ProCredit HOLDING

2018 Annual Report

Key Figures of the Group

Consolidated Statement of Financial Position (in '000 EUR)	Dec 2018	Dec 2017	Change
Total assets	5,966,184	5,499,378	466,805
Loans and advances to customers	4,392,173	3,909,911	482,262
Allowance for losses on loans and advances to customers	-124,344	-128,527	4,182
Net Loan Portfolio	4,267,829	3,781,384	486,445
Liabilities to customers	3,825,938	3,570,932	255,005
Total equity	743,634	658,533	85,101

Consolidated Statement of Profit or Loss (in '000 EUR)			
Operating income*	248,006	248,414	-0.2%
Operating expenses*	171,406	186,265	-8.0%
Profit of the period from continuing operations*	59,043	47,586	24.1%
Profit of the period	54,479	48,102	13.3%

Key Performance Indicators			
Change in customer loan portfolio	12.3%	7.7%	4.5%
Cost-income ratio*	70.2%	73.6%	-3.3%
Return on equity (ROE)	7.6%	7.1%	0.5%
Common Equity Tier 1 capital ratio	14.4%	13.7%	0.7%

Additional indicators			
Customer deposits to customer loan portfolio	87.1%	91.3%	-4.2%
Net interest margin*	3.3%	3.8%	-0.5%
Share of credit-impaired loans*	3.1%	4.5%	-1.4%
Ratio of allowances to credit-impaired loans*	90.8%	84.6%	6.2%
Green customer loan portfolio	677,515	489,132	188,383

Operational Statistics			
Number of Financial Institutions*/**	13	13	0.0%
Number of Staff*	2,971	3,323	-10.6%
Number of Outlets*	87	117	-25.6%

* The presentation contains only continuing operations for 2018 as well as for 2017, i.e. without Mexico ARDEC, Banco ProCredit El Salvador and Banco ProCredit Nicaragua

** excluding Mexico ARDEC

Contents

Letter of the Chairperson of the Supervisory Board

2018 was a year of further strengthening our positioning as a leading SME bank focused on Eastern Europe, whilst optimizing our operational set up. The group has been steadily implementing the twin strategic initiatives built around the "Hausbank" and "ProCredit Direct" concepts. At the same time, we succeeded in further focusing our efforts and in broadly minimising our exposure to non-target business and private clients.

As the "Hausbank" for dynamic SMEs in our markets, we achieved strong business growth with our target clients in 2018. Two key indicators are the 12.3% growth in our loan portfolio and the further improvement in our already good portfolio quality. We are sure that this success is a result of our focused business model and the good quality service delivered by our highly professional staff. In addition, we succeeded in exiting our recovery operations in Mexico. In these terms we are reassured that the ProCredit group can now reap the rewards of the investments made in our strategic vision in recent years. We are now working with our target clients with the right staff in a highly efficient operational setup.

The group's direct banking platform for personal and transaction banking supports our modern, client-oriented reputation, which we believe distinguishes ProCredit in our markets. Quipu, the group's software subsidiary, has further extended the mobile and web-based functionalities that ProCredit Direct can offer its clients. The group strategy is to work above all with the entrepreneurs and middle-income employees who value a state-of-the-art, integrated digital approach to banking: an approach which is also more consistent with our "Hausbank for SMEs" identity. ProCredit Direct is devised to be easy to use and to enhance client loyalty. This in turn supports a stable deposit base and fee income for the group. Valuable indicators of success for this strategic initiative in 2018 were the increase in fee income and the fact that the deposit volume of the group increased over the year, although we actively reduced the number of non-core private clients.

Based on these encouraging developments, we look forward with confidence to further improvement in our business results: a growing high-quality loan portfolio supported by locally mobilised deposits as we deepen our "Hausbank" relationships with SMEs and expand our private client base with targeted client acquisition. We believe that our specialist approach works because we understand our SME clients well and can serve their needs better than others given our well-trained staff and well-designed technology.

This approach goes hand in hand with the development role we believe the ProCredit group plays. In these turbulent times for our continent, we are convinced that it is important to have a stable, responsible bank group which specialises in the countries on the edge of the European Union and the SMEs which can drive employment and economic and social development.

Not least this role can be seen in the strong growth of the group's green loan portfolio. This has already reached 15% of the group loan portfolio and we welcome the ambitious plan to achieve at least 20% in coming years. Clients who invest in more energy-efficient technology not only make a positive contribution to limiting climate change, but they are also the innovative, forward-looking clients who drive progress. These are the clients ProCredit banks seek to work with and foster.

Furthermore, the group continues to have a conservative approach to risk management and to be disciplined in introducing stringent German and EU banking standards in all ProCredit banks. For example, we put great emphasis on our AML and data protection standards, particularly given the growing importance of digital banking. In 2018, *the group further strengthened its policies in the areas of information security and operational risk in response to developments in German and EU regulations. The 2018 ProCredit Group Impact Report provides a good overview. A particular milestone is the commitment the group has made in making a contribution to selected Sustainable Development Goals.*

In delivering on our expectations, the commitment and quality of the people who have chosen to work with ProCredit make us confident. Having strongly reduced the number of group staff in recent years, we have now reached what we see as an optimal level of just below 3,000. We can now focus even more strongly on targeted recruitment and staff development. In 2018, the unique ProCredit six-month Onboarding Process for new recruits was revamped and training on environmental awareness was expanded. The ProCredit Academy in Germany continues to be the centre for intensive training programmes, regular group seminars and joint strategic meetings, which build a strong shared vision and set of values. This sense of solidarity and common purpose is certainly a major factor in enabling us to respond so effectively and efficiently to the challenges and opportunities which our markets and our clients bring.

Gender diversity is a natural consequence of our deeply meritocratic and transparent approach to staff recruitment and development. Some 50% of the members of our management boards and middle management are women. More than 75% of our staff have been with the group for more than 5 years, and on average, members of the management teams have been in our banks for more than 12 years. These experienced, committed people provide the backbone of our success and my deep appreciation goes to them.

The Supervisory Board has been stable over the year and I am grateful to my Board colleagues for this highly effective forum for analysis and discussion on all aspects of the performance and risk profile of the group. The cooperation with our dedicated management team has also been excellent. My thanks need also go to our shareholders, who continue to show confidence in the group. The successful capital increase completed in February 2018 helped to achieve the comfortable capital levels at end-2018 which will support our ambitious plans for business growth.

Frankfurt am Main, March 2019

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board, ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA

Supervisory Board
As of 31 December 2018:

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board

Mr Christian Krämer
Deputy Chairman of the Supervisory Board

Ms Marianne Loner

Mr Rainer Peter Ottenstein

Mr Petar Slavov

Mr Jasper Snoek

Letter of the Management Board

2018 was another rewarding year for ProCredit as we continued to implement the group strategy.

At 12.3%, 2018 saw strong annual growth in the group loan portfolio in line with expectations. This was a considerable improvement on 2017, when we grew by 8%. The loan portfolio of all three regional segments grew by more than 10%, with growth of the Eastern Europe segment being particularly strong at 19.8%. We reduced our non-core loan portfolio, typically with volumes of below EUR 50,000, by almost EUR 170 million in 2018. At year-end, the group customer loan portfolio stood at EUR 4.4 billion, with business loans accounting for 92.2% of this figure. More than half the portfolio has a maturity in excess of 3 years and as such consists of investment loans which help client expansion plans and demonstrate the long-term nature of our client relationships. The total loan portfolio contains 20% loans to agricultural enterprises, and 15.4% are classified as green loans.

At the same time we are succeeding in expanding other business with our SME clients in line with our full-service "Hausbank" concept. For example, deposits increased over the year by EUR 255 million and the percentage of deposits accounted for by legal entities increased to over 50% at end-2018. Transaction volumes also increased over the year.

Particularly important has been the further improvement of loan portfolio quality. The share of credit-impaired loans in the total loan portfolio fell in the course of 2018 from 4.5% (as at 31 December 2017) to 3.1% (as at 31 December 2018). The risk coverage ratio for credit-impaired loans rose to 90.8% (31 December 2017: 84.6%), although provisioning made a positive contribution to the group results in 2018. We believe the good growth and good quality of our loan portfolio are a product of our long experience in the countries in which we work, our careful client selection procedures, the good quality of our staff and the strict credit risk management procedures applied across the group.

Complementary to our "Hausbank for SMEs" approach, our private client strategy is built upon ProCredit Direct, which was introduced in 2017 and fully implemented in 2018. At the same time, Quipu, the group's software subsidiary, has introduced additional mobile and web-based functionalities to enhance the quality and convenience of ProCredit Direct for clients. Quipu is also supporting the group in the use of digital technology to significantly improve ProCredit bank processes. In 2018 we also made good progress in our plan to centralise and consolidate the IT back office from individual ProCredit banks to a German facility in order to significantly increase scalability and efficiency, as well as data control and security capacities.

Our integrated digital service platform with its simple "all-in-one" fee structure is now available to all ProCredit bank clients. This innovation has allowed the group to restructure its private client base, moving away from large numbers of small savers towards the higher-income employees and entrepreneurs often associated with our SME clients. This is leading to an increase in the average deposit and transaction volume per client, which has allowed our banks to further streamline their branch networks. Towards the end of 2018 we invested more strongly in marketing campaigns to increase the visibility of our modern, attractive services.

In 2018, the deposit volume of the group increased by EUR 255 million to EUR 3.8 billion despite the streamlining of our branch network and a reduction in the number of clients. A particularly popular product is the new "FlexSave" account, which is central to the ProCredit Direct package, and the savings in these accounts already represent 23% of total deposits. In addition, we strengthened the liability side of our balance sheet with EUR 105 million in longer-term funding from liabilities to banks and international financial institutions. The group LCR improved to 187% by the end of 2018. At the same time, the group has significantly strengthened its liquidity risk management tools. Generally in 2018 we put a strong focus, following the introduction of IFRS 9, on improving all aspects of risk-related data management. Overall the group risk profile remained stable over the year.

Following our successful capital increase of EUR 58 million in February 2018, we ended the year with a very comfortable, fully loaded Tier 1 capital ratio of 14.4%. This is well above our regulatory capital requirements. An SREP add-on was issued to the ProCredit group for the first time in 2018 which, including our P2R and all applicable capital buffers, resulted in a minimum Tier 1 capital requirement of 10.75% for 1 January 2019.

The consolidated financial result for 2018 increased by 13.3% to EUR 54.5 million in 2018 (2017: EUR 48.1 million). This represents a return on average equity of 7.6%, as compared to 7.1% in 2017. This was in line with, albeit at the lower end of, guidance. The result was impacted by certain negative factors, including the successful accelerated wind up of our recovery operation (ARDEC) in Mexico and restructuring measures in ProCredit Bank Albania, but the underlying trends are positive. On the income side, there was a notable increase in net fee and commission income (EUR 52.2 million in FY 2018 vs EUR 45.8 million in FY 2017), and net interest income stabilised over the course of the year. On the cost side, operating costs were down by EUR 15 million compared to the prior year as a result of the efficiencies created by our focused approach and digital platform. Credit risk costs were also low given the loan portfolio quality and strong recoveries on written-off loans. The group cost-income ratio came down in 2018 but remains a group focus, since at 70.2% it was a little above the guidance of 70%.

On the basis of our steady results and comfortable capital levels, shareholders can look forward to a dividend of EUR 0.30 per share, which we will recommend for decision by the shareholders at the next General Assembly in May 2019. This represents one third of the consolidated group profit.

Building on our long experience in our markets and steady business results, we look forward to continued strong development of the group. For 2019 we expect macroeconomic conditions similar to those in 2018, but with ongoing uncertainty and downside risk. The focus for 2019 remains, as in 2018, on acquiring target SME and private clients whilst deepening our relationships with them. We aim for continued strong growth, balanced with profitability and credit risk considerations. Key projects for 2019 include further improvement in our digital services for clients and the centralisation of IT back office. In 2019, we plan for growth in our loan portfolio of 10-13%. We aim for a cost-income ratio of below 70% as further economies of scale take effect, and a profit of EUR 48-55 million, which is conservative compared to 2018 to allow for somewhat increased credit risk costs and certain one-offs, such as the recently announced tax in Romania and final restructuring measures. Our confidence in positive mid-term perspectives for our regions and for the group remains high.

Good results and good prospects for the group are above all driven by our staff, whose quality and experience underpin our business model. We continue to invest in the careful selection and continuous development of our workforce, and in 2018, each member of staff enjoyed 18.3 days of training on average. We, the management team, along with the senior managers of the group, continue to spend many rewarding hours at the German ProCredit Academy in fostering future ProCredit managers and refining the group strategy. We thank all our staff for their continued commitment and professionalism.

We also thank our clients, business partners and shareholders for their loyalty and confidence.

Frankfurt, March 2019

Management Board, ProCredit General Partner AG

Borislav Kostadinov | Sandrine Massiani | Dr Gabriel Schor

Photo: Nov Stil, manufacturer and wholesaler of clothes and accessories, client of ProCredit Bank Bulgaria

ProCredit on the capital market

The shares of ProCredit Holding AG & Co. KGaA have been listed on the Prime Standard of the Frankfurt Stock Exchange since 22 December 2016.

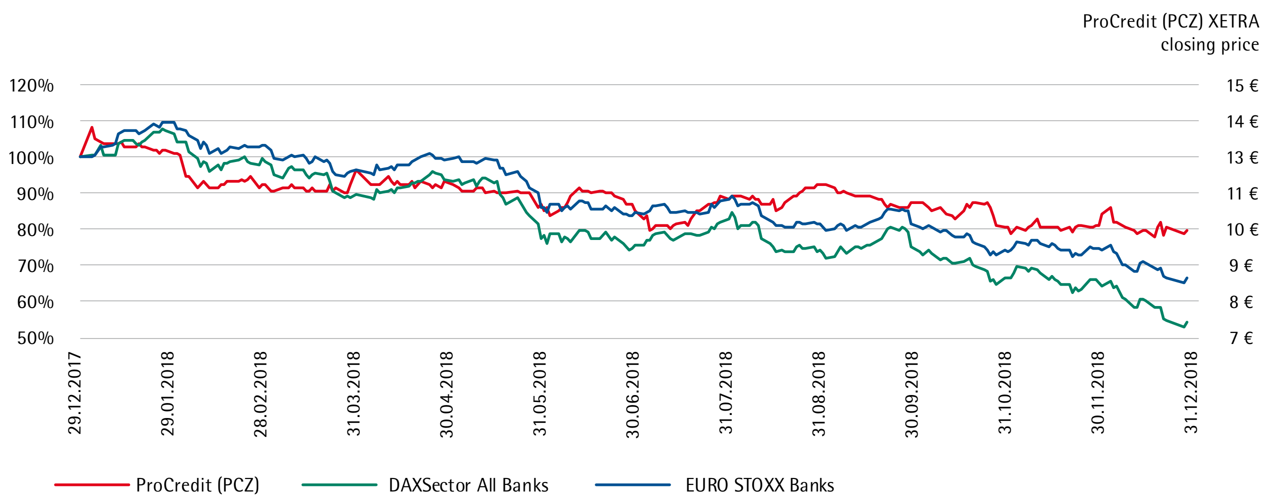
The year 2018 was characterised by a distinctly negative mood on the stock market. There were several reasons for the gloomy stock market climate: the expectation of weaker economic growth; rising US interest rates, which could have a negative impact on the earnings situation for corporations and at the same time make bonds more attractive again as an investment form; the dispute between the EU and Italy over budgetary policy; uncertainty as to how the UK's withdrawal from the EU will take place; and the US government's trade dispute with China and Europe all had a negative impact on the stock market.

The development of the ProCredit share price in 2018 was also affected by the generally subdued mood on the stock market. On 28 December 2018 the shares were being traded on Xetra at a year-end closing price of EUR 10.00, which was 20.3% below the closing price for 2017. The ProCredit Holding share thus suffered lower losses in 2018 than the average sector indices DAXsector All Banks (-45.5%) and EURO STOXX Banks (-33.5%).

Based on the 58,898,492 shares outstanding as at 31 December 2018, the market capitalisation of ProCredit Holding at that time was approximately EUR 589.0 million.

Over the last calendar year, an average of around 3,600 ProCredit Holding shares were traded through the Xetra system every day (previous year: 1,400 shares).

Price trend calendar year 2018
(Closing price Xetra trading system 2 January to 28 December 2018; Closing price 29 December 2017 = 100%, DAXSector All Banks and EURO STOXX Banks rebased in relation to PCZ)



Successful capital increase on 2 February 2018

On 2 February 2018, as part of a cash capital increase, ProCredit Holding AG & Co KGaA placed 5,354,408 new shares at a price of EUR 11.40 with institutional investors, primarily in German-speaking countries and the United Kingdom. This was undertaken within the scope of the authorised capital and increased the share capital of ProCredit Holding by 10%. The new shares were included in the existing listing in the regulated market sub-segment (Prime

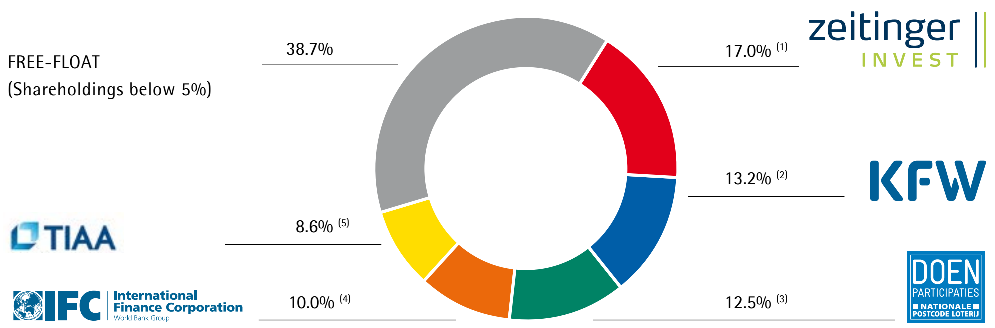
Standard) of the Frankfurt Stock Exchange on 9 February 2018. As part of the transaction, the European Bank for Reconstruction and Development (EBRD) and MainFirst each acquired a stake of more than 3% in ProCredit Holding.

ProCredit Holding received gross proceeds of around EUR 61 million from the capital increase. The company plans to utilise the successful capital increase to continue the growth course of the banking group and to expand its customer business with small and medium-sized enterprises (SMEs), especially in South Eastern and Eastern Europe.

Key share data

ISIN	DE0006223407
Security ID no. (WKN)	622340
Stock exchange code	PCZ
Sector	Banks
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurter Wertpapierbörse
Designated Sponsors	ODDO SEYDLER BANK AG, Pareto Securities AS
First listing	22 December 2016
Initial share price	EUR 12.29
Xetra closing price on 29 December 2017	EUR 12.55
Xetra closing price on 28 December 2018	EUR 10.00
No. of shares	58,898,492 registered ordinary shares with no par value (Namensaktien)

Shareholder structure



(1) According to information voluntarily reported by Zeitinger Invest on 08.10.2018 (see section "Other information"); (2) According to the voting rights notifications as of 28.12.2016; (3) According to the voting rights notifications as of 29.12.2016; (4) According to the voting rights notifications as of 27.02.2018; (5) According to the voting rights notifications as of 29.12.2016

The shareholder structure presented above is based on public voting rights notifications by the respective shareholders and, in the case of Zeitinger Invest GmbH, on the voluntary disclosure of voting rights (see "Voting rights notifications" and "Other information" in the Investor relations section of the ProCredit Holding website). This breakdown was calculated by comparing the numbers of voting rights reported by the shareholders on the above-mentioned dates against the total number of voting rights (currently 58,898,492). ProCredit Holding AG & Co KGaA has made reasonable efforts to provide a realistic overview of the shareholder structure. However, due to limitations on the availability and verifiability of the underlying data, ProCredit Holding AG & Co KGaA does not assume any responsibility that the information presented here is accurate, complete and up to date.

As at 31 December 2018, approximately 61% of the shares in ProCredit Holding were held by our largest shareholders Zeitinger Invest GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Participaties BV, the International Finance Corporation (part of the World Bank Group), and the Teachers Insurance and Annuity Association of America, which each hold more than 5% of the shares.

The free float, defined as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2018. This includes investments of more than 3% in ProCredit Holding AG & Co. KGaA by FMO (Netherlands Development

Finance Company), BIO (Belgian Investment Company for Developing Countries), Omidyar-Tufts Microfinance Fund, ProCredit Staff Invest, responsAbility, the European Bank for Reconstruction and Development and MainFirst.

Analysts

ProCredit Holding shares are currently being monitored by five analysts.

Institution	Analyst	Date	Rating	Share price target (EUR)
Bankhaus Lampe	Neil Smith	6 December 2018	Buy	13.00
Berenberg	Andreas Markou, PhD	14 February 2019	Hold	11.60
Kepler Cheuvreux	Tobias Lukesch	15 November 2018	Buy	11.50
MainFirst	Daniel Regli	14 November 2018	Outperform	14.00
Pareto Securities	Dr Philipp Häßler	13 March 2019	Buy	14.20

Current ESG ratings of ProCredit Holding AG & Co. KGaA

The business activities of the ProCredit group aim for profitability and economic growth while taking into account ecological and social aspects. This sense of responsibility is reflected in ProCredit Holding's positive ESG ratings from MSCI and oekom.

The company's ESG rating was raised from "A" to "AA" on 21 December 2017 with the publication of the MSCI ESG RESEARCH rating report. This makes ProCredit Holding one of the industry leaders and in the top 15% of companies rated by MSCI in the banking sector worldwide.

An update by the sustainability rating agency oekom research AG in December 2018 confirmed the "Prime" status of ProCredit Holding AG & Co. KGaA.

The ProCredit Impact Report 2018 provides further information on the significance of ecological and social aspects for the ProCredit group as well as on corporate governance.

Investor Relations

The Management[1] of ProCredit Holding AG & Co. KGaA aims to maintain an intensive dialogue with the capital market. The Management strongly believes that regular, transparent communication with share- and stakeholders is crucial in order to keep them continually informed about the development of ProCredit Holding. In this respect, it is especially important to ensure the regular publication of company news and to provide detailed financial reports, as well as to cultivate ongoing, personal contacts with investors, analysts, the media and the interested public.

In 2018, the Management of ProCredit Holding made several presentations on the ProCredit group at roadshows and investor conferences in Copenhagen, Frankfurt am Main, Munich, Helsinki and other cities. ProCredit will continue to maintain regular contact with investors in 2019. An overview of upcoming events is regularly updated in the financial calendar on the ProCredit Holding website.

Up-to-date information about the company is available to investors, analysts and the interested public in the Investor Relations section of the ProCredit Holding website, www.procredit-holding.com. As well as the usual

[1] ProCredit Holding has the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien - KGaA). As the general partner, ProCredit General Partner AG is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner AG appoints and monitors the Management Board of ProCredit General Partner AG. We refer here to the "Management" of ProCredit Holding, which basically corresponds to the Management Board of ProCredit General Partner AG.

Photo: ProCredit Holding AG & Co. KGaA, General Assembly 2018

financial reports, mandatory notices and corporate news, visitors to the website also have access to information on results and investor presentations.

Telephone conferences and webcasts regularly take place to coincide with the publication of annual and quarterly reports. Replays of these webcasts are also freely available on www.procredit-holding.com in the Investor Relations section.

Shareholders' meeting
The 2018 Annual General Meeting of ProCredit Holding AG & Co. KGaA was held in Frankfurt am Main on Wednesday, 23 May 2018, at which 82.14% of the voting capital was represented.

All of the proposed resolutions were approved by a significant majority of the shareholders of ProCredit Holding AG & Co. KGaA, including the distribution of a dividend of EUR 0.27 per share and the approval for the creation of authorised capital in the amount of 10% of the share capital.

Detailed information on the 2018 Annual General Meeting can be found on the ProCredit Holding website under Investor Relations.

Financial calendar 2019

13 May 2019	Quarterly report 31 March 2019
17 May 2019	Shareholders' meeting
14 August 2019	Half-yearly report 30 June 2019
13 November 2019	Quarterly report 30 September 2019

IR Contact
Nadine Frerot, Tel.: +49 69 951 437 285, E-mail: PCH.ir@procredit-group.com

Combined Management Report for ProCredit Holding AG & Co. KGaA, Frankfurt am Main for the 2018 Financial Year

The Management Report for ProCredit Holding AG & Co. KGaA (ProCredit Holding) and the Group Management Report for the ProCredit group (ProCredit) are presented as a Combined Management Report. It was prepared in accordance with sections 289ff and 315ff of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Accounting Standard 20 (Deutscher Rechnungslegungsstandard 20 – DRS 20). The Risk Report also contains the notes pursuant to IFRS 7.

The Combined Management Report is divided into the following sections:

- **Fundamental Information about the Group** describes the key aspects of the business model and the objectives of the group
  - Our Strategy
  - Organisation of the ProCredit group
  - Our shareholders
  - Internal management system
- **Human Resources Report** describes the approach to recruitment, training and remuneration.

- **Report on the Economic Position of the Group** provides an overview of the business and financial results and covers the following subjects:
  - Macroeconomic and sector-specific environment
  - Course of business operations
  - Financial development, with a description of the group's financial position and financial performance
- In the **Report on Expected Developments**, we also assess and describe the projected development of business in the ProCredit group, including all significant opportunities and risks.
- **Risk Report** provides an overview of the group's risk profile and describes risk-mitigating measures.
- The **Remuneration Report** presents information concerning the remuneration for the Management and for the Supervisory Board.
- The **Disclosures Required by Takeover Law** pursuant to sections 289a (1) and 315a (1) HGB.
- The **Corporate Governance Statement** (sections 289f and 315d HGB) includes the Corporate Governance Report (3.10 German Corporate Governance Code - GCGC) and the Statement of Compliance with GCGC (section 161 AktG).
- Responsibility of the legal representatives

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

The ProCredit group focuses on banking services for Small and Medium Enterprises (SMEs) in transition economies. We operate in South Eastern Europe, Eastern Europe, South America and Germany. The superordinated company of the group is ProCredit Holding, based in Frankfurt am Main.

Through our business activities we aim to provide a sustainable return on investment for our shareholders while making a contribution to economic, social and ecological development. In this respect, we see good potential in the countries where we operate. Our business strategy is based on long-term relationships with our clients and staff as well as a conservative approach to risk. The group does not engage in speculative lines of business.

In the countries where we operate, we aim to play a leading role as the "Hausbank" for our clients. They typically require financing in amounts ranging between EUR 50,000 and EUR 3 million. As specialists in financing SMEs, we are an equal partner for such businesses and we understand their needs and the special challenges they face. This means much more than just disbursing loans. We offer the full range of banking services in terms of financing, account operations, payments and deposit business, and we also support our clients in their long-term investment projects. In addition, through our group of banks we offer them efficient and attractive solutions for trade finance business and international payments.

We focus on innovative companies showing dynamic growth and stable, formalised structures. Through our work, we want to make a contribution to creating jobs, enhancing capacity for innovation, and encouraging investments in ecological projects. We also place an emphasis on expanding our green loan portfolio and promoting local production, especially in agriculture.

In addition to serving SMEs, the ProCredit group also pursues a direct banking strategy for private clients, particularly the growing middle class. Our comprehensive, integrated account service offer forms the foundation for long-term client relationships. We provide our clients with the possibility to perform all of their banking business through online and mobile channels. Common banking services are covered by a standardised monthly fee.

In addition, our clients have direct access to various savings and financing options. With our account service offer, we aim to stand out from other providers in terms of simplicity, convenience, security and pricing transparency.

Our services are based around the use of innovative service channels, with almost all client transactions being performed in an automated manner. We combine the intelligent application of technology with comprehensive quality of advice. Our user-friendly online banking and mobile banking options are at the centre of this approach. In addition, our outlets are equipped with 24-hour self-service areas. Our clients have access to personalised advice in our branches and via telephone.

We plan to continue with the digitisation of our banking business. Quipu, the software company which is part of the group, makes a key contribution here. Quipu supports the ProCredit banks with efficient and reliable IT services. This allows us to implement sophisticated IT solutions throughout the group in a very short timeframe.

The group's risk strategy is based on a clearly defined business model, a high degree of diversification and the careful selection and ongoing training of our staff. We also place great emphasis on the prevention of money laundering, terrorist financing and other illegal activities. To ensure compliance with our standards, we apply uniform policies which comply with German, European and local regulations.

Sustainability is an important component of our business strategy. The ProCredit group has a comprehensive environmental management system. Accordingly, we analyse the environmental impact of both our activities and those of our clients. We also encourage green investment projects, especially in energy efficiency and renewable energies. We do not provide financing for business activities that are problematic from a social, moral or ecological standpoint, or that fail to comply with health and safety regulations. The group-wide Code of Conduct, which is binding for all staff, emphasises a commitment to mutual respect and responsible behaviour in daily life.

The quality and motivation of staff is a key factor in achieving our business objectives. We select our staff carefully and offer long-term career prospects based on a transparent, standardised group-wide salary and promotion structure. In order to provide continued staff training and promote ongoing exchange within the group, we run a group-wide training programme in our own training centres.

Organisation of the ProCredit group

The ProCredit group is largely comprised of 13 banks and it employed 2,971 members of staff at year-end. ProCredit Holding is the parent company and, from a regulatory perspective, the superordinated company of the group as well. ProCredit Holding is the majority shareholder of all subsidiaries. It is responsible for the strategic guidance of the group, for maintaining an adequate level of equity for the group and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations, and particularly the requirements defined in section 25a of the German Banking Act ("KWG"), are met. At a consolidated level, the ProCredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank).

As the personally liable general partner, ProCredit General Partner AG is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner appoints and monitors the Management of ProCredit General Partner AG. We thus refer to the "Management" of ProCredit Holding, which is fundamentally equivalent to the Management Board of ProCredit General Partner AG.

The Management, members of the Supervisory Board and selected management-level staff of the ProCredit group sit on the supervisory boards of the ProCredit banks, alongside independent board members. ProCredit Holding sets binding policy guidelines and standards for risk management and other important areas of banking operations in order to ensure that appropriate uniform organisational structures and processes are in place in all ProCredit banks. These guidelines and standards are supplemented by the exchange and dissemination of best practices at seminars that ProCredit Holding holds on a regular basis. ProCredit Holding also plays an important role in determining the group's human resources policies and in the development and delivery of curricula in the ProCredit academies.

Optimal IT solutions are a central part of implementing the business and risk strategies of the group. Quipu GmbH, a 100% owned subsidiary of ProCredit Holding, develops software solutions especially for the ProCredit group. In close collaboration, the systems used in connection with client operations, treasury functions, reporting and accounting are developed and implemented by Quipu. The IT and software development priorities are set in the Group IT Strategy and approved by the Management.

The ProCredit Bank in Germany also plays a central role for the group, particularly through its support in international payment transactions, trade finance, group treasury, and by providing funding to the ProCredit banks.

The ProCredit group divides its business operations into regional segments. The banks are split into the following four regions:

- *South Eastern Europe*, accounting for 53.1% of the group's total assets, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, Macedonia, Romania and Serbia
- *Eastern Europe*, accounting for 17.2% of the group's total assets, with three banks located in the following countries: Georgia, Moldova and Ukraine
- *South America*, accounting for 4.3% of the group's total assets, consisting of two banks in: Ecuador and Colombia[1]
- *Germany*, accounting for 25.4% of the group's total assets, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

Our shareholders

The largest shareholders of ProCredit Holding, comprising a number of private and public institutions, are equally interested in the banks' developmental impact and in their economic success.

ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN Participaties, IFC and ProCredit Staff Invest GmbH & Co. KG). The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

The following shareholders held approximately 10% or more of the shares in ProCredit Holding as of 31 December 2018. The largest single shareholder is Zeitinger Invest GmbH, Frankfurt am Main. Zeitinger Invest was a key

[1] Due to its negligible share of the group's total assets (0.1%), the institution "Administración y Recuperación de Cartera Michoacán S.A." (ARDEC Mexico) has been assigned to the South America segment. The company was sold in January 2019.

initiator behind the founding of the ProCredit group. KfW, acting on behalf of the German Federal Government and other entities, finances investments and accompanying advisory services in developing countries and emerging economies with the aim of creating sustainable, integrative financial systems. The Dutch DOEN Foundation holds shares via its wholly owned subsidiary, DOEN Participaties. This entity is financed by the Dutch Postcode, BankGiro and Vrienden lotteries, which aim to promote an ecological, socially integrative and creative society. IFC, the International Finance Corporation, is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector.

Management system

The Management of ProCredit Holding and the management boards of the ProCredit banks establish the strategic goals together in the course of the annual planning process. Discussions are held concerning the assessment of market potential, priorities, expectations and indicators, which are then recorded in the business plan. The business plan for each ProCredit bank is approved by the respective supervisory board, the members of which are appointed by ProCredit Holding. The Group Business Strategy developed by the Management incorporates a group business plan which is based on the consolidated business plans of each ProCredit bank. The Group Business Strategy is discussed with the Supervisory Board. The Management of ProCredit Holding regularly reviews the established goals through plan vs. actual analyses at bank, segment and group level.

An important component of our management system is the exchange between ProCredit Holding and the management boards at the respective ProCredit banks. Meetings with all of the banks on a regular basis promote the active exchange of information within the group.

The ProCredit group uses an integrated system of indicators to monitor and manage the implementation and further development of the group's business and risk strategy. In addition to selected operational and financial indicators, in the 2018 financial year we applied the following key performance indicators:

- The growth of the gross loan portfolio has a significant influence on the success of new business and for the future earning capacity of the group.
- The cost-income ratio provides insight into our operating and cost efficiency.
- Return on equity (RoE) is the most important indicator in terms of profitability. The group places a strong emphasis on maintaining a long-term, stable RoE in conjunction with an appropriate risk profile.
- The Common Equity Tier 1 (CET 1) ratio is calculated as CET 1 capital in relation to the risk-weighted assets of the group. Fulfilment of the regulatory and internal capital requirements is a key aspect of our management system at group level.

HUMAN RESOURCES REPORT

The key to long-term success is our staff. We rely on a company culture that is based on our ethical principles and encourages proactive participation and professionalism. The implementation of our strategy requires staff who establish long-term relationships with customers and provide them with innovative and efficient service in a friendly manner. We provide our staff with long-term prospects and opportunities for further professional development.

The management teams in the individual ProCredit banks are a key part of our sustainable approach to staff. Our management staff are, as a rule, from the regions where they work and have graduated from the ProCredit Management Academy; on average, our management staff have been with ProCredit for more than 12 years. They have thus been well integrated into the group, have developed a comprehensive understanding of our business model and share the same strategic vision.

A structured approach to staff recruitment, training and remuneration is a central component of the ProCredit group's human resources strategy. We have developed group-wide standards for these areas in order to ensure a consistent, transparent and long-term approach in all banks.

Staff recruitment and integration of new employees

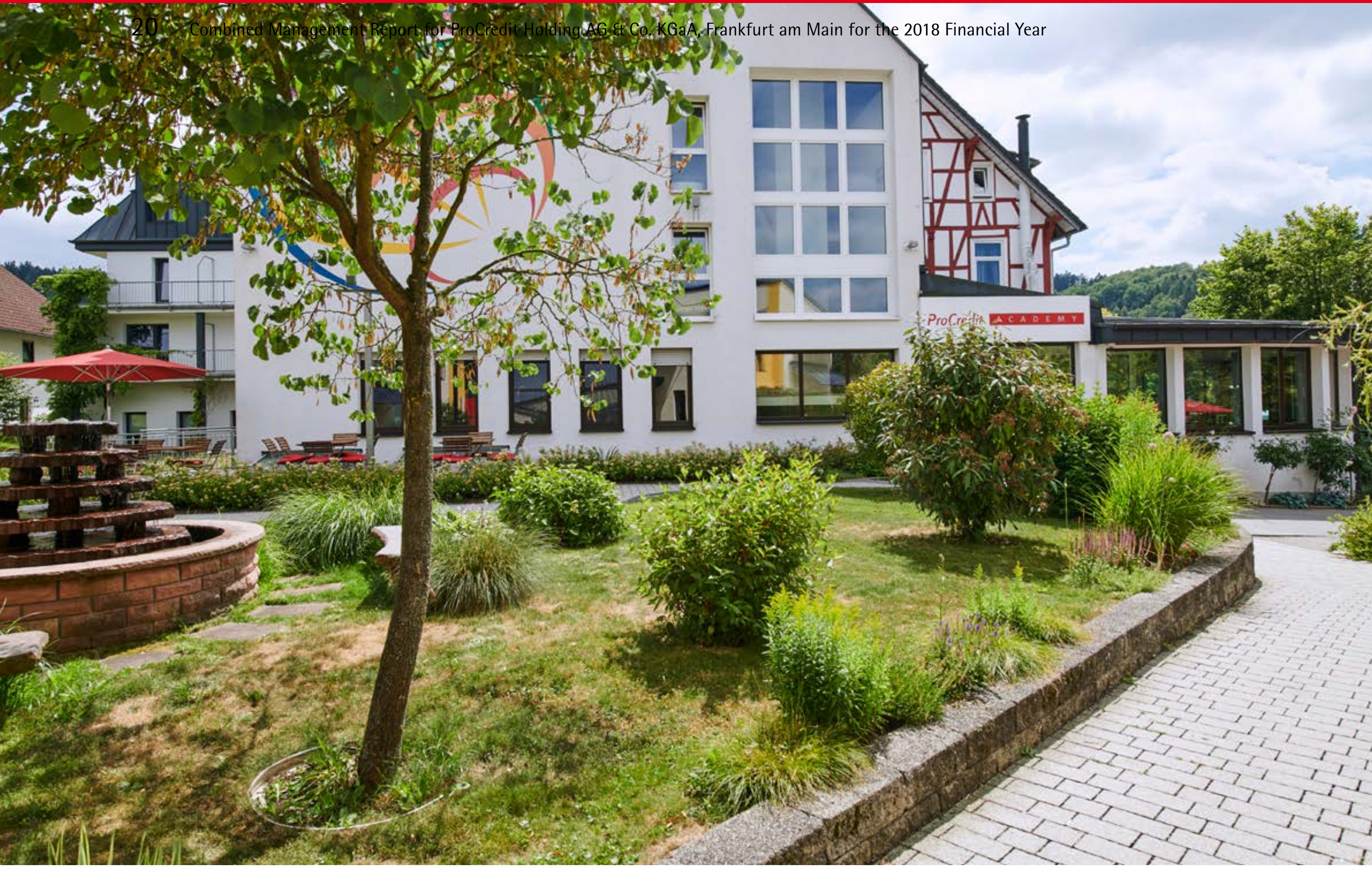
Our approach to recruitment focuses on individuals who are open, willing to learn and committed to our common values. Beyond technical and analytical skills, our staff must demonstrate personal integrity, openness and a willingness to work together with clients and colleagues.

The ProCredit recruitment process is very rigorous compared to the norm in the countries in which we work, where sometimes personal connections count more than competence. After passing through the steps of a standard selection procedure, such as a written application, mathematics and logic tests and interviews, successful candidates are invited to attend a two-week "Focus Session". These sessions give us an impression of the social, communication and analytical skills of the applicant. Candidates also have the opportunity to get to know both the business strategy of the ProCredit group and our ethical principles. After these two weeks, candidates have a good foundation for making the career decisions that are right for them, and this period also allows ProCredit to identify members of staff with potential.

After concluding the selection process, new staff become part of the group's international onboarding programme. This six-month period comprises three modules: two on theory, carried out in our regional training centres, and one practical block which takes place in the respective bank. These training stages cover all aspects that we believe are a part of responsible banking, and they give new staff an opportunity to learn directly from management and experienced colleagues about how ProCredit contributes to transparent and sustainable financial sector development.

Training

As the first step in professional development within the ProCredit group, the ProCredit onboarding process provides new members of staff with optimal preparation for their first roles. We also offer part-time continuing professional development to all staff. The necessary knowledge and skills are transferred through standardised seminars for various positions. For our Business Client Advisers (BCAs), for instance, we focus on developing client advisory competence, which means correctly evaluating the needs of our clients for banking services, assessing credit risk and building long-term customer relationships. For our Client Advisers, training is concentrated not



Photos: ProCredit Academy, Fürth (Germany) only on advising clients and acquiring new customers, but also on communicating the advantages of our direct banking options. Regular, group-wide seminars are held in each area to present current developments, best practices and strategic vision.

We place great importance on training our middle management. In order to ensure high-quality training, the group has developed training programmes with tailored curricula. These include the one-year ProCredit Banker Academy as well as the three-year ProCredit Management Academy. Alongside training on the principles of banking and courses on communication and leadership skills, there are units dedicated to philosophy, anthropology, history and political economics. To date, more than 550 employees have graduated from or are currently attending the academies, comprising almost all management staff in the group.

Regular ethics courses are a key component of the training we offer. We likewise impart the philosophical and ethical principles which have developed since Antiquity. Against the backdrop of our sustainable and responsible approach to banking, we deem this link between past and present to be highly important. In addition, we carry out annual workshops for all our staff; these focus on our binding Code of Conduct and on environmental topics. As the shared working language of the ProCredit group, English is used for all training measures. Therefore, staff must have a good command of the English language in order to communicate and contribute in our international environment.

Our remuneration approach

We place great value on a transparent salary structure with fixed salaries and consciously refrain from contractually agreed bonuses as a means of incentivising our staff. We believe that such bonus payments can have a negative impact on the quality of advice provided to our clients and can even result in a degradation of relationships between colleagues. The remuneration of employees mainly consists of a fixed salary. Variable remuneration elements are not contractually granted. These can be granted when a member of staff has performed exceptionally well during the course of a financial year or has made a key contribution to the team or group. Salaries reflect market averages and are adjusted regularly on the basis of individual performance evaluations. Our remuneration approach has been established with a long-term perspective, which helps our staff to securely plan their lives. In contrast, the remuneration of our senior managers is not always comparable with our competitors, particularly without granting bonus payments.

ProCredit has a standardised salary system which is applied throughout the group and includes: salary levels for certain positions, the maximum allowed ratio between the lowest and highest salary levels, and the training requirements for each position. In individual cases, an institution may provide non-monetary remuneration elements, such as visits to other ProCredit banks or participation in additional training. The management boards of the ProCredit banks report annually to their respective supervisory board about the remuneration structure.

Open and responsible communication is a central part of staff management in the ProCredit group. The remuneration structure is presented to all members of staff in a transparent manner. Remuneration and promotion are primarily linked to individual performance appraisals. Managers conduct annual staff talks and give regular feedback to their employees. In addition, every employee has an annual staff conversation with a member of the management team. In these conversations, every employee has the opportunity to discuss possibilities for further career development.

REPORT ON THE ECONOMIC POSITION OF THE GROUP

Course of business operations

The course of the ProCredit group's business operations in 2018 was positive. We were able to increase the customer loan portfolio by a total amount of EUR 482 million, significantly exceeding the growth achieved in the previous year. At the same time, the consolidated result of EUR 54.5 million was EUR 6.4 million above the level recorded for 2017. The result was influenced by exceptionally low expenditures for loss allowances as well as the negative result from discontinued business operations.

The group's capital base was strengthened by a capital increase of around EUR 58 million during the period. The fully loaded CET 1 capital ratio thus increased by 0.7 p.p. to 14.4% and was in line with our target of "more than 13%". Despite the capital increase, we were able to increase our return on equity to 7.6%, up from 7.1% in the previous year.

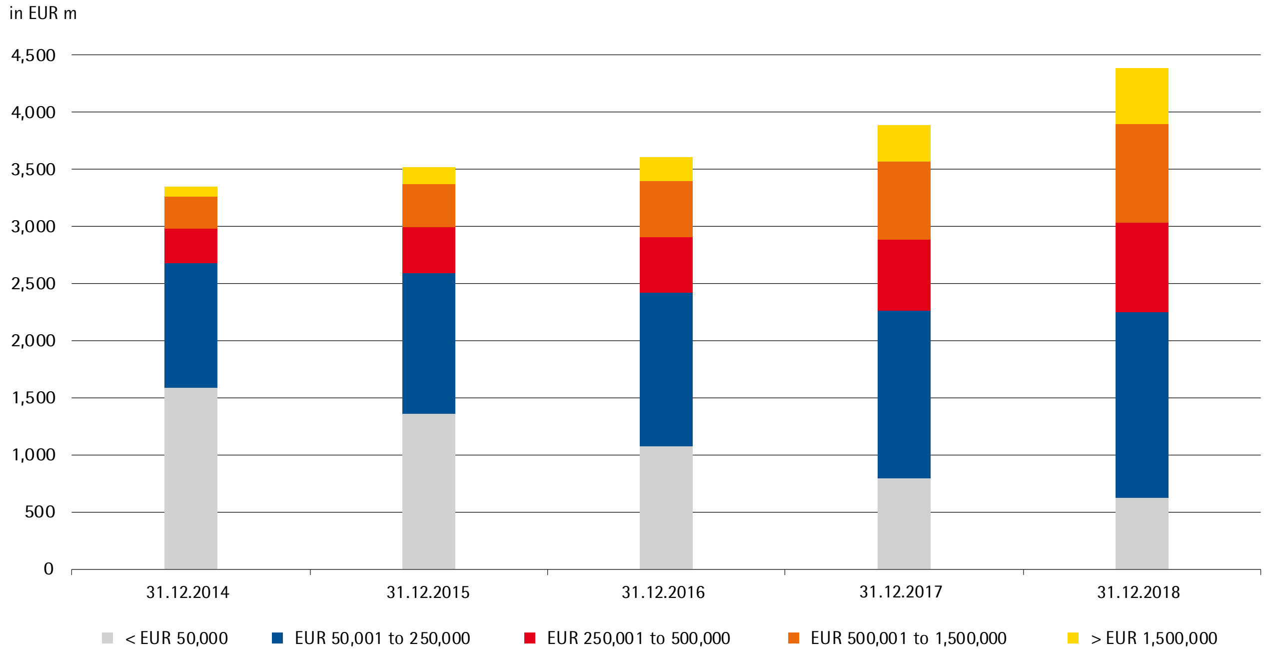
In addition to our strong loan portfolio expansion, we also achieved deposit portfolio growth of more than EUR 255 million. This development is due to larger deposits by our business clients. There was a decrease in deposits from private clients, which is primarily due to the strategic reduction of outlets and the implementation of our new private client strategy.

The financial year was characterised by a further improvement in portfolio quality, reflecting the lower share of credit-impaired loans, a higher degree of risk coverage and lower write-offs. The improvement in portfolio quality resulted in exceptionally low expenditures for loss allowances during the period.

ProCredit Holding sold its shares in ARDEC Mexico in January 2019. The carrying value has already been written down to the expected sale price with the institution's first-time classification as "held for sale". The result of the company is reported in the result from discontinued business operations. The deconsolidation of the company occurred after the reporting date and will not have any further significant impact on the result.

Lending

The gross loan portfolio for the ProCredit group grew by EUR 482 million during the period to EUR 4.4 billion. This increase of 12.3% was in line with our expectations. Although growth was recorded in all ProCredit banks, the achievements in Ukraine, Bulgaria and Serbia are of particular mention.



Loan portfolio development, by loan volume

At year-end, loans to businesses accounted for 92.2% of the customer loan portfolio, and 7.8% are loans to private clients. The total loan portfolio contains 20% loans to agricultural enterprises, and 15.4% are classified as green loans. Regarding the loans to private clients, the great majority are mortgage loans to purchase, renovate or improve the energy efficiency of real estate. We provide our private clients with access to overdraft facilities, though these make up only a minor part of the portfolio.

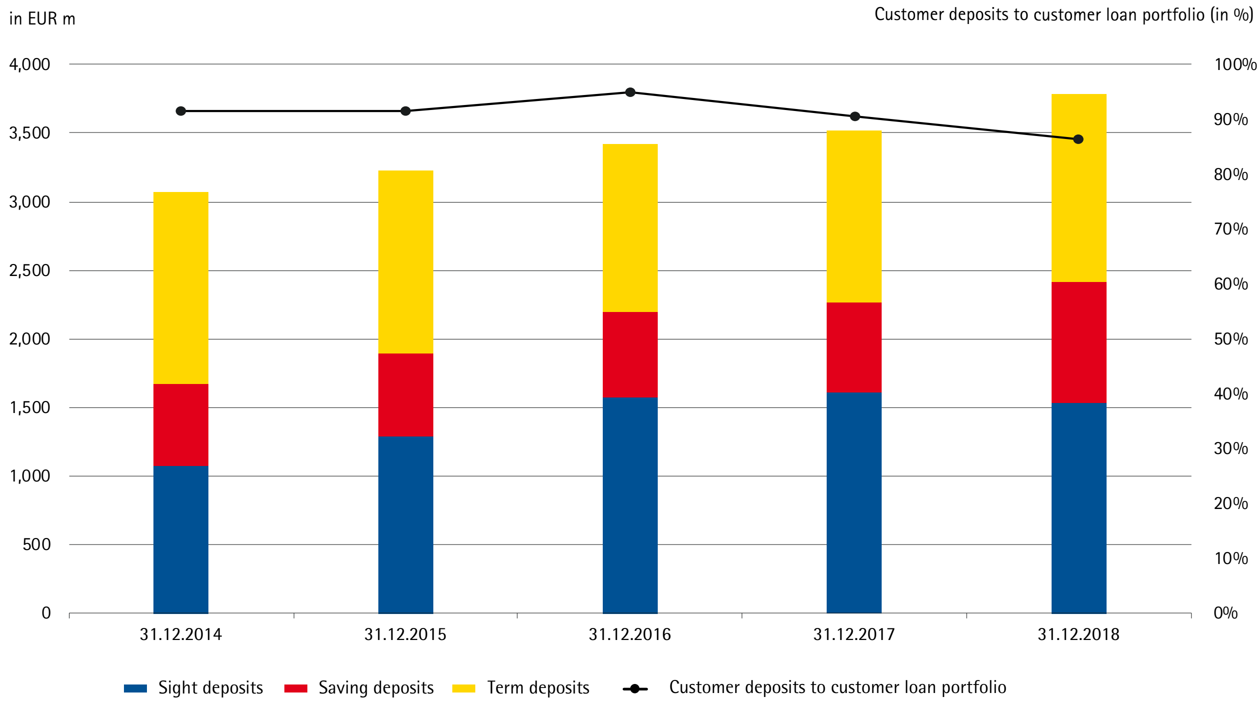
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented 1.9% of the group's total portfolio volume at the end of 2018.

In its lending business with SMEs, the ProCredit group cooperates closely with European institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF). Of particular note is the agreement with EIF for the InnovFin guarantee programme, which facilitates lending to innovative SMEs and small MidCaps in South Eastern and Eastern Europe through the provision of guarantees. In addition, ProCredit acquired some shares in the EIF in 2018.

Development of deposits and other banking services

At year-end, customer deposits stood at EUR 3.8 billion, up by EUR 255 million from the previous year. Due to the stronger growth of the loan portfolio, the ratio of customer deposits to the loan portfolio decreased by 4.2 p.p. to 87.1%.

The growth of deposits was primarily due to business clients. Deposits from private clients have continued to decline. The reductions in our branch network and the implementation of our new private client strategy have resulted in lower client numbers. The introduction of these measures likewise led to significant cost savings and higher net fee and commission income.



Customer deposits

Financial development

The ProCredit group recorded an after-tax profit of EUR 54.5 million in 2018 (2017: EUR 48.1 million). The return on equity stood at 7.6% and falls within the range of our guidance.

The factors which had the greatest impact on the group balance sheet were the strong growth of the loan portfolio and the capital increase at the beginning of the period. The fully loaded CET 1 capital ratio increased by 0.7 p.p. to 14.4% and was thus in line with our target of “more than 13%”.

Statement of Financial Position and of Profit or Loss			
in EUR m	31.12.2018	31.12.2017	Change
Statement of Financial Position			
Customer loan portfolio (gross)	4,392.2	3,909.9	482.3
Customer deposits	3,825.9	3,570.9	255.0
in EUR m	1.1. – 31.12.2018	1.1. – 31.12.2017	Change
Statement of Profit or Loss			
Net interest income after allowances*	193.7	199.8	-6.1
Net fee and commission income*	52.2	45.8	6.4
Operating expenses*	171.4	186.3	-14.9
Profit of the period from continuing operations*	59.0	47.6	11.4
Profit of the period	54.5	48.1	6.4
Key performance indicators	31.12.2018	31.12.2017	Change
Change in customer loan portfolio	12.3%	7.7%	4.6 pp
Cost-income ratio*	70.2%	73.6%	-3.4 pp
Return on equity (ROE)	7.6%	7.1%	0.5 pp
Common Equity Tier 1 capital ratio	14.4%	13.7%	0.7 pp
Additional indicators	31.12.2018	31.12.2017	Change
Customer deposits to customer loan portfolio	87.1%	91.3%	-4.2 pp
Net interest margin*	3.3%	3.8%	-0.5 pp
Share of credit-impaired loans*	3.1%	4.5%	-1.4 pp
Ratio of allowances to credit-impaired loans*	90.8%	84.6%	6.2 pp
Green customer loan portfolio	677.5	489.1	188.4

* *For 2018 and 2017, only continuing business operations are presented (without Mexico ARDEC, Banco ProCredit El Salvador and Banco ProCredit Nicaragua)*

Statement of Financial Position, Profit or Loss, and other key figures[2] for the ProCredit group

The financial position and financial performance of the group are solid and the business development is positive. The group as a whole and each individual institution in the group remained at all times in full compliance with all financial commitments.

Assets

Total assets increased by EUR 466.8 million during the period, due in particular to the strong growth of the customer loan portfolio. Otherwise, the structure of the assets changed very little compared to the previous year.

The customer loan portfolio increased by EUR 482 million compared to the previous year; it stood at EUR 4.4 billion at year-end. Loan portfolio expansion was financed largely through additional customer deposits and other liabilities.

[2] Key performance indicators and other indicators have been defined as follows:
- Growth of the customer loan portfolio: Change in the gross loan portfolio in the current period relative to the gross loan portfolio as of 31.12 of the previous period
- Cost-income ratio: Operating expenses relative to operating income less provisioning expenses
- Return on equity: Profit attributable to ProCredit shareholders, divided by the average equity held by the ProCredit shareholders.
- Deposit-to-loan ratio: Liabilities to customers relative to loans and advances to customers
- Net interest margin: Quotient of net interest income and the average total assets from the reporting date for the previous year and the current year
- Share of credit-impaired loans: Loans and advances to customers in Stage 3 (including accrued interest) as a percentage of the total volume of loans and advances to customers.
- Risk coverage for credit-impaired loans: Loss allowances relative to the share of credit-impaired loans (Stage 3)

Liabilities

Liabilities comprise mostly customer deposits. Further sources of funding include liabilities to international financial institutions and banks as well as debt securities.

At year-end customer deposits stood at EUR 3.8 billion, up EUR 255 million from the previous period. Deposits from business clients showed especially strong growth.

Liabilities to banks and international financial institutions increased by around EUR 105 million. These serve particularly as long-term funding for our banks.

The equity base of the ProCredit group expanded by EUR 85.1 million compared to the previous period and stood at EUR 743.6 million at year-end. The driver behind this increase was the capital increase carried out in the first quarter, the current consolidated result and the higher translation reserve. In contrast, negative effects on equity resulted from a dividend payout and the implementation of IFRS 9. The resulting amount has been incorporated in its entirety in the calculation of capital ratios, thereby reducing capital.

Result of operations

The profit of the period for the ProCredit group stood at EUR 54.5 million, which represents a return on equity of 7.6%. This result was influenced favourably by the extraordinarily low provisioning expenses but also adversely impacted by the disposal of ARDEC Mexico.

The result from continuing business operations will be presented in greater detail below.

Net interest income decreased by EUR 14.9 million compared to the previous year; it stood at EUR 189.8 million at year-end. The strategic withdrawal from lending to very small enterprises, a reorientation that was implemented particularly vigorously in the previous year, contributed to this trend. The drop in net interest income was significantly smaller than in the previous year. Indeed, in the course of the year we were even able to record a slight growth for this indicator.

The positive consolidated result was achieved amid exceptionally low provisioning expenses. These expenditures were EUR 8.7 million lower than in the previous period, due primarily to constant improvement in portfolio quality. The share of credit-impaired loans fell from 4.5% at the start of the period to 3.1% at year-end. The risk coverage ratio increased at the same time from 84.6% to 90.8%. Net write-offs remained at a continuously low level.

Net fee and commission income grew by EUR 6.4 million during the year. This was due primarily to the introduction of our new account service offer for private clients as well as higher earnings from payment transactions by business clients. The share of net fee and commission income in overall operating income grew by 2.6 p.p. to 21% as of year-end.

Personnel and administrative expenses fell by EUR 14.9 million compared to the previous year. This decrease is a consequence of branch network downsizing and staff reductions during the period. In addition, the personnel and administrative expenses reported during the previous year had been influenced by one-off expenditures resulting from such measures. Measures to improve efficiency were further advanced during the year, albeit at a more modest level than in the previous year.

Tax expenses increased by EUR 3 million over the previous year, particularly due to write-offs of deferred tax assets.

Supplementary report

ProCredit Holding sold all shares in Administración y Recuperación de Cartera Michoacán S. A. de C. V. (ARDEC Mexico), SOFOM, E. N. R. Morelia, Mexico. The company was deconsolidated in January 2019. The company has been presented under discontinued operations.

Segment overview

The performance of the ProCredit group is influenced by macroeconomic development and by the economic and financial market conditions. These have an impact on the real economies of the respective countries and therefore on the investment behaviour of our business clients and competitor financial institutions. The following segment overview describes the specific conditions and the development of the financial market situation in the individual regions. The brief analysis of the macroeconomic trend and recent competition trends in the different regions is based on data from the IMF (World Economic Outlook database, October 2018) and the EBRD (Transition Report 2018-2019), unless otherwise stated.

South Eastern Europe

Macroeconomic and sector-specific environment

South Eastern Europe, comprising the banks in Albania, Bosnia and Herzegovina, Bulgaria (including a branch operation in Greece), Kosovo, Macedonia, Romania and Serbia, is the segment with the greatest share of group assets. Compared to the previous year, the region showed a slight increase in economic growth. The Greek economy overcame the stagnation of previous years and stable demand from the Eurozone led to noticeably higher export figures for the countries in South Eastern Europe.

These countries reported higher inflation rates in 2018, on average above the 2% target level set by the European Central Bank (ECB). This increase was due to the temporary rise in oil prices and especially the increase in nominal wages. The higher wages were attributable to structural emigration trends and a growing demand for labour. With the exception of Bulgaria, the balance of activities for the countries in this segment remained negative due to stagnating exports. The exchange rates for domestic currencies showed little movement, particularly as several countries in the region have pegged their currencies to the euro. Due to more favourable macroeconomic indicators, the unemployment figure for South Eastern Europe showed a decrease; however, it remains at a high level in the Western Balkans. Bulgaria and Romania, both part of the EU, now report figures which are below the average for the Eurozone.

Positive economic development has continued throughout the region. Specifically, Romania recorded growth of 4.0% and continues to benefit from strong consumption yet moderated fiscal policy. In Serbia, GDP grew by 4.0% during the year. GDP also increased in Bosnia and Herzegovina (3.2%) and in Albania (4.0%). The economy in Kosovo grew by 4.0%, driven by private consumption. The same applies to Bulgaria, which recorded economic growth of 3.6%. Due to ongoing political instability, the figure for Macedonia was only 1.6%. Public spending was restrained due to state budget consolidation efforts.

This moderated but positive economic development had an impact on lending and deposit business in the banking sector. Deposit rates approached 0% and also lending rates continued to decline due to the expansionary monetary environment.

The banking sector was characterised by low interest rates and a much lower level of non-performing loans compared to the previous period. The share of non-performing loans fell to single-digit levels in most countries. Albania remained an exception in this respect. The ongoing reduction of non-performing loans in all countries is to be seen in the context of stricter regulatory efforts, growing loan portfolios and forced write-offs.

Competition in South Eastern Europe continues to be driven by European banking groups. The profitability of the ProCredit banks in 2018 was slightly below the averages for these competitors. The share of non-performing loans in the ProCredit banks is generally below the average for banks in South Eastern Europe.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve EUR 299.8 million in loan portfolio growth. Profit after tax, at EUR 42.1 million, was slightly lower than the previous year. This represents a return on equity of 8.8%.

Statement of Financial Position and of Profit or Loss			
in EUR m	**31.12.2018**	**31.12.2017**	**Change**
Statement of Financial Position			
Customer loan portfolio (gross)	3,058.9	2,759.1	299.8
Customer deposits	2,705.7	2,518.8	186.9
in EUR m	**1.1. – 31.12.2018**	**1.1. – 31.12.2017**	**Change**
Statement of Profit or Loss			
Net interest income after allowances	115.9	130.8	-14.9
Net fee and commission income	36.1	31.3	4.8
Operating expenses	101.2	107.3	-6.1
Profit of the period	42.1	45.4	-3.3
Key performance indicators	**31.12.2018**	**31.12.2017**	**Change**
Change in customer loan portfolio	10.9%	8.8%	2.1 pp
Cost-income ratio	67.2%	67.2%	0.0 pp
Return on equity (ROE)	8.8%	9.8%	-1.0 pp
Additional indicators	**31.12.2018**	**31.12.2017**	**Change**
Customer deposits to customer loan portfolio	88.5%	91.3%	-2.8 pp
Net interest margin	2.9%	3.6%	-0.7 pp
Share of credit-impaired loans	3.1%	4.5%	-1.4 pp
Ratio of allowances to credit-impaired loans	93.0%	83.3%	9.7 pp
Green customer loan portfolio	479.7	326.9	152.8

Statement of Financial Position, Profit or Loss, and other key figures for the South Eastern Europe segment

The gross loan portfolio for this segment increased by EUR 299.8 million in 2018, ending the year at EUR 3.1 billion. The banks in this region generally recorded strong loan portfolio growth figures for the year, mostly above 10%.

Customer deposits in this segment grew by EUR 186 million during the year, totalling EUR 2.7 billion at the end of 2018. All ProCredit banks reported solid growth figures, with the exception of the banks in Albania and Kosovo, which continued to introduce measures for branch network optimisation during the year. Growth was generally impacted negatively by the decrease in deposits from private clients. The ratio of customer deposits to the gross loan portfolio decreased by 2.8 p.p. to 88.5%.

The net interest margin was lower than in the previous year, dropping 0.7 p.p. to 2.9%. This decrease was primarily due to the strategic withdrawal from the very small loan segment, a reorientation that was implemented particularly vigorously in the previous year. Particularly the banks in Serbia and Kosovo reduced their portfolios under EUR 50,000. In addition, the competitive environment has placed increasing pressure on margins.

At 3.1%, the share of credit-impaired loans in the ProCredit banks in South Eastern Europe is lower than the banking sector average; moreover, the banks were able to achieve a 1.4 p.p. improvement in this indicator compared to the previous year. The risk coverage ratio climbed to 93.0% at the end of 2018.

Net fee and commission income grew primarily as a result of the strategic reorientation in private client business. A reduction was recorded for operating expenses, which is mainly attributable to reduced personnel expenses. Profit fell to EUR 42.1 million due to the narrower net interest margin and a decrease in net other operating income.

Eastern Europe

Macroeconomic and sector-specific environment

In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. In 2018 the climate was less influenced by the ongoing Russia-Ukraine conflict than in previous years, which allowed for positive growth in all three countries. Following on the low base of the previous year, the economy in Ukraine grew by 3.5%. Moldova reported growth of 3.8%, while Georgia recorded a figure of 5.5%.

The strong increase in Georgia is linked to higher exports and to the tourism and construction sectors, while the local currency appreciated against the euro during the year. At year-end, however, it returned to the level recorded at the start of the period. The euro exchange rates for all three local currencies stabilised considerably compared to previous years. This trend occurred despite price increases for domestic consumer goods. Inflation ranged from 11% (Ukraine) to 3.6% (Moldova).

The financial markets in Eastern Europe have stabilised in comparison to the previous years. Following additional bank closures in Ukraine and the "special monitoring" of the largest banks in Moldova by the local central bank, this year saw higher equity investments by international development finance organisations. In all three countries, the share of non-performing loans decreased in comparison to the previous year. It is noteworthy that the number of loans in foreign currency, mostly in USD, is high. The central bank in Georgia in particular issued regulations to reduce the related foreign currency risk. The impact on profitability of banks has remained minor. Profitability has remained at a relatively high level and portfolio expansion is being observed in the banking sectors of all three countries. Stronger economic growth in Georgia led to a substantial increase in bank assets there.

In contrast to South Eastern Europe, the competitive situation in Eastern Europe is dominated by local banks; only in Ukraine are several large European banking groups represented. In Georgia, around 70% of the market is served by the two largest banks. Overall, the level of competition in all three countries is lower than in South Eastern Europe, and the local markets are dominated by high interest rates on loans in foreign and domestic currency.

Development of financial position and financial performance

The Eastern Europe segment recorded EUR 163.3 million in loan portfolio growth. Profit after tax, at EUR 33.2 million, was more than EUR 7 million higher than the previous year. This represents a return on equity of 20.0%.

Statement of Financial Position and of Profit or Loss			
in EUR m	**31.12.2018**	**31.12.2017**	**Change**
Statement of Financial Position			
Customer loan portfolio (gross)	986.7	823.4	163.3
Customer deposits	701.7	634.6	67.1
in EUR m	**1.1. – 31.12.2018**	**1.1. – 31.12.2017**	**Change**
Statement of Profit or Loss			
Net interest income after allowances	58.0	50.0	8.0
Net fee and commission income	9.3	8.8	0.5
Operating expenses	30.5	31.6	-1.1
Profit of the period	33.2	26.0	7.2

Key performance indicators	**31.12.2018**	**31.12.2017**	**Change**
Change in customer loan portfolio	19.8%	16.2%	3.6 pp
Cost-income ratio	44.2%	46.5%	-2.3 pp
Return on equity (ROE)	20.0%	18.2%	1.8 pp

Additional indicators	**31.12.2018**	**31.12.2017**	**Change**
Customer deposits to customer loan portfolio	71.1%	77.1%	-6.0 pp
Net interest margin	4.6%	5.1%	-0.5 pp
Share of credit-impaired loans	3.3%	4.4%	-1.1 pp
Ratio of allowances to credit-impaired loans	81.5%	87.7%	-6.2 pp
Green customer loan portfolio	148.8	110.6	38.2

Statement of Financial Position, Profit or Loss, and other key figures for the Eastern Europe segment

The gross loan portfolio of the segment grew by EUR 163.3 million during the period. The majority of this was attributable to the bank in Ukraine.

Customer deposits in the segment increased by EUR 67.1 million. This upturn was due in equal parts to deposits mobilised from business and private clients. The ratio of customer deposits to the gross loan portfolio decreased by 6.0 p.p. to 71.1%.

Due to the strong growth in local currency loans with high interest rates at ProCredit Bank Ukraine and the stabilisation of the interest rate environment in Georgia, the impact of the drop in the net interest margin was less significant. The narrowing margin was offset by portfolio growth and lower loan loss provisions, thus resulting in a further increase in net interest income after provisioning.

A significant improvement of 1.1 p.p. was achieved in the share of credit-impaired loans, and the indicator stood at 3.3% at the end of the period. The risk coverage ratio fell from 87.7% to 81.5% during the year.

Net fee and commission income grew primarily as a result of the strategic reorientation in private client business. Compared to the previous year, operating expenses decreased. The measures introduced to increase efficiency were reflected particularly in lower rental expenditures and depreciation of property, plant and equipment. This effect, combined with the strong increase in the net interest income after provisioning, led to a EUR 7.2 million increase in profit for the year to EUR 33.2 million.

South America

Macroeconomic and sector-specific environment

The South America segment, which consists of the ProCredit banks in Ecuador and Colombia, accounts for 4.3% of the group's assets, though the majority is held by ProCredit Bank Ecuador. In 2018 the GDP growth in both countries remained low, with 2.8% in Colombia and 1.1% in Ecuador. The macroeconomic environment was influenced by the price of oil, which although still low has started to climb again, and by country-specific factors. Ecuador is showing signs of stagnation, with negative inflation and slowing exports compared to the previous year, while the trade balance remained slightly negative. The balance of trade is further impacted by the dollarization and restrictions on the transfer of goods and capital; in particular, the rate increases by the US Federal Reserve have been passed on to the local economy, with adverse consequences for the investment climate. The peso in Colombia remained stable against the US dollar; the inflation rate stood at 3.2%. Higher exports offered further relief for Colombia's trade balance.

The financial market in Colombia continued to show an increase in profitability in 2018, with non-performing loans growing slightly at the same time. In Ecuador, loan disbursements increased in the banking sector and the deposit-to-loan ratio is gradually approaching 100%.

The competition in South American countries is determined by local banks as well as Spanish and American banking groups. In comparison to South Eastern Europe, the market interest rates and margins are higher. At the same time, prospects for growth are good for SMEs.

Development of financial position and financial performance

The loan portfolio of the South America segment grew by EUR 31.7 million during the period. The profit of the period increased slightly , moving EUR 0.4 million to EUR -3.2 million.

Statement of Financial Position and of Profit or Loss			
in EUR m	**31.12.2018**	**31.12.2017**	**Change**
Statement of Financial Position			
Customer loan portfolio (gross)	270.6	238.9	31.7
Customer deposits	146.9	161.2	-14.3
in EUR m	**1.1. – 31.12.2018**	**1.1. – 31.12.2017**	**Change**
Statement of Profit or Loss			
Net interest income after allowances*	19.2	21.7	-2.5
Net fee and commission income*	-0.1	-0.1	0.0
Operating expenses*	21.2	24.3	-3.1
Profit of the period*	-3.2	-3.6	0.4
Key performance indicators	**31.12.2018**	**31.12.2017**	**Change**
Change in customer loan portfolio	13.3%	-22.1%	35.4 pp
Cost-income ratio*	111.9%	113.6%	-1.7 pp
Return on equity (ROE)*	-5.6%	-5.8%	0.2 pp
Additional indicators	**31.12.2018**	**31.12.2017**	**Change**
Customer deposits to customer loan portfolio	54.3%	67.5%	-13.2 pp
Net interest margin*	5.1%	4.9%	0.2 pp
Share of credit-impaired loans*	3.6%	6.2%	-2.6 pp
Ratio of allowances to credit-impaired loans*	96.5%	85.2%	11.3 pp
Green customer loan portfolio	29.7	20.2	9.5

* *For 2018 and 2017, only continuing business operations are presented (i.e. excluding Mexico ARDEC, Banco ProCredit El Salvador and Banco ProCredit Nicaragua)*

Statement of Financial Position, Profit or Loss, and other key figures for the South America segment

After substantial reductions in the very small loan portfolio during the previous periods, the gross loan portfolio for the segment was able to show positive growth again, with a EUR 31.7 million increase recorded for 2018.

Customer deposits in the segment fell slightly, by EUR 14.3 million. This decrease was attributable primarily to the reduction in deposits from institutional clients. The ratio of customer deposits to the gross loan portfolio decreased by 13.2 p.p. to 54.3%.

The net interest margin showed a slightly positive trend in the South America segment. A significant improvement of 2.6 p.p. was achieved in the share of credit-impaired loans, and the risk coverage ratio increased further.

Operating expenses were reduced by EUR 3.1 million through the successful implementation of efficiency improvement measures, particularly in the area of personnel.

The special purpose vehicle ARDEC Mexico was classified under discontinued business operations and was deconsolidated in January 2019.

Photo above: ProCredit Bank Ukraine
Photo below: Dalia Prod, cultivation of flowers, client of ProCredit Bank Romania

Germany

Macroeconomic and sector-specific environment

ProCredit Bank Germany is not very heavily impacted by the macroeconomic and financial market trends in Germany. During the year, Germany also developed positively compared to other economies in Europe, with GDP growth of 2%. Due to the expansionary central bank policy, the interest margin remained at an extremely low level, which poses a large challenge for the banking sector.

Development of financial position and financial performance

The development of the Germany segment essentially consists of the operations of ProCredit Holding, ProCredit Bank Germany and Quipu.

Statement of Financial Position and of Profit or Loss in EUR m	**31.12.2018**	**31.12.2017**	**Change**
Statement of Financial Position			
Customer loan portfolio (gross)	76.0	88.5	-12.5
Customer deposits	271.6	256.3	15.3

in EUR m	**1.1.-31.12.2018**	**1.1.-31.12.2017**	**Change**
Statement of Profit or Loss			
Net interest income after allowances	0.1	-2.4	2.5
Operating income	90.7	93.1	-2.4
Operating expenses	53.1	54.6	-1.5
Profit of the period	37.5	37.1	0.4
Profit of the period and consolidation effects	-13.0	-19.3	6.3

Statement of Financial Position and of Profit or Loss for the Germany segment

The loan portfolio and customer deposits in the segment are attributed to the ProCredit Bank in Germany. The bank recorded a EUR 12.5 million drop in its loan portfolio. This decrease is primarily due to the strategic withdrawal from project finance operations.

Customer deposits increased by EUR 15.3 million. This growth in deposits strengthens the bank's ability to expand the loan portfolio and support the other ProCredit banks with cost-efficient and short-term financing.

The low figure for net interest income is explained by the fact that ProCredit Holding's equity investments in its subsidiaries are partly financed by debt instruments.

Operating income was dominated by dividend payments received from subsidiary banks totalling EUR 50.3 million. Further income came from commission and brokerage services by the ProCredit Bank in Germany, from the IT services performed by Quipu GmbH and from consultancy services provided to the ProCredit banks by ProCredit Holding.

Ratings

In 2018, FitchRatings again awarded an international rating to ProCredit Holding and the ProCredit banks in Eastern and South Eastern Europe, and a national rating to the ProCredit banks in South America. The ratings are determined in large part by the respective country ceiling.

Institution	2018 Rating	2017 Rating	
ProCredit Holding	BBB	BBB	(international rating)
ProCredit Bank, Albania	BB-	B+	(international rating)
ProCredit Bank, Bosnia and Herzegovina	B+	B	(international rating)
ProCredit Bank, Bulgaria	BBB-	BBB-	(international rating)
ProCredit Bank, Georgia	BB	BB	(international rating)
ProCredit Bank, Germany	BBB	BBB	(international rating)
ProCredit Bank, Kosovo	BB	BB-	(international rating)
ProCredit Bank, Macedonia	BB+	BB+	(international rating)
ProCredit Bank, Romania	BBB-	BBB-	(international rating)
ProCredit Bank, Serbia	BB+	BB+	(international rating)
ProCredit Bank, Ukraine	B-	B-	(international rating)
Banco ProCredit, Colombia	AA+	AA+	(national rating)
Banco ProCredit, Ecuador**	AAA-	AAA-	(national rating)

* *by Bankwatch Ratings S.A.*

Ratings for ProCredit Holding and the individual ProCredit institutions

MANAGEMENT REPORT OF PROCREDIT HOLDING AG & CO. KGaA

The activities of ProCredit Holding AG & Co. KGaA (hereinafter "ProCredit Holding") are deeply intertwined with the development of the group and its entities. Therefore, due to the resulting influence on the operating and financial results of ProCredit Holding, its Management Report has been integrated into the group report. With regard to ProCredit Holding's report on significant post-balance sheet events, the risk report (including system for early detection of risks) and the report on expected developments, we refer to the corresponding sections of the Group Management Report. Please note that, in contrast to the consolidated financial statements for the group, the financial statements for ProCredit Holding have been prepared according to the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG). The branch office ProCredit Holding AG & Co. KGaA Sucursal Colombiana, Bogota, Colombia (a regional academy), is included in the scope of the financial statements for ProCredit Holding.

Business activities of ProCredit Holding AG & Co. KGaA

ProCredit Holding is located in Frankfurt am Main, Germany. The holding company exclusively conducts activities that are associated with the group. Its main duties include:

- steering the strategy of the group
- providing support for the subsidiaries in implementing group-wide strategies for the various business areas and in the area of risk management
- monitoring and supervising the subsidiaries, especially in the areas of HR management, marketing, internal audit, anti-money laundering activities and risk management, for which purpose ProCredit Holding has developed group policies
- providing equity for the subsidiaries and ensuring sufficient capital adequacy at group level
- providing financing to the subsidiaries
- developing training programmes for the staff of the ProCredit group
- reporting to shareholders and third parties, including supervisory reporting

Pursuant to section 10a (1) KWG, ProCredit Holding is the "superordinated company" of the ProCredit group for financial supervision purposes. Alongside ensuring appropriate capital endowment of the group, its key responsibilities thus include the group-wide implementation of the requirements specified under section 25a of the German Banking Act (Kreditwesengesetz – KWG) and under the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk", as well as ensuring the group's compliance with the German Money Laundering Act (Geldwäschegesetz – GWG).

As of year-end 2018, ProCredit Holding had 90 staff members. This includes three employees who are based abroad. The majority of the Germany-based employees work in the areas of "Finance & Controlling", "Risk Management" and "Credit Risk Management".

Development of financial position

ProCredit Holding's close involvement in the activities of the group is reflected in the structure of both the balance sheet and the income statement. Receivables from and shares in affiliated companies make up over 90% of its assets. Payments from affiliated companies to ProCredit Holding in the form of dividends, interest, and fees for consultancy services account for the largest part of ProCredit Holding's earnings.

ProCredit Holding provides equity and medium- to long-term funding to the ProCredit banks. The company also keeps a central liquidity reserve to cover the short-term liquidity needs of its subsidiaries. Aside from shareholders' equity, ProCredit Holding finances its activities mainly through international financial institutions and banks, and the issuance of bonds by way of private placements.

ProCredit Holding's total assets increased by EUR 95.5 million in 2018. The shares in affiliated companies increased by a total of EUR 27.0 million during the period. At the same time, loans to affiliated companies increased by EUR 123.5 million.

ProCredit Holding's financial liabilities decreased by EUR 108.4 million due to the repayment of bonds and liabilities to banks.

Equity increased by a total of EUR 63.0 million. This was primarily attributable to a capital increase that took place at the beginning of the financial year.

Result of operations

The financial results of ProCredit Holding are primarily determined by transactions with the affiliated companies, the main factors being the dividend payments received, interest payments, and fees for consultancy services. The expense positions primarily consist of operating expenses, impairment on shares in affiliated companies, and interest expenses.

ProCredit Holding's profit decreased by EUR 12.4 million in 2018 to EUR 17.8 million. In 2017 higher proceeds from the sale of shares in affiliated companies were earned. Moreover, the impairments on financial assets were greater in 2018. Dividend income was EUR 50.3 million, slightly lower than in the previous year (2017 EUR 52.4 million).

ProCredit Holding's operating expenses remained largely constant during the period.

The Management expects stable development in the coming period, with no major change in the profit for the year.

Photo: Head office of ProCredit Bank Serbia with electric and hybrid cars

REPORT ON EXPECTED DEVELOPMENTS, INCLUDING BUSINESS OPPORTUNITIES AND RISKS

Macroeconomic environment and competitive situation

For 2019 we expect the economic environment to be characterised by weaker growth than in 2018. This assessment is based on the assumption that the Eurozone, the U.S. and the Eastern European countries will experience lower growth.

In the South Eastern European countries in which we are present, we expect that 2019 will see economic growth rates of 2–4%. In Eastern Europe we anticipate 2019 growth rates of 2.7% in Ukraine and 4.8% in Georgia. In Moldova we expect further stable growth of 3.8%. Our assumptions are based on continued geopolitical stability in the region, particularly with regard to the conflict in Ukraine.

In our South American countries of operation, 2018 was characterised by slightly higher prices for raw materials than in the previous year. We expect a slight increase of around 0.7% in Ecuador's economic performance in 2019.

In the short term, we expect interest rates to remain at a low level. In the medium term, however, with the ECB's Public Sector Purchase Programme coming to an end and interest rate hikes by the Federal Reserve, we expect interest rates to start rising.

For 2019, we expect competitive pressure in the SME segment to be at a continuously high level but varying between countries. In South Eastern Europe our main competitors are international banking groups, while in Eastern Europe and South America we mostly compete with local or regional banks and financial institutions. We feel that our lean structures, innovative service channels and the high quality of advisory services provided by our staff place us in a very good competitive position.

In Romania a new law on bank taxation has been announced for 2019. At the time of reporting, no explicit information was available on how this law would be applied.

Expected development of the ProCredit group

We continue to anticipate good prospects for sustainable, profitable growth as a bank specialised in serving small and medium enterprises. This will entail more extensive lending and deposit activities as well as commission and brokerage services.

In 2019 we expect gross loan portfolio growth of 10–13% based on the expectation of a positive economic development and without major exchange rate fluctuations. In the medium term, we plan to achieve gross annual loan portfolio growth of around 10%. Furthermore, loans in the "green finance" category will be expanded. In the medium term we anticipate that our green loan portfolio will account for 20% of our overall portfolio.

With respect to customer deposits, we plan to enlarge the share of sight deposits from business clients. In terms of private clients, we are focused on stable deposits from the middle class. For the coming year we aim to achieve higher overall growth in customer deposits than in the 2018 financial year.

For 2019 we expect a consolidated result of between EUR 48 million and EUR 55 million. Our forecast is based on the assumption of stronger earnings coupled with higher risk provisioning expenses and stable operating expenses. It also takes potential adverse effects into consideration, such as the bank tax in Romania and restructuring measures at ProCredit Bank Albania.

Taking account of the planned growth of our loan portfolio and a slight reduction in average interest rates, we expect an upward development of our interest income. Interest expense will also increase due to the rising demand for financing. In this context, we expect the narrowing of the net interest margin to be smaller than in the previous year, and anticipate a slight overall increase in net interest income. Thanks to the changes implemented in our retail banking business during the past financial year, and to an increase in payment transactions by clients, we expect higher fee income in 2019. Following exceptionally low expenditures for loss allowances during the period, we assume, for the purposes of conservative planning, a significant increase. We expect operating expenses to remain at the same level as in the previous year. Overall, we expect the cost-income ratio to fall below 70%.

In the medium term, we assume only a slight increase in operating expenses due to the expansion of our business activities, which will lead to further economies of scale. We aim for the cost-income ratio to improve and drop below 60%, with a stable return on equity of around 10%.

We plan to maintain a CET 1 capital ratio of above 13% and expect the group's overall risk profile to remain stable.

Assessment of business opportunities and risks

Our expectations are based on similar macroeconomic conditions to 2018, but with ongoing uncertainty and downside risk. Should there be major disruptions in the Eurozone, a significant change in foreign trade or monetary policy, a worsening of the interest rate margin or pronounced exchange rate fluctuations, the impact could be manifested in decreased loan portfolio growth and an increase in past-due loans, and thus result in lower profitability. The Management is of the opinion that the capital base and the sustainability of the business model are not jeopardised in these scenarios. The ProCredit group has proven to be very resilient even in the face of major disruptions, thanks to the clear focus of our business model, our close relationships with our clients, and our conservative risk strategy.

The quality and motivation of our staff will continue to be a key factor in making a lasting impact and achieving our business objectives. We assume that the competition for highly qualified staff will intensify. However, we counter this risk by maintaining a corporate culture based on open communication, tolerance, high professional standards and transparency.

RISK REPORT

An informed and transparent approach to risk management is a central component of our socially responsible business model. This is also reflected in our risk culture, resulting in decision-making processes that are well-balanced from a risk point of view. The overall risk profile of the group is appropriate and stable. This is based on an overall assessment of the individual risks, as presented in this risk report.

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the group and each individual bank continues to be appropriate at all times, as well as to achieve steady results. While the business strategy lists the objectives of the group for all material business activities and regions of operation and presents the measures to be taken to achieve them, the group risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the group. The strategies are updated annually and are approved by the Management of ProCredit Holding following discussions with the Supervisory Board.

The principles of our business activity, as listed below, provide the foundation for our risk management. The consistent application of these principles significantly reduces the risks to which the group is exposed.

- **Focus on core business**

The ProCredit institutions focus on the provision of financial services to small and medium businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the banks' other operations are performed mainly in support of the core business. ProCredit banks therefore assume mainly credit risk, interest rate risk and liquidity risk in the course of their day-to-day operations. At group level, foreign currency risk is furthermore relevant due to the investments made by ProCredit Holding in the equity capital of its subsidiary banks. At the same time, ProCredit avoids or very strictly limits all other risks involved in banking operations.

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

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans regions and countries, as well as urban and rural areas within countries. In terms of client groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is a central pillar of the group's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients with simple, easily understandable services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and our simple, transparent services and processes result in a significant reduction of the group's risk profile.

- **Careful staff selection and intensive training**

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. This is why we select our staff very carefully and have made significant investments in training our employees for many years. Our intensive training efforts not only produce a high level of professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to thinking critically and voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the ProCredit group takes account of the "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of our knowledge of the markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in the ProCredit group are presented below.

- All ProCredit institutions apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Holding and are updated at least annually. These specify the responsibilities at bank and group level, and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the group and all ProCredit institutions.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad-hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- Suitable processes and procedures for an effective internal control system are in place. This s built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.
- All new or significantly changed products undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

These key elements of risk management in the ProCredit group are based on regulatory requirements and on the comprehensive knowledge we have gained over the past 20 years in our markets as well as a precise understanding of both our clients and the risks we assume.

The countries where the ProCredit group operates are at different stages of development. Although the operating environment in these countries has improved over the last ten years, some are still characterised by relatively volatile macroeconomic environments and public institutions that are not yet fully developed. The diversification of our business activities, combined with our comprehensive knowledge, provide a solid foundation for us to manage this risk.

Organisation of risk management and risk reporting

At the group level, overall responsibility for risk management is assumed by the Management of ProCredit Holding, which regularly analyses the risk profile of the group and decides on the measures to be taken. The risk controlling function required by MaRisk is headed by a member of the Management of ProCredit Holding. Risk management at group level is supported conceptually and implemented operationally by various risk management and finance functions. Various committees support and advise the Management in the performance of the risk management function.

- The Group Risk Management Committee develops the group-wide framework for risk management and monitors the risk profile of the group. This includes the monitoring of individual risk positions, limit compliance, and the internal and regulatory capital adequacy at the level of individual institutions and the group.
- The Group Asset and Liability Committee (Group ALCO) is responsible for monitoring the liquidity reserve and liquidity management of the group, co-ordinating measures aimed at securing funding for the ProCredit banks and ProCredit Holding, and reporting on material developments in financial markets.
- The Group and PCH Model Committee focuses on significant changes to, and validation of, the models used to quantify risks.
- The Group Committee on Financial Crime Prevention monitors the group's risk profile regarding money laundering and fraud, providing support in the adoption of suitable measures to prevent these risks.
- The Group Compliance Committee serves as the central platform for exchanging information about compliance risks, thus ensuring implementation of legal requirements. The committee is a forum for evaluating compliance risks, discussing the impact of changes in legal regulations and prioritising identified compliance risks.
- The Group Internal Audit Committee focuses on annual internal audit plans at the level of individual banks and ProCredit Holding, and on monitoring the timely implementation of measures to resolve the findings of internal and external auditors. Moreover, this body aims to achieve ongoing improvement in the Internal Audit Policy.

The group has an effective compliance management system that is supported by our Code of Conduct, which is binding for all staff, and by our approach to staff selection and training. The Group Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements. Both the Group Compliance Committee and the corresponding committees at bank level enable efficient coordination of all compliance-relevant issues. Each ProCredit bank has a compliance function which bears responsibility for adhering to national banking regulations and reports regularly and on an ad hoc basis to the Management of the bank and to the Group Compliance Officer. Any conduct which is inconsistent with the established rules, whether at ProCredit Holding or in a subsidiary, can be reported anonymously to an e-mail address established for the group.

Group Audit is an independent functional area within ProCredit Holding. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the group. Additionally, each ProCredit bank has an internal audit department which is supported and monitored by Group Audit. Once per year, the internal audit departments of the ProCredit banks carry out risk assessments of all of their bank's activities in order to arrive at a risk-based annual audit plan. This comprises risk management and risk control processes, including the identification, assessment, control, monitoring and communication of material risks. The risk management system is reviewed accordingly by Internal Audit. Each internal audit department reports to an audit committee, which generally meets on a quarterly basis. The Group Audit team monitors the quality of the audits conducted in each ProCredit bank and provides technical guidance.

The Management at each ProCredit bank bears responsibility for risk management within their institution. All ProCredit banks have, as a minimum, risk management departments, a risk management committee and an ALCO, as well as specialised committees that address individual risks. These committees monitor and manage the risk profile of the respective institution.

At the individual bank level, risk positions are analysed regularly, discussed intensively and documented in standardised reports. The risk department of each bank reports regularly to the different risk functions at ProCredit Holding, and the respective supervisory board is informed on at least a quarterly basis about all risk-relevant developments.

ProCredit Holding prepares a monthly aggregate risk report for the Group Risk Management Committee, with the Supervisory Board receiving reports on a quarterly basis. A quarterly report on stress testing is also prepared for the Group Risk Management Committee. Monitoring of both the individual banks' risk situation and the group's overall risk profile is carried out through a review of these reports and of additional information generated by individual banks and at group level. If necessary, additional ad-hoc reporting occurs for specific topics. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

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

The management of material risks in the ProCredit group is described in greater detail in the following section. This includes: credit risk, foreign currency risk, interest rate risk, liquidity and funding risk, operational risk, business risk and model risk, and risks arising from money laundering, terrorist financing and other acts punishable by law.

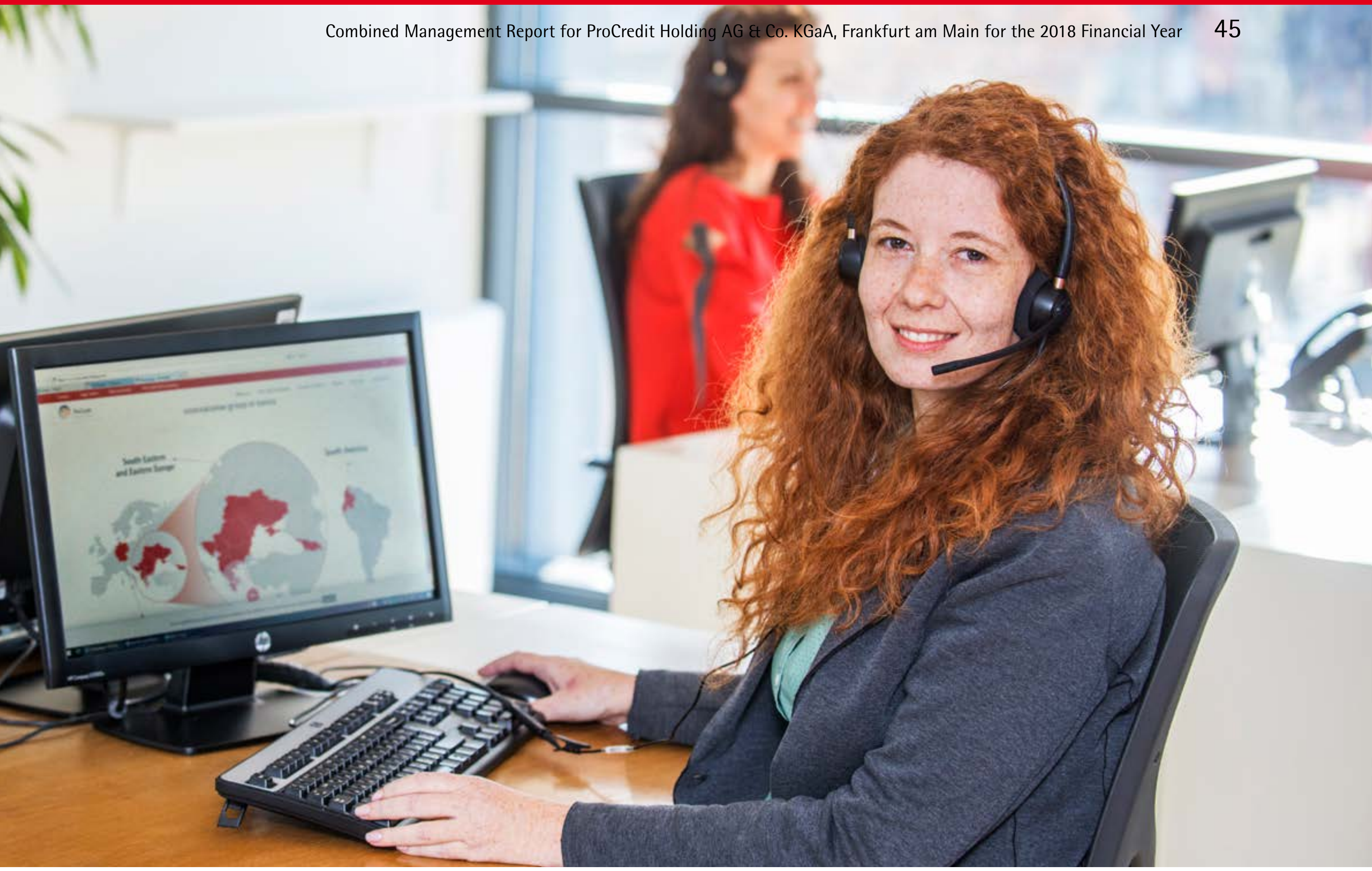


Photo above: ProCredit Bank Bulgaria
Photo below: Eling, electrical instalation, wholesaler of electronic parts, client of ProCredit Bank Kosovo

Management of Individual Risks

Credit risk

The ProCredit group defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations at all, not in full or not on time. Within overall credit risk we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing the ProCredit group, and customer credit exposures account for the largest share of that risk.

in '000 EUR	31.12.2018	IFRS 9 01.01.2018	IAS 39 31.12.2017
Central bank balances	805,769	788,401	932,273
Loans and advances to banks	211,592	195,552	196,243
Derivative financial assets (2017: financial instruments at fair value through profit or loss)	1,307	1,074	1,074
Investment securities (2017: available-for-sale financial assets)	297,308	353,568	214,701
Loss allowance for investment securities	*-476*	*-2,407*	*n/a*
Loans and advances to customers	4,267,829	3,756,776	3,781,384
Other assets (financial instruments)	40,568	42,610	39,369
Contingent liabilities and commitments	649,835	640,862	640,862
Loss allowance	*-2,114*	*-2,445*	*-1,133*
Total	**6,271,619**	**5,773,991**	**5,804,774**

Maximum exposure to credit risk

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. The diversification of operations across four regions and 13 countries, and the experience that the ProCredit institutions have gained in operating in these markets over the past decades form the basis for the group's ability to limit customer credit risk effectively.

The ProCredit banks serve a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. For our lending operations, we apply the following principles, among others:

- Intensive analysis of the debt capacity and repayment capacity of borrowers, including an analysis of future capital flows
- Carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by expert third parties
- Strictly avoiding overindebtedness among credit clients
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure in regular monitoring reports
- Strictly monitoring the repayment of credit exposures
- Applying closely customer-oriented, intensified loan management in the event of arrears
- Collecting collateral in the event of insolvency

The group's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the group and at the level of each individual bank, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the group's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The ProCredit group divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for risk-relevant operations.

The experience of the ProCredit group has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions of the ProCredit group are therefore based predominantly on an analysis of the client's financial situation and creditworthiness. Regular on-site visits to clients are performed to ensure an adequate consideration of their specific features and needs.

All credit decisions in the ProCredit banks are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on medium credit exposures are taken by credit committees at the banks' head offices. If the exposures are particularly significant for the respective bank on account of their size, the decision is taken by the Supervisory Board of the respective bank, usually following a positive vote issued by the responsible Group Credit Risk Management team at ProCredit Holding.

The most important factor for credit committee decisions is a funding and collateral structure that is based on the client's needs and conditional on the respective risk profile. In this context, the following general principles apply: the lower the loan amount, the more detailed the documentation provided by the client, the shorter the loan period, the longer the client's history with the bank, and the higher the client's account turnover with the bank, then the lower the collateral requirements will be.

The group credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with solid collateral, mostly through mortgages.

The valuation of immovable collateral is based on assessments conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialised ProCredit bank staff. The total amount of collateral held by the group as security is EUR 3.3 billion.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk.

Photo: EduFarm, organic farm produce and modern cattle breeding services, client of ProCredit Bank Serbia

	31.12.2018	31.12.2017
Mortgages	66.8%	68.0%
Cash collateral	1.7%	1.5%
Financial guarantees	11.6%	8.0%
Other	19.9%	22.5%

Loan collateral

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients.

Moreover, the ProCredit group has developed indicators for the early identification of risks based on quantitative and qualitative risk features; these indicators are to be implemented by the banks. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the performing portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to ProCredit Holding.

Exceptional events which could have an impact on large areas of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

In addition, asset quality indicators have been introduced, on the basis of which the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, restructurings or collateral liquidations by other banks, as well as other factors which indicate a significant deterioration of the economic situation of the client. The indicators allow for a clear overview of the quality of the group's portfolio and that of an individual bank, and represent one of the most important tools for the credit risk management process.

- The performing loan portfolio shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.
- The underperforming loan portfolio comprises exposures with elevated credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or other factors. Nevertheless, the bank still assesses full repayment of the exposure to be possible, e.g. after restructuring.
- The defaulted loan portfolio comprises all exposures in default, most of which have shown lasting payment difficulties (over 90 days) or other negative factors, e.g. initiation of bankruptcy proceedings. Further details are provided below.

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure. One of the first steps in managing the exposure is to determine the economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, it is passed on to officers responsible for customer service. These officers are supported by specialists from the legal department. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 EUR	31.12.2018	31.12.2017
Real estate	15,555	22,910
Inventory	373	533
Other	2,104	2,391
Repossessed property	**18,032**	**25,834**

Repossessed property

Loss allowances

Loss allowances are established in line with the defined group standards, which are based on IFRS 9. The forward-looking expected credit loss (ECL) model is the central element of the approach to quantifying loss allowances. Accordingly, all credit exposures to customers are allocated among the three stages listed below, with a distinct provisioning methodology applied to each group. These stages are analogous to the performing, underperforming and defaulted categories described above.

Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date (Performing). For these exposures, the expected credit losses arising from possible default events within the 12 months following the reporting date are recognised in expenses.

Stage 2 comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indication of impairment (Underperforming). This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

Stage 3 includes all defaulted exposures, i.e. as of the reporting date, there is both a significant increase in credit risk and objective indication of impairment (Defaulted). The respective calculation of loss allowances is performed based on the expected credit losses considering 100% probability of default.

When determining whether or not a significant increase in credit risk has occurred, both quantitative and qualitative information derived from the group's experience is used. Exposures are transferred from Stage 1 to Stage 2 when, for example, one of the following criteria applies:

- contractual payments are more than 30 days and less than 90 days past due
- risk classification downgraded below a certain threshold
- adjustment of the originally agreed contractual conditions due to temporary liquidity difficulties for the client that could lead to higher credit default

An exposure is transferred to Stage 3 when the following or similar characteristics apply:

- contractual payments are more than 90 days past due
- risk classification is downgraded to a level viewed as defaulted
- adjustment of the originally agreed contractual conditions due to financial difficulties for the client that lead to significantly higher credit risk
- impairment of the exposure (i.e. repayment cannot be completed without collateral realisation)

The group views an exposure as defaulted when one or more of the above items applies and negatively impacts the expected cashflows of a credit exposure to the extent that it can be assumed the borrower will not be able to fulfil his credit obligations.

As part of the exposures allocated to Stage 3, the group has introduced special treatment of POCI (Purchased or Originated Credit Impaired) exposures in accordance with IFRS 9 requirements concerning modified financial assets. Within our business model, the acquisition of such default-threatened assets is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation or significant modification of the contractually agreed cashflows. Recognition of POCI exposures requires the fair value to be determined as of initial recognition, taking account for the expected losses.

The migration of an exposure from Stage 3 to an improved stage is possible if a client is able to settle his debts in full without recourse to collateral realisation. Restructured exposures are subject to a rehabilitation period and a probationary period. Once the economic situation of a borrower in Stage 3 has improved such that he can fulfil his payment obligations in full and without recourse to collateral and there are no longer indications of impairment, a one-year rehabilitation period begins. If the client has no arrears and shows no other signs of impairment during this period, then the exposure is allocated to Stage 2 for a two-year probationary period. After successful probation and fulfilment of additional criteria, the exposure may migrate into Stage 1. POCI exposures are not able to migrate but instead remain in Stage 3.

Below, additional details are provided on the model for quantifying credit risk and the data used therein.

Input data for the assessment of credit risk parameters are based on multi-year data histories for all borrowers in the banks within the group. This includes outstanding amounts from past reporting dates, various data on default events, such as date and amount of default, any repayment amounts or collateral proceeds, and information about the risk characteristics of the clients.

Expected credit losses are based on estimates of the main risk parameters, probability of default and loss given default. Both parameters are estimated empirically based on the input data histories. Regression models are used here to quantify the impact of a series of factors, which include client risk characteristics and macroeconomic factors.

The riskiness of a client is determined using a range of indicators, including the risk classification, restructuring status and client compliance with contractual payment requirements. Changes in these indicators reflect an increase or decrease in the credit risk of a client. Furthermore, these indicators are used to identify defaulted clients.

In general, exposures are only written off when no further recoveries are expected. The direct and indirect costs of managing credit exposures that have not been written off must also be in proportion to the size of the outstanding exposure. Bearing these points in mind, the banks generally write off insignificant credit exposures earlier than significant ones.

When determining provisions in Stage 3, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. The group places strong emphasis on taking a careful approach to cost estimates and expected proceeds, as well as to the assumptions about the duration of collateral realisation.

The following table provides an overview of the respective gross and net customer loan portfolio, as well as loss allowances.

in '000 EUR **As of 31 December 2018**	**Stage 1**	**Stage 2**		**Stage 3**			**POCI**			**Total**
	12-month ECL	**Lifetime ECL**		**Lifetime ECL**						
		0-30 days	**31-90 days**	**0-30 days**	**31-90 days**	**over 90 days**	**0-30 days**	**31-90 days**	**over 90 days**	
Germany										
Gross outstanding amount	75,987	0	0	0	0	0	0	0	0	**75,987**
Loss allowances	-432	0	0	0	0	0	0	0	0	**-432**
Carrying amount	75,555	0	0	0	0	0	0	0	0	**75,555**
South Eastern Europe										
Gross outstanding amount	2,899,888	58,437	6,114	32,447	3,929	56,710	1,318	0	25	**3,058,869**
Loss allowances	-23,376	-9,090	-971	-12,273	-1,448	-40,502	-168	0	-9	**-87,837**
Carrying amount	2,876,512	49,347	5,143	20,174	2,482	16,208	1,150	0	16	**2,971,032**
Eastern Europe										
Gross outstanding amount	934,423	15,204	4,435	18,166	3,201	10,255	489	15	510	**986,697**
Loss allowances	-8,470	-1,839	-699	-6,117	-1,533	-7,624	-37	-7	-264	**-26,591**
Carrying amount	925,953	13,365	3,735	12,049	1,668	2,631	452	8	245	**960,106**
South America										
Gross outstanding amount	245,129	14,209	1,450	3,608	309	5,703	212	0	0	**270,620**
Loss allowances	-2,703	-781	-73	-1,642	-160	-4,118	-7	0	0	**-9,484**
Carrying amount	242,426	13,427	1,377	1,966	149	1,585	205	0	0	**261,136**

in '000 EUR **As of 1 January 2018**	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**		**Stage 3** **Lifetime ECL**			**POCI**			**Total**
		0-30 days	**31-90 days**	**0-30 days**	**31-90 days**	**over 90 days**	**0-30 days**	**31-90 days**	**over 90 days**	
Germany										
Gross outstanding amount	88,452	0	0	0	0	0	0	0	0	**88,452**
Loss allowances	-459	0	0	0	0	0	0	0	0	**-459**
Carrying amount	87,992	0	0	0	0	0	0	0	0	**87,992**
South Eastern Europe										
Gross outstanding amount	2,549,187	73,990	6,783	45,416	16,538	61,187	1,079	0	50	**2,754,231**
Loss allowances	-22,613	-12,377	-1,049	-15,885	-11,248	-40,377	0	0	0	**-103,548**
Carrying amount	2,526,574	61,614	5,734	29,532	5,290	20,810	1,079	0	50	**2,650,683**
Eastern Europe										
Gross outstanding amount	769,538	18,426	356	16,220	3,551	16,049	530	16	25	**824,711**
Loss allowances	-8,802	-2,749	-50	-7,706	-1,711	-10,887	0	0	0	**-31,904**
Carrying amount	760,736	15,678	306	8,514	1,840	5,162	530	16	25	**792,808**
South America										
Gross outstanding amount	205,338	12,101	1,462	4,964	473	20,732	73	35	0	**245,177**
Loss allowances	-2,364	-751	-69	-2,305	-166	-14,229	0	0	0	**-19,884**
Carrying amount	202,974	11,349	1,393	2,658	307	6,503	73	35	0	**225,293**

in '000 EUR **As of 31 December 2017**	**0 days**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 to 360 days**	**> 360 days**	**Total**
Loans and advances to customers								
Non-impaired								
Business loans	**3,262,860**	**71,129**	**251**	**0**	**0**	**0**	**0**	**3,334,239**
Wholesale and retail trade	981,651	23,165	0	0	0	0	0	1,004,816
Agriculture, forestry and fishing	748,452	12,854	141	0	0	0	0	761,447
Production	755,648	15,936	109	0	0	0	0	771,694
Transportation and storage	209,454	4,139	0	0	0	0	0	213,593
Other economic activities	567,653	15,034	0	0	0	0	0	582,688
Private loans	**375,723**	**16,386**	**21**	**0**	**0**	**0**	**0**	**392,130**
Housing	198,538	8,971	0	0	0	0	0	207,509
Investment loans and OVDs	114,748	5,490	0	0	0	0	0	120,239
Others	62,437	1,925	21	0	0	0	0	64,383
Impaired								
Business loans	**49,270**	**14,806**	**11,400**	**4,981**	**9,770**	**16,943**	**61,784**	**168,954**
Wholesale and retail trade	16,889	5,541	3,181	1,532	2,837	6,955	27,907	64,843
Agriculture, forestry and fishing	8,795	1,528	3,400	1,632	2,373	2,927	6,083	26,739
Production	7,495	2,626	1,551	708	1,615	3,654	11,155	28,803
Transportation and storage	1,501	942	624	343	852	998	1,857	7,118
Other economic activities	14,590	4,170	2,644	766	2,093	2,409	14,781	41,452
Private loans	**2,852**	**2,215**	**1,802**	**664**	**1,295**	**2,203**	**3,557**	**14,587**
Housing	1,884	1,290	958	317	380	1,033	1,439	7,300
Investment loans and OVDs	436	302	560	246	624	809	1,609	4,586
Others	533	623	285	101	291	361	509	2,702
Total	**3,690,704**	**104,536**	**13,475**	**5,645**	**11,065**	**19,146**	**65,341**	**3,909,911**

Loan portfolio, by days in arrears

in '000 EUR As of 31 December 2017	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR (> 30 days) as % of loan portfolio	PAR 30 Coverage ratio	Net write-offs	Net write-offs as % of loan portfolio
Germany	88,454	-663	0	-	-	180	0.2%
South Eastern Europe	2,759,123	-89,583	80,474	2.9%	111.3%	8,734	0.3%
Eastern Europe	823,399	-27,193	17,905	2.2%	151.9%	5,770	0.7%
South America	238,935	-11,088	16,303	6.8%	68.0%	1,677	0.7%
Total	**3,909,911**	**-128,527**	**114,683**	**2.9%**	**112.1%**	**16,361**	**0.4%**

Risk provisioning in customer lending activities

The following table presents gross and net exposures, broken down according to economic sector and by stage.

	Business loans					Private loans			
in '000 EUR As of 31 December 2018	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	Total
Stage 1									
Gross outstanding amount	1,129,170	827,747	972,129	226,327	675,198	293,114	25,873	5,870	4,155,427
Loss allowance for loans to customers	-10,807	-5,851	-7,601	-1,558	-5,553	-3,270	-266	-75	-34,981
Net outstanding amount	1,118,363	821,895	964,529	224,769	669,646	289,843	25,607	5,795	4,120,446
Stage 2									
Gross outstanding amount	24,503	20,071	16,751	5,654	22,359	8,919	1,186	406	99,847
Loss allowance for loans to customers	-3,086	-2,340	-2,518	-622	-2,842	-1,799	-186	-60	-13,454
Net outstanding amount	21,416	17,731	14,233	5,032	19,516	7,120	1,000	346	86,394
Stage 3									
Gross outstanding amount	39,963	28,038	21,340	6,315	29,284	6,844	1,579	966	134,329
Loss allowance for loans to customers	-23,012	-13,060	-12,273	-3,838	-17,187	-4,130	-1,223	-694	-75,417
Net outstanding amount	16,952	14,978	9,067	2,477	12,097	2,714	356	272	58,912
POCI									
Gross outstanding amount	458	94	218	6	1,707	12	1	75	2,569
Loss allowance for loans to customers	-202	-45	-54	0	-143	-2	-1	-47	-493
Net outstanding amount	256	49	164	6	1,563	9	0	28	2,076

Photo above: Export City, Manufacture of upholstered chairs and office furniture, client of ProCredit Bank Bosnia and Herzegovina
Photo below: Electric cars of ProCredit Bank Ukraine

in '000 EUR As of 1 January 2018	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Trans-portation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	
Stage 1									
Gross outstanding amount	973,859	746,269	751,178	207,818	559,266	202,271	117,773	54,080	3,612,515
Loss allowance for loans to customers	-10,078	-6,139	-6,438	-1,588	-5,163	-1,961	-1,985	-884	-34,238
Net outstanding amount	963,781	740,129	744,740	206,230	554,103	200,310	115,788	53,196	3,578,277
Stage 2									
Gross outstanding amount	31,312	18,259	20,990	6,472	23,957	6,923	3,377	1,829	113,119
Loss allowance for loans to customers	-4,763	-2,334	-2,861	-817	-3,766	-1,527	-594	-382	-17,045
Net outstanding amount	26,548	15,926	18,129	5,655	20,191	5,397	2,783	1,447	96,074
Stage 3									
Gross outstanding amount	70,997	24,820	29,051	6,946	40,550	6,030	3,892	2,843	185,129
Loss allowance for loans to customers	-41,289	-13,833	-15,243	-4,459	-21,307	-3,644	-2,993	-1,746	-104,513
Net outstanding amount	29,708	10,987	13,808	2,487	19,244	2,386	900	1,097	80,616
POCI									
Gross outstanding amount	233	28	42	8	1,460	26	10	0	1,808
Loss allowance for loans to customers	0	0	0	0	0	0	0	0	0
Net outstanding amount	233	28	42	8	1,460	26	10	0	1,808

in '000 EUR As of 31 December 2017	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Trans-portation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	
Specific impairment									
Gross outstanding amount	52,967	18,160	23,876	3,614	34,864	4,470	503	1,444	139,898
Allowance for specific impairment	-23,683	-6,583	-9,418	-1,624	-13,260	-953	-204	-494	-56,220
Net outstanding amount	29,284	11,577	14,457	1,990	21,604	3,517	299	949	83,678
Lump-sum allowance for specific impairment									
Gross outstanding amount	11,876	8,578	4,927	3,504	6,588	2,830	4,083	1,258	43,644
Lump-sum allowance for specific impairment	-6,234	-5,577	-3,117	-1,936	-3,597	-1,620	-2,945	-884	-25,911
Net outstanding amount	5,641	3,001	1,811	1,568	2,991	1,210	1,138	374	17,733
Portfolio-based allowance for impairment									
Gross outstanding amount	1,004,816	761,447	771,694	213,593	582,688	207,509	120,239	64,383	3,726,369
Portfolio-based allowance for impairment	-12,663	-9,553	-8,905	-2,221	-6,718	-3,084	-2,084	-1,168	-46,396
Net outstanding amount	992,153	751,894	762,789	211,373	575,970	204,425	118,154	63,215	3,679,973

Allowances for losses on loans and advances to customers

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past-due portfolio) and concentration risk.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium businesses in various economic sectors, and to private clients, and the distribution of the loan portfolio across 13 institutions.

in '000 EUR **As of 31 December 2018**	**EUR/USD < 50,000**	**EUR/USD 50,000 – 250,000**	**EUR/USD > 250,000**	**Total**
Business loans	**422,495**	**1,510,770**	**2,114,066**	**4,047,332**
Wholesale and retail trade	119,667	469,688	604,739	1,194,094
Agriculture, forestry and fishing	131,950	363,187	380,812	875,949
Production	65,234	317,686	627,519	1,010,439
Transportation and storage	38,680	109,661	89,962	238,303
Other economic activities	66,964	250,549	411,034	728,547
Private loans	**211,022**	**126,008**	**7,811**	**344,842**
Housing	178,050	123,426	7,413	308,889
Investment loans	26,765	1,473	398	28,636
Others	6,207	1,110	0	7,317
Customer loan portfolio (gross)	**633,518**	**1,636,778**	**2,121,877**	**4,392,173**

in '000 EUR **As of 1 January 2018**	**EUR/USD < 50,000**	**EUR/USD 50,000 – 250,000**	**EUR/USD > 250,000**	**Total**
Business loans	**545,035**	**1,364,930**	**1,603,551**	**3,513,516**
Wholesale and retail trade	153,030	444,624	478,747	1,076,402
Agriculture, forestry and fishing	176,280	318,384	294,712	789,376
Production	77,074	266,905	457,282	801,261
Transportation and storage	52,294	103,426	65,525	221,245
Other economic activities	86,357	231,592	307,285	625,233
Private loans	**255,114**	**117,519**	**26,422**	**399,055**
Housing	118,337	91,818	5,097	215,251
Investment loans	120,709	3,893	451	125,053
Others	16,068	21,809	20,874	58,751
Customer loan portfolio (gross)	**800,149**	**1,482,449**	**1,629,973**	**3,912,572**

in '000 EUR **As of 31 December 2017**	**EUR/USD < 50,000**	**EUR/USD 50,000 – 250,000**	**EUR/USD > 250,000**	**Total**
Business loans	**540,428**	**1,361,129**	**1,601,636**	**3,503,193**
Wholesale and retail trade	150,931	441,990	476,738	1,069,659
Agriculture, forestry and fishing	175,508	318,003	294,675	788,186
Production	76,389	266,850	457,257	800,497
Transportation and storage	51,821	103,358	65,532	220,711
Other economic activities	85,779	230,928	307,434	624,140
Private loans	**263,097**	**117,199**	**26,422**	**406,718**
Housing	118,020	91,693	5,097	214,809
Investment loans and OVDs	120,481	3,893	451	124,824
Others	24,596	21,614	20,874	67,085
Total	**803,525**	**1,478,328**	**1,628,058**	**3,909,911**

Portfolio diversification: Business areas, by loan size

In addition, the ProCredit banks limit the concentration risk of their portfolios by means of the following requirements: large credit exposures (those exceeding 10% of regulatory capital of the respective ProCredit bank) require the approval of the Group Risk Management Committee and the supervisory board of the respective institution. No large credit exposure may exceed 25% of regulatory capital of a bank, and the sum of all large credit exposures of a bank may not exceed 150% of its regulatory capital.

The quality of the loan portfolio in all client categories is monitored by credit control units at the individual bank level. They assess the quality of the credit analysis as well as compliance with internal procedures and identify signs of fraudulent activity. These teams comprise experienced staff who not only conduct on-site visits to customers in order to monitor the lending process but also systematically screen the portfolio for irregularities.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner. That is why the quality of the ProCredit banks' loan portfolios is significantly higher than the sector average in most countries, even in times when recovering outstanding loan repayments is more difficult.

Counterparty risk, including issuer risk

The ProCredit group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the ProCredit group mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards national central banks in the form of mandatory minimum reserves. We effectively limit counterparty and issuer risk within the ProCredit group through our conservative investment strategy.

Typically, our counterparties are central banks, central governments and commercial banks. The main types of exposure are account balances, short-term TDAs, highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (mostly foreign currency forwards and swaps).

Counterparty risk is managed according to the principle that our liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the group tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, we only work with carefully selected reliable banks that usually have a high credit rating, typically place our money for short terms (up to three months, but typically shorter) and use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. The ProCredit banks are prohibited from engaging in speculative trading. Liquidity in domestic currency is predominantly invested in central bank papers or sovereign bonds in the respective country. EUR or USD, on the other hand, are generally invested in OECD sovereigns or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited, because the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

The group's exposure to counterparty and issuer risk remained relatively stable compared to 2017.

in '000 EUR	31.12.2018	in %	31.12.2017	in %
Central bank balances	573,170	53.0	575,415	50.9
Loss allowances for central bank balances	*-618*		*n/a*	
Mandatory reserve	*387,564*		*356,749*	
of which covered by insurance	*-232,599*		*-214,400*	
Other balances with central banks	*418,823*		*433,065*	
Loans and advances to banks	211,763	19.5	196,243	17.4
Loss allowances for loans and advances to banks	*-170*		*n/a*	
Derivative financial assets	1,307	0.1	1,074	0.1
Investment securities	297,308	27.4	214,701	19.0
Loss allowance for investment securities	*-476*		*n/a*	
Money market instruments	n/a		142,459	12.6
Total	**1,082,902**	**100.0**	**1,129,892**	**100.0**

Exposures to counterparties and issuers

The exposure to banking groups contains repurchase agreements in the amount of EUR 8.5 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

For counterparty risk, the same definitions for "past due" and "impaired" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was past due nor showed any signs of impairment as of 31 December 2018. In accordance with IFRS 9 requirements, allowances were established for counterparty risk for the first time in the 2018 financial year; see notes 18-21 to the Consolidated Financial Statements.

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit banks conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. The typical maximum maturity of our term deposits is three months, but usually shorter; longer maturities are subject to approval. Approval is likewise required before any investments in securities, except for centrally issued securities or central bank papers in the domestic currency of the respective country with a remaining maturity of up to three months. Exposures to shadow banks are limited to 20% of total group capital, which is stricter than the regulatory limit of 25%. Essentially, these comprise transactions in the framework of ordinary business activities with locally regulated commercial banks in those countries where we operate whose banking regulations are not aligned with CRR/CRD IV.

In order to avoid risk concentrations on group level, an additional maximum limit towards each banking group and each state group (total exposure towards central bank, government and state-owned entities) exists. Due to mandatory minimum reserves, a concentration exists at group level with regard to exposures towards central banks. Since 2010 the group has insured more than half of this amount with guarantees from the Multilateral Investment Guarantee Agency (MIGA).

Country risk

The ProCredit group defines country risk as the risk that the group is not able to enforce rights over certain assets in a country or that a counterparty in that country is unable to perform an obligation due to convertibility or transfer restrictions or expropriation of its cross-border obligations. Country risk thus arises solely from cross-border transactions.

Country risk is a material risk only for ProCredit Holding and the ProCredit bank in Germany, because only these institutions conduct cross-border transactions with other group banks or clients abroad. The other ProCredit banks are only exposed to country risk to a very limited extent through their nostro accounts maintained with ProCredit Bank Germany. Furthermore, they only carry out cross-border transactions in exceptional cases and only with prior approval from the Group Risk Management Committee.

Country limits are derived from internal country ratings. These ratings combine the three elements of country risk as well as other country-specific aspects and are based on country risk ratings published by established rating agencies as well as internal information. Furthermore, all ProCredit banks monitor country-specific developments and report on them, both regularly and ad hoc, to ProCredit Holding.

Market risks

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for the ProCredit group are foreign currency risk and interest rate risk in the banking book. The ProCredit group manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the group risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. All ProCredit banks are non-trading book institutions.

Foreign currency risk

We define foreign currency risk as the risk that an institution or the group as a whole incurs losses due to exchange rate fluctuations or that the group's equity is reduced through currency translation effects. At the level of individual banks, foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios. At group level, foreign currency risk primarily arises from the equity investments made by ProCredit Holding.

Results are impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level.

Foreign currency risk can reduce regulatory capital ratios at bank level in cases where the capital of a bank is held in a different currency than many of the assets it supports. In that case, domestic currency depreciation can result in a significant deterioration of capital adequacy if the foreign currency assets appreciate (from a local perspective) and the bank therefore has higher risk-weighted assets but the capital remains unchanged. To mitigate this risk, the group aims to keep a high share of assets in the domestic currency of the respective banks. At least once a year, extensive currency risk stress tests are performed that depict the effects of unfavourable exchange rate developments on the banks' capital ratios.

Foreign currency risk at group level arises as a result of the equity investments that ProCredit Holding maintains in its subordinated companies in countries which do not have the euro as the domestic currency. Most banks keep their equity in the respective domestic currency. Thus, from a consolidated group perspective, OCPs in the respective domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risks-taking potential are exposed to fluctuations due to changes in the exchange rates of domestic currencies against the EUR. These differences are included in the translation reserve in the consolidated equity. These fluctuations are usually accompanied by simultaneous changes in the loan portfolio expressed in EUR terms. The translation reserve narrowed from EUR -84.0 million at the end of 2017 to EUR -75.4 million in December 2018. This decreased amount is primarily attributable to the stronger US dollar at the end of 2018 and the appreciation of the Ukrainian currency.

The following table shows the consolidated OCPs of the banks in USD. The position "other currencies" mainly includes the domestic currencies. Since most banks keep their equity in the respective domestic currency, they have significantly more assets than liabilities in this currency and thereby expose the group to foreign currency risk from equity participations.

in '000 EUR **As of 31 December 2018**	**USD**	**Other currencies**
Assets		
Cash and central bank balances	70,121	316,745
Loans and advances to banks	61,450	34,842
Derivative financial assets	0	22
Investment securities	43,148	167,327
Loans and advances to customers	529,585	1,542,521
of which: indexed to USD	3,857	0
Tax assets	405	2,056
Other assets	6,248	23,404
Total assets	**710,957**	**2,086,916**
Open forward position (assets)	**40,571**	**5,308**
Liabilities		
Liabilities to banks	17,634	32,875
Derivative financial liabilities	0	0
Liabilities to customers	446,047	1,483,291
of which: indexed to USD	0	0
Liabilities to international financial institutions	119,114	168,228
Debt securities	0	0
Tax liabilities	429	2,054
Provisions	2,157	2,539
Other liabilities	2,069	8,083
Subordinated debt	54,665	0
Total liabilities	**642,115**	**1,697,071**
Open forward position (liabilities)	**63,838**	**53,559**
Net position	**45,576**	**341,595**

in '000 EUR **As of 31 December 2017**	**USD**	**Other currencies**
Assets		
Cash and cash equivalents	98,163	399,092
Loans and advances to banks	64,979	22,459
Financial assets at fair value through profit or loss	0	3
Available-for-sale financial assets	26,297	70,875
Loans and advances to customers	530,841	1,327,520
of which: indexed to USD	8,756	0
Tax assets	165	1,966
Other assets	2,837	26,118
Total assets	**723,283**	**1,848,032**
Open forward position (assets)	**14,096**	**5,538**
Liabilities		
Liabilities to banks	46,062	38,268
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	437,729	1,368,182
of which: indexed to USD	0	0
Liabilities to international financial institutions	98,941	100,316
Debt securities	8,737	0
Tax liabilities	144	1,574
Provisions	4,790	2,855
Other liabilities	1,812	8,422
Subordinated debt	52,533	0
Total liabilities	**650,747**	**1,519,617**
Open forward position (liabilities)	**45,505**	**60,990**
Net position	**41,127**	**272,964**

Open currency position

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The monitoring, limiting and managing of interest rate risk is based on economic value impact and P&L-oriented indicators.

The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Sight deposits and savings accounts are included in the gap analyses according to country- and currency-specific historical analyses.

At the bank level, we assume a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis. Limits are set in relation to regulatory capital (non-netted in each case) for the economic value impact and for the P&L effect.

At the group level, interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect; limits are set for this risk on the basis of economic value impact. The indicators are calculated using historical Value-at-Risk models with a holding period of one year and confidence level of 99.9% (EVI) or 99% (P&L effect). The maturity-specific interest rate shocks are based on the historical development of the reference curve per currency.

in '000 EUR Currency	31.12.2018 Economic Value Impact	31.12.2018 12 month P&L-Effect	31.12.2017 Economic Value Impact	31.12.2017 12 month P&L-Effect
Total	**-48,015**	**-7,272**	**-64,873**	**-8,956**

Calculation of economic capital requirements

The economic value impact decreased in 2018 by EUR 16.8 million to EUR -48.0 million. The 12-month P&L effect fell by EUR 1.7 million in 2018. This development is attributable to improved coordination of repricing maturities. Furthermore, the ongoing calibration of currency-specific interest rate shocks also had an effect.

Liquidity and funding risk

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

We assess short-term liquidity risk in the ProCredit banks on the basis of a liquidity gap analysis, among other instruments, and we monitor this risk using numerous indicators. These include a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), a survival period, and the minimum liquidity ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the banks are able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the banks. LCR indicates whether the banks and the group have sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario.

Market-wide, institution-specific (idiosyncratic), combined and longer-term stress tests are conducted monthly and ad hoc to make sure that every ProCredit bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, each bank has a contingency plan. If unexpected circumstances arise and an individual bank proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

Liquidity is managed on a daily basis by the respective treasury departments, based on the Group ALCO-approved cash flow projections, and is monitored by risk management and ALCO. The banks had enough liquidity available at all times in 2018 to meet all financial obligations in a timely manner.

The following tables show the undiscounted cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

Photo above: AGI-1, production of cookies, pastries, and cakes, client of ProCredit Bank Bulgaria
Photo below: Head office of ProCredit Bank Georgia

in '000 EUR **As of 31 December 2018**	**Up to 1 month**	**1 – 3 months**	**4 – 6 months**	**7 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
Assets							
Cash and central bank balances	963,706	0	0	0	0	0	963,706
Loans and advances to banks	202,742	3,582	4,103	3,397	6,944	1,081	221,849
Derivative financial assets	276	509	97	426	0	0	1,307
Investment securities	158,697	68,603	16,733	19,786	35,120	192	299,132
Loans and advances to customers	220,488	329,121	456,247	924,695	2,405,636	777,973	5,114,161
Current tax assets	334	2,136	323	865	686	0	4,344
Other assets	20,370	4,310	549	6,270	8,197	5,935	45,631
Total assets	**1,566,614**	**408,261**	**478,051**	**955,439**	**2,456,584**	**785,181**	**6,650,130**
Liabilities							
Liabilities to banks	31,993	25,597	48,798	4,541	83,634	4,810	199,373
Derivative financial liabilities	178	493	237	0	0	90	998
Liabilities to customers	2,565,575	202,132	303,004	551,123	258,381	16,292	3,896,508
Liabilities to international financial institutions	18,781	40,717	52,194	104,378	544,561	139,625	900,256
Debt securities	341	45,744	41,939	2,478	88,774	54,801	234,077
Subordinated debt	687	1,840	4,415	17,666	32,227	140,989	197,824
Other liabilities	12,179	2,849	382	244	0	0	15,654
Provisions	3,126	1,096	1,352	989	2,558	270	9,390
Current Tax liabilities	5	2,033	429	16	0	0	2,483
Total liabilities	**2,632,866**	**322,501**	**452,750**	**681,436**	**1,010,135**	**356,876**	**5,456,563**
Contingent liabilities							
Financial guarantees	64,219	0	0	0	0	0	64,219
Credit commitments (irrevocable loan commitments)	14,605	0	0	0	0	0	14,605
Contractual liquidity surplus	**-1,145,076**	**85,760**	**25,301**	**274,004**	**1,446,449**	**428,306**	

Discontinued operations do not fall within the scope of operational management and are not presented here.

in '000 EUR **As of 31 December 2017**	**Up to 1 month**	**1 – 3 months**	**4 – 6 months**	**7 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
Assets							
Cash and central bank balances	1,039,028	38,142	0	0	0	0	1,077,170
Loans and advances to banks	166,740	16,599	7,550	2,970	2,291	190	196,340
Financial assets at fair value through profit or loss	856	165	0	0	0	53	1,074
Available-for-sale financial assets	57,051	34,053	18,932	41,472	62,589	2,203	216,299
Loans and advances to customers	187,684	271,499	410,389	815,156	1,946,031	551,605	4,182,365
Current tax assets	154	2,338	363	0	686	0	3,541
Other assets	23,445	4,728	800	5,724	11,098	0	45,796
Total assets	**1,474,957**	**367,523**	**438,034**	**865,321**	**2,022,696**	**554,052**	**5,722,584**
Liabilities							
Liabilities to banks	75,599	25,312	46,047	37,273	153,741	48,759	386,731
Financial liabilities at fair value through profit or loss	8	0	0	0	48	118	174
Liabilities to customers	2,434,996	175,382	289,382	468,507	209,853	16,259	3,594,378
Liabilities to international financial institutions	11,652	33,648	28,261	137,649	319,686	53,288	584,185
Debt securities	1,750	40,786	23,760	23,875	62,916	50,000	203,087
Subordinated debt	1,033	1,536	4,169	4,112	170,884	18,429	200,164
Other liabilities	10,810	4,459	311	268	0	0	15,848
Provisions	2,419	907	1,022	2,259	2,112	2,774	11,493
Current Tax liabilities	0	1,574	144	0	0	0	1,718
Total liabilities	**2,538,269**	**283,604**	**393,097**	**673,943**	**919,240**	**189,626**	**4,997,780**
Contingent liabilities							
Financial guarantees	71,495	0	0	0	0	0	71,495
Credit commitments (irrevocable loan commitments)	18,862	0	0	0	0	0	18,862
Contractual liquidity surplus	**-1,153,669**	**83,919**	**44,937**	**191,378**	**1,103,456**	**364,426**	

Maturity structure, by contractual maturity

The following tables show the distribution of liquidity-relevant positions across certain time buckets according to expected maturity. Some positions, especially customer deposits, are distributed into the time buckets according to assumptions about inflows and outflows based on their observed historical behaviour in stress situations.

in '000 EUR **As of 31 December 2018**	**Up to 1 month**	**1 – 3 months**	**4 – 6 months**	**7 – 12 months**	**More than 1 year**	**Total**
Assets						
Cash	157,945	0	0	0	0	157,945
Mandatory reserves with central bank	6,157	0	0	0	0	6,157
Other central bank balances (excl. minimum reserve)	418,823	0	0	0	0	418,823
Government bonds & marketable securities	248,576	12,047	6,852	5,155	11,241	283,871
Placements with external banks	200,901	2,768	3,406	1,460	3,209	211,744
Loans and advances to customers	57,758	259,963	355,538	713,679	2,902,108	4,289,046
Currency derivatives (asset side)	236,632	64,854	3,957	66,153	0	371,595
Total assets	**1,326,793**	**339,631**	**369,753**	**786,447**	**2,916,558**	**5,739,182**
Liabilities						
Current liabilities to banks (due daily)	8,089	0	0	0	0	8,089
Contingent liabilities from guarantees	25,187	0	0	0	0	25,187
Unused credit commitments to customers	46,363	0	0	0	0	46,363
Liabilities to external banks	15,689	25,331	48,650	4,007	90,480	184,158
Liabilities to international financial institutions	16,408	34,593	42,521	88,875	629,077	811,475
Total liabilities to customers	341,342	201,016	266,054	529,344	2,475,667	3,813,422
Debt securities / bonds	0	45,000	40,000	0	122,000	207,000
Subordinated debt	0	0	0	13,101	232,355	245,456
Currency derivatives (liability side)	236,590	64,985	3,891	65,500	0	370,966
Total liabilities	**689,670**	**370,924**	**401,116**	**700,828**	**3,549,579**	**5,712,117**
Surplus from previous time bucket	0	637,123	605,830	574,467	660,086	
Expected liquidity surplus	**637,123**	**605,830**	**574,467**	**660,086**	**27,065**	
Sufficient Liquidity Indicator	**1.9**					

in '000 EUR **As of 31 December 2017**	**Up to 1 month**	**1 – 3 months**	**4 – 6 months**	**7 – 12 months**	**More than 1 year**	**Total**
Assets						
Cash	144,343	0	0	0	0	144,343
Mandatory reserves with central bank	0	0	0	0	0	0
Other central bank balances (excl. minimum reserve)	433,065	0	0	0	0	433,065
Government bonds & marketable securities	289,522	29,562	9,207	2,848	5,304	336,443
Placements with external banks	166,551	16,601	7,550	2,970	2,482	196,154
Loans and advances to customers	54,458	198,599	305,143	612,107	2,607,762	3,778,069
Currency derivatives (asset side)	289,709	33,692	0	0	2,647	326,048
Total assets	**1,377,648**	**278,453**	**321,900**	**617,926**	**2,618,195**	**5,214,122**
Liabilities						
Current liabilities to banks (due daily)	7,112	0	0	0	0	7,112
Contingent liabilities from guarantees	19,063	0	0	0	0	19,063
Unused credit commitments to customers	44,819	0	0	0	0	44,819
Liabilities to external banks	68,108	16,294	43,008	33,227	183,185	343,821
Liabilities to international financial institutions	9,457	30,860	23,968	127,763	349,960	542,008
Total liabilities to customers	283,722	225,167	254,695	330,867	2,460,327	3,554,779
Debt securities / bonds	1,207	40,000	21,707	21,209	100,000	184,123
Subordinated debt	0	0	0	0	213,332	213,332
Currency derivatives (liability side)	288,707	33,754	0	0	2,793	325,254
Total liabilities	**722,194**	**346,075**	**343,378**	**513,067**	**3,309,596**	**5,234,310**
Surplus from previous time bucket	0	655,454	587,832	566,355	671,213	
Expected liquidity surplus	**655,454**	**587,832**	**566,355**	**671,213**	**-20,188**	
Sufficient Liquidity Indicator	**1.9**					

Maturity structure, by expected maturity

A negative value for the expected liquidity surplus quantifies the potential liquidity needs within a certain time period, while a positive value shows the potential excess of liquidity. This calculation includes excess liquidity from the previous time buckets. As of 31 December 2018, the LCR was 187% (2017: 179%) at group level, and thus comfortably above the regulatory requirement of 100%. This indicates a comfortable liquidity situation for the group.

The group had adequate liquidity levels at all times during the 2018 financial year.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits; our deposit-taking operations focus on our target group of business clients and private clients/savers, with whom we establish strong relationships. The financial crisis in 2008 and 2009 has shown that our customer deposits are a stable and reliable source of funding. These are supplemented by long-term credit lines from international financial institutions (IFIs). We make little use of the interbank market. In addition, we primarily issue instalment loans with monthly repayments. The funding of the ProCredit group has proven to be resilient even in times of stress. As of end-December 2018, the largest funding source was customer deposits with EUR 3,825.9 million. IFIs are the second-largest source of funding, accounting for EUR 813.4 million.

The ProCredit group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the banks, identified in the business planning process, are monitored and regularly reviewed at group level. Group ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank in Germany also offer bridge financing in the event that a funding project is delayed. A key indicator for limiting funding risk is the deposit concentration indicator. Two more indicators additionally restrict the level of funding from the interbank market to a low level.

Operational risk

In line with CRR, we define operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The principles set forth in the group operational risk management policies are in compliance with the requirements for the standardised approach for operational risk pursuant to CRR.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence. The main tools utilised to manage operational risks are the group-wide Risk Event Database (RED), the Annual Risk Assessments, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks and ProCredit Holding document their risk events using the provided framework. This ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk. The table below provides an overview of the gross and net losses due to operational loss events and fraud cases in 2018 (data as of 31 January 2019).

Key operational risk figures 2018	
Gross loss, in EUR m	1.0
Current net loss, in EUR m	0.5
Number of loss events	297

In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, annual risk assessments are systematically performed in order to identify and evaluate key risks and assess the adequacy of the control processes. These two tools complement each other and provide an overall picture of the operational risk profile for each ProCredit bank, ProCredit Holding and the group as a whole.

Risk indicators are also used to identify elevated fraud risk in specific areas of banking operations. These indicators are analysed regularly and where needed preventive measures are agreed on.

To complete the management of operational risk, all new products need to be analysed to identify and manage potential risks before implementation (NRA process).

In order to limit IT risks, the group has defined standards for IT infrastructure, business continuity and information security. Regular controls of information security and business continuity are part of existing processes and procedures. The banks carry out a classification of their information assets and conduct an annual risk assessment on their critical information assets. The business continuity framework implemented in the group ensures that these risks are understood by all members of staff, that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes. The IT service provider, Quipu GmbH, is part of the ProCredit group and supports all institutions in the group with respect to software and hardware.

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

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

ProCredit banks are in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Moreover, the banks have implemented the group-wide guidelines on the prevention of money laundering and terrorist financing, which in many respects are stricter than the legal requirements prevailing in the individual countries of operation.

As the ProCredit group is supervised by the German financial supervisory authorities, we implement the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level, across the group as minimum requirements in all ProCredit banks. As the superordinated company for the ProCredit group, ProCredit Holding is responsible for ensuring group-wide compliance with these requirements.

Our ethical responsibility is documented in the form of our Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit banks are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

Besides identifying all contracting parties and clarifying the purpose of the business relationship, at ProCredit banks the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client. The ProCredit banks identify and screen, without exception, all persons who could prove to be beneficial owners.

All ProCredit banks use specialised software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers in all ProCredit banks work closely with the responsible law enforcement authorities and report regularly to the Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

Other material risk

Other risks that are assessed as material include business risk and model risk.

Business risk is defined as the risk of reduced profitability due to external and internal factors. These include deteriorating economic conditions, unanticipated regulatory interventions and disadvantageous business decisions. Business risk is mitigated by means of a structured process for the planning, implementation, assessment and adjustment of the business strategy and risk strategy, as well as through the regular interaction between the Management of ProCredit Holding and the management team in the banks. Furthermore, the standardised software products provided by the group's own IT provider, Quipu, likewise have risk-mitigating effects. Last but not least, our comprehensive internal training programme also ensures a universally high level of competence among our managers and staff.

Model risk comprises the risk that model deficiencies or inadequately applied models serve as a faulty basis for decision-making, resulting in the assumption of a higher level of risk than intended. Model risk applies primarily to the models used to calculate internal capital adequacy. The group limits model risk through the selection of models (market-standard models), the conservative calibration of the applied models and through comprehensive backtesting measures and stress tests.

Capital Management

Capital management in the group is guided by the principle that neither a ProCredit bank nor the group as a whole may at any time incur greater risks than they are able to bear. This principle is monitored using different indicators for which early warning indicators and limits have been established. The indicators for each individual ProCredit bank and the group as a whole include, in addition to regulatory standards in each country, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and an internal capital adequacy assessment.

The capital management framework of the group has the following objectives:

- compliance with regulatory capital requirements
- ensuring internal capital adequacy
- compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the group and the banks are able to act
- support for the banks and for the group in implementing their plans for sustainable growth

The capital management of the ProCredit banks and the group as a whole is governed by group policies and monitored on a monthly basis by the Group Risk Management Committee.

Internal capital adequacy

Ensuring that the group as a whole and each individual bank has sufficient internal capital at all times is a key element of ProCredit's group-wide risk management and internal capital adequacy assessment process. In the context of the internal capital adequacy assessment, the capital needs arising from our specific risk profile are compared with the available capital resources to assure that the ProCredit group's capitalisation is at all times sufficient to match our risk profile. It is an ongoing process that raises group-wide awareness of our capital requirements and exposure to risks.

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our internal capital adequacy assessment is that the group is able to withstand strong shock scenarios. In our view, the crisis years 2009 and 2010 underscored the necessity for a conservative approach to managing risks and capital, and the developments during that time proved the strength of the group in dealing with a difficult economic environment. Throughout this period, the group showed strong levels of capital.

The group applies a gone concern approach in managing and monitoring internal capital adequacy. We are committed to being able to meet our non-subordinated obligations at all times in the event of unexpected losses in the gone-concern approach, both in normal and in stress scenarios. The group considers the going concern approach to be an auxiliary condition which must be met. This implies that, as a regulated financial holding group, we must satisfy the minimum capital requirements set by the supervisory authority at all times. The internal capital adequacy of the group was sufficient at all times during 2018, both in the gone concern approach and in the going concern approach.

When calculating the economic capital required to cover risk exposures we apply a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the group and are based on the annually conducted risk inventory. The following risks are included in the internal capital adequacy calculation:

Material risk	Quantification/treatment
Credit risk, comprising: • customer credit risk • counterparty risk • country risk	Portfolio model based on a Monte Carlo simulation (VaR)
Foreign currency risk	Monte Carlo simulation (VaR)
Interest rate risk	Historical simulation (VaR)
Operational risk	Quantitative model based on a Monte Carlo simulation
Business risk	Analytical method (Business VaR)
Funding risk	Qualified expert assessment
Model risk	Qualified expert assessment

The group's risk-taking potential (RTP) in the gone concern approach, defined as the consolidated group equity (net of intangibles, minority interests and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 841.3 million as of the end of December 2018 (2017: EUR 752.5 million). At the end of 2018, the Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 720.0.0 million (2017: EUR 675.0 million). This reflects the acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set below the group's RTP in order to ensure the existence of a sufficient security buffer. The increase in RTP and RAtCR is mainly attributable to the capital increase carried out in February 2018 and the higher level of consolidated own funds due to profit accrued. The economic capital required to cover the risks is compared with the capital available.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation as of end-December 2018. Compared to the previous year, there were no significant changes to the risk amounts or risk models. In the standard scenario, which under the gone concern approach is calculated with a 99.9% confidence level, the ProCredit group needs 64.9% of its RAtCR (2017: 71.3%) and 55.5% of its RTP (2017: 63.9%) to cover its risk profile.

in '000 EUR **As of 31 December 2018**	**Limit**	**Limit Used**	**Limit Used** (in % of Limits)
Credit Risk	380,000	248,497	65.4
Interest Rate Risk	90,000	48,015	53.4
Foreign Currency Risk	138,000	92,227	66.8
Operational Risk	30,000	21,265	70.9
Business Risk	35,000	21,221	60.6
Funding Risk	10,000	5,740	57.4
Model Risk	37,000	30,000	n.a.
Total	**720,000**	**466,965**	**64.9**

in '000 EUR **As of 31 December 2017**	**Limit**	**Limit Used**	**Limit Used** (in % of Limits)
Credit Risk	350,000	253,129	72.3
Interest Rate Risk	80,000	64,871	81.1
Foreign Currency Risk	120,000	75,276	62.7
Operational Risk	30,000	20,767	69.2
Business Risk	25,000	23,100	92.4
Funding Risk	10,000	5,879	58.8
Model Risk	60,000	38,000	n.a.
Total	**675,000**	**481,021**	**71.3**

Internal capital adequacy, gone concern approach

Stress tests

Stress tests are performed regularly, at least once per quarter and ad hoc, to test the group's capacity to withstand shock conditions. A range of stress scenarios are adopted and tested in order to analyse the impact of extraordinary but plausible events. Various types of analysis are applied, from simple sensitivity analysis for individual risk types to scenario analyses in which multiple or all risk factors are stressed simultaneously. Our analysis of the impact of stress scenarios includes an analysis of a severe economic downturn. The stress tests are supplemented by reverse stress tests and, if applicable, by ad-hoc stress tests.

The scenarios apply to both historical and hypothetical stress situations. They include, among other things, assumptions depicting significant deterioration of worldwide macroeconomic conditions and simultaneous massive economic downturn. The selection of the scenarios takes account for the group's strategic orientation and the economic environment. A review is performed at least once per year to assess the appropriateness of the stress tests and their underlying assumptions.

The results of stress testing show that the risks to which the group would be exposed in a severe stress event would not exceed the RAtCR, meaning that the internal capital adequacy of the group and the banks would be sufficient at all times, even under stress conditions. Our analysis of the ProCredit group's internal capital adequacy thus confirms that the group would have an adequate level of capitalisation even under extremely adverse conditions.

The internal capital adequacy and the results of the stress tests are discussed by the GRMC and the Management and reported to the Supervisory Board.

Regulatory capital adequacy

Whereas the Pillar 1 capital requirements for the ProCredit group are imposed and monitored by BaFin and by the Supervisory College pursuant to section 8a KWG, the individual ProCredit banks are subject to the requirements imposed by the respective national supervisory authorities.

Methods for the calculation of capital adequacy vary between countries, but most jurisdictions where the ProCredit group operates base their calculation methods on the recommendations of the Basel Committee on Banking Supervision. Compliance with supervisory requirements is monitored for each ProCredit institution on the basis of the respective local requirements, and all group banks have to ensure that they satisfy their respective regulatory requirements regarding capitalisation. Furthermore, each ProCredit bank calculates its capital ratios in accordance with CRR and ensures compliance with internally defined minimum requirements.

During the reporting period, all regulatory capital requirements were met at all times.

The group's regulatory capital requirements and capital ratios are presented below. Since 1 January 2014, the Basel III requirements, implemented in Europe through Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), have been binding for the group.

in '000 EUR	**31.12.2018**	**31.12.2017**
Common equity Tier 1 capital	677,931	594,835
Additional Tier 1 capital	0	0
Tier 2 capital	129,956	129,931
Total capital	**807,887**	**724,766**
Risk weighted assets	**4,699,759**	**4,330,309**

	31.12.2018	**31.12.2017**
Common equity Tier 1 capital ratio	14.4%	13.7%
Tier 1 capital ratio	**14.4%**	**13.7%**
Total capital ratio	**17.2%**	**16.7%**

Capital ratios of the ProCredit group

The capital ratios of the ProCredit group increased again in the 2018 financial year. This was the result of a significant increase in equity, which had a greater impact than the concurrent rise in the total risk amount. During the course of 2018, the CET1 ratio climbed to 14.4%, with a Tier 1 ratio likewise at 14.4%, and a total capital ratio of 17.2%. The level of capitalisation in the ProCredit group is thus significantly higher than the current regulatory requirements.

The CRR minimum capital ratios are set to 4.5% for the Common Equity Tier 1 capital ratio, 6% for the Tier 1 capital ratio and 8% for the total capital ratio. Furthermore, the capital conservation buffer, as implemented incrementally since 1 January 2016, is 1.875% for the year 2018. The institution-specific countercyclical capital buffer, likewise applicable as from 1 January 2016, currently plays no role for the ProCredit group due to the geographical distribution of loan exposures.

A capital add-on pursuant to the Supervisory Review and Evaluation Process (SREP) was set for the ProCredit group for the first time in 2018. The total capital add-on is 3.0 p.p., which results in a minimum capital requirement of 8.1% for the CET1 capital ratio, 10.1% for the T1 capital ratio and 12.9% for the total capital ratio, taking into account the capital buffers. Due to the further increase in the capital conservation buffer, all requirements as from 1 January 2019 will rise by 0.625 p.p.

The Common Equity Tier 1 capital of the ProCredit group is mainly composed of subscribed capital and reserves. Deductions are made for intangible assets, deferred tax assets which are conditional on future profitability and do not result from temporary differences, additional valuation adjustments for balance sheet items recognised at market value, and negative translation reserve.

The Common Equity Tier 1 capital reported as of 31 December 2018 amounts to EUR 677.9 million. This represents an increase of EUR 83.1 million during the period. This is due primarily to capital increase carried out in February 2018 in the amount of EUR 61 million. Further positive effects came from the recognition of the results from Q4-2017 and the interim profits as of 30 September 2018, less foreseeable charges and dividends, amounting to EUR 36.6 million, as well as from the decrease in the translation reserve by EUR 9.2 million. An opposite effect was observed due to the transition to IFRS 9 at the beginning of 2018 and its impact on loss allowances. The resulting negative amount was recognised in full in equity.

The Tier 2 capital of the ProCredit group consists of long-term subordinated loans which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. Tier 2 capital as of 31 December 2018 stood at EUR 130.7 million, almost unchanged from the previous period. There was no repayment or issuance of subordinated capital instruments in 2018.

	31.12.2018		31.12.2017	
in '000 EUR	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Credit risk	3,720,321	297,626	3,340,728	267,258
Market risk (currency risk)	511,232	40,899	438,514	35,081
Operational risk	466,945	37,356	549,429	43,954
CVA* risk	1,261	101	1,638	131
Total	**4,699,759**	**375,981**	**4,330,309**	**346,425**

** Risk amount due to the credit valuation adjustment (CVA)*

Risk-weighted assets and capital requirements, by risk category

The risk-weighted assets of the ProCredit group increased during the year by EUR 369.5 million or 8.5%, reaching a total amount of EUR 4.7 billion. This reflects the dynamic growth of the group in 2018, which had an effect on all RWA components except operational risk.

For assessing the exposure towards credit risk, the credit risk standardised approach (CRSA) is used for all exposure classes. Credit risk mitigation techniques are only applied to a limited extent in the calculation of capital requirements for credit risk. Risk amounts arising from credit risk are reduced in part through the recognition of guarantees from the European Investment Fund (EIF) and cash collaterals. Moreover, guarantees from the Multilateral Investment Guarantee Agency (MIGA) are recognised for our mandatory minimum reserves held with local central banks. Exposures towards central governments or central banks in non-EU countries, in countries whose supervisory system is not materially equivalent to that of EU countries, or in countries with a rating below the lower-medium grade (i.e. below BBB- in the case of Fitch Ratings) are given a risk-weighting of at least 100% regardless of the underlying currency, as stipulated in CRR. The mandatory minimum reserves are inevitable exposures driven by the group's business strategy, which is based on financing loans mainly through

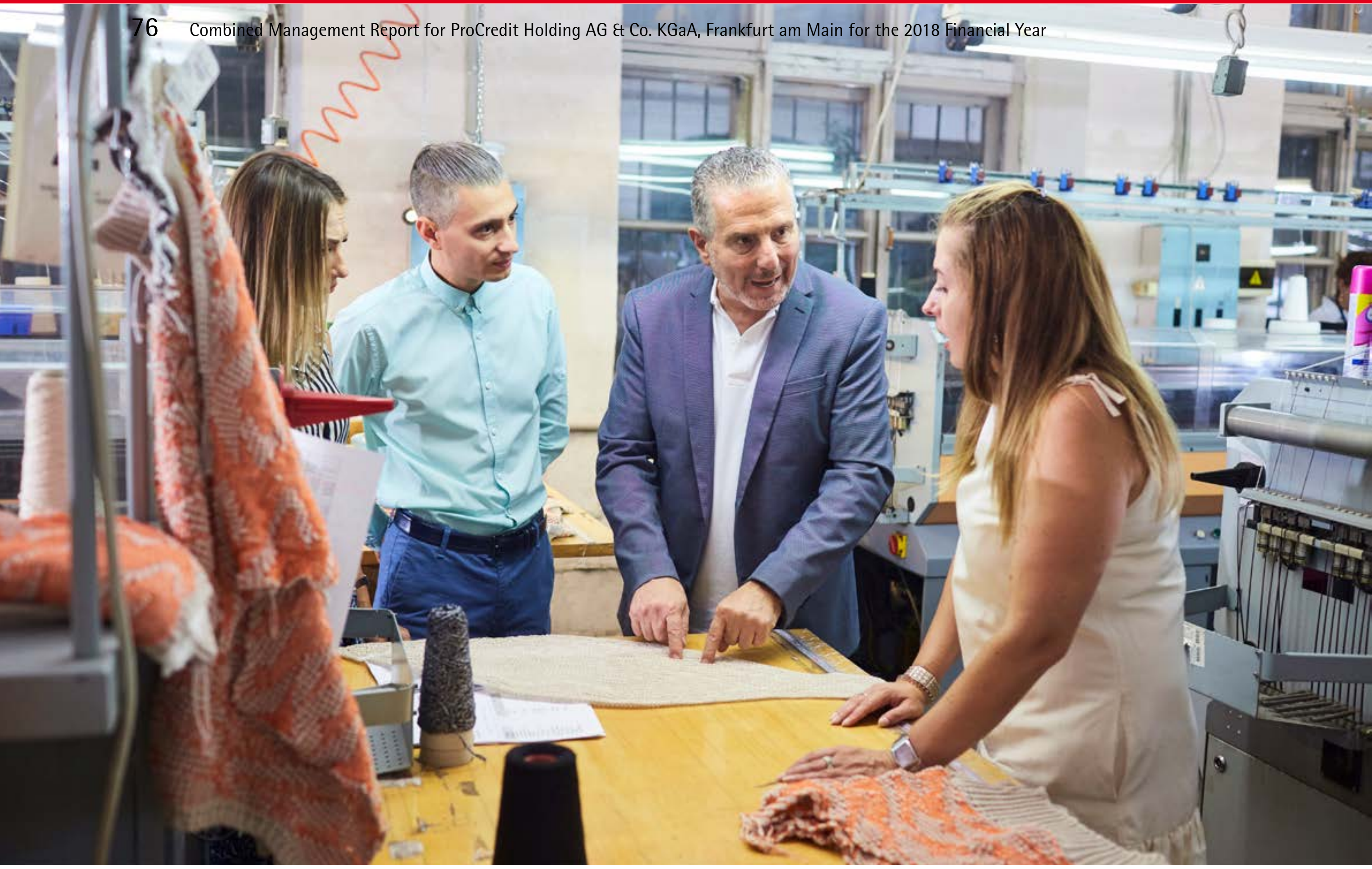


Photo above: Steaua-Reds, production of knitwear, client of ProCredit Bank Moldova
Photo below: Outlet of ProCredit Bank Macedonia

local customer deposits. The group has therefore chosen to insure part of this exposure against the risk of default and expropriation.

The amount of counterparty risk increased in 2018 by EUR 379.6 million, ending the period at EUR 3.7 billion. This trend was due almost entirely to the growth of the customer loan portfolio.

Foreign currency risk is the only market risk to be considered, as the ProCredit group consists solely of non-trading book institutions, which moreover do not engage in transactions involving commodities. The respective amount to be recognised at group level is determined using the aggregation method. Foreign currency risk at group level arises primarily as a result of the equity holdings denominated in foreign currency that ProCredit Holding maintains in its foreign subsidiaries. However, the effects of exchange rate fluctuations on the capital ratios are limited, as changes in equity are partially offset by corresponding changes in risk-weighted assets.

The amount for market risk as of 31 December 2018 was EUR 511.2 million, which represents a rise of EUR 72.7 million. This can mostly be attributed to higher equity amounts in subsidiaries due to reinvestment of profits or to capital increases by ProCredit Holding.

The ProCredit group applies the standardised approach to quantify operational risk. The amount for operational risk at year-end was EUR 466.9 million, representing a decrease of EUR 82.5 million during the course of the period. Compared to the regulatory capital requirements for operational risk, which amount to EUR 37.4 million, the average annual net loss according to data recorded in the Risk Event Database in the last three years amounted to less than EUR 2.0 million.

Given the small volume of derivatives held by the group, the risk arising from credit valuation adjustment (CVA)[3] is insignificant. The ProCredit group uses the standardised approach to calculate the capital requirements to cover CVA risk. The amount for CVA risk as of 31 December 2018 was EUR 1.3 million, which represents a decline of EUR 0.4 million.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. A binding minimum requirement for the leverage ratio has yet to take effect; however, in future it will be 3%. As of year-end 2018 the ProCredit group reported a very comfortable leverage ratio of 11.0%

in '000 EUR	31.12.2018	31.12.2017
Equity	677,931	594,835
Assets	6,138,362	5,671,237
Leverage ratio	**11.0%**	**10.5%**

Leverage ratio

[3] The CRR introduced a capital requirement to cover the CVA risk arising from over-the-counter (OTC) derivatives. In contrast to counterparty default risk, this risk refers to the danger that the market value of the derivatives is reduced because the credit risk premium for the counterparty increases, without a default occurring.

Internal control system and risk management system in the financial reporting process

The internal control system and risk management system in the ProCredit Holding and ProCredit group's financial reporting process comprises the principles, procedures and measures for the effective, cost-efficient and rule-compliant application of financial reporting requirements. The main risks in due and proper financial reporting are the improper representation of financial position and financial performance or delayed publication. The internal control system in the financial reporting process is subject to the general principles of our risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance & Controlling implements the requirements of the Management and defines the specific parameters within the framework provided. Group Operational Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

The financial reporting process aims to standardise, to the greatest extent possible, the application of the main international financial reporting standards and related processes. The Group Accounting & Taxes function establishes the accounting manual, which applies throughout the group, and defines the material processes in the respective policies, taking account for the principle of dual control. The processes for report preparation are largely automated and the functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined and regularly monitored in accordance with the respective policies.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The units in the group prepare information relevant for financial reporting with the support of IT applications which are uniform throughout the group. The information packages from units in the group are reviewed locally, taking account for the dual control principle, and then subject to standardised quality checks. Consolidation is carried out using standard software support.

In addition, Internal Audit supports the Management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes in the ProCredit Holding and ProCredit group to determine whether they are effective, orderly and cost efficient.

REMUNERATION REPORT FOR THE MANAGEMENT AND SUPERVISORY BOARD

Management

The group remuneration approach presented here applies equally to the members of the Management of ProCredit Holding. Remuneration of the members of the Management should be fair and transparent. As for all employees in the ProCredit group, variable remuneration elements for members of the Management are only applied on a limited scale.

The following remuneration elements generally apply for members of the Management:

- fixed monetary remuneration
- contributions to private health insurance (if applicable)
- contributions to retirement provisions and life insurance (if applicable)
- D&O insurance coverage with a deductible in accordance with section 93 (2) sentence 3 AktG

The remuneration of the members of the Management is set by the Supervisory Board, taking account for the respective duties and performance, the economic situation and the institutional outlook. Consideration is also given to both the basic principles of the group's remuneration approach and the relationship between the remuneration of the Management and employees.

The remuneration of the members of the Management contains no contractually agreed variable elements. The Supervisory Board may apply a special remuneration to reward specific cases of extraordinary performance. Such decisions take account for the economic situation and outlook of the group. Variable remuneration elements can be used for the acquisition of shares in ProCredit Staff Invest. In such cases, the individual commits to hold the shares for a period of five years.

	Benefits granted		Allocation	
Helen Alexander (until 31.03.2017)	2018	2017	2018	2017
Basic Salary	-	20,700	-	20,700
Pension cost*	-	12,637	-	12,637
Total remuneration	**–**	**33,337**	**–**	**33,337**

	Benefits granted		Allocation	
Borislav Kostadinov	2018	2017	2018	2017
Basic Salary	184,426	163,800	184,426	163,800
Short-term variable remuneration	100,000	-	100,000	-
Pension cost*	4,200	4,835	4,200	4,835
Total remuneration	**288,626**	**168,635**	**288,626**	**168,635**

	Benefits granted		Allocation	
Dr Anja Lepp (until 31.12.2017)	2018	2017	2018	2017
Basic Salary	-	97,500	-	97,500
Pension cost*	-	30,883	-	30,883
Total remuneration	**–**	**128,383**	**–**	**128,383**

	Benefits granted		Allocation	
Sandrine Massiani (from 01.03.2017)	2018	2017	2018	2017
Basic Salary	187,137	140,000	187,137	140,000
Total remuneration	**187,137**	**140,000**	**187,137**	**140,000**

	Benefits granted		Allocation	
Dr Gabriel Schor	2018	2017	2018	2017
Basic Salary	145,137	138,000	145,137	138,000
Short-term variable remuneration	9,050	-	9,050	-
Pension cost*	33,031	37,148	33,031	37,148
Total remuneration	**187,217**	**175,148**	**187,217**	**175,148**

* *This includes: disability insurance and life insurance, contributions to company pension insurance and voluntary/private health insurance, expence allowance as well as statutory allocations*

The remuneration presented here does not contain employer contributions to health and long-term care insurance. In the event that duties are terminated for reasons for which the member of the management board is not responsible, the scope of claims shall be limited to the remainder of the employment contract or a maximum of two years' remuneration (severance cap). If duties are terminated for reasons for which the member of the management board is responsible, there shall be no severance payment to the members of the management board.

Supervisory Board

The members of the Supervisory Board each receive remuneration in the amount of EUR 10,000. ProCredit Holding reimbursed the travel costs for Supervisory Board members. Furthermore, ProCredit Holding concluded a D&O insurance policy which provides coverage for the members of the Supervisory Board. No fees are paid for participating in the meetings of the Supervisory Board.

Disclosures Required by Takeover Law pursuant to sec. 315 (1) sentence 1 German Commercial Code (Handelsgesetzbuch)

The share capital of ProCredit Holding AG & Co. KGaA (the Company) is divided into 58,898,492 registered shares with no par-value. Each share entitles its holder to one vote.

In principle, all shares can be freely traded.

Certain restrictions apply to Zeitinger Invest GmbH, DOEN Participaties B.V., IFC, KfW and ProCredit Staff Invest 1 GmbH & Co. KG/ ProCredit Staff Invest 2 GmbH & Co. KG (the *Core Shareholders*) as follows:

The Core Shareholders entered into an agreement dated 7 July 2011, as amended on 23 October 2017 (the *Core Shareholders' Agreement*), according to which each Core Shareholder agrees to exercise its influence as a shareholder in the Company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the Company and its subsidiaries continue to be in line with applicable law and best practice banking and socially responsible standards. The Core Shareholders' Agreement stipulates that each Core Shareholder exercises its voting rights at its own discretion only, and that there is no obligation to exercise such voting rights jointly and in a coordinated manner with any or all of the other Core Shareholders. Moreover, the Core Shareholders' Agreement sets out certain minimum levels for the Core Shareholders' shareholding in the Company, collectively amounting to 20% of the Company's share capital, which the Core Shareholders agreed to maintain until 31 October 2019.

The company's shares do not procure any particular monitoring rights.

The following shareholders owned (directly or indirectly) as of 31 December 2018, pursuant to their most recent voting rights notification, 10% or more of the voting rights:

- Zeitinger Invest GmbH (voluntary notification dated 8 October 2018)
- Federal Republic of Germany (indirectly via KfW) (voting rights notification dated 27 December 2016)
- Stichting DOEN (indirectly via DOEN Participaties B.V.) (voting rights notification dated 29 December 2016)

There are no shareholders holding shares with special rights, conferring power of control.

As of 31 December 2018, the employees of the Company collectively owned 3.34% of the voting rights via two investment companies (ProCredit Staff Invest 1 GmbH & Co. KG and ProCredit Staff Invest 2 GmbH & Co. KG). The investment companies are the immediate shareholders and thus exercise the voting rights for the employees of the Company. As far as employees are direct shareholders, they themselves exercise the voting rights control.

The activities of the Company are managed by ProCredit General Partner AG, which, due to the legal nature of a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA), does not have to be appointed but has been the managing entity of the Company since its establishment. The activities of ProCredit General Partner AG are managed by natural persons who are appointed and removed by the Supervisory Board of ProCredit General Partner AG in accordance with sec. 84 and 85 AktG and Art. 6 (2) of the Articles of Association of ProCredit General Partner AG. Pursuant to Art. 22 (1) of the Articles of Association of the Company and sec. 179 AktG, the Articles of Association of the Company can be amended upon resolution of the Company's General Meeting with simple majority, unless otherwise stipulated by compulsory law. Furthermore, ProCredit General Partner AG has rights of approval for such changes pursuant to Art. 22 (2) of the Articles of Association of the Company; subsequently, the Supervisory Board of ProCredit General Partner AG shall resolve on the confirmation of such approval in accordance with Art. 7 (4) of the Articles of Association of ProCredit General Partner AG.

The Management of the Company has not been authorised to purchase its own shares. ProCredit General Partner AG, as the managing general partner pursuant to Article 4 (3) of the Articles of Association of the Company is authorised to issue new shares in a total amount of up to EUR 29,449,246.00 in the period until 22 May 2023 (Authorised Capital 2018).

There are no significant agreements between the Company and another party that are subject to a change of control of the Company following a takeover bid.

Furthermore, there are no compensation agreements in place with the members of the Management or with any employees of the Company in case of a takeover bid.

CORPORATE GOVERNANCE STATEMENT (ERKLÄRUNG ZUR UNTERNEHMENSFÜHRUNG) (SEC. 289f AND 315d HGB)

Contents

Corporate Governance Report

ProCredit Holding AG & Co. KGaA (also "**Company**" or "**ProCredit Holding**") places emphasis on transparent corporate governance and open communication with all stakeholders. This approach and its development-oriented mission are supported by its shareholders. The values upon which we have successfully built the ProCredit group include personal integrity and commitment, social responsibility and tolerance, open communication and transparency, as well as high professional standards. These principles pervade all aspects of how the group is governed.

Management Board and Supervisory Board

Relationship between Management Board and Supervisory Board

ProCredit Holding has the legal form of a partnership limited by shares ("**KGaA**" – *Kommanditgesellschaft auf Aktien*). In the case of a KGaA, the management board's duties of a stock corporation ("**AG**" - Aktiengesellschaft) are incumbent upon the general partner. The sole personally liable general partner of the Company is ProCredit General Partner AG (*Geschäftsleitung*) (also "**General Partner**" or "**Management**"), whose management board ("**Management Board**") is thereby responsible for managing the Company's business operations.

Currently the supervisory boards of ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA (the latter "**Supervisory Board**") comprise the same individuals. This allows for a high level of transparency in the cooperation between the Supervisory Board level and the Management Board of ProCredit General Partner AG.

Management Board and Supervisory Board cooperate closely to the benefit of the Company. The Supervisory Board meets at least twice in each half year. In 2018, the Supervisory Board held four in-person meetings and four telephone conferences. The Supervisory Board has determined a comprehensive set of reports to be provided by the Management in due time before each meeting. The Management Board reports on the business and risk strategies of the group at least once per year and routinely reports on the status of implementation of the strategies. Since the Supervisory Board has decided not to establish committees, all relevant reports are provided to all members. The Supervisory Board reviews and approves the Annual Financial Statements for ProCredit Holding and the Consolidated Annual Financial Statements for the ProCredit group. The Supervisory Board examines the efficiency and effectiveness of its activities on a regular basis, and at least once in every calendar year. The Company complies with the German Corporate Governance Code except as outlined in the Statement provided below.

Management Board of ProCredit General Partner AG

The Management Board comprised the following individuals in the 2018 financial year:

Management Board member (in alphabetical order)	First appointed	Appointed until	Responsibilities at year-end
Borislav Kostadinov	2014	19 May 2019	Credit Risk, Group Environmental Management, Investor Relations, Group Communications, Administration and Translation, Legal, Group AML and Fraud Prevention
Sandrine Massiani	2017	28 February 2021	Human Resources, Internal Audit, Risk Management, IT, Business Support and Compliance
Dr Gabriel Schor	2004	31 December 2021	Reporting and Controlling, Supervisory Reporting and Capital Planning, Accounting and Taxes, Group Treasury, Group Funding

The members of the Management Board are jointly responsible for the management of the General Partner and the management of the Company. Its Internal Rules of Procedure govern the work of the Management Board. The supervisory board of ProCredit General Partner AG decides on the appointment and dismissal of members of the Management Board including long-term succession planning for the Management Board. It furthermore determines the compensation of the individual members of the Management Board. The Supervisory Board has been informed of and has agreed to these decisions.

Supervisory Board of ProCredit Holding AG & Co. KGaA

The Supervisory Board comprised the following individuals in the 2018 financial year:

Supervisory Board member	First appointed	Appointed until	Supervisory and management board positions held outside the group
Dr Claus-Peter Zeitinger (Chairman)	2004	2022	None
Christian Krämer (Deputy Chairman)	2014	2022	None
Marianne Loner	2017	2022	Sura Asset Management S.A., Colombia, member of the supervisory board Britam Holdings Plc, Nairobi, Kenya, member of the supervisory board Britam Life Assuarance Co., Nairobi, Kenya; member of the supervisory board Amundi Planet Sicav-SIF, Luxembourg, member of the supervisory board
Rainer Ottenstein	2016	2021	None
Petar Slavov	2014	2022	None
Jasper Snoek	2007	2022	None

The supervisory board of the General Partner oversees the Management Board and is involved in decisions of fundamental importance to the group. The Management Board regularly informs the Supervisory Board of the group business strategy and other fundamental matters relating to the assets, liabilities, financial and profit situation of the group as well as its risk situation, risk management and risk controlling. Key decisions of the group are approved by the supervisory board of the General Partner. The Supervisory Board is informed of and can discuss these decisions, particularly since it is comprised of the same individuals of the supervisory board of the General Partner.

Objectives for the composition of the Supervisory Board and status of implementation
The Supervisory Board's aim is that at least one member should come from or have extensive work experience in the South Eastern and Eastern European region.

Otherwise, the Supervisory Board has determined that its members shall include persons who, in addition to a sound knowledge of banking, also have:

- a good understanding of and interest in the group's focus region of operations
- the time and interest to travel to the region to understand and assess the operations of ProCredit subsidiaries, and ideally a seat on at least one supervisory board of a subsidiary
- a good understanding of and interest in development finance and sustainability aspects.

Generally, since the Supervisory Board comprises only six members, as far as possible all members should have these core attributes. In so far as there is not a separate audit committee (as explained in the Statement of Compliance with the CGC), all members should have sufficient knowledge of financial analysis and risk aspects of banking. Furthermore, since the Company's shares are listed on the Frankfurt Stock Exchange, a general understanding of capital markets is valuable.

All members of the Supervisory Board aim to act as independent members within the meaning of the provisions of the German Stock Corporation Act and the CGC. At least 50% of the members of the Supervisory Board shall at all times be independent, pursuant to section 5.4.1 paragraph 2 sentence 1 of the CGC. In accordance with section 5.4.2 of the CGC, the Supervisory Board has determined that it has what it considers to be an adequate number of independent members. Members of the Supervisory Board are also members of the supervisory board of ProCredit General Partner AG. Five members have been nominated by core shareholders. However, in our opinion, this does not affect the independence of the Supervisory Board members involved as they have been carefully instructed to comply with all applicable laws, in particular with those obliging them to maintain their independence. Furthermore, the Management Board has not become aware of any circumstances that may compromise the independence of any Supervisory Board member.
The Supervisory Board requires prospective candidates to indicate any potential conflicts of interest and shall assess such conflicts and satisfy itself that the respective candidates can devote the required amount of time before making its proposals to the General Meeting of the Company concerning the election of new members of the Supervisory Board.

As a rule, the age limit for Supervisory Board members is 75 years.

The Supervisory Board believes that it complies with the specified concrete objectives regarding its composition.

There were no committees of the Supervisory Board in the fiscal year 2018. The Company is of the opinion that the relatively small size of the Supervisory Board, with only six members, and the limited scope of the business activities of the group, generally make the formation of committees superfluous, particularly since all of its members are well qualified and devote sufficient time.

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. One member of the six-person Supervisory Board and one member of the three-person Management Board are women.

The Supervisory Board has set the target that at least one woman should serve on the Management Board. In addition, at least one woman should serve on the Supervisory Board should there only be one or fewer women on the Management Board.

Furthermore, the Management has established a 25% minimum level of gender representation for the first two levels of management.

Remuneration and share ownership of the Management and Supervisory Board members
For information on the compensation of the Management and Supervisory Boards' members, please refer to our Remuneration Report.

Of the Supervisory Board members, only Petar Slavov owns (indirectly) ProCredit Holding shares.

Management Board members hold shares in ProCredit Holding either directly or indirectly (via ProCredit Staff Invest 1 and/or 2 GmbH & Co. KG). However, in no individual case or together does the aggregated volume of shares reach 1% of the total share capital of the Company. There is no share option scheme for staff or Management Board members.

The combined volume of shares held directly and indirectly by all Management Board and Supervisory Board members amounts to less than 1% of the shares of the Company.

Managers' Transactions
The members of the Management Board and of the Supervisory Board as well as persons closely associated to them are required pursuant to Art. 19 Regulation (EU) No. 596/2014 (Market Abuse Regulation – "MAR") to disclose transactions relating to the shares of the Company as well as other financial instruments linked thereto, if the total amount of such transactions reaches EUR 5,000 within a calendar year. Information on such transactions will be made public and can be seen on the Company's website under www.procredit-holding.com/en/investor-relations/news. In the last business year no such reportable transactions occurred.

Other Key Aspects of our Approach to Corporate Governance

Working relationship between ProCredit Holding and its subsidiaries
Central to the effective governance of the ProCredit group is the relationship between the Company as the holding entity and its subsidiaries. A strength of the ProCredit group is its ability, despite having operations across the countries, to implement its business and risk strategies with a very high degree of efficiency and uniformity. All ProCredit banks are independent, licensed and regulated banks. The Company holds a controlling stake (typically 100%) of its subsidiaries and is in a position to appoint the majority of supervisory board members of its subsidiaries. The management board at each ProCredit bank bears responsibility for the operations of its respective institution. They operate within the tight business and risk management framework set by ProCredit Holding.

Transparency
ProCredit Holding is committed to transparency and open communication with its shareholders. Relevant information is to be made available to the public promptly to ensure the equal treatment of shareholders. ProCredit Holding oversees an effective consolidated reporting process. It makes quarterly financial statements available. The ProCredit Holding Investor Relations provides additional clarity via investor and analyst presentations, roadshows, press communication, including ad hoc notifications, as necessary, and other means, as appropriate.

Important non-financial information, including an annual Group Impact Report according to section 315b (3.1b) HGB, as well as our Group Code of Conduct, will also be available on the ProCredit Holding website.

Risk Management
Risk management, controlling and promulgating an appropriate risk culture are central aspects of management in the ProCredit group. The ProCredit group applies a standardised and comprehensive framework of rules and policies for risk management, internal control and the prevention of money laundering and other criminal offences. All ProCredit banks are required to follow centrally set standards. The implementation of this framework is monitored regularly by ProCredit Holding. Group risk management and anti-money laundering policies are in line with German and European banking regulations and are updated annually to reflect new developments. ProCredit is firmly committed to transparency and takes a conservative approach to risk management. The Management Board is supported by the Group Risk Management Committee and receives a monthly report on the risk profile and internal capital adequacy of the group. The Supervisory Board receives a comprehensive report on the risk profile and internal capital adequacy of the group at least quarterly.

Compliance Management System
At a fundamental level, the group compliance management system is rooted in our development mission and our unique approach to staff recruitment and development. Our methodical and responsible approach to all operations is underpinned by our Code of Conduct. Compliance with the Code of Conduct is compulsory for all staff members. Regular training is provided. On a more formal level, the Group Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all applicable regulatory requirements. There is a Group Compliance Committee and corresponding committees at the bank level to enable efficient coordination on all compliance-relevant issues. Compliance risks are regularly assessed and controlled. Each ProCredit bank has a Compliance Officer who bears responsibility for managing adherence to national banking regulations and for reporting regularly and ad hoc to the Management of the bank and to the Group Compliance Officer. The Supervisory Board receives an Annual Group Compliance Risk Management Report.

All ProCredit institutions apply German and EU regulatory standards, local AML regulations as well as international best-practice methods for the prevention of money laundering and other financial crimes. Comprehensive Group Operational Risk Management and Fraud Prevention Policies regulate stringent standards with regard to whistle-blowing, New Risk Approval, Key Risk Indicators and the group Risk Event Database. All ProCredit institutions apply a diligent approach to data protection. Any conduct which is inconsistent with established rules, in any group institution, can be reported anonymously to an e-mail address established for the group.

Statement from ProCredit Holding AG & Co. KGaA on the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to section 161 of the German Stock Corporation Act

Pursuant to section 161 of the German Stock Corporation Act (AktG), the "**Management Board**" of ProCredit General Partner AG, as the sole "**General Partner**", and the "**Supervisory Board**" of ProCredit Holding AG & Co. KGaA ("**Company**") declare that the Company, in accordance with the special legal characteristics of a partnership limited by shares, has been in compliance with the recommendations of the German Corporate Governance Code ("**CGC**") of 7 February 2017, as published by the Federal Ministry of Justice in the official part of the German Federal Gazette on 24 April 2017, since its last statement of compliance on 22 March 2018, with the deviations listed therein. Excepting the deviations listed in the following, the Company shall comply in the future with the recommendations of the CGC.

Deviations based on the legal form of the Company

- The Company's legal form is that of a partnership limited by shares ("**KGaA**" – *Kommanditgesellschaft auf Aktien*). In the case of a KGaA, the managerial duties of a stock corporation ("**AG**" - *Aktiengesellschaft*) are incumbent upon the General Partner. The sole personally liable general partner of the Company is ProCredit General Partner AG, whose Management Board is thereby responsible for managing the Company's business operations.
- Compared to the supervisory board of an AG, the rights and obligations of the supervisory board of a KGaA are more restricted. In particular, the Company's Supervisory Board has no authority to appoint the General Partner and to set the terms of the contractual agreement with the General Partner, nor to issue any internal rules of procedure governing the Company's management, nor to determine which transactions require authorisation. These duties are performed by the supervisory board of ProCredit General Partner AG.
- The General Meeting of a KGaA has substantially the same rights as that of an AG. It also decides upon the approval of the Company's annual financial statements as well as the ratification of the acts of the Supervisory Board and of the General Partner. Many of the resolutions of the General Meeting require the consent of the General Partner; this includes the approval of the Company's annual financial statements.

Deviations from the recommendations of the CGC

3.8 (3)

The CGC recommends that when a D&O insurance policy is concluded for the Supervisory Board, a deductible of at least 10% of the loss should be agreed, up to an amount equal to at least one and a half times the fixed annual remuneration of the Supervisory Board member.

The D&O insurance for the members of the Supervisory Board does not include a deductible, as it is the opinion of the Company that such a deductible would neither improve the performance of the Supervisory Board members nor strengthen their sense of responsibility. Moreover, the Supervisory Board members receive a relatively low remuneration, therefore the Company has determined that a deductible is unnecessary.

4.2.1 sentence 1

The CGC recommends that the Management Board shall consist of several persons and that it shall have a chairperson or spokesperson.

Although the duties of the Management Board are performed by a General Partner, this is run by a management team consisting of three persons.

The Management Board has neither a chairperson nor a spokesperson, as all Management Board members work on an equal footing in their respective, clearly defined areas of competence; they therefore jointly bear the overall responsibility for the Company. The Supervisory Board and the Management Board are of the opinion that there is no need for a Chairperson or Spokesperson in the Management Board.

4.2.3 (2) sentences 2 et seq.

The CGC recommends that the monetary element of the remuneration shall comprise fixed and variable components and that the variable components shall be based on an assessment made over several years. Furthermore, both positive and negative developments shall be taken into account when calculating the variable component of the remuneration. The variable component of the remuneration shall also bear a direct relationship to demanding relevant benchmarks. Any subsequent modifications to the performance targets or the comparison parameters shall be ruled out.

The remuneration of the Management Board members of the Company's General Partner includes no variable components, because the corporate culture of the group as a whole does not advocate any form of variable remuneration. The approach of the Company and its business group towards staff remuneration sees no added value in including any variable components. In the opinion of the Company, fixed salaries are enough to guarantee sustainable growth for the Company and that no additional incentives are required. In rare individual cases, the Supervisory Board may at its discretion award an unannounced special remuneration in order to reward specific instances of outstanding performance.

5.3.2

The CGC recommends that the Supervisory Board shall set up an audit committee, which – insofar as no other committee is responsible therefore – shall be entrusted with monitoring the accounting process, the effectiveness of the internal control mechanisms, the risk management system, the internal audit system and the external auditing of the annual financial statements – in particular the independence of and the additional services provided by the external auditor, the awarding of the contract to the external auditor, the determination of the main focus of the audit and concluding the fee agreement as well as overseeing compliance issues.

There is no audit committee within the Company's Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole, generally make the formation of committees, particularly an audit committee, superfluous. This opinion is reinforced by the fact that all of the Supervisory Board members are sufficiently qualified to perform the duties of an audit committee, that they meet on a regular basis and that they devote sufficient time. Moreover, the Company's Supervisory Board deems it important that all of its members are familiar with the areas of responsibility that normally fall within the remit of an audit committee.

5.3.3

The CGC recommends that the Supervisory Board shall set up a nominations committee, which comprises solely of shareholders' representatives and whose purpose it is to nominate to the Supervisory Board suitable candidates to be elected to the Supervisory Board by the General Meeting.

There is no nominations committee within the Company's Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole, make the formation of committees superfluous. The relatively small size of the Supervisory Board, which is in any case made up solely of shareholder representatives, and the shareholder structure of the Company do not warrant setting up a dedicated committee to propose shareholder representatives. Moreover, the Company's Supervisory Board deems it important that all of its members are familiar with the areas of responsibility that normally fall within the remit of a nominations committee.

5.4.1 (2) sentence 1
The CGC recommends that the Supervisory Board shall set concrete targets with regard to its composition which, considering the Company's specific business situation, shall take into account its international activities, potential conflicts of interest, the number of independent Supervisory Board members as per item 5.4.2 of the CGC, setting fixed limits on age and length of service for Supervisory Board members as well as ensuring its diversity.

Although the Company's Supervisory Board regularly sets concrete targets for its composition in compliance with the criteria stipulated under item 5.4.1 (2) sentence 1 of the CGC, there is no fixed limit on length of service for its members. The Supervisory Board takes the view that any decision on an individual member remaining in office shall be taken on a case by case basis. Setting a fixed limit would constitute an unreasonable restriction, as the Company fundamentally relies on the expertise of its experienced Supervisory Board members.

5.4.6 (1)
The CGC recommends that the positions of chair and deputy chair of the Supervisory Board, as well as serving as chair or a member of a committee, shall be taken into account when determining the remuneration for Supervisory Board members.

The Supervisory Board members receive a uniform remuneration of EUR 10,000 per annum. Although the Supervisory Board does have a chair, this person receives no additional remuneration; moreover, there are no committees within the Supervisory Board. The Management Board and the Supervisory Board are therefore of the opinion that the current level of remuneration for the Supervisory Board members is adequate and that any additional remuneration is unnecessary.

Frankfurt am Main, 22 March 2019

Management Board of
ProCredit General Partner AG

Supervisory Board of
ProCredit Holding AG & Co. KGaA

Responsibility of the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, we assert that the consolidated financial statements give a true and fair view of the financial position and financial performance of the group, and the consolidated management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the significant opportunities and risks associated with the expected development of the group.

Frankfurt am Main, 22 March 2019

ProCredit Holding AG & Co. KGaA
represented by:
ProCredit General Partner AG

Management Board

Borislav Kostadinov | Sandrine Massiani | Dr. Gabriel Schor

PROCREDIT HOLDING AG & CO. KGaA SUPERVISORY BOARD REPORT 2018

Dear Shareholders,
In the following, I would like to inform you about the work undertaken by the Supervisory Board ("**Supervisory Board**") of ProCredit Holding AG & Co. KGaA ("**ProCredit Holding**" or "**Company**") in the 2018 financial year.

In the 2018 financial year, the Supervisory Board performed its tasks as defined by the law, the Articles of Association and the Internal Rules of Procedure, in particular:

- It continually advised and supervised the activities of ProCredit General Partner AG (*Komplementär*) ("**General Partner**") and its management board ("**Management Board**").
- It approved decisions for which its consent was required following careful review and consultation.
- It examined whether the annual financial statements of ProCredit Holding and the ProCredit group, as well as the other financial reports are in compliance with the applicable requirements.

Working relationship between the Supervisory Board and the General Partner

In the 2018 financial year, the Supervisory Board again regularly advised the General Partner on the management of ProCredit Holding and continuously supervised its conduct of business. The Supervisory Board concluded that the management of the Company was lawful, proper and appropriate.

The meetings of the Supervisory Board featured open and intensive exchanges of information and opinions. The General Partner fulfilled its duty to inform the Supervisory Board and provided regular written and oral reports with prompt and comprehensive information on all issues of relevance to ProCredit Holding and the whole ProCredit group.

The Supervisory Board was also kept fully informed about specific topics between its regular meetings. In addition, as the Chairman of the Supervisory Board, I am kept regularly informed by the General Partner as and when needed about important developments and discussions that have taken place. At the following Supervisory Board meeting, I then report on important findings to the other Supervisory Board members.

The Supervisory Board was aware of all decisions of major significance.

Where required by the law or the Articles of Association, the Supervisory Board provided its approval for individual decisions, based on prior critical assessment.

Supervisory Board meetings during 2018

The Supervisory Board of the Company held four routine in-person meetings and four telephone votes in the fiscal year 2018.

The Supervisory Board's meetings with physical attendance were attended by all of its members on two occasions, while Mr Krämer did not attend two of them. The telephone conferences were attended by all Supervisory Board members on all occasions. The members of the Management Board took part in the Supervisory Board meetings, unless otherwise determined by the Chairman of the Supervisory Board.

At each meeting and on the basis of the quarterly management board reports, group-wide risk reports and the reports of the internal audit department, the Supervisory Board received timely and detailed reports from the General Partner on the current business and financial performance of the ProCredit group, including analysis in relation to planning, as well as analysis of the group risk position and risk management, internal audit findings and significant personnel and organisational issues. Particular attention was always given to indicators and initiatives which relate to credit risk and human resources management. Furthermore, the Supervisory Board has always given due consideration to the impact and ethical aspects of our operations, and not just the financial results. In early 2018, the Supervisory Board was involved in the successful capital increase of the Company. It was also regularly updated on the implementation of the direct banking concept during the whole year.

As a rule, the Supervisory Board meets subsequent to the meetings of the supervisory board of the General Partner. As the members of both supervisory boards are identical, the members of the Supervisory Board are informed of the discussions and resolutions of the supervisory board of the General Partner. Therefore, if separate decisions are not required by the Supervisory Board, its members approve the discussions and decisions of the agenda of the foregoing supervisory board meeting of the General Partner.

By means of the **first telephone conference on 1 February 2018**, the Supervisory Board unanimously consented to the resolution of the General Partner to utilise the Authorized Capital 2016 as provided for in Article 4 (3) of the Articles of Association of the Company.

During the second **telephone conference on 2 February 2018**, the Supervisory Board unanimously approved the resolution of the General Partner to increase the share capital of the Company by EUR 26,772,040 through the issuance of 5,354,408 registered no-par value shares with a proportionate amount of the share capital of EUR 5.00 under exclusion of the shareholders' subscription rights with full dividend rights as of 1 January 2017 at a placement price of EUR 11.40 per share.

In its first **meeting with physical attendance on 26 February 2018**, the Supervisory Board was updated on the matters discussed between the Management Board and the supervisory board of the General Partner on 26 February 2018, with which the Supervisory Board was in unanimous agreement. In addition to routine agenda items, the topics included the group business strategy (which also comprises the business plan and capital plan 2018-2022), the group risk strategy and group IT strategy for 2018, all of which form the foundation for further expansion of the ProCredit banks' positioning as Hausbanks for SMEs and as direct banks offering a clearly defined range of services to middle-income private individuals through electronic channels. The Supervisory Board was also fully updated on the details of the successful capital increase of the Company carried out in February 2018. Moreover, the supervisory board of the General Partner discussed the preliminary audit report (Partial Audit Report 1) issued by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft for the ProCredit group, the 2017 annual internal audit reports for the group and for ProCredit Holding, and the group compliance report for 2017.

In the third **telephone conference on 26 March 2018**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 26 March 2018 and provided its unanimous acknowledgement; in particular, the Supervisory Board acknowledged the unanimous approval of the Impact Report for the financial year 2017 that the Management Board had prepared on the basis of German legal provisions based on CSR Directive 2014/95/EU. The Supervisory Board unanimously approved the Annual Financial Statements of ProCredit Holding and the Consolidated Annual Financial Statements for the ProCredit group as well as the Combined Management Report for the 2017 financial year. Furthermore, the Supervisory Board resolved, in each case unanimously after discussion, the following decisions: (1) the approval of the proposal of the General Partner concerning the appropriation of profits; (2) the approval of the proposal of the General Partner to the shareholders, to pay, out of the profits (Bilanzgewinn) from the financial year 2017 and in accordance with the dividend policy of the group, a dividend of EUR 0.27 per non-par value share, (3) the approval of the proposal of the General Partner to the shareholders concerning the carry-forward of the remaining profits (Bilanzgewinn) from the financial year 2017 to new account, and (4) the report of the Supervisory Board which is to be submitted in accordance with sec. 171 AktG. Furthermore, the Supervisory Board unanimously resolved to propose the following to the Shareholders' Meeting: (1) the adoption of the Company's Annual Financial Statements and the Combined Management Report for the Company and the ProCredit group for fiscal year 2017; (2) the formal ratification of the acts of the General Partner for the fiscal year 2017; (3) the formal ratification of the acts of the members of the Supervisory Board for fiscal year 2017; (4) the selection of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the statutory auditor of the Company and the ProCredit group for the financial year 2018 as well as for a possible review of the condensed financial statements and the interim management report for the ProCredit group for the first half year 2018; and (5) the authorisation of the General Partner to increase the share capital of the Company in the period until 22 May 2023 by up to 10% of the present outstanding share capital by issuing new registered non-par value shares against contributions in cash or in kind with the possibility to exclude shareholders' subscription rights (Authorized Capital 2018). Lastly, Mr Florian Stahl was unanimously appointed by the Supervisory Board as the chairman of the Company's ordinary shareholders' meeting in the year 2018.

In its second **meeting with physical attendance on 11 May 2018**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 11 May 2018 and provided its unanimous acknowledgement. The supervisory board of the General Partner had addressed, in addition to the regular items on the agenda, the detailed report from the Management Board. These topics included in particular: the strong development of the total loan portfolio, driven especially by loans to SME clients; the growing share of the green loan portfolio; the implementation of the direct banking approach for private individuals; the investor relations activities; and the status of implementation of the EU General Data Protection Regulation being within the defined timeframe, and the recent Supervisory Talk and College Meeting organised by BaFin. Lastly, the Supervisory Board unanimously agreed to an amendment of the remuneration agreement between the Company and the General Partner.

In its third **meeting with physical attendance on 20 July 2018**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 20 July 2018 and provided its unanimous acknowledgement. In addition to the routine agenda points and updates on business developments for the first half of the year, the supervisory board was updated by the in-house IT strategic partner for the ProCredit group, Quipu GmbH, on recent IT projects supporting the digital approach of the group as well as discussions on the group's remuneration structure and a presentation on possible funding options. The Supervisory Board confirmed acknowledgement of the SREP notification received from BaFin in May 2018. This included a capital add-on (Pillar 2 Requirement) of 3 p.p. on the total capital ratio for the ProCredit group. The Supervisory Board determined that the group's capital was thus comfortably above the regulatory requirements.

In a fourth **telephone conference on 10 August 2018**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 10 August 2018 and provided its unanimous agreement. This comprised, among other items, the review of the group's financial results for the second quarter of 2018 and the respective interim report. The statutory auditors from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main reported on their half-year review and on the quality of the collaboration.

In the final **meeting with physical attendance on 12 November 2018**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 12 November 2018; these included the review of the group financial results for the third quarter 2018 and the corresponding interim report, a discussion of the preliminary business planning for the ProCredit group for 2019 to 2022, and the extension of the mandate of Dr Gabriel Schor.

Lastly, the Supervisory Board members examined the effectiveness of the Supervisory Board, their compliance with the internal rules of procedure of the Supervisory Board, and the compliance of the activities of the General Partner's management with the requirements of the German Corporate Governance Code. The Supervisory Board declared its members to be well-informed and able to fulfil their supervisory functions in light of their experience and on the basis of regular contact and meetings with the members of the Management Board members of the General Partner and other managers and colleagues across the group.

Committee Work

No committees were formed within the Supervisory Board in the fiscal year 2018. The relatively small size of the Supervisory Board and the fact that all Supervisory Board members are sufficiently qualified and devote sufficient time to their duties renders the formation of such committees superfluous.

Audit of ProCredit Holding AG & Co. KGaA

The annual financial statements for ProCredit Holding, the consolidated annual financial statements and the combined management report for ProCredit Holding and the ProCredit group for fiscal year 2018 were audited by the statutory auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellchaft, Frankfurt am Main, Germany. The external audit did not result in any objections; the external auditors granted an unqualified audit opinion in each case. The Supervisory Board also carefully examined the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for fiscal year 2018. The external auditors participated in the Supervisory Board meeting at which the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for fiscal year 2018 were discussed. The Supervisory Board acknowledged the findings of the auditor's reports and stated that no objections would be submitted. The Supervisory Board approved the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group and recommended that the shareholders' meeting adopt the annual financial statements for ProCredit Holding.

The Supervisory Board also examined the proposal of the General Partner concerning the appropriation of profits from fiscal year 2018. It assented to the proposal of the General Partner and recommends the proposal to distribute a dividend of EUR 0.30 per share to shareholders out of the profits for the fiscal year 2018 of EUR 132,687,647.34. This corresponds to total dividend payments of EUR 17,669,547.60, on the subscribed capital of EUR 294,492,460 entitled to receive dividends (58,898,492 shares) and to carry the remaining profit of EUR 115,018,099.74 from the fiscal year 2018 forward to new account in accordance with sec. 278 (3) and 58 (3) AktG (*German Stock Corporation Act*).

Changes to the members of the Supervisory Board and the Management Board of the General Partner

There were no changes to the members of the Supervisory Board or the Management Board of the Company in financial year 2018.

Frankfurt am Main, 22 March 2019

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board of
ProCredit Holding AG & Co. KGaA

Consolidated Financial Statements of the ProCredit Group

INDEPENDENT AUDITOR'S REPORT

To ProCredit Holding AG & Co. KGaA, Frankfurt am Main

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ProCredit Holding AG & Co. KGaA, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2018. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report, in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315e paragraph 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to Article 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Article 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

❶ Valuation of financial instruments in the framework of the first application of IFRS 9

Our presentation of this key audit matter has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matter:

❶ Valuation of financial instruments in the framework of the first application of IFRS 9

① Since 1 January 2018, ProCredit Holding AG & Co. KGaA has applied the accounting standard IFRS 9 "Financial instruments". The business model in which financial instruments are held, together with the contractual conditions of these instruments, are decisive for classification according to IFRS 9. The first application of the rules on classifying financial instruments resulted in a positive after-tax effect of EUR 2.1 million, which was recognised in shareholders' equity on the balance sheet. For financial instruments valued at amortised cost or at fair value in other comprehensive income, the new rules on impairment (expected loss model) have replaced the previous model (incurred loss model). Loss allowances are now determined using a three-stage model, with financial instruments generally entering Stage 1. For these instruments, the 12-month expected losses are to be reported. For significant increases in the risk of default compared to the first recognition of the instrument, the amount of expected loss over the entire remaining maturity (Stage 2) is reported in loss allowances. This also applies to credit-impaired financial instruments (Stage 3). In this context, the Company has adjusted its internal models and processes for the calculation of expected losses according to IFRS 9. The first application of the rules on loss allowances resulted in a negative after-tax effect of EUR 20.8 million on shareholders' equity in the balance sheet as of 1 January 2018. On the basis of existing accounting discretions and uncertain estimates relating to the first application of IFRS 9 and to subsequent valuations, and due to the overall material significance of the amount of the related effects on the financial position of the ProCredit group, these matters were of particular importance in our audit.

② In the course of our audit, we investigated the implementation technical and process requirements for classification and measurement of financial instruments according to IFRS 9. Among other items, we assessed the relevant processes for the classification and measurement of financial instruments as to the appropriateness of their design and we tested their functionality. In addition, we evaluated the technical concepts, the allocation of financial instruments to business models and the models to calculate expected loss, and we analysed their implementation into the processes of the Company in order to determine whether they were in compliance with IFRS 9. Furthermore, we assessed the appropriateness of the criteria for transfers between stages. On the basis of random sampling, we thus evaluated whether the classification of financial instruments into the various categories had been performed in accordance with IFRS 9, and if the models used by the Company to calculate estimated loss are comply with the requirements set forth in IFRS 9. Moreover, we evaluated whether the impairment requirements according to the expected loss model are applied in the appropriate manner. We also assessed the validity and completeness of the data used. Lastly, we investigated whether the assumptions made on collateral scenarios, proceeds, timeframes and expenses and applied by ProCredit Holding AG & Co. KGaA in the determination of Stage 3 loss allowances fell within an appropriate range.
Based on the auditing procedures which we carried out, we were able to ascertain the overall appropriateness of the assumptions made by the executive directors in classifying and determining the value of financial instruments in connection with the first application of IFRS 9 and subsequent valuations.

③ The Company provides information on the first application of IFRS 9 in item 45 of the notes to the consolidated financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to Article 289f HGB and Article 315d HGB included in the "Statement on Corporate Governance" section of the group management report

- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code included in the "Statement on Corporate Governance" section of the group management report
- the separate non-financial group report pursuant to Article 315b paragraph 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report
The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Article 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315e paragraph 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the general meeting on 23 May 2018. We were engaged by the supervisory board on 17 September 2018. We have been the group auditor of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, without interruption since the financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT
The German Public Auditor responsible for the engagement is Eva Handrick.

Consolidated Statement of Profit or Loss

in '000 EUR	Note	1.1.–31.12.2018	1.1.–31.12.2017
Interest income		278,381	287,814
Interest expenses		88,569	83,150
Net interest income	(8)	**189,812**	**204,664**
Loss allowance	(9)	-3,920	4,819
Net interest income after allowances		**193,732**	**199,845**
Fee and commission income		68,041	61,048
Fee and commission expenses		15,857	15,214
Net fee and commission income	(10)	**52,184**	**45,834**
Result from foreign exchange transactions	(11)	9,378	10,805
Result from derivative financial instruments (2017: financial instruments at fair value through profit or loss)	(12)	-44	-670
Result from investment securities (2017: available-for-sale financial assets)	(13)	0	101
Result on derecognition of financial assets measured at amortised cost		-70	n/a
Net other operating income	(14)	-7,173	-7,500
Operating income		**248,006**	**248,414**
Personnel expenses	(15)	79,770	84,522
Administrative expenses	(16)	91,636	101,743
Operating expenses		**171,406**	**186,265**
Profit before tax		**76,601**	**62,150**
Income tax expenses	(17)	17,558	14,563
Profit of the period from continuing operations		**59,043**	**47,586**
Profit of the period from discontinued operations	(41)	-4,564	516
Profit of the period		**54,479**	**48,102**
Profit attributable to ProCredit shareholders		52,785	46,282
from continuing operations		*57,349*	*45,785*
from discontinued operations		*-4,564*	*497*
Profit attributable to non-controlling interests		1,693	1,820
from continuing operations		*1,693*	*1,801*
from discontinued operations		*0*	*19*
Earnings per share* in EUR		0.90	0.86
from continuing operations		*0.98*	*0.86*
from discontinued operations		*-0.08*	*0.01*

* *Basic earnings per share were identical to diluted earnings per share*

Consolidated Statement of Other Comprehensive Income

in '000 EUR	Note	1.1.–31.12.2018	1.1.–31.12.2017
Profit of the period		**54,479**	**48,102**
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve*	(21)	-1,610	1,114
Reclasified to profit or loss		*0*	*33*
Change in value not recognised in profit or loss		*321*	*1,081*
Change in loss allowance		*-1,932*	*n/a*
Change in deferred tax on revaluation reserve*	(21)	-41	-199
Change in translation reserve	(7)	10,738	-17,801
Reclasified to profit or loss		*0*	*3,373*
Change in value not recognised in profit or loss		*10,738*	*-21,174*
Other comprehensive income of the period, net of tax continuing operations		**9,087**	**-16,887**
Other comprehensive income of the period, net of tax discontinued operations		**50**	**-4,075**
Total comprehensive income of the period		**63,616**	**27,140**
Profit attributable to ProCredit shareholders		59,933	25,303
from continuing operations		*64,447*	*28,831*
from discontinued operations		*-4,514*	*-3,529*
Profit attributable to non-controlling interests		3,683	1,837
from continuing operations		*3,683*	*1,868*
from discontinued operations		*0*	*-31*

* *2017: revaluation reserve from available-for-sale financial assets*

Consolidated Statement of Financial Position

in '000 EUR	Note	31.12.2018	IFRS 9 01.01.2018	IAS 39 31.12.2017
Assets				
Cash	(18)	157,945	144,343	n/a
Central bank balances	(5, 9, 18)	805,769	788,401	n/a
Cash and cash equivalents		n/a	n/a	1,076,616
Loans and advances to banks	(5, 9, 19)	211,592	195,552	196,243
Derivative financial assets	(5, 20)	1,307	1,074	n/a
Financial assets at fair value through profit or loss		n/a	n/a	1,074
Investment securities	(5, 9, 21)	297,308	353,568	n/a
Available-for-sale financial assets		n/a	n/a	214,701
Loans and advances to customers	(5, 9, 22)	4,267,829	3,756,776	3,909,911
Allowance for losses on loans and advances to customers		n/a	n/a	-128,527
Property, plant and equipment and investment properties	(23)	135,818	142,347	142,347
Intangible assets	(24)	22,191	21,153	21,153
Current tax assets	(26)	4,344	3,541	3,541
Deferred tax assets	(26)	1,405	5,513	4,745
Other assets	(27)	59,529	69,531	57,574
Assets held for sale	(41)	1,145	0	0
Total assets		**5,966,184**	**5,481,799**	**5,499,378**
Liabilities				
Liabilities to banks	(5, 28)	200,813	359,477	359,477
Derivative financial liabilities	(5, 20)	998	174	n/a
Financial liabilities at fair value through profit or loss		n/a	n/a	174
Liabilities to customers	(5, 29)	3,825,938	3,571,237	3,570,932
Liabilities to international financial institutions	(5, 30)	813,369	549,598	549,598
Debt securities	(5, 31)	206,212	183,145	183,145
Other liabilities	(32)	18,448	19,996	19,996
Provisions	(33)	10,534	15,254	13,976
Current tax liabilities	(26)	2,483	1,718	1,718
Deferred tax liabilities	(26)	282	572	1,040
Subordinated debt	(5, 34)	143,140	140,788	140,788
Liabilities related to assets held for sale	(41)	331	0	0
Total liabilities		**5,222,549**	**4,841,961**	**4,840,845**
Equity				
Subscribed capital	(35)	294,492	267,720	267,720
Capital reserve		146,784	115,253	115,253
Retained earnings*		368,303	330,830	351,290
Translation reserve		-75,392	-84,007	-84,007
Revaluation reserve		1,684	3,151	934
Equity attributable to ProCredit shareholders		**735,872**	**632,948**	**651,190**
Non-controlling interests		7,762	6,891	7,343
Total equity		**743,634**	**639,839**	**658,533**
Total equity and liabilities		**5,966,184**	**5,481,799**	**5,499,378**

* *Retained earnings include legal reserve*

Consolidated Statement of Changes in Equity

in '000 EUR	Subscribed capital	Capital reserve	Retained earnings*	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non-controlling interests	Total equity
Balance as of 1 January 2018	**267,720**	**115,253**	**351,289**	**-84,007**	**934**	**651,189**	**7,343**	**658,532**
Change on initial application of IFRS 9	0	0	-20,458	0	2,218	-18,241	-452	-18,693
Restated balance at 1 January 2018	**267,720**	**115,253**	**330,830**	**-84,007**	**3,151**	**632,948**	**6,891**	**639,839**
Change in translation reserve				8,615		8,615	2,174	10,788
Change in revaluation reserve					-1,467	-1,467	-184	-1,651
Other comprehensive income of the period, net of tax				8,615	-1,467	7,147	1,990	9,137
Profit of the period			52,785			52,785	1,693	54,479
Total comprehensive income of the period			52,785	8,615	-1,467	59,933	3,683	63,616
Distributed dividends			-15,903			-15,903		-15,903
Capital increase	26,772	31,531				58,303		58,303
Change of ownership interests			590			590	-2,811	-2,221
Balance as of 31 December 2018	**294,492**	**146,784**	**368,303**	**-75,392**	**1,684**	**735,872**	**7,762**	**743,634**

in '000 EUR	Subscribed capital	Capital reserve	Retained earnings*	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non-controlling interests	Total equity
Balance as of 1 January 2017	**267,720**	**115,253**	**325,155**	**-62,112**	**20**	**646,035**	**8,237**	**654,272**
Change in translation reserve				-21,895		-21,895	18	-21,877
Revaluation of afs securities					914	914	1	915
Other comprehensive income of the period, net of tax				-21,895	914	-20,981	18	-20,963
Profit of the period			46,282			46,282	1,820	48,102
Total comprehensive income of the period			46,282	-21,895	914	25,302	1,837	27,139
Distributed dividends			-20,347			-20,347		-20,347
Change of ownership interests			198			198	-2,731	-2,533
Balance as of 31 December 2017	**267,720**	**115,253**	**351,289**	**-84,007**	**934**	**651,189**	**7,343**	**658,532**

* *retained earnings include legal reserve*

Consolidated Statement of Cash Flows

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Profit of the period	54,479	48,102
Income tax expenses (continuing operations)	17,558	14,563
Income tax expenses (discontinued operations)	0	791
Profit before tax (including discontinued operations)	**72,037**	**63,457**
Non-cash items included in the profit of the period and transition to the cash flow from operating activities		
Depreciation, impairment and appreciation of loans and advances, property, plant and equipment and financial investments	16,634	28,762
Increase / decrease of provisions	945	5,649
Gains / losses from disposal of fixed assets	621	24,066
Other non-cash expenses and income	-192,095	-213,366
Cash flow from discontinued operations	7,532	-21,421
Subtotal	-94,327	-112,854
Net change in assets and liabilities from operating activities:		
Loans and advances to banks	-70,369	-37,879
Loans and advances to customers	-520,544	-286,351
Other assets from operating activities	152,414	52,858
Liabilities to banks and to international financial institutions	111,568	70,712
Liabilities to customers	257,580	155,951
Debt securities	23,067	34,014
Other liabilities from operating activities	-4,791	-35,801
Interest received	289,068	303,622
Interest paid	-94,309	-85,249
Income tax paid	-13,701	-13,596
Operating cash flow from discontinued operations	-8,334	45,326
Cash flow from operating activities	**27,324**	**90,754**
Proceeds from disposal of fixed assets	8,092	8,188
Payments for purchase of fixed assets	-25,035	-23,581
Proceeds from sale of subsidiaries	-4	-77,611
Investing cash flow from discontinued operations	3	38,338
Cash flow from investing activities	**-16,945**	**-54,665**
Dividends paid	-15,903	-21,079
Proceeds from capital increases	62,578	448
Acquisition of shares from NCI's	-8,161	-542
Proceeds/ payments from subordinated loans	2,452	-23,760
Financing cash flow from discontinued operations	0	732
Cash flow from financing activities	**40,967**	**-44,201**
Cash and cash equivalents at end of previous year	**951,722**	**979,068**
Cash flow from operating activities	27,324	90,754
of which discontinued operations	*-8,334*	*45,326*
Cash flow from investing activities	-16,945	-54,665
of which discontinued operations	*3*	*38,338*
Cash flow from financing activities	40,967	-44,201
of which discontinued operations	*0*	*732*
Effects of exchange rate changes	8,518	-19,234
Cash and cash equivalents at end of period	**1,011,586**	**951,722**

Notes to the Consolidated Financial Statements

A. A. Significant accounting principles

B. Notes to the Statement of Profit or Loss

C. Notes to the Statement of Financial Position

D. Additional Notes

Notes to the Consolidated Financial Statements

A. Significant accounting principles

(1) Basis of accounting

The ProCredit group ("the group") comprises development-oriented commercial banks which operate mainly in South Eastern and Eastern Europe, South America and through ProCredit Bank in Germany. The group offers the full range of banking services in terms of financing, account operations, payments and deposit business. The parent company of the group is ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), based in Frankfurt am Main, Germany. The group prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and endorsed by the European Union.

The Consolidated Financial Statements as of 31 December 2018 comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. Disclosures pursuant to IFRS 7 with regard to the nature and extent of risks arising from financial instruments have been presented in the risk report as part of the Combined Management Report.

All amounts are presented in thousands of euros and all accounting policies have been consistently applied, unless otherwise stated. The financial year of the ProCredit group is the calendar year. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (EUR, %, etc.). Reporting and valuation are made on a going concern assumption.

(2) Principles of consolidation

ProCredit Holding prepares the Consolidated Financial Statements for the largest scope of entities. The Consolidated Financial Statements comprise the financial statements of ProCredit Holding together with its subsidiaries. Subsidiaries are all companies which are controlled by the group. For the ProCredit group, control over a subsidiary is achieved when ProCredit Holding is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date on which control ceases. An overview of the subsidiaries is given in note (41). The group has no interest in joint ventures or associates. Group-internal transactions, balances and interim profits are eliminated in full.

(3) Accounting developments

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

- IFRS 9 "Financial Instruments" has an impact on the classification and measurement of financial instruments and on the recognition of impairment. The impact of the first time application is shown under note (45). The effects were recognised directly in equity. Information on the classification and measurement of financial instruments and on the recognition of impairment is shown under notes (5) and (9). Through the application of IFRS 9, the information on financial instruments was also adjusted to the new requirements. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

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

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" has a minor impact on the financial statements. The interpretation is effective for annual periods beginning on or after 1 January 2018.

- Amendments to IAS 40 "Transfers of Investment Property" has a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2018.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the group's financial statements: Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions; Amendments to IFRS 4: Application of IFRS 9 "Financial Instruments" to IFRS 4 "Insurance Contracts"; and Annual Improvements to IFRS (2014-2016).

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

- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

- IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of existing contracts as lessees. In general, existing leases will be reported as "right-of-use" assets under "Property, Plant and Equipment and Investment Property"; leasing liabilities will be reported under "Other liabilities". The group has decided to apply the modified retrospective approach. Through the application of IFRS 16, around EUR 23 million will be reported in the balance sheet under right-of-use assets and leasing liabilities. The standard is applicable for annual periods beginning on or after 1 January 2019.

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

- Amendments to the references to the framework in IFRS will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

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

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

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

(4) Use of assumptions and estimates

The group's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the Consolidated Financial Statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Management judgements for certain items are especially critical for the group's results and financial situation. This applies to the following positions:

(a) Impairment of financial assets

By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. The ProCredit group reports the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets" net (after subtracting loss allowances). Further information on the group's accounting policy on loan loss provisioning can be found in notes (5) and (9).

(b) Valuation of financial instruments for equity shares with put options

ProCredit Holding has an obligation to purchase equity instruments of ProCredit Bank Colombia and thereby takes on a financial liability equal to the present value of the redemption amount. The liability is measured based on the exercise price, which is related to the current share of subsidiary's equity. In accordance with the anticipated acquisition method, all risks and rewards connected with the transaction are considered as being already transferred to ProCredit Holding. Adjustments from the subsequent measurement of the liability are recognised in the Consolidated Statement of Profit or Loss.

(c) Goodwill impairment testing

Goodwill on the acquisition of subsidiaries is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. In performing goodwill impairment testing, a discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Significant management judgement is involved in estimating future cash flows and in determining the discount rate assigned to each cash-generating unit. The cash flow projection is based on the latest business planning and therefore appropriately reflects future business prospects. Estimated future cash flows are extrapolated in perpetuity due to the long-term perspective of the equity investments, using management's best estimate for determining future net growth rates based on currently observable data and economic projections. The estimated future cash flows are discounted at specific equity discount rates which reflect the risk profile of the individual entity. The pre-tax discount factors are derived from a group pricing model and are between 8.0% and 15.8% (2017: between 8.7% and 11.7%). Goodwill is tested by comparing the respective net present value of future cash flows from a subsidiary (value in use) with the carrying value of its net assets plus goodwill. The group's accounting policy for goodwill is described in note (24).

(d) Measurement of deferred tax assets

The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the latest business planning and reflects management's view of future business prospects. The tax planning period of the group is five years. For details, see notes (17) and (26).

(5) Financial instruments

The ProCredit group classifies its financial assets both according to their underlying business model and also their contractual cash flows.

Differentiation is made between the following business models: "hold to collect", "hold to collect and sell" and "other". Financial assets are assigned to the "hold to collect" business model if their objective is solely to collect contractual cash flows through interest and principal payments (SPPI conform). The balance sheet items allocated to this business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets". "Investment securities" are allocated to the "hold to collect and sell" business model; these financial assets are generally held (SPPI conform) in order to collect contractual cash flows but can be sold as needed. Furthermore, a small amount of shares are allocated to the "hold to collect and sell" business model, included in the balance sheet under "Other assets". "Cash" and "Derivative financial assets" are allocated to the "other" business model.

Subsequent recognition of financial liabilities is generally performed at amortised cost. Only derivative financial liabilities are recognised at fair value.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets held for trading or which are not classified in the "hold to collect" or "hold to collect and sell" business models are allocated to the "other" business model and recognised at fair value through profit or loss. This includes "Cash" and "Derivative financial assets". Only "Derivative financial liabilities" are recognised as financial liabilities at fair value through profit or loss.

The group does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Derivative financial assets". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Derivative financial liabilities".

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the group commits to purchase or sell the instrument. Subsequently, the financial instruments are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Consolidated Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(b) Financial assets at amortised costs

A financial asset is classified as "at amortised costs" if the financial asset is allocated to the "hold to collect" business model and the contractual cash flows meet the SPPI criterion. They arise when the group provides capital directly to a contracting party with no intention of trading the receivable.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the Consolidated Statement of Profit or Loss under "net interest income". Expected credit losses are basically recognised using a three-stage model (see note 9). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

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

A financial asset is classified and recognised as "Fair Value through Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.

Most of the "investment securities" allocated to this business model are those financial assets that are generally held "SPPI conform" in order to collect contractual cash flows but can be sold as needed. Furthermore, a small amount of shares included under "Other assets" are allocated to this business model.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Consolidated

Statement of Other Comprehensive Income under revaluation reserve. If the financial asset is derecognised or impaired (for details on impairment, see note (9)), the cumulative gain or loss previously recognised in the revaluation reserve is recognised in the Consolidated Statement of Profit or Loss in the position "Net result from investment securities". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Consolidated Statement of Profit or Loss. For the FVOCI capital instruments, any dividend payments are recognised in the Consolidated Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the group has transferred substantially all risks and rewards of ownership.

(d) Other financial liabilities at amortised cost

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

(6) Measurement basis

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

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

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

(a) Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2 Inputs

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters. Each subsidiary applies individual observable interest and exchange rates, predominantly from local central banks.

(c) Level 3 Inputs

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

(7) Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency with which the entity operates in its primary economic environment ("the functional currency"). In general, the functional currency is the local currency.

The Consolidated Financial Statements of the group are presented in euros, which is ProCredit Holding's functional currency and the presentation currency of the group.

(b) Transactions and balances
Foreign currency monetary assets and liabilities are translated using the closing exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss (result from foreign exchange transactions). All items of income and expenses are translated at the monthly average exchange rate which approximates actual transaction rates.

Foreign non-monetary items measured at amortised cost are translated with the historical exchange rate as at the date of the transaction.

(c) Group companies
The financial statements of all group entities (none of which use the currency of an economy subject to hyperinflation) whose functional currency is not the euro are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of profit or loss are translated at average exchange rates of the period
- All differences resulting from the translation of net investments in foreign subsidiaries are recognised in the "translation reserve". Upon disposal of a foreign subsidiary, the accumulated translation differences are reclassified from Equity to the Consolidated Statement of Profit or Loss.

B. Notes to the Statement of Profit or Loss

(8) Net interest income

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Interest income from		
Cash and central bank balances	159	n/a
Cash and cash equivalents	n/a	6,418
Loans and advances to banks	1,489	4,402
Derivatives*	331	n/a
Investment securities	7,855	n/a
Available-for-sale assets	n/a	1,294
Loans and advances to customers	265,853	269,804
Unwinding	2,334	5,473
Prepayment penalty	360	423
Interest income	**278,381**	**287,814**
Interest expenses on		
Liabilities to banks	3,834	9,508
Derivatives*	761	n/a
Liabilities to customers	41,569	42,853
Liabilities to international financial institutions	29,050	16,377
Debt securities	4,803	5,792
Subordinated debt	8,553	8,620
Interest expenses	**88,569**	**83,150**
Net interest income	**189,812**	**204,664**

* *in 2018 interest income and expenses from derivatives are shown in this position (until December 2017 shown as "Net result from financial instruments at fair value through profit or loss")*

Payments received in respect of written-off loans are not recognised in net interest income, but rather under "Loss allowances". Once a default for a financial asset is recognised, the increase in the net present value over time (unwinding) is recognised as interest income.

(9) Loss allowances

The ProCredit group sets aside loss allowances for the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers", "Investment securities" and for the financial assets under "Other assets". In general, a three-stage model is used to report loss allowances. These are generally recognised at net value within the corresponding balance sheet position; the exception is "Investment securities" recognised at fair value. The loss allowances for "Investment securities" are recognised directly in shareholders' equity under "Revaluation reserve".

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Increase of loss allowances	82,931	108,050
Release of loss allowances	-76,075	-87,246
Recovery of written-off loans	-13,501	-16,768
Direct write-offs	1,638	782
Non-substantial modification	1,087	n/a
Loss allowance	**-3,920**	**4,819**

Increase in loss allowances

Recognition of loss allowances uses a three-stage model based on expected credit losses.

- Stage 1: Financial assets are generally classified as "Stage 1" when they are recognised for the first time. The ProCredit group establishes loss allowances in an amount equivalent to the expected credit losses during the first 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

- Stage 3: Defaulted financial assets are classified as "Stage 3" and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

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

Reversal of loss allowances
In the event that credit risk decreases, loss allowances already recorded are reversed.

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

Non-substantial modification
A modification to the terms of a financial asset is non-substantial when there has been a modification but the asset is not to be derecognised. The effect is to be recognised as a modification gain or loss. The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

(10) Net fee and commission income

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Fee and commission income from		
Payment services	22,512	22,086
Debit/credit cards	11,166	12,164
Account maintenance fee	25,095	17,405
Letters of credit and guarantees	4,678	4,502
Other fee and commission income	4,590	4,891
Fee and commission income	**68,041**	**61,048**
Fee and commission expenses on		
Payment services	3,717	3,482
Debit/credit cards	8,734	8,596
Account maintenance fee	2,120	2,069
Letters of credit and guarantees	796	585
Other fee and commission expenses	489	482
Fee and commission expenses	**15,857**	**15,214**
Net fee and commission income	**52,184**	**45,834**

(11) Result from foreign exchange transactions

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Currency exchange	10,452	5,965
Net gains and losses from FX revaluation	-1,075	4,840
Result from foreign exchange transactions	**9,378**	**10,805**

This position refers primarily to the results of foreign currency exchange with and for customers. The group does not engage in foreign currency trading on its own account. This position also includes unrealised foreign currency revaluation effects. The group does not apply hedge accounting.

(12) Result from derivatives

in ’000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Result from revaluation	-44	-89
Net interest income	n/a	-582
Result from derivative financial instruments (2017: financial instruments at fair value through profit or loss)	**-44**	**-670**

(13) Result from investment securities

in ’000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Net result from disposal (reclassified)	0	-33
Dividend income	n/a	134
Result from investment securities (2017: available-for-sale financial assets)	**0**	**101**

(14) Net other operating income

in ’000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Decrease of liabilities from put option agreements	397	101
Income from previous years	1,255	1,063
Reversal of Provisions	3,715	1,852
Income from reimbursement of expenses	895	1,417
Income from repossessed properties*	2,589	5,185
Surplus from sale of property, plant and equipment	1,742	2,394
Income from IT-services	3,608	5,469
Income from litigation settlements	452	675
Income from rents from investment properties	620	227
Others	1,705	2,424
Other operating income	**16,978**	**20,807**

in ’000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Expenses for deposit insurance	9,856	10,154
Increase of liabilities from put option agreements	0	315
Expenses to be reimbursed	92	130
Loss from disposal of property, plant and equipment	2,363	4,215
Impairment of repossessed properties	5,102	4,470
Expenses for credit recovery services and solvency checks	1,099	938
Administration of repossessed properties	898	1,130
Expenses from litigation settlements	600	1,933
Expenses for provisions for off-balance sheet items	627	486
Expenses from previous years	1	121
Others	3,513	4,416
Other operating expenses	**24,151**	**28,307**
Net other operating income	**-7,173**	**-7,500**

* *Previous year figures have been adapted to the current disclosure structure.*

(15) Personnel expenses

in ’000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Salary expenses	65,501	67,489
Social security expenses	7,793	8,768
Post-employment benefits plans (Defined contribution plans)	3,404	3,606
Post-employment benefits plans (Defined benefit plans)	286	1
Other employee benefits	2,787	4,658
Personnel expenses	**79,770**	**84,522**

(16) Administrative expenses

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Depreciation fixed and intangible assets (incl. Impairment)	20,284	22,526
Operating lease expenses	8,738	12,857
Non-profit tax	9,248	10,015
IT expenses	9,774	8,890
Communication	3,981	4,321
Transport	5,298	5,786
Repairs and maintenance	2,933	4,137
Office supplies	1,847	2,084
Security services	3,519	3,990
Marketing, advertising and representation	4,576	3,016
Utility and electricity expenses	2,850	3,357
Legal and consulting fees	8,676	10,284
Insurances	3,109	3,572
Recruitment and other personnel-related expenses*	3,702	3,197
Other administrative expenses*	3,100	3,710
Administrative expenses	**91,636**	**101,743**

* *Previous year figures have been adapted to the current disclosure structure.*

Of the total administrative expenses, EUR 6,799 thousand (2017: EUR 6,941 thousand) was incurred for staff training.

Legal and consulting fees include the following expenses incurred by ProCredit Holding for the services provided by the group auditor:

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Audit fees	401	325
Tax advice	0	0
Other confirmatory services	110	51
Other services	12	0
Group auditor expenses	**523**	**376**

Other confirmatory services include mainly expenses for the review of quarterly figures.

(17) Income tax expenses

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Current tax	13,663	14,322
Deferred tax	3,894	241
Income tax expenses	**17,558**	**14,563**

In calculating both the current taxes on income and earnings and the deferred income tax, the respective country-specific tax rates are applied. The income tax rate applied for the reporting period was 13.9% (2017: 14.7%), calculated by dividing the total tax burden by the unconsolidated profits.

C. Notes to the Statement of Financial Position

(18) Cash and central bank balances

in '000 EUR	31.12.2018	31.12.2017
Cash in hand	157,945	144,343
Balances at central banks	806,387	789,814
Money market instruments	n/a	142,459
Loss allowances for cash and central bank balances	-618	n/a
Cash and central bank balances	**963,714**	**1,076,616**
Loss allowances for cash and central bank balances	618	n/a
Loans and advances to banks with a maturity up to 3 months	205,035	183,241
Investment securities with a maturity up to 3 months	226,253	n/a
Minimum reserve, which does not qualify as cash for the statement of cash flows	-384,035	-308,135
Cash and central bank balances for the statement of cash flows	**1,011,586**	**951,722**

The changes in central banks balances and the respective loss allowances are presented in the following tables. All central banks balances are classified as Stage 1.

in '000 EUR	2018
Gross outstanding amount as of 1 January	789,814
New financial assets originated	66,512
Derecognition	-31,616
Foreign exchange and other movements	-18,323
Gross outstanding amount as of 31 December	**806,387**

in '000 EUR	2018
Loss allowances as of 1 January	-1,414
New financial assets originated	-238
Release due to derecognition	1,055
Increase/Decrease in credit risk	27
Foreign exchange and other movements	-48
Loss allowances as of 31 December	**-618**

(19) Loans and advances to banks

in '000 EUR	31.12.2018	31.12.2017
up to three months	205,035	183,241
up to one year	4,366	10,520
more than one year	2,191	2,482
Loans and advances to banks	**211,592**	**196,243**

The changes in loans and advances to banks and the respective loss allowances are presented in the following tables. All loans and advances to banks are classified as Stage 1.

in '000 EUR	2018
Gross outstanding amount as of 1 January	196,243
New financial assets originated	96,376
Derecognition	-87,740
Foreign exchange and other movements	6,904
Reclassification to discontinued operations	-21
Gross outstanding amount as of 31 December	**211,763**

in '000 EUR	2018
Loss allowances as of 1 January	-691
New financial assets originated	-98
Release due to derecognition	554
Increase/Decrease in credit risk	66
Foreign exchange and other movements	-2
Reclassification to discontinued operations	0
Loss allowances as of 31 December	**-170**

(20) Derivative financial assets and liabilities

in '000 EUR **As of 31 December 2018**	**Contractual amount**	**Fair value**	
		Assets	**Liabilities**
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	142,834	1,306	908
Forwards	1,000	1	0
b) Interest rate derivatives			
Interest rate swaps	9,876	0	90
Total derivatives with third parties	**153,710**	**1,307**	**998**

in '000 EUR **As of 31 December 2017**	**Contractual amount**	**Fair value**	
		Assets	**Liabilities**
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	114,442	1,017	48
Forwards	8,031	5	8
b) Interest rate derivatives			
Interest rate swaps	16,613	53	118
Total derivatives with third parties	**139,085**	**1,074**	**174**

(21) Investment securities

in '000 EUR	31.12.2018	31.12.2017
Fixed interest rate securities	230,818	151,632
Variable interest rate securities	53,965	59,477
Equity instruments	n/a	3,592
Money market instruments	12,525	n/a
Investment securities (2017: Available-for-sale financial assets)	**297,308**	**214,701**

The changes in investment securities and the respective loss allowances are presented in the following tables. All investment securities are classified as Stage 1.

in '000 EUR	2018
Gross outstanding amount as of 1 January	353,568
New financial assets originated	168,660
Derecognition	-229,903
Foreign exchange and other movements	4,982
Gross outstanding amount as of 31 December	**297,308**

in '000 EUR	2018
Loss allowances as of 1 January	-2,407
New financial assets originated	-502
Release due to derecognition	2,427
Increase/Decrease in credit risk	6
Foreign exchange and other movements	0
Loss allowances as of 31 December	**-476**

The revaluation reserve (for ProCredit shareholders) developed as follows during the financial year:

in '000 EUR	2018	2017
Revaluation reserve as of 1 January	935	20
Change on initial application of IFRS 9	2,407	n/a
Changes in fair value	321	1,146
Amount recognised in income statement	0	-33
Change in loss allowance	-1,932	n/a
Impairment	0	0
Deferred taxes	-41	-199
Revaluation reserve as of 31 December	**1,691**	**935**

(22) Loans and advances to customers

in '000 EUR **As of 31 December 2018**	Gross amount	Allowance for impairment	Net amount	Share of total portfolio
Business loans	**4,047,332**	**-112,592**	**3,934,740**	**92.2%**
Wholesale and retail trade	**1,194,094**	**-37,107**	**1,156,987**	**27.1%**
loan size up to EUR/USD 50,000	119,667	-8,655	111,012	2.6%
loan size EUR/USD 50,000 to 250,000	469,688	-16,558	453,129	10.6%
loan size more than EUR/USD 250,000	604,739	-11,893	592,846	13.9%
Agriculture, forestry and fishing	**875,949**	**-21,297**	**854,653**	**20.0%**
loan size up to EUR/USD 50,000	131,950	-7,583	124,368	2.9%
loan size EUR/USD 50,000 to 250,000	363,187	-7,723	355,464	8.3%
loan size more than EUR/USD 250,000	380,812	-5,991	374,821	8.8%
Production	**1,010,439**	**-22,445**	**987,993**	**23.1%**
loan size up to EUR/USD 50,000	65,234	-4,874	60,360	1.4%
loan size EUR/USD 50,000 to 250,000	317,686	-10,194	307,492	7.2%
loan size more than EUR/USD 250,000	627,519	-7,378	620,141	14.5%
Transportation and storage	**238,303**	**-6,018**	**232,284**	**5.4%**
loan size up to EUR/USD 50,000	38,680	-1,865	36,815	0.9%
loan size EUR/USD 50,000 to 250,000	109,661	-3,364	106,297	2.5%
loan size more than EUR/USD 250,000	89,962	-789	89,173	2.1%
Other economic activities	**728,547**	**-25,725**	**702,823**	**16.5%**
loan size up to EUR/USD 50,000	66,964	-4,813	62,151	1.5%
loan size EUR/USD 50,000 to 250,000	250,549	-10,473	240,076	5.6%
loan size more than EUR/USD 250,000	411,034	-10,439	400,595	9.4%
Private loans	**344,842**	**-11,752**	**333,089**	**7.8%**
Housing	**308,889**	**-9,202**	**299,686**	**7.0%**
loan size up to EUR/USD 50,000	178,050	-6,108	171,942	4.0%
loan size EUR/USD 50,000 to 250,000	123,426	-3,001	120,424	2.8%
loan size more than EUR/USD 250,000	7,413	-93	7,320	0.2%
Investment loans and OVDs	**28,636**	**-1,674**	**26,963**	**0.6%**
loan size up to EUR/USD 50,000	26,765	-1,539	25,226	0.6%
loan size EUR/USD 50,000 to 250,000	1,473	-133	1,341	0.0%
loan size more than EUR/USD 250,000	398	-3	395	0.0%
Others	**7,317**	**-876**	**6,440**	**0.2%**
loan size up to EUR/USD 50,000	6,207	-618	5,589	0.1%
loan size EUR/USD 50,000 to 250,000	1,110	-259	851	0.0%
loan size more than EUR/USD 250,000	0	0	0	0.0%
Total	**4,392,173**	**-124,344**	**4,267,829**	**100%**

in '000 EUR **As of 31 December 2017**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**
Business loans	**3,503,193**	**-115,090**	**3,388,103**	**89.6 %**
Wholesale and retail trade	**1,069,659**	**-42,581**	**1,027,078**	**27.2 %**
loan size up to EUR/USD 50,000	150,931	-10,867	140,064	3.7 %
loan size EUR/USD 50,000 to 250,000	441,990	-16,401	425,589	11.3 %
loan size more than EUR/USD 250,000	476,738	-15,313	461,425	12.2 %
Agriculture, forestry and fishing	**788,186**	**-21,714**	**766,472**	**20.3 %**
loan size up to EUR/USD 50,000	175,508	-8,989	166,519	4.4 %
loan size EUR/USD 50,000 to 250,000	318,003	-7,343	310,660	8.2 %
loan size more than EUR/USD 250,000	294,675	-5,381	289,293	7.7 %
Production	**800,497**	**-21,440**	**779,056**	**20.6 %**
loan size up to EUR/USD 50,000	76,389	-5,377	71,012	1.9 %
loan size EUR/USD 50,000 to 250,000	266,850	-7,866	258,984	6.8 %
loan size more than EUR/USD 250,000	457,257	-8,197	449,060	11.9 %
Transportation and storage	**220,711**	**-5,781**	**214,930**	**5.7 %**
loan size up to EUR/USD 50,000	51,821	-2,687	49,134	1.3 %
loan size EUR/USD 50,000 to 250,000	103,358	-2,464	100,894	2.7 %
loan size more than EUR/USD 250,000	65,532	-630	64,902	1,7 %
Other economic activities	**624,140**	**-23,575**	**600,565**	**15.9 %**
loan size up to EUR/USD 50,000	85,779	-5,953	79,826	2.1 %
loan size EUR/USD 50,000 to 250,000	230,928	-8,451	222,477	5.9 %
loan size more than EUR/USD 250,000	307,434	-9,171	298,263	7.9 %
Private loans	**406,718**	**-13,436**	**393,281**	**10.4 %**
Housing	**214,809**	**-5,657**	**209,152**	**5.5 %**
loan size up to EUR/USD 50,000	118,020	-3,606	114,414	3.0 %
loan size EUR/USD 50,000 to 250,000	91,693	-1,986	89,707	2.4 %
loan size more than EUR/USD 250,000	5,097	-65	5,031	0.1 %
Investment loans and OVDs	**124,824**	**-5,233**	**119,591**	**3.2 %**
loan size up to EUR/USD 50,000	120,481	-5,073	115,408	3.1 %
loan size EUR/USD 50,000 to 250,000	3,893	-159	3,734	0.1 %
loan size more than EUR/USD 250,000	451	-2	449	0.0 %
Others	**67,085**	**-2,546**	**64,538**	**1.7 %**
loan size up to EUR/USD 50,000	24,596	-1,317	23,279	0.6 %
loan size EUR/USD 50,000 to 250,000	21,614	-753	20,861	0.6 %
loan size more than EUR/USD 250,000	20,874	-476	20,399	0.5 %
Total	**3,909,911**	**-128,527**	**3,781,384**	**100 %**

The size categories refer to the initial loan amount.

in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as of 1 January 2018	3,612,515	113,119	185,129	1,808	**3,912,572**
New financial assets originated	1,919,565	0	0	1,053	**1,920,619**
Modification of contractual cash flows of financial assets	0	0	-750	0	**-750**
Derecognitions (including write-offs)	-859,234	-29,512	-60,365	-95	**-949,206**
Changes in interest accrual	-1,034	4	-5,939	2	**-6,968**
Changes in the principal and disbursement fee	-479,868	-23,952	-24,916	-417	**-529,153**
Transfer from Stage 1 to Stage 2	-78,404	78,404	0	0	**0**
Transfer from Stage 1 to Stage 3	-5,010	0	5,010	0	**0**
Transfer from Stage 2 to Stage 1	16,137	-16,137	0	0	**0**
Transfer from Stage 2 to Stage 3	0	-38,712	38,712	0	**0**
Transfer from Stage 3 to Stage 2	0	5,753	-5,753	0	**0**
Transfer from Stage 3 to Stage 1	1,076	0	-1,076	0	**0**
Foreign exchange and other movements	29,685	10,881	11,796	218	**52,579**
Reclassification to discontinued operations	0	0	-7,519	0	**-7,519**
Gross outstanding amount as of 31 December 2018	**4,155,427**	**99,847**	**134,329**	**2,569**	**4,392,173**

in '000 EUR	1.1.–31.12.2018
Amortised cost before modification	69,472
Net modification	-750

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1 January 2018	-34,238	-17,045	-104,513	0	**-155,795**
New financial assets originated	-18,639	0	0	-193	**-18,832**
Release due to derecognition	9,044	3,263	9,499	0	**21,807**
Transfer from Stage 1 to Stage 2	3,014	-3,014	0	0	**0**
Transfer from Stage 1 to Stage 3	58	0	-58	0	**0**
Transfer from Stage 2 to Stage 1	-3,047	3,047	0	0	**0**
Transfer from Stage 2 to Stage 3	0	3,921	-3,921	0	**0**
Transfer from Stage 3 to Stage 2	0	-2,199	2,199	0	**0**
Transfer from Stage 3 to Stage 1	-289	0	289	0	**0**
Increase in credit risk	-2,044	-4,559	-33,845	-395	**-40,843**
Decrease in credit risk	11,465	4,412	13,249	125	**29,251**
Usage of allowance	75	43	39,680	30	**39,827**
Increase due to restructuring	-3	-1,833	-5,850	0	**-7,686**
Decrease due to restructuring	0	686	1,343	0	**2,029**
Unwinding effects	0	0	2,334	0	**2,334**
Foreign exchange and other movements	-376	-176	-3,344	-60	**-3,956**
Reclassification to discontinued operations	0	0	7,519	0	**7,519**
Loss allowances as of 31 December 2018	**-34,981**	**-13,454**	**-75,417**	**-493**	**-124,344**

(23) Property, plant and equipment and investment property

in '000 EUR	Land and buildings	Business and office equipment	Investment properties	Total PPE and Investment properties
Total acquisition costs as of 1 January 2018	131,963	110,017	3,736	245,715
Additions	7,469	6,474	3,317	17,260
Disposals	-8,731	-18,628	-479	-27,838
Reclassification to discontinued operations	0	-32	0	-32
Transfers	0	0	0	0
Exchange rate adjustments	1,478	1,338	96	2,911
Total acquisition costs as of 31 December 2018	**132,178**	**99,169**	**6,670**	**238,017**
Accumulated depreciation as of 1 January 2018	-31,007	-71,733	-628	-103,368
Depreciation	-4,654	-11,673	-450	-16,777
Disposals	2,535	16,703	96	19,334
Reclassification to discontinued operations	0	17	0	17
Appreciation	0	0	8	8
Transfers	0	0	0	0
Exchange rate adjustments	-407	-975	-31	-1,412
Accumulated depreciation as of 31 December 2018	**-33,533**	**-67,661**	**-1,005**	**-102,199**
Net book value	**98,645**	**31,508**	**5,665**	**135,818**

in '000 EUR	Land and buildings*	Business and office equipment*	Investment properties	Total PPE and Investment properties
Total acquisition costs as of 1 January 2017	145,246	125,770	2,397	273,413
Additions	5,371	8,650	455	14,476
Disposals	-12,282	-21,851	-1,069	-35,202
Transfers	-2,064	0	2,064	0
Exchange rate adjustments	-4,309	-2,551	-111	-6,972
Total acquisition costs as of 31 December 2017	**131,963**	**110,017**	**3,736**	**245,715**
Accumulated depreciation as of 1 January 2017	-33,629	-80,051	-479	-114,159
Depreciation	-6,308	-12,262	-395	-18,964
Disposals	7,356	18,983	476	26,815
Appreciation	0	0	0	0
Transfers	251	0	-251	0
Exchange rate adjustments	1,323	1,596	21	2,940
Accumulated depreciation as of 31 December 2017	**-31,007**	**-71,733**	**-628**	**-103,368**
Net book value	**100,955**	**38,284**	**3,108**	**142,347**

* *Previous year figures have been adapted to the current disclosure structure.*

Property, plant and equipment and investment property are stated at historical cost less scheduled depreciation and impairment losses. Historical purchase or production costs include all expenditure directly attributable to the acquisition of the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use.

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

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

Buildings	15 – 40 years
Leasehold improvements	shorter of rental contract life or useful life
Computers	2 – 5 years
ATMs	5 – 8 years
Furniture	5 – 10 years
Motor vehicles	3 – 5 years
Other fixed assets	2 – 7 years

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

Real estate used by third parties is classified as "investment property". Rental income from investment property and gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Net other operating income" in the Consolidated Statement of Profit or Loss. Overall, during the 2018 financial year impairment totalling EUR 338 thousand was recognised (2017: EUR 0). The fair value of investment property amounts to EUR 5.7 million (2017: EUR 3.1 million).

(24) Intangible assets

Intangible assets consist predominantly of goodwill and software. A small amount is related to trademarks.

(a) Goodwill

in '000 EUR	31.12.2018	31.12.2017
Goodwill		
Eastern Europe	1,962	1,913
South Eastern Europe	6,930	6,934
South America	1,056	1,009
Total	**9,949**	**9,856**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. In general, impairment losses in the current period are charged to "Net other operating income" in the Consolidated Statement of Profit or Loss. Changes in ownership interest without changes of control are accounted for as equity transactions with owners and do not result in changes of goodwill.

The development of goodwill is as follows:

in '000 EUR	2018	2017
Goodwill		
Net book value as of 1 January	9,856	10,294
Impairment	0	0
Exchange rate adjustments	92	-437
Net book value as of 31 December	**9,949**	**9,856**

The largest share of goodwill is concentrated in the segment South Eastern Europe, in particular ProCredit Bank Romania (EUR 3.6 million). When testing goodwill impairment for ProCredit Bank Romania, the following key assumptions were applied to determine value in use: A five-year management planning period and related assumptions were extrapolated based on an equity growth rate of 13.0% and a terminal growth rate of 2.0%. The estimated future cash flows are discounted by 8.3%.

(b) Software

	Internally generated software		Acquired externally software	
in '000 EUR	2018	2017	2018	2017
Software				
Total acquisition costs as of 1 January	13,572	12,003	35,097	36,153
Additions	1,755	1,569	2,939	2,638
Disposals	0	0	-743	-3,127
Reclassification to discontinued operations	0	0	0	0
Exchange rate adjustments	0	0	141	-568
Total acquisition costs as of 31 December	**15,327**	**13,572**	**37,433**	**35,097**
Accumulated depreciation as of 1 January	-9,005	-8,154	-28,368	-28,850
Depreciation	-774	-852	-2,844	-2,832
Disposals	0	0	558	2,822
Reclassification to discontinued operations	0	0	0	0
Exchange rate adjustments	0	0	-86	492
Accumulated amortisation as of 31 December	**-9,780**	**-9,005**	**-30,740**	**-28,368**
Net book value	**5,547**	**4,566**	**6,693**	**6,729**

Acquired and developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. Software is amortised on a straight-line basis over an expected useful lifetime of between five and ten years. In addition, it is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses.

(25) Leasing

(a) ProCredit is the lessee

Operating leases

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

in '000 EUR	31.12.2018	31.12.2017
Operating lease commitments		
no later than one year	5,039	6,130
later than one year and no later than five years	12,706	15,020
later than five years	8,953	7,426
Total	**26,698**	**28,577**

Operating lease commitments result primarily from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements. The total amount of expenses recognised in connection with such leases in 2018 is EUR 8,738 thousand (2017: EUR 12,866 thousand).

(b) ProCredit is the lessor

Finance leases

When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "Loans and advances to customers". Payments received under leases are divided into an amortisation component and an income component. The income component is recognised under "Interest and similar income". Premiums received are recognised over the term of the lease using the effective interest rate method under "Interest and similar income".

Finance lease receivables

	31.12.2018			31.12.2017		
in '000 EUR	Gross investment	Unearned finance income	Net investment	Gross investment	Unearned finance income	Net investment
Finance lease receivables						
no later than one year	141	31	110	57	0	57
later than one year and no later than five years	249	21	227	16	0	16
later than five years	560	0	560	636	0	636
Total	**950**	**52**	**898**	**709**	**0**	**709**

in '000 EUR	31.12.2018	31.12.2017
Allowance for uncollectible leasing receivables	-13	-17
Total	**-13**	**-17**

The finance lease receivables stem from the leasing company in Serbia, which is mainly engaged in the leasing of equipment to small and medium enterprises. The leasing company is a wholly owned subsidiary of ProCredit Bank Serbia.

Operating leases

Some real estate properties are rented out and are classified as investment properties. Leasing income is recognised in the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term.

in '000 EUR	31.12.2018	31.12.2017
Future minimum lease income		
no later than one year	196	149
later than one year and no later than five years	1,013	130
later than five years	0	0
Total	**1,209**	**279**

(26) Income taxes

The two tables below provide information on the underlying business transactions for deferred income tax assets and liabilities:

in '000 EUR	31.12.2018	31.12.2017
Tax depreciation	164	262
Loss allowance	-11	942
Tax loss carried forward	246	2,754
Provisions	855	660
Other temporary differences	150	128
Deferred tax assets	**1,405**	**4,745**

in '000 EUR	31.12.2018	31.12.2017
Tax depreciation	48	157
Loss allowance	250	1,475
Provisions	-112	-643
Other temporary differences	95	50
Deferred tax liabilities	**282**	**1,040**

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using local tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax planning period is five years.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets on loss carry-forwards cannot be utilised until one year later.

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

Income tax assets and liabilities of the companies are recognised net if they relate to the same tax authority.

Changes in net deferred income taxes and the underlying business transactions are as follows:

in '000 EUR	2018	2017
As of 1 January	3,704	4,515
IFRS 9 adjustment as at 1 January	967	n/a
Investment securities (2017: Available-for-sale financial assets):		
fair value remeasurement	-41	-196
transfer to net profit	0	-4
Charges to income statement	-3,894	-241
Exchange rate adjustments	387	-370
As of 31 December	**1,123**	**3,704**

The two following tables show the transactions to which the profit and loss from deferred taxes is related:

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Tax depreciation	69	104
Loss allowance	1,001	200
Tax loss carried forward	3,038	1,274
Provisions	3	-208
Other temporary differences	345	480
Deferred tax expenses	**4,456**	**1,851**

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Tax depreciation	-134	-524
Loss allowance	-149	-641
Provisions	-42	-313
Other temporary differences	-236	-132
Deferred tax income	**–561**	**–1,610**

The transition of taxes between the Consolidated Financial Statements according to IFRS and the local tax statements is shown in the following table:

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Profit before tax	76,601	61,204
Tax expected	14,057	10,510
Tax effects of items which are not deductable:		
non-taxable income	-18,539	-16,971
non-tax deductable expenses	5,630	6,072
no tax asset built on tax loss carry forwards	7,095	7,177
tax effect on consolidation	9,314	7,775
Income tax expenses	**17,558**	**14,563**
Changes in deferred tax assets	-4,412	-1,230
Changes in deferred tax liabilities	480	781
Changes in comprehensive income	38	208
Current income tax expenses	**13,663**	**14,322**

Unused loss carry-forwards contain an amount of EUR 4.6 million for ProCredit Holding. ProCredit Holding does not establish deferred tax assets for losses carried forward, as it will not be possible to make use of these assets within the tax planning period.

(27) Other assets

in '000 EUR	31.12.2018	31.12.2017
Repossessed properties	18,032	25,834
Accounts receivable (up to one year)	15,575	11,713
Prepayments	12,000	11,149
Shares	5,510	n/a
Others	9,104	8,878
Loss allowance for account receivables	-691	n/a
Other assets	**59,529**	**57,574**

At year-end 2018, this position comprised financial instruments totalling EUR 40.6 million (2017: EUR 39.4 million), mostly in the form of short-term loans and advances (including loss allowances) and shares.

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for the respective assets. All subsequent impairment losses and reversals of impairment up to the original amount are recognised in the Consolidated Statement of Profit or Loss in "Net other operating income". Repossessed property is subdivided into segments as follows:

in '000 EUR	31.12.2018	31.12.2017
Eastern Europe	1,313	1,761
South Eastern Europe	15,034	18,708
South America	1,685	5,364
Repossessed properties	**18,032**	**25,834**

The changes in other financial instruments and the respective loss allowances are presented in the following tables. The simplified approach is used when establishing loss allowances.

in '000 EUR	2018
Gross outstanding amount as of 1 January	40,188
New financial assets originated	10,214
Derecognition	-10,206
Foreign exchange and other movements	-4,272
Reclassification to discontinued operations	-174
Gross outstanding amount as of 31 December	**35,749**

in '000 EUR	2018
Loss allowances as of 1 January	-1,169
New financial assets originated	-391
Release due to derecognition	579
Increase/Decrease in credit risk	-433
Foreign exchange and other movements	721
Reclassification to discontinued operations	1
Loss allowances as of 31 December	**-691**

(28) Liabilities to banks

in '000 EUR	31.12.2018	31.12.2017
up to three months	57,504	97,755
up to one year	52,829	78,538
more than one year	90,480	183,185
Liabilities to banks	**200,813**	**359,477**

(29) Liabilities to customers

in '000 EUR	31.12.2018	31.12.2017
Current accounts	1,567,399	1,649,620
private individuals	*564,026*	*677,736*
legal entities	*1,003,373*	*971,884*
Savings accounts	880,380	702,836
private individuals	*533,785*	*498,854*
legal entities	*346,595*	*203,983*
Term deposit accounts	1,378,159	1,218,477
private individuals	*794,268*	*763,674*
legal entities	*583,891*	*454,802*
Liabilities to customers	**3,825,938**	**3,570,932**

(30) Liabilities to international financial institutions

in '000 EUR	due in 2019	in 2020	in 2021	in 2022	after 2022	noncash-relevant	31.12.2018
Liabilities with fixed interest rates	114,720	82,387	86,920	66,335	106,964	-2,777	454,549
Liabilities with variable interest rates	74,825	62,204	67,902	67,133	87,467	-968	358,564
Liability from effective put option	256	0	0	0	0	0	256
Liabilities to international financial institutions	**189,802**	**144,591**	**154,823**	**133,468**	**194,431**	**-3,745**	**813,369**

in '000 EUR	due in 2018	in 2019	in 2020	in 2021	after 2021	noncash-relevant	31.12.2017
Liabilities with fixed interest rates	117,892	47,160	47,967	38,614	48,870	-953	299,550
Liabilities with variable interest rates	78,784	60,524	42,270	27,765	36,840	-93	246,090
Liabilities from effective put options	3,958	0	0	0	0	0	3,958
Liabilities to international financial institutions	**200,634**	**107,684**	**90,237**	**66,379**	**85,710**	**-1,045**	**549,598**

(31) Debt securities

in '000 EUR	due in 2019	in 2020	in 2021	in 2022	after 2022	noncash-relevant	31.12.2018
Debt securities with fixed interest rates	6,314	0	11,000	10,000	50,000	-2,036	75,278
Debt securities with variable interest rates	80,185	51,000	0	0	0	-251	130,934
Debt securities	**86,498**	**51,000**	**11,000**	**10,000**	**50,000**	**-2,287**	**206,212**

in '000 EUR	due in 2018	in 2019	in 2020	in 2021	after 2021	noncash-relevant	31.12.2017
Debt securities with fixed interest rates	85,691	0	0	0	60,000	-2,244	143,448
Debt securities with variable interest rates	91	0	40,000	0	0	-394	39,697
Debt securities	**85,783**	**0**	**40,000**	**0**	**60,000**	**-2,638**	**183,145**

In 2018, debt securities totalling EUR 109 million were repaid and new securities totalling EUR 132 million were issued.

(32) Other liabilities

in '000 EUR	31.12.2018	31.12.2017
Deferred income	3,065	4,481
Liabilities for goods and services	6,960	8,214
Non-income tax liabilities	2,434	2,595
Others*	5,988	4,705
Other liabilities	**18,448**	**19,996**

* *Previous year figures have been adapted to the current disclosure structure.*

(33) Provisions

Provisions are established when the group has a present legal or constructive obligation resulting from past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliable estimated.

The development of provisions is as follows:

in '000 EUR	As of 1 January 2018	IFRS 9 Adjustments	Additions	Releases	Used	Exchange rate adjustments	Unwinding	As of 31 December 2018
Provisions for								
Post-employment benefits	1,456	0	241	-157	-2	65	0	1,602
Imminent losses from off-balance sheet items	1,133	1,312	627	-1,008	0	51	-1	2,114
Imminent losses from pending transactions	2,303	0	231	-306	-628	11	0	1,611
Untaken vacation	1,992	0	1,837	-125	-1,615	29	0	2,117
Unbilled services	5,435	0	2,210	-1,146	-4,192	67	0	2,373
Other provisions	1,658	-34	506	-1,130	-283	-1	0	717
Provisions	**13,976**	**1,278**	**5,652**	**-3,872**	**-6,721**	**222**	**-1**	**10,534**

in '000 EUR	As of 1 January 2017	Additions	Releases	Used	Exchange rate adjustments	Unwinding	Sale of subsidiaries	As of 31 December 2017
Provisions for								
Post-employment benefits	2,289	117	-728	-23	-199	0	0	1,456
Imminent losses from off-balance sheet items	1,258	486	-604	-1	-2	-4	0	1,133
Imminent losses from pending transactions	1,954	1,158	-156	-672	19	0	0	2,303
Untaken vacation	2,275	1,670	-43	-1,819	-91	0	-1	1,992
Unbilled services	6,167	2,664	-389	-2,597	-411	0	0	5,435
Other provisions	1,832	1,302	-645	-739	-11	-20	-61	1,658
Provisions	**15,775**	**7,397**	**-2,566**	**-5,851**	**-694**	**-24**	**-62**	**13,976**

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

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be not earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense. For the provisions for imminent losses from off-balance sheet items and for untaken vacation, the outflow of economic benefits is expected during the next one or two years.

Provisions for imminent losses from pending transactions are mainly composed of provisions established for legal cases with former employees. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The majority of the legal cases are expected to be settled within a one-year period and the maximum expected settlement time is three years. For the settlements expected to be made after one year, an average interest rate of 5.4% (2017: 3.8%) was used for discounting expected cash flows.

(34) Subordinated debt

in '000 EUR	due in 2019	in 2020	in 2021	in 2022	after 2022	noncash-relevant	31.12.2018
Subordinated debt with fixed interest rates	1,618	0	0	0	38,000	-1,431	38,187
Subordinated debt with variable interest rates	13,905	0	0	0	91,048	0	104,953
Subordinated Debt	**15,523**	**0**	**0**	**0**	**129,048**	**-1,431**	**143,140**

in '000 EUR	due in 2018	in 2019	in 2020	in 2021	after 2021	noncash-relevant	31.12.2017
Subordinated debt with fixed interest rates	1,656	12,507	0	0	38,000	-1,664	50,500
Subordinated debt with variable interest rates	1,099	0	0	0	89,190	0	90,288
Subordinated Debt	**2,755**	**12,507**	**0**	**0**	**127,190**	**-1,664**	**140,788**

The change in subordinated debt is as follows:

		Cashflow		Non-cash changes		
in '000 EUR	31.12.2017	Cash out	Cash in	Deferred fees and accrued interest	Foreign exchange movement	31.12.2018
Subordinated debt	140,788	-8,524	0	8,414	2,462	143,140
Total	**140,788**	**-8,524**	**0**	**8,414**	**2,462**	**143,140**

(35) Equity

a) Subscribed capital

	Subscribed capital		Number of ordinary shares	
	2018	2017	2018	2017
As of 1 January	267,720,420	267,720,420	53,544,084	53,544,084
Capital increase	26,772,040	-	5,354,408	-
As of 31 December	**294,492,460**	**267,720,420**	**58,898,492**	**53,544,084**

In 2018 ProCredit Holding carried out a capital increase. After the capital increase, the share capital amounts to EUR 294.5 million and is divided into 58,898,492 non-par value shares. In connection with the capital increase, related expenditures in an amount of EUR 2.7 million were allocated to the capital reserve.

All issued shares are non-par value shares and fully paid. The holders of ordinary shares are entitled to receive dividends (as declared) and are entitled to one vote per share. At the Annual General Meeting, the Management intends to propose the distribution of dividends totalling of EUR 17.7 million (2017: EUR 15.9 million). This corresponds to EUR 0.30 per share. A dividend of EUR 0.27 per share was distributed to shareholders for 2017.

The Management is authorised, with the consent of the Supervisory Board, to increase the share capital by issuing 5,889,849 new registered value shares for cash and noncash consideration by a total amount of up to EUR 29.4 million which may be issued in whole or in part until 22 May 2023.

b) Capital reserve
Premiums from the issue of shares are shown in the capital reserve. The costs for issuing new shares are offset against capital reserves.

c) Retained earnings
The retained earnings mainly result from profit carried forward from previous years, less dividends distributed. The retained earnings also include the legal reserves.

d) Translation reserve
The translation reserve includes exchange rate gains and losses arising from capital consolidation and is based on exchange rate differences from the currency translation of the financial statements of consolidated subsidiaries.

e) Revaluation reserve
The results from the measurement of investment securities and shares, after taking deferred taxes into account, as well as risk provisioning for investment securities, are recognised in the revaluation reserve.

D. Additional Notes

(36) Segment reporting

in '000 EUR **31 December 2018**	**Total assets excl. taxes**	**Total liabilities excl. taxes**	**Contingent liabilities and commitments**
Germany	1,976,594	1,259,007	17,710
Eastern Europe	1,340,017	1,155,840	101,991
South Eastern Europe	4,121,240	3,642,210	521,592
South America	330,660	272,062	8,542
Discontinued Operations*	1,145	331	0
Consolidation	-1,809,222	-1,109,666	0
Total	**5,960,435**	**5,219,784**	**649,835**

* *ARDEC Mexico is shown as discontinued operations.*

in '000 EUR **31 December 2017**	**Total assets excl. taxes**	**Total liabilities excl. taxes**	**Contingent liabilities and commitments**
Germany	1,854,138	1,214,728	27,921
Eastern Europe	1,107,396	958,765	84,795
South Eastern Europe	3,763,086	3,292,169	519,869
South America	364,510	307,134	8,278
Consolidation	-1,598,038	-934,710	0
Total	**5,491,092**	**4,838,087**	**640,862**

The group aggregates its operations into reporting segments according to geographical regions. Each of these segments exhibits individual risk and return characteristics, as described in the management report. In general, business activities in all countries of operations are carried out with local customers, so that the respective items are allocated to the country in which the subsidiary is based. The operating income of the parent company is derived mainly from within the group. With the exception of the relationship between the German segment and the subsidiaries, there are no significant income or expense items arising from business dealings between segments. All income and expense items between the segments are disclosed separately in the following table. These are primarily interest income and expenses derived from loans extended by the parent company to the subsidiaries. The interest rates are related to the actual market rates according to the risk assessment of the individual country. Additionally, inter-segment transactions include the provision of centralised services by ProCredit Holding, IT services, staff training and dividends transferred from the subsidiaries to ProCredit Holding.

in '000 EUR **1.1.–31.12.2018**	Germany	Eastern Europe	South Eastern Europe	South America	Consolidation	Group
Interest income	20,593	107,871	140,958	28,121	-19,163	278,381
Interest expenses	20,547	51,588	25,522	10,527	-19,614	88,569
Net interest income	**46**	**56,283**	**115,436**	**17,595**	**452**	**189,812**
Loss allowance	-21	-1,752	-495	-1,652	0	-3,920
Net interest income after allowances	**67**	**58,035**	**115,931**	**19,247**	**452**	**193,732**
Fee and commission income	11,641	13,695	51,404	1,528	-10,227	68,041
Fee and commission expenses	1,918	4,367	15,312	1,587	-7,328	15,857
Net fee and commission income	**9,722**	**9,328**	**36,092**	**-59**	**-2,900**	**52,184**
Result from foreign exchange transactions	-2,660	4,632	7,418	55	-67	9,378
Result from derivative financial instruments	94	5	-144	0	0	-44
Result from investment securities	0	0	0	0	0	0
Result on derecognition of financial assets measured at amortised cost	-388	250	68	0	0	-70
Net other operating income	83,903	-1,548	-8,297	1,399	-82,630	-7,173
Operating income	**90,738**	**70,704**	**151,068**	**20,641**	**-85,144**	**248,006**
Personnel expenses	23,851	10,834	37,600	7,486	0	79,770
Administrative expenses	29,217	19,675	63,639	13,757	-34,652	91,636
Operating expenses	**53,067**	**30,509**	**101,239**	**21,242**	**-34,652**	**171,406**
Profit before tax	**37,670**	**40,195**	**49,829**	**-601**	**-50,492**	**76,601**
Income tax expenses	182	6,979	7,755	2,642		17,558
Profit of the period from continuing operations	**37,488**	**33,217**	**42,074**	**-3,243**	**-50,492**	**59,043**
Profit of the period from discontinued operations*						-4,564
Profit of the period	**37,488**	**33,217**	**42,074**	**-3,243**	**-50,492**	**54,479**
Profit attributable to ProCredit shareholders						*52,785*
Profit attributable to non-controlling interests						*1,693*

* *ARDEC Mexico is shown as discontinued operations.*

in '000 EUR **1.1.–31.12.2017**	Germany	Eastern Europe	South Eastern Europe	South America	Consolidation	Group
Interest income	18,512	99,761	152,630	32,159	-15,248	287,814
Interest expenses	20,877	43,823	21,561	11,833	-14,944	83,150
Net interest income	**-2,365**	**55,938**	**131,069**	**20,326**	**-304**	**204,664**
Loss allowance	7	5,974	229	-1,391	0	4,819
Net interest income after allowances	**-2,372**	**49,964**	**130,840**	**21,717**	**-304**	**199,845**
Fee and commission income	10,484	12,818	46,235	1,567	-10,055	61,048
Fee and commission expenses	1,935	3,989	14,918	1,710	-7,338	15,214
Net fee and commission income	**8,549**	**8,829**	**31,317**	**-143**	**-2,717**	**45,834**
Result from foreign exchange transactions	-1,420	5,051	7,161	59	-48	10,805
Result from financial instruments at fair value through profit or loss	-919	-374	630	-7	-1	-670
Result from available-for-sale financial assets	-33	6	120	8	0	101
Result on derecognition of financial assets measured at amortised cost	n/a	n/a	n/a	n/a	n/a	n/a
Net other operating income	89,262	-1,513	-10,560	1,176	-85,865	-7,500
Operating income	**93,067**	**61,963**	**159,509**	**22,811**	**-88,935**	**248,414**
Personnel expenses	23,705	10,853	40,805	9,159	0	84,522
Administrative expenses	30,941	20,761	66,514	15,184	-31,657	101,743
Operating expenses	**54,646**	**31,614**	**107,319**	**24,343**	**-31,657**	**186,265**
Profit before tax	**38,421**	**30,350**	**52,189**	**-1,532**	**-57,278**	**62,150**
Income tax expenses	1,363	4,335	6,761	2,104		14,563
Profit of the period from continuing operations	**37,058**	**26,014**	**45,428**	**-3,636**	**-57,278**	**47,586**
Profit of the period from discontinued operations*						516
Profit of the period	**37,058**	**26,014**	**45,428**	**-3,636**	**-57,278**	**48,102**
Profit attributable to ProCredit shareholders						*46,282*
Profit attributable to non-controlling interests						*1,820*

* *ARDEC Mexico, Banco ProCredit El Salvador and Banco ProCredit Nicaragua are shown as discontinued operations.*

(37) Earnings per share

in '000 EUR	Continuing Operations		Discontinued Operations		Total	
	2018	2017	2018	2017	2018	2017
Profit of the period	59,043	47,586	-4,564	516	54,479	48,102
Profit attributable to ProCredit shareholders	57,349	45,785	-4,564	497	52,785	46,282
Profit attributable to non-controlling interests	1,693	1,801	0	19	1,693	1,820
Weighted average number of ordinary shares	58,452,291	53,544,084	58,452,291	53,544,084	58,452,291	53,544,084
Earnings per share* (in EUR)	**0.98**	**0.86**	**-0.08**	**0.01**	**0.90**	**0.86**

* *Basic earnings per share were identical to diluted earnings per share*

(38) Fair value of financial instruments

in '000 EUR **31.12.2018**	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash	FV	157,945	157,945	157,945	0	0
Central bank balances	AC	805,769	805,769	0	805,769	0
Loans and advances to banks	AC	211,592	211,592	0	211,592	0
Investment securities	FVOCI	297,308	297,308	99,814	197,494	0
Loans and advances to customers	AC	4,267,829	4,247,103	0	0	4,247,103
Derivative financial assets	FV	1,307	1,307	0	1,307	0
Other assets (Shares)	FVOCI	5,510	5,510	1,906	1,498	2,105
Other assets (Other financial instruments)	AC	35,058	35,058	0	33,928	1,130
Total		**5,782,319**	**5,761,593**	**259,666**	**1,251,588**	**4,250,339**
Financial liabilities						
Liabilities to banks	AC	200,813	199,866	0	75,913	123,953
Liabilities to customers	AC	3,825,938	3,832,015	0	2,612,497	1,219,518
Liabilities to international financial institutions	AC	813,369	799,527	0	15,969	783,558
Derivative financial liabilities	FV	998	998	0	998	0
Debt securities	AC	206,212	220,128	0	0	220,128
Subordinated debt	AC	143,140	147,393	0	0	147,393
Total		**5,190,470**	**5,199,928**	**0**	**2,705,377**	**2,494,551**

Categories: FV - at Fair Value; AC - Amortised cost, FVOCI - at Fair Value through other comprehensive income

in '000 EUR **31.12.2017**	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Loans and advances to banks	LaR	196,243	196,243	0	196,243	0
Financial assets at fair value through profit or loss	AFV	1,074	1,074	0	1,074	0
Available-for-sale financial assets	AfS	214,701	214,701	122,145	90,675	1,881
Loans and advances to customers	LaR	3,781,384	3,809,552	0	0	3,809,552
Total		**4,193,402**	**4,221,570**	**122,145**	**287,992**	**3,811,434**
Financial liabilities						
Liabilities to banks	AC	359,477	368,636	0	79,572	289,064
Financial liabilities at fair value through profit or loss	AFV	174	174	0	174	0
Liabilities to customers	AC	3,570,932	3,574,781	0	2,437,157	1,137,623
Liabilities to international financial institutions	AC	549,598	524,432	0	8,089	516,343
Debt securities	AC	183,145	197,382	8,737	0	188,645
Subordinated debt	AC	140,788	133,225	0	0	133,225
Total		**4,804,115**	**4,798,629**	**8,737**	**2,524,992**	**2,264,900**

Categories: AFV - At Fair value; LaR - Loans and Receivables; AfS - Available-for-sale; AC - Amortised cost

The ProCredit group's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical financial assets or liabilities and the lowest priority to unobservable inputs. The fair value determination is carried out as described in note (6). For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value. The ProCredit group has no fair value financial instruments with Level 3 inputs, with the exception of an insignificant amount of shares.

(39) Pledged and transferred assets

	31.12.2018		**31.12.2017**	
in '000 EUR	**Pledged assets that can be repledged or sold**	**related liability**	**Pledged assets that can be repledged or sold**	**related liability**
Loans and advances to banks	1,123	221	2,336	65
Investment securities (2017: Available-for-sale financial assets)	0	0	18,902	21,155
Loans and advances to customers	15,607	21,067	37,624	49,453
Other assets	259	0	0	0
Total	**16,988**	**21,288**	**58,862**	**70,674**

The ProCredit group has pledged a number of assets for its funding, the majority of which on a portfolio basis. The pledges could be exercised in case of default of principal or interest payment. The maturities of the pledges are in line with the related liabilities.

(40) Contingent liabilities and commitments

in '000 EUR	**31.12.2018**	**31.12.2017**
Credit commitments (revocable)	449,028	429,330
Guarantees	180,516	183,487
Credit commitments (irrevocable)	14,605	18,862
Letters of credit	5,686	9,183
Total	**649,835**	**640,862**

The above table discloses the contractually agreed maximum amounts of contingent liabilities, without consideration of collateral. The group expects that a significant portion will expire without being drawn upon.

(41) Subsidiaries

The following subsidiaries are included in the scope of consolidation:

#	Name of institution	Company purpose	Principal place of business	Turnover in '000 EUR	Profit before tax in '000 EUR	Income tax expenses in '000 EUR	Staff No. 31.12.2018	Proportion of ownership interest	
								31.12.2018	31.12.2017
	EU member states								
1	ProCredit Bank (Bulgaria) E.A.D.	Credit institution with banking licence	Bulgaria	42,762	21,704	2,222	344	100.0	100.0
2	ProCredit Bank AG	Credit institution with banking licence	Germany	9,328	1,236	0	47	100.0	100.0
3	ProCredit Academy GmbH*	Training academy	Germany	3,523	0	0	30	100.0	100.0
4	Quipu GmbH	IT consulting and software company	Germany	25,351	1,017	69	341	100.0	100.0
5	PC Finance II B.V.	Special purpose vehicle	The Nether-lands	-258	0	0	0	n/a	n/a
6	ProCredit Bank S.A.	Credit institution with banking licence	Romania	12,778	-526	758	178	100.0	100.0
	Non-EU member states								
7	ProCredit Bank Sh.a	Credit institution with banking licence	Albania	5,545	-5,223	472	139	100.0	100.0
8	ProCredit Bank d.d.	Credit institution with banking licence	Bosnia and Herzegovina	7,664	239	219	135	100.0	100.0
9	Banco ProCredit Colombia S.A.	Credit institution with banking licence	Colombia	2,798	-2,032	1,650	81	96.7	95.0
10	Banco ProCredit S.A.	Credit institution with banking licence	Ecuador	16,005	212	719	231	100.0	100.0
11	Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit	Special purpose vehicle	Ecuador	186	1,219	272	0	n/a	n/a
12	JSC ProCredit Bank	Credit institution with banking licence	Georgia	22,086	10,379	1,558	254	100.0	100.0
13	ProCredit Bank Sh.a	Credit institution with banking licence	Kosovo	38,204	19,402	1,965	264	100.0	100.0
14	ProCredit Bank A.D.	Credit institution with banking licence	Macedonia	13,963	4,911	499	149	100.0	100.0
15	ProCredit Regional Academy* Eastern Europe"	Training academy	Macedonia	303	-79	0	4	100.0	100.0
16	Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R	Special purpose vehicle	Mexico	-933	-5,171	0	0	100.0	100.0
17	BC ProCredit Bank	Credit institution with banking licence	Moldova	8,349	4,264	534	98	100.0	82.1
18	ProCredit Bank a.d. Beograd	Credit institution with banking licence	Serbia	27,910	9,421	1,618	323	100.0	100.0
19	JSC ProCredit Bank	Credit institution with banking licence	Ukraine	38,517	25,552	4,886	263	91.8	89.3

* *not considered in the regulatory scope of consolidation*

Turnover is defined as operating income before loss allowances and administrative expenses. The amounts shown are reported for each country without eliminating transactions between group companies, i.e. based on the respective annual financial statements for each subsidiary.

The non-material subsidiaries ProCredit Reporting DOOEL, Macedonia, and Pro Energy L.L.C., Kosovo, are not included in the scope of consolidation. The group holds 100% ownership in both companies. ProCredit Reporting DOOEL supports the reporting activities of the group and Pro Energy L.L.C. will be engaged in the production, trade and distribution of renewable energy. During the reporting period, the Ecuadorian SPV "Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit" was deconsolidated. There is no longer a need for the special purpose vehicle, through which part of the loan portfolio of ProCredit Bank Ecuador was securitised. The deconsolidation resulted in an insignificant impact on income totalling EUR 4 thousand. ProCredit Holding issued a comfort letter for ProCredit Bank Colombia in order to improve the institution's business and funding conditions. Utilisation of the letter is not expected. The group has no subsidiary with a material non-controlling interest.

In 2018, the ProCredit group received public funding totalling EUR 11 thousand (2017: EUR 238 thousand).

(a) Acquisition of shares in subsidiaries

In 2018, ProCredit Holding acquired 17.9% of the issued capital of ProCredit Bank Moldova, thus bringing its total shareholding in the bank to 100%. In carrying out this transaction, ProCredit Holding exercised a purchase option on 14.1% of the shares. The change in shareholdings is as follows:

in '000 EUR	**Moldova**
Carrying amount of non-controlling interests acquired	4,343
Consideration paid to non-controlling interests	4,229
Excess of consideration paid	**114**

In addition, ProCredit Holding carried out capital increases, raising its stake in Banco ProCredit Colombia by 1.7% and in ProCredit Bank Ukraine by 2.5%.

(b) Discontinued operations

The Mexican special purpose vehicle "Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R." (ARDEC Mexico) is classified under discontinued operations for sale and was deconsolidated in January 2019 (see note 46). The group of assets held for sale (Disposal Group) is recognised as the lower of the asset's book value and fair value less costs to sell. To determine the fair value of the Disposal Group, the currently negotiated sale prices are used. The net results on disposal are recognised as profit of the period from discontinued operations. The assets, liabilities, and profit of the period of the discontinued operations are presented as follows:

in '000 EUR	**ARDEC Mexico**
Assets	1,145
Liabilities	331
Equity	814

in '000 EUR	1.1.–31.12.2018*	1.1.–31.12.2017*
Results of discontinued operations		
Income	-325	34,250
Expenses	4,208	33,665
Result on disposal (exclusive taxes)	-31	722
Profit before tax	**–4,564**	**1,307**
Income tax expenses	0	791
Profit of the period	**–4,564**	**516**
Profit attributable to ProCredit shareholders	*–4,564*	*497*
Profit attributable to non-controlling interests	*0*	*19*
Change in translation reserve	50	–4,075
Reclasified to profit or loss	*70*	*447*
Change in value not recognised in profit or loss	*-20*	*–4,522*
Other comprehensive income of the period, net of tax discontinued operations	**50**	**–4,075**
Total comprehensive income of the period	**–4,514**	**–3,559**

* *In 2018 ARDEC Mexico and in 2017 ARDEC Mexico, Banco ProCredit El Salvador, and Banco ProCredit Nicaragua are shown as discontinued operations.*

(c) Significant restrictions

The ProCredit group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the banking subsidiaries operate. These frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets. Furthermore, some subsidiaries have to limit their exposure to group companies and comply with other financial ratios.

In some countries where the ProCredit group operates, dividend payments may be subject to certain restrictions insofar as the regulatory authorities might reserve the right to approve such dividend payments.

The National Bank of Ukraine limits foreign currency transactions, with the aim of stabilising the Ukrainian currency. Among other restrictions, the purchase and transfer abroad of foreign currency for the payment of dividends to foreign investors is only permitted to a limited extent.

(d) Option agreements

ProCredit Holding signed a call option agreement on the purchase of shares of ProCredit Bank Colombia from non-controlling interests. The existing option agreement is as follows:

Option agreements	counterparty	share	starting point option period
Banco ProCredit Colombia S.A.	IDB	3.3%	effective

The option agreement results in a total liability of EUR 0.3 million as of 31 December 2018 (2017: EUR 4.0 million). This is partly offset by the reduction in the reserve for shares held by other shareholders of EUR 1.5 million (2017: EUR 3.9 million).

(42) Related-party transactions

Entities or persons are considered to be related parties if one party has the ability to directly or indirectly control or exercise significant influence over the other party in making financial or operational decisions. The group's related parties include ProCredit General Partner AG as the ultimate controlling party, subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

All transactions are performed on the same terms, including interest rates and security, as for transactions of a similar nature with third party counterparts. The expenses for ProCredit General Partner AG consist mainly of remuneration of the members of the Management Board. The liabilities largely comprise client deposits. All transactions between ProCredit Holding and its subsidiaries are eliminated on consolidation, so they are not disclosed as related-party transactions.

in '000 EUR	Management Board	Supervisory Board	Family members of key personnel	ProCredit General Partner AG	Zeitinger Invest GmbH	1.1.-31.12.2018
Income	0	0	0	0	7	7
Expenses	13	19	29	750	0	811
Net income	**-13**	**-19**	**-29**	**-750**	**7**	**-803**
						31.12.2018
Assets	0	0	0	0	0	0
Liabilities	50	357	79	0	0	486

in '000 EUR	Management Board	Supervisory Board	Family members of key personnel	IPC GmbH*	ProCredit General Partner AG	Zeitinger Invest GmbH	1.1.-31.12.2017
Income	0	0	0	41	0	7	48
Expenses	15	14	32	711	829	0	1,601
Net income	**-15**	**-14**	**-32**	**-670**	**-829**	**7**	**-1,553**
							31.12.2017
Assets	6	5	0	0	0	0	11
Liabilities	53	357	88	0	0	0	498

* *In November 2017, IPC GmbH ceased to be a related party of the ProCredit group.*

(43) Management compensation

During the reporting period, total compensation paid to the Management of ProCredit General Partner AG as the representative of the ProCredit Holding amounted to:

in '000 EUR	1.1.–31.12.2018	1.1.–31.12.2017
Short-term benefits	626	560
Post-employment benefits	37	86
Total	**663**	**646**

Each member of the Supervisory Board receives a compensation of EUR 10 thousand (2017: EUR 10 thousand).

(44) Number of employees

	2018		2017	
	Average	At year end	Average	At year end
Germany	444	440	451	463
Eastern Europe	630	615	702	645
South Eastern Europe	1,755	1,604	2,144	1,881
South America	323	312	414	339
Total	**3,152**	**2,971**	**3,711**	**3,328**

(45) Transition to IFRS 9 "Financial instruments"

The following tables present the reconciliation of financial assets, liabilities and equity according to IAS 39 with their book values according to IFRS 9.

in '000 EUR	IAS 39 carrying amount 31.12.2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 01.01.2018
Cash and cash equivalents (IAS 39)	**1,076,616**			
Reclassification to Investment securities (IFRS 9)		-142,459		
Remeasurement: ECL allowance			-1,414	
Central bank balances (IFRS 9)				**788,401**
Cash (IFRS 9)				**144,343**
Loans and advances to banks (IAS 39)	**196,243**			
Remeasurement: ECL allowance			-691	
Loans and advances to banks (IFRS 9)				**195,552**
Financial assets at fair value through profit or loss (IAS 39)	**1,074**			
Derivative financial assets (IFRS 9)				**1,074**
Available-for-sale financial assets				
Opening balance under IAS 39	**214,701**			
Reclassification to Investment securities (IFRS 9)		-211,109		
Reclassification to Other assets (IFRS 9)		-3,592		
Closing balance under IFRS 9				**n/a**
Investment securities				
Opening balance under IAS 39	**n/a**			
Reclassification from Available for sale financial assets (IAS 39)		211,109		
Reclassification from Cash and cash equivalents (IAS 39)		142,459		
Closing balance under IFRS 9				**353,568**
Loans and advances to customers (IAS 39)	**3,909,911**			
Reclassification from Allowance for losses on loans and advances (IAS 39)		-128,527		
Reclassification to Other assets (IFRS 9)		-8,716		
Remeasurement: Loans and advances to customers (POCI)			-1,616	
Remeasurement: ECL allowance (net)			-14,276	
Loans and advances to customers (net incl. LLP IFRS 9)				**3,756,776**
Allowance for losses on loans and advances				
Opening balance under IAS 39	**-128,527**			
Reclassification to Loans and advances to customers (ECL allowance)		128,527		
Closing balance under IFRS 9				**n/a**
Deferred tax assets (IAS 39)	**4,745**			
Remeasurement			768	
Deferred tax assets (IFRS 9)				**5,513**
Other assets (IAS 39)	**57,574**			
Reclassification from Available for sale (shares) (IAS 39)		3,592		
Reclassification and remeasurement from Loans and advances to customers (IAS 39)		8,716		
Reclassification from Liabilities to customers (IAS 39)		305		
Reclassification and remeasurement: ECL allowance (net)		-34	-622	
Other assets (IFRS 9)				**69,531**
Total financial assets	**5,332,337**	**271**	**-17,850**	**5,314,758**

in '000 EUR	IAS 39 carrying amount 31.12.2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 01.01.2018
Liabilities				
Liabilities to customers (IAS 39)	**3,570,932**			
Reclassification to Other assets		305		
Liabilities to customers (IFRS 9)				**3,571,237**
Provisions (IAS 39)	**13,976**			
Reclassification and remeasurement		-34	1,312	
Provisions (IFRS 9)				**15,254**
Deferred tax liabilities (IAS 39)	**1,040**			
Remeasurement			-468	
Deferred tax liabilities (IFRS 9)				**572**
Equity				
Translation reserve (IAS 39)	**-84,007**			
Translation reserve (IFRS 9)				**-84,007**
Revaluation reserve (IAS 39)	**934**			
*Remeasurement: ECL allowance**			2,218	
Revaluation reserve (IFRS 9)				**3,151**
Non-controlling interests (IAS 39)	**7,343**			
Remeasurement			-452	
Non-controlling interests (IFRS 9)				**6,891**
Total changed equity and financial liabilities	**3,510,219**	**271**	**2,609**	**3,513,099**

* *Attributable to ProCredit shareholders only*

The following table shows the transition of loss allowances:

in '000 EUR	IAS 39 loss allowance 31.12.2017	Remeasurement: ECL allowance	IFRS 9 loss allowance 01.01.2018	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach
Loss allowance for								
central banks	**n/a**	-1,414	**-1,414**	-1,414	0	0	0	0
loans to banks	**n/a**	-691	**-691**	-691	0	0	0	0
investment securities	**n/a**	-2,407	**-2,407**	-2,407	0	0	0	0
loans to customers	**-128,527**	-27,269	**-155,795**	-34,238	-17,045	-104,513	0	0
other assets (Financial Instruments)	**n/a**	-1,169	**-1,169**	0	0	0	0	-1,169
contingent liabilities	**-1,133**	-1,312	**-2,445**	-2,445	0	0	0	0

(46) Events after the reporting period

ProCredit Holding sold all shares in Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R. Morelia, Mexico. The company was deconsolidated in January 2019. The result from the sale amounts to approx. EUR 30 thousand.

Address and general information

ProCredit Holding AG & Co. KGaA is a partnership limited by shares based in Frankfurt am Main, Germany (Commercial Register Frankfurt, Section B No. 91858). The postal address of its registered office is: Rohmerplatz 33 - 37, 60486 Frankfurt am Main, Germany.

Frankfurt am Main, 22 March 2019

ProCredit Holding AG & Co. KGaA
represented by:
ProCredit General Partner AG

Management Board

Borislav Kostadinov | Sandrine Massiani | Dr Gabriel Schor

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