ProCredit Bank

Part of the ProCredit Group

Disclosure Report 2015

in accordance with Article 13 CRR

ProCredit Bank a.d. Belgrade

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 a.d. Belgrade (ProCredit Bank, the bank) has a duty of disclosure in accordance with Article 13 of EU Regulation No. 575/2013 (Capital Requirements Regulation, 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 2015. As the CRR is not applied in Serbia, the information provided in this disclosure report is based on local regulations issued and overseen by the National Bank of Serbia (NBS).

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 own funds and credit risk. For further information related to the organisation of risk management, own funds and remuneration, please refer to the group disclosure report as well as the group annual report, which are published on the ProCredit Holding website.

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

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Own funds

The table below shows the reconciliation of the regulatory capital with the balance sheet in the audited financial statements.

in '000 RSD	**31.12.2015**	**31.12.2014**
Shareholders' equity (accounting value)	**9,195,745**	**8,965,778**
Retained earnings	-1,826,671	-2,010,918
Shareholders' equity (regulatory value)	**7,369,075**	**6,954,860**
Deductions from core capital	-63,876	-63,876
Total core capital (regulatory value)	**7,305,199**	**6,890,984**
Supplementary capital (accounting value)	**4,438,182**	**4,406,193**
A portion of revaluation reserves referring to fixed assets and share in capital	-66,777	-65,648
Subordinated liabilities	-729,757	-362,875
Supplementary capital (regulatory value)	**3,641,648**	**3,977,670**
Deductions from supplementary capital	-63,876	-63,876
Total supplementary capital (regulatory value)	**3,577,772**	**3,913,794**
Total regulatory capital	**10,882,971**	**10,804,778**

As of the end of December 2015, core capital had increased by RSD 414 million compared to the previous year. This increase is the net result of a higher retained earnings than in previous periods (+RSD 1,081 million), an increase in the required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank (+RSD 728 million) and a decrease in intangible assets in the form of goodwill, licenses, patents and trademarks (–RSD 61 million).

Supplementary capital decreased by RSD 336 million due to a drop in subordinated liabilities which had been eligible for recognition as supplementary capital.

Regulatory capital decreased by RSD 78 million due to an increase in core capital and a decrease in supplementary capital.

According to Serbian regulations, the capital of the bank is defined as the sum of its core capital and supplementary capital less deductibles from capital. In calculating its capital, the bank observes restrictions on certain elements of capital. The table below shows the report on capital elements.

(in '000 RSD)	Amount regulaory capital 31.12.2015	"Accounting" capital 31.12.2015	Amount regulatory capital 31.12.2014	"Accounting" capital 31.12.2014
CAPITAL	**10,882,972**	**13,506,176**	**10,804,778**	**13,244,219**
CORE CAPITAL	**7,369,075**	**9,195,745**	**6,954,860**	**8,965,778**
Paid up portion of the share capital against equity stock of the bank, excluding cumulative preferred stock	3,663,012	3,663,012	3,663,012	3,663,012
Premium on issue against the bank's equity stock, excluding cumulative preferred stock	-	-	-	-
Share premium	2,776,745	2,776,745	2,776,745	2,776,745
Reserves from profit	1,643,864	1,643,864	1,643,864	1,643,864
A portion of retained earnings from the preceding years and from the current year as stated in the bank's annual financial statement, which the bank's assembly decided to allocate within the core capital	2,508,390	4,335,060	1,427,632	3,438,550
Losses from the preceding years	-	-	-	-
Profit from the current year	-	-	-	-
Losses posted in the current year	-	-	-	-
Intangible assets in the form of goodwill, licenses, patents and trademarks	288,807	288,807	349,971	349,971
Acquired own shares of the bank, excluding cumulative preferred stock	-	-	-	-
Regulatory value adjustment to international financial reporting standards and/or international accounting standards	2,934,129	2,934,129	2,206,422	2,206,422
Unrealized losses on securities available for sale	-	-	-	-
Other net negative revaluation reserves	-	-	-	-
Gains on bank liabilities measured at fair value reduced due to the change in the bank‟s credit assessment	-	-	-	-
Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank	2,934,129	2,934,129	2,206,422	2,206,422
Minority partipation in connected parties	-	-	-	-
Other negative konsolidated reserves	-	-	-	-
Other positive konsolidated reserves	-	-	-	-
SUPPLEMENTARY CAPITAL	**3,641,648**	**4,438,182**	**3,977,670**	**4,406,193**
Paid up portion of the share capital against the bank's cumulative preferred stock	-	-	-	-
Premium on issue against the bank's cumulative preferred stock	-	-	-	-
Share premium based on cumulative preferred stock	-	-	-	-
A portion of revaluation reserves referring to fixed assets and share in capital	600,996	667,773	590,838	656,486
Hybrid instruments	-	-	-	-
Subordinated liabilities	3,040,653	3,770,409	3,386,832	3,749,707
Overallocation of impairment allowances, provisions and required reserves relative to	-	-	-	-

expected losses				
Amount of capital that exceeds limitations for supplementary capital	-	-	-	-
Receivables in respect of balance-sheet assets and off-balance sheet items of the bank secured by a hybrid instrument or subordinated liability of the bank	-	-	-	-
Cumulative preferential shares of the bank which the bank received in pledge	-	-	-	-
Deductibles from the capital	**127,752**	**127,752**	**127,752**	**127,752**
from which: shall be deducted from core capital	63,876	63,876	63,876	63,876
from which: shall be deducted from supplementary capital	63,876	63,876	63,876	63,876
Direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities	127,752	127,752	127,752	127,752
Investment in hybrid instruments and subordinated liabilities of other banks and financial sector entities in which the bank has direct or indirect investment that exceeds 10% of the capital of such entities	-	-	-	-
Total amount of direct and indirect investment in banks and other financial sector entities in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made	-	-	-	-
The amount by which qualified participation in non-financial sector entities has been exceeded	-	-	-	-
Underallocation of impairment allowances, provisions and required reserves relative to expected losses	-	-	-	-
The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four working days	-	-	-	-
Receivables and potential liabilities toward persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties that are not related to the bank and are not employees of the bank	-	-	-	-
Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank in accordance with article 427 of Decision on capital adequacy of the bank	-	-	-	-
TOTAL CORE CAPITAL:	**7,305,199**	**9,131,869**	**6,890,984**	**8,901,902**
TOTAL SUPPLEMENTARY CAPITAL:	**3,577,772**	**4,374,306**	**3,913,794**	**4,342,317**
NOTES				
Underallocation of impairment allowances, provisions and required reserves relative to expected losses referred to in paragraph 1, item 5) represent a positive difference between total expected losses calculated by applying the IRB Approach	-	-	-	-
Amount of underallocation of impairment allowances, provisions and required reserves relative to expected losses	-	-	-	-
From which - on group bases:	-	-	-	-
From which - on individual bases:	-	-	-	-
Amount of expected loses based on IRB aproach	-	-	-	-

Total amount of subordinated liabilities	**3,770,409**	**3,770,409**	**3,749,707**	**3,749,707**

There are differences between regulatory capital and "accounting" capital in the following positions:

- Core capital:
  - In the "accounting" capital position, a portion of retained earnings from the preceding years and from the current year, as stated in the bank's annual financial statements, was allocated by decision of the bank's general assembly to core capital

- Supplementary capital:
  - 90% of the regulatory capital position is made up of revaluation reserves for fixed assets and share capital
  - The "accounting" capital position for subordinated liabilities includes the gross amount of subordinated liabilities. The amount of subordinated liabilities included in the regulatory supplementary capital in the last five years before maturity of these obligations is reduced by 20% per year, and in the last year before this deadline subordinated liabilities are not included in supplementary capital.

The following tables show the key features of the capital instruments issued by ProCredit Bank.

Details on capital instruments

No.	Main features		
1	Issuer	ProCredit Bank a.d. Belgrade	ProCredit Bank a.d. Belgrade
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: RSPCBSE49440	N/A
3	Governing law(s) of the instrument	Serbian Law	German Law
	Regulatory treatment		
4	Transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	N/A	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Core capital (ordinary shares shares)	Supplementary capital
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	RSD 6,440 million	RSD 1,095 million
9	Nominal amount of instrument	RSD 6,440 million	RSD 1,824 million (equal to EUR 15 million)
9a	Issue price	RSD 1,000	100%
9b	Redemption price	RSD 1,000	100%
10	Accounting classification	Shareholders' equity (common shares)	Liability - amortised cost
11	Original date of issuance	Several dates of issuance (from 2001-2008)	26.12.2007
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	15.12.2019
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	Depends on profit amount	Euribor 6M + 6.7%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	N/A	Noncumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Supplementary capital	
36	Non-compliant transitioned features	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A

No.	Main features		
1	Issuer	ProCredit Bank a.d. Belgrade	ProCredit Bank a.d. Belgrade
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	German Law	German Law
	Regulatory treatment		
4	Transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	N/A	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Supplementary capital	Supplementary capital
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	RSD 1,216 million	RSD 730 million
9	Nominal amount of instrument	RSD 1,216 million (equal to EUR 10 million)	RSD 730 million (equal to EUR 6 million)
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	23.12.2011	18.10.2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	01.06.2025	18.10.2023
14	Issuer call subject to prior supervisory approval	Yes, but only if converted to common shares	Yes, but only if converted to common shares
15	Optional call date, contingent call dates and redemption amount	Any day, 100%	Any day, 100%
16	Subsequent call dates, if applicable	Any day	Any day
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	Euribor 6M + 6.3%	Euribor 6M + 6.25%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Convertible (only to common shares)	Convertible (only to common shares)
24	If convertible, conversion trigger(s)	No conversion trigger	No conversion trigger
25	If convertible, fully or partially	Fully	Fully
26	If convertible, conversion rate	1:1	1:1
27	If convertible, mandatory or optional conversion	Optional, at the option of both the holders and the issuer	Optional, at the option of both the holders and the issuer
28	If convertible, specify instrument type convertible into	Common Equity Tier 1	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	ProCredit Bank a.d. Belgrade	ProCredit Bank a.d. Belgrade
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		
36	Non-compliant transitioned features	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A

Compared with previous year, the only modification is the RSD 1,216 million in supplementary capital. With the amendment signed on 12 March 2015, the type of the interest rate has been changed from fixed to variable and the maturity was prolonged by 3.5 years (from 23 December 2021 to 01 June 2025). The fixed interest rate was higher than the average rate (for related parties) for the Serbian market and the bank had to pay additional tax. This issue was resolved by changing from a fixed to a variable rate.

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Capital requirements

The capital requirements according to Serbian regulations are shown in the following table.

	31.12.2015		**31.12.2014**	
in RSD m	**Risk-weighted assets**	**Capital require-ments**	**Risk-weighted assets**	**Capital require-ments**
Credit Risk	**60,927**	**7,312**	**55,626**	**6,675**
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 organizations	-	-	-	-
Exposures to banks	155	19	130	16
Exposures to corporates	33,985	4,078	25,368	3,044
Retail exposures	23,220	2,786	27,022	3,243
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	124	15	210	25
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitization 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	3,443	414	2,893	347
Market risks (foreign currency risk)	**256**	**31**	**287**	**34**
Operational risk	**8,350**	**1,002**	**8,245**	**989**
CVA risk	**-**	**-**	**-**	**-**
Other risk (if applicable)	**-**	**-**	**-**	
Total	**69,533**	**8,344**	**64,158**	**7,699**

Portfolio growth led to an increase in the total amount of risk-weighted assets and capital requirements. In terms of the structure of risk-weighted assets and capital requirements, there was an increase in the business segment and a decrease in the retail segment, which is in the line with the strategic orientation of the bank (December 2015 compared with December 2014).

The table below shows the regulatory capital ratios as of 31 December 2014 and 31 December 2015.

	Risk-weighted assets in RSD m	**Total capital ratio** in %	**Tier 1 capital ratio** in %	**Common equity Tier 1 capital ratio** in %
31.12.2015	69,533	15.7%	10.5%	10.5%
31.12.2014	64,158	16.8%	10.7%	10.7%

At the end of December 2015, there was a decrease in capital adequacy compared to the end of December 2014. This was due to portfolio growth during the period, which increased the total amount of risk-weighted assets and capital requirements (90% of the total increase in risk-weighted assets and capital requirement was due to loan portfolio growth).

The bank has established a process for internal capital adequacy assessment, in accordance with Serbian regulations, which includes the following phases:

1. Identification (determination) of materially significant risks
2. Calculation of internal capital requirements for individual risks
3. Determination of total internal capital requirements
4. Determination of available internal capital
5. Comparison of the following elements:
    - amount of capital calculated in accordance with the NBS decision on capital adequacy of banks with the amount of available internal capital
    - minimum capital requirements calculated in accordance with the NBS decision on capital adequacy of banks and internal capital requirements for individual risks
    - sum of the minimum capital requirements calculated in accordance with the NBS decision on capital adequacy of banks and total internal capital requirements

Based on the comparisons, the bank analyses, presents and documents existing differences as part of the material prepared for the Assets and Liability Management Committee.

When determining the materially significant risks to which the bank is exposed and which are included in the process of internal capital adequacy assessment, the bank takes into account the type, scope, and complexity of business operations, as well as the specificity of the markets in which the bank operates. Previous experience regarding risk management in the bank and the ProCredit group is also taken into consideration, as well as historical data on negative effects on the bank’s financial result and capital.

Materially significant risks which are included in the calculations undertaken as part of internal capital adequacy assessment process:

- Credit risk: The bank calculates the regulatory capital requirement for credit risk in accordance with the NBS decision on capital adequacy of banks (standardised approach), and in addition calculates its internal capital requirement for credit risk using an internal model and compares it with the results of the calculation using the regulatory model in order to avoid a possible underestimation of credit risk due to the implementation of the standardised approach. The bank also performs a stress test for credit risk in order to avoid a possible underestimation of this risk due to the implementation of the standardised approach during a crisis.

- Counterparty risk: The bank calculates the regulatory capital requirement for counterparty risk in accordance with the NBS decision on capital adequacy of banks (standardised approach), and in addition calculates its internal capital requirement for counterparty risk using an internal model and compares it with the results of the calculation using the regulatory model in order to avoid possible underestimation of this risk due to the implementation of the standardised approach.

- Foreign currency risk (FX Risk): The bank calculates the regulatory capital requirement for foreign exchange risk in accordance with the NBS decision on capital adequacy of banks (standardised approach), and in addition calculates its internal capital requirement for foreign currency risk using an internal model (including a stress test scenario) and compares it with the results of the calculation using the regulatory model in order to avoid possible underestimation of this risk due to the implementation of the standardised approach.

- Operational risk: The bank calculates the regulatory capital requirement for operational risk in accordance with the NBS decision on capital adequacy of banks (basic indicator approach), and in addition calculates its internal capital requirement for operational risk using an internal model and compares it with the results of the calculation using the regulatory model in order to avoid possible underestimation of this risk due to the implementation of the basic indicator approach.

- Interest rate risk: Interest rate is inherent to banking business. Since the NBS decision on capital adequacy of banks does not envisage a regulatory capital allocation for this risk, it is assessed as significant in the internal capital adequacy assessment process. The bank defines the internal capital requirement for this risk by calculating the negative impact of interest rate changes on the economic value of the bank.

- Concentration risk: The bank is exposed to concentration risk on the basis of exposure to large clients, as well as on the basis of exposure concentration in certain business sectors and activities, and consequently in its internal capital adequacy assessment process, the bank assesses concentration risk to be materially significant. Since concentration risk is not covered by the regulatory capital requirement, the bank calculates its internal capital requirement for concentration risk on the basis of an internal model.

- Foreign currency risk included in credit risk: The bank uses an internal model to calculate its internal capital requirement for foreign currency risk included in credit risk.

For risks that cannot be quantified precisely (liquidity risk, strategic risk, business and macroeconomic environment risk) the bank has defined a set of guidelines, methods, criteria and processes for making and implementing decisions on acceptance, avoidance, reduction, control and transfer of risk.

In addition, the bank allocates 3% of the available internal capital for materially significant risks that cannot be precisely quantified, taking into account the ways in which the abovementioned risks are managed.

The bank has identified the possibility of underestimating the risk from Pillar 1 (risks for which the minimum capital requirements are calculated in accordance with the NBS decision on capital adequacy of banks) when calculating regulatory capital adequacy due to application of the standardised approach for credit risk, counterparty risk and foreign currency risk, and the basic indicator approach for operational risk, which is why the bank calculates the risk exposure in line with internal models and in the case of underestimation allocates additional capital by calculating the required level of internal capital.

	Capital adequacy 2014			**Capital adequacy 2015**		
in RSD m	Capital adequacy in accordance with the NBS decision on capital adequacy of banks	Capital adequacy in accordance with the process of internal assessment of capital adequacy	*Difference*	Capital adequacy in accordance with the NBS decision on capital adequacy of banks	Capital adequacy in accordance with the process of internal assessment of capital adequacy	*Difference*
(A) Capital	***10,805***	***10,805***	***-***	***10,883***	***10,883***	***-***
(B) Minimum capital requirements/ Internal capital on the basis of ICAAP	***7,698***	***8,689***	***-991***	***8,344***	***9,741***	***-1,397***
Credit risk	6,675	6,702	*-27*	7,312	7,312	-
Market risk	34	34	-	31	31	-
Operational risk	989	989	-	1,002	1,002	-
Foreign currency risk included into credit risk	-	121	*-121*	-	85	*-85*
Interest rate risk	-	512	*-512*	-	985	*-985*
Concentration risk	-	-	-	-	-	-
Liquidity risk	-	-	-	-	-	-
Strategic risk	-	-	-	-	-	-
Reputation risk	-	-	-	-	-	-
Other risks	-	331	*-331*	-	326	*-326*
Diversification effects	-	-	-	-	-	-
Capital adequacy A/(B*8.333)*100	***16.84%***	***14.92%***	***1.92%***	***15.65%***	***13.41%***	***2.24%***

Article 440 CRR

Capital buffer

According to current Serbian regulations, no capital buffers are required.

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Credit risk adjustments

For quantitative information on the bank’s exposure to credit risk and dilution risk, please refer to the following tables which show the risk broken down by categories, industry and residual contractual maturities.

in RSD m	Average amount of exposures of the 4 quarters 2015	Total amount of exposures 31.12.2015	Average amount of exposures of the 4 quarters 2014	Total amount of exposures 31.12.2014
Exposures to central governments or central banks	9,422	8,499	9,349	9,248
Exposures to regional governments or local authorities	-	-	1	-
Exposures to public sector entities	492	385	242	182
Exposures to multilateral development banks	-	-	-	-
Exposures to international organizations	-	-	-	-
Exposures to banks	745	1,152	1,138	509
Exposures to corporates	37,326	51,939	25,003	29,215
Retail exposures	37,480	37,988	39,995	39,899
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	2,182	2,097	2,093	2,079
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitization 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	153,780	160,275	55,898	160,017
Total	**241,427**	**262,335**	**133,719**	**241,150**

According to Serbian regulations, all on-balance sheet asset positions and all off-balance sheet items must be included in exposure. Also, off-balance sheet collateral items assigned to a low-risk category (0%) have no impact on risk-weighted assets and the capital requirement for credit risk. As of December 2015, the bank has included in client exposures an off-balance sheet position for a credit framework agreement (low-risk category (0%); no impact on risk-weighted assets or the capital requirement for credit risk). This change, required by the National Bank of Serbia, led to an increase in total exposures to businesses compared with previous year.

The category “Other items” in December 2014 (RSD 160,017 m) included the market value of received collateral (RSD 141,123 m) booked in December 2014 in accordance with local requirements. This booking also caused the average value of the total portfolio to increase. As “Other items” in 2015 remained at the level recorded in December 2014, the average amount for 2015 is higher than the average amount for 2014. The market value of received collateral does not affect the calculation of risk-weighted assets.

31.12.2015 in RSD m	Financial institution, government and central bank	Agri-culture	Industry and other production	Trade	Services	Other
Exposures to central governments or central banks	8,499	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-
Exposures to public sector entities	385	-	-	-	-	0
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to banks	1,152	-	-	-	-	-
Exposures to corporates	-	12,960	9,972	17,209	6,556	5,241
Thereof SME	-	6,335	8,970	15,700	6,027	2,881
Retail exposures	-	14,260	3,248	5,336	5,988	9,157
Thereof SME	-	232	1,691	3,316	3,169	1,202
Exposures secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	-	337	263	482	508	507
Exposures associated with particularly high risk	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Items representing securitization 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	-	-	-	10	30	160,235
Total	**10,036**	**27,557**	**13,483**	**23,037**	**13,082**	**175,140**

31.12.2014 in RSD m	Financial institution, government and central bank	Agri-culture	Industry and other production	Trade	Services	Other
Exposures to central governments or central banks	9,248	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-
Exposures to public sector entities	182	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organisations	-	-	-	-	-	-
Exposures to banks	509	-	-	-	-	-
Exposures to corporates	-	6,270	6,013	8,979	2,127	5,826
Thereof SME	-	3,187	5,040	8,034	1,916	4,610
Retail exposures	-	13,544	4,058	6,084	5,827	10,387
Thereof SME	-	227	2,246	3,688	2,661	1,724
Exposures secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	-	404	512	451	252	460
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	-	-	-	1	47	159,968
Total	**9,939**	**20,218**	**10,583**	**15,515**	**8,252**	**176,642**

The breakdown of the loan portfolio according to economic sector did not change significantly compared to the previous year.

Please note that the local definition for SMEs is used, i.e. the category SME includes companies classified according to Serbian accounting and auditing rules.

Legal entities are classified as Small if they meet more than two of the following conditions:

1. average number of employees: 10
2. operating income: EUR 700.000
3. average value of operating assets: EUR 350.000

but, not exceeding two of the following criteria:

1. average number of employees: 50
2. operating income: EUR 8.8m
3. average value of operating assets: EUR 4.4m

Legal entities are classified as Medium if they meet more than two of the following conditions:

1. average number of employees: 50
2. operating income: EUR 8.8m
3. average value of operating assets: EUR 4.4m

but, not exceeding two of the following criteria:

1. average number of employees: 250
2. operating income: EUR 35m

average value of operating assets: EUR 17.5m

31.12.2015 in RSD m	**<1 Year**	**1-5 Years**	**>5 Years**	**Without maturity**
Exposures to central governments or central banks	-	-	-	8,499
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	385
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to banks	46	-	-	1,105
Exposures to corporates	17,493	16,938	5,538	11,970
Retail exposures	9,971	17,040	7,057	3,920
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	1,251	515	178	153
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	12	32	-	160,231
Total	**28,773**	**34,526**	**12,773**	**186,263**

31.12.2014 in RSD m	<1 Year	1-5 Years	>5 Years	Without maturity
Exposures to central governments or central banks	0	-	-	9,248
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	182
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to banks	509	-	-	0
Exposures to corporates	11,081	15,349	2,744	41
Retail exposures	10,920	21,302	7,372	305
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	1,249	649	180	-
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	5	40	4	159,968
Total	**23,765**	**37,340**	**10,300**	**169,744**

The breakdown of the portfolio according to exposure maturity did not change significantly compared to the previous year.

According to Serbian regulation are past due exposures all individual past due items in respect of which the obligor is in default for more than 90 days in a materially significant amount.

A materially significant amount is an amount higher than 1% of a single account receivable of the bank, but not lower than RSD 1,000 if the borrower is a private individual client or RSD 10,000 if the borrower is a legal entity.

For accounting purposes impaired exposures are all individual past due items in respect of which the obligor is in arrears between 31 and 90 days.

At each balance sheet date or, if deemed necessary, ad hoc the bank assesses whether signs of impairment can be identified. The impairment loss is then determined. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis (specific provision) or are collectively assessed for a portfolio of credit exposures (general provision). The regular assessment for objective evidence of impairment is applicable for all on-balance sheet credit exposures, regardless of their size. Accordingly, the following indicators are signs of impairment:

- arrears of more than 30 days
- the bank has initiated court procedures
- bankruptcy proceedings have been initiated
- breach of covenants or conditions, unless the bank has decided to waive or modify the covenant or condition
- all or part of the off-balance sheet exposure of a client shows signs of impairment

- any specific information on the client's business or changes in the client's market environment that has or is expected to have a negative impact on the future cash flow

Individually assessed credit exposures include credit exposures that show signs of impairment, for which an impairment test is performed and where an impairment loss has been confirmed. They are provisioned according to the impairment loss that is determined by an assessment for specific individual impairment.

Credit exposures for which the bank determines that no objective evidence of impairment exists are collectively assessed (portfolio-based).

Collectively assessed credit exposures are provisioned as follows:

- Portfolio-based provisions – individually insignificant and individually significant credit exposures that do not show signs of impairment are provisioned according to the results of the migration analysis and according to their similar risk characteristics. Individually insignificant and individually significant credit exposures that display signs of impairment and for which the impairment test showed no impairment are also included in this group and provisioned accordingly.
- Lump-sum specific provisions – individually insignificant credit exposures that show signs of impairment and for which an impairment test in the form of an assessment for specific individual impairment is not performed because the operational expenses do not justify this are provisioned according to the results of the migration analysis and according to their similar risk characteristics. All credit exposures for which the bank determines that they belong to a cluster of clients that are considered to be impaired due to external influences and/or extraordinary events are also grouped here and lump-sum specific provisions are determined.

31.12.2015 in RSD m	**Past-due but not impaired exposures**	**Impaired exposures**	**Individual specific provisions**	**Lump-sum specific provisions**	**Portfolio-based provisions**	**Charges for specific credit risk adjustments**
Financial institution, government and central bank	-	-	-	-	-	-
Agriculture	337	106	118	192	246	20
Industry and other production	263	59	122	64	112	-4
Other	507	27	13	193	138	-25
Services	508	105	165	144	103	17
Trade	482	67	204	128	174	3
Total 2015	**2,097**	**365**	**622**	**720**	**774**	**10**

31.12.2014 in RSD m	**Past-due but not impaired exposures**	**Impaired exposures**	**Individual specific provisions**	**Lump-sum specific provisions**	**Portfolio-based provisions**	**Charges for specific credit risk adjustments**
Financial institution, government and central bank	-	-	-	-	-	-
Agriculture	404	549	101	179	252	-155
Industry and other production	512	575	189	70	127	-95
Other	451	556	170	139	182	-94
Services	252	322	38	154	107	-63
Trade	460	542	78	178	141	-57
Total 2014	**2,079**	**2,544**	**576**	**720**	**810**	**-463**

31.12.2015 in RSD m	**Specific provisions**	**General provisions**
Carrying amount as at 1 January 2015	557	1,549
Additions	1,161	3,052
Utilisation	-	185
Releases	1,054	2,933
Transfers	-	-
Unwinding effects	42	-
Exchange rate adjustments	-	11
Carrying amount as at 31 December 2015	622	1,494

31.12.2014 in RSD m	**Specific provisions**	**General provisions**
Carrying amount as at 1 January 2014	576	1,993
Additions	936	3,258
Utilisation	-	826
Releases	891	3,029
Transfers	-	-
Unwinding effects	45	-
Exchange rate adjustments	-	135
Carrying amount as at 31 December 2014	576	1,530

	Increase of risk provisioning		**Release of risk provisioning**		**Direct write-offs**	**Recoveries of write-offs**	**Total**
in RSD m	**Specific provisions**	**General provisions**	**Specific provisions**	**General provisions**			
Total 2015	1,161	3,052	1,096	3,118	29	250	- 221
Total 2014	936	3,393	936	3,856	27	231	- 666

Article 450 CRR

Remuneration policy

The HR Committee is the main body overseeing HR questions. It meets 12 times per year. The same body decides on remuneration once per year (in May).

The HR Committee consists of two representatives of the executive board, one member of the HR department, and two managers from the business structure/network.

ProCredit Bank does not use the services of external consultants. The salary structure is in line with the salary scheme defined by ProCredit Holding for all ProCredit banks. All members of the HR Committee have an equal role and equal rights in the decision-making process.

The following table shows the remuneration of the members of the Executive Board and the risk takers (according to delegated act (EU) Nr. 604/2014) of the bank.

The amount shown as variable remuneration is the amount which our employees received for buying shares in IPC Invest, an amount which is disbursed only once during the year. This is not part of regular annual salaries, and is not paid every year. Salaries do not include variable components which are conditional on the employee's performance and results.

31.12.2015	Variable remuneration				Severance payments		
'000 EUR	Cash	Shares	Share-linked instruments	Other types	Amount	Number of beneficiaries	Highest award to a single person
Management body	214	29		4	20	1	20
Other risk takers	930	27		36	20	3	7

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.

Article 451 CRR

Leverage

According to current Serbian regulations, no requirements have been published concerning the leverage ratio.

Article 453 CRR

Credit risk mitigation techniques

To modify the risk-weighted exposure amounts for credit risk by the effects of risk mitigation techniques, a bank may use the following credit protection instruments:

1. funded credit protection instruments:
   - financial collateral
   - on-balance sheet netting
   - master netting agreements
   - other funded credit protection instruments
2. unfunded credit protection instruments:

- guarantees, other forms of surety and counter-guarantees (including other similar instruments of unfunded credit protection)
- credit derivatives

For purpose of calculating risk-weighted assets ProCredit Bank did not apply risk mitigation techniques that are available (financial collateral – cash deposit and guarantees issued by banks).

Assuming that risk mitigation techniques were applied, the capital adequacy ratio would be higher approximately 0.3 percentage points.