies individual observable interest and exchange rates, made available predominantly by local central banks.

(c) Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. Bank interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

10) Loss Allowances under IFRS 9

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. The Bank sets aside loss allowances for the balance sheet items "Cash and cash equivalents", "Loans and advances to banks", "Loans and advances to customers", "Investment securities" and for the financial assets under "Other assets". These are generally recognised at net value within the corresponding balance sheet positions, except for the item "Investment securities", which are reported at fair value. The respective loss allowances are recognised under "Revaluation reserve".

The expected credit loss model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

This model outlines three stages based on changes in the exposure's credit risk since the date of initial recognition.

- **Stage 1:** includes exposures that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date, including those that transfer back from Stage II due to decrease in credit risk. For these exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date.
- **Stage 2:** includes exposures that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) and there is no objective evidence of impairment. For these assets, lifetime expected losses are recognised. Lifetime expected losses are the expected credit losses that result from all possible default events over the expected life - maturity of a loan.
- **Stage 3**: includes exposures that have objective evidence of impairment at the reporting date. For these assets, lifetime expected losses are recognised and interest revenue is calculated on the net carrying amount (gross carrying amount adjusted for the loss allowance). Stage 3 also includes financial assets which are already impaired at initial recognition ("POCI"). These are measured initially at fair value and without loss allowances.

Purchased or Originated Credit Impaired (POCI) exposures includes financial instruments which were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are calculated on a lifetime basis. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.
Within the Bank's business model, the acquition of such default-threatened assets is not permitted. Accordingly, POCI exposures can only arise in the course of a new negociation or significant modification of the contractually agreed cashflows.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking .
Therefore, the necessity for lifetime expected loss provisioning arises when a significant increase in credit risk from the date of exposure's origination is detected.

The Bank's methodology for determining a significant increase in credit risk is based on comprehensible forward-looking information and past due information.

IFRS 9 Stages correspond to:
- Stage I - Performing Loan Portfolio
- Stage II - Underperforming Loan Portfolio
- Stage III - Default Loan Portfolio

A significant increase in credit risk is detected typically during the client's financial analysis/ monitoring through the Risk Classification assessment. On the other hand, past due information is considered since the stages comprise all the exposures exceeding 30 days past due.
This approach implies the comprehensive analysis of various information sources including comprehensive analysis of borrowers' financial stance, past due information, data on the restructuring events and future macroeconomic prospects

Performing Loan Portfolio
Credit risk is considered low if the loan has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.
All exposures in this stage consist of the portfolio that does not show signs of increased credit risk.

Underperforming Loan Portfolio
A significant increase in credit risk has occurred when at least one of the following events (a transition from Stage I to Stage II) was detected:

- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days;
- risk classification downgraded below a certain threshold;
- adjustment of the originally agreed contractual conditions due to temporary difficulties for the clent that could lead to higher credit default;

Default Loan Portfolio
Default credit exposures (Stage III) are those exposures for which at least one of the following events occurs:

- the client is past due more than 90 days;
- bankruptcy procedure is initiated;
- the bank has started legal proceedings against the client;
- credit fraud;
- qualitative criteria based on which the bank considers the client unlikely to pay in full without realising collateral;
- risk classification is downgraded to a level viewed as defaulted;
- other signs of impairment.

For the "Other assets" position, loss allowances are established using the simplified approach. As a rule, loss allowances are reconded at initial recognition and on each subsequesnt reporting date in an amount equivalent to the expected credit loss during the total maturity period. For these generally short assets, the total maturity period has beed set at 12 months.

Release of loss allowances
In the event of decrease of credit risk, the already recognised loss allowance is reduced accordingly.

Financial guarantees and credit related commitments
The provisions for off-balance sheet credit risks relates primarily to undrawn lending commitments, letters of credit and letters of guarantee. Credit conversions factors based on the facilities' characteristics and if applicable, based on empirical data, are applied in determining the provisions for the off-balance exposures. The ECLs related to financial guarantee and credit related commitments are recognised under Provisions in the Balance Sheet.

Write-offs, recoveries and direct write-offs
When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Assets acquired in exchange for loans (repossessed property)
Non-financial assets repossessed in exchange for loans as part of an orderly realisation are reported under "other assets". The asset acquired is recorded at fair value. 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.

11) Allowances for losses on loans and advances and impairment of available-for-sale financial assets under IAS 39

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

- <u>Impairment of loans and advances</u>

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. The following criteria are considered:

- 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.

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 fair value. 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; and
- 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.

12) 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 placement date, 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.

13) Loans and advances to banks

The amounts reported under receivables from banks consist 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.

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 (29).

14) Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Bank intends to sell immediately or in the nearest future, those ones that the Bank, at initial recognition, classifies as at fair value through profit or loss, those that the Bank, at initial recognition, classifies as available for sale or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration.
Loans and receivables to customers are initially recognised at fair value plus transactions costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is

evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account.

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

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

15) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses..

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.

16) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see Note 35). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the bank in a different pattern.

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

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

– Buildings	40 years
– Leasehold improvements	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.

17) Impairment of non-financial assets

Non-financial assets (repossessed properties) 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.

18) 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.

19) 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.

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.

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.

20) 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 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.

21) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax. Dividends on ordinary shares are treated as an appropriation of profit in the period in which they are approved by the Bank's shareholders.

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

22) Net interest income

in LEI

Interest income	1.1.-31.12.2018	1.1.-31.12.2017
Interest income from		
Cash and cash equivalents and loans and advances to banks	413,761	283,175
Interest income from financial assets at fair value through other comprehensive income	655,296	-
Interest income from available-for-sale assets	-	314,904
Interest income from loans and advances to customers	62,855,084	65,820,520
Total interest income	**63,924,141**	**66,418,599**

Interest expenses	1.1.-31.12.2018	1.1.-31.12.2017
Interest expenses on		
Liabilities to banks	9,931,928	5,361,138
Liabilities to customers	5,622,056	3,959,957
Liabilities to international financial institutions	2,633,331	1,923,619
Subordinated debt	-	197,229
Total interest expenses	**18,187,315**	**11,441,943**
Net interest income	**45,736,826**	**54,976,656**

23) Allowance for impairment losses on loans and advances

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

At December 31, 2018	Business	Agriculture	Housing	Consumer	Other	Total
Increase of impairment charge	3,235,169	324,451	-	60	49	3,559,728
Increase of impairment charge off balance sheet items	203,750	11,805	0	-	35	215,590
Release of impairment charge	-4,982,761	-1,383,267	-5,171	-991	-38	-6,372,230
Release of impairment charge off balance sheet items	-95,114	-	-	-128	-196	-95,438
Net recoveries of sold and written-off loans	-1,221,052	-459,522	-	-	-	-1,680,574
Unwinding effect	-398,401	-244,181	-	-	-	-642,583
Total	**-3,258,410**	**-1,750,715**	**-5,171**	**-1,059**	**-150**	**-5,015,505**

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 items	20,512	-	-	-	-	20,512
Release of impairment charge	-8,464,619	-5,467,035	-84,266	-12,285	-249	-14,028,454
Release of impairment charge off balance sheet items	-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**

During 2018, the Bank has sold non-performing credit exposures in gross amount of LEI 18.9 million (2017: LEI 11.3 million) with a sale price of LEI 9.5 million (2017: LEI 3 million) ; the net result is reflected in the statement of profit or loss under the category "Allowance for impairment losses on financial assets", in amount of LEI 1.3 million (2017: LEI 1.4 million).

24) Net fee and commission income

in LEI

Fee and commission income	1.1.-31.12.2018	1.1.-31.12.2017
Payment transfers and transactions	2,526,051	3,184,666
Account maintenance fee	6,627,247	5,038,215
Letters of credit and guarantees	244,335	154,089
Debit cards	2,919,776	3,058,615
Other fee and commission income	738,114	814,373
Total fee and commission income	**13,055,523**	**12,249,958**

Fee and commission expenses	1.1.-31.12.2018	1.1.-31.12.2017
Payment transfers and transactions	962,351	868,795
Account maintenance fee	907,610	259,652
Letters of credit and guarantees	6,050	16,540
Debit cards	862,175	947,003
Other fee and commission expenses	1,486,919	1,935,783
Total fee and commission expenses	**4,225,105**	**4,027,773**
Net fee and commission income	**8,830,418**	**8,222,185**

25) 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.

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Currency transactions	3,968,363	4,581,209
Net gains and losses from FX revaluation	-52,957	-313,507
Total	**3,915,406**	**4,267,702**

26) Net other operating income/expense

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Cash from disposal of property, plant and equipm.	185,660	3,184,555
Income from reversals of other prov not related to lending	39,199	2,655,179
Others	1,528,169	1,768,181
Other operating income	**1,753,028**	**7,607,915**
Expenses for disposal of property, plant and equipm.	180,405	7,294,840
Others	117,356	50,202
Administrative expenses	69,402	1,164,905
Expenses for deposit insurance fund	333,186	237,712
Expenses for impairment of repros. property	300,263	385,163
Other operating expenses	**1,000,612**	**9,132,822**
Total	**752,416**	**-1,524,907**

27) Personnel and administrative expenses

Personnel expenses can be broken down as follows:

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Salary expenses	21,054,131	19,826,332
Social security expenses	473,718	4,440,983
out of which pension contribution	-	*3,087,007*
Other personnel expenses	403,165	489,192
Training and recruting expenses	1,162,460	1,625,155
Total	**23,093,473**	**26,381,662**

"Administrative expenses" include the following items:

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Communication and IT expenses	12,930,329	12,482,550
Transport	3,086,921	2,918,381
Office supplies	784,516	958,906
Security service	282,857	317,431
Marketing, advertising and entertainment	1,234,294	338,381
Construction, repairs and maintenance	1,035,914	1,185,906

Other tax expenses	5,140,855	5,331,647
Consultancy, Legal and Audit fees	3,290,700	3,240,517
Insurance	460,105	539,173
Utilities	246,928	470,329
Other administrative expenses	3,935,312	4,412,874
Total	**32,428,729**	**32,196,095**

The total expense booked in relation with the bank's external auditor in 2018, for audit of IFRS Financial Statements of the Bank was LEI 130,298 (2017: LEI 127,901). The fees paid for non-audit services provided by the independent financial auditor as defined by Regulation (EU) 537/2014 of the European Parliament and of the Council are represented by: auditing of the Group reporting package, audit of the Finrep package as at 31 December 2018 and audit at the request of the National Bank of Romania as at 30 June 2018.

28) Income tax expenses/income

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

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Current tax expense	-	-
Deferred tax (expense)	-3,527,964	-529,547
Total	**-3,527,964**	**-529,547**

D. Notes to the Statement of Financial Position

29) Cash and central bank balances

Cash and cash equivalents comprise the following items:

		As at 31 December
in LEI	2018	2017
Cash in hand	44,772,731	35,792,512
Balances at central banks excluding mandatory reserves	40,039,249	72,218,567
Mandatory reserve deposits	92,838,383	85,303,580
Total cash and cash equivalents	**177,650,363**	**193,314,659**

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

		As at 31 December
in LEI	2018	2017
Cash equivalents recognised in the balance sheet statement	177,650,363	193,314,659
Loans and advances to banks with a maturity up to 3 months, which qualify as cash for the cash flow	105,976,574	33,698,553
Minimum reserve with central bank	-92,838,383	-85,303,580
Total cash equivalents for cash flow statement	**190,788,554**	**141,709,632**

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 2018 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 8% for funds raised denominated in foreign currency (31 December 2017: 8% for funds raised denominated in LEI and 8% for funds raised denominated in foreign currency).

The balances in central bank balances and the movement of the respective loss allowances are presented in the following tables.

Central bank balances				**As at 31 December 2018**	
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount	132,964,193	-	-	-	132,964,193
Loss allowances	-86,562	-	-	-	-86,562
Carrying amount	**132,877,631**	**-**	**-**	**-**	**132,877,631**

Loss allowances for central bank balances					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	118,142	-	-	-	118,142
New financial assets originated	-	-	-	-	-
Release due to derecognition	-18,417	-	-	-	-18,417
Increase/Decrease in credit risk	-13,163	-	-	-	-13,163
Balance at 31 December 2018	**86,562**	**-**	**-**	**-**	**86,562**

30) Loans and advances to banks

Loans and advances to banks are as follows:

	As at 31 December	
in LEI	**2018**	**2017**
Loans and advances to banks in non-OECD countries	20,254,517	246,798
Loans and advances to banks in Group Banks	85,722,057	33,451,755
Total	**105,976,574**	**33,698,553**

The balances in loans and advances to banks and the movements of the respective loss allowances are presented in the following tables.

Loans and advances to banks							
in LEI	**Gross amount**			**Loss Allowances**			**Carrying amount**
As at December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	
Loans and advances to banks in non-OECD countries	20,266,769	-	-	12,427	-	-	20,254,343
Loans and advances to banks in Group Banks	85,726,917	-	-	4,686	-	-	85,722,231
Total	**105,993,686**	**-**	**-**	**17,112**	**-**	**-**	**105,976,574**

Loss allowances for loans and advances to banks					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	2,442	-	-	-	2,442
New financial assets originated	14,680	-	-	-	14,680
Release due to derecognition	-10	-	-	-	-10
Balance at 31 December 2018	**17,112**	**-**	**-**	**-**	**17,112**

31) Available-for-sale financial assets

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

in LEI	As at 31 December
Available-for-sale financial assets	**2017**
Fixed interest rate securities (banks and Tbills)	51,887,068
Total available-for-sale financial assets	**51,887,068**

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

32) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are as follows:

Financial assets at fair value through other comprehensive income

in LEI	Gross amount			Loss Allowances			Carrying amount
As at 31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	
T-bills	31,874,333	-	-	20,737	-	-	31,853,596
Total	**31,874,333**	**-**	**-**	**20,737**	**-**	**-**	**31,853,596**

The changes in the loss allowances for Financial Assets at fair value through other comprehensive income are presented in the following table:

Loss allowances for financial assets at fair value through other comprehensive income

in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	38,915	-	-	-	38,915
New financial assets originated	-	-	-	-	-
Release due to derecognition	-15,025	-	-	-	-15,025
Increase/Decrease in credit risk	-3,153	-	-	-	-3,153
As at end of period	**20,737**	**-**	**-**	**-**	**20,737**

33) Loans and advances to customers

Loans and advances to customers at the end of 2018 are as follows:

in LEI	STAGE1		STAGE2		STAGE3							
As at December 31, 2018	**Gross amount**	**Allowance for impairment**	**Gross amount**	**Allowance for impairment**	**Gross amount**	**Allowance for impairment**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**	**Number of outstanding loans**	**Share of total number**
Business loans	866,978,211	-4,231,048	14,391,005	-2,025,032	30,614,844	-15,126,252	911,984,059	-21,382,332	890,601,727	78.5%	2,757	70.1%
Agricultural loans	237,009,549	-1,501,774	2,057,537	-241,468	6,169,085	-3,408,887	245,236,172	-5,152,128	240,084,043	21.5%	1,151	29.3%
Housing improvement loan:	737,970	-7,007	95,908	-12,838	76,097	-33,107	909,976	-52,952	857,024	0.1%	16	0.4%
Consumer loans *	5,266	-60	489,114	-97,946		0	494,380	-98,005	396,375	0.0%	7	0.2%
Other loans	5,060	-57		0		0	5,060	-57	5,002	0.0%	4	0.1%
Total	**1,104,736,056**	**5,739,946**	**17,033,565**	**2,377,284**	**36,860,026**	**18,568,245**	**1,158,629,646**	**-26,685,475**	**1,131,944,171**	**100.0%**	**3,935**	**100.0%**

The changes in loans and advances to customers and the respective loss allowances are presented in the following tables:

Loans and advances to customers					As at 31 December 2018
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2018	947,891,118	28,423,308	55,805,262	-	1,032,119,687
New financial assets originated	355,311,685	-	-	-	355,311,685
Modification of contractual cash flows of financial assets	-	-536,341	-1,357,805	-	-1,894,146
Derecognitions (including write-offs)	-115,968,113	-2,595,852	-17,957,445	-	-136,521,410
Changes in interest accrual	91,022	14,793	-154,045	-	-48,230
Changes in the principal and disbursement fee amount	-81,759,004	-2,741,630	-6,003,969	-	-90,504,603
Transfer from Stage 1 to Stage 2	-3,510,706	3,510,706	-	-	-
Transfer from Stage 1 to Stage 3	-7,553,733	-	7,553,733	-	-
Transfer from Stage 2 to Stage 1	8,970,361	-8,970,361	-	-	-
Transfer from Stage 2 to Stage 3	-	-4,659,758	4,659,758	-	-
Transfer from Stage 3 to Stage 2	-	4,579,412	-4,579,412	-	-
Transfer from Stage 3 to Stage 1	1,120,413	-	-1,120,413	-	-
Foreign exchange and other movements	143,013	9,288	14,362	-	166,663
Gross outstanding amount as at December 31	**1,104,736,056**	**17,033,565**	**36,860,026**	**-**	**1,158,629,646**

Allowance for losses on loans and advances to customers					As at 31 December 2018
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 1 January 2018	**-6,083,247**	**-3,466,645**	**-30,713,763**	-	**-40,263,655**
New financial assets originated	-1,601,580	-	-	-	-1,601,580
Release due to derecognition	751,668	76,179	13,121,540	-	13,949,387
Increase/decrease due to credit risk (net)	1,210,023	1,115,688	-1,153,913	-	1,171,798
Increase/ decrease due to modification without derecognition (net)	-	-100,103	-	-	-100,103
Decrease due to write-off	-	-	184,544	-	184,544
Forein exchange and other movements	-16,810	-2,403	-6,653	-	-25,866
Balance of 31 December 2018	**-5,739,946**	**-2,377,284**	**-18,568,245**	-	**-26,685,475**

The position "Release due to derecognition" in the total amount of LEI 13,949,387 includes usage of allowance for impairment related to loans sold in 2018 amounting to LEI 10,862,207.

Loans and advances to customers at the end of 2017 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	741,917,340	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	1,106,397	0.1%	18	0.3%
Consumer loans *	602,457	-38,628	563,829	0.1%	10	0.2%
Other loans	3,993	-58	3,935	0.0%	5	0.1%
Total	**1,032,119,687**	**-36,119,617**	**996,000,070**	**100.0%**	**6,300**	**100.0%**

The movement in loss allowances during 2017 is presented bellow:

in LEI As at January 1, 2017	2017
Allowance for impairment on loans and advances to customers	50,599,964
Additions	15,464,711
Amount used for write offs/portfolio sale	-11,742,389
Releases	-18,503,245
Exchange rate adjustments	300,576
As at December 31	**36,119,617**

34) Intangible assets

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

in LEI As at December 31, 2018	Software	Intangible assets in progress	Total
Net book value at January 1, 2018	4,153,356	113,678	4,267,034
Total acquisition costs at January 1, 2018	22,241,431	113,678	22,355,109
Additions	204,155	1,608,597	1,812,752
Transfers from intangible assets in progress	432,136	-432,136	-
Total acquisition costs at December 31, 2018	**22,877,721**	**1,290,139**	**24,167,861**
Accumulated amortisation January 1, 2018	18,088,075	-	18,088,075
Amortisation	1,519,906	-	1,519,906
Accumulated amortisation at December 31, 2018	**19,607,981**	-	**19,607,981**
Net book value at December 31, 2018	**3,269,740**	**1,290,139**	**4,559,881**

in LEI As at December 31, 2017	Software	Intangible assets in progress	Total
Net book value at January 1, 2017	6,014,652	135,626	6,150,278
Total acquisition costs at January 1, 2017	30,384,992	135,626	30,520,618
Transfers from intangible assets in progress	43,423	-43,423	-
Disposals	8,186,985	-	8,186,985
Total acquisition costs at December 31, 2017	**22,241,431**	**113,678**	**22,355,109**
Accumulated amortisation January 1, 2017	24,370,340	-	24,370,340
Amortisation	1,904,719	-	1,904,719
Accumulated amortisation for disposal	8,186,985	-	8,186,985
Accumulated amortisation at December 31, 2017	**18,088,075**	-	**18,088,075**
Net book value at December 31, 2017	**4,153,356**	**113,678**	**4,267,034**

During the years 2018 and 2017, there was no internally developed software.

35) Property, plant and equipment

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

in LEI As at December 31, 2018	Leasehold improvements	Furnitures and fixtures	IT and other equipment	Assets under construction	Total
Net book value at January 1, 2018	5,769,872	2,795,503	7,802,294	1,143,210	17,510,878
Total acquisition costs at January 1, 2018	11,239,248	3,171,023	17,548,946	1,143,210	33,102,427
Additions	841,271	595,419	2,391,338	521,972	4,350,000
Transfers from assets under construction	344,090	-	348,275	-692,365	-
Disposals	-	385,186	1,118,505	-	1,503,691
Total acquisition costs at December 31, 2018	**12,424,609**	**3,381,256**	**19,170,054**	**972,817**	**35,948,736**
Accumulated depreciation January 1, 2018	5,469,376	375,520	9,746,652	-	15,591,548
Depreciation	1,521,872	554,034	1,483,504	-	3,559,410
Accumulated depreciation for disposal	-	317,345	957,119	-	1,274,464
Accumulated depreciation at December 31, 2018	6,991,248	612,209	10,273,037	-	17,876,494
Impairment	-	-	552,267	-	552,267
Net book value at December 31, 2018	**5,433,361**	**2,769,047**	**8,344,750**	**972,817**	**17,519,972**

in LEI As at December 31, 2017	Leasehold improvements	Furnitures and fixtures	IT and other equipment	Assets under construction	Total
Net book value at January 1, 2017	6,400,192	2,998,697	9,387,115	2,318,786	21,104,790
Total acquisition costs at January 1, 2017	13,847,151	4,494,657	27,476,889	2,318,786	48,137,482
Additions	3,563,628	485,541	263,370	3,515,466	7,828,005
Transfers from assets under construction	577,547	389,192.00	3,724,302	-4,691,041	-
Disposals	6,749,077.35	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**	**1,143,211**	**33,102,427**
					0
Accumulated depreciation January 1, 2017	7,446,958	1,495,960	18,089,774	-	27,032,692
Depreciation	1,687,682	535,261	1,724,512	-	3,947,455
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	9,746,652	-	15,591,548
Net book value at December 31, 2017	**5,769,872**	**2,795,503**	**7,802,294**	**1,143,211**	**17,510,878**

36) Operating lease commitments

in LEI	As at 31 December 2018	 2017
Operating lease commitments		
- no later than one year	5,292,802	4,904,402
- later than one year and no later than five years	12,848,423	10,735,165
- later than five years	5,750,449	-
Total	**23,891,674**	**15,639,567**

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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.

37) 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 tax asset**	**As at 31 December** **2018**	 **2017**
At January 1	3,191,553	3,723,605
Available-for-sale securities:		
- fair value remeasurement	-	-2,505
Charges to income statement	-3,191,553	-529,547
Total	**-**	**3,191,553**

in LEI **Deferred tax liability**	**As at 31 December** **2018**	 **2017**
At January 1	-	-
Financial Assets at FVOCI:		
	-5,173	-
Charges to income statement	-336,411	-
Total	**-341,584**	**-**

38) Effective tax reconciliation

in LEI	**1.1.-31.12.2018**	**1.1.-31.12.2017**
Profit/(loss) before tax	-1,713,352	993,947
Tax expected (16%)	-	-159,032
Tax effects of items which are not deductible:		
- non-taxable income	87,409	1,835,082
- non-tax deductible expenses	-1,934,311	-2,683,655
Other elements similar to taxable income (from sale of portfolio)	-1,051,983	-
Utilisation of previously unrecognised tax loss carried forward	1,281,237	478,057
Reversal of deferred tax	-1,910,316	-
Income tax expenses	**-3,527,964**	**-529,547**

For 2018, non-tax deductible expenses are represented by: different tax treatment for the result deriving from sale of nonperforming loan portofolio (LEI 1.05 million) and non-deductible depreciation expenses for property, plant and equipment (LEI 0.8 million).

39) Other assets

Other assets are as follows:

in LEI	As at 31 December 2018	2017
Repossessed properties	-	434,774
Other inventory items	384,836	384,462
Prepaid expenses	4,627,017	4,319,244
Advance payments	1,275,061	406,872
Claims from taxes	1,494,010	999,206
Total	**7,780,924**	**6,544,558**

During 2018, the Bank sold repossessed properties with a carrying amount of 291,231 LEI and wrote off the remaining repossessed property in value of 143,543 LEI. Prepaid expenses reffer mainly to IT and rents for bank premises.

Other financial assets are as follows:

in LEI	As at 31 December 2018	2017
Guarantees	734,347	741,018
Others	1,473,121	1,211,510
Total	**2,180,468**	**1,925,528**

Current tax assets are as follows:

in LEI	As at 31 December 2018	2017
Current tax asset	3,197,006	3,197,006
Total	**3,197,006**	**3,197,006**

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

40) Liabilities to banks

in LEI	2018	Share of total portfolio	As at 31 December 2017	Share of total portfolio
Liabilities to banks in OECD countries	171,363,135	67%	173,808,074	72%
Liabilities to banks in non-OECD countries	83,629,538	33%	66,039,783	28%
Total	**254,992,673**	**100%**	**239,847,857**	**100%**

41) 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 2018	Share of total portfolio	As at 31 December 2017	Share of total portfolio
Current accounts	**298,720,536**	**36%**	**328,049,962**	**47%**
-private individuals	73,551,294	9%	108,376,769	15%
-legal entities	225,169,242	27%	219,673,193	31%
Savings accounts*	**195,092,708**	**24%**	**107,708,259**	**15%**
-private individuals	104,386,614	13%	75,831,874	11%
-legal entities	90,706,094	11%	31,876,385	5%
Term deposit accounts	**322,542,302**	**39%**	**261,149,084**	**37%**
-private individuals	180,158,848	22%	165,549,689	23%
-legal entities	142,383,454	17%	95,599,395	14%
Other liabilities to customers	**5,156,720**	**1%**	**8,102,904**	**1%**
Total	**821,512,267**	**100%**	**705,010,209**	**100%**

*including Collateral Deposits

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

42) 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 2018

in LEI	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due after 2022	without maturity	Total
Liabilities IFI with fixed interest rates					56,289,135		56,289,135
Liabilities IFI with variable interest rates	18,325,579	11,661,732	13,270,902	22,300,672	93,771,693		159,330,578
Total	**18,325,580**	**11,661,732**	**13,270,902**	**22,300,672**	**150,060,828**	-	**215,619,713**

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	25,007,523	18,305,964	11,649,250	11,649,250	24,754,656		91,366,644
Total	**71,026,795**	**18,305,964**	**11,649,250**	**11,649,250**	**54,642,428**	-	**167,273,687**

43) Provisions

in LEI	2018	As at 31 December 2017
As at January 1, 2018	662,804	3,063,686
-out of which IFRS 9 impact at January 1 for off-balance items	257,179	-
Additions	566,267	392,443
Used	-21,020	-2,981,249
Released	-588,178	-68,008
Exchange rate adjustments	418	-1,247
As at December 31, 2018	**620,291**	**405,625**

in LEI	2018	As at 31 December 2017
Provisions for off-balance sheet items	269,380	33,694
Provisions for untaken vacation	350,911	371,931
Total	**620,291**	**405,625**

For the provisions for untaken vacation the outflow of economic benefits is expected during the three months following the balance sheet date.

44) Other financial liabilities

in LEI	As at 31 December 2018	As at 31 December 2017
Accrued payables	716,897	804,782
Liabilities for goods and services	1,697,424	1,765,046
Subsidies from state budget	578,750	-
Total	**2,993,072**	**2,569,828**

Under accrued payables, the Bank included the accruals for the trade payable balances, while the trade payable balances are disclosed under Liabilities for goods and services. The subsidies from state budget in amount of 578,750 LEI (31 December 2017: 0 LEI) represent a one time discount received from the state in relation with the acquisition of electric cars during 2018.

45) Other non-financial liabilities

in LEI	As at 31 December 2018	As at 31 December 2017
Deferred income	10,706	20,023
Liabilities from social insurance contributions	631,030	552,753
Liabilities to state budget	236,196	345,922
Total	**877,932**	**918,698**

46) Liabilities from financing activities

In LEI	2018
Net debt at 1 January 2018	-341,095,989
Payments on borowings	132,311,137
Payments of interest on borowings	9,433,530
Loans from banks drawn	-171,403,215
Other non-cash movements	-9,350,731
Net debt at 31 December 2018	-380,105,267

In LEI	2017
Net debt at 1 January 2017	-340,125,781
Payments on borowings	94,097,075
Payments of interest on borowings	6,244,767
Loans from banks drawn	-91,432,985
Other non-cash movements	-6,770,756
Net debt at 31 December 2017	-341,095,989

47) Share capital

As at 31 December 2018 (compared to 2017), the shareholder structure was as follows:

în LEI		2018	
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**

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în 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**

The par value per share is LEI 10.00.

At the end of December 2018, 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, 2018		**1,273,775**

Reserves:

	As at 31 December	
in LEI	**2018**	**2017**
Legal reserve	3,372,009	3,372,009
General banking risks reserve	6,166,252	6,166,252
Total	**9,538,261**	**9,538,261**

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

48) 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	2018	As at 31 December 2017
Ordinary share capital	199,061,971	199,061,971
Capital reserve	1,273,775	1,273,775
Legal reserves	3,372,009	3,372,009
Accumulated losses	-18,014,949	-8,161,475
Less other intangibles	-4,559,881	-4,153,356
Less other regulatory adjustment	-12,973	-742,207
Common Equity Tier I	**181,119,952**	**190,537,039**
Tier I capital	**181,119,952**	**190,537,039**
Tier II capital	-	-
Regulatory adjustment		
Total regulatory capital	**181,119,952**	**190,537,039**

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 2018 the Bank has updated its internal capital adequacy assessment process in the course of regular ongoing review of its risk management methodologies.

As of 31^{st}, December 2018 the solvency ratio expressed as a ratio of regulatory capital over risk weighted assets was 18.06%, level above the minimum regulatory limit.

Between 1^{st} of January 2017 and 31^{st} of December 2018, the Bank complied with the NBR imposed capital requirements.

49) Management of individual risks

In 2018, the Bank implemented IFRS 9, which triggered significant modifications for credit risk related policies, while the rest of the individual risks policies have not been materially modified (only 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.

50) 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.

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

Gross exposure in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
STAGE1	**237,009,549**	**866,978,211**	**5,266**	**737,970**	**5,060**	**1,104,736,056**
no arrears	234,908,286	860,589,883	5,266	704,062	5,060	1,096,212,556
1-30 days	2,101,264	6,388,328	-	33,908	-	8,523,500
STAGE2	**2,057,537**	**14,391,005**	**489,114**	**95,908**	-	**17,033,565**
no arrears	1,107,207	13,256,041	489,114	22,397		14,874,759
1-30 days	47,792	434,604		9,711		492,107
31-60 days	681,817	326,807		51,900		1,060,525
61-90 days	220,721	373,552		11,900		606,173
91-180 days	-	-	-	-	-	-
STAGE3	**6,169,085**	**30,614,844**		**76,097**		**36,860,026**
no arrears	2,384,519	10,621,490		8,602		13,014,611
1-30 days	95,058	1,251,433				1,346,491
31-60 days	47,608	2,594,448				2,642,056
61-90 days		971,778				971,778
91-180 days	1,150,053	2,708,282		67,495		3,925,831
more than 181	2,491,847	12,467,413				14,959,260
Grand Total	**245,236,172**	**911,984,059**	**494,380**	**909,976**	**5,060**	**1,158,629,646**

The Bank monitors the quality of loans by using debt service and other qualitative criteria that capture significant increase in credit risk. Therefore, loans that have between zero and 30 days of debt service and have no other qualitative signs of credit risk increase are considered by the Bank as performing exposures. Loans with debt service between 31 days and 90 days that have no qualitative signs of non-performance are classified under observation. Loans with a debt service of over 90 days or showing unlikelyness to pay are considered by the Bank to be non-performing.

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

Gross Exposure

in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
Neither past due nor impaired	**246,011,848**	**720,152,918**	**600,437**	**976,966**	**3,993**	**967,746,162**
no arrrears	246,011,848	720,152,918	600,437	976,966	3,993	967,746,162
Past due but not impaired	**2,741,415**	**5,737,676**	**-**	**89,172**	**-**	**8,568,263**
1 - 30 days	2,741,415	5,737,676	-	89,172	-	8,568,263
Loans individually determined t(	**12,158,295**	**43,556,666**	**2,019**	**88,282**	**-**	**55,805,262**
no arrrears	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
Grand Total	**260,911,557**	**769,447,261**	**602,457**	**1,154,421**	**3,993**	**1,032,119,687**

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 2018, 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 22,121,400 representing 1.9% of total outstanding portfolio (31 December 2017: LEI 44,534,072).

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.

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	31 December 2018	31 December 2017
Mortgage	641,377,032	594,928,397
Cash collateral	23,941,047	15,590,305
Financial Guarantees	174,826,299	110,566,280
Others	125,078,882	123,341,546
Total	**965,223,260**	**844,426,528**

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 products.

In LEI	2018		2017	
	Loan exposure	Collateral Value	Loan exposure	Collateral Value
Business	911,984,059	728,822,130	769,447,261	601,554,180
Agricultural	245,236,172	235,152,936	260,911,556	241,211,657
Housing	909,976	857,024	1,154,421	1,104,436
Consumer	494,380	391,169	602,457	556,256
Other	5,060	-	3,993	-
Total	**1,158,629,646**	**965,223,259**	**1,032,119,688**	**844,426,529**

As of 31 December 2018, the Bank's portfolio consisted of 70.37% over-collateralized loans (71.85% at 31 December 2017). The table below sets out the effect of collateral.

As at December 31, 2018	**Over-collateralised assets**		**Under-collateralised assets**	
In LEI	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
STAGE3				
Agricultural	2,666,149	13,631,367	94,049	-
Business	14,912,351	72,250,874	576,240	-
Housing	42,991	491,576	-	-
Grand Total	**17,621,491**	**86,373,817**	**670,290**	**-**

As at December 31, 2017	**Over-collateralised assets**		**Under-collateralised assets**	
In LEI	Carrying value of the assets	Fair value of collateral	Carrying value of the 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
Grand total	**741,627,629**	**1,805,107,483**	**290,492,058**	**147,334,072**

(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.

Gross Exposure

in LEI

As at December 31, 2018	Business	Agricultural	Housing	Consumer	Other	Total
0-50,000 EUR	109,749,401	48,348,722	654,393	93,249	5,060	158,850,825
50,000-250,000 EUR	368,598,716	81,920,038	255,583	401,131	-	451,175,468
Over 250,000 EUR	433,635,942	114,967,412	-	-	-	548,603,353
Total	**911,984,059**	**245,236,172**	**909,976**	**494,380**	**5,060**	**1,158,629,646**

Gross Exposure

in LEI

As at December 31, 2017	Business	Agricultural	Housing	Consumer	Other	Total
0-50,000 EUR	95,987,467	50,269,656	726,911	26,051	3,993	147,014,077
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**	**602,457**	**3,993**	**1,032,119,687**

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.

Under IFRS9, The Bank determines impairment allowances using different approaches, either collectively for a group of credit exposures or individually, depending on the classification of credit exposures into different categories:

Collectively assessed credit exposures
Collective allowances for generated, but unidentified losses (portfolio-based provisions) – individually significant and individually insignificant credit exposures that do not show signs of impairment (Stage 1 and Stage 2) are provisioned according to the Bank's methodology. Individually significant and individually insignificant (if they are exceptionally tested for impairment) credit exposures that display signs of impairment and for which the impairment test showed no impairment loss (without using cash flows from realizing the collateral) are also included in this group and provisioned accordingly.

Specific allowances for impairment identified at the level of the groups of financial assets determined for impaired portfolio - individually insignificant credit exposures – individually insignificant credit exposures that show signs of impairment and for which an impairment test in the form of an assessment for specific individual impairment is not performed because the operational expenses do not justify it are provisioned according to the collective methodology for deriving the lifetime expected losses. Also all individually insignificant and individually significant credit exposures for which the Bank determines that they belong to a cluster of clients that are considered to be impaired due to external influences and/or extraordinary events are also grouped here and Stage 3 specific provisions (lifetime expected loss) are determined. For individually significant credit exposures such provisioning is considered to be a temporary measure to be applied quickly when a large number of clients are simultaneously affected. This temporary conservative provisioning continues until the bank is able to assess these clients for specific individual impairment and to provision respectively.

Individually assessed credit exposures

Specific allowances for impairment identified at individual level determined for impaired portfolio - individually significant credit exposures – credit exposures that show signs of impairment, for which an impairment test is performed and where an impairment loss has been confirmed are provisioned according to the impairment loss that is determined by an assessment for specific individual impairment.

The levels of the specific - individual impairment are based on the difference of the net present value of future cash-flows on a credit exposure and the current book value of that credit exposure (amortized cost).

In case the assessment for specific individual impairment indicates a level of impairment allowance that is less than the portfolio-based percentage applied for collectively assessed, non-impaired credit exposures (Stage 1), the bank should provision the respective credit exposure with at least the applicable portfolio based provisions.

If repayments are made which change the categorisation of a credit exposure from individually significant to individually insignificant, the bank may decide whether to maintain provisioning at the level prescribed by the results of the impairment test or to provision the credit exposure based on the collectively assessed approach.

The gross book value fluctuates over time due to repayments / write-offs or the accrual of interest and penalties, etc. Regardless of the type of provisioning, if the currently booked impairment allowances exceeds the gross book value of the credit exposure or falls below the minimum Stage 1 rates, the provisioned amount needs to be adjusted accordingly. This will be done monthly by the booking on expenses, or the reversal on incomes of the amount representing the difference.

in LEI As at December 31, 2018	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Collective	**1,136,188,442**	**15,454,451**	**1,120,733,991**
STAGE1	**1,104,736,056**	**5,739,946**	**1,098,996,109**
Business	866,978,211	4,231,048	862,747,163
Agricultural	237,009,549	1,501,774	235,507,775
Housing	737,970	7,007	730,963
Consumer	5,266	60	5,206
Other	5,060	57	5,002
STAGE2	**17,033,565**	**2,377,284**	**14,656,281**
Business	14,391,005	2,025,032	12,365,972
Agricultural	2,057,537	241,468	1,816,069
Housing	95,908	12,838	83,070
Consumer	489,114	97,946	391,169
STAGE3	**14,418,822**	**7,337,221**	**7,081,601**
Business	12,276,269	6,150,332	6,125,936
Agricultural	2,075,058	1,161,293	913,765
Housing	67,495	25,596	41,900
Individually	**22,441,204**	**11,231,025**	**11,210,179**
STAGE3	**22,441,204**	**11,231,025**	**11,210,179**
Business	18,338,575	8,975,920	9,362,655
Agricultural	4,094,027	2,247,594	1,846,433
Housing	8,602	7,511	1,091
Grand Total	**1,158,629,646**	**26,685,475**	**1,131,944,171**

Under IAS 39, 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**

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.

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	-	-	-
Total	**992,552,586**	**16,730,680**	**975,821,906**

51) Financial risk

(a) 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 2018 nor 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. The currency in which the Bank obtains financing determines the currency in which loans are given to customers and vice versa. The Bank is required to balance assets and liabilities per currency in both amounts and maturities as far as possible in order to protect the Bank against currency fluctuations. If this is not possible, financial instruments shall be used to the extent available to close the gaps.

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, 2018	**Total**	**RON**	**EUR**	**USD**	**Other currencies**
Assets					
Cash and cash equivalents	177,650,363	130,629,782	45,982,892	1,037,688	-
Loans and advances to banks	105,976,574	20,259,051	80,274,308	5,154,233	288,983
Financial assets at fair value through other comprehensive income	31,853,596	31,853,596	-	-	-
Loans and advances to customers	1,131,944,171	873,524,424	258,419,746	-	-
Other financiar assets	2,207,468	1,949,691	118,496	138,991	290
Total assets	**1,449,632,172**	**1,058,216,545**	**384,795,442**	**6,330,912**	**289,273**
Liabilities					
Liabilities to banks	254,992,673	201,275,531	53,717,142	-	-
Liabilities to customers	821,512,267	554,257,820	260,127,523	6,846,534	280,390
Liabilities to international financial institutions	215,619,713	137,535,765	78,083,948	-	-
Provisions	1,172,558	1,076,386	96,171	-	-
Other financial liabilities	3,871,004	3,145,407	723,682	1,915	-
Total liabilities	**1,297,168,215**	**897,290,909**	**392,748,467**	**6,848,449**	**280,390**
Net position	**152,463,957**	**160,925,636**	**-7,953,025**	**-517,537**	**8,883**
Amounts in course of settlement	**5,815**	**-6,845,620**	**6,342,904**	**508,531**	**-**
Credit commitments	**211,580,604**	**178,930,254**	**32,650,351**	**-**	**-**

in LEI As at December 31, 2017	**Total**	**RON**	**EUR**	**USD**	**Other currencies**
Assets					
Cash and cash equivalents	193,314,659	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	51,887,067	51,887,068	-	-	-

Loans and advances to customers	996,000,070	765,939,954	230,060,115	-	-
Other financiar assets	1,952,528	1,952,528	-	-	-
Total assets	**1,276,852,878**	**977,450,331**	**286,322,373**	**12,823,592**	**256,581**
Liabilities					
Liabilities to banks	239,847,857	239,847,010	847	-	-
Liabilities to customers	705,010,209	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	-	-
Other financial liabilities	3,488,526	3,071,529	390,769	26,229	-
Total liabilities	**1,116,025,905**	**809,313,497**	**292,000,390**	**14,432,132**	**279,886**
Net position	**160,826,973**	**168,136,834**	**-5,678,017**	**-1,608,540**	**-23,305**
Amounts in course of settlement	**2,272**	**-5,670,228**	**4,193,730**	**1,478,770**	-
Credit commitments	**180,316,545**	**172,056,290**	**8,131,188**	**129,067**	-

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 2018	**At 31 December 2017**
In LEI	**Impact on profit or loss**	**Impact on profit or loss**
EUR strengthening by 20%	9,604	30,661
EUR weakening by 20%	6,403	20,441
USD strengthening by 20%	1,239	-126
USD weakening by 20%	826	-84
GBP strengthening by 20%	2,156	-925
GBP weakening by 20%	1,437	-616
Other strengthening by 20%	-	-
Other weakening by 20%	-	-
Total	**21,665**	**49,351**

(b) Interest rate risk

Conceptual risk management framework

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.

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 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 2018 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, 2018	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	92,775,437	-	-	-	-	-	84,874,926	177,650,363
Loans and advances to banks	105,704,945	-					271,629	105,976,574
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	29,351,130	1,950,246	-	-	-	558,486	31,859,861
Loans and advances to customers	145,530,412	372,434,173	378,181,376	157,918,253	35,641,306	447,708	41,790,944	1,131,944,171
Total financial assets	**344,010,793**	**401,785,303**	**380,131,622**	**157,918,253**	**35,641,306**	**447,708**	**127,495,985**	**1,447,430,968**
Liabilities								
Liabilities to banks	74,520,000	148,919,500	-	30,315,350	-	-	1,237,823	254,992,673
Liabilities to customers	249,605,310	34,894,817	74,945,030	145,189,467	10,057,730	-	306,819,914	821,512,267
Liabilities to international financial institutions	46,658,000	46,217,000	66,418,933	-	-	-	56,325,780	215,619,713
Total financial liabilities	**370,783,310**	**230,031,317**	**141,363,963**	**175,504,817**	**10,057,730**	**-**	**364,383,516**	**1,292,124,653**
Total interest sensitivity gap	**-26,772,517**	**171,753,986**	**238,767,659**	**-17,586,564**	**25,583,574**	**447,708**	**-236,887,531**	**155,306,315**

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	79,228,172	246,144,246	446,093,832	90,159,517	79,814,682	32,337	54,527,283	996,000,070
Total financial assets	**216,564,970**	**246,144,246**	**475,882,163**	**92,149,996**	**79,814,682**	**32,337**	**164,338,958**	**1,274,927,351**
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	**-29,523,990**	**139,532,174**	**202,598,849**	**-17,098,067**	**72,353,638**	**32,337**	**-205,099,342**	**162,795,598**

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 (+/- 539 bps for internal rates and +/- 108 bps for market rates, as of December 2018).

The following table presents the economic value impact and interest earnings indicator under the standard scenario, as of December 2018 and December 2017.

in '000 RON

2018

Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	-539 bps/ -108 bps	4,608	2,621
EUR	-200 bps	288	1,888
USD	-200 bps	5	0
Total		**4,901**	**4,509**

in '000 RON

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	8.8	0.7
Total		**7,472.8**	**18.7**

(c) 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 reporting limits (early warning) are reached, 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 2018.

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 2018 (LCR stood at 185%).

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 5 largest non-financial depositors exceed 7% of total non-financial 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, 2018	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	177,650,363	177,650,363	177,650,363	-	-	-	-	-
Loans and advances to banks	105,976,574	105,978,988	105,978,988	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	31,853,596	31,979,263	-	29,980,552	1,998,712	-	-	-
Loans and advances to customers	1,131,944,171	1,424,067,411	58,619,677	73,872,062	136,970,713	325,967,090	589,401,969	239,235,900
Other financial assets	2,207,468	2,207,468	140,548	1,305,572	-	-	734,347	-
Financial assets	**1,449,632,172**	**1,741,883,495**	**342,389,576**	**105,158,186**	**138,969,425**	**325,967,090**	**590,136,316**	**239,235,900**
Off Balance sheet commitment (assets)	189,105,960	189,105,960	46,639,000				70,400,000	72,066,960
Total assets	**1,638,738,132**	**1,930,989,455**	**389,028,576**	**105,158,186**	**138,969,425**	**325,967,090**	**660,536,316**	**311,302,860**
Liabilities								
Liabilities to banks	254,992,673	265,650,395	24,832,438	38,243,269	1,974,452	100,159,381	100,440,854	-
Liabilities to customers	821,512,267	828,209,619	530,753,912	59,673,976	77,325,436	149,632,619	10,823,676	-
Liabilities to international financial institutions	215,619,713	243,386,170	-	967,966	13,707,523	7,983,095	83,397,427	137,330,159
Other financial liabilities	2,993,072	2,993,072	2,414,322	578,750	-	-	-	-
Financial liabilities	**1,295,117,725**	**1,340,239,255**	**558,000,672**	**99,463,961**	**93,007,411**	**257,775,095**	**194,661,957**	**137,330,159**
Off Balance sheet commitment (financial guarantees and credit related comitments)	82,876,351	82,876,351	82,876,351	-	-	-	-	-
Total liabilities	**1,377,994,076**	**1,423,115,606**	**640,877,023**	**99,463,961**	**93,007,411**	**257,775,095**	**194,661,957**	**137,330,159**
Open position	**154,514,447**	**401,644,239**	**-215,611,096**	**5,694,225**	**45,962,013**	**68,191,994**	**395,474,360**	**101,905,741**
Open position including off Balance sheet commitments	**260,744,055**	**507,873,847**	**-251,848,448**	**5,694,225**	**45,962,013**	**68,191,994**	**465,874,360**	**173,972,701**

*undiscounted cash flow for financial assets and liabilities

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
Assets								
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	51,887,068	52,000,000	20,000,000	-	30,000,000	2,000,000	-	-
Loans and advances to customers	996,000,070	1,126,836,356	53,116,220	72,600,823	105,400,476	216,096,914	501,716,248	177,905,674
Other assets	1,952,528	1,952,528	1,167,743	-	-	-	757,782	-
Financial assets	**1,276,852,878**	**1,407,806,200**	**301,301,281**	**72,600,823**	**135,400,476**	**218,096,914**	**502,474,030**	**177,905,674**
Off Balance sheet commitment (assets)	208,435,620	208,435,620	46,597,000				91,682,000	70,156,620
Total assets	**1,485,288,498**	**1,616,241,820**	**347,898,281**	**72,600,823**	**135,400,476**	**218,096,914**	**594,156,030**	**248,062,294**
Liabilities								
Liabilities to banks	239,847,857	241,014,127	23,838,665	112,438,293	104,737,169	-	-	-
Liabilities to customers	705,010,209	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	2,569,828	3,488,526	898,675	2,589,852	-	-	-	-
Financial liabilities	**1,114,701,582**	**1,122,045,313**	**504,106,953**	**191,890,003**	**195,538,076**	**124,574,527**	**62,816,058**	**43,119,698**
Off Balance sheet commitment (financial guarantees and credit related comitments)	8,977,936	8,977,936	8,977,936	-	-	-	-	-
Total liabilities	**1,123,679,517**	**1,131,023,249**	**513,084,889**	**191,890,003**	**195,538,076**	**124,574,527**	**62,816,058**	**43,119,698**
Open position	**162,151,296**	**285,760,887**	**-202,805,672**	**-119,289,179**	**-60,137,599**	**93,522,387**	**439,657,972**	**134,785,976**
Open position including off Balance sheet commitments	**361,608,981**	**485,218,572**	**-165,186,607**	**-119,289,179**	**-60,137,598**	**93,522,387**	**531,339,972**	**204,942,596**

*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 2018 stood at 2.4, 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.

52) 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 2018 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.

53) 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.

54) 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.

55) 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.

ProCredit Bank
Part of the ProCredit Group

56) 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 Deputy 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

57) 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.

in LEI	2018	
Financial assets	**Carrying value**	**Total fair value**
Loans and advances to banks	105,976,574	105,976,574
Shares	27,002	27,002
Other financial assets	2,180,466	2,180,466
Loans and advances to customers	1,131,944,171	1,135,920,355
Total	**1,240,128,213**	**1,244,104,397**
Financial Liabilities	**Carrying value**	**Total fair value**
Liabilities to banks	254,992,673	254,384,954
Liabilities to customers	821,512,267	822,701,181
Liabilities to international financial institutions	215,619,713	216,636,738
Other financial liabilities	2,993,072	2,993,072
Total	**1,295,117,725**	**1,296,715,945**

2017		
in LEI **Financial assets**	**Carrying value**	**Total fair value**
Loans and advances to banks	33,698,553	33,698,553
Shares	27,002	27,002
Other financial assets	1,925,526	1,925,526
Loans and advances to customers	996,000,070	1,028,433,879
Total	**1,031,651,151**	**1,064,084,960**

Financial Liabilities	**Carrying value**	**Total fair value**
Liabilities to banks	239,847,857	240,611,751
Liabilities to customers	705,010,209	704,930,220
Liabilities to international financial institutions	167,273,687	168,004,252
Other financial liabilities	2,569,828	2,569,828
Total	**1,114,701,581**	**1,116,116,051**

2018

in LEI **Financial assets**	**Category**	**Carrying value**	**Total fair value**	**of which Level 1**	**Level 2**	**Level 3**
Investment securities	FVOCI	31,853,596	31,853,596	31,853,596	-	-
Total		**31,853,596**	**31,853,596**	**31,853,596**	-	-

2017

in LEI **Financial assets**	**Category**	**Carrying value**	**Total fair value**	**of which 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**	-	-

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.

58) Contingent liabilities and commitments

in LEI	As at 31 December 2018	2017
Letters of guarantees	12,061,617	8,809,861
Letters of credit	-	129,067
Credit commitments	199,518,987	171,377,617
Total	**211,580,604**	**180,316,545**

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.

59) 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	Entities under common control
ProCredit Bank Bulgaria	Entities under common control
Procredit Moldova	Entities under common control
Procredit Kosovo	Entities under common control
Procredit Georgia	Entities under common control
ProCredit Bank Serbia	Entities under common control
ProCredit Academy Macedonien	Group company
Shipeke Kosovo - Quipu Ges.	Group company
ProCredit Academy	Group company
Quipu GmBH	Group company

The ultimate parent of the Bank is ProCredit Holding AG & Co. KGaA. The ultimate controlling party of the bank is ProCredit General Partner AG. During the year ended 31 December 2018 and the year ended 31 December 2017 the following transactions were carried out with the shareholders and other related parties from the Bank and Group:

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Income	170,123	63,452
Expense	20,827,236	18,989,731
Net expense	**-20,657,113**	**-18,926,279**

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

		As at 31 December
in LEI	2018	2017
Assets		
Loans and advances to banks	85,722,057	33,451,755
Other receivable	112,942	130,181
Total Assets	**85,834,999**	**33,581,936**
Liabilities		
Liabilities to banks	171,635,812	173,807,227
Liabilities to customers(including ProCredit Holding)	24,074,756	46,426,996
Other payable	209,706	383,197
Total Liabilities	**195,920,274**	**220,617,420**
Off-balance sheet positions		
Credit line	46,639,000	46,597,000
Total Off-balance sheet positions	**46,639,000**	**46,597,000**

Loans and advances to banks represent nostro accounts to ProCredit Germany having interest between -0.65% and -0.45% (EUR).

Liabilities to banks represent intercompany loans obtained in EUR and local currency bearing interest from 0.98% to 4.49%.

60) Management compensation

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

in LEI	1.1.-31.12.2018	1.1.-31.12.2017
Management board salaries	1,101,534	644,148
Total	**1,101,534**	**644,148**

During 2018, the members of the Board of Administration received compensation from the Bank in value of EUR 3,000.

61) Number of Employees

	2018		2017	
	Average	At year end	Average	At year end
General Manager	-	1	1	-
Deputy General Manager	2	1	2	2
Head Office Staff	119	119	139	128
Branches/Agencies Staff	64	61	79	69
Total Staff		**182**		**199**

62) Significant post-balance sheet events

At the end of December 2018, the Romanian Government issued the Emergency Ordinance no. 114/2018 (Ordinance 114), which established among others, the tax on financial assets payable by the credit institutions, in force from 1 January 2019. This regulation, in its initial form, was expected to have a significant impact on the profitability of Romanian banking sector. However, on 29 March 2019, the Government issued an amendment to the Ordinance 114 which brought significant changes by reducing the tax rate (for the Bank it is expected to be 0.2% per year) and by excluding many categories of financial assets from its computation base, the tax being finally payable based on the carrying value of performing loans to private individuals and non-financial entities. In addition, this amendment grants certain reductions for the tax payable if the credit institution will increase the lending to private and non-financial sectors and/or will reduce the interest rate margin for RON products.

63) Exchange rates

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

	2018		2017	
Currency code	**At balance sheet date**	**Average for the year**	**At balance sheet date**	**Average for the year**
EUR	4.6639	4.6535	4.6597	4.5681
USD	4.0736	3.9416	3.8915	4.0525

64) 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 2017: 6) and 1 agency located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,
Bucharest, Sector 1
Romania

The Bank is managed by a Board of Directors made up of 5 members (31 December 2017:5 members); lead by a Chairperson. The composition of the Board of Directors was as follows:

Position	31 December 2018	31 December 2017
Chairperson	Rainer Peter Ottenstein	Rainer Peter Ottenstein
Member	Gian Marco Felice	Gian Marco Felice
Member	Andrei Georgescu	Antje Marielle Gerhold
Member	Marianne Loner	Andrei Georgescu
Member	Ilir Aliu	Ilir Aliu

Mariana Dimitrova Petkova
General Manager

Andreea Ichim
Head of Finance Department

ProCredit Bank

Part of the
ProCredit Group

Administrator's Report for the year 2018

ProCredit Bank SA

ProCredit Bank

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 we focus on small and medium-sized business clients, while the former very small-sized clients segment are not actively targeted. 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 1 agency 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 2018 were influenced by the measures undertaken to consolidate the position in the market:

- Attracting new targeted SME clients and consolidating the relationship with the existing ones;
- Continuous cleaning of non-profile and inactive client base.

The strategic changes mentioned above led to a growth in the loan portfolio for the main target clients (Small and Medium) with around 23%.

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 2018, compared to 2017, the main indicators were:

Indicators	31.12.2017 ('000 LEI)	31.12.2018 ('000 LEI)	% change
Total loan portfolio	1,032,120	1,158,630	12.26%
Total assets	1,311,564	1,482,689	13.05%
Total customers deposits	705,010	821,512	16.52%
Borrowed funds	167,274	215,620	28.90%
Share capital	199,062	199,062	0%
Equity	195,538	185,732	-5.03%

Financials results

The total assets increased by 13.05% as compared to 2017, due to the increase of the loan portfolio by 12.26% its value reaching Lei 1.16 billion, at the end of 2018 (31 December 2017: Lei 1.03 billion). The bank succeed to increase its loan portfolio in the envisaged sectors of Small and Medium Enterprises.

The Bank maintained, throughout 2018, an adequate level of capital adequacy.

In 2018, the Bank recorded a loss of Lei 5.2 mil, out of which Lei 3.5 mil is represented by deferred tax expenses (31 December 2017: Lei 0.5 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 8.8 million (31 December 2017: Lei 8.2 million).

Business Clients

In 2018, the main business strategic direction remained the same, namely to focus on Small and Medium business 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 direction mentioned above led to a growth of loan portfolio for the main business lines (Small and Medium) around Lei 202 million, but in the same time, the level of the exit loan portfolio decreased with Lei 76 million. Moreover, the Bank sold in 2018 a part of its nonperforming loan portfolio to specialized recovery companies, in amount of Lei 18.9 million in order to maximize the recoveries and to optimize the recovery process.

As in previous years, in 2018 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 time to attracting new clients of the desired profile and to advise clients on the services that best suit their needs.

Throughout 2018 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 2018, the overall automation degree stands at 100%, 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 on which they also have full control.

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.

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 outlet network undergone in the last four years a major streamlining, as a 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. During 2018, the branch network remained relatively stable, the main business being concentrated in six main cities.

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 2018, as it happened in the previous years, the main concern was the staff selection, training and continuous development. In 2018, the 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 2018, continued their professional development with further local specialized theoretical and practical trainings.

Besides the preparation for the new employees, 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, 16 employees, including both managers and specialist staff, attended ProCredit Management Academy and 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, 7 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 our staff. In order to ensure that staff fully understands all of the principles that have been defined, induction seminars, have a separate section for the study of the Code of Conduct and its importance for all the members of our team. In addition, refreshment seminars are regularly organized for our employees, to ensure that they 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. These events allow the existing staff to analyse recent case studies and to debate 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 2018, 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 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 following types of risks: 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 evolution 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 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 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 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.

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

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

Credit Risk

The management of credit risk is the responsibility of the Credit Risk Management Committee. The Credit Risk Department is responsible for the identification and the evaluation of the credit risk at client level, while the Risk Management Department bears the same responsibilities at loan portfolio level. The Risk Management Department, through a specialized operational structure, namely 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, 2018 the average amount of a loan from the outstanding loan portfolio was EUR 62,876 (December 31st 2017: EUR 35,159). The non-performing loan portfolio was 3.18 % (December 31st 2017: 5.44%) while Non-performing loans coverage ratio was 50.38% (December 31st 2017: 52.30%).

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 foreign exchange 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.

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 2018, the Bank used the funding attracted from ProCredit Holding / ProCredit Bank AG (Germany) and also the funds attracted from European Investment Fund (EIF) under different programmes, such as JEREMIE, Competitiveness Operational Programme, EAFRD Fund of Funds ("AGRI"). In addition, the Bank is using funds attracted from the European Investment Bank. The Bank maintained a comfortable level of the loan portfolio – deposits coverage ratio (69% at the end of 2018).

Operational Risk

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

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

Business Risk (including Strategic Risk)

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

Compliance 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 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 2018. Fitch Ratings reconfirmed the long-term individual rating of the bank (BBB-) considering the stable outlook of our business model.

As of December 31, 2018 there was no significant legal action filed against the Bank.

Internal Capital Adequacy Process

During 2018, 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 establishes through the Internal Capital Adequacy Assessment Process (ICAAP) Policy, both limits regarding 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 2018 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.

Information regarding the future strategy of the Bank

In 2019, 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. 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 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: The European Investment Bank and the European Investment Fund (under CIP, Jeremie, InnovFin and SME Initiative programs, Competitiveness and AGRI Portfolio and Risk Sharing Loans) - external institutions who support the local SMEs.

From 2019 onwards, the Bank aims to preserve the current network structure and further improve processes in order to gain efficiency.
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.

Rainer Peter Ottenstein
Chairperson of the Board of Administration

ProCredit Bank

Part of the ProCredit Group

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