Part of the ProCredit Group

ProCredit Bank

ProCredit Bank (Bulgaria) EAD

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Disclosure Report 2016 in accordance with Article 13 of EU 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.

Data are on an individual basis as of 31.12.2016.

This English translation is provided by ProCredit Bank for information only, and is not legally valid. The Bulgarian version is the only legally binding version.

All amounts are in BGN thousands.

Introduction

As a significant subsidiary of ProCredit Holding AG & Co. KGaA (ProCredit Holding), which is the superordinated company of the ProCredit financial holding group (ProCredit group, the group), ProCredit Bank (Bulgaria) EAD (ProCredit Bank, the bank) has a duty of disclosure in accordance with Article 13 of EU Regulation No. 575/2013 (Capital Requirements Regulation, the CRR).

The intention behind the regular disclosure of qualitative and quantitative information is to give the reader a detailed insight into the current risk profile and risk management of an institution, and thus, to create transparency and enhance market discipline. In this report ProCredit Bank discloses all qualitative and quantitative information required in accordance with the CRR as at 31 December 2016. The CRR is directly applicable in Bulgaria as the country is an EU member state. ProCredit Bank is supervised by the Bulgarian National Bank (the BNB).

This disclosure report is an additional document alongside the annual financial statements of ProCredit Bank, which are published on the bank's website. In particular, the report discloses information about the bank's own funds and mechanisms for managing credit risk. For further information related to the organisation of risk management, own funds and remuneration, please refer to the group disclosure report and the group annual report, which are published on the ProCredit Holding website.

With the present report ProCredit Bank seeks to comply with the requirements for disclosure of information in accordance with Article 70 (3) of the Law on credit institutions. Confidential information or that which is legally protected or whose publication would weaken the competitive position of the bank is not subject to presentation in these disclosures. This report has not been audited by the bank's external auditors. However, the information disclosed is based on the bank's audited separate financial statements. The bank's sole subsidiary – ProCredit Properties EAD – is outside of the scope of the prudential consolidation in accordance with the CRR, therefore the current report discloses data on separate basis (the data in the disclosure report as at 31 December 2015 were on consolidated basis).

The disclosure report was formally approved by the Management Board of the bank at its regular meeting on 13 March 2017.

Due to rounding, numbers and percentages presented throughout this report may not add up precisely to the totals provided.

Article 437 CRR

Own funds

Structure of own funds

The table below presents the own funds of the bank as of 31 December 2016.

in BGN thousands	**31.12.2016**	**31.12.2015**
Paid up capital instruments	164,209	135,634
Share premium	3,496	3,496
Other reserves	10,416	10,416
(-) Value adjustments due to the requirements for prudent valuation	(40)	(20)
(-) Gross amount of other intangible assets	(3,224)	(2,921)
(-) Exposure amount of qualifying holdings outside the financial sector	(419)	(419)
(-) Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(217)	-
Common Equity Tier 1 (CET1) capital	**174,221**	**146,186**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 (T1) capital	**174,221**	**146,186**
Tier 2 (T2) capital	**-**	**-**
Total regulatory capital	**174,221**	**146,186**

The regulatory own funds as at 31 December 2016 are entirely composed of Common Equity Tier 1 capital (CET1) as defined in Part II of the CRR. The CET1 of the bank is mainly composed of subscribed capital and reserves. Deductions are made for intangible assets, investments in subsidiaries and additional valuation adjustments for fair-valued balance sheet positions. In 2016 the amount of BGN 28,575 thousand was paid as dividends and respectively reinvested by ProCredit Holding in the form of share capital (Common Equity Tier 1).

The basic characteristics of the CET1 capital components are:

- Paid-up capital instruments – consist entirely of paid-up share capital (ordinary shares).
- Share premium – the excess of the paid issue value of share capital over its face value.
- Other reserves – formed by legally defined deductions from generated net profit for the previous reporting periods.

Reconciliation of the components of regulatory own funds and the separate balance sheet

The following table presents the reconciliation of the separate balance sheet according to IFRS and the balance sheet for regulatory purposes. This includes a full reconciliation of CET1, AT1 and T2 items, as well as filters and deductions applied to own funds, and the balance sheet contained in the audited consolidated financial statements.

in BGN thousands	31.12.2016	31.12.2015
Shareholders’ equity reported on balance sheet	**231,664**	**200,015**
Retained earnings	(53,524)	(44,472)
Accumulated other comprehensive income, net of tax	(19)	(5,997)
Total shareholders' equity per regulatory balance sheet	**178,121**	**149,546**
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**178,121**	**149,546**
Regulatory adjustments	**(3,899)**	**(3,360)**
Additional value adjustments (negative amount)	(40)	(20)
Intangible assets	(3,224)	(2,921)
Exposure amount of qualifying holdings outside the financial sector	(419)	(419)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(217)	-
Common Equity Tier 1 (CET1) capital	**174,221**	**146,186**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 (T1) capital	**174,221**	**146,186**
Tier 2 (T2) capital	**-**	**-**
Subordinated debt as per balance sheet	-	-
Amortization according to Article 64 of CRR	-	-
Total regulatory capital	**174,221**	**146,186**

Main features of the capital instruments

The only capital instrument that the bank had as at 31 December 2016 was issued ordinary shares, which form part of the Common Equity Tier 1 (CET1) capital. The features of the shares are presented below.

No.	Main features	Common Equity Tier 1
1	Issuer	ProCredit Bank (Bulgaria) EAD
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Bulgarian Commercial Law; Bulgarian Law on Credit Institutions; Bulgarian Law on Markets in Financial Instruments
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	BGN 164 million
9	Nominal amount of instrument	BGN 1
9a	Issue price	Various
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	28-09-2001
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Structure of own funds during the transitional period

Disclosure of the nature and amounts of specific items in own funds is presented below in accordance with the requirements of the CRR.

Structure of own funds during the transitional period

Row		Amount 31.12.2016 in BGN thousands	Amount 31.12.2015 in BGN thousands	CRR Article Reference	Amounts subject to pre-CRR treatment or prescribed residual amount of CRR*
	Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	167,705	139,130	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
	of which: Instrument type 1	167,705	139,130	EBA list 26 (3)	N/A
	of which: Instrument type 2	-	-	EBA list 26 (3)	N/A
	of which: Instrument type 3	-	-	EBA list 26 (3)	N/A
2	Retained earnings	-	-	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	10,416	10,416	26 (1)	N/A
3a	Funds for general banking risk	-	-	26 (1) (f)	N/A
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	486 (2)	N/A
	Public sector capital injections grandfathered until 1 January 2018	-	-	483 (2)	N/A
5	Minority Interests (amount allowed in consolidated CET1)	-	-	84, 479, 480	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	26 (2)	N/A
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**178,121**	**149,546**		
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(40)	(20)	34, 105	N/A
8	Intangible assets (net of related tax liability) (negative amount)	(3,224)	(2,921)	36 (1) (b), 37, 472 (4)	N/A
9	Empty Set in the EU	-	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 472 (5)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	-	-	33 (a)	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	36 (1) (d), 40, 159, 472 (6)	N/A
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32 (1)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	33 (b)	N/A
15	Defined-benefit pension fund assets (negative amount)	-	-	36 (1) (e) , 41, 472 (7)	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	36 (1) (f), 42, 472 (8)	N/A
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36 (1) (g), 44, 472 (9)	N/A
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	N/A
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	N/A
20	Empty set in the EU	-	-		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(419)	(419)	36 (1) (k)	N/A
20b	of which: qualifying holdings outside the financial sector (negative amount)	(419)	(419)	36 (1) (k) (i), 89 to 91	N/A
20c	of which: securitisation positions (negative amount)	-	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	N/A
20d	of which: free deliveries (negative amount)	-	-	36 (1) (k) (iii), 379 (3)	N/A

**Applicable for the data as of 31 Dec 2015 and 31 Dec 2016*

Row (continued)		Amount 31.12.2016 in BGN thousands	Amount 31.12.2015 in BGN thousands	CRR Article Reference	Amounts subject to pre-CRR treatment or prescribed residual amount of CRR*
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	N/A
22	Amount exceeding the 15% threshold (negative amount)	-	-	48 (1)	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36 (1) (i), 48 (1) (b), 470, 472 (11)	N/A
24	Empty Set in the EU	-	-		N/A
25	of which: deferred tax assets arising from temporary differences	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	N/A
25a	Losses for the current financial year (negative amount)	-	-	36 (1) (a), 472 (3)	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36 (1) (1)	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(217)	-		N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(217)	-		N/A
	Of which:... filter for unrealised loss 1	(217)	-	467	N/A
	Of which: ... filter for unrealised loss 2	-	-	467	N/A
	Of which: ... filter for unrealised gain 1		-	468	N/A
	Of which: ... filter for unrealised gain 2	-	-	468	N/A
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	-	481	N/A
	Of which: ...	-	-	481	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	36 (1) (j)	N/A
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(3,900)**	**(3,360)**		**N/A**
29	**Common Equity Tier 1 (CET1) capital**	**174,221**	**146,186**		**N/A**
Additional Tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	-	-	51, 52	N/A
31	of which: classified as equity under applicable accounting standards	-	-		N/A
32	of which: classified as liabilities under applicable accounting standards	-	-		N/A
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-	486 (3)	N/A
	Public sector capital injections grandfathered until 1 January 2018	-	-	483 (3)	N/A
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	85, 86, 480	N/A
35	of which: instruments issued by subsidiaries subject to phase out	-	-	486 (3)	N/A
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	-		N/A
Additional Tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	-	-	52 (1) (b), 56 (a), 57, 475 (2)	N/A
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	56 (b), 58, 475 (3)	N/A
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (c), 59, 60, 79, 475 (4)	N/A
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	-	-	56 (d), 59, 79, 475 (4)	N/A
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts_)	-	**-**		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	N/A
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-	-		N/A

**Applicable for the data as of 31 Dec 2015 and 31 Dec 2016*

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Row (continued)		Amount 31.12.2016 in BGN thousands	Amount 31.12.2015 in BGN thousands	CRR Article Reference	Amounts subject to pre-CRR treatment or prescribed residual amount of CRR*
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-	-	477, 477 (3), 477 (4) (a)	N/A
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-	-		N/A
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	-	467, 468, 481	N/A
	Of which: ... possible filter for unrealised losses	-	-	467	N/A
	Of which: ... possible filter for unrealised gains	-	-	468	N/A
	Of which: ...	-	-	481	N/A
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)	N/A
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**-**		**N/A**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**		**N/A**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**174,221**	**146,186**		**N/A**
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	-	-	62, 63	N/A
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	486 (4)	N/A
	Public sector capital injections grandfathered until 1 January 2018	-	-	483 (4)	N/A
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	87, 88, 480	N/A
49	of which: instruments issued by subsidiaries subject to phase out	-	-	486 (4)	N/A
50	Credit risk adjustments	-	-	62 (c) and (d)	N/A
51	**Tier 2 (T2) capital before regulatory adjustments**	**-**	**-**		**N/A**
Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	63 (b) (i), 66 (a), 67, 477 (2)	N/A
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	66 (b), 68, 477 (3)	N/A
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79, 477 (4)	N/A
54a	Of which new holdings not subject to transitional arrangements	-	-		N/A
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-	-		N/A
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	66 (d), 69, 79, 477 (4)	N/A
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-		N/A
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	N/A
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-	-		N/A
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No t 575/2013	-	-	475, 475 (2) (a), 475 (3), 475 (4) (a)	N/A
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in atl instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc	-	-		N/A
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	-	467, 468, 481	N/A
	Of which: ... possible filter for unrealised losses	-	-	467	N/A
	Of which: ... possible filter for unrealised gains	-	-	468	N/A
	Of which: ...	-	-	481	N/A

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Row (continued)		Amount 31.12.2016 in BGN thousands	Amount 31.12.2015 in BGN thousands	CRR Article Reference	Amounts subject to pre-CRR treatment or prescribed residual amount of CRR*
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**-**		
58	**Tier 2 (T2) capital**	**-**	**-**		**N/A**
59	**Total capital (TC = T1 + T2)**	**174,221**	**146,186**		**N/A**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	-	-		N/A
	Of which: …items not deducted from CET1 (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	-	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	N/A
	Of which: …items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	-	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	N/A
	Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	-	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	N/A
60	**Total risk weighted assets**	**942,846**	**856,688**		**N/A**
Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.5%	17.1%	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of risk exposure amount)	18.5%	17.1%	92 (2) (b), 465	N/A
63	Total capital (as a percentage of risk exposure amount)	18.5%	17.1%	92 (2) (c)	N/A
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	5.5%	5.5%	CRD 128, 129, 130	N/A
65	of which: capital conservation buffer requirement	2.5%	2.5%		N/A
66	of which: countercyclical buffer requirement	-	-		
67	of which: systemic risk buffer requirement	3.0%	3.0%		N/A
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-	CRD 131	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.0%	12.6%	CRD 128	N/A
69	[non relevant in EU regulation]	-	-		
70	[non relevant in EU regulation]	-	-		
71	[non relevant in EU regulation]	-	-		
Amounts below the thresholds for deduction (before risk weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)	N/A
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-	36 (1) (i), 45, 48, 470, 472 (11)	N/A
74	Empty Set in the EU				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	-	36 (1) (c), 38, 48, 470, 472 (5)	N/A
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	-	62	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	62	N/A
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	62	N/A

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Row (continued)		Amount 31.12.2016 in BGN thousands	Amount 31.12.2015 in BGN thousands	CRR Article Reference	Amounts subject to pre-CRR treatment or prescribed residual amount of CRR*
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)					
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	484 (3), 486 (2) and (5)	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (3), 486 (2) and (5)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	484 (4), 486 (3) and (5)	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3) and (5)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	-	-	484 (5), 486 (4) and (5)	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4) and (5)	N/A

**Applicable for the data as of 31 Dec 2015 and 31 Dec 2016*

Article 438 CRR

Capital requirements

Adequacy of own funds

Maintaining an adequate level of capital is a core objective of the bank. At no point may the bank incur greater risks than it is able to bear. This principle is implemented by means of different measures, such as early warning indicators and limits, which are monitored regularly.

When determining the capital requirements for the purposes of calculating capital adequacy as per the CRR, the bank adheres to the following:

1. Capital requirements for credit risk and counterparty risk – Standardised approach as per Part Three, Section II, Chapter 2 of the CRR.
2. Capital requirements for operational risk – Standardised approach as per Part Three, Section III, Chapter 3 of the CRR.

As at 31 December 2016 there was no capital requirement for market risk, as the bank has no trading portfolio under the CRR. The bank does not have positions for trading, which are positions in financial instruments and commodities held for short-term resale or profit from the difference between sale and purchase prices arising from actual or expected short-term price differences on the market.

ProCredit Bank does not calculate a capital requirement for currency risk, as the overall net foreign currency position (excluding EUR) as at 31 December 2016 was 0.16% of the capital, which is less than the minimum threshold of 2% according to the CRR.

As per Article 92 of the CRR, 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 Bulgarian National Bank demands that the banks maintain as per Ordinance No. 8 of the BNB of 24 April 2014 on Banks' Capital Buffers. 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

After adding the capital buffers to the capital requirements, the minimum capital adequacy requirement amounts to 13.5%.

The table below shows the risk-weighted assets and capital requirements (by types of risk and exposure class) needed for the minimum total capital adequacy with and without the capital buffers as set by the BNB. The calculations are made as per the CRR:

Risk-weighted assets and capital requirements, by risk category

	31.12.2016			31.12.2015		
in BGN thousands	**Risk-weighted assets**	**Capital requirements (8%)**	**Capital requirements with capital buffers included (13.5%)**	**Risk-weighted assets**	**Capital requirements (8%)**	**Capital requirements with capital buffers included (13.5%)**
Credit risk	**807,123**	**64,570**	**108,962**	**716,884**	**57,351**	**96,779**
Exposures to central governments or central banks	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organisations	-	-	-	-	-	-
Exposures to institutions	105,240	8,419	14,207	21,302	1,704	2,876
Exposures to corporates	111,183	8,895	15,010	78,967	6,317	10,661
Retail exposures	320,074	25,606	43,210	304,152	24,332	41,060
Exposures secured by mortgages on immovable property	180,854	14,468	24,415	203,525	16,282	27,476
Exposures in default	39,412	3,153	5,321	47,609	3,809	6,427
Exposures associated with particularly high risk	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Items representing securitisation positions	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	-	-
Equity exposures	3,180	254	429	8,262	661	1,115
Other items	47,179	3,774	6,369	53,067	4,245	7,164
Market risks (foreign currency risk)	**-**	**-**	**-**	**-**	**-**	**-**
Operational risk	**135,723**	**10,858**	**18,323**	**139,804**	**11,184**	**18,874**
CVA risk	**-**	**-**	**-**	**-**	**-**	**-**
Total	**942,846**	**75,428**	**127,284**	**856,688**	**68,535**	**115,653**

The predominant part of the total capital requirements are for credit risk: 86% as of year-end 2016 (2015: 84%). The increase in risk-weighted assets for credit risk resulted in a 10.1% increase in capital requirements compared to the previous year, with the main drivers being the 223% growth in 2016 of the bank’s exposures to institutions – current accounts and placed deposits to banks from ProCredit group as well the growth by 6.7% of the bank's customer loan portfolio.

The regulatory capital ratios are calculated by dividing the relevant capital components by the sum of all risk-weighted assets. To calculate the Common Equity Tier 1 (CET1) capital ratio, only those capital components qualifying as CET1 capital are taken into account; for the calculation of the Tier 1 capital ratio, CET1 and Additional Tier 1 (AT1) capital are considered; for the calculation of the total capital ratio, all regulatory capital components are considered. The table below shows information about the regulatory capital ratios.

Regulatory capital ratios

	Risk-weighted assets (in BGN thousands)	Total capital ratio (in %)	Tier 1 capital ratio (in %)	Common Equity Tier 1 capital ratio (in %)
31.12.2016	942,846	18.5	18.5	18.5
31.12.2015	856,688	17.1	17.1	17.1

Adequacy of internal capital (risk-bearing capacity)

The risk-bearing capacity concept is a key element of risk management and of the Internal Capital Adequacy Assessment Process (ICAAP). In the context of the risk-bearing capacity calculation, the capital needs arising from the specific risk profile are compared with the available capital resources to ensure that the bank's capitalisation is at all times sufficient to match its risk profile. It is an ongoing process that raises awareness about the capital requirements and exposure to material risks.

The methods used to calculate the amount of economic capital required to cover the different risks the bank is exposed to are based on statistical models, provided that appropriate models are available. Extreme scenarios, some of them historically observed, are applied to the bank 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 bank is able to withstand shock scenarios without endangering depositors and other providers of funding. The crisis years 2009 and 2010 both underscored the necessity for a conservative approach towards capital management and demonstrated the bank's strength in dealing with a very difficult economic environment.

The approach adopted for management and monitoring of the risk-bearing capacity is the "gone concern" approach where a sufficient security buffer is included to cover risk positions which are not explicitly included. The material risks, as well as the applicable reporting trigger 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, currency risk and operational risk.

Within the ICAAP ProCredit Bank compares the calculated economic capital needed for the various risks to the available capital (risk-taking potential, RTP), which is comprised of 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. The table below gives more details on the calculated internal capital within the ICAAP as well as on the risk-taking potential.

Internal capital adequacy assessment

31.12.2016 in BGN thousands	**Reporting trigger in %**	**Reporting trigger**	**Actual**	**Reporting trigger used in %**
Customer credit risk	33	77,418	28,119	36.3
Counterparty risk	5	11,730	2,933	25.0
Currency risk	2	4,692	39	0.8
Interest rate risk	10	23,460	3,558	15.2
Operational risk	10	23,460	10,860	46.3
Resources available to cover risks (RAtCR) (limited at 60% of RTP)		**140,760**	**45,509**	**32.3**
Risk-taking potential (RTP)		**234,601**	**-**	

31.12.2015 in BGN thousands	**Reporting trigger in %**	**Reporting trigger**	**Actual**	**Reporting trigger used in %**
Customer credit risk	33	65,889	22,829	34.6
Counterparty risk	5	9,983	851	8.5
Currency risk	2	3,993	103	2.6
Interest rate risk	10	19,967	2,951	14.8
Operational risk	10	19,967	11,202	56.1
Resources available to cover risks (RAtCR) (limited at 60% of RTP)		**119,799**	**37,936**	**31.7**
Risk-taking potential (RTP)		**199,665**	**-**	

As shown in the table, as at December 2016, ProCredit Bank only needed 32.3% of the resources available to cover risks to secure capital adequacy, which is adequate for the risk profile of the institution.

Article 440 CRR

Capital buffers

The tables below present information on the credit risk exposures of the bank in relation to the calculation of the countercyclical capital buffer according to Article 440 of the CRR.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		**Trading book exposure**		**Own funds requirement**			**Own funds requirements weights**	**Countercyclical capital buffer rate**
31.12.2016 in BGN thousands	**Exposure value for SA**	**Exposure value IRB**	**Sum of long and short position of trading book**	**Value of trading book exposure for internal models**	**Of which: General credit exposures**	**Of which: Trading book exposures**	**Total**		
Bulgaria	1,212,579	-	-	-	55,965	-	55,965	1.00	0.00
Serbia	124	-	-	-	6	-	6	-	0.00
Greece	5,250	-	-	-	180	-	180	-	0.00
Total	**1,217,953**	**-**	**-**	**-**	**56,151**	**-**	**56,151**	**1.00**	

Amount of institution-specific countercyclical capital buffer

31.12.2016 in BGN thousands	Total
Total risk exposure amount	701,883
Institution specific countercyclical buffer rate	0.00
Institution specific countercyclical buffer requirement	0

The institution specific countercyclical capital buffer as at December 2016 was set at 0.0%.

Article 442 CRR

Credit risk adjustments

Credit risk is the risk that the counterparty in a credit agreement will not be able to fulfil its contractual obligations or that it can only fulfil them partly. The main credit risk-generating activity is providing loans to clients of the bank. The credit risk-bearing assets are the credit exposures thus formed (incl. contingent liabilities undertaken in the form of bank guarantee and letters of credit). Activities related to the storage of liquid assets (receivables from banks, security investments) also generate credit risk which is defined as counterparty risk (including issuer risk). Credit risk is the most significant risk facing the bank, and customer credit exposures account for the largest share of that risk.

Structure of the credit risk exposures

The tables below present information on the distribution of the risk exposures of the bank in relation to the credit risk by exposure classes listed in Article 112 of the CRR, broken down by industries, contractual residual maturities and countries, in accordance with Article 442 of the CRR. The value of the exposures is presented after deduction of credit risk adjustments (loan loss provisions) and before application of risk weights and techniques for the mitigation of credit risk in accordance with the CRR.

Exposures, by exposure classes

in BGN thousands	**Average amount of exposures 2016**	**Total amount of exposures 31.12.2016**	**Average amount of exposures 2015**	**Total amount of exposures 31.12.2015**
Exposures to central governments or central banks	158,364	195,468	189,199	167,005
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to institutions	189,079	331,526	91,595	102,606
Exposures to corporates	115,370	138,051	86,782	97,536
Retail exposures	578,373	624,753	562,534	588,147
Exposures secured by mortgages on immovable property	431,715	423,829	410,345	417,121
Exposures in default	35,688	34,215	25,932	40,807
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitisation positions	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-
Equity exposures	4,396	3,180	2,790	8,262
Other items*	105,601	102,634	101,221	105,022
Total	**1,618,586**	**1,853,656**	**1,470,398**	**1,526,506**

** Other items include: cash, fixed assets, repossessed assets and other balance sheet assets*

The credit portfolio volume reported on the bank’s balance sheet, net of provisions, reached BGN 1,214 million at year-end 2016. The bank was able to achieve positive results in its target client business in 2016. This growth was partially the driver for the increase in customer credit risk exposures in 2016. The bank recorded a significant increase in risk exposures towards institutions (i.e. placements with commercial banks – current accounts and short-term deposits) in the process of optimising its liquidity and funding structure. Equity exposures decreased after the closing of the purchase of Visa Europe Limited by Visa Inc.

Exposures, by significant business sectors

31.12.2016 in BGN thousands	Exposures to central government	Exposures to central bank and commercial banks	Trade	Agriculture	Industry	Services	Others	Not applicable	Total
Exposures to central governments or central banks	39,655	155,813	-	-	-	-	-	-	**195,468**
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	-	-	-	-	**-**
Exposures to institutions	-	331,526	-	-	-	-	-	-	**331,526**
Exposures to corporates	-	-	30,113	32,659	367,20	13,523	25,036	-	**138,051**
Thereof SME	-	-	*7,444*	*19,244*	*19,910*	*4,030*	*10,122*	-	***60,750***
Retail exposures	-	-	132,563	250,575	92,489	40,293	108,833	-	**624,753**
Thereof SME	-	-	*132,014*	*247,879*	*92,437*	*39,780*	*97,884*	-	***609,994***
Exposures secured by mortgages on immovable property	-	-	129,039	40,253	88,130	56,157	110,250	-	**423,829**
Exposures in default	-	-	11,894	1,934	4,931	5,677	9,779	-	**34,215**
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	-	-	-	-	**-**
Equity exposures	-	-	-	-	-	3,180	-	-	**3,180**
Other items	-	-	-	-	-	-	-	102,634	**102,634**
Total	**39,655**	**487,339**	**303,609**	**325,421**	**222,270**	**118,830**	**253,898**	**102,634**	**1,853,656**

31.12.2015 in BGN thousands	Exposures to central government	Exposures to central bank and commercial banks	Trade	Agriculture	Industry	Services	Others	Not applicable	Total
Exposures to central governments or central banks	19,750	147,255	-	-	-	-	-	-	**167,005**
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	-	-	-	-	**-**
Exposures to institutions	-	102,606	-	-	-	-	-	-	**102,606**
Exposures to corporates	-	-	23,354	29,814	17,548	8,944	17,876	-	**97,536**
Thereof SME	-	-	*8,375*	*16,061*	*8,961*	*2,669*	*9,848*	-	***45,914***
Retail exposures	-	-	135,407	251,172	70,082	36,768	94,718	-	**588,147**
Thereof SME	-	-	*135,037*	*248,587*	*70,017*	*36,276*	*85,482*	-	***575,399***
Exposures secured by mortgages on immovable property	-	-	132,520	38,220	89,575	49,713	107,093	-	**417,121**
Exposures in default	-	-	13,026	3,512	5,715	6,899	11,655	-	**40,807**
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	-	-	-	-	**-**
Equity exposures	-	-	-	-	-	8,262	-	-	**8,262**
Other items	-	-	-	-	-	-	-	105,022	**105,022**
Total	**19,750**	**249,861**	**304,307**	**322,718**	**182,920**	**110,586**	**231,242**	105,022	**1,526,506**

Part of the ProCredit Group

ProCredit Bank

Exposures, by residual maturity

31.12.2016 in BGN thousands	**<1 Year**	**1-5 Years**	**>5 Years**	**Not applicable**	**Total**
Exposures to central governments or central banks	166,445	29,023	-	-	**195,468**
Exposures to regional governments or local authorities	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	**-**
Exposures to institutions	331,526	-	-	-	**331,526**
Exposures to corporates	38,563	75,903	23,585	-	**138,051**
Retail exposures	204,687	352,967	67,099	-	**624,753**
Exposures secured by mortgages on immovable property	102,217	204,821	116,791	-	**423,829**
Exposures in default	-	-	34,215	-	**34,215**
Exposures associated with particularly high risk	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	**-**
Equity exposures	-	-	-	3,180	**3,180**
Other items	-	-	-	102,634	**102,634**
Total	**843,438**	**662,714**	**241,690**	**105,814**	**1,853,656**

31.12.2015 in BGN thousands	**<1 Year**	**1-5 Years**	**>5 Years**	**Not applicable**	**Total**
Exposures to central governments or central banks	164,766	2,239	-	-	**167,005**
Exposures to regional governments or local authorities	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	**-**
Exposures to institutions	102,571	35	-	-	**102,606**
Exposures to corporates	36,309	43,822	17,405	-	**97,536**
Retail exposures	190,876	332,075	65,196	-	**588,147**
Exposures secured by mortgages on immovable property	101,758	207,209	108,154	-	**417,121**
Exposures in default	-	-	40,807	-	**40,807**
Exposures associated with particularly high risk	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	**-**
Equity exposures	-	-	-	8,262	**8,262**
Other items	-	-	-	105,022	**105,022**
Total	**596,280**	**585,380**	**231,562**	**113,284**	**1,526,506**

Exposures, by countries

31.12.2016 in BGN thousands	**Bulgaria**	**Germany**	**Serbia**	**Greece**	**Belgium**	**Total**
Exposures to central governments or central banks	195,336	-	-	132	-	**195,468**
Exposures to regional governments or local authorities	-	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	-	**-**
Exposures to institutions	2,377	282,126	47,018	-	5	**331,526**
Exposures to corporates	138,051	-	-	-	-	**138,051**
Retail exposures	621,650	-	124	2,979	-	**624,753**
Exposures secured by mortgages on immovable property	421,558	-	-	2,271	-	**423,829**
Exposures in default	34,215	-	-	-	-	**34,215**
Exposures associated with particularly high risk	-	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	-	**-**
Equity exposures	3180	-	-	-	-	**3,180**
Other items	102,634	-	-	-	-	**102,634**
Total	**1,519,001**	**282,126**	**47,142**	**5,382**	**5**	**1,853,656**

31.12.2015 in BGN thousands	**Bulgaria**	**Germany**	**Serbia**	**Greece**	**Belgium**	**Total**
Exposures to central governments or central banks	167,005	-	-	-	-	**167,005**
Exposures to regional governments or local authorities	-	-	-	-	-	**-**
Exposures to public sector entities	-	-	-	-	-	**-**
Exposures to multilateral development banks	-	-	-	-	-	**-**
Exposures to international organisations	-	-	-	-	-	**-**
Exposures to institutions	6,132	95,821	-	-	653	**102,606**
Exposures to corporates	97,536	-	-	-	-	**97,536**
Retail exposures	586,830	-	1,317	-	-	**588,147**
Exposures secured by mortgages on immovable property	417,121	-	-	-	-	**417,121**
Exposures in default	40,807	-	-	-	-	**40,807**
Exposures associated with particularly high risk	-	-	-	-	-	**-**
Exposures in the form of covered bonds	-	-	-	-	-	**-**
Items representing securitisation positions	-	-	-	-	-	**-**
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	**-**
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-	-	**-**
Equity exposures	8,262	-	-	-	-	**8,262**
Other items	105,022	-	-	-	-	**105,022**
Total	**1,428,715**	**95,821**	**1,317**	**-**	**653**	**1,526,506**

Past-due and impaired exposures

The definitions for impairment and past due are the following:

Impaired exposure – a credit exposure is defined as impaired if the bank has objective evidence that the quality of the credit exposure has deteriorated. The main indicators for impairment of a credit exposure are:

- payments more than 30 days past due
- 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

Also, in cases of specific individually significant exposures, an individual impairment test is performed. In such cases, the exposure is classified as impaired only if the impairment test affirms this status.

Past due exposure – a credit exposure is defined as past due if the contractual interest and/or principal payments are past due for at least one day.

The bank views the adequate provisioning of credit risk as a key strategic objective, which is achieved by making credit risk adjustments (allowances 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.

Individually significant credit exposures are assessed individually for impairment (individual specific provisions). Based on signs of deterioration in the quality of the credit exposure, we perform an impairment test, 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.

Lump-sum specific provisions are calculated for individually insignificant credit exposures past due more than 30 days on a portfolio basis at historical default rates; being more than 30 days past due is regarded as objective evidence of the need to make credit risk adjustments. The amount of such provisions is determined on the basis of the number of days that the payment is past due.

For all credit exposures that currently show no signs of impairment, portfolio-based provisions are made, again based on historical loss experience. This applies to both individually significant and individually insignificant credit exposures.

The historical default rates are reviewed at least once per year. The results of this analysis are used to determine the applicable provisioning rates and for back-testing the validity of the previous year's provisioning rates.

The change in the loan loss provisions during the reporting period was as follows:

Changes in loan loss provisions (credit adjustments)

in BGN thousands	Specific provisions	General provisions
Carrying amount as at 1 January 2016	**38,616**	**-**
Additions	24,095	-
Utilisation	(5,781)	-
Releases	(12,757)	-
Transfers	-	-
Unwinding effects	(2,007)	-
Exchange rate adjustments	-	-
Carrying amount as at 31 December 2016	**42,165**	**-**

in BGN thousands	Specific provisions	General provisions
Carrying amount as at 1 January 2015	**36,339**	**-**
Additions	25,131	-
Utilisation	(9,858)	-
Releases	(10,982)	-
Transfers	-	-
Unwinding effects	(2,013)	-
Exchange rate adjustments	-	-
Carrying amount as at 31 December 2015	**38,616**	**-**

The following table presents past-due and impaired exposures, as well as provisions, by industry.

Past-due and impaired exposures, by industry

31.12.2016 in BGN thousands	Past-due but not impaired exposures	Impaired exposures	Individual specific provisions	Lump-sum specific provisions	Portfolio-based provisions	Charges for specific credit risk adjustments
Trade	3,293	13,378	6,425	978	4,753	2,696
Agriculture	2,326	2,470	814	481	5,967	642
Services	1,771	6,341	3,764	341	1,785	2,074
Industry	765	5,715	3,281	294	3,413	1,617
Others	1,945	13,578	5,362	445	4,062	2,302
Total 2016	**10,099**	**41,481**	**19,646**	**2,539**	**19,980**	**9,330**

31.12.2015 in BGN thousands	Past-due but not impaired exposures	Impaired exposures	Individual specific provisions	Lump-sum specific provisions	Portfolio-based provisions	Charges for specific credit risk adjustments
Trade	2,722	16,420	6,422	1,180	4,664	3,108
Agriculture	2,151	4,026	1,015	537	5,878	2,764
Services	1,912	7,488	2,199	253	1,560	1,361
Industry	1,932	8,484	3,161	294	2,641	1,744
Construction	2,611	17,160	4,531	732	3,547	3,159
Total 2015	**11,329**	**53,578**	**17,329**	**2,997**	**18,291**	**12,136**

Loan loss provisions (LLP) for loans and advances to customers were accounted for in the income statement as follows.

in BGN thousands	Increase of LLP		Release of LLP		Direct write-offs	Recoveries of write-offs	Total
	Specific provisions	General provisions	Specific provisions	General provisions			
Total 2016	24,095	-	(12,757)	-	-	(5,985)	5,323
Total 2015	25,130	-	(10,982)	-	-	(5,956)	8,193

Article 453 CRR

Credit risk mitigation techniques

Credit risk is the main risk faced by ProCredit Bank in its activities and the adequate collateralisation of the credit exposures helps to mitigate the risk. The collateral items are defined as assets pledged or mortgaged by the borrower to guarantee the credit exposure. In principle, the bank accepts any type of collateral which is permitted by law and considered appropriate by the relevant credit committee. The bank can provide financing guaranteed by collateral and/or guarantees. Collateral owned by related parties, partners and third parties is also accepted.

The credit decision is based on assessment of the business and creditworthiness of the borrower. Apart from this, the bank seeks to secure its receivables from clients with high-quality collateral. The choice of collateral is closely related to the credit risk assessment, which includes the financial state of the borrower, the term, the purpose of the loan and the method of repayment.

The collateral items are valued at fair market price, which represents the amount for which the property would change owner, going from the seller to the buyer, both of whom act on their own free will, without any pressure whatsoever, and who are well aware of the relevant circumstances. As a rule, real estate properties are appraised by applying at least two different methods (there is an exclusion for land for which only one method is applied – the sales comparison approach to valuation).

For business clients – small and medium enterprises – the collateral assessments are updated as part of the annual monitoring of the business activity and the financial state. This process involves checking the legal aspects concerning the collateral and its current market price. In the event that a significant reduction in the price of the asset under assessment is established, or if there is a deviation from the procedures of the bank related to the covering of the credit exposure, the case is referred to a credit committee to be resolved appropriately.

The types of collateral accepted by the bank are:

- Deposits
- Real estate (residential, administrative, commercial and industrial properties, hotels, land, etc.)
- Inventory or materials
- Vehicles
- Receivables
- Equipment
- Livestock
- Guarantees
- Other

To reduce credit risk, the following techniques (instruments) are applied when calculating the capital requirements for credit risk:

- Guarantees obtained from the European Investment Fund (EIF) on credit exposures, under the following programmes for lending to small and medium-sized enterprises:
    - First Loss Portfolio Guarantee Agreement – The EIF guarantees to cover losses on loans under certain conditions in the agreement. The amount of the guarantee is EUR 11 million for the entire portfolio of EUR 44 million, with a maximum of 80% coverage for a single exposure. As at 31 December 2016 the remaining balance sheet amount of loans granted under the programme was BGN 12 million.
    - Portfolio Risk-Sharing Facility Agreement. In accordance with the Agreement, ProCredit Bank has to provide loans to small and medium enterprises totalling EUR 111 million by the end of March 2016. The EIF provides guarantees for half of the financed amount for an individual loan in this portfolio. As at 31 December 2016, the remaining balance sheet amount of loans provided under the programme was BGN 158 million.
    - InnovFin SME Guarantee Facility – The amount of the guarantee portfolio is EUR 60 million, with a guarantee rate of 50% coverage of the exposures. As at 31 December 2016 the remaining balance sheet amount of loans granted under the programme was BGN 41 million.
    - SME Initiative Guarantee Facility – The amount of the guarantee portfolio is EUR 141 million, with a guarantee rate of 60% coverage of the exposures. As at 31 December 2016 the remaining balance sheet amount of loans granted under the programme was BGN 4.5 million.
- Funded protection in the form of cash on deposits blocked in the account of the borrower or related persons. Upon recognition of funded protection for credit risk mitigation, a simplified method is used for financial collateral under the CRR.
- Immovable property collateral – The bank has exposures in the class “Exposures secured by mortgages on immovable property” for which lower risk weights are applied

when calculating the risk-weighted assets. These are as follows: 35% for exposures fully and completely secured by mortgages on residential property and 50% for exposures fully and completely secured by mortgages on commercial immovable property. When an exposure or any part of exposure is secured by mortgage of immovable property and the conditions under Articles 125 and 126 from the CRR are not met, a risk weight of 100% is applied.

The risk exposures which are covered by eligible collateral under the CRR are presented in the following tables.

Credit risk mitigation by exposure classes

31.12.2016 in BGN thousands	**Financial collateral**	**Other eligible collateral**	**Guarantees**	**Credit derivatives**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to institutions	-	-	-	-
Exposures to corporates	602	-	12,804	-
Retail exposures	11,542	-	57,492	-
Exposures secured by mortgages on immovable property	3,920	209,408	42,018	-
Exposures in default	21	-	843	-
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitisation positions	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**16,085**	**209,408**	**113,157**	**-**

31.12.2015 in BGN thousands	**Financial collateral**	**Other eligible collateral**	**Guarantees**	**Credit derivatives**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to institutions	-	-	-	-
Exposures to corporates	583	-	8,499	-
Retail exposures	7,432	-	52,231	-
Exposures secured by mortgages on immovable property	2,904	214,400	45,860	-
Exposures in default	3	-	222	-
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitisation positions	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (“CIUs”)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**10,922**	**214,400**	**106,812**	**-**

The total loan portfolio, covered by EIF guarantees, showed a slight increase of 3.4% compared to year-end 2015, reaching BGN 215 million at the end of 2016 (2015: BGN 208 million).

The other risk exposures covered by eligible collateral remained at a stable level in 2016, stemming from the high quality of the portfolio of loans issued to target customers, i.e. companies with a sustainable business model, high-quality management, clear organisational structures and a development vision.

Article 451 CRR

Leverage

The BNB has implemented a regular leverage ratio calculation and reporting within the supervisory reporting process. ProCredit Bank relies fully on Tier 1 capital for the fulfilment of the capital requirements set under the CRR. Hence the total regulatory capital of the bank is considered when calculating the leverage ratio. The following tables provide detailed information for the calculation of leverage.

Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amounts
1	Total assets as per published financial statements	1,850,100
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	34
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	30,363
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-
8	**Leverage ratio total exposure measure**	1,876,854

Leverage ratio common disclosure

		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,850,100
2	(Asset amounts deducted in determining Tier 1 capital)	(3,643)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	1,846,457
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark- to-market method)	34
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	34

	Leverage ratio calculation (continued)	
	(SFT) Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	269,163
18	(Adjustments for conversion to credit equivalent amounts)	(238,800)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	30,363
	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposure measure	
20	**Tier 1 capital**	174,221
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	1,876,854
	Leverage ratio	
22	**Leverage ratio**	9.28%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429 (11) of Regulation (EU) NO. 575/2013	0

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,850,100
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,850,100
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	195,468
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	-
EU-7	Institutions	331,512
EU-8	Secured by mortgages of immovable properties	423,829
EU-9	Retail exposures	618,282
EU-10	Corporate	137,842
EU-11	Exposures in default	34,215
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	108,953

The bank regularly monitors and analyses the balance sheet exposures as part of the management of the components of the leverage ratio. On the basis of this information, early measures can be taken to limit the risk of excessive leveraging.

Article 450 CRR

Remuneration policy

The process of determining the remuneration of the bank’s personnel is regulated by the Rules for Remuneration of the Personnel and Remuneration Policy of Senior Positions as per Article 2 of Ordinance No. 4 of the BNB (these positions are: senior management, employees whose work is related to risk-taking; staff whose actions have a material impact on the risk profile of the institution). The bank has a Human Resources Committee which monitors changes in the situation on the labour market in the country and remuneration levels in and outside the bank, reviews salaries and makes decisions on issues concerning current or potential employees of the bank. The members of the Human Resources Committee are: the Chairman of the Supervisory Board, three members of the Management Board and a Branch Manager. Depending on the nature of the topics of the meetings, the Committee may invite other participants. The Human Resources Committee holds monthly meetings.

The following table contains aggregate quantitative information on the remuneration of senior management and members of staff whose actions have a material impact on the risk profile of the institution.

31.12.2016 in BGN thousands	**Fixed remuneration**	**Variable remuneration**				**Number of beneficiaries**	**Severance payment**		
		Cash	Shares	Share-linked instru-ments	Other types		Amount	Number of bene-ficiaries	Highest award to a single person
Management body	440	-	-	-	25	5	-	-	-
Other risk takers	2,026	-	-	-	22	35	-	-	-

The following remuneration components are not applicable for ProCredit Bank: outstanding deferred remuneration; deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; signed-on payments.