DISCLOSURE REPORT 2013

ProCredit Holding AG & Co. KGaA

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1 Objectives and scope

1.1 Introduction

The ProCredit financial holding group (in the following "ProCredit group" or "the group") is a banking group that is active in 21 transition economies and developing countries in Eastern Europe, Latin America and Africa, and also has a bank in Germany. As a consequence of the establishment of ProCredit Bank AG (in the following "ProCredit Bank Germany"), which began operations in Germany in September 2012, the group is now subject to supervision by BaFin (Bundesanstalt für Finananzdienstleistungsaufsicht, the German Federal Financial Supervisory Authority) and Deutsche Bundesbank (central bank of the Federal Republic of Germany). ProCredit Holding AG & Co. KGaA (in the following "ProCredit Holding") is the parent company of the group. From a regulatory point of view, as the superordinated company, it is responsible for the strategic management, capital adequacy, reporting, risk management and proper business organisation of the group pursuant to section 25a of the German Banking Act.

Note: The references in this disclosure report are based on the German Banking Act (Gesetz über das Kreditwesen – KWG), German Solvency Regulation (Solvabilitätsverordnung - SolvV) and the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten – InstitutsVergV) as applicable for disclosure on the reporting date 31 December 2013. Disclosure in accordance with Capital Requirements Regulation (CRR; Regulation (EU) No 575/2013), part 8: Disclosure by Institutions, will be carried out for the first time for the 2014 financial year.

1.2 Objectives of the disclosure report

With this report ProCredit Holding complies with the disclosure requirements for the ProCredit group as of 31 December 2013 according to section 26a KWG. These disclosure requirements are specified in SolvV, part 5, sections 319–337 and are based on the Basel II pillar 3 disclosure requirements. As a rule, disclosure is carried out in an aggregate manner at group level.

The disclosure report of the ProCredit group is compiled on the basis of completeness according to section 26a KWG and on the basis of our internal policies, regulations and procedures that are set out in writing for the fulfilment of disclosure requirements. The adequacy of these disclosure practices is reviewed on a regular basis. Information disclosed in this report on the ProCredit group is subject to materiality. In principle, information that is confidential or legally protected or whose publication would weaken the competitive position of the ProCredit group is not subject to disclosure. Non-disclosure of relevant information was not applied in this report.

In addition, information in relation to remuneration as codified in the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems is addressed in this report. The ProCredit group discloses the requirements on remuneration centrally, so that these requirements do not have to be met on the level of the individual ProCredit institutions. As the group's balance sheet total for the last three financial years was less than EUR 10 billion on average, the ProCredit group and thus each ProCredit institution is a non-significant institution within the meaning of section 1 (2) InstitutsVergV. Thus, no risk analysis has to be performed according to InstitutsVergV, and the requirements of sections 5, 6, and 8 of the InstitutsVergV can be disregarded.

This report has not been audited by the group's external auditors. However, the information disclosed is based on the audited financial statements of the individual ProCredit institutions and the audited consolidated financial statements of the ProCredit group as reported in the 2013 Annual Report.

In addition to the required information on the 2013 financial year, information on the previous year is disclosed for comparison. As a supplement to this disclosure report, information on the ProCredit group is available in the 2013 Annual Report.

1.3 Scope of consolidation

The basis for this disclosure report is the group of companies belonging to the ProCredit group consolidated for regulatory purposes. The companies consolidated for regulatory purposes only include those carrying out banking and other financial business as laid down in section 10a KWG. The aim of regulatory consolidation is to prevent multiple use of capital that in fact exists only once by subsidiary companies in the financial sectors. In contrast to the scope of consolidation for regulatory purposes, the companies consolidated under IFRS comprise all the companies controlled by the ultimate parent company.

All entities that are included either in the consolidation for regulatory purposes or in the consolidation under IFRS are listed in the following consolidation matrix.

Consolidation matrix

Company name and location	Type of consolidation for regulatory purposes	Type of consolidation for accounting purposes (IFRS)
Financial holding company		
ProCredit Holding AG & Co. KGaA, Germany	full	full
Credit institutions with a banking licence		
ProCredit Bank sh.a., Albania	full	full
ProCredit Bank CJSC, Armenia	full	full
Banco Los Andes ProCredit S.A., Bolivia	full	full
ProCredit Bank d.d., Bosnia	full	full
ProCredit Bank (Bulgaria) EAD, Bulgaria	full	full
Banco ProCredit Colombia S.A., Colombia	full	full
ProCredit Bank Congo SARL, DR Congo	full	full
Banco ProCredit S.A., Ecuador	full	full
Banco ProCredit S.A., El Salvador	full	full
ProCredit Bank JSC, Georgia	full	full
ProCredit Bank AG, Germany	full	full
Banco ProCredit Honduras S.A., Honduras	full	full
ProCredit Bank sh.a., Kosovo	full	full
ProCredit Bank A.D., Macedonia	full	full
CB ProCredit Bank S.A., Moldova	full	full
Banco ProCredit S.A., Mozambique	full	full
Banco ProCredit S.A., Nicaragua	full	full
ProCredit Bank S.A., Romania	full	full
ProCredit Bank A.D., Serbia	full	full
ProCredit Bank JSC, Ukraine	full	full

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Company name and location	Type of consolidation for regulatory purposes	Type of consolidation for accounting purposes (IFRS)
Credit institutions without a banking licence		
ProCredit Savings and Loans Company Ltd., Ghana	full	full
Pro Confianza S.A. de CV, Mexico	full	full
Financial enterprises		
ProCredit Capital Funding LLC, USA	full	full
ProCredit Capital Funding Trust, USA	full	full
Finanzdienstleistungsinstitute		
PROLEASE (BULGARIA) EAD, Bulgarien	voll	voll
ProCredit Leasing d.o.o., Serbien	voll	voll
Providers of ancillary services		
Quipu GmbH, Germany	full	full
Quipu Sh.P.K., Kosovo	full	full
ProCredit Properties EAD, Bulgaria	full	full
ProCredit Properties LLC, Georgia	full	full
s.p.r.l. des Aviateurs, DR Congo	full	full
s.p.r.l. Matadi Vangu, DR Congo	full	full
Special purpose vehicles		
Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit, Ecuador	full	full
PC Finance II B.V., The Netherlands	full	full
ProCredit Company B.V., The Netherlands	-	full
Other		
ProCredit Academy GmbH, Germany	-	full
ProCredit Regional Academy Eastern Europe, Macedonia	-	full

For the ProCredit group there are few distinctions between the scope of consolidation for regulatory purposes on the one hand and for group accounting purposes on the other hand. The ProCredit Academies in Germany and Macedonia are not included in the scope of consolidation for regulatory purposes, as they do not provide any financial services or ancillary services.

During the 2013 financial year, ProCredit Bank (Bulgaria) EAD repurchased the loan portfolio which had been securitised through the SPV ProCredit Company B.V. The SPV, which had also been consolidated for regulatory purposes due to the structure of the securitisation transaction, is in the process of dissolution and is thus no longer within the regulatory scope of consolidation.

In April 2013, Banco ProCredit S.A. in Ecuador established the securitisation SPV "Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit" in the context of a structured finance transaction ("titularización"). As with PC Finance II B.V., due to the structure of the securitisation transaction this vehicle is not only consolidated under IFRS but also for regulatory purposes. Details are disclosed in the section "Securitisations" of this report.

In Moldova, ProCredit S.A., the predecessor of ProCredit Bank S.A., was dissolved in May 2013 and is thus no longer included in scope of consolidation for accounting purposes.

In the first quarter of 2014, ProCredit Holding and Ecobank Transnational Incorporated (ETI) initiated discussions regarding the sale of ProCredit Holding's majority stake in Banco ProCredit S.A. in Mozambique. The sale was concluded in the second quarter of 2014.

In the consolidation matrix a distinction is drawn between credit institutions with a banking licence and those without a banking licence. In the following, the term "bank" is used synonymously for both types of credit institution.

Restrictions or other significant impediments to the transfer of funds or liable capital according to section 323 (1) SolvV did not exist within the group in the 2013 financial year.

The waiver rule pursuant to section 2a KWG allows subordinated companies in a financial holding group to be exempted from the requirements related to capital adequacy, large loan exposures and internal control systems at single entity level, provided that – among other conditions – both the superordinated and the subordinated company have their registered office in Germany. The ProCredit group makes no use of this waiver rule.

2 Risk management

2.1 Business model and risk strategy

The ProCredit group pursues a sustainable business strategy. By supplying financial services in a responsible manner, the group seeks to make a contribution to economic development in the countries in which it operates. We aim to be a leading bank for very small and small businesses in our markets. These companies make an important contribution to economic growth and are highly valuable for job creation.

ProCredit banks provide professional, flexible banking services for very small and small businesses, and their owners and partners, and the banks position themselves as the "house bank for small businesses". At the same time, by offering simple and easily accessible deposit facilities to our private clients, we aim to promote the development of a savings culture and thus bring greater economic stability and security to private households. The ProCredit banks do not offer any complex financial products or asset management services, but focus on transparent and simple products that small businesses and savers with low-to-medium incomes need.

We build well-structured, efficient institutions, characterised by a high degree of professionalism, transparency, communication and trust, creating a satisfying environment and fostering loyalty among our clients and our staff. By carefully recruiting and continuously training our staff, we ensure that our clients are served in an optimal and responsible way.

Many of the countries in which ProCredit banks operate are characterised by a volatile macroeconomic environment and often by weak institutions, including weak legal systems. Thanks to the diversification of our operations in four regions and the experience we have gained in operating in these markets over the last 20 years, we have extensive expertise with which to manage these risks. We work with a broad spectrum of clients, ranging from customers that have relatively low levels of financial literacy, little or no credit history, and not always reliable financial statements or adequate collateral, to more experienced SME clients. The ProCredit group has developed an approach to effectively manage the credit risk of these clients. Our thorough knowledge of the risks associated with our countries and our target clients has been the basis for drafting the policies that stipulate the requirements for risk management in the group.

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. The aim is to achieve steady results, despite volatile external conditions, by following a consistent group-wide approach to managing risks.

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

i. Focus on core business

The ProCredit institutions focus on the provision of financial services to very small, small and medium-sized businesses as well as to private individuals. Income is generated primarily through interest income on customer loans and fee income from account operations and payments. All of the banks' other operations are performed primarily in support of the core business. ProCredit institutions assume mainly credit and operational risk in the course of their day-to-day operations. Their ability to do so is based on the group's long-term experience in small business lending in developing and transition economies. At the same time, ProCredit avoids or strictly limits all other risks involved in banking operations even at the expense of foregone income opportunities.

ii. High degree of transparency, simplicity and diversification

ProCredit's focus on very small, small and medium-sized businesses entails a very high degree of diversification in both customer loans and deposits. Geographically, this diversification is across regions, countries and across urban and rural areas within countries. In terms of client groups, this diversification is across economic sectors, client groups (very small, small and medium-sized businesses, private individuals and institutions) and income groups. The diversification of the loan portfolio is an important part 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 products. 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 products and procedures result in a significant reduction of the risk profile of the group.

iii. 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 have selected our staff very carefully and invested heavily in staff training for years. Key elements of ProCredit's approach to staff management are a very thorough staff selection process, including a six-month intensive training programme for all new applicants ("Young Bankers Programme"), regular training for all existing staff, intensive training for management staff in the ProCredit academies and the application of a uniform salary system for all staff across the group based on fixed salaries and the avoidance of bonus payments to the greatest extent possible. Besides high levels of technical professionalism, the result of our intensive training efforts is an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

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

- All risks are managed by ensuring at all times an adequate level of capital and risk-bearing capacity of the group and all ProCredit institutions.

- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks at the group level and at the level of each individual bank.
- The risk management policies and standards are approved by the Management of ProCredit Holding and are updated at least annually. These policies and standards are based on the "Minimum Requirements for Risk Management" (MaRisk), and on our knowledge of the markets acquired over many years. The group risk management policies and standards are adhered to by all of the institutions.
- Regular stress tests are performed for all material risks at the group level and at the level of each individual bank; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular reporting on the risk profile, including detailed descriptions and commentary, is carried out at group level and at the level of each individual bank.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled. This also includes backtesting of the models used.
- All new or significantly changed business processes, products or instruments undergo a "New Risk Approval" (NRA) process before being used for the first time. This ensures that new risks are assessed and all necessary preparations and tests are completed prior to implementation.

The group's risk strategy and business strategy are updated annually and, after having been thoroughly discussed with the Supervisory Board, are approved by the Management of ProCredit Holding. While the business strategy defines the objectives of the group for all material business activities and regions of operation and presents measures to be taken to achieve them, the group risk strategy addresses the material risks which can be derived from the business strategy and defines the objectives and measures of risk management. The group risk strategy is broken down into strategies for the separate material risks and business activities in the group. The annually conducted risk inventory ensures that all material and non-material risks are identified and considered in the strategies, if necessary.

2.2 Organisation and risk reporting

At the group level, overall responsibility for risk management is assumed by the Management of ProCredit Holding, supported by the Group Risk Management Committee and the Group Assets and Liabilities Committee (in the following "Group ALCO"). The Group Risk Management Committee develops the group-wide framework for risk management, monitors the risk profile of the group and takes decisions on risk mitigation measures if necessary. The Group ALCO monitors particularly the liquidity reserve and liquidity management of the group and co-ordinates measures aimed at securing funding for the ProCredit banks and ProCredit Holding. In both committees the members of the Management of ProCredit Holding and the Management Board of ProCredit Bank Germany as well as the Manager Finance & Controlling of ProCredit Holding are represented. The committees meet at least monthly.

Risk management on the group level is supported by the specialised organisational units Group and PCH Risk Control, Group Credit Risk Management, Group Financial Risk Management, Group and PCH Operational Risk Management, Group AML and Fraud Prevention, and Supervision and Capital Planning. The responsibilities of these units include proposing the framework for risk management in the group as well as limits for risk positions to the Group Risk Management Committee, monitoring risk positions and compliance with limits, performing the group's capital planning and monitoring risk-bearing capacity at both bank level and group level. The risk controlling function required by MaRisk is headed by a member of the Management of ProCredit Holding. Furthermore, the Management of ProCredit Holding is advised and supported by the compliance function, ensuring the implementation of legal regulations and requirements and avoiding the risks associated with non-compliance.

The local management bears responsibility for risk management at the level of the individual banks. All ProCredit banks have established risk departments, a Risk Management Committee and an ALCO that meet at least monthly, as well as specialised committees that address individual risks. These committees regularly monitor and manage the risk profile of their respective institution. In addition, the risk departments of all banks report regularly to the different risk functions at ProCredit Holding, and the local supervisory board is informed on at least a quarterly basis on all risk-relevant developments.

At the individual bank level, risk positions are analysed regularly, intensively discussed and documented in standard reports. On the basis of these risk reports, ProCredit Holding prepares an aggregate risk report for the Group Risk Management Committee and the Audit 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 locally and on a group level. If necessary, additional topic-specific ad hoc reporting occurs. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

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 throughout the group.

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

The Group Audit Department is managed as 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 carries out the auditing procedures established by Group Audit. Once per year, internal audit departments at ProCredit banks carry out risk assessments of all of their bank's activities in order to arrive at a risk-based annual audit plan. Each internal audit department reports to an audit committee, which generally meets on a quarterly basis. In addition to providing technical guidance, the Group Audit Department monitors the quality of the audits conducted in each ProCredit bank.

3 Own funds

3.1 Capital management

At no point may either a ProCredit bank or the group as a whole incur greater risks than they are able to bear. This principle is implemented 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 local regulatory standards, a Basel II capital adequacy calculation, a Tier 1 leverage ratio and a risk-bearing capacity calculation.

The capital management of the group has the following objectives:

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

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.

Whereas the external minimum capital requirements for the ProCredit group are imposed and monitored by the German Federal Financial Supervisory Authority and by the Supervisory College pursuant to section 8a KWG, the individual ProCredit banks are subject to the requirements imposed by the local banking supervisory authorities.

Methods for the calculation of capital adequacy vary between countries, but an increasing number of jurisdictions where the ProCredit banks operate base their calculation methods on recommendations of the Basel Committee on Banking Supervision. Compliance with local supervisory requirements is monitored for each ProCredit institution on the basis of the respective local accounting rules, and all group banks have to ensure that they satisfy their respective regulatory requirements regarding capitalisation.

3.2 Structure of own funds

The ProCredit group uses the aggregation method as defined in section 10a (6) KWG for calculating its regulatory capital. Own funds according to the German Banking Act is composed of core capital (Tier 1) as laid down in section 10 (2a) KWG, supplementary capital (Tier 2) as laid down in section 10 (2b) KWG and Tier 3 capital as laid down in section 10 (2c) KWG. Core capital together with supplementary capital comprises the total liable capital available to cover risks. The supplementary capital may not exceed the core capital. Tier 3 capital is regarded as the lowest-quality component of regulatory capital and the ProCredit group does not recognise this form of capital; the total liable capital of the ProCredit group is equivalent to its modified available capital, which is also equivalent to its own funds.

Structure of own funds

in EUR m	31.12.2013	31.12.2012
Capital components		
Paid-up capital	455.7	464.3
Other reserves	37.1	44.2
Other Tier 1 capital	65.0	65.0
AUB 50%*	17.4	12.0
Intangible assets	–16.8	–17.4
Tier 1 capital under section 10 (2a) KWG	**558.3**	**568.1**
Long-term subordinated loans	131.1	149.1
Deduction under section 10a (6), sentence 9	–17.4	–12.0
Tier 2 capital under section 10 (2b) KWG	**113.7**	**137.0**
Own funds (= modified available capital = total liable capital)	**672.0**	**705.1**

* Overall amount of the asset-side balancing item (AUB) in accordance with section 10a (6) sentence 9 KWG less at least 50% of the partial amount not treated as an equity holding in a company not belonging to the group.

The above table shows the ProCredit group's own funds following the audit of the financial statements of the individual group companies. The results for the year, minus expected dividend and tax payments, are recognised as liable capital. During the year under review there were no deductible items pursuant to section 10 (6) sentence 1 no. 4 KWG and section 10 (6a) nos. 1 – 4 KWG. Unrealised reserves in land, land rights and buildings pursuant to section 10 (2b) sentence 1 no. 6 KWG and in securities and shares in investment funds pursuant to section 10 (2b) sentence 1 no. 7 KWG were not recognised by the group as supplementary capital.

In the 2013 financial year neither Tier 1 nor Tier 2 capital instruments were issued. The combination of the buyout of the minority shareholders of ProCredit Bank S.A. in Romania by ProCredit Holding, exchange rate fluctuations and the recognition of the financial results for 2013 (minus expected dividend and tax payments) resulted in a decrease in Tier 1 capital. The reduced amount recognised for subordinated loans as Tier 2 compared to the previous year is primarily attributable to their residual maturity.

The major characteristics of the main capital instruments of the ProCredit group are summarised below.

Core capital (Tier 1)

Paid-up capital and reserves: The core capital of the ProCredit group is mainly composed of subscribed capital and reserves. The subscribed capital consists of fully paid-up shares. The reserves of the ProCredit group are subdivided into capital and legal reserve as well as retained earnings.

Other Tier 1 capital: In 2008, ProCredit Holding issued hybrid capital in the form of Trust Preferred Securities (TPS). The nominal amount of this hybrid capital, amounting to EUR 65 million, is recognised as Other Tier 1 capital because it features the following characteristics:

- maturity: perpetual, not redeemable at any time by the investor (callable by ProCredit after six years)
- non-cumulative (without entitlement to subsequent payouts)
- no incentive to redeem
- market interest rates

Supplementary capital (Tier 2)

Long-term subordinated loans: Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

Long-term subordinated debt

in EUR m	Creditors	Due date	Currency	Nominal value	Recognised as supplementary capital
Debtors					
ProCredit Bank sh.a., Albania	SNS Institutional, Hertogenbosch, The Netherlands	Oct. 2017	EUR	4.0	4.0
ProCredit Bank sh.a., Albania	responsAbility SICAV, Luxembourg	Sept. 2019	EUR	1.5	1.5
ProCredit Bank sh.a., Albania	responsAbility GMF, Luxembourg	Sept. 2019	EUR	3.5	3.5
ProCredit Bank (Bulgaria) EAD, Bulgaria	SNS Institutional, Hertogenbosch, The Netherlands	Oct. 2017	EUR	4.0	4.0
Banco ProCredit S.A., Ecuador	SNS Institutional, Hertogenbosch, The Netherlands	Oct. 2015	USD	2.9	1.2
Banco ProCredit S.A., El Salvador	IFC, Washington D.C., USA	Jul. 2018	USD	3.6	3.1
ProCredit Bank JSC, Georgia	FMO, The Hague, The Netherlands	Oct. 2018	USD	7.2	5.5
ProCredit Bank JSC, Georgia	OPIC, Washington D.C., USA	Dec. 2019	USD	10.9	10.9
ProCredit Holding AG & Co. KGaA, Germany	FMO, The Hague, The Netherlands	Feb. 2015	EUR	10.0	4.0
ProCredit Holding AG & Co. KGaA, Germany	IMIF, Wilrijk, Belgium	Sept. 2016	EUR	4.0	4.0
ProCredit Holding AG & Co. KGaA, Germany	BIO, Brussels, Belgium	Dec. 2016	EUR	5.0	5.0
ProCredit Holding AG & Co. KGaA, Germany	KfW, Frankfurt am Main, Germany	Dec. 2016	EUR	18.0	18.0
ProCredit Holding AG & Co. KGaA, Germany	SNS Institutional, Hertogenbosch, The Netherlands	Oct. 2017	EUR	7.3	7.3
ProCredit Holding AG & Co. KGaA, Germany	OPIC, Washington D.C., USA	Jun. 2019	USD	18.1	18.1
ProCredit Bank sh.a., Kosovo	EFSE, Luxembourg	Jun. 2019	EUR	17.0	17.0
ProCredit Bank sh.a., Kosovo	responsAbility GMF, Luxembourg	Sept. 2019	EUR	5.3	5.3
ProCredit Bank sh.a., Kosovo	responsAbility SICAV, Luxembourg	Sept. 2019	EUR	2.3	2.3
ProCredit Bank A.D., Macedonia	SNS Institutional, Hertogenbosch, The Netherlands	Oct. 2015	EUR	4.0	1.6
ProCredit Bank A.D., Serbia	EFSE, Luxembourg	Dec. 2019	EUR	15.0	15.0
Total 2013				**143.5**	**131.1**
Total 2012				157.8	149.1

3.3 Adequacy of own funds

The risk-weighted assets (RWA) and the regulatory capital requirements shown in the table below are broken down into risk categories and, moreover, for credit risk, into exposure classes as defined in the German Solvency Regulation.

Risk-weighted assets, by risk category and capital requirements

in EUR m	31.12.2013 Risk-weighted assets	31.12.2013 Capital requirements	31.12.2012 Risk-weighted assets	31.12.2012 Capital requirements
Credit risk	**4,172.6**	**333.8**	**4,200.4**	**336.0**
Central governments	318.2	25.5	323.7	25.9
Regional governments and local authorities	0.0	0.0	0.0	0.0
Other public sector entities	0.0	0.0	0.0	0.0
Multilateral development banks	0.0	0.0	0.0	0.0
International organisations	0.0	0.0	0.0	0.0
Institutions	51.1	4.1	52.0	4.2
Covered bonds issued by credit institutions	0.0	0.0	0.0	0.0
Corporates	643.7	51.5	664.3	53.1
Retail business	2,569.3	205.5	2,575.9	206.1
Exposures secured by real estate property	0.0	0.0	0.0	0.0
Exposures in the form of collective investment undertakings (CIU)	37.3	3.0	37.7	3.0
Equity exposures	4.8	0.4	5.1	0.4
Securitisation positions	0.0	0.0	0.0	0.0
Other items	366.6	29.3	362.4	29.0
Past due exposures	181.5	14.5	179.4	14.4
Market risks (foreign currency risk)	**512.1**	**41.0**	**505.3**	**40.4**
Operational risk	**803.2**	**64.3**	**772.2**	**61.8**
Total	**5,487.9**	**439.0**	**5,477.9**	**438.2**

For determing the exposure towards credit risk the credit risk standardised approach (CRSA) is used for all exposure classes.

As the ProCredit group consists solely of non-trading book institutions, which moreover do not engage in transactions involving commodities, foreign currency risk is the only market risk to be considered. The amount of foreign currency risk 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 that ProCredit Holding maintains in foreign currency in its foreign subordinated companies. However, the effects of exchange rate fluctuations on the group's capital ratios are limited, as changes in equity are partially offset by corresponding changes in risk-weighted assets.

The ProCredit group applies the standardised approach to quantify operational risk. Compared to the regulatory capital requirements for operational risk, which amount to EUR 64.3 million, the average annual loss according to data recorded in the Risk Event Database in the last three years amounted to EUR 2.0 million.

The regulatory capital ratios are calculated by dividing the available capital by the sum of all risk-weighted assets. To calculate the Tier 1 capital ratio, only those capital components qualifying as Tier 1 capital must be taken into account; for the calculation of the total capital ratio all regulatory capital components are considered.

The group's regulatory capital ratios following the audit of the annual financial statements of the group companies are shown in the table below.

Capital ratios of the ProCredit group

in EUR m	**31.12.2013**	**31.12.2012**
Tier 1 capital	558.3	568.1
Tier 2 capital	113.7	137.0
Own funds	**672.0**	**705.1**
Credit risk	4,172.6	4,200.4
Market risks	512.1	505.3
Operational risk	803.2	772.2
Risk-weighted assets	**5,487.9**	**5,477.9**
Tier 1 capital ratio	**10.2%**	**10.4%**
Total capital ratio	**12.2%**	**12.9%**

The minimum required capital ratios as derived from the German Banking Act and the Solvency Regulation are set to 4% for the Tier 1 capital ratio and 8% for the total capital ratio. The ProCredit group has set stricter targets of >9% (Tier 1 capital ratio) and >12% (total capital ratio). With a Tier 1 capital ratio of 10.2% and a total capital ratio of 12.2% as of 31 December 2013, the ProCredit group's ratios are in line with the internal targets and the regulatory requirements.

In addition, all group banks complied with their respective local regulatory capital requirements during the reporting period at all times. The risk-weighted assets and capital ratios of the significant subsidiaries of the group shown in the table below are based on stand-alone financial statements according to local accounting rules and local capital adequacy regulations.

Capital ratios of the significant subsidiaries

31.12.2013	Risk-weighted assets in EUR m	Total capital ratio in %	Tier 1 capital ratio in %
Bank name and location			
Banco Los Andes ProCredit S.A., Bolivia	410.5	12.2	11.8
ProCredit Bank (Bulgaria) EAD, Bulgaria	533.7	16.8	12.3
Banco ProCredit S.A., Ecuador	288.4	14.1	11.8
ProCredit Bank JSC, Georgia	467.6	16.8	9.9
ProCredit Bank sh.a., Kosovo	538.5	19.4	13.7
ProCredit Bank A.D., Serbia	495.6	18.4	12.1

Furthermore, the ProCredit group has a relatively high leverage ratio. According to section 24 (1) no. 16 KWG, the modified balance sheet capital ratio (leverage ratio) is defined as the ratio of balance sheet equity to the sum of total assets and off-balance sheet liabilities and the replacement cost for claims arising from off-balance sheet transactions.

Leverage ratio

in EUR m	31.12.2013	31.12.2012
Balance sheet equity	502.7	503.1
Total assets	5,841.7	5,768.5
Off-balance sheet liabilities (irrevocable)	153.5	185.4
Leverage ratio	**8.4%**	**8.5%**

Basel III requirements, implemented in Europe through Capital Requirements Directive IV and CRR, are binding for the ProCredit group as from 2014. According to our analysis, applying these requirements will have only a limited impact on the group and we will fulfil the new regulatory requirements.

In respect to the group's Tier 1 capital, there is no plan to issue Tier 1 capital instruments in 2014. With regard to Tier 2 capital, it is planned to issue new long-term subordinated loans. This will serve to replace loans which are either maturing or do not completely fulfil the new legal requirements established in CRR. In the medium term, the replacement of the Trust Preferred Securities is envisaged as the share of principal recognised as additional Tier 1 capital is decreasing, which makes the instrument progressively less attractive for the group.

3.4 Risk-bearing capacity

The risk-bearing capacity concept is a key element of ProCredit's group-wide risk management and internal capital adequacy assessment process. In the context of the risk-bearing capacity calculation 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 our exposure to material 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. Extreme scenarios, some of them historically observed in individual countries of operation, are applied to the group in its entirety to test its ability to withstand such shocks, both in individual risk areas and in combination. Assessing the impact of a combined shock event across risk areas is important for the group, as political or economic events can affect the group, a specific region or an individual bank in numerous ways. A political crisis, for example, might not only have a strongly negative impact on overall business activity and therefore loan portfolio quality, it might also lead to the devaluation of the local currency and strong interest rate fluctuations.

The guiding principle for our risk-bearing capacity calculations is that the group is able to withstand extreme shock scenarios without endangering depositors and other providers of funding. In our view, the crisis years 2009 and 2010 underscored, firstly, the necessity for a conservative approach towards capital management, and secondly, the developments during that time proved the strength of the group in dealing with a very difficult economic environment. Throughout this period, the group showed strong levels of capital, leaving ample headroom for additional loss absorption had the economic conditions further deteriorated.

The group currently applies a gone concern approach in managing and monitoring its risk-bearing capacity. We are committed to being able, in the event of unexpected losses both in normal and in stress scenarios, to meet our (non-capital) obligations at all times. In 2012 we began to implement a going concern approach in addition to the gone concern approach. In 2014 we will continue to develop our risk-bearing capacity concept and integrate the going concern approach further into our overall risk-bearing capacity concept.

When calculating the economic capital required to cover risk positions 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. These risks, which are described in detail in the following sections, include:

- Customer credit risk
- Counterparty risk (including issuer risk)
- Foreign currency risk
- Interest rate risk
- Operational risk

The economic capital required to cover the risks to which the ProCredit group is exposed is compared with the available capital. The group's Risk-Taking Potential (RTP), defined as the group's equity (less intangible assets and deferred taxes) plus subordinated debt, amounted to EUR 671 million as of the end of December 2013 (2012: EUR 673 million). The Resources Available to Cover Risk (RAtCR) are set at 60% of the RTP, i.e. EUR 403 million (2012: EUR 404 million). Only the RAtCR are used to establish the limits in each risk category. This creates a buffer amounting to 40% of the RTP, thus allowing for the limitations and shortcomings of statistical models, but also for adverse effects that might arise from risk areas not explicitly included in the risk-bearing capacity calculations. The following table shows that the ProCredit group, under normal conditions, needs only 41% of its RAtCR to cover its risk profile.

Risk-bearing capacity

		Limit in %	Limit in EUR m	Actual in EUR m	Percentage of limit used in %
Customer credit risk		33	221.4	77.1	34.8
Counterparty risk	Commercial banks	1	6.7	0.6	9.3
	Sovereigns	4	26.8	4.2	15.5
Interest rate risk		10	67.1	16.4	24.5
Foreign currency risk		2	13.4	1.9	13.9
Operational risk		10	67.1	64.3	95.8
Resources available to cover risk 2013			**402.5**	**164.4**	**40.8**
Resources available to cover risk 2012			**403.8**	**161.1**	**39.9**

In addition to stress tests for each individual risk category, stress tests across all risk categories are performed quarterly to test the group's risk-bearing capacity under severe conditions. In such scenarios we assume a significant deterioration of worldwide macroeconomic conditions. The stress scenario includes a sharp economic decline, a simultaneous depreciation of all local currencies, high interest rate volatility and a significantly increased risk of sovereign and bank failure.

The results of the stress tests show that the risks to which the group would be exposed in an extreme stress scenario do not exceed its risk-bearing capacity (71% utilisation of RAtCR). Our analysis of the ProCredit group's risk-bearing capacity thus confirms that the group would have an adequate level of capitalisation even under extremely adverse conditions.

The stress tests across all risk categories are supplemented by event-driven inverse stress tests performed at least once per year.

4 Credit risk

The ProCredit group defines credit risk as the risk that losses will be incurred if the party to a transaction fails to meet its contractual obligations, or fails to meet them in full or on time. Credit risk comprises the risk arising from customer credit exposures as well as counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing the ProCredit group, and the credit risk from customer credit exposures accounts for the largest share of that risk.

4.1 Customer credit risk

4.1.1 Strategy and principles

The key objectives of our credit risk strategy are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio, appropriate coverage of credit risks with loan loss provisions and an adequate rate of return on the credit risk we take.

As a consequence of the business model, credit exposures to customers dominate the balance sheet, both at the level of individual banks and at group level. For our lending operations, we apply the following principles:

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

The framework for managing customer credit risk is approved by the Management of ProCredit Holding and set forth in the respective policies and standards. The policies define, 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 lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards define in more detail the group's lending operations with the key categories of business clients and private clients and the range of credit products. They also set forth the rules for loan loss provisioning and write-offs. The credit risk profile of the group is assessed by the Group Risk Management Committee at least on a monthly basis, or more frequently if necessary, and more comprehensively on a quarterly basis.

The ProCredit group's credit policies distinguish between four client categories: very small, small and medium-sized businesses and private clients. Depending on the client group to which the respective credit exposure is assigned, the ProCredit group applies different credit risk assessment processes. They differ from one another in terms of the degree of segregation of duties, the type of information that provides the basis for the credit analysis, the criteria for credit decisions and the collateral requirements.

According to the group policies, all credit decisions are taken by a credit committee. Its members have approval limits that duly reflect their expertise. All decisions on risk-relevant credit exposures are taken by credit committees at the banks' head offices and, in exceptional cases, by the supervisory boards. Setting appropriate credit limits, deciding which products correspond to the financial needs of clients and determining the proper structure of the credit exposure form an integral part of the discussions within the credit committee before a final decision is taken. Any increase in the credit exposure is only allowed within approved limits and is monitored closely. The banks have far-reaching powers to limit increases in credit exposures swiftly when the credit risk profile of a client deteriorates.

The group credit risk management policies include rules on adequate collateralisation which limit the possibility of entering into uncollateralised credit exposures. Depending on the level of risk assessed and the term of the exposure, loans may be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with collateral, typically through real estate mortgages.

The quality of credit operations is monitored by credit controlling units at the individual bank level. They assess the quality of the credit analysis, verify compliance with internal procedures and identify signs of fraudulent activity. The departments employ experienced credit 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.

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in a fast and efficient assessment of the degree of financial difficulty faced by clients. The loan portfolios of the ProCredit institutions are predominantly composed of instalment loans with regular monthly payments. Accordingly, payment delays are a good indicator of increased credit risk. Credit exposures with overdue payments are reported daily to the branch manager, to the bank's head office and in aggregate form to ProCredit Holding, and measures are initiated as defined in the policies. The early warning indicators and the close monitoring of clients allow for solid tracking of increases in credit risk related to individual credit exposures (migration risk).

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 the client's business activities. The outcome of this analysis may be a realignment of the payment plan of the loan with the client's actual and expected future payment capacity. In addition, specialised recovery officers may be called in to provide support to the business client advisors in the intensified management of the credit exposure.

When a credit exposure reaches problem credit exposure status, recovery officers take over responsibility for further actions concerning the case. If necessary, they are supported by litigation officers (legal department) and/or specialists in the sale of assets or collateral.

In addition to the daily tracking of individual credit exposures, credit risk at the portfolio level is assessed on a monthly basis or, if necessary, ad hoc. For the ProCredit group, the most important indicators of loan portfolio quality are the shares of the portfolio that are in arrears by more than 30 days (PAR 30) or more than 90 days (PAR 90). We also track the degree to which credit exposures in arrears above 30 days and above 90 days are covered with loan loss provisions, as an indicator of the adequate provisioning of our loan portfolio. The portfolio of restructured credit exposures and the corresponding provisions are also closely tracked.

Concentration risk in the group is primarily minimised through the high degree of diversification stemming from lending to the core client groups (very small and small businesses) and the distribution of the loan portfolio across 22 banks. In addition, the ProCredit banks limit the concentration risk of their portfolios by means of the following policies: Large credit exposures (those exceeding 10% of the regulatory capital of the respective ProCredit bank) require the approval of the Group Risk Management Committee; no single 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.

In order to determine the economic capital required to cover customer credit risk, when performing risk-bearing capacity calculations, the ProCredit group uses statistical methods to analyse its loss history. Whereas the expected loss is used for setting the allowances for impairment from loan losses, the economic capital required to cover credit risk from unexpected losses is quantified on the basis of a high confidence level.

4.1.2 Structure of the loan portfolio

The following tables provide an overview of the ProCredit group's outstanding loans and advances to customers, broken down by regions, clients' business sectors and contractual residual maturities, in accordance with section 327 SolvV.

The volume of the group's credit portfolio remained largely stable in 2013. Exchange rate effects had a negative impact particularly on the portfolio volume expressed in EUR in Eastern Europe, Latin America and Africa. The credit portfolio in South-Eastern Europe showed a slight decrease, particularly in the larger banks.

On-balance exposure and contingent liabilities, by region

in EUR m	31.12.2013		31.12.2012	
	On-balance exposure	**Nominal principal amount of contingent liabilities and other commitments**	**On-balance exposure**	**Nominal principal amount of contingent liabilities and other commitments**
South-Eastern and Eastern Europe	2,981.9	372.4	3,018.6	339.8
of which, South-Eastern Europe	*2,312.9*	*328.4*	*2,349.3*	*303.5*
of which, Eastern Europe	*669.0*	*44.0*	*669.3*	*36.3*
Latin America	1,084.5	149.8	1,075.5	168.7
of which, Central America	*304.1*	*22.7*	*317.3*	*31.0*
of which, South America	*780.4*	*127.1*	*758.3*	*137.7*
Africa	99.6	4.7	96.5	4.7
Germany	19.1	5.6	0.0	1.3
Total	**4,185.1**	**532.5**	**4,190.6**	**514.5**

Due to the business model and credit technology of the ProCredit group, the relevant steering breakdown of the portfolio is by loan volume rather than industry.

The business loan portfolio declined slightly in 2013. This was primarily due to regional effects (especially in South-Eastern Europe) and exchange rate developments. The enhanced focus on loan sizes between EUR/USD 10,000 and 150,000 led to a reduction in the size category "up to EUR/USD 30,000". Agricultural lending continued to develop positively, leading to a constant overall portfolio during the year.

Breakdown of the on-balance exposure by size category and client sector

in EUR m	Size category in EUR/USD	31.12.2013	31.12.2012
Business loans		**3,239.2**	**3,318.5**
	< 30,000	1,198.8	1,245.7
	30,000 – 150,000	1,181.5	1,182.3
	> 150,000	859.0	890.5
Agricultural loans		**617.3**	**524.3**
	< 30,000	336.9	324.9
	30,000 – 150,000	187.8	138.0
	> 150,000	92.6	61.4
Housing and housing improvement loans		**202.4**	**201.8**
	< 30,000	158.2	165.5
	30,000 – 150,000	42.6	33.8
	> 150,000	1.7	2.5
Finance leases		**27.9**	**29.6**
	< 30,000	10.2	10.3
	30,000 – 150,000	13.8	12.7
	> 150,000	3.9	6.6
Consumer loans		**62.2**	**70.1**
	< 30,000	56.6	64.4
	30,000 – 150,000	5.1	5.1
	> 150,000	0.5	0.6
Other loans		**36.1**	**46.2**
	< 30,000	22.3	27.3
	30,000 – 150,000	13.8	18.6
	> 150,000	0.0	0.3
Total		**4,185.1**	**4,190.6**

The table below discloses the nominal principal amounts of contingent liabilities, guarantees and other off-balance sheet commitments, i.e. the amounts at risk, should contracts be fully drawn upon. Judging from previous experience, we expect that a significant portion of the guarantees and contingent liabilities will expire without being drawn upon.

Nominal principal amount of contingent liabilities and other commitments

in EUR m	31.12.2013	31.12.2012
Guarantees and letters of credit	94.9	100.3
Documentary and commercial letters of credit	2.6	2.2
Performance bonds	36.5	26.1
Credit commitments (revocable)	379.0	329.5
Credit commitments (irrevocable)	17.2	52.4
Other	2.3	3.9
Total	**532.5**	**514.5**

The following table shows the residual maturities of the group's total customer credit exposure. The residual contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date. As a consequence of the business model, the bulk of the credit exposures have maturities of less than five years.

On-balance exposure and contingent liabilities, by residual maturity

	31.12.2013		31.12.2012	
in EUR m	On-balance exposure	Nominal principal amount of contingent liabilities and other commitments	On-balance exposure	Nominal principal amount of contingent liabilities and other commitments
< 1 year	1,850.2	532.5	1,824.9	514.5
1 - 5 years	1,884.0	0.0	1,898.0	0.0
> 5 years	450.9	0.0	467.8	0.0
Total	**4,185.1**	**532.5**	**4,190.6**	**514.5**

4.1.3 Exposures in arrears and impaired exposures

The ProCredit group defines credit exposures in arrears as credit exposures for which contractual interest and/or principal payments are overdue for at least one day. In such cases, the total exposure to the client is regarded as being in arrears.

We define credit exposures as impaired if the bank has objective evidence that the quality of the credit exposure has deteriorated. The main indicator is arrears of more than 30 days (PAR 30). However, credit exposures can show other signs of impairment as well. Typical examples are:

- a breach of contractual covenants or conditions without prior approval or amendment
- the initiation of court procedures by the bank
- the initiation of bankruptcy proceedings
- any information on the customer's business or changes in the customer's market environment that has, or is expected to have, a negative impact on the probability that the client will meet its contractual payment obligations towards the bank

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

Individually significant credit exposures are assessed individually for impairment (individual specific allowance). If there are signs of impairment, we perform an impairment test, applying the discounted cash flow approach. We consider expected future cash flows from realised collateral items as well as other realisable cash flows. The level of loan loss provisions is determined by the difference between the book value of the credit exposure and the net present value of the expected future cash flows.

Lump-sum specific provisions are calculated for individually insignificant credit exposures in arrears more than 30 days on a portfolio basis at historical default rates; more than 30 days in arrears is regarded as objective evidence of impairment. The amount of such provisions is determined on the basis of the number of days in arrears.

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

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

Allowances for impairment increased moderately in 2013. This can be attributed mainly to the conservative provisioning policy of the group. The PAR 30 indicator increased slightly compared to 2012. This trend was primarily influenced by the banks in South-Eastern Europe and Central America.

The development of risk provisions for losses on credit exposures to customers over the reporting period was as follows:

Changes in risk provisions

in EUR m	Specific provisions	Lump-sum specific provisions	Portfolio-based provisions
Carrying amount as at 1 January 2013	61.4	56.9	57.2
Additions	86.7	90.7	62.6
Utilisation	-17.9	-30.8	-2.0
Releases	-42.2	-51.2	-67.4
Transfers	-3.2	-10.0	13.2
Unwinding effects	-9.0	0.0	0.0
Exchange rate adjustments	-0.9	1.7	-7.3
Carrying amount as at 31 December 2013	**75.0**	**57.3**	**56.2**

As a consequence of the business model, the loan portfolio of the ProCredit group consists predominantly of business loans and agricultural loans. This is also reflected in risk provisioning.

On-balance exposure, by signs of impairment and risk provisioning

in EUR m	Size category in EUR/USD	Total on-balance exposure	of which, in arrears	of which, impaired: Total	of which, impaired: of which, more than 30 days in arrears (PAR 30)	of which, impaired: of which, "other signs of impairment"	Total loan loss provisions
Business loans		**3,239.2**	**318.8**	**293.5**	**160.4**	**133.1**	**149.9**
	< 30,000	1,198.8	105.6	68.7	54.0	14.7	58.3
	30,000 – 150,000	1,181.5	111.8	100.5	52.7	47.8	46.0
	> 150,000	859.0	101.4	124.3	53.7	70.6	45.6
Agricultural loans		**617.3**	**46.4**	**35.7**	**26.1**	**9.6**	**25.8**
	< 30,000	336.9	26.7	17.3	14.0	3.3	15.3
	30,000 – 150,000	187.8	10.5	9.1	4.4	4.7	5.3
	> 150,000	92.6	9.2	9.3	7.6	1.7	5.2
Housing and housing improvement loans		**202.4**	**9.5**	**5.7**	**4.1**	**1.6**	**5.9**
	< 30,000	158.2	7.7	4.6	3.7	0.9	5.1
	30,000 – 150,000	42.6	1.8	1.2	0.4	0.8	0.8
	> 150,000	1.7	0.0	0.0	0.0	0.0	0.0
Finance leases		**27.9**	**4.1**	**2.8**	**1.5**	**1.3**	**1.9**
	< 30,000	10.2	2.1	1.2	1.2	0.1	1.3
	30,000 – 150,000	13.8	1.1	0.7	0.3	0.4	0.5
	> 150,000	3.9	0.9	0.9	0.0	0.9	0.0
Consumer loans		**62.2**	**6.5**	**3.5**	**2.6**	**0.9**	**3.2**
	< 30,000	56.6	6.1	3.0	2.5	0.4	3.0
	30,000 – 150,000	5.1	0.5	0.5	0.1	0.5	0.2
	> 150,000	0.5	0.0	0.0	0.0	0.0	0.0
Other loans		**36.1**	**1.9**	**2.0**	**1.4**	**0.5**	**1.8**
	< 30,000	22.3	1.8	1.6	1.4	0.3	1.5
	30,000 – 150,000	13.8	0.1	0.3	0.1	0.3	0.3
	> 150,000	0.0	0.0	0.0	0.0	0.0	0.0
Total 2013		**4,185.1**	**387.2**	**343.3**	**196.2**	**147.1**	**188.5**

The following table representing the geographical distribution of loans in arrears and impaired reflects the still difficult current macroeconomic situation in many countries in South-Eastern and Eastern Europe.

On-balance exposure, in arrears and impaired, with the corresponding provisions by region

in EUR m	On-balance exposure	of which, in arrears	of which, impaired	Specific provisions	Lump-sum specific provisions	Portfolio-based provisions
South-Eastern and Eastern Europe	398.5	308.2	279.3	60.8	42.9	2.8
Latin America	75.8	63.6	54.1	13.0	11.0	0.4
Africa	16.3	15.4	9.9	1.2	3.4	0.2
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Total 2013	**490.6**	**387.2**	**343.3**	**75.0**	**57.3**	**3.4**

Risk provisions for loans and advances to customers were accounted for in the income statement as follows.

Risk provisions for loans and advances to customers, by region

	Increase of risk provisioning			Release of risk provisioning			Direct write-offs	Recoveries of write-offs	Total
in EUR m	Specific provisions	Lump-sum specific provisions	Portfolio-based provisions	Specific provisions	Lump-sum specific provisions	Portfolio-based provisions			
South-Eastern and Eastern Europe	70.3	61.9	46.1	−37.5	−37.6	−50.3	0.2	−15.8	37.3
Latin America	14.1	23.5	13.3	−3.8	−10.7	−15.8	1.2	−3.4	18.6
Africa	2.2	5.3	2.9	−0.9	−2.9	−1.4	0.2	−0.6	4.8
Germany	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Total 2013	**86.7**	**90.7**	**62.6**	**−42.2**	**−51.2**	**−67.4**	**1.6**	**−19.8**	**61.0**

4.2 Counterparty risk (including issuer risk)

The ProCredit group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer is unwilling or unable to fulfil its obligations on time or in full. This risk also includes principal risk, replacement risk and settlement risk. Counterparty risk in the ProCredit group is limited, and mainly arises from keeping highly liquid assets for the purpose of mitigating liquidity risk. There are structural exposures towards local central banks in the form of legal minimum reserves. This is a consequence of our strategy to finance lending activities primarily with local deposits. If we consider a sovereign exposure to be too high, we insure it in order to avoid concentrations.

The framework for managing the group's counterparty risk is approved by the Management of ProCredit Holding and is specified in the respective group policies and standards. Both the Group ALCO and the Group Risk Management Committee are involved in decisions made with regard to counterparty risk. The counterparty risk profile of the group is assessed by the Group Risk Management Committee at least monthly. This organisational structure is also replicated in each of the ProCredit banks.

The overarching strategy is to invest our liquid assets safely and in a diversified manner. For this reason, we only work with carefully selected banks with high credit quality, typically place our money for short terms (up to three months) 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. As a matter of principle, only highly liquid, fixed-interest papers are bought, typically with a maximum maturity of two years. Local currencies are primarily invested in local central bank papers or sovereign bonds denominated in the respective local currency. Foreign currencies, on the other hand, are generally invested in OECD sovereigns or securities issued by multilaterals rated at least AA-.

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 (particularly foreign currency forwards and swaps).

The volume of the group's exposures to counterparties and issuers increased during the year under review. The additional liquidity was invested primarily in highly liquid papers from OECD sovereigns with very high credit quality. Due to the low-risk investment strategy, the risk-adjusted exposure of the group did not change significantly during the year, remaining low.

Total exposures to counterparties and issuers

in EUR m	**31.12.2013**	**31.12.2012**
Banks	339.0	335.1
in OECD countries	*234.0*	*234.8*
in non-OECD countries	*105.1*	*100.3*
Central banks*	512.7	560.6
Minimum reserve	*373.3*	*359.9*
Other	*139.4*	*200.7*
Securities*	434.6	309.8
Derivative instruments (market value)	2.2	0.6
Total	**1,288.4**	**1,206.1**

* 2012 financial year figures have been reclassified.

The following table shows the residual maturities of exposures to counterparties and issuers.

Total exposures to counterparties and issuers, by residual maturity

31.12.2013 in EUR m	**Banks**	**Central banks**	**Securities**	**Derivative instruments (market value)**
< 1 year	338.4	512.7	226.2	1.6
1–5 years	0.6	0.0	207.5	0.5
> 5 years	0.0	0.0	0.8	0.0
Total	**339.0**	**512.7**	**434.6**	**2.2**

31.12.2012 in EUR m	**Banks**	**Central banks***	**Securities***	**Derivative instruments (market value)**
< 1 year	333.9	560.6	213.0	0.4
1–5 years	1.2	0.0	95.8	0.2
> 5 years	0.0	0.0	1.0	0.0
Total	**335.1**	**560.6**	**309.8**	**0.6**

* 2012 financial year figures have been reclassified.

For counterparty risk, the same definitions for "in arrears" and "impaired" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was in arrears nor showed any signs of impairment as of 31 December 2013. Accordingly, no allowance for impairment was set aside for them in 2013.

As with customer credit risk, the exposure towards counterparties/issuers is managed by a tight limit system. ProCredit banks conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved locally. The total limit towards a non-OECD bank or banking group may not exceed 10% of the ProCredit bank's capital without prior additional approval from Group ALCO or the Group Risk Management Committee. For an OECD bank, the threshold is 25%. The typical maximum maturity of our term deposits is three months; longer maturities must be approved by Group ALCO or the Group Risk Management Committee. Approval is likewise required before any investments in securities.

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.

The group's counterparty risk is quantified and analysed monthly in the risk-bearing capacity framework. When calculating the risk- and term-adjusted exposure, all exposures towards banks, sovereigns, central banks and multilateral institutions are taken into account. A portion of the mandatory minimum reserves is insured against the risk of default and expropriation; further details can be found under "Exposure classes under the credit risk standardised approach and credit risk mitigation techniques". This reduces the level of economic capital necessary to cover counterparty risk in the risk-bearing capacity calculation. Moreover, sensitivity to deteriorating counterparty risk (e.g. rating downgrades) is measured using stress tests.

4.3 Default risk arising from derivative positions

In the ProCredit group, derivatives are utilised to a very limited extent. They are only used to hedge foreign currency (FX) and interest rate risk and may not be engaged in for speculative purposes. The following derivatives are relevant for the ProCredit group:

- interest rate currency swaps, FX swaps and FX forwards
- interest rate swaps

For derivative risk positions, the same risk classification, limit-setting and monitoring processes apply as for other counterparty risk exposures.

The following tables disclose the information according to section 326 (2) SolvV. Netting options are not exercised.

Positive replacement value of derivatives

in EUR m	**31.12.2013**	**31.12.2012**
Interest rate currency swaps, FX swaps and FX forwards	2.2	0.6
Interest rate swaps	0.0	0.0

Capital requirements for derivative counterparty risk (original exposure method)

in EUR '000	**31.12.2013**	**31.12.2012**
Interest rate currency swaps, FX swaps and FX forwards	73.1	55.4
Interest rate swaps	0.1	0.3

In 2013, the ProCredit group held no derivatives on shares, credit or commodities, or other derivatives.

Due to the low volume of derivatives in the ProCredit group, possible correlations between counterparty/issuer risk and market risks are negligible.

4.4 Equities in the banking book

This section only covers equities within the meaning of section 25 (13) SolvV. Accordingly, only those equities that are not included in the regulatory consolidation are shown.

The ProCredit group's equity holdings are not held for the purpose of earning a profit. The equities can be divided into two categories:

- investments in ProCredit Academies
- investments supporting operating processes

To constantly enhance the professional standards of the ProCredit banks, the ProCredit group has established local training facilities, regional academies and the international ProCredit Academy in Fürth, Germany. The investments in the academies are initially registered at fair value and subsequently recognised at amortised cost.

The investments for supporting processes, which are not part of an actively managed portfolio, are registered as available-for-sale financial assets. At initial recognition, available-for-sale financial assets are recorded at fair value including transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices in active markets or values calculated with a valuation technique based on currently observable market data.

The investments are 100% risk-weighted for the determination of the regulatory capital requirements.

Book value of equities in the banking book

in EUR m	31.12.2013	31.12.2012
Shares in academies	3.0	3.0
Other shares	1.9	2.1
Total	**4.8**	**5.1**

Due to the nature of the investments (academies) and the non-materiality of other shares, neither "cumulative realised gains or losses arising from sales and liquidations in the reporting period" nor "total unrealised revaluation gains or losses, the latent revaluation gains or losses and any of these amounts included in the Tier 1 and Tier 2 capital" according to section 332 (2) SolvV are disclosed.

4.5 Exposure classes under the credit risk standardised approach and credit risk mitigation techniques

The ProCredit group exclusively uses the standardised approach to determine its exposure to credit risk. The group has nominated the rating agency Fitch Ratings for the exposure classes "central governments" and "collective investment undertakings". Due to its business model, the ProCredit group does not use ratings for the exposure class "corporates", since our customers are usually not rated.

CRSA exposure values before credit risk mitigation, by risk-weighting category

	Risk-weighting, in %								Total
in EUR m	0	20	35	50	75	100	150	1,250	
Exposure class									
Central governments	297.8	0.0	0.0	11.8	0.0	512.6	0.0	0.0	822.1
Regional governments and local authorities	26.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.0
Other public sector entities	13.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.1
Multilateral development banks	21.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.3
International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutions	0.0	255.6	0.0	0.0	0.0	0.0	0.0	0.0	255.6
Covered bonds issued by credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	0.0	0.0	0.0	0.0	0.0	643.7	0.0	0.0	643.7
Retail business	0.0	0.0	0.0	0.0	3,425.7	0.0	0.0	0.0	3,425.7
Exposures secured by real estate property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of collective investment undertakings (CIU)	0.0	0.0	0.0	0.0	0.0	37.3	0.0	0.0	37.3
Equity exposures	0.0	0.0	0.0	0.0	0.0	4.8	0.0	0.0	4.8
Securitisation positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	212.3	0.0	0.0	0.0	0.0	366.6	0.0	0.0	579.0
Past due exposures	0.0	0.0	0.0	0.0	0.0	38.9	95.1	0.0	134.0
Total 2013	**570.5**	**255.6**	**0.0**	**11.8**	**3,425.7**	**1,604.0**	**95.1**	**0.0**	**5,962.7**
Total 2012	467.3	276.0	0.0	7.0	3,434.6	1,634.0	91.6	0.0	5,910.5

When determining the capital requirement for credit risk according to the standardised approach, only guarantees from the Multilateral Investment Guarantee Agency (MIGA) for our mandatory minimum reserves held with local central banks are recognised.

Exposures towards central governments or central banks in non-EEA (European Economic Area) countries, in countries whose supervisory system is not materially equivalent to KWG or in countries with a rating below the lower-medium grade category (i.e. below BBB- in the case of Fitch Ratings) are given a 100% risk-weighting regardless of the underlying currency, as stipulated in German supervisory regulation.

The mandatory minimum reserves are inevitable exposures driven by our business strategy, which is based on financing loans in transformation economies and developing countries mainly through local customer deposits. We chose to insure this exposure against the risk of default and expropriation. As of 31 December 2013, EUR 201 million (2012: EUR 207 million) of the EUR 373 million (2012: EUR 360 million) in total mandatory reserves were covered by guarantees.

We do not include collateral in the risk-weighted asset calculation.

CRSA exposure values after credit risk mitigation, by risk-weighting category

	Risk-weighting, in %								Total
in EUR m	0	20	35	50	75	100	150	1,250	
Exposure class									
Central governments	297.8	0.0	0.0	11.7	0.0	311.3	0.0	0.0	620.8
Regional governments and local authorities	26.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.0
Other public sector entities	13.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.1
Multilateral development banks	222.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	222.6
International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutions	0.0	255.6	0.0	0.0	0.0	0.0	0.0	0.0	255.6
Covered bonds issued by credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	0.0	0.0	0.0	0.0	0.0	643.7	0.0	0.0	643.7
Retail business	0.0	0.0	0.0	0.0	3,425.7	0.0	0.0	0.0	3,425.7
Exposures secured by real estate property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of collective investment undertakings (CIU)	0.0	0.0	0.0	0.0	0.0	37.3	0.0	0.0	37.3
Equity exposures	0.0	0.0	0.0	0.0	0.0	4.8	0.0	0.0	4.8
Securitisation positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	212.3	0.0	0.0	0.0	0.0	366.6	0.0	0.0	579.0
Past due exposures	0.0	0.0	0.0	0.0	0.0	38.9	95.1	0.0	134.0
Total 2013	**771.8**	**255.6**	**0.0**	**11.7**	**3,425.7**	**1,402.7**	**95.1**	**0.0**	**5,962.7**
Total 2012	673.8	276.0	0.0	5.2	3,434.6	1,429.2	91.6	0.0	5,910.5

4.6 Securitisations

The ProCredit group has thus far taken part in three securitisation or funding schemes in the banking book: ProCredit Bulgaria transaction (ProCredit Company B.V.), ProCredit Serbia transaction (PC Finance II B.V.) and ProCredit Ecuador transaction (Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit).

The securitisation schemes were set up for the sole purpose of financing the loan portfolio growth of the banks in Bulgaria, Serbia and Ecuador. They were not undertaken with the intention of freeing up regulatory capital on group level by transferring credit risks nor were they undertaken with tax considerations in mind.

The ProCredit group only takes part in securitisation schemes as originator, and neither plans to invest in securitised assets of third parties, nor to engage in securitisation schemes in any other role but originator. Furthermore, the ProCredit group is not involved in re-securitisations.

ProCredit Company B.V., which is in the process of dissolution, was established in 2006 as an SPV to which a part of the customer loan portfolio of ProCredit Bank (Bulgaria) EAD was sold in the form of a true sale securitisation via a further SPV. ProCredit Holding provided part of the capital for the funding of this loan portfolio by means of subordinated debt ("first loss piece"). The limited long-term funding demand at ProCredit Bank (Bulgaria) EAD led to a steady decrease in the outstanding securitised loan portfolio in the last two years. As there is no need to further maintain this financing arrangement, the parties involved agreed to dissolve the securitisation structure. In July 2013, ProCredit Bank (Bulgaria) EAD repurchased the remaining securitised loan portfolio, amounting to EUR 34.2 million.

The SPV PC Finance II B.V. was established in 2008 specifically in order to mobilise funding and issue selected customer loans which are serviced via ProCredit Bank A.D., Serbia. ProCredit Holding provides part of the funding of the SPV by means of subordinated debt (EUR 8.8 million).

In the context of a structured finance transaction ("titularización"), in April 2013 Banco ProCredit S.A. in Ecuador transferred an SME loan portfolio disbursed by the institution in the amount of USD 84.0 million to the SPV Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit (trust company). This SPV subsequently issued securities in the amount of USD 70.0 million, which are therefore overcollaterised by USD 14.0 million. As of 31 December 2013, securities in the amount of USD 52.2 million had been sold to third parties.

The "titularización" structure in Ecuador is governed by local capital market regulations and contains elements of a securitisation pursuant to German supervisory legislation. Titularización does not feature an explicit waterfall structure with distinct tranches for securitisations; however, a hierarchy is established due to the contractual stipulations concerning liquidity in connection with loan repayments. This ensures that claims of investors in securities are settled first. Any payment defaults in the transferred loan portfolio will be settled first through the claims held by Banco ProCredit S.A. on the portion of the loan portfolio that serves as collateral. Only then is there equally ranking loss-sharing on the part of investors in securities. In this context, the exposure in the amount of USD 14.0 million of Banco ProCredit S.A. to the SPV is comparable with a "first loss piece" of a securitisation transaction.

On-balance exposure and loan loss provisions for securitised loan portfolio

in EUR m	Ecuador transaction	Serbia transaction	Total 2013	Total 2012
Business loans	50.2	52.7	103.0	88.4
Agricultural loans	5.1	0.0	5.1	6.1
On-balance exposure	**55.4**	**52.7**	**108.1**	**94.4**
Loan loss provisions for securitised loan portfolio	**0.7**	**3.8**	**4.5**	**6.1**

According to the risk and reward concept of SIC 12, ProCredit Finance II B.V. and Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit are fully consolidated for group accounting purposes under IFRS and, following approval from German supervisory authorities, also for regulatory purposes as laid down in KWG. The same also applied to ProCredit Company B.V., which is in process of dissolution.

The ProCredit group treats the securitised loan portfolio and the associated credit risks as an integral part of the customer loan portfolio. The securitised customer loans are reported in the exposure classes "retail" and "corporates" and risk-weighted accordingly.

Securitised loan portfolio in arrears and impaired

in EUR m	Ecuador transaction	Serbia transaction	Total 2013	Total 2012
Exposures in arrears	0.3	9.0	9.4	8.1
Impaired exposures	0.1	8.2	8.3	3.1
Loan loss provisions for loan portfolio in arrears and impaired	0.0	3.2	3.2	4.8

Securitised loan portfolio: risk-weighted assets and capital requirements

in EUR m	Ecuador transaction	Serbia transaction	Total 2013	Total 2012
Risk-weighted assets	**41.4**	**45.4**	**86.8**	**78.0**
of which, 75% RWA	40.5	12.2	52.8	36.8
of which, 100% RWA	0.4	31.3	31.7	35.3
of which, 150% RWA	0.5	1.9	2.3	5.9
Capital requirements	**3.3**	**3.6**	**6.9**	**6.2**

4.7 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 country-specific peculiarities. Country risk comprises a range of aspects, many of which are already included in other risk positions, notably credit risk, foreign currency risk, interest rate risk and operational risk. The ProCredit group's country risk management therefore focuses on those aspects which are not otherwise covered. This includes the risk of convertibility, transferability and expropriation as well as regulatory risks, the risk of macroeconomic shocks and security risks.

The framework for managing the group's country risk is approved by the Management of ProCredit Holding and is specified in the respective group policies and standards. The Group Risk Management Committee is responsible for all key decisions regarding country risk management and reviews at least monthly the country risk profile of the group.

The risk of convertibility, transferability and expropriation is material and significant only for ProCredit Holding and ProCredit Bank Germany because only these institutions conduct cross-border transactions with other group banks. Other ProCredit banks are only permitted to enter into cross-border transactions within the group in exceptional cases and with prior approval from the Group Risk Management Committee.

Country risk is managed and limited by setting risk limits for each ProCredit bank derived from internal country ratings. These ratings combine various aspects of country risk and are based on country risk ratings published by acknowledged 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.

Country risk is covered by the monthly risk-bearing capacity calculation at the level of ProCredit Holding and ProCredit Bank Germany. When quantifying country risk, all exposures to the ProCredit banks are taken into account. Country risk is classified as a material risk at group level; however, it is assessed to be insignificant. Therefore, country risk is not allotted a share of the risk-taking potential in the group's risk-bearing capacity calculation.

5 Market risks

5.1 Foreign currency risk

Since the ProCredit group is a non-trading book group and has no commodity positions, foreign currency risk is the only risk of those classified as market price risks according to section 2 (3) sentence 2 SolvV that is relevant for regulatory capital requirements.

We define foreign currency risk as the risk that an institution incurs losses or is negatively affected by exchange rate fluctuations. Foreign currency risk comprises three components: foreign currency risk can have adverse effects on income, can lead to a decline in capital adequacy ratios and can result in a reduction in group capital.

The framework for managing the group's foreign currency risk is approved by the Management of ProCredit Holding and is specified in the respective group policies and standards. The Group ALCO is responsible for all key decisions regarding group foreign currency risk management. The banks' foreign currency risk positions are monitored on a weekly basis by ProCredit Holding and reported to the Group ALCO and the Group Risk Management Committee at least monthly. At bank level the foreign currency risk is monitored by the local ALCO and the local Risk Management Committee.

A bank's income is impacted negatively when the volumes of its assets and liabilities denominated in foreign currencies do not match and the FX rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). In accordance with the risk strategy, foreign currency risk may not be incurred for speculative purposes. OCPs are, as a rule, closed and constrained by conservative limits and early warning indicators. As a matter of principle, all transactions are carried out and financed in the same currency.

The group-wide approach used to measure, monitor and limit currency risk is based on the OCPs of each bank in all material foreign currencies. The total OCP is calculated as the sum of the absolute values of the individual currency positions and is limited to 10% of the bank's capital, unless deviation from this limit has been approved by the Group Risk Management Committee. A threshold of 7.5% of a ProCredit bank's capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP. The foreign currency risk arising from OCPs is also measured when determining the risk-bearing capacity of each individual ProCredit bank. The calculation is based on a monthly Value at Risk (VaR)-type analysis of the OCPs considering historically extreme FX volatilities during the past seven years. In addition, regular stress tests are conducted for the risk arising from OCPs.

Exchange rate movements can also negatively affect a bank's capital adequacy ratios in cases where the capital of the bank is held in a different currency than many of the assets it supports. In that case, local currency depreciation can result in a significant deterioration of the capital adequacy because 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 at increasing the share of local currency assets in the banks' balance sheets. At least once a year, extensive currency risk stress tests are performed that depict the effects of unfavourable FX developments on the banks' capital adequacy ratios.

At the group level, additional foreign currency risk arises from equity participations. Most banks keep their equity in the respective local currency or in USD. Thus, from a consolidated group perspective, OCPs in these local currencies and USD exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risk-taking potential are thus exposed to fluctuations due to changes in the FX rates of local currencies and USD against the EUR. These fluctuations are partially accompanied by simultaneous changes in the credit risk reported in EUR. The foreign currency risk from equity participations is well diversified across 18 local currencies and the USD.

On the basis of the banks' OCPs, the group foreign currency risk is currently quantified and analysed monthly in the context of the risk-bearing capacity calculation. Relevant stress scenarios are also used to determine the group's economic capital requirements to cover foreign currency risk in extremely negative circumstances. The group's foreign currency risk increased slightly in 2013 but continued to be very low due to our strategy of maintaining closed positions at the level of the banks. The insignificant rise was due largely to the fact that we extended the historical time horizon for exchange rate fluctuations from five to seven years. Foreign currency risk arising in connection with equity participations is covered by the buffer in the risk-bearing capacity concept.

5.2 Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses driven by changes in market interest rates and arises from structural differences between the repricing maturities of assets and liabilities. The group's exposure to interest rate risk is mainly due to the fact that ProCredit banks also finance fixed-rate loans, some with long maturities, with short- to medium-term customer deposits. Overall financing costs could increase over time if new deposits could only be attracted by paying a higher interest rate. As the income from fixed-rate loans remains unchanged over the longer term, our margins would contract.

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

The interest rate risk is mitigated by conservative limits and is not allowed to be incurred for speculative purposes.

The group-wide approach used to measure, monitor and limit interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts, with the exception of sight deposits and savings accounts, which are included in the gap analyses according to expected repricing maturities. The expected repricing maturities are derived from group-wide analyses of historical developments.

The economic value impact is the main indicator for managing interest rate risk, and measures the potential economic value change on all our assets and liabilities determined by a detrimental change in interest rates. The indicator analyses the potential loss of net present value that a bank would suffer in the event of very unfavourable movements (shocks) of market interest rates. For EUR or USD we assume a parallel shift of the interest rate curve by +/- 200 basis points in line with the BaFin Circular on interest rate risk management dated November 2011. For local currencies the size of the shocks is derived using a VaR-type methodology taking into consideration interest rate volatilities over the past seven years.

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

Furthermore, we regularly monitor the potential impact of interest rate risk on the expected earnings of each bank over the next three months. This risk measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective and is deemed significant if it exceeds 1% of the bank's capital.

In order to further analyse the bank's sensitivity to interest rate risk in extremely negative circumstances, the results of the stress scenarios are analysed in relation to the early warning indicators and limits at quarterly intervals.

The group-wide exposure to interest rate risk is quantified and analysed quarterly in the context of the risk-bearing capacity calculation. The quantification is based on the economic value impact indicator for the group, with the interest rate shocks for local currencies being determined under consideration of historical correlations. Relevant stress scenarios are also used to determine the group economic capital needed to cover interest rate risk in extremely negative circumstances.

Interest rate risk in the banking book

	31.12.2013		**31.12.2012**	
in EUR m	**Reduction in net present value**	**Interest rate shock Basis points**	**Reduction in net present value**	**Interest rate shock Basis points**
Currency				
EUR	4.0	-200	1.7	-200
USD	3.2	-200	2.4	-200
Other*	9.2	+230	7.5	+41
Total	**16.4**		**11.6**	

* The interest rate shock for other currencies is the weighted average shock for the local currencies used in the group. It is the interest rate shock that would have the severest adverse impact on the group and is based on the historical development over the past seven years (2012: five years).

The economic capital required to cover interest rate risk in the group increased in 2013, due primarily to the fact that we extended the historical time horizon for interest rate changes from five to seven years.

6 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.

The framework for managing the group's liquidity and funding risk is approved by the Management of ProCredit Holding and is specified in the respective group policies and standards. The Group ALCO and the Group Risk Management Committee are responsible for all key decisions regarding group liquidity management. Selected liquidity risk indicators of the banks and ProCredit Holding are reported to the Group ALCO and are presented each month in detail to the Group Risk Management Committee. This organisational structure is replicated in each of the ProCredit banks. The respective local management is responsible for liquidity management in each ProCredit bank within the context of the group liquidity risk management framework.

Liquidity risk is the danger that a bank will not be able to meet its current and future payment obligations in full, or in a timely manner. This risk is limited by the fact that we primarily issue instalment loans which feature monthly repayments and are financed largely by local private client deposits. Our deposit-taking operations focus on our target group of small 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.

We measure our liquidity risk using a liquidity gap analysis and limit it based on the liquidity indicator defined by the German Liquidity Regulation (Liquiditätsverordnung – LiqV), which requires institutions to hold sufficient liquidity for the next 30 days. For deposits, however, we apply liability outflow assumptions that are more conservative than necessary according to LiqV, in order to reflect the more volatile environment in our countries of operation. Furthermore, the banks must hold sufficient highly liquid assets to pay out at least 20% of all customer deposits at all times.

In addition, monthly stress tests are conducted to make sure that every ProCredit bank keeps sufficient liquid funds to meet its obligations, even in difficult times. If unexpected circumstances arise and an individual bank proves not to have sufficient reserves, the ProCredit group has a liquidity contingency plan and ProCredit Holding would serve as a "lender of last resort". The ProCredit group keeps an adequate liquidity reserve available for this purpose.

The liquidity of the banks and of ProCredit Holding is managed on a daily basis by their respective treasury departments, based on current liquidity positions and cash flow projections which take account of planned business developments and liquidity indicators, and is monitored by the ALCO.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at significantly higher costs. This risk is mitigated because we finance our lending operations primarily through customer deposits, supplemented by long-term funds from international sources. We make little use of interbank and financial markets. The funding of the ProCredit group has proven to be resistant to the turmoil of the financial crisis in 2008 and 2009.

The ProCredit group measures and limits funding risk using liquidity gap analysis and several indicators. The most important indicator is deposit concentration, defined as the share of the ten largest depositors from the bank's total deposit base, which should not exceed 20%.

The funding needs of the banks, identified in the business planning process, are monitored and regularly reviewed on group level. Group ALCO (with support from ProCredit Holding's Group Funding Department) monitors the progress of all significant individual transactions with external funding providers, especially international financial institutions (IFIs).

Funding risk is covered by the capital buffer in the risk-bearing capacity calculation. According to an expert estimate, the potential increase in the funding margin for a time horizon of one year would only consume an insignificant amount of the capital buffer. Liquidity risk is not taken into account in the risk-bearing capacity calculation because capital cannot be used to mitigate this risk.

The ProCredit group had adequate liquidity levels at all times during 2013. The group's liquidity reserve for unexpected outflows was always above the target volume of EUR 100 million during 2013 and the banks were in compliance with liquidity limits at all times.

7 Operational risk

Operational risk, including fraud risk, is a material risk factor for the ProCredit group, given both the environment in which the group operates and the decentralised processing and decision-making throughout the group. In line with Basel II, 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 legal risk. Furthermore, the ProCredit group considers reputational risk as part of operational risk.

The framework for managing the group's operational risk is approved by the Management of ProCredit Holding and is specified in group policies and standards. The implementation of these policies at the ProCredit institutions ensures effective management of operational risk and fraud risk throughout the group. The policies are in compliance with the Basel II requirements for the standardised approach for operational risk, which is used for determining the regulatory capital requirements and economic capital requirements in the context of the risk-bearing capacity calculation.

At group level, operational risk is monitored by the Management of ProCredit Holding, the Group Risk Management Committee and the Group Committee on Financial Crime Prevention. At bank level, the management of each institution bears responsibility for the appropriate local implementation of the group policies. In accordance with group policies, each bank has an assigned operational risk manager to ensure effective implementation of the operational and fraud risk management framework within the institution. Operational risk managers work in close co-operation with process owners who are responsible for the management of operational and fraud risks in their areas of expertise. Each bank has an (Operational) Risk Management Committee, which is the decision-making body for operational risk matters.

A centralised and decentralised reporting procedure ensures that the Management of ProCredit Holding, the management of each ProCredit bank, and members of the (Operational) Risk Management Committees receive regular information on the operational risk profile.

The operational risk and fraud risk management process consists of the identification, evaluation/quantification, treatment, monitoring, communication and documentation, and follow-up of such risks. The main tools utilised within the group to manage operational and fraud risks are the Risk Event Database (RED), the Annual Risk Assessments, established Key Risk Indicators (KRI) and the New Risk Approvals (NRA) process.

The Risk Event Database was developed to ensure that all identified operational risk events are documented, analysed and communicated effectively. It guides all ProCredit institutions through the risk management process, ensuring that sufficient attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

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 verify the adequacy of the control environment. These two tools complement each other and provide an overall picture of the operational risk profile of each institution as well as of the group.

The Key Risk Indicators are used to identify elevated fraud risk in specific areas of banking operations or specific branch locations that could be used by potential fraudsters. These indicators are analysed regularly and where needed preventive measures are agreed on.

To complete the management of operational risk, all new products, processes and instruments need to be analysed to identify and manage potential risks before their implementation. This is ensured by the NRA process.

The table below provides an overview of the gross and net losses due to operational loss events in the ProCredit group (data as of 26.02.2014).

Operational risk indicators

in EUR m	2013	2012	2011
Gross loss	3.4	3.3	3.6
Current net loss	2.3	1.6	2.0
Expected net loss	1.4	1.3	1.0
Number of loss events	1,288	1,439	1,381

8 Remuneration

8.1 Principles of remuneration

The group's HR management is based on fostering long-term relationships between our staff and the ProCredit institutions and promoting responsible behaviour among staff. ProCredit Holding sets the framework for the banks' HR management and organises a regular exchange of experience in this area. Each ProCredit institution is responsible for local implementation of the standards.

The ProCredit group's remuneration system matches our conservative business and risk strategy and does not encourage excessive risk taking by individual employees. The remuneration structure of the ProCredit group is defined by ProCredit Holding with the following objectives:

- to encourage staff to perform their duties in line with the conservative risk profile of the ProCredit group
- to attract and retain staff and managers with the requisite social and technical skills
- to support the development and maintenance of long-term working relationships
- to encourage staff to assume responsibility, to effectively manage the operations of the bank and to work together as a team
- to ensure that the remuneration is perceived to be transparent and fair

The ProCredit group offers its staff a remuneration which is perceived as fair by both sides – the employee and the ProCredit institution. ProCredit institutions do not pay the highest salaries but offer remuneration that, for the majority of the staff, reflects market averages. For the management staff, on the other hand, the monetary compensation paid by ProCredit is often below the level offered by competitors. These principles upon which remuneration within the ProCredit group is based are already communicated during the recruitment process.

In addition to receiving a fair salary, we offer ProCredit staff members excellent training and rewarding professional opportunities. Given the often poorly developed education systems in the countries in which we operate, our professional development programmes represent a significant benefit for our staff. Participation in basic and advanced training measures are perceived by our staff to be an important part of the overall compensation package. Each individual institution in the ProCredit group invests significant amounts in training, and the expenditures for training measures are a substantial part of overall personnel expenses. Other important factors which build long-term relationships between our staff and ProCredit institutions are the typically interesting jobs we offer, transparent promotion opportunities as well as a pleasant and professional working environment. In this context, establishing an appropriate relationship between work and private life is important to the ProCredit group.

8.2 Structure of remuneration

A ProCredit institution may make use of various elements of a remuneration package for its employees. Selecting which of the following elements is employed by the bank depends on the financial situation of the institution and on prevailing market conditions.

- fixed salary
- employer contributions towards the purchase of shares in ProCredit Holding through IPC Invest (IPC Invest is an investment vehicle which pools investments from staff and managers of ProCredit institutions)
- employer contributions to private health insurance; for ProCredit Bank Germany and ProCredit Holding, contributions to a private pension scheme
- non-monetary rewards

ProCredit Holding has developed a salary scheme that defines fixed remuneration amounts according to the function, level of responsibility and performance of the staff member/manager. This scheme applies to all ProCredit banks. The purpose of this salary structure is to ensure that positions with comparable responsibility within the group are also compensated according to the same principles. This scheme also defines which professional development programmes an employee must have successfully completed in order to be appointed to the various positions.

The fixed salary is by far the largest part of all staff members' remuneration. Variable remuneration components are used only to a very limited extent, as we believe that incentives based on variable remuneration components may negatively impact the provision of responsible advice to our clients. Therefore, ProCredit institutions are in general instructed to pay variable remuneration components only to a very limited extent and preferably in the form of a contribution to the purchase of shares in IPC Invest; these shares have a minimum holding period of five years. In any case the variable remuneration must not exceed 20% of total remuneration.

ProCredit institutions support their staff members by contributing towards the costs of private health insurance in the event that the state-sponsored health insurance system does not provide sufficient or appropriate coverage. Two years after becoming employees of ProCredit Bank Germany or ProCredit Holding, staff are eligible for employer contributions to a private pension scheme.

Non-monetary benefits are granted for outstanding performance or exceptional commitment to an institution, for example in the form of opportunities to visit banks in other countries, to participate in a group-wide event or to participate in extra training.

The remuneration of the employee or manager is reviewed at least once per year.

8.3 Communication and approval of remuneration schemes

The institutions' remuneration schemes must be transparent and must be communicated to the staff members. The management of the ProCredit banks report annually to the supervisory boards of the banks on the remuneration structure. The remuneration scheme for each bank's staff is approved by the management of the respective bank; however, the management is permitted to delegate this responsibility to a remuneration committee. The remuneration schemes for the management of the banks are approved by the Management of ProCredit Holding and the respective banks' supervisory boards. ProCredit Holding is managed by the members of the Managament Board of ProCredit General Partner AG. The Supervisory Board of ProCredit General Partner AG determines the remuneration for the members of the Management Board. The Human Resources Committee is the bank body responsible for taking decisions regarding the professional development of staff members and the revision of the bank's remuneration practices. The Committee meets on a regular basis, at least four times per year.

8.4 Remuneration of the Management of ProCredit Holding and the Management Board of ProCredit Bank Germany

The remuneration (including contributions to social security and pension insurance) of the members of the Management Boards of ProCredit General Partner AG and ProCredit Bank Germany are given below. These are the highest paid staff members of the ProCredit group. As with all employees in the ProCredit group, variable remuneration components are only used to a limited degree.

Management remuneration at ProCredit General Partner AG and ProCredit Bank Germany

in EUR '000	2013	2012
Average remuneration		
ProCredit General Partner AG	173.7	163.7
ProCredit Bank Germany	179.8	185.5

ProCredit Holding AG & Co. KGaA
Rohmerplatz 33-37
60486 Frankfurt am Main, Germany
Tel. +49-(0)69 - 95 14 37-0
Fax +49-(0)69 - 95 14 37-168
www.procredit-holding.com