ProCredit Bank

Part of the ProCredit Group

Consolidated Financial Statements 2015

PROCREDIT BANK (BULGARIA) EAD
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

Financial statements in English are translation from the original in Bulgarian. This version of the financial statements is a translation from the original, which was prepared in Bulgarian. 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 the report takes precedence over this translation.

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Independent auditor's report

To the Shareholder of ProCredit Bank (Bulgaria) EAD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ProCredit Bank (Bulgaria) EAD and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing of the consolidated Annual Report in accordance with the Accounting Act.

Management has prepared consolidated Annual Report as of 31 December 2015 which was presented with the consolidated financial statements as of 31 December 2015 issued in Bulgarian language and authorised by the Management on 30 March 2015.

Rositsa Boteva
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

31 March 2016
Sofia, Bulgaria

Consolidated Statement of Profit or Loss

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2015	**2014**
Interest and similar income	6	81,113	91,701
Interest and similar expenses	6	(12,393)	(23,313)
Net interest income		68,720	68,388
Allowances for impairment losses on loans and advances	7	(6,180)	(2,772)
Net interest income after allowances		**62,540**	**65,616**
Fee and commission income	8	21,261	20,615
Fee and commission expenses	8	(1,575)	(1,349)
Net fee and commission income		**19,686**	**19,266**
Result from foreign exchange transactions	9	5,841	4,341
Net result from available-for-sale financial assets	10	(741)	-
Net other operating income	11	(2,082)	(2,436)
Operating income		**85,244**	**86,787**
Personnel expenses	12	(19,784)	(25,171)
Administrative expenses	13	(33,410)	(35,144)
Operating expenses		**(53,194)**	**(60,315)**
Profit before tax		32,050	26,472
Income tax expense	14	(3,381)	(2,940)
Profit for the period		**28,669**	**23,532**

These consolidated financial statements on pages 1 to 54 were approved by the Management Board and signed on its behalf by:

Rumyana Todorova
Executive Director and
Member of the Management Board
31 March 2016

Reni Peycheva
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditor's report

Stefan Weiblen
PricewaterhouseCoopers Audit OOD
Date: 31 March 2016

Rositsa Boteva
Registered Auditor
Date: 31 March 2016

The following notes set out on pages 6 to 54 form an integral part of these financial statements

София
Рег. №085

Consolidated Statement of Profit or Loss

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2015	2014
Interest and similar income	6	81,113	91,701
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Consolidated Statement of Other Comprehensive Income

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2015	2014
Profit for the period		28,669	23,532
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefits		15	32
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from available-for-sale financial assets		6,857	(741)
Other comprehensive income for the period, net of tax		6,872	(709)
Total comprehensive income for the period		**35,541**	**22,823**

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Consolidated Statement of Financial Position

(all amounts expressed in thousands of BGN)	Notes	As of 31 December	
		2015	2014
ASSETS			
Cash and cash equivalents	15	199,210	201,246
Loans and advances to banks	16	102,571	138,119
Available-for-sale financial assets	17	28,012	29,450
Loans and advances to customers	18	1,172,167	1,025,103
Allowance for losses on loans and advances to customers	19	(38,616)	(36,339)
Property, plant and equipment	20	47,531	45,407
Intangible assets	20	2,921	3,302
Deferred tax assets	21	133	9
Other assets	22	22,717	29,641
Total assets		**1,536,646**	**1,435,938**
LIABILITIES			
Liabilities to banks	23	53,897	87,287
Liabilities to customers	24	1,116,585	960,010
Liabilities to financial institutions	25	156,928	200,687
Other liabilities	26	5,023	3,412
Provisions	27	496	483
Current tax liabilities		1,016	259
Subordinated debt		-	8,138
Total liabilities		**1,333,945**	**1,260,276**
EQUITY			
Share capital and share premium	28	139,130	139,130
Legal reserve	28	3,953	3,953
Other reserve	28	6,626	6,611
Retained earnings	28	47,107	26,940
Revaluation reserve	28	5,885	(972)
Total equity		**202,701**	**175,662**
Total equity and liabilities		**1,536,646**	**1,435,938**

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Consolidated Statement of Changes in Equity

(all amounts expressed in thousands of BGN)	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Revaluation reserve	Total
Balance as of 1 January 2014	125,855	3,496	3,953	6,579	31,635	(231)	171,287
Comprehensive income for the period							
Revaluation of AFS securities	-	-	-	-	-	(741)	(741)
Revaluation of actuarial gains and losses	-	-	-	32	-	-	32
Profit for the period	-	-	-	-	23,532	-	23,532
Total comprehensive income for the period	-	-	-	32	23,532	(741)	22,823
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Distributed dividends	-	-	-	-	(28,227)	-	(28,227)
Capital increase	9,779	-	-	-	-	-	9,779
Total contributions by and distributions to owners	9,779	-	-	-	(28,227)	-	(18,448)
Balance as of 31 December 2014	135,634	3,496	3,953	6,611	26,940	(972)	175,662
Comprehensive income for the period							
Revaluation of AFS securities	-	-	-	-	-	6,857	6,857
Revaluation of actuarial gains and losses	-	-	-	15	-	-	15
Profit for the period	-	-	-	-	28,669	-	28,669
Total comprehensive income for the period	-	-	-	15	28,669	6,857	35,541
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Distributed dividends	-	-	-	-	(8,502)	-	(8,502)
Total contributions by and distributions to owners	-	-	-	-	(8,502)	-	(8,502)
Balance as of 31 December 2015	135,634	3,496	3,953	6,626	47,107	5,885	202,701

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Consolidated Statement of Cash Flows

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December 2015	2014
Profit for the period		28,669	23,532
Non-cash items included in the profit of the period and transition to the cash flow from operating activities			
Allowances for impairment losses on loans and advances	7, 19	6,180	2,772
Depreciation	13	5,452	5,527
Unrealised gains/ losses from currency revaluation	9	(190)	(19)
Interests and dividends	6	(68,720)	(68,388)
Income tax expense	14	3,381	2,940
Increase/ decrease of assets and liabilities from operating activities after non-cash items			
Required reserve with the central bank		(15,479)	230
Loans and advances to banks		(9,779)	-
Loans and advances to customers		(154,168)	24,983
Other assets		7,692	(667)
Liabilities to banks		(33,292)	17,928
Liabilities to customers		160,481	66,351
Other liabilities		1,624	(2,280)
Interest received		85,265	95,406
Interest paid		(16,378)	(28,328)
Income tax paid		(3,517)	(2,784)
Cash flow from operating activities		**(2,779)**	**137,203**
Purchase of/ proceeds from sale of:			
Property, plant and equipment and intangible assets		(7,196)	(5,320)
Securities		7,669	-
Cash flow from investing activities		**473**	**(5,320)**
Cash flow from financing activities			
Dividends paid		(8,502)	(28,227)
Shares issued		-	9,779
Long term borrowings		(52,035)	(18,555)
Cash flow from financing activities		**(60,537)**	**(37,003)**
Net increase in cash and cash equivalents		**(62,843)**	**94,880**
Cash and cash equivalents at end of previous year		**262,047**	**167,167**
Cash and cash equivalents at end of period	**15**	**199,204**	**262,047**

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1 Reporting entity

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or "the bank") was founded in June 2001 by an alliance of international development-oriented investors, many of which are shareholders in ProCredit Holding AG & Co. KGaA („ProCredit Holding") today. Since the beginning of 2013 the sole shareholder of the Bank is ProCredit Holding.

The bank is part of the international group of financial institutions owned by ProCredit Holding. ProCredit Holding is the ultimate parent and ultimate controlling party of the ProCredit group of banks ("the ProCredit group"). The bank has one subsidiary – ProCredit Properties EAD (referred to collectively as "the group"), which is wholly owned.

The group is managed through a Supervisory Board consisting of five members and a Management Board consisting of four members as of December 2015 which are elected for a period of three years.

ProCredit Bank is a development oriented full service bank which aims to be a house bank for businesses and private clients. Business clients, serviced by the bank, are companies, agricultural producers and self-employed persons. They are categorised as Very Small, Small and Medium in accordance to their business potential. Private clients are regular income receivers (salary, pension or other), students and business owners. The bank strives to have comprehensive knowledge about its customers and to implement an individual approach and strategy for servicing each client, being based on the client's profile. Strategically, the bank focuses on production companies, agricultural producers, green and energy efficiency financing.

2 Basis of preparation

a Compliance with International Financial Reporting Standards

ProCredit Bank prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted by the European Union. The financial statements were prepared on a consolidated basis according to the Accountancy Act. The consolidated financial statements were approved by the Management Board on 31 March 2016.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. The information required by IFRS 7 on the nature and extent of risks arising from financial instruments and their management is presented in the Risk Report section of the Management Report.

The principle accounting policies have been consistently applied to all the years presented, unless otherwise stated. All amounts are presented in thousands of Bulgarian leva (BGN), unless otherwise stated. The fiscal year of the group is the calendar year. Reporting and valuation are made on a going concern assumption.

2 Basis of preparation (continued)

b Consolidation

The consolidated financial statements comprise the financial statements of ProCredit Bank (Bulgaria) EAD and its subsidiary as of 31 December 2015. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. The subsidiary is fully consolidated. The group had one subsidiary as of end 2015 – ProCredit Properties EAD. Intercompany transactions, balances and unrealised gains and losses on transactions between the bank and its subsidiary companies are eliminated. Where necessary, the accounting policies of the subsidiary have been changed to ensure consistency with the policy adopted by the group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

c Measurement basis

These consolidated financial statements were prepared under the amortised cost convention, unless IFRS require recognition at fair value. Financial instruments measured at fair value for accounting purposes on an ongoing basis include all financial instruments classified as available-for-sale. Details on the applied measurement techniques for the balance sheet positions are part of the accounting policies listed below.

d Use of assumptions and estimates

The group’s financial reporting and its financial result are influenced by assumptions, estimates and management judgements which necessarily have to be made in the course of preparation of the Consolidated Financial Statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standard. Estimates and judgements are evaluated on 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.

Management judgements for certain items are especially critical for the group’s results and financial situation due to their maternity in amount. This applies to the following positions:

Impairment of credit exposures
The group reviews its loan portfolios to assess impairment at least once per month. In determining whether an impairment loss should be recorded in the Statement of Profit or Loss, the group makes judgements as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national economic conditions that correlate with defaults on assets in the group of borrowers. The group’s management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 Basis of preparation (continued)

d Use of assumptions and estimates (continued)

Measurement of deferred tax asset

The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised (for the group's accounting policy for income taxes see note 14). The profit projection is based on the latest business planning as of December 2015 approved by the Supervisory Board of the respective entity and therefore reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see notes 14 and 21.

e New and amended standards adopted by the group

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

(i) Compliance with IFRS

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) certain classes of property, plant and equipment and investment property – measured at fair value;
- assets held for sale – measured at fair value less cost of disposal, and
- defined benefit pension plans – plan assets measured at fair value.

(iii) New and amended standards adopted by the Company

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2015:

- *Annual Improvements to IFRSs 2011 – 2013 Cycle* (EU effective date – 1 January 2015).
- IFRIC Interpretation 21 Levies (EU effective date – 17 June 2014)

(iv) New standards and interpretations not yet adopted

The Group will apply the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016 (EU effective date – 1 February 2015):

- *Annual Improvements to IFRSs – 2010-2012 Cycle:*
- *Defined Benefit Plans: Employee Contributions – Amendments to IAS 19.*

The adoption of the improvements made in the 2010-2012 Cycle will require additional disclosures in our segment note. Other than that, the adoption of these amendments will not have any impact on the current period or any prior period and is not likely to affect future periods.

2 Basis of preparation (continued)

e New standards, amendments and interpretations adopted by the group (continued)

(iv) New standards and interpretations not yet adopted (continued)

The Group also has assessed the adoption of the following two amendments (EU effective date – 1 January 2016):

- *Annual Improvements to IFRSs 2012-2014 Cycle,* and
- *Disclosure Initiative: Amendments to IAS 1.*

As these amendments merely clarify the existing requirements, they do not affect the group's accounting policies or any of the disclosures.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

2 Basis of preparation (continued)

e New standards, amendments and interpretations adopted by the group (continued)

(iv) New standards and interpretations not yet adopted (continued)

The bank does not expects significant impact from the new classification, measurement and derecognition rules on the bank's financial assets and financial liabilities. While the bank has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification at amortised cost based on the current business model for these assets (held to collect and meeting the SPPI requirements). Hence the debt instruments currently classified as available for sale are to be reclassified as measured at amortised cost.

There will also be no impact on the bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the bank does not have any such liabilities.

The new hedging rules have no impact on the bank's financial statements as the institution does not apply hedge accounting.

The standard is expected to have a significant impact on the bank's loan impairment provisions. The bank has not yet assessed how its own impairment provisions would be affected by the new rules.

IFRS 15 *Revenue from Contracts with Customers.* The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2018), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Management is currently assessing the impact of the new rules and has identified the following areas that are likely to be affected:

- extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue;
- consignment sales where recognition of revenue will depend on the passing of control rather than the passing of risks and rewards;
- IT consulting services where the new guidance may result in the identification of separate performance obligations which could again affect the timing of the recognition of revenue, and
- the balance sheet presentation of rights of return, which will have to be grossed up in future (separate recognition of the right to recover the goods from the customer and the refund obligation).

At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. Management does not expect that the standard have a significant impact on the Group financial statements.

2 Basis of preparation (continued)

e New standards, amendments and interpretations adopted by the group (continued)

(iv) New standards and interpretations not yet adopted (continued)

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 January 2018.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Summary of significant accounting policies

a Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency with which the entity operates in its primary economic environment ("the functional currency"). The financial statements are presented in Bulgarian leva, which is the group's functional and presentation currency. All amounts stated within the financial statements are presented in thousands of Bulgarian leva unless otherwise specified.

(b) Transactions and balances

Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the monthly average rate of exchange when these approximate actual rates. 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 Consolidated Statement of Profit or Loss (result from foreign exchange transactions).

In the case of changes in the fair value of available-for-sale assets denominated in foreign currency 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. Translation differences on monetary items are recognised in the Consolidated Statement of Profit or Loss.

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

As of 31 December 2015, monetary assets and liabilities denominated in foreign currency were translated into Bulgarian leva at the official central bank exchange rate: BGN 1.95583 for EUR 1 and BGN 1.79007 for USD 1 (2014: BGN 1.95583 for EUR 1 and BGN 1.60841 for USD 1).

b Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised within "Interest income" and "Interest expense" in the Statement of Profit or Loss using the effective interest rate method. Interest income and expense are recognised in the Statement of Profit or Loss in the period in which they arise.

For loans where there is objective evidence that an impairment loss has been incurred, the accrual of interest income is terminated not later than 90 days after the last payment. Payments received with respect to written-off loans are not recognised in "Net interest income".

c Fee and commission income and expenses

Fees and commissions consist mainly of fees for Bulgarian leva and foreign currency transactions, and are generally recognised on an accrual basis. Fee and commission expenses concern fees incurred by the group in dealings with other banks and are recognised on the date of the transaction. Asset management fees related to the servicing of loans, originated by the group and transferred to other companies are recognised over the period to which they relate.

3 Summary of significant accounting policies (continued)

d Result from foreign exchange transactions

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

e Financial assets

The group classifies its financial assets as available-for-sale financial assets or loans and receivables. The group holds no financial assets at fair value through profit or loss or held-to-maturity instruments. Management determines the classification of financial assets at the time of initial recognition.

(i) Available-for-sale financial assets
Available-for-sale assets are those intended to be held for an indefinite amount of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial assets are recorded at fair value. Subsequently they are carried at fair value. In exceptional cases, in which fair value information cannot otherwise be measured reliably, they are measured at cost. 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. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the position "Revaluation reserve from available-for-sale financial asset", until the financial asset is derecognised or impaired (for details on impairment, see note 3h). At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "Net result from available-for-sale financial assets". Interest 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 Consolidated Statement of Profit or Loss. Dividends on available-for-sale equity instruments are recognised in the Consolidated Statement of Profit or Loss 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 where the group has transferred substantially all risks and rewards of ownership.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances to banks as well as loans and advances to customers fall under the category "Loans and receivables". They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

3 Summary of significant accounting policies (continued)

e Financial assets (continued)

(ii) Loans and receivables (continued)

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the Consolidated Statement of Profit or Loss under “net interest income”. At each balance sheet date and whenever there is evidence of potential impairment, the group assesses the value of its loans and receivables. As a consequence, their carrying amount may be reduced through the use of an allowance account (see note 3h for the accounting policy for impairment of credit exposures, as well as note 19). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised cost 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 group has transferred substantially all risks and rewards of ownership. 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.

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 15).

Fair value measurement principles

On initial recognition financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are recognised in the statement of financial position subsequently either at (amortised) cost or fair value.

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 The fair value of a liability reflects its non-performance risk.

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

The group applies the IFRS fair value, with a three-level categorisation of the inputs used in valuation techniques to measure fair value.

3 Summary of significant accounting policies (continued)

e Financial assets (continued)

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 quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin. 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.

f Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash and balances with Bulgarian National Bank ("BNB"). Generally, all cash and cash equivalent items are recognised at their nominal value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity including: cash, balances with the BNB excluding the minimum required reserve, and amounts due from other banks.

g Allowance for losses on loans and advances

(i) Impairment of loans and advances
The group assesses at each balance sheet date whether there is objective evidence that a financial asset or 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 exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. Collective assessment is carried out if on an individual basis objective evidence of impairment does not exist. The carrying amount of the exposure is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The group does not recognise losses from expected future loss events.

3 Summary of significant accounting policies (continued)

g Allowance for losses on loans and advances (continued)

Individually assessed loans and advances
Credit exposures are considered individually significant if they exceed EUR 30,000. For such exposures, it is assessed whether any signs of impairment exist that could lead to an impairment loss, i.e. any factors which might influence a customer's ability to fulfil his contractual payment obligations towards the group:
- delinquencies in contractual payments of interest or principal, in particular being more that 30 days in arrears;
- breach of contractual covenants or conditions
- initiation of bankruptcy proceedings or financial reorganisation;
- initiation of court procedures by the bank;
- all or part of the off-balance sheet exposure of a client shows signs of impairment;
- Medium" credit exposures in the highest risk class;
- any specific information on the customer's business that is expected to have a negative impact on the future cash flow; Changes in the customer's market environment that are expected to have a negative impact on the future cash flow;
- changes in the customer's market environment that are expected to have a negative impact on the future cash flow.

When determining the allowance for impairment, the aggregate exposure to the customer and the claimable amount of collateral held are taken into account.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset'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)..

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

Collectively assessed loans and advances
There are two cases in which exposures are collectively assessed for impairment:
- individually insignificant exposures that show objective evidence of impairment;
- a group of loans that does not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual loan 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. 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 (allowance for individually insignificant impaired loans) and for unimpaired credit exposures (allowance for collectively assessed loans) is based on a quantitative analysis of default rates for loan portfolios with similar risk characteristics (migration analysis).

3 Summary of significant accounting policies (continued)

g Allowance for losses on loans and advances (continued)

Future cash flows in a group of financial assets that are collectively assessed 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 group to reduce any differences between loss estimates and actual loss experience.

If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed exposures).

(ii) 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 Consolidated Statement of Profit or Loss.

(iii) Writing off loans and advances
When an exposure is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Statement of Profit or Loss as part of the allowance for impairment losses on loans and advances.

(iv) Restructured credit exposures
Restructured credit exposures which would otherwise be past due or impaired 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 which would otherwise be past due or impaired and which are individually insignificant are collectively assessed for impairment. The same applies to individually significant loans, where on an individual basis it has been determined that no impairment loss would occur.

(v) Assets acquired in exchange for loans (repossessed property)

Repossessed properties are non-financial assets acquired in exchange for loans as part of an orderly realisation are reported as "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. Repossessed properties are held for sale and no depreciation is charged for the respective assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Consolidated Statement of Profit or Loss 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.

3 Summary of significant accounting policies (continued)

h Intangible assets

Software and licences

Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 years and is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses. Depreciation is calculated as follows:

Licences	7 years
Software	5 years

i Property, plant and equipment and Investment property

Property, plant and equipment are stated at historical cost less scheduled depreciation and impairment losses, as decided by the management. 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 enterprise 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 group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their depreciable amount of the asset over its useful live, as follows:

Buildings	40 years
Furniture	10 years
Leasehold improvements	10 years
Computers	5 years
Motor vehicles	5 years
Other fixed assets	7 years

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

In addition, all assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The impairment is recognised within "Other administrative expenses".

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Net other operating income" in the Consolidated Statement of Profit or Loss.

3 Summary of significant accounting policies (continued)

j Leases

Operating leases when the group is the lessee
Operating leases are all lease agreements in which a significant portion of the risks and rewards of ownership are retained by the lessor. The total payments made under operating leases are charged to the Consolidated Statement of Profit or Loss under "Administrative expenses" on a straight-line basis over the period of the lease. The leasing objects are recognised by the lessor.

k Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Bulgarian legislation.

(a) Current income tax
Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date and is recognised as an expense in the period in which taxable profits arise. Taxes other than on income are recorded under "Other administrative expenses".

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using Bulgarian tax rates (and laws) that have been enacted by the balance sheet date and are 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 five years.

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

l Liabilities to banks, customers and institutions

All liabilities are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

m Provisions

Provisions are recognised if:
- 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;
- and the amount can be reliably estimated.

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

3 Summary of significant accounting policies (continued)

m Provisions (continued)

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 respective provision will be discounted. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the financial statements but are disclosed in the notes to the financial statements (see note 29).

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to reporting date.

n Financial guarantee contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the Statement of Profit or Loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

o Employee benefits

The group has an obligation to pay certain amounts to each employee who retires with the group in accordance with Art. 222, § 3 of the Labour Code ("LC"). According to the regulations in the LC, when a labour contract of a Group employee, who has acquired a pension right, is ended, the group is obliged to pay the employee compensation equivalent to two gross monthly salaries. In the event that the employee's length of service in the group is equal to or exceeds 10 years, as of the date of retirement, then the compensation shall amount to six gross monthly salary payments. As of reporting date, the Management of the group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The group recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period/other comprehensive income.

4 Risk management

a Business model and business strategy

ProCredit Bank aims at being a leading partner providing a complete range of financial services for small and medium enterprises in Bulgaria, since these businesses have vital significance for the economic development and the creation of new jobs. The bank functions in a responsible and transparent way, focusing on building long-term relationships with its clients and providing an inclusive range of professional and flexible business solutions, both for the businesses and for their owners and staff. The main competitive advantages of ProCredit Bank are the personal approach to the individual needs of the clients and the high quality of the services provided.

By offering simple and accessible deposit facilities the Bank promotes a culture of savings, which contributes to greater security and stability of households. At the same time ProCredit Bank does not offer complex financial products or asset management services. ProCredit Bank takes an individual approach to its clients, aiming to know their needs in order to develop a strategy for serving them effectively. The bank adheres to its concept of “Know your Customer”, which is based on the assumption that if clients and their businesses are accurately identified, the bank will be able to provide them with the most suitable banking services. A strategic focus of the work with clients is on funding projects leading to improving energy efficiency and environmental protection as well as funding production companies and agricultural producers. To achieve more efficient, effective and better-quality service, the bank provides 24-hour access to self-service areas as well as easily accessible Internet banking operations (ProBanking).

The ProCredit Bank business strategy has two main purposes – to have a positive effect on the development of the economic and social environment, and to earn a commercial profit. The business model is straightforward, with asset-side operations dominated by credit issued to clients, while the liabilities basically comprise retail deposits.

The business strategy is based on a focused approach to staff development. The group carefully recruits and trains its staff to work responsibly and professionally with clients. ProCredit Bank is an institution based on professionalism, communication and trust and it aims at a high level of satisfaction both for the staff and the clients. To this effect, the bank makes significant investments in training its personnel.

In November 2015 the Group opened two offices in Thessaloniki, Greece with the aim to offer full range of banking services to the representatives of the local business and provide professional service and advice. Both new offices in Thessaloniki are equipped with modern self-service areas, which are available to customers 24 hours and 7 days a week.

b Risk management strategy

In accordance with the simple, transparent and sustainable business strategy, the risk strategy is a conservative one. The aim is to achieve steady results, despite volatile external conditions, by following a consistent approach to managing risks. The principles of the business activity, as listed below, provide the foundation for the risk management. The consistent application of these principles significantly reduces the risks to which the group is exposed.

4 Risk management (continued)

b Risk management strategy (continued)

- **Focus on core business**

ProCredit Bank focuses on the provision of financial services to small and medium-sized businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from banking transactions. All of the bank's other operations are performed mainly in support of the core business. ProCredit Bank assumes mainly customer credit risk and operational risk in the course of the day-to-day operations. At the same time, the group avoids or strictly limits all other risks involved in banking operations even at the expense of forgone income opportunities.

- **High degree of transparency, simplicity and diversification**

The focus on small and medium enterprises results in a high degree of diversification, both in the credit portfolio and in the deposit base. This is achieved on the levels of client groups, business sectors and avoidance of concentration. The simple and easily understandable products both aid transparency and facilitate risk management.

- **Careful staff selection and intensive training**

Responsible banking means long-term relationships not only with clients, but with the employees of the Bank. The basic elements of the personnel management approach at the Bank are: recruitment, involving a six-month intensive training programme for all candidates (the Young Bankers Programme), regular trainings for current employees, intensive managerial training at the ProCredit Academies and applying a universal remuneration structure across the ProCredit group, based on fixed monthly salaries.

Other elements of the risk management approach include mechanisms designed to hedge and mitigate risks, and processes for monitoring the continuing effectiveness of these hedging and mitigating mechanisms. Specifically:

- The group applies a risk management framework, which is binding for all ProCredit institutions and defines group-wide minimum standards for risk management. The risk management policies and standards are approved by the Management of the group are updated at least annually. These policies and standards are based on the "Minimum Requirements for Risk Management" (MaRisk) and are compliant with the specifics of the bank's activities, the regulatory requirements of the Bulgarian National Bank and the situation in the country.
- All risks incurred by the group are managed by ensuring at all times an adequate level of capital and risk bearing capacity.
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks.
- Regular stress tests are performed for all material risks.
- Regular and ad hoc reporting on the risk profile, including detailed descriptions and commentaries, is carried out.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled. This also includes back testing of the models used.
- All new or significantly changed business processes, products or instruments undergo a "New Risk Approval" (NRA) process before being used for the first time. This ensures that new risks are assessed and all necessary preparations and tests are completed prior to implementation.

4 Risk management (continued)

b Risk management strategy (continued)

While the business strategy lists the objectives of the group for all material business activities and presents measures to be taken to achieve them, the group risk strategy addresses the material risks arising from the implementation of business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks and business activities in the group. The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies.

Organisation of the risk management function

The overall responsibility for risk management is assumed by the Management Board of the group. The group has an Assets and Liabilities Committee ("ALCO"), which comprises Management Board members and it is convened at least once per month, Risk Management Department, as well as specialised committees that address individual risks. In addition, the risk departments of the group report regularly to the different risk functions at ProCredit Holding, and the Supervisory Board is informed on at least a quarterly basis on all risk-relevant developments. Furthermore, the Management of the group is advised and supported by the compliance function, ensuring the implementation of legal regulations and requirements and avoiding the risks associated with non-compliance.

The rules regulating risk management at the group are part of the Internal Regulations and determine:

- The process and the purposes of risk management at the Bank;
- The structure, composition and powers of the competent internal bodies of the Bank, their activities and the measures they undertake;
- The employees' duties related to monitoring, reporting, management and analysis of various risks;
- The establishment and functioning of internal control systems and the competences of the relevant management levels and of the regular staff for taking part in risk management.

The control of risks is operationally exercised by the responsible departments with the risk management function being actively supported by Finance and Risk Management Department. The responsibilities include monitoring risk positions and compliance with limits, performing the group's capital planning and monitoring risk-bearing capacity. Risk positions are analysed regularly, discussed intensively and documented in standardised reports. Monitoring of the risk profile is carried out through a review of these reports and of additionally generated information. If necessary, additional topic-specific ad hoc reporting occurs. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising. On the basis of these risk reports, ProCredit Holding prepares an aggregate risk report on a ProCredit Group level.

Adequate processes and procedures for an effective internal control system are in place. The system is built around the principles of segregation of duties, dual control and for all risk-relevant operations the separation of front and back office up to the management level.

Internal audit is managed as an independent functional area within ProCredit Bank. The Internal Audit Department carries out the auditing procedures established by the ProCredit Holding's Group Audit. Once per year, the Internal Audit Departments carries out risk assessments of all of the bank's activities in order to arrive at a risk-based annual audit plan. The Internal Audit Department reports to an Audit Committee, which generally meets on a quarterly basis.

4 Risk management (continued)

b Risk management strategy (continued)

Regular regional and ProCredit group-wide meetings and training events support the exchange of best practices and the development and enhancement of the risk management function.

c Credit risk

The group defines credit risk as the risk that the party to a transaction fails to meet its contractual obligations, or fails to meet them in full or on time. It comprises the risk arising from customer credit exposures as well as counterparty risk (including issuer risk) and country risk. As a consequence of the business model, credit exposures to customers dominate the balance sheet and thus being the most significant risk facing the group, and customer credit exposures account for the largest share of that risk.

Exposure to credit risk

Exposure types	31 Dec 2015	31 Dec 2014
Loans and advances to banks	**102,571**	**138,119**
Available-for-sale financial assets	**19,750**	**28,503**
Fixed interest rate securities	19,750	28,503
Loans and advances to customers	**1,133,551**	**988,764**
Loans and advances to customers	1,172,167	1,025,103
Allowance for losses on loans and advances to customers	(38,616)	(36,339)
Contingent liabilities and commitments	**206,808**	**194,051**
Guarantees	22,252	28,590
Letters of credit	810	-
Credit commitments (revocable loan commitments)	183,746	165,461

The group has developed procedures to effectively manage the credit risk posed by its clients. The thorough knowledge of the risks associated with the target clients has been the basis for drafting the policies that stipulate the requirements for risk management. For the lending operations the following principles are applied:

- intensive analysis of the debt capacity of the banks' clients
- carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties
- rigorously avoiding over-indebtedness among the banks' customers
- building a personal and long-term relationship with the client, maintaining regular contact
- strictly monitoring credit exposure repayment
- closely customer-oriented, intensified loan management in the event of arrears
- collateral collection in the event of insolvency

4 Risk management (continued)

c Credit risk (continued)

The framework for managing customer credit risk is approved by the Management of both the group and ProCredit Holding and set forth in policies and standards. The policies define, among other things, the responsibilities for managing credit risk, the principles for the organisation of lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards define in more detail the group's lending operations with business clients and private clients and the range of credit products offered. They also set forth the rules governing restructuring, loan loss provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation and problem loan management). The credit risk profile of the group is assessed both on a local and ProCredit Holding level at least on a monthly basis, and more comprehensively on a quarterly basis.

The group divides its credit exposures into four client categories: very small, small and medium business credit exposures and credit exposures to private clients. Very small exposures are typically below EUR 50k; small exposures are between EUR 50k and EUR 250k; and medium exposures are above EUR 250k. The vast majority of medium exposures are for amounts below EUR 1 million. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict division of front and back office functions up to the management level is applied for risk-relevant credit exposures (over EUR 50k).

The experience of the group has shown that an appropriate credit risk assessment constitutes the most effective form of credit risk management. Credit decisions are based on an analysis of the financial situation of the client and an assessment of the creditworthiness of the client. All clients are regularly visited on-site to ensure an adequate consideration of their specific features and needs.

The credit decisions are all taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on medium credit exposures are taken by credit committees at the bank's head office.

The group applies various instruments available to reduce the risk on individual transactions related to loans and advances to customers, including security in the form of physical assets and guarantees. The most frequently provided forms of collateral are mortgage of real estate property and movables such as vehicles, goods and machines. Collateral generally is not held over other financial assets. The distribution of the loans and advances to customers by type of collateral is presented in the table below:

Collateral held	**31 Dec 2015**	**31 Dec 2014**
Mortgage	65%	68%
Cash collateral	2%	2%
Bank guarantee	0%	0%
Other types of collateral	33%	30%
Total	**100%**	**100%**

4 Risk management (continued)

c Credit risk (continued)

The group has disbursed loans to small and medium enterprises under the auspices of JEREMIE program (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative launched by the European Commission and the European Investment Bank ("EIB") Group to improve access to finance for Micro, Small and Medium-sized Enterprises in the EU within the Structural Funds framework for the period 2007 – 2013. The loans are disbursed under more beneficial conditions in comparison to the standard bank's terms and are partially guaranteed by the European Investment Fund ("EIF"). The total portfolio outstanding under JEREMIE program was BGN 207,933 thousand as of end 2015 (2014: 137,691 thousand).

The loan portfolio of ProCredit Bank is composed of exposures with regular monthly payments. This is why payment delays are a reliable indicator of increased credit risk. Consequently, the key indicator employed by ProCredit Bank to assess the level of credit risk in the group is the portfolio at risk (PAR 30 and PAR 90). This is defined as the outstanding volume of credit exposures with one or more payments of interest or principal overdue by more than 30 or 90 days, respectively. When calculating this indicator, the total outstanding exposure towards a client is taken into consideration. Deductions for available collateral are not applied. The indicator is expressed as a percentage of the total gross loan portfolio. The quality of the loan portfolio is monitored based on this key indicator on an ongoing basis. At the end of 2015, PAR 30 stood at 3.3%, slightly lower than the level reported for the end of 2014 (4.1%).

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres on close communication with the client, identification of the source of higher credit default risk and close monitoring of the client's business activities. Decisions on the measures to reduce the credit default risk for individual credit exposures are taken by specialised Credit Committee on Restructuring. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

When a credit exposure reaches problem credit exposure status, recovery officers take over full responsibility for dealings with this client. The handover is based on factors such as insolvency and occurs after the loan has been in arrears for 90 days at the latest. Generally speaking, problem credit exposures are characterised as such if the bank has significant doubts about the ability of the client to comply with the contractual terms and conditions. If necessary, recovery officers are supported by litigation officers (legal department) and/or specialists in the sale of assets or collateral. Collateral is always liquidated through sales to third parties. Repossessed property is sold at the highest possible price, typically via public auction.

As a principle, ProCredit Bank does not write off receivables from clients until it no longer expects to receive any further payments. As a rule, the more days that the client's payments are past due and the more doubtful the recoverability of the collateral, the lower the probability of further payments is. Additionally, the direct and indirect costs of managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure. Bearing these points in mind, the group writes off insignificant credit exposures (up to EUR 30k) earlier than significant ones

4 Risk management (continued)

c Credit risk (continued)

The group views the adequate provisioning of credit risk as a key strategic objective, which is achieved by making allowance for losses and impairment. In this context, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 30,000.

	Loan portfolio (LP)	Allowance for impairment	PAR (> 30 days)	PAR as % of LP	PAR coverage ratio	Net write-offs	Net write-offs as % of LP
31 Dec 2015	1,172,167	(38,616)	38,211	3.3%	101.1%	3,903	0.3%
31 Dec 2014	1,025,103	(36,339)	41,677	4.1%	87.2%	3,210	0.3%

For all credit exposures that currently show no signs of impairment (standard exposures, including restructured exposures which do not show signs of impairment), portfolio-based allowances for impairment are made based on historical loss experience. This applies to both individually significant and individually insignificant credit exposures.

ProCredit Bank calculates lump-sum specific provisions for individually insignificant credit exposures in arrears more than 30 days. Respective provisioning rates are based on historic default rates. The amount of such provisions is determined on the basis of the number of days that the client’s payments have been overdue.

Individually significant credit exposures are subject to individual monitoring. For such credit exposures, the bank performs an impairment test (specific provisions) once objective evidence exists that their quality has deteriorated. The main indicator of this is that the receivable is more than 30 days past due (PAR 30). However, credit exposures can show other signs of impairment as well. Typical examples are:

- breach of covenants or conditions, unless waived or modified by the bank
- initiation of legal proceedings by the bank
- initiation of bankruptcy proceedings
- any information on the customer’s business or changes in the client’s market environment that are having or will have a negative impact on the client’s payment capacity

Based on signs of deterioration in the quality of the credit exposure, an impairment test is performed, applying the discounted cash flow method. In this context, expected future cash flows from realised collateral items as well as other realisable cash flows are taken into account. The level of loan loss provisions is determined by the difference between the book value of the credit exposure and the net present value of the expected future cash flows.

4 Risk management (continued)

c Credit risk (continued)

Loans and advances to customers by LLP types	31 Dec 2015	31 Dec 2014
Collectively assessed impaired exposures (below EUR 30,000)		
no arrears	1,378	1,666
1-30 days in arrears	672	622
31-90 days in arrears	2,355	2,386
91-180 days in arrears	1,037	1,037
over 180 days in arrears	974	1,474
Provision for impairment	(2,999)	(3,603)
Carrying amount	**3,417**	**3,582**
Individually assessed impaired exposure (above EUR 30,000)		
no arrears	26,428	31,487
1-30 days in arrears	7,216	10,933
31-90 days in arrears	3,927	3,408
91-180 days in arrears	905	4,974
over 180 days in arrears	29,013	28,397
Provision for impairment	(17,328)	(19,005)
Carrying amount	**50,161**	**60,194**
Collectively assessed exposures which are not impaired below EUR 30,000		
no arrears	110,421	135,113
1-30 days in arrears	4,739	6,901
Provision for collectively assessed exposures	(2,419)	(2,708)
Carrying amount	**112,741**	**139,306**
Including with renegotiated terms	8,171	11,778
Collectively assessed exposures which are not impaired above EUR 30,000		
no arrears	976,192	785,077
1-30 days in arrears	6,910	11,628
Provision for collectively assessed exposures	(15,870)	(11,023)
Carrying amount	**967,232**	**785,682**
Including with renegotiated terms	16,205	20,383
Total gross amount of loans and advances to customers	1,172,167	1,025,103
Total provision for impairment	(38,616)	(36,339)
Total carrying amount of loans and advances to customers	**1,133,551**	**988,764**

The loan portfolio is monitored continuously for possible risk-relevant developments with the aid of “reporting triggers”. These include past due credit exposures (PAR 30 and PAR 90), restructured credit exposures, written-off credit exposures and allowances for impairment on the loan portfolio. These indicators are analysed in the group’s Risk Report and discussed by the Credit Risk Assessment Committee. In addition, exceptional events which could have an impact on large areas of the loan portfolio (common risk factors) are analysed. Limits could be imposed on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

Concentration risk in the group is primarily minimised through the high degree of diversification stemming from lending to the core client groups (very small, small and medium businesses) in various economic sectors. Geographically, the loans and advances to customers are predominantly disbursed to clients, which are Bulgarian residents.

4 Risk management (continued)

c Credit risk (continued)

Economic sector risk concentrations within the customer loan portfolio were as follows:

Loan and advances to customers by business sectors	31 Dec 2015	in %	31 Dec 2014	in %
Agriculture	327,244	28%	256,165	28%
Trade	315,174	27%	284,385	25%
Industry and other production	187,709	16%	170,212	17%
Services	104,501	9%	99,897	10%
Transport	76,319	7%	54,738	5%
Construction	61,013	5%	54,879	5%
Accommodation and restaurants	51,123	4%	55,202	5%
Households	49,084	4%	49,625	5%
Total gross loans and advances	**1,172,167**	**100%**	**1,025,103**	**100%**

Loans to households include housing improvement loans in the amount of BGN 38,781 thousand (2014: BGN 40,244 thousand).

ProCredit Group also limits the concentration risk in its portfolio as the disbursement of any large credit exposure (exceeding 10% of the regulatory capital) requires the approval of the ProCredit Holding Group Risk Management Committee. The largest credit exposure of the bank was 4% of the regulatory capital as of end 2015 (2014: 4%).

Loan and advances to customers by outstanding exposure amount	Business clients	Private clients	Total gross loan portfolio
As of 31 December 2015			
<= 50,000 EUR	174,997	30,628	205,625
>50,000 <= 250,000 EUR	416,571	6,913	423,484
> 250,000 EUR	543,058	-	543,058
Total	**1,134,626**	**37,541**	**1,172,167**

Loan and advances to customers by outstanding exposure amount	Business clients	Private clients	Total gross loan portfolio
As of 31 December 2014			
<= 50,000 EUR	214,109	32,316	246,425
>50,000 <= 250,000 EUR	384,309	7,633	391,942
> 250,000 EUR	386,736	-	386,736
Total gross loans and advances	**985,154**	**39,949**	**1,025,103**

Business loans include loans for business purposes (working capital or investments) disbursed to Very Small, Small and Medium clients. Business loans include agricultural loans as well as business overdrafts and revolving loans. Loans to Private clients include consumer and housing loans as well as consumer overdrafts and credit card receivables.

The quality of credit operations in all client categories is monitored by credit controlling unit. Its experts assess the quality of the credit analysis, verify compliance with internal procedures and identify signs of fraudulent activity. The unit employs experienced credit staff who not only conducts on-site visits to customers in order to monitor the lending process but also systematically screen the portfolio.

4 Risk management (continued)

c Credit risk (continued)

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and appropriate measures are taken in a timely manner. That is why the quality of the ProCredit Bank's loan portfolio is significantly higher than the sector average.

The group's client credit risk is regularly quantified in the risk-bearing capacity calculation using a credit risk model. Relevant stress scenarios are also used to determine the economic capital needed by the group to cover client credit risk in extremely negative circumstances.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurance that the group will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards.

d Counterparty risk (including issuer risk)

The group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer is unwilling or unable to fulfil its obligations on time or in full. Counterparty risk in the group mainly arises from keeping highly liquid assets for the purpose of mitigating liquidity risk. There is also structural exposure towards the BNB in the form of mandatory minimum reserves.

The framework for managing the counterparty risk is approved by the Management of the group and is specified in the respective policies and standards. These define counterparty risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to counterparty risk.

The overarching counterparty risk management strategy is to invest the group's liquid assets safely and in a diversified manner. While ProCredit Bank tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability – consequently risk considerations predominate. For this reason, the group only works with carefully selected reliable banks with high credit quality, performs placements for short terms (up to three months, but typically shorter) and use only a very limited number of simple financial instruments. Issuer risk is likewise managed according to these principles. The group is prohibited from engaging in speculative trading or proprietary trading. The impact of market price changes on the group is limited. The reasons are that the volume of securities is rather low and issuers are carefully selected based on conservative risk criteria.

4 Risk management (continued)

d Counterparty risk (including issuer risk) (continued)

Typically, counterparties are BNB, Bulgarian Government and commercial banks. The main types of exposure are account balances, short-maturity term deposits, highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (particularly foreign currency forwards and swaps). The group's exposure to counterparty and issuer risk has remained relatively stable compared to end-2014. However, the securities portfolio contracted due to a lack of re-investment options. Instead, the liquidity was place with the BNB and selected OECD banks (including ProCredit Bank Germany). The risk-adjusted exposure of the group did not change significantly during the year, remaining low. The liquid assets other than physical cash of the group were placed as follows:

Counterparty	**31 Dec 2015**	**in %**	**31 Dec 2014**	**in %**
BNB	147,255	55%	143,612	46%
Mandatory reserves	92,797	35%	77,318	25%
Others	54,458	20%	66,294	21%
Banking groups	102,571	38%	138,119	45%
OECD banks	96,475	36%	138,119	45%
local banks	6,096	2%	-	0%
Securities issued by Bulgarian Gmnt	19,750	7%	28,503	9%
Total	**269,576**	**100%**	**310,234**	**100%**

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions:

As of December 2015

Rating	**Debt securities, available for sale**	**Loans and advances to banks**	**Total**
AA- to AA+	-	-	-
A- to A+	-	653	653
BBB- to BBB+	19,750	13,070	32,820
Unrated	-	88,848	88,848
Total	**19,750**	**102,571**	**122,321**

As of December 2014

Rating	**Debt securities, available for sale**	**Loans and advances to banks**	**Total**
AA- to AA+	-	31,941	31,941
A- to A+	-	45,995	45,995
BBB- to BBB+	28,503	-	28,503
Unrated	-	60,183	60,183
Total	**28,503**	**138,119**	**166,622**

For counterparty risk, the same definitions for "in arrears" and "impaired" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was in arrears nor showed any signs of impairment as of 31 December 2015. Accordingly, no allowance for impairment was set aside for them in 2015.

4 Risk management (continued)

d Counterparty risk (including issuer risk) (continued)

As with customer credit risk, the exposure towards counterparties/issuers is managed by a limit system. ProCredit Bank conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit towards a non-OECD bank or banking group cannot exceed 10% of the ProCredit Bank's capital without prior additional approval from ProCredit Group ALCO or the ProCredit Group Risk Management Committee. For an OECD bank, the threshold is 25%. The typical maximum maturity of the term deposits is up to three months; longer maturities must be approved by ProCredit Group ALCO or the ProCredit Group Risk Management Committee. Approval is likewise required before any investments in securities. The group's counterparty risk is quantified and analysed regularly as part of the risk-bearing capacity calculation. When calculating the risk- and term-adjusted exposure, all exposures towards counterparties are taken into account.

e Market risk

Relevant market risks for the group are currency and interest rate risk. In accordance with the ProCredit group risk strategy, foreign currency risk and interest rate risk may not be incurred for the purposes of speculative or proprietary trading. Therefore, ProCredit Bank is strictly non-trading book credit institution within the terms of the Basel Capital Accord. The group closes currency positions to the extent possible. Interest rate risk positions are always only taken within established limits. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. The group does not apply hedge accounting as defined by IAS 39.

Foreign currency risk

Since ProCredit Bank is a non-trading book institution and has no commodity positions, foreign currency risk is the only risk of those classified as market price risks according to article 351 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending EU regulation no 648/2012 (Regulation 575/2013) that is relevant for regulatory capital requirements. The foreign currency risk is defined as the risk that the institution incurs losses or is negatively affected by exchange rate fluctuations.

The framework for managing the foreign currency risk is approved by the Management of the group and is specified in the respective policies and standards. These define foreign currency risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to counterparty risk.

The P&L effect of foreign currency risk occurs when the volumes of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). The total OCP is calculated as the sum of the absolute values of the individual currency positions and is limited to 10% of the bank's capital, unless deviation from this limit has been approved by the ProCredit Group ALCO or ProCredit Group Risk Management Committee. A threshold of 7.5% of the ProCredit Bank's capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP.

4 Risk management (continued)

e Market risk (continued)

The P&L effect arising from OCPs is also measured regularly when calculating the risk-bearing capacity of each individual ProCredit bank. The calculation is based on a Value at Risk (VaR)-type analysis of the OCPs considering historically extreme exchange rate volatilities during the past seven years. In addition, regular stress tests are conducted for the risk arising from OCPs. The table below summarizes the bank's exposure to foreign currency exchange rate risk.

As of 31 December 2015	**BGN**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and cash equivalents	95,784	101,744	1,561	121	199,210
Loans and advances to banks	-	50,121	45,491	6,959	102,571
Available-for-sale financial assets	7,818	19,954	240	-	28,012
Loans and advances to customers	514,859	655,829	1,479	-	1,172,167
Allowance for losses on loans and advances to customers	(14,869)	(23,721)	(26)	-	(38,616)
Property, plant and equipment	47,531	-	-	-	47,531
Intangible assets	2,921	-	-	-	2,921
Deferred income tax assets	133	-	-	-	133
Other assets	21,407	1,305	5	-	22,717
Total assets	**675,584**	**805,232**	**48,750**	**7,080**	**1,536,646**
Liabilities					
Liabilities to banks	20,013	33,617	267	-	53,897
Liabilities to customers	697,235	364,592	47,615	7,143	1,116,585
Liabilities to institutions	5,223	151,705	-	-	156,928
Other liabilities	3,450	1,409	162	2	5,023
Provisions	496	-	-	-	496
Current tax liabilities	1,016	-	-	-	1,016
Total liabilities	**727,433**	**551,323**	**48,044**	**7,145**	**1,333,945**
Net balance sheet position	**(51,849)**	**253,909**	**706**	**(65)**	**202,701**
Credit commitments (note 29)	154,133	51,123	1,552	-	206,808
Open spot and derivative transactions	9,779	(10,244)	537	(72)	-

As of 31 December 2014	**BGN**	**EUR**	**USD**	**Other**	**Total**
Total assets	640,186	761,368	28,811	5,573	1,435,938
Total liabilities	677,473	548,051	29,517	5,235	1,260,276
Net balance sheet position	**(37,287)**	**213,317**	**(706)**	**338**	**175,662**
Credit commitments (note 29)	148,229	44,472	1,350	-	194,051
Open spot and derivative transactions	15,647	(15,701)	(246)	300	-

4 Risk management (continued)

e Market risk (continued)

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses driven by changes in market interest rates and arises from structural differences between the repricing maturities of assets and liabilities.

The framework for managing the interest rate risk is approved by the Management of the group and is specified in the respective policies and standards. These define interest rate risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. General Risk Assessment Committee is responsible for all key decisions regarding interest rate risk management, and this committee analyses, at least quarterly, the interest rate risk profile of the group. In addition, each ALCO reviews any interest rate-sensitive transaction with a notional amount exceeding 5% of the bank's capital, and which has a maturity to the next repricing longer than six months. This is designed to avoid the conclusion of transactions that could have a negative impact on the interest rate risk of the institution.

In order to maintain an acceptable level of interest rate risk even when loans are disbursed with longer maturities ProCredit Bank offers its clients variable-rate loans, and also issues loans with shorter terms. In this way, the repricing maturities of assets can be matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, the bank uses a publicly available interest rate as a benchmark when adjusting the interest rates and communicates this clearly to the client at the time of disbursement.

The group's approach used to measure, monitor and limit interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Sight deposits are included in the gap analyses as non-interest bearing whereas saving accounts are presented in the time bucket up to one month. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

4 Risk management (continued)

e Market risk (continued)

As of 31 December 2015	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	392	-	-	-	-	198,818	199,210
Loans and advances to banks	49,357	-	-	-	-	53,214	102,571
Available-for-sale financial assets	6,084	10,363	-	3,302	-	8,263	28,012
Loans and advances to customers	147,463	336,321	568,568	63,616	20,777	35,422	1,172,167
Allowance for losses on loans and advances to customers	(2,822)	(6,643)	(12,886)	(1,938)	(508)	(13,819)	(38,616)
Property, plant and equipment	-	-	-	-	-	47,531	47,531
Intangible assets	-	-	-	-	-	2,921	2,921
Deferred income tax assets	-	-	-	-	-	133	133
Other assets	-	-	-	-	-	22,717	22,717
Total assets	**200,474**	**340,041**	**555,682**	**64,980**	**20,269**	**355,200**	**1,536,646**
Liabilities							
Liabilities to banks	20,106	-	21,389	10,757	-	1,645	53,897
Liabilities to customers	183,629	73,684	278,832	1,579	558	578,303	1,116,585
Liabilities to institutions	828	152,007	1,432	2,661	-	-	156,928
Other liabilities	-	-	-	-	-	5,023	5,023
Provisions	-	-	-	-	-	496	496
Current tax liabilities	-	-	-	-	-	1,016	1,016
Total liabilities	**204,563**	**225,691**	**301,653**	**14,997**	**558**	**586,483**	**1,333,945**
Interest sensitivity gap	**(4,089)**	**114,350**	**254,029**	**49,983**	**19,711**	**(231,283)**	**202,701**

As of 31 December 2014	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Total assets	190,766	258,661	473,326	102,475	27,753	382,957	1,435,938
Total liabilities	198,493	244,425	348,120	38,630	602	430,006	1,260,276
Interest sensitivity gap	**(7,727)**	**14,236**	**125,206**	**63,845**	**27,151**	**(47,049)**	**175,662**

The economic value impact is a key indicator for managing interest rate risk, and measures the potential economic value change on all assets and liabilities determined by a sudden detrimental change in interest rates. For EUR or USD it is assumed a parallel shift of the interest rate curve by +/- 200 basis points in line with the Basel Capital Accord. For local currencies the magnitude of the shocks is derived using a VaR-type methodology taking into consideration interest rate volatilities over the past seven years.

The potential economic impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies must not exceed 10% of its capital, unless approved by the ProCredit Group Risk Management Committee; the early warning indicator for each currency is set at 5%.

4 Risk management (continued)

e Market risk (continued)

A second key indicator measures the potential impact of interest rate shocks on the expected earnings of the group (P&L effect) over a period of three months. This risk measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective and is deemed significant if it exceeds 1% of the bank's capital. In addition, the P&L effect is monitored over 12 months.

Currency	31 Dec 2015		31 Dec 2014	
	12-month interest earnings	Interest rate shock Basis points	12-month interest earnings	Interest rate shock Basis points
BGN	384	+0.14%	512	+0.14%
EUR	326	+0.14%	285	+0.14%
USD	710	+0.24%	797	+0.24%
Total amount	**1,420**		**1,594**	

The group exposure to interest rate risk is quantified and analysed quarterly in the context of the risk bearing capacity calculation.

f Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit Bank's short- and long-term ability to meet its financial obligations in a complete and timely manner.

The framework for managing ProCredit Bank's liquidity and funding risk is approved by the Management of the group and is specified in the respective policies and standards. These define liquidity risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. The ALCO is responsible for all key operational decisions regarding liquidity management. Selected liquidity risk indicators are reported and presented each month in detail to the ProCredit Group Risk Management Committee002E

Liquidity risk is limited by the fact that the group primarily issues loans which feature monthly repayments and are financed largely by local deposits. The deposit-taking operations focus on our target group of business clients and savers, with whom strong relationships are established.

Liquidity risk is measured using, among other instruments, a liquidity gap analysis, and limit the risk based on the liquidity indicator "Expected assets in time bucket up to 30 days / expected liabilities in time bucket up to 30 days >= 1", which requires the institution to hold sufficient liquidity for the next 30 days. In addition, early warning indicators are defined and are monitored using reporting triggers. If the indicators go above or, as the case may be, fall below the reporting triggers, the reasons must be explained, and if appropriate, mitigating measures must be decided by the bank's ALCO and communicated to ProCredit Group Financial Risk Management. A key indicator is the highly liquid assets indicator, which determines that the banks must always hold sufficient highly liquid assets to be able to pay out at least 20% of all customer deposits at all times. The indicator stood at 38.6% as of end 2014.

4 Risk management (continued)

f Liquidity and funding risk (continued)

In addition, as part of risk management, market-related and combined stress tests are conducted monthly and ad hoc to make sure that the group keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, ProCredit Bank has a liquidity contingency plan. If unexpected circumstances arise and an individual institution from ProCredit group proves not to have sufficient liquid funds, ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose.

The liquidity of the group is managed on a daily basis by the respective responsible units (i.e. treasury), based on the ALCO-approved cash flow projections which take account of planned business developments and liquidity indicators, and is monitored by risk management and ALCO.

The following table shows the cash flows of the balance sheet assets and liabilities of the group 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.

Maturities of assets and liabilities

As of 31 December 2015	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	199,210	-	-	-	-	199,210
Loans and advances to banks	73,233	19,559	9,779	-	-	102,571
Available-for-sale financial assets	6,084	10,363	26	3,276	8,263	28,012
Loans and advances to customers	42,046	66,571	228,222	602,900	232,428	1,172,167
Allowance for losses on loans and advances to customers	(1,055)	(1,313)	(6,229)	(11,253)	(18,766)	(38,616)
Property, plant and equipment	-	-	-	-	47,531	47,531
Intangible assets	-	-	-	-	2,921	2,921
Deferred income tax assets	-	-	133	-	-	133
Other assets	2,356	-	-	-	20,361	22,717
Total assets	**321,874**	**95,180**	**231,931**	**594,923**	**292,738**	**1,536,646**
Liabilities						
Liabilities to banks	21,788	76	6,246	18,543	7,244	53,897
Liabilities to customers	761,564	73,743	278,990	1,730	558	1,116,585
Liabilities to institutions	828	2,306	25,253	107,110	21,431	156,928
Other liabilities	4,543	-	-	-	480	5,023
Provisions	496	-	-	-	-	496
Current tax liabilities	-	1,016	-	-	-	1,016
Total liabilities	**789,219**	**77,141**	**310,489**	**127,383**	**29,713**	**1,333,945**
Net liquidity gap	**(467,345)**	**18,039**	**(78,558)**	**467,540**	**263,025**	**202,701**

As of 31 December 2014	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**
Total assets	382,710	61,067	248,822	488,019	255,320	1,435,938
Total liabilities	626,958	89,790	324,397	133,425	85,706	1,260,276
Net liquidity gap	**(244,248)**	**(28,723)**	**(75,575)**	**354,594**	**169,614**	**175,662**

4 Risk management (continued)

f Liquidity and funding risk (continued)

Liabilities to customers with maturity up to 1 month include all sight deposits amounting to BGN 569,347 thousand (2014: BGN 417,476 thousand). The group's management expects that these funds will not be withdrawn at the same time or within the period in which they are reflected. Additionally, an analysis of depositors' behaviour revealed that 86% of term deposits at maturity date were not withdrawn but automatically renegotiated under the same terms and conditions.

The following table shows the undiscounted cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities.

Maturity analysis for financial assets and financial liabilities

As of 31 December 2015	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Total carrying amount
Cash and cash equivalents	199,210	-	-	-	-	**199,210**	199,210
Loans and advances to banks	102,571	-	-	-	-	**102,571**	102,571
Financial assets available for sale	6,055	10,464	174	3,533	-	**20,226**	28,012
Loans and advances to customers	41,297	74,155	258,366	676,658	255,188	**1,305,664**	1,172,167
Total financial assets	**349,133**	**84,619**	**258,540**	**680,191**	**255,188**	**1,627,671**	**1,501,960**
Liabilities to banks	21,807	108	6,631	19,972	7,707	**56,225**	53,897
Liabilities to customers	762,336	74,281	279,467	1,942	574	**1,118,600**	1,116,585
Other borrowed funds	821	2,352	25,494	108,753	21,432	**158,852**	156,928
Total financial liabilities	**784,964**	**76,741**	**311,592**	**130,667**	**29,713**	**1,333,677**	**1,327,410**

As of 31 December 2014	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Total carrying amount
Cash and cash equivalents	201,246	-	-	-	-	**201,246**	201,246
Loans and advances to banks	138,119	-	-	-	-	**138,119**	138,119
Financial assets available for sale	8,436	196	434	20,612	-	**29,678**	29,450
Loans and advances to customers	29,093	69,409	281,852	547,260	204,826	**1,132,440**	1,025,103
Total financial assets	**376,894**	**69,605**	**282,286**	**567,872**	**204,826**	**1,501,483**	**1,393,918**
Liabilities to banks	41,922	965	15,409	24,624	8,464	**91,384**	87,287
Liabilities to customers	582,140	78,518	286,880	18,939	633	**967,110**	960,010
Other borrowed funds	570	11,181	28,654	168,757	-	**209,162**	208,825
Total financial liabilities	**624,632**	**90,664**	**330,943**	**212,320**	**9,097**	**1,267,656**	1,256,122

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at significantly higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that the group finances its lending operations primarily through retail customer deposits, supplemented by long-term credit lines from international financial institutions or other ProCredit group entities. ProCredit Bank makes little use of interbank and financial markets.

The group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all significant individual transactions with external funding providers, especially international financial institutions (IFIs). An important indicator for limiting funding risk is the deposit concentration indicator. This is defined as the share of the ten largest depositors relative to the bank's total deposit base, which should not exceed 20% (it stood at 4% as of end 2015). Additionally, the level of funding from the interbank market is restricted to a low level.

4 Risk management (continued)

g Operational risk management

The group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This definition includes legal risk as well as reputational risk. Dedicated policies on operational risk management, fraud prevention, information security and outsourcing have been implemented, following approval by the Management and are reviewed annually. The principles outlined in these documents have been designed to effectively manage the group's operational and fraud risk exposure and they are in compliance with the Basel Capital Accord requirements for the "standardised approach" for operational risk.

The bank has an assigned operational risk manager to ensure the effective implementation of the operational and fraud risk management framework within the institution. In addition the Operational Risk Management Committee ("ORAC") serves as the decision-making body for operational risk matters A centralised and decentralised reporting procedure ensures that the Management as well as other members of the ORAC receive regular comprehensive reports on operational risks to serve as a basis for their decisions.

The operational risk management process consists of the identification, evaluation, treatment, monitoring, communication and documentation, and follow-up of operational and fraud risks. The main tools utilised to manage these risks are the Risk Event Database, Annual Risk Assessments, Key Risk Indicators and New Risk Approvals.

The Risk Event Database ("RED") is a tool developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. As opposed to ex-post analysis of risk events from RED, the Annual Risk Assessments are a systematic way of identifying and evaluating material risks in order to confirm the adequacy of the control environment. Key Risk Indicators ("KRI") are used as indicators of elevated fraud risk in specific areas of banking operations or specific branch locations that could be used by a potential fraudster. These indicators are analysed regularly and where needed preventive measures are agreed on. To complete the picture of operational risk, new products, processes and instruments need to be analysed to identify and manage potential risks before implementation. This is ensured by the New Risk Approval (NRA) process.

h Risks arising from money laundering, terrorist financing and other acts punishable by law

Ethical behaviour is an integral part of the values-oriented business model of all ProCredit banks. The prevention of money laundering, terrorist financing and fraud are a key component of the bank's self-perception. ProCredit Bank does not tolerate any fraudulent activity or any other questionable behaviour from either their clients or their own employees.

The group is in full compliance with all national regulatory requirements concerning the prevention of money laundering and terrorist financing. As the ProCredit group is supervised by the German Federal Financial Supervisory Authority (BaFin), ProCredit Bank has also implemented the requirements stipulated by the German Money Laundering Act. The Code of Conduct and Exclusion List constitute the core rules and regulations that all employees of the group are obliged to observe. Certain guidelines (e.g. AML Policy and Fraud Prevention Policy) specify how these basic rules are to be implemented in practice.

4 Risk management (continued)

h Risks arising from money laundering, terrorist financing and other acts punishable by law (continued)

Besides identifying all contracting parties and clarifying the purpose of the business relationship, “knowing the customer” for ProCredit Bank always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client. Without exception, the group identifies and screens all persons who could prove to be beneficial owners. In addition, the group uses specialised software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers work closely with the responsible law enforcement authorities and report regularly to the ProCredit Group AML Officer at ProCredit Holding.

i Capital management

At no time may ProCredit bank incurs greater risks than it is able to bear. This principle is implemented using different indicators for which early warning indicators and limits have been established. The indicators include capital adequacy calculations in accordance to the applicable legislation (i.e. Regulation 575/2013 of the European Parliament and the Council) and a risk-bearing capacity calculation.

The capital management of the group has the following objectives:

- compliance with external capital requirements
- compliance with the internally defined minimum capital adequacy requirements
- support for the group in implementing its plans for continued growth while following its business strategy as a house bank for small and medium-sized businesses.

The capital management of ProCredit Banks is governed by specific policies, and monitored on a monthly basis by the Management.

Risk-bearing capacity

The risk-bearing capacity concept is a key element of risk management and of the Internal Capital Adequacy Assessment Process (ICAAP). The adequacy of internal capital assessment entails defining the risk-bearing capacity of the group. The current capital resources are compared to the capital needs, which are derived from the risk profile and risk exposure, in order to guarantee the sufficiency of the capital resources at any moment. This is a continuous process which provides clarity on capital requirements and exposure to material risks.

The methods used to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. Extreme scenarios, some of them historically observed in individual countries of operation, are applied to the group in its entirety to test its ability to withstand such shocks, both in individual risk areas and in combination. The guiding principle for the risk-bearing capacity calculations is that the group is able to withstand shock scenarios without endangering depositors and other providers of funding. The crisis years 2009 and 2010 underscored, firstly, the necessity for a conservative approach towards capital management, and secondly, the developments during that time proved the strength of the group in dealing with a very difficult economic environment.

4 Risk management (continued)

i Capital management (continued)

The approach adopted for management and monitoring of the risk-bearing capacity is the “gone concern” approach. Assessment is made of the outcomes from the occurrence of an extreme operational environment, including situations which have not occurred as historical data and outcomes of various stress scenarios. Under the “gone concern” approach, a sufficient buffer is included to cover risk positions which are either not considered essential, or cannot be measured and have the potential for loss.

The material risks, as well as the applicable limits for each risk, for which the required capital is calculated, reflect the risk profile of ProCredit Bank, and are subject to annual revisions. These risks are: credit risk, counterparty risk (including issuer risk), interest rate risk, FX risk and operational risk.

Within ICAAP ProCredit Bank compares the calculated economic capital needed for the various risks to the available capital. For the purposes of ICAAP, the available capital is considered as risk-taking potential (RTP) and comprises the equity as per the financial statements, minus the intangible assets and the deferred tax assets plus Tier 2 capital. The resources available to cover risks (RAtCR) are calculated as 60% of the RTP. Only RAtCR are considered when setting the limits for each risk category. Thus a buffer of 40% of the RTP is available to cover possible shortcomings of the applied models and unfavourable effects, which can be associated with risks which have not been explicitly included in the risk-bearing capacity calculation. The table below gives more details on the calculated internal capital within the ICAAP as well as on the risk taking potential:

As of 31 Dec 2015

Material risks	Limit (% of the RTP)	Limit (amount)	Limit used (amount)	Limit used (%)
Credit risk	33.0%	65,889	22,829	11.4%
Counterparty risk – banks	5.0%	9,983	851	0.4%
FX risk	2.0%	3,993	103	0.1%
Interest rate risk	10.0%	19,967	2,951	1.5%
Operational risk	10.0%	19,967	11,202	5.6%
Resources available to cover risks (RAtCR) (limited at 60% of RTP)	**60.0%**	**119,799**	**37,936**	**19.0%**
Risk-taking potential (RTP)	**-**	**199,665**	**-**	**-**

Regulatory capital adequacy

Since 1 January 2014, the Basel III requirements, implemented in Bulgaria through Capital Requirements Directive IV and Regulation 575/2013 CRR, have been binding for the group. As per Art. 92 of Regulation 575/2013, the minimum capital requirement for the overall capital adequacy ratio is 8% of the total risk exposure. Added to this requirement are the capital buffers, which the BNB demands that the banks maintain as per Regulation No. 8 on the capital buffers of banks. They are:

- capital conservation buffer in the form of Common Equity Tier 1 equal to 2.5% of total risk exposure;
- systemic risk buffer in the form of Common Equity Tier 1 capital equal to 3.0% of the total risk exposure.

4 Risk management (continued)

i Capital management (continued)

After adding the capital buffers to the capital requirements, the minimum requirement amounts to 13.5%. The bank's internal capital management policy sets a stricter limit for the total capital adequacy capital ratio with a reporting trigger of 15.5% and a limit of 14.5%.

When defining the capital requirements for the purposes of calculation of capital adequacy as per Regulation 575/2013, the Bank adheres to the following:

- capital requirements for credit risk and counterparty risk – Standardised approach as per Part Three, Section II, Chapter 2 of Regulation 575/2013 is used for exposure classes.
- capital requirements for operational risk – Standardized approach as per part Three, Section III, Chapter 3 of Regulation 575/2013. Compared to the regulatory capital requirements for operational risk, which amount to BGN 18.9 million, the average annual loss according to data recorded in the Risk Event Database in the last three years amounted to BGN 95 thousand.

As ProCredit Bank is non-trading book institutions, which moreover do not engage in transactions involving commodities, foreign currency risk is the only market risk to be considered. However, ProCredit Bank does not calculate a capital requirement for currency risk, as the overall net foreign currency position (excluding EUR) is virtually kept very close to 0% of the capital (as of 31.12.2014 the values was -0.32%, which is less than minimum threshold of 2% according to Regulation 575/2013).

The regulatory capital ratios are calculated by dividing the capital by the amount of the risk-weighted assets; when calculating each ratio, only the respective capital components are considered (of the Common Equity Tier 1 capital, of the Tier 1 capital and of the overall capital adequacy). The table below shows information about the regulatory capital ratios:

	2015	2014
Regulatory capital		
Common Equity Tier 1 capital	146,654	146,027
Tier 2 capital	-	1,277
Total regulatory capital	**146,654**	**147,304**
Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	729,693	666,029
Risk Weighted Assets for Operational Risk	140,023	144,766
Total Risk Weighted Assets	**869,716**	**810,795**
Capital ratios		
Common Equity Tier 1 capital		
Tier 1 capital	16.9%	18.0%
Total capital	16.9%	18.2%

The Common Equity Tier 1 capital of the group is composed of subscribed capital and reserves, whereas deductions are made for intangible assets. ProCredit Bank plans growth of risk-weighted assets to be accompanied solely by an increase in Tier 1 capital.

5 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values the financial assets and liabilities in the group's statement of financial position, distributed in the respective hierarchical levels in accordance to the methods used for determining of the fair value.

As of 31 December 2015				**Fair value hierarchy**		
Financial assets	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	AFV	199,210	199,210	51,955	147,255	-
Loans and advances to banks	LaR	102,571	102,571	-	102,571	-
Loans and advances to customers	LaR	1,172,167	1,207,682	-	-	1,207,682
AFS financial assets	AFS	28,012	28,012	19,750	-	8,262
Total		**1,501,960**	**1,537,475**	**71,705**	**249,826**	**1,215,944**

Financial liabilities	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	53,897	52,662	-	21,645	31,017
Liabilities to customers	AC	1,116,585	1,117,458	-	709,200	408,258
Liabilities to institutions	AC	156,928	156,354	-	-	156,354
Total		**1,327,410**	**1,326,474**		**730,845**	**595,629**

As of 31 December 2014				**Fair value hierarchy**		
Financial assets	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	AFV	201,246	201,246	57,634	143,612	-
Loans and advances to banks	LaR	138,119	138,119	-	138,119	-
Loans and advances to customers	LaR	1,025,103	1,043,625	-	-	1,043,625
AFS financial assets	AFS	29,450	29,450	28,503	-	947
Total		**1,393,918**	**1,412,440**	**86,137**	**281,731**	**1,044,572**

Financial liabilities	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	87,287	87,758	-	41,707	46,051
Liabilities to customers	AC	960,010	962,848	-	545,713	417,135
Liabilities to institutions	AC	200,687	200,814	-	-	200,814
Subordinated debt	AC	8,138	10,962	-	-	10,962
Total		**1,256,122**	**1,262,382**	**-**	**587,420**	**674,962**

* categories: AFV - At Fair value; LaR - Loans and Receivables, AFS - Available-for-sale; AC - Amortised cost

(i) Cash and cash equivalents

The item "cash and cash equivalents" includes cash at hand and balances at central banks including mandatory reserve disclosed under note 15. The fair value of these assets matches their carrying amount.

(ii) Loans and advances to banks

Loans and advances to banks include inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Available-for-sale financial assets

The bank's portfolio of government securities is carried at fair value using the Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments. A small part of AfS assets includes equity securities where observable market prices are not available (SWIFT and Borika-Bankservice shares). These instruments are carried at cost. The investment in Visa is no longer carried at cost as at the end of 2015 due to indication of the market value as a result of expected market transaction with Visa Inc. This is the only addition to the Level 3 category in 2015.

5 Fair values of financial assets and liabilities (continued)

(iv) Loans and advances to customers

Loans and advances are net of provision for impairment. The fair value of loans and advances represents the discounted amount of estimated future cash flows using the interest rates currently offered by the bank for similar risk and maturity. Difference in fair values and carrying amounts represents the changes in the current market interest rates. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the statement of financial position date.

(v) Financial liabilities

The fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for similar risk and maturity.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution within the ProCredit group (incl. ProCredit Bank (Bulgaria) EAD). Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

Fair values of repossessed and investment properties (note 22) are established on the basis of internal calculations. The group considers the following valuation techniques:

- Cost technique. It considers the current replacement costs of replicating the property, including the cost of transportation, installation and start-up.
- Discounted cash flows model. It considers the present value of the net cash flows expected to be generated from the facility, taking into account the planned EBITDA growth rate and budgeted capital expenditure growth rate; the expected net cash flows are discounted using a risk-adjusted discount rate.
- Markets analogues methods. It considers direct comparison with the offered prices of similar properties.

6 Net interest income

	2015	2014
Interest and similar income		
Loans and advances to customers	80,317	90,306
Available-for-sale financial assets	723	1,308
Loans and advances to banks	73	87
Total interest and similar income	**81,113**	**91,701**
Interest and similar expenses		
Liabilities to customers	7,273	14,835
Liabilities to banks and international financial institutions	4,444	6,473
Hybrid capital	-	1,185
Subordinated debt	676	820
Total interest and similar expenses	**12,393**	**23,313**
Net interest income	**68,720**	**68,388**

Included in “Interest income from loans and advances to customers” for 2015 is BGN 1,489 thousand of accrued interest on impaired loans (2014: BGN 1,863 thousand).

7 Allowance for impairment losses on loans and advances

	2015	2014
Increase of impairment charge	23,118	23,521
Release of impairment charge	(10,982)	(14,372)
Recovery of written-off loans	(5,956)	(6,377)
Allowance for impairment losses on loans and advances	**6,180**	**2,772**

The total increase of impairment charge comprises the following entries:

	2015	2014
Specific impairment	7,730	10,151
Allowance for individually insignificant impaired loans	3,963	5,192
Allowance for collectively assessed loans	11,425	8,178
Increase of impairment charge	**23,118**	**23,521**

There is no risk provisioning on loans and advances to banks, as historically no defaults have been recorded and there is currently no objective evidence of impairment.

8 Net fee and commission income

	2015	2014
Fee and commission income		
Debit/credit cards	6,102	4,864
Payment transfers and transactions	6,078	5,704
Opening and account maintenance fees	3,369	4,216
Cash operations	1,960	2,123
Letters of credit and guarantees	652	746
Insurance fees	1,496	1,438
Loan management	1,234	842
Others	370	682
Total fee and commission income	**21,261**	**20,615**

8 Net fee and commission income (continued)

	2015	2014
Fee and commission expense		
Debit/credit cards	1,058	946
Correspondent accounts	508	400
Others	9	3
Total fee and commission expense	**1,575**	**1,349**
Net fee and commission income	**19,686**	**19,266**

9 Result from foreign exchange transactions

	2015	2014
Currency transactions	5,651	4,322
Net gains and losses from revaluation	190	19
Total result from foreign exchange transactions	**5,841**	**4,341**

10 Net result from available-for-sale financial assets

	2015	2014
Losses from disposal of afs securities	(741)	-
Total net result from available-for-sale financial assets through profit and loss	**(741)**	**-**

11 Net other operating income

	2015	2014
Other operating income		
Income from sale of own property	202	386
Income from sale of repossessed property	430	188
Dividends from AFS securities	48	75
Other operating income	1,262	1,119
Total other operating income	**1,942**	**1,768**
Other operating expenses		
Impairment of repossessed property	2,721	3,027
Other expenses related to repossessed property	370	285
Other operating expenses	933	892
Total other operating expenses	**4,024**	**4,204**
Net other operating income	**(2,082)**	**(2,436)**

“Dividends from available-for-sale financial assets” includes the dividend received by entities in which the bank has non-controlling interest.

12 Personnel expenses

	2015	2014
Salary expenses	17,109	21,730
Pension costs	939	1,180
Other social security costs	1,583	1,993
Other employee costs	153	268
Total personnel expenses	**19,784**	**25,171**

13 Administrative expenses

	2015	2014
Payments to Deposit Insurance Fund and Bank Restructuring Fund	6,236	4,283
Depreciation fixed and intangible assets incl. impairment	5,452	5,527
Operating lease rentals	4,003	6,785
Other professional services	3,461	3,182
Communication and transport costs	3,235	3,250
Consultancy, legal and audit services	1,761	1,851
Training	1,697	2,023
Security services	1,611	1,200
Marketing, advertising and representation	1,429	2,450
Maintenance and utilities	1,244	1,715
IT expenses	1,001	572
Non-profit tax	282	724
Other administrative expenses	1,998	1,582
Total administrative expenses	**33,410**	**35,144**

Total fees incurred for the services provided by the group auditor were BGN 121 thousand (2014: BGN 129 thousand).

14 Income tax expense

	2015	2014
Current income tax	3,505	3,260
Deferred income tax (note 21)	(124)	(320)
Total income tax expenses	**3,381**	**2,940**

There is also a tax charge in the amount of BGN 764 thousand on positions directly booked in other comprehensive income in 2015. Further information about deferred income tax is presented in note 21.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2015	2014
Profit before income tax	**32,050**	**26,472**
Theoretical tax at a tax rate of 10 % (2014: 10 %)	3,205	2,647
Tax effect from non-taxable income	(14)	(7)
Tax effect of expenses not deductible for tax purposes	190	300
Total income tax expense	**3,381**	**2,940**

The effective tax rate for 2015 is: 10.5% (2014: 11.1%).

15 Cash and cash equivalents

	2015	2014
Cash in hand	51,955	57,634
Balances with the central bank (excl. mandatory reserve)	54,458	66,294
Mandatory reserve deposits	92,797	77,318
Total cash and cash equivalents	**199,210**	**201,246**
Loans and advances to banks with a maturity up to 3 months	92,791	138,119
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	(92,797)	(77,318)
Cash and cash equivalents for the statement of cash flows	**199,204**	**262,047**

16 Loans and advances to banks

	2015	2014
Current accounts	67,137	138,119
Up to three months	35,434	-
Total loans and advances to banks	**102,571**	**138,119**

17 Available-for-sale financial assets

	2015	2014
Bulgarian Government bonds	19,750	28,503
Shares	8,262	947
Total available-for-sale financial assets	**28,012**	**29,450**

The shares represent investments in local and foreign financial intermediary institutions.

18 Loans and advances to customers

	2015	2014
Total gross loans and advances	1,172,167	1,025,103
Less provision for impairment	(38,616)	(36,339)
Total net loans and advances	**1,133,551**	**988,764**

19 Allowance for losses on loans and advances to customers

Movement in provisions was as follows:	**2015**	**2014**
Balance as of 1 January	**36,339**	**36,929**
Increase in provisions for loan impairment	12,136	9,149
Loans written off	(9,859)	(9,739)
Balance as of 31 December	**38,616**	**36,339**

Allowance for impairment on loans and advances to customers was formed as follows:

	2015	2014
Increase in provisions for loan impairment	12,136	9,149
Less recoveries on loans previously written off	(5,956)	(6,377)
Recognised in the Statement of Profit or Loss	**6,180**	**2,772**

20 Property, plant and equipment and Intangible assets

	Land and buildings	Furniture and fixtures	IT and other equipment	Leasehold improve-ments	Intangible assets	Total
Cost						
Balance as of 1 Jan 2014	33,652	2,073	32,034	7,646	8,761	84,166
Acquisitions	311	282	4,867	677	1,194	7,331
Disposals	(457)	(166)	(4,856)	(1,023)	(540)	(7,042)
Balance as of 31 Dec 2014	**33,506**	**2,189**	**32,045**	**7,300**	**9,415**	**84,455**
Depreciation						
Balance as of 1 Jan 2014	2,938	805	22,938	3,554	5,015	35,250
Depreciation for the period	802	185	2,814	625	1,098	5,524
Accumulated depreciation of disposal	(112)	(131)	(4,227)	(558)	-	(5,028)
Balance as of 31 Dec 2014	**3,628**	**859**	**21,525**	**3,621**	**6,113**	**35,746**
Carrying amounts						
Balance as of 1 Jan 2014	30,714	1,268	9,096	4,092	3,746	48,916
Balance as of 31 Dec 2014	29,878	1,330	10,520	3,679	3,302	48,709
Cost						
Balance as of 1 Jan 2015	33,506	2,189	32,045	7,300	9,415	84,455
Acquisitions	58	936	5,688	1,423	766	8,871
Disposals	-	(776)	(3,402)	(2,152)	(1)	(6,331)
Balance as of 31 Dec 2015	**33,564**	**2,349**	**34,331**	**6,571**	**10,180**	**86,995**
Depreciation						
Balance as of 1 Jan 2015	3,628	859	21,525	3,621	6,113	35,746
Depreciation for the period	798	198	2,830	480	1,146	5,452
Accumulated depreciation of disposal	-	(101)	(3,160)	(1,394)	-	(4,655)
Balance as of 31 Dec 2015	**4,426**	**956**	**21,195**	**2,707**	**7,259**	**36,543**
Carrying amounts						
Balance as of 1 Jan 2015	29,878	1,330	10,520	3,679	3,302	48,709
Balance as of 31 Dec 2015	29,138	1,393	13,136	3,864	2,921	50,452

21 Deferred income tax assets

The deferred income tax charge in the Statement of Profit or Loss and related deferred income tax assets include the following temporary differences:

	2015	2014
Deferred income tax assets		
Repossessed properties	554	338
Unused staff holiday time from previous years	60	56
Other temporary differences	100	243
Total deferred income tax assets	**714**	**637**
Deferred income tax liabilities		
Property, plant and equipment	535	582
Other temporary differences	46	46
Total deferred income tax liabilities	**581**	**628**

The following table shows the income/(charges) to which the profit and loss from deferred taxes is related:

	2015	2014
Unused staff's holidays from previous years	4	(1)
Repossessed properties	215	166
Property, plant and equipment	47	106
Other temporary differences	(142)	49
Total change in deferred income tax for the year	**124**	**320**

22 Other assets

	2015	2014
Repossessed properties	19,727	23,662
Accounts receivable	2,280	3,983
Prepayments	634	1,047
Tax receivables	76	949
Total other assets	**22,717**	**29,641**

Repossessed properties shown in the above table include real estates, agricultural and regulated land, etc. They are carried at the lower of the previous carrying amount of the written-off loan and the expected selling price less cost to sell. Reconciliation of the carrying amount of repossessed property is presented in the following table:

Repossessed property	**2015**	**2014**
Balance as of 1 January	**23,662**	**25,239**
Additions	4,199	8,204
Disposals (sales)	(5,413)	(6,754)
Change in fair value	(2,721)	(3,027)
Balance as of 31 December	**19,727**	**23,662**

23 Liabilities to banks

	2015	2014
Current accounts	1,645	4,907
Term deposits	20,000	36,800
Loans	32,252	45,580
Total liabilities to banks	**53,897**	**87,287**

Liabilities to ProCredit Bank (Germany) in the amount of BGN 22,628 thousand (2014: BGN 28,618 thousand) and liabilities to other sister banks from ProCredit group in the amount of BGN 1,574 thousand (2014: BGN 4,770 thousand) are reported under the current position.

24 Liabilities to customers

	2015	2014
Current accounts		
- private individuals	100,137	82,234
- legal entities	473,396	340,351
Total current accounts	**573,533**	**422,585**
Saving accounts		
- private individuals	87,826	79,860
- legal entities	35,860	36,106
Total saving accounts	**123,686**	**115,966**
Term deposit accounts		
- private individuals	263,959	269,590
- legal entities	143,428	144,707
Total term deposit accounts	**407,387**	**414,297**
Payments in transit	11,979	7,162
Liabilities to customers	**1,116,585**	**960,010**

25 Liabilities to financial institutions

Institution	Final year of maturity	2015	2014
European Investment Fund (EIF)	2025	103,716	76,277
European Investment Bank (EIB)	2019	27,430	35,274
KfW	2018	20,559	43,614
State Fund Agriculture	2018	5,223	9,494
European Bank for Reconstruction and Development (EBRD)	-	-	24,988
European Fund for Southeast Europe (EFSE)	-	-	11,040
Total liabilities to institutions		**156,928**	**200,687**

The loan agreement with the European Investment Fund is under the JEREMIE program aimed towards co-financing of small and medium enterprises. The total agreed loan amount is EUR 155,000 thousand (BGN equivalent: 303,154 thousand).

26 Other liabilities

	2015	2014
Creditors	3,717	1,194
Non-income taxes payable	734	1,178
Deferred income	480	1,031
Banks	71	-
Other due payments	21	9
Total other liabilities	**5,023**	**3,412**

27 Provisions

	2015	2014
Provisions for post-employment benefits (see below)	110	108
Provisions for losses from off-balance sheet items	138	135
Provisions for untaken vacation	248	240
Total provisions	**496**	**483**

Obligations for defined benefit retirement compensations

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognized are based on an actuarial report (see below information on actuarial assumptions).

The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

Movement in the present value of the defined benefit obligations

	2015	2014
Defined benefit obligations as of 1 January	**108**	**128**
Benefits paid by the plan	-	-
Current service costs	15	10
Interest cost	4	6
Actuarial (gains) losses from changes in financial and demographic assumptions	(17)	(36)
Defined benefit obligations as of 31 December	**110**	**108**

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2015	2014
Discount rate as of 31 December	3%	3%
Future salary increases	5%	5%
Interest rate increase/decrease	5%	5%

28 Equity

Share capital and share premium

As of end 2015 the capital of the bank consists of registered capital and share premium. The registered capital of was divided into 135,634 thousand shares (2014: 135,634 thousand shares) with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The sole owner of the bank's capital is ProCredit Holding. The share premium was BGN 3,496 thousand (2014: BGN 3,496 thousand).

Retained earnings and reserves

Legal and other reserves – these have been distributed from the net profit of the bank in compliance with the Commercial Law, article 246. The position "Other reserves" also comprises the amount accumulated as a result by remeasurement of post-employment benefits. The funds in these reserves could be only used for covering of current loss and loss from previous years or payments towards employees under defined benefit plan obligation.

Revaluation reserve – comprise accumulated revaluation by fair value of available-for-sale financial assets as well as changes in the actuarial gains or losses related to the calculation of provisions for post-employment benefits

Retained earnings – comprise the accumulated profit of the bank from previous years. The bank paid dividends BGN 8,502 thousand in 2015 from its retained earnings from 2014 and 2013.

29 Contingent liabilities and commitments

Off-balance sheet commitments

The following table indicates the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers:

	2015	2014
Commitments to extend credit	183,746	165,461
Letters of credit and letters of guarantee	23,062	28,590
Total contingencies and commitments	**206,808**	**194,051**

Operating lease commitments

The group leases a number of branch premises under operating leases. The leases typically run for a period of up to ten years. The leases are cancellable with prior notification up to six months. As a lessee under operating leases, the group has committed to make the following minimum rental payments:

	2015	2014
Up to 1 year	904	1,571

30 Related party transactions

ProCredit Holding is the sole shareholder of ProCredit Bank. ProCredit Holding is the ultimate parent and ultimate controlling party of the bank. ProCredit Bank has stand-by line agreement with ProCredit Holding, directed towards liquidity management, which is not utilized as of end 2014. The bank has received loans from ProCredit Bank (Germany) (fully owned subsidiary of ProCredit Holding) under loan agreements. Other sister banks keep current accounts placements as the bank provides the functioning of a payment system within the ProCredit group (ProPay) (note 23).

The related party transactions were carried out on commercial terms and at market rates. The volumes of related party transactions outstanding at year end, and associated expenses and income for the year are as follows:

Transactions with shareholders	**2015**	**2014**
Other income earned	99	87
Liabilities at the end of the period	-	-
Interest expense incurred	198	1,540
Other expenses incurred	1,529	2,040

Transactions with other ProCredit group entities	**2015**	**2014**
Loans and advances at the end of the period	88,857	60,184
Interest income earned	174	150
Other income earned	158	55
Liabilities at the end of the period	33,840	43,453
Interest expense incurred	930	1,023
Other expenses incurred	1,092	891

In 2015, the total compensation of key management personnel was BGN 682 thousand (2014: BGN 542 thousand).

31 Events after the reporting period

There have been no events after the reporting period that may have a material effect on the consolidated financial statements for 2015.

ProCredit Bank

Part of the
ProCredit Group

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