DISCLOSURE REPORT 2018

ProCredit Holding AG & Co. KGaA

Contents

1 Introduction

The ProCredit financial holding group (ProCredit group or the group) comprises development-oriented commercial banks in South Eastern and Eastern Europe and in South America, and a bank in Germany. The business model focuses on small and medium enterprises (SMEs) and on the core activities comprising classical banking.

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

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

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

In addition to serving SMEs, the ProCredit group also pursues a direct banking strategy for private clients, particularly the growing middle class. Our comprehensive, integrated account service offer forms the foundation for long-term client relationships. We provide our clients with the possibility to perform all of their banking business through online and mobile channels. Common banking services are covered by a standardised monthly fee. In addition, our clients have direct access to various savings and financing options. With our account service offer, we aim to stand out from other providers in terms of simplicity, convenience, security and pricing transparency. We combine the intelligent application of technology with comprehensive quality of advice. In addition, our outlets are equipped with 24-hour self-service areas.

The superordinated company of the group is ProCredit Holding AG & Co. KGaA (ProCredit Holding), based in Frankfurt am Main, Germany. The ProCredit group is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the Deutsche Bundesbank. ProCredit Holding 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 (KWG). The ProCredit Holding shares are traded on the Prime Standard segment of the Frankfurt Stock Exchange.

With this disclosure report, ProCredit Holding complies with the disclosure requirements for the ProCredit group as of 31 December 2018, particularly as set forth in Part Eight, Articles 431-455 of Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR). Disclosures in this report are carried out at group level. The information 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 2018 Annual Report. The disclosure report has been approved by the Management of ProCredit Holding.

The disclosed information is subject to the materiality principle set forth in Article 432 CRR. Legally protected or confidential information is generally excepted from disclosure. The disclosure report of the ProCredit group is compiled on the basis of completeness and on the basis of our internal policies, regulations and procedures that are set out in writing for the fulfilment of disclosure requirements. One fundamental aspect in this context is the regular review of the suitability of disclosure practices. This review also applies to the frequency of disclosure in accordance with Article 433 CRR. This report also contains disclosures on remuneration in accordance with Article 450 CRR. Article 441 CRR is not relevant for the ProCredit group, as it is not classified as being of global systemic importance.

As a supplement to this disclosure report, information on the ProCredit group is available in ProCredit Holding's 2018 Annual Report, which is published on the website. Disclosures of significant subsidiaries in accordance with Article 13 CRR can likewise be found on ProCredit Holding's website. Each of those reports has been approved by the respective bank's Management Board. Information on country-specific disclosure pursuant to Section 26a KWG is available in ProCredit Holding's Annual Report for 2018.

This report contains summed figures and percent calculations that may, due to rounding, contain minor deviations.

2 Scope of consolidation

This disclosure report is prepared on the basis of the companies in the ProCredit group which have been consolidated for regulatory purposes; in accordance with Section 10a KWG in conjunction with Article 18 CRR, this includes only institutions carrying out banking and other financial business. In contrast to the scope of consolidation for regulatory purposes, the companies consolidated under IFRS comprise all the companies over which the parent company can exercise a controlling influence.

The entities that are included either in the consolidation for regulatory purposes or in the consolidation under IFRS are listed in the following consolidation matrix as of 31 December 2018. There are no entities which are proportionally consolidated.

Scope of consolidation

Company name and location	Regulatory treatment			Full consolidation according to IFRS
	Full consolidation according to Art. 18 CRR	Exclusion according to Art. 19 CRR	Risk-weighted equity investments	
Financial holding company				
ProCredit Holding AG & Co. KGaA, Germany	x			x
Credit institutions				
ProCredit Bank Sh.a., Albania	x			x
ProCredit Bank d.d., Bosnia and Herzegovina	x			x
ProCredit Bank (Bulgaria) EAD, Bulgaria	x			x
Banco ProCredit Colombia S.A., Colombia	x			x
Banco ProCredit S.A., Ecuador	x			x
JSC ProCredit Bank, Georgia	x			x
ProCredit Bank AG, Germany	x			x
ProCredit Bank Sh.a., Kosovo	x			x
ProCredit Bank A.D., Macedonia	x			x
BC ProCredit Bank S.A., Moldova	x			x
ProCredit Bank S.A., Romania	x			x
ProCredit Bank a.d. Beograd, Serbia	x			x
JSC ProCredit Bank, Ukraine	x			x
Financial institution				
Administración y Recuperación de Cartera Michoacán, S.A. de C.V., SOFOM, E.N.R., Mexico	x			x
Ancillary services undertakings				
Quipu GmbH, Germany	x			x
ProCredit Reporting DOOEL, Macedonia		x	x	
Special purpose vehicle				
PC Finance II B.V., The Netherlands	x			x
Other				
ProCredit Academy GmbH, Germany			x	x
Pro Energy L.L.C., Kosovo		x	x	
ProCredit Regional Academy Eastern Europe, Macedonia			x	x

For the ProCredit group there are few distinctions between the scope of consolidation for regulatory purposes and the scope of consolidation applied for group accounting purposes. The ProCredit academies in Germany and Macedonia and Pro Energy L.L.C. are not included in the scope of consolidation for regulatory purposes, as they do not provide any financial services or ancillary services. The ProCredit group established the academies to provide training for management staff from the ProCredit banks. Likewise, ProCredit Reporting DOOEL, located in Macedonia, has been excluded from the scope of consolidation for regulatory purposes, as it does not reach the size criteria set forth in Article 19 (1) CRR. ProCredit Reporting DOOEL provides reporting and controlling services exclusively for ProCredit Holding and the ProCredit bank in Germany.

Due to their structure, the special purpose vehicles (SPVs) established in the framework of securitisation transactions are consolidated according to IFRS and also for regulatory purposes. There is currently only one SPV (PC Finance II B.V.), which is in the process of dissolution. The structure in Ecuador was dissolved during the reporting period. Details are disclosed in the Securitisations section of this report.

The financial institution in Mexico, Administración y Recuperación de Cartera Michoacán, was sold at the end of January 2019. For simplification purposes, the institution was allocated to the South America segment in this disclosure report. Unlike in the 2018 Annual Report, this institution is not reported under discontinued operations in this disclosure report.

There are currently no known material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among ProCredit Holding and its subsidiaries, in accordance with Article 436 (c) CRR. Moreover, no such impediments are currently anticipated. Dividend payments are subject to certain restrictions in some countries where the ProCredit group operates, insofar as the regulatory authorities retain the right to approve of the dividend payout and may impose time constraints. In the course of 2018, the National Bank of Ukraine further eased a part of the constraints which had been introduced in connection with currency transactions and international transfers of dividend payments to foreign investors.

The ProCredit group makes no use of the option to derogate from the application of prudential requirements on an individual basis pursuant to Article 7 CRR.

3 Risk management

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

3.1 Risk strategy

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the group and each individual bank continues to be appropriate at all times, as well as to achieve steady results.

While the business strategy lists the objectives of the group for all material business activities and regions of operation and presents measures to be taken to achieve them, the group risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the group. Both the risk strategy and business strategy are updated each year and approved by the Management of ProCredit Holding following discussions with the Supervisory Board.

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

i. Focus on core business

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

ii. High degree of transparency, simplicity and diversification

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans regions and countries, comprising urban and rural areas within countries. In terms of client groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is an integral 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 services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and our simple, transparent services and processes result in a significant reduction of the group's risk profile.

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 select our staff very carefully and have invested heavily in staff training over many years. Our intensive training efforts not only produce a high level of professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to thinking critically and voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Key elements of risk management

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

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

These key elements of risk management in the ProCredit group are based on the regulatory requirements, on the substantial knowledge we have acquired over the past 20 years in our markets, and on a precise understanding of both our clients and the risks we assume. The countries where the ProCredit group operates are at different stages of development. Although the operating environment in these countries has improved over the last ten years, some are still characterised by relatively volatile macroeconomic environments and public institutions that are not yet fully developed. The diversification of our business activities, combined with our comprehensive knowledge, provide a solid foundation for us to manage this risk.

3.2 Organisation of risk management and risk reporting

Risk management in the ProCredit group is the overall responsibility of the Management of ProCredit Holding, which regularly analyses the risk profile of the group and decides on appropriate measures. Customer credit risk, which is of particular significance for the ProCredit group, is managed by Mr Borislav Kostadinov; all other risks are managed by Ms Sandrine Massiani.

The Compliance Function, which ensures the implementation of legal regulations and requirements and avoids the risks associated with non-compliance, and Internal Audit Function report directly to the Management. A member of the Management of ProCredit Holding, Ms Sandrine Massiani, bears responsibility for the Risk Control Function, as required by MaRisk.

Risk management at group level is supported conceptually and implemented operationally by risk management and finance functions. Various committees support and advise the Management of ProCredit Holding:

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

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

Group Audit is an independent functional area within ProCredit Holding. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the group. Additionally, each ProCredit bank has an internal audit department which carries out the auditing procedures established by Group Audit. Once per year, the internal audit departments of the ProCredit banks carry out risk assessments of all of their bank's activities in order to arrive at a risk-based annual audit plan. Each internal audit department reports to an audit committee. The Group Audit team monitors the quality of the audits conducted in each ProCredit bank and provides technical guidance.

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

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

Each month ProCredit Holding prepares an aggregate risk report, with the Supervisory Board receiving reports on a quarterly basis. A quarterly report on stress testing is also prepared. Monitoring of both the individual banks' risk situation and the group's overall risk profile is carried out through a review of these reports and of additional information generated by individual banks and at group level. If necessary, additional 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 risk management.

3.3 Risk statement and risk profile

The risk management processes of the ProCredit group have been designed in a suitable manner considering the nature, scale, complexity and riskiness of the business activities as well as the business strategy and the risk strategy of the group. MaRisk and relevant publications of national and international regulatory authorities are taken into account at all times during this process.

The group-wide processes for risk management take account of all material risks defined in the risk inventory; these processes were found to be appropriate and approved by the Management of ProCredit Holding, and are subject to ongoing further development. As the business strategy of the ProCredit group focuses on SMEs, the credit risk associated with serving this client group constitutes the material item in the group's risk profile.

A comprehensive set of early warning indicators (reporting triggers) and limits is used to measure, manage and limit risks at the group level and at the level of each individual bank. The limit system is the operational counterpart of the principles established in the risk policies, and it represents the risk tolerance level (risk appetite) defined by the Management. In addition to the limits for specific types of risk, e.g. limits for each borrower, limits for all material risks are set in the framework of the internal capital adequacy calculation.

Ongoing monitoring is performed in order to identify potential concentrations within risk categories or between risk types; if necessary, decisions are taken on measures to reduce any risk concentrations.

Key risk indicators, which provide a comprehensive overview of the risk profile of the group, are presented in the individual sections of the disclosure report on the material risks and in the explanations regarding capital adequacy.

4 Management body

4.1 Composition

ProCredit Holding AG & Co. KGaA, the superordinated company of the ProCredit group, has the legal form of a partnership limited by shares. ProCredit Holding is managed by the members of the Management Board of ProCredit General Partner AG. The Management Board of the general partner is responsible for managing ProCredit Holding in accordance with the requirements established in the law, in the Articles of Association and in the internal rules of procedure for ProCredit General Partner AG, as defined by its Supervisory Board.

The management body of ProCredit Holding in the 2018 financial year comprised the three members of the Management and the six members of the Supervisory Board.

The members of the Supervisory Board devote sufficient time to their duties. On the basis of the limited size of the Supervisory Board, the simple balance sheet structure of the group, its transparent risk profile and a remuneration structure which largely avoids variable remuneration elements, the Supervisory Board decided against the formation of committees. All Supervisory Board duties are performed by the Supervisory Board members themselves. Four in-person meetings of the Supervisory Board were held in the 2018 financial year.

4.2 Number of management or supervisory positions held by members of the management body

As a general rule, the members of the Management of ProCredit Holding do not hold supervisory or management positions outside of the group.[1]

The tables below indicate the number of positions held by the Management[2] and Supervisory Board, including their positions at ProCredit Holding.[3]

1 Ms Sandrine Massiani also fulfils management member tasks of a group-external company, albeit only mandatory, non-time-consuming duties.
2 Ms Sandrine Massiani is, in addition to her position as manager of ProCredit Holding, manager of ProCredit Reporting DOOEL, domiciled in Skopje.
3 The members of the Supervisory Board of the general partner, ProCredit General Partner AG, are the same as for the Supervisory Board of ProCredit Holding AG & Co. KGaA. As a general rule, the Supervisory Board of ProCredit General Partner AG meets immediately before the meeting of the Supervisory Board of ProCredit Holding AG & Co. KGaA. The positions at ProCredit Holding AG & Co. KGaA and ProCredit General Partner AG are presented together in the tables.

Number of management or supervisory positions held by members of the Management

31.12.2018	Management positions within the group	Supervisory positions within the group	Supervisory positions outside of the group
Borislav Kostadinov	1	8	–
Sandrine Massiani	2	3	–
Dr Gabriel Schor	1	2	-

Number of management or supervisory positions held by members of the Supervisory Board

31.12.2018	Management positions outside of the group	Supervisory positions within the group	Supervisory positions outside of the group
Dr Claus-Peter Zeitinger (Chairman)	-	3	-
Christian Krämer (Deputy Chairman)	1	2	-
Marianne Loner	-	2	4
Rainer Ottenstein	-	6	-
Petar Slavov	-	2	-
Jasper Snoek	1	1	-

4.3 Strategy for selecting the members of the management body

The managers are carefully selected by the Supervisory Board of the general partner, ProCredit General Partner AG. Managers of ProCredit Holding must be professionally and personally suitable and reliable, adhering to the requirements set forth in Section 25c KWG. The managers have both theoretical and practical experience in the business areas which are relevant for the ProCredit group and in all bank management functions, and they possess management experience. Information about the professional experience of the members of the Management is presented on the ProCredit Holding website.

The members of the Supervisory Board are appointed by the Annual General Meeting, with consideration given to the balanced and comprehensive knowledge, skills and experience of all Supervisory Board members and taking account for the requirements established in Section 25d KWG. The aim is to establish a reliable Supervisory Board, thus ensuring that the Management is subject to qualified controls and receives qualified advice from the Supervisory Board. The Supervisory Board is constituted in such a way that all of its members together possess the knowledge, skills and professional experience necessary for the proper performance of its duties. For each aspect of the Supervisory Board's function, at least one member possesses the relevant experience, thereby ensuring that the knowledge and experience of the Supervisory Board as a whole is complete.

The members of the Supervisory Board are/were active for many years in the areas that are material for the ProCredit group and possess relevant experience in the respective markets. They are/were engaged in management activities in various institutions in finance and possess relevant knowledge in the areas of risk management, accounting, auditing, internal auditing, compliance and SME business. Information about the professional experience of the members of the Supervisory Board is presented on the ProCredit Holding website.

In the process for selecting the members of the Management and of the Supervisory Board, the aim is to ensure an appropriate degree of diversity. As a result, both bodies comprise individuals representing diverse nationalities, professional and educational (university) backgrounds. The Supervisory Board established its goal of including at least one woman as a member of the Supervisory Board in the event that the Management has one or fewer women among its members. In the 2018 financial year, the Supervisory Board and the Management each had a woman among its members. Furthermore, the Management has established a 25% gender quota for the first two organisational levels below the Management. Moreover, the general rule for the maximum permissible age of Supervisory Board members is set at 75. Both of these requirements have also been met.

4.4 Flow of information concerning risk

The Management is provided with regular daily, monthly and quarterly risk reports in a timely manner after the respective reporting date. Furthermore, escalation mechanisms and ad-hoc reporting are implemented in the event of new risks, non-compliance with existing limits or, for known risks, in case of a significant increase in the probability of occurrence or the loss amount.

The Management of ProCredit Holding works closely together with the Supervisory Board to achieve the goals of the company. The Management reports to the Supervisory Board in a regular, timely and complete manner concerning all matters which are of particular significance for the group (including for individual ProCredit banks). This includes all relevant issues in regard to planning, business development, the risk situation, risk management and compliance. Information which is of material importance from a risk point of view is provided without delay to the Supervisory Board, independent of the regular quarterly reports on the risk situation. The Management determines the strategic orientation of the company in consultation with the Supervisory Board and discusses with the Supervisory Board at regular intervals regarding the implementation status of the strategy. If necessary, divergences of the course of business from established plans and targets are explained and reasons are provided. The Supervisory Board must be informed of any changes in the management of risk control function, in the internal audit function or in the compliance officer position.

5 Capital adequacy

5.1 Capital management

Capital management in the group is guided by the principle that neither a ProCredit bank nor the group as a whole may at any time incur greater risks than they are able to bear. Compliance with this principle is assured by regular monitoring an established set of early warning indicators and limits.

Our capital management framework has the following objectives:

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

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

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

The capital management of the ProCredit group is governed by group policies, and monitored on a monthly basis by the Group Risk Management Committee with regard to its current and future adequacy.

5.2 Structure of own funds

Own funds are calculated on the basis of CRR and KWG. A detailed presentation of the composition of own funds of the ProCredit group as of 31 December 2018 is provided in the table below.

Structure of own funds

		Amount 31.12.2018 in EUR m	Regulation (EU) No. 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: instruments and provisions			
1	Capital instruments and the related share premium accounts	441	26 (1), 27, 28, 29
	of which: subscribed capital (shares)	294	EBA list 26 (3)
2	Retained earnings	334	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	-96	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	3	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	20	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**702**	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	0	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-23	36 (1) (b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e) , 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) and (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)

continued on next page

		Amount 31.12.2018 in EUR m	Regulation (EU) No. 575/2013 Article Reference
continued			
21	Deferred tax assets that rely on future profitability and arise from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in hose entities	-	36 (1) (i), 48 (1) (b)
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-25**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**678**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**678**	Sum of rows 29 and 44
Tier 2 (T2) capital: instruments and reserves			
46	Capital instruments and the related share premium accounts	129	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)

continued on next page

		Amount 31.12.2018 in EUR m	Regulation (EU) No. 575/2013 Article Reference
continued			
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	1	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)
50	Credit risk adjustments	-	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**130**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66 (d), 69, 79
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**130**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**808**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**4,700**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.4%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	14.4%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	17.2%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	6.4%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1.9%	
66	of which: countercyclical buffer requirement	0.0%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.9%	CRD 128
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 48
75	Deferred tax assets that rely on future profitability and arise from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
continued on next page			

		Amount 31.12.2018 in EUR m	Regulation (EU) No. 575/2013 Article Reference
continued			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan. 2014 and 1 Jan. 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

Own funds comprises Tier 1 capital (Common Equity Tier 1 (CET1) capital plus Additional Tier 1 (AT1) capital) and Tier 2 (T2) capital.

As of 31 December 2018, the Common Equity Tier 1 of the ProCredit group amounted to EUR 678 million. The CET1 capital of the ProCredit group is mainly composed of subscribed capital and reserves. Deductions are made for intangible assets, deferred tax assets which are conditional on future profitability and do not result from temporary differences, and additional valuation adjustments for fair-valued positions.

ProCredit Holding carried out a capital increase in February 2018. The gross proceeds of the share issue amounted to EUR 61 million. This resulted in an increase of CET1 capital of the ProCredit group in the 2018 financial year. The Common Equity Tier 1 capital reported as of 31 December 2018 also includes interim profits as of 30 September 2018, less foreseeable charges and dividends. The complete impact of IFRS 9 has been recognised in the CET1 capital of the group. The respective transitional arrangements are not applied.

The ProCredit group issued no AT1 instruments. Therefore, as of 31 December 2018 the total amount of Tier 1 capital of the ProCredit group consisted of Common Equity Tier 1 capital.

A total amount of EUR 130 million is recognised as Tier 2 capital. This item consists of long-term subordinated liabilities which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. This refers to subordinated debt instruments issued since 2014, amounting to EUR 129 million in total, and the group's Tier 2 capital instruments recognised under the transitional provisions of the CRR. No new subordinated debt instruments were issued in 2018.

The CET1 and T2 instruments in the ProCredit group are presented in the annex to this disclosure report.

5.3 Reconciliation of the components of regulatory own funds and the consolidated balance sheet

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

Reconciliation of consolidated financial statements according to IFRS with balance sheet for regulatory purposes

31.12.2018 in EUR m	**Consolidated balance sheet according to consolidated financial statements**	**Deconsolidation of subsidiaries**	**Consolidated balance sheet for regulatory purposes**
Assets			
Cash and cash equivalents	158	0	158
Balances at central banks	806	-	806
Loans and advances to banks	212	0	211
Investment securities	297	-	297
Loans and advances to customers	4,268	7	4,274
Investments in subsidiaries, joint ventures and associates	-	2	2
Derivative financial assets	1	-	1
Property, plant and equipment and investment property	136	-9	126
Intangible assets	22	0	22
Current tax assets	4	0	4
Deferred tax assets	1	-	1
Other assets	60	1	61
Discontinued operations	1	-	1
Total assets	**5,966**	**1**	**5,967**
continued on next page			

31.12.2018 in EUR m	Consolidated balance sheet according to consolidated financial statements	Deconsolidation of subsidiaries	Consolidated balance sheet for regulatory purposes
continued			
Liabilities			
Liabilities to banks	201	0	201
Liabilities to customers	3,826	1	3,827
Liabilities to international financial institutions	813	-	813
Derivative financial liabilities	1	-	1
Debt securities	206	-	206
Other liabilities	18	0	18
Provisions	11	0	10
Current tax liabilities	2	0	2
Deferred tax liabilities	0	-	0
Subordinated liabilities	143	-	143
Discontinued operations	0	-	0
Total liabilities	**5,223**	**1**	**5,223**
Equity			
Subscribed capital	294	-	294
Capital reserve	147	-	147
Retained earnings*	368	0	368
Translation reserve	-75	0	-76
Revaluation reserve	2	-	2
Equity attributable to the equity holders of the parent company	**736**	**0**	**736**
Non-controlling interests	8	-	8
Total equity	**744**	**0**	**744**
Total equity and liabilities	**5,966**	**1**	**5,967**

* Retained earnings also include the legal reserves.

Reconciliation of shareholders' equity in balance sheet with regulatory own funds

in EUR m	31.12.2018
Shareholders' equity reported on balance sheet	**736**
Deconsolidation of subsidiaries	0
Shareholders' equity in regulatory balance sheet	**736**
Profit ineligible for recognition*	-34
Non-controlling interests	8
Minority interests ineligible for recognition under transitional provisions	-5
Adjustments relating to unrealised gains pursuant to Article 68 CRR	-2
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**702**
Additional value adjustments	0
Intangible assets**	-23
Tax assets which rely on future profitability and do not arise from temporary differences	-1
Regulatory adjustments due to transitional provisions on intangible assets and on deferred tax assets that rely on profitability	-
Common Equity Tier 1 (CET1) capital	**678**
Hybrid capital instruments	
Reported on balance sheet	-
of which: accrued interest	-
Amount excluded from AT1 due to cap	-
Regulatory adjustments due to transitional provisions on intangible assets	-
Additional Tier 1 (AT1) capital	**-**
Tier 1 (T1) capital	**678**
Subordinated liabilities	
Reported on balance sheet	143
of which: accrued interest and deferred fees	-1
of which: non-grandfathered instruments	-
Amortisation according to Article 64 CRR	-11
Regulatory adjustments to balance sheet	-2
Recognition of amount excluded from AT1 due to cap	-
Tier 2 (T2) capital	**130**
Total regulatory own funds	**808**

* As approved by the regulatory authorities, as of 31 December 2018 the interim profits as of 30 September 2018, less foreseeable charges and dividends, form part of the Common Equity Tier 1 capital.

** Deviations from the amount reported on the balance sheet arise due to static treatment.

5.4 Adequacy of own funds

This section presents the group's regulatory capital requirements and capital ratios.

Risk-weighted assets and capital requirements, by risk category

	31.12.2018		31.12.2017	
in EUR m	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Credit risk	**3,720**	**298**	**3,341**	**267**
Exposures to central governments or central banks	325	26	301	24
Exposures to regional governments or local authorities	0	0	0	0
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations	-	-	-	-
Exposures to institutions	10	1	14	1
Exposures to corporates	1,452	116	1,074	86
of which: SMEs subject to SME factor*	255	20	206	16
Exposures to institutions and corporates with a short-term credit assessment	78	6	35	3
Retail exposures	1,564	125	1,541	123
of which: SMEs subject to SME factor*	1,239	99	1,228	98
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	86	7	150	12
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Items representing securitisation positions	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	13	1	14	1
Equity exposures	8	1	6	0
Other items	186	15	205	16
Credit Valuation Adjustment (CVA) risk	**1**	**0**	**2**	**0**
Market risk (foreign currency risk)	**511**	**41**	**439**	**35**
Operational risk	**467**	**37**	**549**	**44**
Total	**4,700**	**376**	**4,330**	**346**

* Amount of risk-weighted exposure after application of SME factor

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

As the ProCredit group consists exclusively 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 respective amount to be recognised at group level is determined using the aggregation method. Foreign currency risk at group level arises primarily as a result of the equity holdings denominated in foreign currency that ProCredit Holding maintains in its foreign subsidiaries. However, the effects of exchange rate fluctuations on the capital ratios of individual institutions or of the group as a whole 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 37 million, the average annual net loss according to data recorded in the Risk Event Database for the last three years amounted to less than EUR 2 million.

Given the small volume of derivatives held by the group, the risk arising from Credit Valuation Adjustment (CVA)[4] is insignificant. The ProCredit group uses the standardised approach to calculate the capital requirements to cover CVA risk.

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

The group's regulatory capital ratios are shown in the table below.

Regulatory capital ratios

in EUR m	31.12.2018	31.12.2017
Common Equity Tier 1 capital	678	595
Additional Tier 1 capital	-	-
Tier 2 capital	130	130
Own funds	**808**	**725**
Credit risk	3,720	3,341
CVA risk	1	2
Market risk (foreign currency risk)	511	439
Operational risk	467	549
Risk-weighted assets	**4,700**	**4,330**
Common Equity Tier 1 capital ratio	**14.4%**	**13.7%**
Tier 1 capital ratio	**14.4%**	**13.7%**
Total capital ratio	**17.2%**	**16.7%**

The CRR minimum capital ratios are set to 4.5% for the Common Equity Tier 1 capital ratio, 6% for the Tier 1 capital ratio and 8% for the total capital ratio. The capital conservation buffer, as implemented incrementally since 1 January 2016, for 2018 is 1.9%. A capital add-on pursuant to the Supervisory Review and Evaluation Process (SREP) was set for the ProCredit group for the first time in the first half of 2018. The total capital add-on is 3.0 p.p. The countercyclical capital buffer currently plays no role for the ProCredit group, due to the geographical distribution of credit exposures. This buffer will be addressed in detail in the following section. Overall, this results in a minimum capital requirement of 8.1% for the CET1 capital ratio, 10.1% for the T1 capital ratio and 12.9% for the total capital ratio, taking into account the capital buffers.

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

With a Common Equity Tier 1 capital ratio of 14.4%, a Tier 1 capital ratio of 14.4% and a total capital ratio of 17.2% as of 31 December 2018, the ProCredit group's ratios clearly exceed the current regulatory requirements.

In addition, all group banks complied with their respective national regulatory capital requirements during the reporting period at all times.

5.5 Countercyclical capital buffer

The countercyclical buffer rate ranges from 0% to 2.5% and is set individually for each country by the responsible authority in the respective country, with consideration given to any country-specific recommendations of the macroprudential authorities. The individual countercyclical buffer for an institution is calculated as the weighted average of the capital buffers across all jurisdictions. The weighting is based on the geographical distribution of all credit exposures to the private sector. As the responsible supervisory authority, BaFin set the countercyclical capital buffer for Germany to 0% for all of 2018. Likewise, the 2018 countercyclical capital buffer for all other countries where ProCredit is active has either been set to 0% or has not yet been defined. The buffer requirement for the ProCredit group as of 31 December 2018 was around EUR 10,000; therefore, the countercyclical capital buffer is currently insignificant.

The following table presents, as of 31 December 2018, the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer and the institution-specific rate for the requirement.

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

31.12.2018	General credit exposures	Trading book exposure	Securitisation exposure	Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
in EUR m	Exposure value for SA	Sum of long and short position of trading book	Exposure value for SA	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
Breakdown by country									
Bulgaria	836	–	–	44	–	–	44	0.16	0.000
Serbia	833	–	–	46	–	–	46	0.17	–
Kosovo	598	–	–	33	–	–	33	0.12	–
Ukraine	542	–	–	33	–	–	33	0.12	–
Georgia	406	–	–	23	–	–	23	0.09	–
Macedonia	395	–	–	21	–	–	21	0.08	–
Ecuador	271	–	–	15	–	–	15	0.06	–
Romania	266	–	–	14	–	–	14	0.05	0.000
Bosnia and Herzegovina	216	–	–	11	–	–	11	0.04	–
Albania	214	–	–	12	–	–	12	0.04	–
Germany	157	–	–	7	–	–	7	0.03	0.000
Moldova	122	–	–	6	–	–	6	0.02	–
Greece	51	–	–	2	–	–	2	0.01	0.000
Colombia	47	–	–	2	–	–	2	0.01	–
United States of America	15	–	–	0	–	–	0	0.00	0.000
Belgium	7	–	–	0	–	–	0	0.00	0.000
Mexico	4	–	–	0	–	–	0	0.00	0.000
United Kingdom	3	–	–	0	–	–	0	0.00	0.010
Italy	1	–	–	0	–	–	0	0.00	0.000
Russia	1	–	–	0	–	–	0	0.00	0.000
Other	2	–	–	0	–	–	0	0.00	0.000
Total	**4,987**	**–**	**–**	**271**	**–**	**–**	**271**	**1.00**	

Amount of institution-specific countercyclical capital buffer

31.12.2018 in EUR m	
Total risk exposure amount	4,700
Institution-specific countercyclical buffer rate	0.00%
Institution-specific countercyclical buffer requirement	0

5.6 Leverage ratio

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. A binding minimum requirement for the leverage ratio has yet to take effect; however, it is expected to be 3% when CRR II comes into force. As of year-end 2018 the ProCredit group reported a very comfortable leverage ratio of 11.0%. There has been further improvement compared to the previous year, which ended with a ratio of 10.5%. The total risk position for the ProCredit group increased in the course of 2018 by EUR 467.1 million. This development was due primarily to loan portfolio growth. The simultaneous rise in T1 capital by EUR 84.4 million had a stronger proportional effect, with the result that the leverage ratio increased overall.

Leverage ratio common disclosure

31.12.2018 in EUR m		**CRR leverage ratio exposures**
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,955
2	(Asset amounts deducted in determining Tier 1 capital)	-24
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of rows 1 and 2)**	**5,931**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	-
EU-5a	Exposure determined under Original Exposure Method	4
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of rows 4 to 10)**	4
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-

Continued on next page

31.12.2018 in EUR m		CRR leverage ratio exposures
Continued		
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No. 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15a)**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	650
18	(Adjustments for conversion to credit equivalent amounts)	-447
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	**203**
Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
20	**Tier 1 capital**	**678**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**6,138**
Leverage ratio		
22	**Leverage ratio**	**11.0%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional rules
EU-24	Amount of derecognised fiduciary items in accordance with Article 429 (11) of Regulation (EU) No. 575/2013	-

Summary reconciliation of accounting assets and leverage ratio exposures

31.12.2018 in EUR m		Applicable amount
1	Total assets as per published financial statements	5,966
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	1
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429 (13) of Regulation (EU) No. 575/2013)	-
4	Adjustments for derivative financial instruments	3
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	203
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No. 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No. 575/2013)	-
7	Other adjustments	-34
8	**Leverage ratio total exposure measure**	**6,138**

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

31.12.2018 in EUR m		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	5,955
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	5,955
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	1,077
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	14
EU-7	Institutions	37
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	2,631
EU-10	Corporates	1,612
EU-11	Exposures in default	72
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	513

In the framework of monitoring the risk profile and capital adequacy, the leverage ratio is a material component of integrated performance and risk management of the ProCredit group. The Group Risk Management Committee is informed monthly about the development of the leverage ratio and also receives ratio forecasts for the subsequent four quarters. On the basis of this information, early measures can be taken, if necessary, to manage the risk of excessive leveraging.

5.7 Internal capital adequacy

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

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

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

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

The following risks are included in the internal capital adequacy calculation:

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

The group's risk-taking potential (RTP) in the gone concern approach, defined as the consolidated group equity (net of intangibles, minority interests and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 841 million as of the end of December 2018. The Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 720 million. This reflects the maximum acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set significantly below the group's RTP in order to ensure the existence of a sufficient security buffer. The economic capital required to cover the risks is compared with the internal capital available for each risk and for covering all risks.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation as of end-December 2018. In the standard scenario, which under the gone concern approach is calculated with a 99.9% confidence level, the ProCredit group needs 64.9% of its RAtCR and 55.5% of its RTP to cover its risk profile.

Internal capital adequacy, gone concern approach

31.12.2018	Limit in EUR m	Limit utilisation in EUR m	Limit utilisation in %
Credit risk	380	248	65.4
Interest rate risk	90	48	53.4
Foreign currency risk	138	92	66.8
Operational risk	30	21	70.9
Business risk	35	21	60.6
Funding risk	10	6	57.4
Model risk	37	30	N/A
Total 2018	**720**	**467**	**64.9**
Total 2017	675	481	71.3

Stress tests

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

The stress scenarios apply to both historical and hypothetical stress situations. They include, among other things, assumptions depicting significant deterioration of worldwide macroeconomic conditions and simultaneous massive economic downturn. The selection of the scenarios takes account for the group's strategic orientation and the economic environment.

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

6 Credit risk

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

6.1 Customer credit risk

Strategy and principles

The key objectives of our credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. For our lending operations with clients, we apply the following principles, among others:

- intensive analysis of the debt capacity and repayment capacity of borrowers, including an analysis of future cash flows
- carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by expert third parties
- strictly avoiding overindebtedness among credit clients
- building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure in regular monitoring reports
- strictly monitoring the repayment of credit exposures
- customer-oriented, intensified loan management in the event of past due loans
- collateral collection in the event of insolvency

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

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

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

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

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

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

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

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

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

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

In addition, asset quality indicators have been introduced, on the basis of which the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and additional risk characteristics;

these include the initiation of bankruptcy proceedings or similar court procedures, restructurings or collateral liquidations by other banks, as well as other factors which indicate a significant deterioration of the economic situation of the client. The indicators allow for a clear overview of the quality of the group's portfolio and that of an individual bank, and represent one of the most important tools for the credit risk management process.

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

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure. One of the first steps in managing the exposure is to determine the economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay.

When a credit exposure is classified as defaulted, specialised officers take over responsibility for dealings with the client. These officers are supported by the legal department. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

Credit risk at the portfolio level is assessed regularly. This includes an analysis of portfolio structure and quality, restructured exposures, write-offs, the coverage ratio (loss allowances in relation to past due portfolio), concentration risk and migration analyses.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium-sized businesses in various economic sectors and private clients and the distribution of the loan portfolio across 13 banks. In addition, the ProCredit banks limit the concentration risk of their portfolios by means of the following requirements: Large credit exposures (those exceeding 10% of regulatory capital of the respective ProCredit bank) require the approval of the Group Risk Management Committee. No individual 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.

Structure of the loan portfolio

The following tables provide an overview of the ProCredit group's client exposures, broken down by significant geographic areas, industries and contractual residual maturities, in accordance with Article 442 CRR.

Client exposures, by exposure type

in EUR m	Average amount of exposures 2018	Total amount of exposures 31.12.2018	Average amount of exposures 2017	Total amount of exposures 31.12.2017
Exposures to regional governments or local authorities	0	0	0	0
Exposures to corporates	1,557	1,726	1,055	1,231
Retail exposures	3,119	3,135	3,336	3,079
Exposures in default	69	61	129	104
Other items	-	-	8	9
Total	**4,745**	**4,923**	**4,528**	**4,423**

The on- and off-balance sheet loan portfolio volume, net of provisions, stood at EUR 4.9 billion at year-end 2018. At EUR 648 million, the volume of off-balance sheet items is limited, which reflects the focus of our business model on small and medium-sized business clients. Of this amount, 69% consisted of credit commitments with immediate right of cancellation.

In 2018 nearly all of the geographical regions where we operate showed loan portfolio growth. Due to the sale of a part of the portfolio of the institution in Germany, loan volume was down slightly there.

Client exposures, by significant geographic area

in EUR m	South Eastern Europe	Eastern Europe	South America	Germany
Exposures to regional governments or local authorities	0	-	-	-
Exposures to corporates	1,150	433	44	99
Retail exposures	2,301	613	222	-
Exposures in default	40	17	4	-
Other items	-	-	-	-
Total 2018	**3,492**	**1,063**	**270**	**99**
Total 2017	3,187	881	236	119

The following table presents client exposures by industry.

Client exposures, by industry

in EUR m	Non-financial companies				Other
	Production (including agriculture)	Trade	Transport and storage	Other non-financial companies	
Exposures to regional governments or local authorities	-	-	-	-	0
Exposures to corporates	792	510	71	340	13
of which: SMEs	742	445	66	303	11
Retail exposures	1,133	922	190	554	335
of which: SMEs	967	702	155	427	53
Exposures in default	24	17	3	14	3
of which: SMEs	24	16	2	14	1
Other items	-	-	-	-	1
Total 2018	**1,950**	**1,449**	**263**	**908**	**352**
Total 2017	1,641	1,350	245	827	361

The following table shows client exposures according to contractual residual maturity.

Client exposures, by residual maturity

in EUR m	< 1 year	1-5 years	> 5 years
Exposures to regional governments or local authorities	-	0	-
Exposures to corporates	534	531	661
Retail exposures	1,182	1,211	742
Exposures in default	19	28	14
Other items	-	-	-
Total 2018	**1,735**	**1,770**	**1,417**
Total 2017	1,527	1,692	1,205

6.2 Counterparty risk, including issuer risk

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

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

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

Issuer risk is likewise managed according to these principles. Within the ProCredit group, it is prohibited to engage in speculative trading. Liquidity in domestic currencies is predominantly invested in central bank papers or sovereign bonds in the respective country. In contrast, euros and US dollars are generally invested in OECD sovereigns or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited, because the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

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

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

The group's exposure to counterparty and issuer risk remained relatively stable compared to 2017. The following tables provide an overview of the ProCredit group's counterparty risk, broken down by significant geographical regions, counterparty types and residual maturities.

According to Article 107 (3) CRR, exposures to third-country credit institutions are to be treated as exposures to an institution only if the third country applies prudential and supervisory requirements to that entity that are at least equivalent to those applied in the EU. Exposures to third-country credit institutions which do not meet the criteria set out above are reported under the exposure classes "corporates" and "institutions and corporates with short-term credit assessment".

Exposures to counterparties and issuers, by exposure type

in EUR m	Average amount of exposures 2018	Total amount of exposures 31.12.2018	Average amount of exposures 2017	Total amount of exposures 31.12.2017
Exposures to central governments or central banks	966	1,036	882	1,049
Exposures to regional governments or local authorities	23	23	34	28
Exposures to public sector entities	15	13	15	17
Exposures to multilateral development banks	18	18	18	18
Exposures to international organisations	-	-	-	-
Exposures to institutions	43	38	61	64
Exposures to corporates	37	26	60	49
Exposures to institutions and corporates with a short-term credit assessment	61	149	57	87
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	14	13	16	14
Total	**1,177**	**1,315**	**1,144**	**1,328**

Exposures to counterparties and issuers, by significant geographic area

in EUR m	EU member states	Third countries			
		South Eastern and Eastern Europe	South America	Other OECD	Other non-OECD
Exposures to central governments or central banks	476	529	13	19	-
Exposures to regional governments or local authorities	23	-	-	-	-
Exposures to public sector entities	13	-	-	-	-
Exposures to multilateral development banks	-	-	-	18	-
Exposures to international organisations	-	-	-	-	-
Exposures to institutions	35	-	-	3	-
Exposures to corporates	-	10	15	-	0
Exposures to institutions and corporates with a short-term credit assessment	115	11	9	13	0
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	-	-	13	-	-
Total 2018	**663**	**550**	**50**	**53**	**0**
Total 2017	**709**	**486**	**86**	**46**	**0**

Exposures to counterparties and issuers, by counterparty type

in EUR m	Central banks, central governments, international organisations and development banks		Banks		Other
	OECD	Non-OECD	OECD	Non-OECD	
Exposures to central governments or central banks	354	682	-	0	-
Exposures to regional governments or local authorities	23	-	-	-	-
Exposures to public sector entities	9	-	4	-	-
Exposures to multilateral development banks	18	-	-	-	-
Exposures to international organisations	-	-	-	-	-
Exposures to institutions	-	-	38	-	-
Exposures to corporates	-	-	-	26	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	128	21	-
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	-	-	-	-	13
Total 2018	**404**	**682**	**170**	**46**	**13**
Total 2017	469	635	153	57	14

Exposures to counterparties and issuers, by residual maturity

in EUR m	< 1 year	1–5 years	> 5 years
Exposures to central governments or central banks	1,009	27	0
Exposures to regional governments or local authorities	4	19	-
Exposures to public sector entities	4	9	-
Exposures to multilateral development banks	-	18	-
Exposures to international organisations	-	-	-
Exposures to institutions	35	2	1
Exposures to corporates	26	-	-
Exposures to institutions and corporates with a short-term credit assessment	149	-	-
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	6	7	-
Total 2018	**1,232**	**82**	**1**
Total 2017	1,225	102	0

For counterparty risk, the same definitions for "past due" and "impaired" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of the exposures listed was past due nor showed any signs of impairment as of 31 December 2018. In accordance with IFRS 9 requirements, allowances were established for counterparty risk for the first time in the 2018 financial year.

6.3 Past due and impaired exposures

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

We define credit exposures as impaired if the bank has objective evidence that the quality of the credit exposure has deteriorated and it is deemed unlikely that the borrower will be able to fulfil his repayment obligations in full without recourse to collateral realisation. The main indicator of this condition is that the exposure is more than 90 days past due. However, credit exposures can show other signs of impairment as well. Typical examples are:

- initiation of bankruptcy proceedings
- initiation of legal proceedings by the bank
- information on the customer's business or changes in the client's market environment that are having or could have a negative impact on the client's payment capacity

This therefore applies to all exposures allocated to the defaulted loan portfolio (see 6.1). Loss allowances are established for impaired exposures according to the requirements described below for Stage 3.

Loss allowances

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

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

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

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

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

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

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

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

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

The loss allowances in the ProCredit group contain only specific credit risk adjustments. During the 2018 financial year, these were lower than in the previous period and developed as shown below:

Development of specific credit risk adjustments

	Total	of which			
in EUR m		Stage 1	Stage 2	Stage 3	POCI
Loss allowances at 1 January 2018	**161**	**40**	**17**	**105**	**0**
Additions	20	20	-	-	0
Releases	-26	-14	-3	-9	-
Transfers	-	0	-2	1	-
Change in credit risk	12	-9	0	21	0
Utilisation	-40	0	0	-40	0
Change through restructuring	6	0	1	5	-
Unwinding effects	-2	-	-	-2	-
Exchange rate adjustments and other changes	3	0	0	3	0
Loss allowances at 31 December 2018	**133**	**37**	**13**	**83**	**0**

The following tables present past due and impaired exposures, as well as loss allowances, by industry and significant geographic area.

Past due and impaired exposures, by industry

in EUR m		Past due but not impaired exposures	Impaired exposures	Loss allowances				Charges for specific credit risk adjustments
				Stage 1	Stage 2	Stage 3	POCI	
Non-financial companies	Production (including agriculture)	37	24	12	4	24	0	-3
	Trade	23	17	12	3	25	0	6
	Transport and storage	3	3	2	1	4	-	1
	Other non-financial companies	13	22	6	3	26	0	2
Financial enterprises		-	0	1	0	0	-	0
Other		9	3	3	2	5	-	1
Total 2018		**86**	**69**	**37**	**13**	**83**	**0**	**7**

Past due and impaired exposures, by significant geographic area

in EUR m	Past due but not impaired exposures	Impaired exposures	Loss allowances			
			Stage 1	Stage 2	Stage 3	POCI
South Eastern Europe	58	40	25	10	53	0
Eastern Europe	21	17	9	3	18	0
South America	6	11	3	1	13	0
Germany	0	-	0	-	-	-
Total 2018	**86**	**69**	**37**	**13**	**83**	**0**

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. The banks may write off parts of a credit exposure (e.g. in connection with a restructuring decision) in order to increase the chances that the remaining amount outstanding can be repaid in full. The direct and indirect costs of managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure. Bearing these points in mind, the banks generally write off insignificant credit exposures earlier than significant ones.

Uncollectible loans for which no loss allowances have been set aside in full are recognised in profit or loss as direct write-offs.

Loss allowances were accounted for in the income statement as follows.

Loss allowances in the income statement

in EUR m	1.1.–31.12.2018	1.1.–31.12.2017
Increase of loss allowances	83	108
Releases of loss allowances	-76	-87
Recoveries of write-offs	-14	-17
Direct write-offs	2	1
Non-substantial modification	1	N/A
Total	**-4**	**5**

6.4 Country risk

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

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

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

6.5 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 and interest rate risk, to obtain liquidity or on behalf of clients; they may not be engaged in for the purposes of proprietary or speculative trading. The following derivatives are relevant for the ProCredit group:

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

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

The following tables disclose the information in accordance with Article 439 CRR. Netting options are not exercised and collateral is not recognised.

Positive replacement value of derivatives

in EUR m	31.12.2018	31.12.2017
Interest rate currency swaps, FX swaps and FX forwards	1	1
Interest rate swaps	–	–
Total	**1**	**1**

Counterparty credit risk exposures from derivatives (original exposure method)

in EUR m	31.12.2018	31.12.2017
Interest rate currency swaps, FX swaps and FX forwards	3	3
Interest rate swaps	1	1
Total	**4**	**4**

Requirements pursuant to Article 439 (d) CRR to provide additional collateral in connection with rating downgrades are currently not applicable in the ProCredit group.

In 2018, 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.

6.6 Equities in the banking book

This section only covers equities within the meaning of Article 133 CRR. 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 and providers of ancillary services
- investments supporting operating processes

The investments in the academies and providers of ancillary services 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 generally 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.

Equity exposures in the banking book

in EUR m	Average amount of exposures 2018	Total amount of exposures 31.12.2018	Average amount of exposure 2017	Total amount of exposures 31.12.2017
Shares in academies and providers of ancillary services	4	4	4	4
Other shares	4	4	2	2
Total	**7**	**8**	**6**	**6**

Due to the nature of the investments (academies and providers of ancillary services) and the non-materiality of other investments, neither "the cumulative realised gains or losses arising from sales and liquidations in the period" nor "the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital" according to Article 447 (d) and (e) CRR are disclosed.

6.7 Use of external ratings and credit risk mitigation techniques in the credit risk standardised approach

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 or central banks", "institutions", "institutions and corporates with a short-term credit assessment" and "shares in collective investment undertakings (CIUs)". Since our customers are usually not rated, the ProCredit group does not use ratings for the exposure class "corporates".

For exposures where an external credit assessment is available, risk weighting is determined on the basis of that external rating. For unrated exposures, risk weighting is determined on the basis of a derived credit assessment, provided the conditions set forth in Article 139 and 140 CRR are met. In all other cases, the exposure is treated as unrated.

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

	Risk weighting, in %										Total
in EUR m	0	10	20	35	50	75	100	150	250	1,250	
Exposure class											
Exposures to central governments or central banks	452	42	–	–	5	–	535	–	–	–	1,036
Exposures to regional governments or local authorities	23	–	–	–	–	–	0	–	–	–	23
Exposures to public sector entities	13	–	–	–	–	–	–	–	–	–	13
Exposures to multilateral development banks	18	–	–	–	–	–	–	–	–	–	18
Exposures to international organisations	–	–	–	–	–	–	–	–	–	–	–
Exposures to institutions	–	–	34	–	6	–	–	–	–	–	40
Exposures to corporates	–	–	–	–	–	–	1,660	–	–	–	1,660
Exposures to institutions and corporates with a short-term credit assessment	–	–	93	–	14	–	25	18	–	–	150
Retail exposures	–	–	–	–	–	2,741	–	–	–	–	2,741
Exposures secured by mortgages on immovable property	–	–	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	43	29	–	–	72
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–	–	–	–	–
Items representing securitisation positions	–	–	–	–	–	–	–	–	–	–	–
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	–	–	–	–	–	–	13	–	–	–	13
Equity exposures	–	–	–	–	–	–	8	–	–	–	8
Other items	158	–	–	–	–	–	186	–	–	–	344
Total 2018	**664**	**42**	**127**	**–**	**25**	**2,741**	**2,470**	**47**	**2**	**–**	**6,118**
Total 2017	756	–	132	–	10	2,683	1,992	78	2	–	5,654

When determining the capital requirement for credit risk according to the standardised approach, credit risk mitigation techniques are only applied to a limited extent. Risk amounts arising from customer credit risk are reduced in part through the recognition of guarantees from the European Investment Fund (EIF) and cash collaterals. Moreover, guarantees from MIGA are recognised for our mandatory minimum reserves held with central banks outside of the EU.

Exposures towards central governments or central banks in non-EU countries, in countries whose supervisory system is not materially equivalent to that of EU countries, or in countries with a rating below the "lower-medium grade" (i.e. below BBB- in the case of Fitch Ratings) are given a risk weighting of at least 100% regardless of the underlying currency, as stipulated in CRR.

The mandatory minimum reserves are inevitable exposures driven by the group's business strategy, which is based on financing loans in transition economies mainly through customer deposits. The ProCredit group has therefore chosen to insure this exposure against the risk of default and expropriation. As of 31 December 2018, EUR 224 million of the EUR 388 million in total mandatory reserves were covered by MIGA guarantees.

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

	Risk weighting, in %										Total
in EUR m	0	10	20	35	50	75	100	150	250	1,250	
Exposure class											
Exposures to central governments or central banks	497	42	8	–	3	–	313	–	2	–	865
Exposures to regional governments or local authorities	23	–	–	–	–	–	0	–	–	–	23
Exposures to public sector entities	13	–	–	–	–	–	–	–	–	–	13
Exposures to multilateral development banks	457	–	–	–	–	–	–	–	–	–	457
Exposures to international organisations	–	–	–	–	–	–	–	–	–	–	–
Exposures to institutions	–	–	34	–	6	–	–	–	–	–	40
Exposures to corporates	–	–	–	–	–	–	1,531	–	–	–	1,531
Exposures to institutions and corporates with a short-term credit assessment	–	–	93	–	14	–	25	18	–	–	150
Retail exposures	–	–	–	–	–	2,602	–	–	–	–	2,602
Exposures secured by mortgages on immovable property	–	–	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	43	29	–	–	71
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–	–	–	–	–
Items representing securitisation positions	–	–	–	–	–	–	–	–	–	–	–
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	–	–	–	–	–	–	13	–	–	–	13
Equity exposures	–	–	–	–	–	–	8	–	–	–	8
Other items	158	–	–	–	–	–	186	–	–	–	344
Total 2018	**1,148**	**42**	**135**	**–**	**23**	**2,602**	**2,119**	**47**	**2**	**–**	**6,118**
Total 2017	1,148	–	141	–	9	2,567	1,710	78	2	–	5,654

Total amount of secured exposures

31.12.2018 in EUR m	Financial collateral	Guarantees	Other collateral	Total
Central governments	-	224	-	224
Regional governments	-	-	-	-
Other public sector entities	-	-	-	-
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions	-	-	-	-
Covered bonds issued by credit institutions	-	-	-	-
Corporates	18	111	-	129
Retail exposures	35	104	-	139
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in units or shares in collective investment undertakings (CIU)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Exposures in default	0	1	-	1
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures associated with particularly high risk	-	-	-	-
Total	**53**	**439**	**-**	**492**

Secured exposure amounts totalled EUR 492 million as of 31 December 2018. We do not currently include immovable property collateral or guarantees in the risk-weighted asset calculation.

6.8 Securitisations

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.

The remaining securitisation scheme in the ProCredit group was set up for the sole purpose of financing the loan portfolio growth of the bank in Serbia. Specifically, it was not undertaken with the intention of freeing up regulatory capital on group level nor was it undertaken with tax considerations in mind. The same applied to the structure in Ecuador, which was dissolved during the reporting period.

The ProCredit Serbia transaction (PC Finance II B.V.) was established in 2008 and is in the process of dissolution. The securitisation structure currently contains mostly impaired exposures. ProCredit Holding provides funding for the SPV by means of subordinated debt (EUR 1 million as of December 2018).

Securitised loan portfolio exposures

in EUR m	31.12.2018	31.12.2017
Exposures to corporates	0	0
Retail exposures	0	2
Exposures in default	1	1
Total	**1**	**3**

According to the principle of control established in IFRS 10, PC Finance II B.V. is fully consolidated for group accounting purposes under IFRS and, following approval from German supervisory authorities, also for regulatory purposes as laid down in KWG/CRR.

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 exposures", "exposures to corporates" and "exposures in default" and are risk-weighted accordingly.

Past due and impaired exposures in the securitised loan portfolio

in EUR m	Past due but not impaired exposures	Impaired exposures	Loss allowances			
			Stage 1	Stage 2	Stage 3	POCI
Total 2018	**-**	**1**	**-**	**0**	**0**	**0**

Securitised loan portfolio: risk-weighted assets and capital requirements

in EUR m	Total 2018	Total 2017
Risk-weighted assets	1	3
Own funds requirements	0	0

7 Market risks

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

7.1 Foreign currency risk

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

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

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

Foreign currency risk at group level arises as a result of the equity investments that ProCredit Holding maintains in its subordinated companies in countries which do not have the euro as the domestic currency. Most banks keep their equity in the respective domestic currency. Thus, from a consolidated group perspective, OCPs in the domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risk-taking potential are exposed to fluctuations due to changes in the exchange rates of domestic currencies against the euro. These are included in the translation reserve in the consolidated equity. These fluctuations are usually accompanied by simultaneous changes in the loan portfolio expressed in euro terms.

7.2 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 monitoring, limiting and managing of interest rate risk is based on economic value impact and P&L-oriented indicators. It is measured on a regular basis, at least quarterly. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Sight deposits and savings accounts are included in the gap analyses according to country- and currency-specific historical analyses.

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

At the group level, interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect; limits are set for this risk on the basis of economic value impact. The indicators are calculated using historical VaR models with a holding period of one year and a confidence level of 99.9% (EVI) or 99.0% (P&L effect). The maturity-specific interest rate shocks are based on historical scenarios of changes in the reference curve per currency.

Interest rate risk in the banking book

	31.12.2018		31.12.2017	
in EUR m	Economic value impact	12-month P&L effect	Economic value impact	12-month P&L effect
Total	**–48**	**–7**	**–65**	**–9**

The economic value impact fell in 2018 by EUR 16.8 million to EUR 48.0 million. The 12-month P&L effect fell by EUR 1.7 million in 2018. This development is attributable to improved coordination of repricing maturities. Furthermore, the ongoing calibration of currency-specific interest rate shocks also had an effect. Due in particular to the high country-specific shocks, these results were significantly above the scenarios with uniform ±200 basis points per currency.

Interest rate risk in the banking book, 200 basis point shock

Currency	31.12.2018		31.12.2017	
in EUR m	Economic value impact +200 bp shock	Economic value impact –200 bp shock	Economic value impact +200 bp shock	Economic value impact –200 bp shock
EUR	10	8	0	6
USD	–12	12	–17	17
Other	–10	16	–3	9
Total	**–13**	**36**	**–20**	**32**

In 2018, several adjustments were made to the calculation methodology: among other changes, the interest rate floor was set to 0% in accordance with BaFin Circular 9/2018. In this context, the risk positions from the previous period were newly calculated based on the current method, thus deviating from the values presented in the 2017 Disclosure Report.

"Other" is an aggregate position of the domestic currencies in the ProCredit banks deviating from the euro or US dollar.

8 Liquidity risks

8.1 Liquidity and funding risk

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

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

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

In addition, liquidity risk is measured and assessed at bank level on the basis of national requirements. Numerous regulators in the countries where we operate have implemented indicators similar to LCR.

Liquidity is managed on a daily basis by the respective treasury departments, based on the Group ALCO-approved cash flow projections, and is monitored by risk management and ALCO. Liquidity movements between the ProCredit banks are likewise coordinated by Group ALCO in order to ensure efficient utilisation of liquidity within the group. All of the banks had enough liquidity available at all times in 2018 to meet all financial obligations in a timely manner.

At group level, short-term liquidity risk is measured particularly by means of LCR. As of 31 December 2018, the LCR was 187% at group level, and thus comfortably above the regulatory requirement of 100%. The average weighted amounts are presented in the table below.

Quantitative information about LCR

in EUR m	Total adjusted value (average)			
Quarter ending on	**31.03.2018**	**30.06.2018**	**30.09.2018**	**31.12.2018**
Number of data points used in the calculation of averages	12	12	12	12
Liquidity buffer	478	494	510	521
Total net cash outflows	323	327	320	310
Liquidity Coverage Ratio	**148%**	**151%**	**159%**	**168%**

Considering our conservative investment policy, our liquidity buffer is composed exclusively of assets with the highest liquidity and credit quality, i.e. level 1 assets. This liquidity (with the exception of minimum reserves) is predominantly kept in accounts with daily access at central banks and in highly liquid securities. For each significant currency, a separate calculation is performed to determine if the LCR liquidity buffer maintained is sufficient to cover the net cash outflows.

Inflows result mainly from the repayment of credit exposures to clients and from keeping part of the liquidity reserves in accounts with banks outside of the group.

On the liabilities side, customer deposits totalling EUR 3.8 billion (or 67% of group liabilities) as of 31 December 2018 are the largest source of funding for the ProCredit banks. More than 70% of these are classified as retail deposits according to LCR definitions. Further sources of funding include liabilities to international financial institutions and banks as well as debt securities. This reflects the high level of diversification among liabilities. Accordingly, potential concentration risks are at a low and acceptable level.

The ProCredit group has a very limited volume of derivatives, such that outflows and potential collateral calls are not significant.

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

Funding risk is the risk that additional funding cannot be obtained, or can only be obtained at significantly higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits; our deposit-taking operations focus on our target group of business clients and private clients/savers, with whom we establish strong relationships. The financial crisis in 2008 and 2009 has shown that our customer deposits are a stable and reliable source of funding. These deposits are supplemented by credit lines from IFIs. Moreover, we mostly issue instalment loans with monthly repayment. We make little use of interbank and financial markets.

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

8.2 Encumbered and unencumbered assets

Assets are deemed to be encumbered when they have been pledged or are committed to collateral agreements or agreements to improve the credit assessment of on- or off-balance sheet transactions and it is not possible to withdraw these assets from the terms of such agreements (e.g. pledges for funding purposes).

The ProCredit group has a limited amount of encumbered assets, as the group largely funds its activities through deposits. The encumbered assets comprise primarily assets which are pledged on a portfolio basis for special-purpose funding. These pledges would be exercised in case of default of interest or principal payment on the respective loans; the maturities of these pledges are the same as the maturities of the respective liabilities. As of 31 December 2018, the encumbered assets of the ProCredit group amounted to EUR 17 million, which is equivalent to 0.3% of total assets.

In accordance with BaFin requirements, the amounts presented in the tables below were calculated on the basis of median values for the quarterly data in 2018.

Encumbered and unencumbered assets

31.12.2018 in EUR m	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution	**32**		**5,718**	
Equity instruments	-		0	
Debt securities	2	2	265	265
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	152	152
of which: issued by financial corporations	2	2	49	49
of which: issued by non-financial corporations	-	-	2	2
Other assets	30		5,453	

The collateral received are shown in the following table.

Collateral received

31.12.2018 in EUR m	Fair value of encumbered collateral received or own debt securities issued	Unencumbered
		Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**–**	**13**
Loans on demand	–	–
Equity instruments	–	-
Debt securities	–	13
of which: covered bonds	–	-
of which: asset-backed securities	–	-
of which: issued by general governments	–	13
of which: issued by financial corporations	–	-
of which: issued by non-financial corporations	–	-
Loans and advances other than loans on demand	–	-
Other collateral received	–	–
Own debt securities issued other than own covered bonds or asset-backed securities	**–**	**–**
Own covered bonds and asset-backed securities issued and not yet pledged		**–**
Total assets, collateral received and own debt securities issued	**32**	

The liabilities associated with or secured by encumbered assets are presented in the following table.

Sources of encumbrance

31.12.2018 in EUR m	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	46	31

9 Operational risk

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

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

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks and ProCredit Holding document their risk events using the provided framework. This ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk. The table below provides an overview of the gross and net losses due to operational loss events and fraud cases between 2016 and 2018 (data as of 31 January 2019).

Gross and net losses due to operational risk events

in EUR m	2018	2017	2016
Gross loss	1	5	5
Current net loss	0	3	2
Number of loss events	297	398	795

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

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

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

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

10 Other material risks

Other risks designated as material risks in the risk inventory are business risk and model risk.

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

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

Information about risks relating to money laundering, terrorist financing and other acts punishable by law are contained in the 2018 Annual Report.

11 Remuneration

11.1 Principles of remuneration

The overall aims of the group's staff management approach are to establish long-term relationships between our staff and the ProCredit institutions and to promote responsible behaviour among staff. ProCredit Holding sets the framework for the banks' remuneration structure and organises a regular exchange of experience on these topics. Each ProCredit institution is responsible for the implementation of the standards.

The ProCredit group's remuneration system is in line with our sustainable business and risk strategy and does not encourage excessive risk taking by our employees. The remuneration structure of the ProCredit group has the following objectives:

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

The remuneration approach in the ProCredit group aims to provide a long-term perspective to our staff and managers. A transparent salary structure with fixed salaries is a key aspect in this context; as a general rule, salaries are not dependent on performance. Variable remuneration is strictly limited and under no circumstances contractually guaranteed. For most of the staff, the remuneration reflects market averages. For managers, however, the remuneration we offer is generally not comparable with that of our competitors. This is primarily due to the variable remuneration elements which are paid to managers at other institutions.

In addition to a fair salary, we offer every ProCredit staff member comprehensive training and rewarding professional opportunities. Given that the education systems in the countries in which we operate are not yet completely developed, the potential to participate in our professional development programmes represent a significant benefit for our staff. Participation in basic and advanced training measures are thus perceived by our staff to be an important part of the overall compensation package. Each ProCredit institution invests significant amounts in training, and the expenditures for training measures are a substantial part of the group's overall personnel expenses. Other important factors which build long-term relationships between our staff and ProCredit institutions are the interesting jobs we offer, flat hierarchies, transparent promotion opportunities since our management staff predominantly come from within the group, independent responsibilities for duties as well as a stimulating and professional working environment.

11.2 Structure of remuneration

When defining the remuneration for their staff and managers, the ProCredit institutions apply the group's standardised salary structure which has 22 salary levels. The banks define the exact salary amounts in each step according to their market conditions, assigning their staff to one of the salary steps. This is carried out on the basis of the individual's position, the responsibilities they hold and their performance.

The ProCredit salary 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 salary scheme defines which professional development programmes an employee must have successfully completed in order to be appointed to the various positions. The salary structure applicable throughout the group is reviewed and approved yearly by the Management of ProCredit Holding and presented to the Supervisory Board of ProCredit Holding. The salary scheme specific to an individual bank is likewise subject to annual review; the Management Board of the bank examines the salary scheme and it is approved by the Supervisory Board. A review of the allocation of staff within the ProCredit institutions to one of the 22 salary steps is also carried out annually on the basis of extensive staff evaluations and feedback discussions carried out by the HR committee.

The remuneration of employees in the ProCredit group mainly consists of a fixed salary. One of the central principles of remuneration within the ProCredit group is that variable remuneration elements be limited; in no cases are they to be contractually granted. We believe that fixed salaries are the right approach to achieve sustainable growth. Our employees appreciate the transparency and long-term prospects provided by our group-wide approach to remuneration.

Variable remuneration elements can be granted when a member of staff has performed exceptionally well during the course of a financial year. Such performance can be evident in a number of ways: i.a. particularly high motivation of staff, above-average successes in staff training, above-average results in terms of new client acquisition, the preparation of exceptionally convincing (form and content) reports and memoranda, especially strong participation in committees.

As a general rule, variable remuneration components may be provided for the purchase of participations in ProCredit Staff Invest, an employee investment company; in other cases, the respective ProCredit institution can subsidise the purchase of ProCredit Staff Invest participations. These shares have a minimum holding period of five years. Decisions on such variable remuneration elements are taken by the Management Board/ Human Resources Committee or by the Supervisory Board of the respective ProCredit institution, in co-ordination with ProCredit Holding.

ProCredit institutions also 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. Several ProCredit institutions also make employer contributions to private retirement provisions or life insurance.

The framework of the remuneration systems in the ProCredit group presented above also apply to staff whose professional activities have a material impact on the risk profile of the group (pursuant to Delegated Regulation (EU) No. 604/2014). As variable remuneration elements are of limited significance in the remuneration structure described above, our remuneration system provides no incentives to assume particular risks.

11.3 Communication and approval of remuneration schemes

The remuneration structure and particularly the salary scheme in each institution is communicated to staff in a transparent manner. The management boards of the ProCredit banks report annually to the respective supervisory boards on the remuneration structure. The salary scheme in each bank and any variable remuneration elements are approved by the Management or the Supervisory Board of the bank, following discussions with the respective function at ProCredit Holding; however, the Management is permitted to delegate this responsibility to a Human Resources Committee. The Human Resources Committee is the bank body responsible for taking decisions regarding the professional development of staff members and reviewing the bank's remuneration practices. The committee meets at least quarterly.

Remuneration for the management boards of the banks is approved by the respective banks' supervisory board, after discussion with the Management of ProCredit Holding.

ProCredit Holding is managed by the members of the Management Board of ProCredit General Partner AG. As the remuneration structure which has been selected is simple, the Supervisory Board of ProCredit General Partner AG decided to retain responsibility for determining the amount and composition of Management remuneration, instead of delegating this decision-making authority to a remuneration committee. The six-member Supervisory Board of ProCredit General Partner AG convened four times during the financial year under review.

11.4 Remuneration 2018

The remuneration (including contributions to social security and pension insurance) of all staff in the ProCredit group whose professional activities have a material impact on the risk profile are given below. In particular, this includes the management/management board members in ProCredit institutions and staff with management responsibilities (pursuant to Delegated Regulation (EU) No. 604/2014).

Remuneration is presented separately for staff whose professional activities have an impact on the risk profile (broken down according to ProCredit banks and ProCredit Holding), and for members of the Management (likewise broken down according to ProCredit banks and ProCredit Holding). The "Management/Management Board" item for the ProCredit banks comprises the remuneration of the extended management (including authorised representatives (Prokuristen), if applicable). As a general rule, the heads of the following units are classified as staff whose professional activities have an impact on the risk profile: risk management, finance, legal, internal audit, compliance, IT, as well as branch managers. Overall, we consider around 10% of all staff to be risk takers.

Variable remuneration components for members of the management are, just as for all employees in the ProCredit group, only used to a limited degree and are not contractually set. In 2018, most of the variable remuneration granted was for management board members in the ProCredit banks to acquire participations in ProCredit Staff Invest.

The non-relevant remuneration positions in 2018 are: deferred remuneration awarded during the financial year, paid out or reduced through performance adjustments; and sign-on payments. These items are not included in the table below.

Remuneration

31.12.2018 in EUR '000	Fixed remune-ration	Variable remuneration				No. of beneficiaries	Outstanding deferred remunerations		Severance payments		
		Cash	Shares	Share-linked instru-ments	Other types		Vested	Unvested	Amount	No. of bene-ficiaries	Highest payment to a single person
Management/Management Board											
ProCredit Holding	659	109	-	-	-	3	-	-	-	-	-
ProCredit banks	3,003	-	-	790	-	44	34	45	114	2	84
Staff whose professional activities have an impact on the risk profile											
ProCredit Holding	1,624	48	-	-	-	19	-	-	-	-	-
ProCredit banks	7,268	3	-	-	-	272	65	162	178	16	30

The members of the Supervisory Board of ProCredit General Partner AG each receive remuneration in the amount of EUR 10,000; travel costs are reimbursed. No fees are paid for participating in the meetings of the Supervisory Board.

Annex

Main features of capital instruments

No.	Features	Common Equity Tier 1	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN DE0006223407 / WKN 622340	DE000A12UDJ3 Private placement	DE000A12T267 Private placement
3	Governing law(s) of the instrument	German Law	German Law	German Law
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Shares	Subordinated bearer notes	Subordinated bearer notes
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 294.5 million	EUR 10.0 million	EUR 20.0 million
9	Nominal amount of instrument (issuing currency)	EUR 294.5 million	EUR 10.0 million	EUR 20.0 million
	Nominal amount of instrument (reporting currency)	EUR 294.5 million	EUR 10.0 million	EUR 20.0 million
9a	Issue price	Various	100%	100%
9b	Redemption price	N/A	100%	100%
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	30.09.2014	26.06.2014
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	30.09.2024	26.06.2024
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	30.09.2019; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	26.06.2019; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	N/A	From 30.09.2019 at any interest payment date	From 26.06.2019 at any interest payment date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	6-month Euribor + 4.50%	6-month Euribor + 4.50%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2		
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Note: All issued shares are ordinary shares and they are listed on Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.
Complete information concerning the conditions of capital instruments pursuant to Article 437 (1) (c) CRR is available on the ProCredit Holding website.

No.	Features	Tier 2	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private placement	Private placement	Private placement
3	Governing law(s) of the instrument	German Law	German Law	German Law
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated note	Subordinated note	Subordinated note
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 3.5 million	EUR 9.6 million	EUR 2.0 million
9	Nominal amount of instrument (issuing currency)	USD 4.0 million	USD 11.0 million	USD 2.3 million
	Nominal amount of instrument (reporting currency)	EUR 3.5 million	EUR 9.6 million	EUR 2.0 million
9a	Issue price	100%	100%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28.08.2014	28.08.2014	30.06.2015
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	28.08.2024	28.08.2024	30.06.2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	28.08.2019; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	28.08.2019; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	30.06.2020; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	From 28.08.2019 at any interest payment date	From 28.08.2019 at any interest payment date	From 30.06.2020 at any interest payment date
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	6-month Libor + 4.50%	6-month Libor + 4.50%	6-month Libor + 4.50%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

No.	Features	Tier 2	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private placement	Private placement	Private placement
3	Governing law(s) of the instrument	German Law	German Law	German Law
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated note	Subordinated note	Subordinated note
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 7.0 million	EUR 0.9 million	EUR 5.0 million
9	Nominal amount of instrument (issuing currency)	USD 8.0 million	USD 1.0 million	USD 5.8 million
	Nominal amount of instrument (reporting currency)	EUR 7.0 million	EUR 0.9 million	EUR 5.0 million
9a	Issue price	100%	100%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	30.06.2015	30.06.2015	30.06.2015
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	30.06.2025	30.06.2025	30.06.2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	30.06.2020; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	30.06.2020; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	30.06.2020; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	From 30.06.2020 at any interest payment date	From 30.06.2020 at any interest payment date	From 30.06.2020 at any interest payment date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	6-month Libor + 4.50%	6-month Libor + 4.50%	6-month Libor + 4.50%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

No.	Features	Tier 2	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	JSC ProCredit Bank, Georgia
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	DE000A11QHV9 Private placement	Bilateral contract	Bilateral contract
3	Governing law(s) of the instrument	German Law	German Law	Law of the United States of America
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Ineligible
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated bearer notes	Subordinated loan	Subordinated loan
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 12.5 million	EUR 7.5 million	EUR 0.9 million
9	Nominal amount of instrument (issuing currency)	EUR 12.5 million	EUR 7.5 million	USD 15.0 million
	Nominal amount of instrument (reporting currency)	EUR 12.5 million	EUR 7.5 million	EUR 13.1 million
9a	Issue price	93%	93%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	30.04.2014	11.04.2014	16.12.2009
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	30.04.2024	11.04.2024	16.12.2019
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	N/A; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	16.12.2017; Callable anytime after this first call date (by giving not less than 30 days and not more than 45 days notice); Redemption price: at nominal amount
16	Subsequent call dates, if applicable	N/A	N/A	Callable anytime after first all date
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Floating
18	Coupon rate and any related index	6.50%	6.50%	3-month Libor + 3.00%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			
36	Non-compliant transitioned features	No	No	Yes
37	If yes, specify non-compliant features	N/A	N/A	Art. 63 (l), (m) CRR

No.	Features	Tier 2	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	DE000A169M74 Private placement	Bilateral contract	DE000A2AAVP8 Private placement
3	Governing law(s) of the instrument	German Law	German Law	German Law
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated bearer notes	Subordinated loan	Subordinated bearer notes
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 13.0 million	EUR 5.0 million	EUR 15.0 million
9	Nominal amount of instrument (issuing currency)	EUR 13.0 million	EUR 5.0 million	EUR 15.0 million
	Nominal amount of instrument (reporting currency)	EUR 13.0 million	EUR 5.0 million	EUR 15.0 million
9a	Issue price	94%	94%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	06.05.2016	27.04.2016	25.05.2016
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	06.05.2026	27.04.2026	25.05.2026
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	N/A; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	25.05.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	N/A	N/A	From 25.05.2021 at any interest payment date
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Floating
18	Coupon rate and any related index	6.00%	6.00%	6-month Euribor + 6.00%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

No.	Features	Tier 2	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private placement	Private placement	Private placement
3	Governing law(s) of the instrument	German Law	German Law	German Law
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated note	Subordinated note	Subordinated note
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 5.2 million	EUR 0.7 million	EUR 5.2 million
9	Nominal amount of instrument (issuing currency)	USD 6.0 million	USD 0.8 millon	USD 6.0 million
	Nominal amount of instrument (reporting currency)	EUR 5.2 million	EUR 0.7 million	EUR 5.2 million
9a	Issue price	100%	100%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	29.04.2016	29.04.2016	29.04.2016
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	29.04.2026	29.04.2026	29.04.2026
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	29.04.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	29.04.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	29.04.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	From 29.04.2021 at any interest payment date	From 29.04.2021 at any interest payment date	From 29.04.2021 at any interest payment date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	6-month Libor + 4.50%	6-month Libor + 4.50%	6-month Libor + 4.50%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

No.	Features	Tier 2	Tier 2
1	Issuer	ProCredit Holding AG & Co. KGaA, Germany	ProCredit Holding AG & Co. KGaA, Germany
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private placement	Private placement
3	Governing law(s) of the instrument	German Law	German Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated note	Subordinated note
8	Amount recognised in regulatory capital (as of 31 December 2018)	EUR 2.0 million	EUR 5.0 million
9	Nominal amount of instrument (issuing currency)	USD 2.3 million	EUR 5.0 million
	Nominal amount of instrument (reporting currency)	EUR 2.0 million	EUR 5.0 million
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	29.04.2016	31.05.2016
12	Perpetual or dated	Dated	Dated
13	Original maturity date	29.04.2026	31.05.2026
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	29.04.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount	31.05.2021; Regulatory/tax event call within 30-60 days; Redemption price: at nominal amount
16	Subsequent call dates, if applicable	From 29.04.2021at any interest payment date	From 31.05.2021 at any interest payment date
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	6-month Libor + 4.50%	6-month Euribor + 4.50%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

ProCredit

HOLDING

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