ProCredit
HOLDING

ANNUAL FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT PROCREDIT HOLDING AG & CO. KGaA

2019

ProCredit Holding AG & Co. KGaA

Combined Management Report for ProCredit Holding AG & Co. KGaA, Frankfurt am Main for the 2019 Financial Year

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

The Combined Management Report is divided into the following sections:

- **Fundamental Information about the Group** describes the key aspects of the business model and the objectives of the group:
  - Our Strategy
  - Organisation of the ProCredit group
  - Our shareholders
  - Management system
- **Human Resources Report** describes the approach to recruitment, training and remuneration.
- **Report on the Economic Position of the Group** provides an overview of the business and financial results and covers the following subjects:
  - Macroeconomic and sector-specific environment
  - Course of business operations
  - Financial development, with a description of the group's financial position and financial performance
  - Supplementary report
  - Segment overview
  - Ratings
- The **Management Report for ProCredit Holding AG & Co. KGaA** describes the financial position and financial performance of ProCredit Holding.
- In the **Report on Expected Developments**, we also assess and describe the projected development of business in the ProCredit group, including all significant opportunities and risks.
- **Risk Report** provides an overview of the group's risk profile and describes risk-mitigating measures.
- The **Remuneration Report** presents information concerning the remuneration for the Management and for the Supervisory Board.
- The **Disclosures Required by Takeover Law** pursuant to sections 289a and 315a HGB.
- The **Corporate Governance Statement** (sections 289f and 315d HGB) includes the Corporate Governance Report (3.10 German Corporate Governance Code - GCGC) and the Statement of Compliance with GCGC (section 161 AktG).

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

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

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

We want to fulfil the "Hausbank" role for our customers. As such, we aim to always be their first point of contact for financing and deposits as well as for account and payment services. Our clients typically require financing in amounts ranging between EUR 50,000 and EUR 3 million. As specialists in financing SMEs, cater to the particular needs of these clients and want to support them in the special challenges they face. This means much more than just disbursing loans. We offer the full range of banking services in terms of financing, account operations, payments and deposit business, and we also support our clients in their long-term investment projects. In addition, through our group of banks we offer them efficient and attractive solutions for trade finance business and international payments.

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

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

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

We plan to continue with the digitisation of our banking business. Quipu, the software company which is part of the group, makes a key contribution here. Quipu supports the ProCredit banks with efficient and reliable IT services.

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

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

The quality and motivation of staff is a key factor in achieving our business objectives. We select our staff carefully and offer long-term career prospects based on a transparent, standardised group-wide salary and promotion structure. In order to provide continued staff training and promote ongoing exchange within the group, we run a group-wide training programme in our own training centres. Across the entire group, there is a diverse range of employees from various academic backgrounds and a balanced gender distribution at all business levels. We believe that this diversity promotes innovation and makes a significant contribution to the long-term success of our business.

Organisation of the ProCredit group

The ProCredit group is largely comprised of 12 banks and it employed 3,024 members of staff at year-end. ProCredit Holding is the parent company and, from a regulatory perspective, the superordinated company of the group as well. ProCredit Holding is the majority shareholder of all subsidiaries. It is responsible for the strategic guidance of the group, for maintaining an adequate level of equity for the group and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations, and particularly the requirements defined in section 25a of the German Banking Act ("KWG"), are met. At a consolidated level, the ProCredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank).

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

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

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

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

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

- *South Eastern Europe*, accounting for 53.7% of the group's total assets, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, North Macedonia, Romania and Serbia
- *Eastern Europe*, accounting for 18.4% of the group's total assets, with three banks located in the following countries: Georgia, Moldova and Ukraine
- *South America*, accounting for 4.1% of the group's total assets, consisting of one bank in Ecuador[1]
- *Germany*, accounting for 23.8% of the group's total assets, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

Our shareholders

ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN Participaties, International Finance Corporation (IFC) and ProCredit Staff Invest GmbH & Co. KG). Together they hold roughly 55%[2] of the shares in ProCredit Holding. The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

The largest single shareholder is Zeitinger Invest GmbH, Frankfurt am Main. Zeitinger Invest was a key initiator behind the founding of the ProCredit group. KfW is one of the world's leading development banks and is committed to improving economic, social and ecological living conditions all around the world on behalf of the Federal Republic of Germany and the federal states. The main objective of DOEN Participaties is to make a positive impact on society by supporting sustainable or socially inclusive entrepreneurs. IFC is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector. ProCredit Staff Invest GmbH & Co. KG is the employee investment company for the group.

Management system

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

[1] ProCredit Bank Colombia and "Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R" (ARDEC Mexico) were sold in the 2019 financial year and reported as discontinued operations.

[2] Based on the published voting rights notifications or voluntary disclosures of the shareholders named. This breakdown was calculated by comparing the number of voting rights most recently reported by the shareholders against the total number of voting rights (currently 58,898,492).

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

The ProCredit group uses an integrated system of indicators to monitor and manage the implementation and further development of the group's business and risk strategy. In addition to selected operational and financial indicators, in the 2019 financial year we applied the following key performance indicators:

- The growth of the customer loan portfolio[3] has a significant influence on the success of new business and for the future earning capacity of the group.
- The cost-income ratio[4] provides insight into our operating and cost efficiency.
- Return on equity (RoE)[5] is the most important indicator in terms of profitability. The group places a strong emphasis on maintaining a long-term, stable RoE in conjunction with an appropriate risk profile.
- The Common Equity Tier 1 (CET 1) ratio is calculated as CET 1 capital in relation to the risk-weighted assets of the group. Fulfilment of the regulatory and internal capital requirements is a key aspect of our management system at group level.

[3] Change in the customer loan portfolio in the current period relative to the customer loan portfolio as of 31.12 of the previous period. The customer loan portfolio comprises loans and advances to customers before loss allowances.
[4] Operating expenses relative to operating income less expenses for loss allowances.
[5] Profit attributable to ProCredit shareholders, divided by the average equity held by the ProCredit shareholders.

HUMAN RESOURCES REPORT

(Note: The Human Resources Report is not a mandatory component of the Combined Management Report and is therefore not part of the audit of the Annual Financial Statements or the Consolidated Financial Statements.)

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

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

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

Staff recruitment and integration of new employees

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

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

After concluding the selection process, new staff become part of the group's international onboarding programme. This comprises two modules over a total period of six months: a theoretical block that is carried out at our regional training centre, and a practical block that takes place at the respective banks. These training stages cover all aspects that we believe are a part of responsible banking, and they give new staff an opportunity to learn directly from management and experienced colleagues about how ProCredit contributes to transparent and sustainable financial sector development.

Training

As the first step in professional development within the ProCredit group, the ProCredit onboarding process provides new members of staff with optimal preparation for their first roles. We also offer part-time continuing professional development to all staff. The necessary knowledge and skills are transferred through standardised seminars for various positions. For our Business Client Advisers (BCAs), for instance, we focus on developing client advisory competence, which means correctly evaluating the needs of our clients for banking services, assessing credit risk and building long-term customer relationships. For our Client Advisers, training is concentrated not only on advising clients and acquiring new customers, but also on communicating the advantages of our direct banking options. Regular, group-wide seminars are held in each area to present current developments, best practices and strategic vision.

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

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

Our remuneration approach

We place great value on a transparent salary structure with fixed salaries and consciously refrain from contractually agreed bonuses as a means of incentivising our staff. We believe that such bonus payments can have a negative impact on the quality of advice provided to our clients and can even result in a degradation of relationships between colleagues. The remuneration of employees mainly consists of a fixed salary. Variable remuneration elements are not contractually granted. These can be granted when a member of staff has performed exceptionally well during the course of a financial year or has made a key contribution to the team or group. Salaries reflect market averages and are adjusted regularly on the basis of individual performance evaluations. Our remuneration approach has been established with a long-term perspective, which helps our staff to securely plan their lives. In contrast, the remuneration of our senior managers is not always comparable with our competitors, particularly with respect to the bonus payments which are common in the banking industry.

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

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

REPORT ON THE ECONOMIC POSITION OF THE GROUP

Unless otherwise indicated, the following explanations refer to the development of continuing operations.

Course of business operations

The course of the ProCredit group's business operations in 2019 was positive. We were able to increase the customer loan portfolio by a total amount of EUR 448 million or 10.3%. At the same time, the consolidated result of EUR 54.3 million was at the same level recorded for the previous year. The forecasts for the financial year were met in terms of the growth of the customer loan portfolio (10–13%) and the consolidated result (EUR 48 – 55 million). At 70.5%, the cost-income ratio was above the "less than 70%" forecast.

The group's capital base was stable in the financial year. The fully loaded CET 1 capital ratio declined by 0.3 pp to 14.1% , in large part due to the growth of our loan portfolio, and was thus in line with our forecast of 13%. The LCR was 198% (2018: 187%) and thus comfortably above the regulatory requirement of 100%.

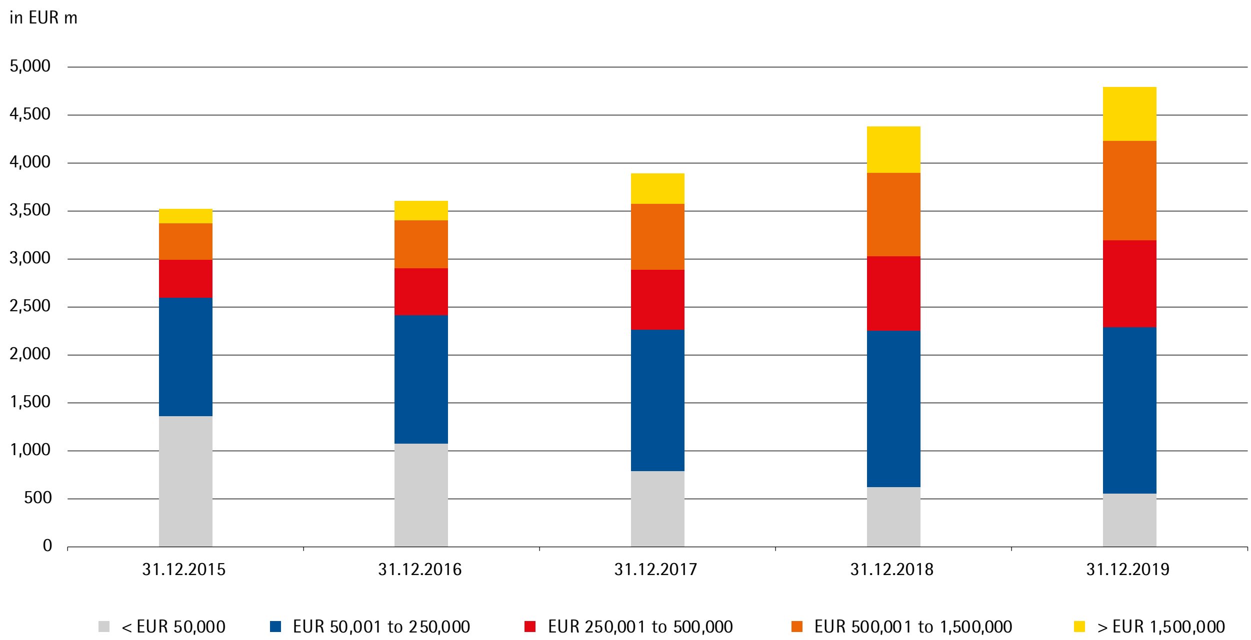
In addition to strong loan portfolio expansion, we also achieved deposit portfolio growth of more than EUR 538 million or 14.2%. This development is primarily attributable to larger deposits by our business clients, but deposits from our private clients also developed positively.

The financial year was characterised by a further improvement in portfolio quality, as reflected in the smaller share of credit-impaired loans and the low write-offs. The improvement in portfolio quality contributed to the low expenditures for loss allowances during the period.

ProCredit Holding sold its shares in ARDEC Mexico and in ProCredit Bank Colombia in January and October of 2019, respectively. The result from discontinued operations is mainly attributable to effects from the deconsolidation of ProCredit Bank Colombia.

Lending

The customer loan portfolio of the group's continuing business operations increased by EUR 448 million compared to the previous year. The 10.3% growth was in line with our expectations and was spread across nearly all ProCredit banks, with particularly good performance by the banks in Ukraine, Bulgaria, Serbia and Ecuador. Around 30% of this growth was achieved through the granting of green loans.



Loan portfolio development, by loan volume

At year-end, the customer loan portfolio consisted of around 93% loans to businesses and about 7% loans to private clients. The total loan portfolio contains approximately 20% loans to agricultural enterprises. Our green loan portfolio accounted for 16.6% of the total portfolio at year-end. It should be noted that the majority of our customer loan portfolio consists of investment loans with maturities of at least three years. This underscores the long-term nature of our customer relationships. Regarding the loans to private clients, the great majority are mortgage loans to purchase, renovate or improve the energy efficiency of real estate.

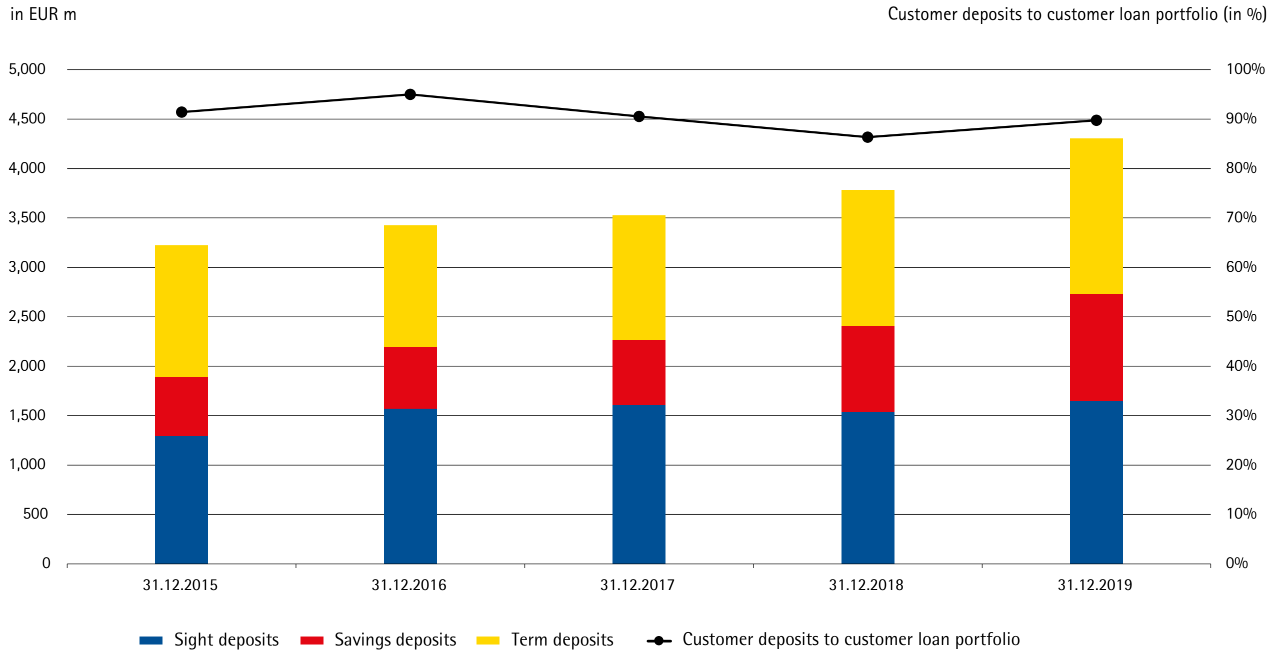
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented 2.0% of the group's total portfolio volume at the end of 2019.

In its lending business with SMEs, the ProCredit group cooperates closely with European institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF). Of particular note is the agreement with the EIF for the InnovFin guarantee programme, which facilitates lending to innovative SMEs and small MidCaps in Eastern and South Eastern Europe through the provision of guarantees. The programme was expanded by an additional EUR 800 million in July 2019, bringing the total available volume to EUR 1.6 billion.

Development of deposits and other banking services

At year-end customer deposits stood at EUR 4.3 billion, up by EUR 538 million from the previous period. The ratio of customer deposits to the loan portfolio thus increased by 3.2 pp to more than 90%.

The growth of deposits was primarily due to business clients, but deposits from private clients increased also, by EUR 143 million. Following the restructuring of our retail banking business in recent years, during which we reduced our branch network and implemented our direct banking strategy, we will view this development as an important milestone in our business strategy.



Customer deposits

Financial development

The ProCredit group recorded an after-tax profit of EUR 54.3 million in 2019 (2018: EUR 54.5 million), which corresponds to a return on equity of 6.9%. This result falls within the range of our guidance.

The factors which had the greatest impact on the group balance sheet were the strong growth of the loan portfolio and customer deposits.

in EUR m			
Statement of Financial Position	**31.12.2019**	**31.12.2018**	**Change**
Customer loan portfolio	4,797.3	4,392.2	405.1
Customer deposits	4,333.4	3,825.9	507.5
Statement of Profit or Loss	**1.1. – 31.12.2019**	**1.1. – 31.12.2018**	**Change**
Net interest income*	194.5	186.2	8.3
Loss allowance*	-3.3	-4.7	1.4
Net fee and commission income*	52.0	52.2	-0.2
Operating expenses*	175.7	167.9	7.8
Profit of the period from continuing operations*	61.5	61.6	-0.1
Profit of the period	54.3	54.5	-0.2
Key performance indicators	**31.12.2019**	**31.12.2018**	**Change**
Change in customer loan portfolio*	10.3%	12.5%	-2.2 pp
Cost-income ratio*	70.5%	69.7%	0.8 pp
Return on equity (ROE)	6.9%	7.6%	-0.7 pp
Common Equity Tier 1 capital ratio	14.1%	14.4%	-0.3 pp
Additional indicators	**31.12.2019**	**31.12.2018**	**Change**
Customer deposits to customer loan portfolio	90.3%	87.1%	3.2 pp
Net interest margin*	3.1%	3.3%	-0.2 pp
Share of credit-impaired loans*	2.5%	3.1%	-0.6 pp
Ratio of allowances to credit-impaired loans*	89.1%	90.8%	-1.7 pp
Green customer loan portfolio	795.4	677.5	117.9

* *For 2019 and 2018, only continuing business operations are presented (i.e. excluding ARDEC Mexico and Banco ProCredit Colombia)*

Statement of Financial Position, Profit or Loss, and other key figures[6] for the ProCredit group

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

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

Assets

Total assets increased by EUR 731 million during the financial year 2019, due in particular to the strong growth of the customer loan portfolio. The positive developments in deposit business also led to strong growth in liquid funds. However, the overall structure of the assets changed only slightly compared to the previous year.

The customer loan portfolio of the group's continuing business operations increased relative to the previous year by more than EUR 448 million to EUR 4.8 billion. Loan portfolio expansion was financed largely through additional customer deposits.

Liabilities

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

Customer deposits in the group's continuing business operations stood at EUR 4.3 billion at year-end, up EUR 538 million from the previous period.

Furthermore, additional debt securities and liabilities to banks amounting to roughly EUR 200 million were obtained. Of particular note was the placement of USD 90 million in green bonds with the International Finance Corporation (IFC), a member of the World Bank Group; this measure contributes to the further expansion of our green loan portfolio.

During the financial year, around EUR 56 million in subordinated debt was repaid early, meaning that it could no longer be fully recognised as Tier 2 capital due to the short remaining maturity. The total capital ratio at the end of the financial year was a comfortable 15.7%.

The equity base of the ProCredit group expanded by EUR 60 million compared to the previous period and stood at EUR 803 million at year-end. The drivers behind this increase were the current consolidated result, less dividends distributed from the previous year's result, and the higher translation reserve.

Result of operations

The profit of the period for the ProCredit group stood at EUR 54.3 million, which represents a return on equity of 6.9%. This includes the result from discontinued operations, which amounted to EUR -7.2 million and was primarily attributable to the sale of ProCredit Bank Colombia. The majority of this effect on income had already been included in group equity as unrealised losses in the translation reserve.

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

Net interest income increased by EUR 8.3 million compared to the previous year; it stood at EUR 194.5 million at year-end. The net interest margin decreased only slightly, by 20 basis points. The stabilisation of net interest income reflects the completion of the strategic withdrawal from lending to very small enterprises, as this area had made a negative impact on our margins in recent years.

The consolidated result benefited from limited provisioning expenses; these were EUR 1.4 million higher than the low level reported for the previous year. The low costs for loss allowances are mainly due to the continued high level of recoveries from written-off loans (EUR 12.4 million) and the steady improvement in portfolio quality. The share of credit-impaired loans fell from 3.1% at the start of the period to 2.5% at year-end. In addition, the recalibration of model parameters for our IFRS 9 model led to a reversal of loss allowances.

At roughly EUR 52 million, net fee and commission income remained largely stable compared with the previous year. The transaction business with business customers developed positively. Introducing our fully digital range reduced the number of customers in the private client segment, which had a negative impact on fee and commission income. The result from foreign exchange transactions grew by EUR 7.6 million compared to the previous year. This is mainly due to income from a surplus of US dollar deposits and currency transactions with clients.

Net other operating income declined by EUR 7.2 million. This development is mainly due to higher depreciation of foreclosed assets and the write-down of goodwill.

Personnel and administrative expenses increased by EUR 8 million compared to the previous year. The increase is partly due to one-time write-downs of property, plant and equipment at the ProCredit banks in Kosovo and Albania. In addition, investments increased for marketing measures and personnel expenses.

At EUR 15.3 million, tax expenses remained largely unchanged from the previous year.

Supplementary report

In January 2020 ProCredit Holding acquired the outstanding minority shares in ProCredit Bank Ukraine. ProCredit Holding now holds 100% of the issued share capital of the bank.

Segment overview

The performance of the ProCredit group is influenced by macroeconomic development and by the economic and financial market conditions. These have an impact on the real economies of the respective countries and therefore on the investment behaviour of our business clients and competitor financial institutions. The following segment overview describes the specific conditions and the development of the financial market situation in the individual regions. The brief analysis of the macroeconomic trend and recent competition trends in the different regions is based on data from the IMF (World Economic Outlook database, October 2019) and the EBRD (Transition Report 2019-2020), unless otherwise stated.

South Eastern Europe

Macroeconomic and sector-specific environment

South Eastern Europe, comprising the banks in Albania, Bosnia and Herzegovina, Bulgaria (including a branch operation in Greece), Kosovo, North Macedonia, Romania and Serbia, is the segment with the greatest share of group assets. Compared to the previous year, the region showed lower economic growth of just over 3%. The slowdown in world trade and subdued economic activity in the Eurozone led to lower export volumes from the countries in South Eastern Europe.

These countries reported slightly higher inflation rates in 2019, on average above the 2% target level set by the European Central Bank (ECB). This increase was due to the expansionary central bank policy of the ECB and the rise in nominal wages. The higher wages were attributable to structural emigration trends and a growing demand for labour. With the exception of Bulgaria, the balance of activities for the countries in this segment remained negative due to lower exports. The exchange rates for domestic currencies showed little movement, particularly as several countries in the region have pegged their currencies to the euro. Due to more favourable macroeconomic indicators, the unemployment figure for South Eastern Europe showed a decrease; however, it remains at a low double-digit level, except in Romania and Bulgaria. Bulgaria and Romania, both part of the EU, now report figures which are below the average for the Eurozone.

Compared to the previous year, economic development was less positive throughout the region. Specifically, Romania recorded growth of 4.0% and continues to benefit from strong consumption and pro-cyclical fiscal policy. The bank tax announced in the previous year did not have the expected effects and was abolished at the beginning of 2020. In Serbia, GDP grew by 3.5% during the year. GDP also increased in Bosnia and Herzegovina and in Albania, though only by 2.8% and 3.0%, respectively. In November 2019, an earthquake in Albania caused fatalities, injuries and damage to infrastructure and numerous buildings in the western coastal region of the country. The economy in Kosovo grew by 4.2%, driven by domestic consumption. The same applies to Bulgaria, which recorded economic growth of 3.7%. Following an end to the political instability in North Macedonia, GDP growth increased to 3.2%.

This moderated economic development had an impact on lending and deposit business in the banking sector. Deposit rates approached 0% and lending rates also continued to decline due to the expansionary monetary environment, albeit less than during the previous period.

The banking sector was characterised by low interest rates and a lower level of non-performing loans compared to the previous period. The share of non-performing loans remained at mid to high single-digit levels in most countries. The ongoing reduction of non-performing loans in all countries is to be seen in the context of stricter regulatory efforts, growing loan portfolios and stable economic development.

Competition in South Eastern Europe continues to be driven by European banking groups. The share of non-performing loans in the ProCredit banks is, in most cases, clearly below the average for banks in South Eastern Europe.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve EUR 303 million in loan portfolio growth. The profit of the period declined by EUR 3.7 million to EUR 38.4 million. This represents a return on equity of 7.7%.

in EUR m			
Statement of Financial Position	**31.12.2019**	**31.12.2018**	**Change**
Customer loan portfolio	3,362.2	3,058.9	303.3
Customer deposits	3,066.6	2,705.7	360.9
Statement of Profit or Loss	**1.1. – 31.12.2019**	**1.1. – 31.12.2018**	**Change**
Net interest income	110.5	115.4	-4.9
Loss allowances	-4.9	-0.5	-4.4
Net fee and commission income	35.9	36.1	-0.2
Operating expenses	102.8	101.2	1.6
Profit of the period	38.4	42.1	-3.7
Key performance indicators	**31.12.2019**	**31.12.2018**	**Change**
Change in customer loan portfolio	9.9%	10.9%	-1.0 pp
Cost-income ratio	72.0%	67.2%	4.8 pp
Return on equity (ROE)	7.7%	8.8%	-1.1 pp
Additional indicators	**31.12.2019**	**31.12.2018**	**Change**
Customer deposits to customer loan portfolio	91.2%	88.5%	2.8 pp
Net interest margin	2.5%	2.9%	-0.4 pp
Share of credit-impaired loans	2.3%	3.1%	-0.8 pp
Ratio of allowances to credit-impaired loans	93.3%	93.0%	0.3 pp
Green customer loan portfolio	575.3	479.7	95.6

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

The customer loan portfolio for this segment increased by more than EUR 300 million in 2019, ending the year at EUR 3.4 billion. Most ProCredit banks in this region recorded strong loan portfolio growth figures for the year, generally above 10%. In contrast, the loan portfolios of the ProCredit banks in Kosovo and Albania showed only minor growth. The restructuring process which had already been completed in other ProCredit banks was carried out in both banks during the period. The branch network of these banks was reduced as part of this process, reducing customer numbers.

Customer deposits in this segment grew by more than EUR 360 million, totalling EUR 3.1 billion at the end of the financial year. All banks in this segment achieved solid growth figures. The ratio of customer deposits to the customer loan portfolio increased by 2.8 pp to more than 91%.

The net interest margin was lower than in the previous year, dropping 0.4 pp to 2.5%. This decrease was primarily due to the strategic withdrawal from the very small loan segment; this reorientation had been implemented particularly vigorously in the previous year and was pursued further in 2019, especially at the ProCredit banks in Kosovo and Albania. Overall, the competitive environment has placed continual pressure on margins.

At 2.3%, the share of credit-impaired loans in the ProCredit banks in South Eastern Europe is clearly below the banking sector average; moreover, the banks were able to achieve a 0.8 pp improvement in this indicator compared to the previous year. The ratio of allowances to credit-impaired loans remained stable at just over 93%. The effects of the earthquake in Albania led to increased loss allowances; this did not have a material impact on the South Eastern Europe segment.

The decline in net interest income was largely offset by a reduction in expenses for loss allowances. The decrease in profit after tax is mainly due to one-time write-downs of property, plant and equipment in the amount of approx. EUR 5 million; this was primarily attributable to final restructuring measures at the ProCredit banks in Kosovo and Albania.

Eastern Europe

Macroeconomic and sector-specific environment
In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. The 2019 period was less influenced by the Russia-Ukraine conflict than in previous years, and this was reflected in the positive growth in all three countries. Following on the low base of the previous year, the economy in Ukraine grew by 3.0%. Moldova reported growth of 3.5%, while Georgia recorded a figure of 4.6%.

The increase in Georgia is linked to higher investment and to the tourism and construction sectors, while the local currency depreciated slightly against the euro during the year. The euro exchange rates for all three local currencies stabilised considerably compared to previous years, with the Ukrainian hryvnia even appreciating. Inflation ranged from 8.7% (Ukraine) to 4.3% (Georgia).

The financial markets in Eastern Europe have also stabilised in comparison to the previous years. The wave of bank closures in Ukraine ebbed over the past year, and the central bank supervision of Moldova's largest banks has ended. It is still noteworthy that the high number of loans in foreign currency, mostly in USD, only dropped slightly in response to efforts by the central banks. The central bank in Georgia in particular had issued regulations two years ago to reduce the related foreign currency risk. The impact on profitability of banks has remained minor. Profitability has remained at a relatively high level and portfolio expansion is being observed in the banking sectors of all three countries.

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

Development of financial position and financial performance

The Eastern Europe segment recorded around EUR 103 million in loan portfolio growth. Profit after tax increased by EUR 4.5 million to EUR 37.7 million. This represents a return on equity of 17.5%.

in EUR m			
Statement of Financial Position	**31.12.2019**	**31.12.2018**	**Change**
Customer loan portfolio	1,090.2	986.7	103.5
Customer deposits	894.6	701.7	192.9
Statement of Profit or Loss	**1.1. – 31.12.2019**	**1.1. – 31.12.2018**	**Change**
Net interest income	66.9	56.3	10.6
Loss allowances	2.1	-1.8	3.9
Net fee and commission income	9.7	9.3	0.4
Operating expenses	34.6	30.5	4.1
Profit of the period	37.7	33.2	4.5
Key performance indicators	**31.12.2019**	**31.12.2018**	**Change**
Change in customer loan portfolio	10.5%	19.8%	-9.3 pp
Cost-income ratio	42.3%	44.2%	-1.9 pp
Return on equity (ROE)	17.5%	20.0%	-2.5 pp
Additional indicators	**31.12.2019**	**31.12.2018**	**Change**
Customer deposits to customer loan portfolio	82.1%	71.1%	11.0 pp
Net interest margin	4.6%	4.6%	0.0 pp
Share of credit-impaired loans	3.3%	3.3%	0.0 pp
Ratio of allowances to credit-impaired loans	77.6%	81.5%	-3.9 pp
Green customer loan portfolio	188.9	148.8	40.1

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

The customer loan portfolio of the segment grew by more than EUR 103 million during the period. A large part of this was due to currency effects, especially from the loan portfolio of ProCredit Bank Ukraine.

Customer deposits in the segment increased by EUR 193 million. This upturn was due in nearly equal parts to the deposits mobilised from business and private clients. The ratio of customer deposits to the customer loan portfolio increased by 11.0 pp to 82.1%.

The net interest margin remained stable at 4.6% during the financial year. Net interest income climbed by more than EUR 10 million. Expenditures for loss allowances increased by around EUR 4 million, with a stable 3.3% level of credit-impaired loans.

Operating expenses increased compared to the previous year due to higher salaries and additional investments in IT and marketing. Nonetheless, the cost-income ratio improved by almost 2 pp to 42.3%. Overall, the profit of the period increased by EUR 4.5 million.

South America

Macroeconomic and sector-specific environment

The South America segment, comprising the ProCredit Bank in Ecuador, accounts for roughly 6% of the group's customer loan portfolio. Ecuador reported negative GDP growth (–0.5%) in 2019, partly attributable to political instability. The macroeconomic environment was influenced by the low price of oil and by country-specific factors. Ecuador is thus in recession and inflation has remained close to zero. However, exports increased compared to the previous year and the trade balance was even. The overall balance of trade is further impacted by the dollarisation and by restrictions on the transfer of goods and capital; in particular, the higher rates set by the US Federal Reserve have been passed on to the local, recessive economy, with adverse consequences for the investment climate.

In Ecuador, loan disbursements increased in the banking sector and the deposit-to-loan ratio is gradually approaching 100%. Competition in Ecuador is mainly defined by local banks. In comparison to South Eastern Europe, the market interest rates and margins are higher. At the same time, prospects for growth are good for SMEs.

Development of financial position and financial performance

The loan portfolio of ProCredit Bank Ecuador grew by over EUR 60 million. The result after tax decreased, falling EUR 1.7 million to EUR -1.3 million.

in EUR m			
Statement of Financial Position	**31.12.2019**	**31.12.2018**	**Change**
Customer loan portfolio	288.9	270.6	18.3
Customer deposits	138.9	146.9	-8.0
Statement of Profit or Loss	**1.1. - 31.12.2019**	**1.1. - 31.12.2018**	**Change**
Net interest income*	16.8	14.7	2.1
Loss allowances*	-0.4	-2.4	2.0
Net fee and commission income*	-0.5	0.0	-0.5
Operating expenses*	16.0	17.2	-1.2
Profit of the period*	-1.3	0.4	-1.7
Key performance indicators	**31.12.2019**	**31.12.2018**	**Change**
Change in customer loan portfolio*	26.7%	17.2%	9.5 pp
Cost-income ratio*	102.5%	106.3%	-3.8 pp
Return on equity (ROE)*	-2.5%	0.9%	-3.4 pp
Additional indicators	**31.12.2019**	**31.12.2018**	**Change**
Customer deposits to customer loan portfolio	48.1%	54.3%	-6.2 pp
Net interest margin*	5.3%	5.0%	0.3 pp
Share of credit-impaired loans*	2.3%	2.5%	-0.2 pp
Ratio of allowances to credit-impaired loans*	100%	98.8%	1.2 pp
Green customer loan portfolio	28.0	29.7	-1.6

** For 2019 and 2018, only continuing business operations are presented (i.e. excluding ARDEC Mexico and Banco ProCredit Colombia)*

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

Following the sale of ProCredit Bank Colombia, the ProCredit Bank in Ecuador is the only bank in the South America segment. The bank's customer loan portfolio developed very positively during the financial year, growing by more than EUR 60 million.

Customer deposits of ProCredit Bank Ecuador increased by more than EUR 22 million, leading to a 6.2 pp reduction in the ratio of customer deposits to the gross loan portfolio.

The net interest margin developed slightly positively. Net interest income increased by EUR 2 million. Expenditures for loss allowances on loans to customers, which had been exceptionally low in the previous period due to the reduction in very small loans, increased by EUR 2 million. The share of credit-impaired loans was reduced, while the ratio of allowances to credit-impaired loans was increased. Operating expenses were reduced by around EUR 1 million.

Overall, the bank recorded a slightly positive pre-tax result, which together with the strong growth in the loan portfolio underlines the positive development of the bank. The result after taxes of EUR -1.3 million is primarily due to elevated tax expenses, which resulted in part from one-time write-downs of deferred tax assets.

Germany

Macroeconomic and sector-specific environment

During the year, Germany also developed positively compared to other economies in Europe, with GDP growth of 0.5%. Due to the expansionary central bank policy, the interest margin remained at an extremely low level, which poses a large challenge for the banking sector.

Development of financial position and financial performance

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

in EUR m			
Statement of Financial Position	**31.12.2019**	**31.12.2018**	**Change**
Customer loan portfolio	56.1	76.0	-19.9
Customer deposits	233.3	271.6	-38.3

Statement of Profit or Loss	**1.1.-31.12.2019**	**1.1.-31.12.2018**	**Change**
Net interest income	-0.9	0.0	-0.9
Loss allowances	-0.1	0.0	-0.1
Operating income	47.2	90.7	-43.5
Operating expenses	57.8	53.1	4.7
Profit of the period	-10.7	37.5	-48.2
Profit of the period and consolidation effects	-13.2	-14.1	0.9

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

The loan portfolio and customer deposits in the segment are attributed to the ProCredit Bank in Germany. The bank recorded a roughly EUR 20 million drop in its loan portfolio. This decrease is primarily due to the strategic withdrawal from project finance operations. Customer deposits fell by EUR 38 million. The activities of ProCredit Bank Germany generally focus on its central role for the group in international payment transactions, trade finance, group treasury and funding. As a result, it is less heavily impacted by the macroeconomic and financial market trends in Germany.

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

Operating income was dominated by dividend payments received from subsidiary banks totalling EUR 43.2 million. Further income came from commission and brokerage services by the ProCredit Bank in Germany, from the IT services performed by Quipu GmbH and from consultancy services provided to the ProCredit banks by ProCredit Holding. The decline in operating income resulted mainly from goodwill impairment testing of ProCredit Holding's investments.

Ratings

FitchRatings awarded an international rating to ProCredit Holding and the ProCredit banks in Eastern and South Eastern Europe. The ProCredit bank in South America was awarded a national rating. Among other factors, the ratings are influenced by the respective country ceiling.

Institution	**2019 Rating**	**2018 Rating**	
ProCredit Holding	BBB	BBB	(international rating)
ProCredit Bank, Albania	BB-	BB-	(international rating)
ProCredit Bank, Bosnia and Herzegovina	B+	B+	(international rating)
ProCredit Bank, Bulgaria	BBB-	BBB-	(international rating)
ProCredit Bank, Georgia	BB+	BB	(international rating)
ProCredit Bank, Germany	BBB	BBB	(international rating)
ProCredit Bank, Kosovo	BB	BB	(international rating)
ProCredit Bank, North Macedonia	BBB-	BB+	(international rating)
ProCredit Bank, Romania	BBB-	BBB-	(international rating)
ProCredit Bank, Serbia	BBB-	BB+	(international rating)
ProCredit Bank, Ukraine	B+	B-	(international rating)
Banco ProCredit, Ecuador*	AAA-	AAA-	(national rating)

* *by Bankwatch Ratings S.A.*

Ratings for ProCredit Holding and the individual ProCredit institutions

MANAGEMENT REPORT OF PROCREDIT HOLDING AG & CO. KGaA

The activities of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, (hereinafter "ProCredit Holding") are deeply intertwined with the development of the group. Therefore, we have integrated the management report of ProCredit Holding into the group report. With regard to ProCredit Holding's report on significant post-balance sheet events, the risk report (including system for early detection of risks) and the report on expected developments, we would like to refer to the corresponding sections. Pursuant to section 10a (1) KWG, ProCredit Holding is the "superordinated company" of the ProCredit group for financial supervision purposes. The annual financial statements for ProCredit Holding have been prepared according to the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG). The branch office ProCredit Holding AG & Co. KGaA Sucursal Colombiana, Bogota, Colombia (regional academy), is included in the scope of the financial statements for ProCredit Holding.

Business activities of ProCredit Holding AG & Co. KGaA

ProCredit Holding exclusively conducts activities that are associated with the ProCredit group. Its main duties include:

- steering the strategy of the group
- providing support for the subsidiaries in implementing group-wide strategies for the various business areas and in the area of risk management
- implementation of the requirements specified under section 25a of the German Banking Act (Kreditwesengesetz – KWG) and under the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk", as well as ensuring the group's compliance with the German Money Laundering Act (Geldwäschegesetz – GWG)
- monitoring and supervising the subsidiaries, especially in the areas of HR management, marketing, internal audit, anti-money laundering activities and risk management, for which purpose ProCredit Holding has developed group policies
- providing equity for the subsidiaries and ensuring sufficient capital adequacy at group level
- providing financing to the subsidiaries
- developing training programmes for the staff of the ProCredit group
- reporting to shareholders and third parties, including supervisory reporting

As of year-end 2019, ProCredit Holding had 111 staff members (2018: 90). This includes three employees who are based abroad. The majority of the Germany-based employees work in the areas of "Finance & Controlling", "Risk Management" and "Credit Risk Management".

Development of financial position

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

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

ProCredit Holding's total assets increased by EUR 50.2 million in 2019 (2018: EUR 95.5 million). The shares in affiliated companies decreased by a total of EUR 11.0 million during the period (2018: EUR 27.0 million). At the same time, loans to/receivables from affiliated companies increased by EUR 41.2 million (2018: EUR 126.1 million).

ProCredit Holding's financial liabilities increased by EUR 86.2 million in 2019 (2018: EUR 33.0 million), mainly attributable to the new issuance of bonds.

Equity decreased by a total of EUR 36.2 million. This reduction is largely due to the current result after tax.

Result of operations

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

ProCredit Holding's net loss for the year was EUR 18.5 million (2018: annual profit of EUR 17.8 million). Dividend income was EUR 46.8 million, slightly lower than in the previous year (2018 EUR 50.3 million). Impairments on financial assets increased to EUR 50.8 million (2018: EUR 19.7 million).

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

The Management expects a return to a net profit at the previous year's level. We consider the current overall situation regarding the further spread of COVID-19 to be a significant risk factor. A significant deterioration in the overall economic situation could have a negative impact on earnings.

REPORT ON EXPECTED DEVELOPMENTS, INCLUDING BUSINESS OPPORTUNITIES AND RISKS

Macroeconomic environment and competitive situation

Due to the global spread of COVID-19, it is not possible at this point in time to assess the overall economic development for 2020 in detail. Since the beginning of 2020, the increasingly unstable economic environment has led to considerable losses on financial markets. Global supply chains are significantly restricted and the consumer climate continues to deteriorate. In addition, manufacturing and service sectors are increasingly affected by far-reaching travel and movement restrictions.

Taking into account the current expansion of the pandemic, global GDP growth is expected to decline markedly, by at least 0.5 pp to 2.4%[7] in 2020. If the spread of COVID-19 continues or even accelerates, we believe that an even more serious decline in economic growth, including recession, is likely. This may also have a significant impact in the markets in which the ProCredit group is active.

In the countries of Eastern and South Eastern Europe in which we are represented, we generally expect higher growth rates than in Western Europe. This assumption is based on continued geopolitical stability in the region, particularly with regard to the conflict in Ukraine. In Ecuador, on the other hand, the oil price, which has come under pressure since March 2020, could lead to a renewed decline in economic output.

Against the background of current trends towards recession, we believe it is possible that global interest rates could continue to fall. We expect additional bond purchase programmes from national central banks and the ECB, as well as further state support measures.

For 2020, we expect competitive pressure in the SME segment to be at a continuously high level but varying between countries. In South Eastern Europe our main competitors are international banking groups, while in Eastern Europe and Ecuador we mostly compete with local or regional banks and financial institutions.

Expected development of the ProCredit group

Despite the clearly elevated uncertainty about economic developments in 2020, we continue to anticipate good prospects for sustainable and long-term profitable growth as banks for small and medium enterprises.

For 2020 our clear focus will be on stabilising the situation for our clients to the greatest extent possible. On that basis, compared to the previous periods we expect a more moderate customer loan portfolio growth rate in the low single digits. In the medium term[8], we plan to achieve customer loan portfolio growth of around 10% annually. Furthermore, loans in the “green finance” category will be expanded. We anticipate that our green loan portfolio will account for 20% of our overall portfolio in the medium term.

We are planning solid growth in customer deposits, which should keep the ratio of customer deposits to the customer loan portfolio largely stable. Growth in customer deposits is to be achieved in particular by increasing sight deposits and instant access savings accounts, which will have a positive impact on the net interest margin in the medium term.

[7] OECD report: “Coronavirus: The world economy at risk”, 2 March 2020.
[8] We define “medium term” as a period of between three and five years.

Based on current developments with regard to the spread of COVID-19, we expect a significant increase in loss allowances for 2020. This assumption is based on an increase in the number of restructuring cases and higher default rates, even though there is no specific reference data at present. In addition, we expect a largely stable net interest margin of around 3% and a slight increase in operating expenses. Based on these assumptions, we expect a declining yet still positive RoE in 2020, with a cost-income ratio at the previous year's level around 70%. The lower expectations for customer loan portfolio growth and the RoE compared with the previous year reflects the difficulties associated with assessing the effects of the current environment.

In the medium term, we assume only a slight increase in operating expenses and we anticipate further economies of scale from our growth. We aim for the cost-income ratio to improve and drop below 60%, with a stable return on equity of around 10%, in particular based a normalisation of expenses for credit risk.

We expect the CET1 capital ratio to decline slightly as a result of the forecast growth, but to be above 13.0% at the end of the financial year. After the reduction of P2R announced in February 2020, the group expects a Tier 1 capital requirement, including all buffers, of about 10.1% for 2020.

We believe it is possible that between the time of preparation of the Combined Management Report on 18 March 2020 and its publication, the information with regard to the economic effects of the pandemic could become more concrete or change.

Assessment of business opportunities and risks

In principle, we consider the effects of the novel COVID-19 to be the greatest uncertainty factor in our planning for 2020. A possible long-term spread of the virus and the associated negative economic consequences can only be taken into account to a limited extent in our forecast. Moreover, major disruptions in the Eurozone, a significant change in foreign trade or monetary policy, a worsening of the interest rate margin or pronounced exchange rate fluctuations could be manifested in lower loan portfolio growth and an increase in past-due loans, thus resulting in lower profitability.

In principle, we also see opportunities in the increasingly uncertain macroeconomic environment to position ourselves as a solid, reliable partner for SMEs and to further expand our customer relationships. In the medium term, we believe that the opportunities for profitable growth in our markets remain positive.

We are of the opinion that the capital base and the sustainability of the business model are not jeopardised in these scenarios. The ProCredit group has always generated a positive return on equity since its foundation, even in the years of the global financial crisis from 2007 onwards. Our business strategy relies on the clearly focussed business model, close client relationships and a conservative risk strategy.

RISK REPORT

An informed and transparent approach to risk management is a central component of our socially responsible business model. This is also reflected in our risk culture and our risk appetite. In accordance with our 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 are sustainable and appropriate at all times, as well as to achieve steady results.

The principles of risk management and the risk strategy of the ProCredit group have not changed significantly compared to the previous year. The overall risk profile of the group is appropriate and stable. This is based on an overall assessment of the individual risks, as presented in the following risk report.

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

Focus on core business

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

High degree of transparency, simplicity and diversification

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

Careful staff selection and intensive training

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

Key elements of risk management

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

- The risk strategy addresses all of the material risks in the group arising from the implementation of the business strategy and defines the objectives and measures of risk management. The strategies are reviewed annually by the Management and are approved by the Supervisory Board.
- All risks assumed are managed to ensure at all times an adequate level of capital of the group and all ProCredit group companies, in both the normative and economic perspective, as well as adequate liquidity levels at all times.
- 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.
- All ProCredit companies 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.
- 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. The effectiveness of the chosen measures, limits and methods is continuously controlled.
- 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.
- Suitable processes and procedures for an effective internal control system have been established. This s built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.
- All new or significantly changed products/services, processes, financial instruments, IT systems or organisational structures undergo a thorough analysis (New Risk Approval process) before being implemented or used for the first time. This also applies to activities in new markets and via new distribution channels. This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

These key elements of risk management in the ProCredit group are based on regulatory requirements and on the comprehensive knowledge we have gained over the past 20 years in our markets.

Organisation of risk management and risk reporting

Risk management in the group is the overall responsibility of the Management of ProCredit Holding, which defines the guidelines for risk management and regularly analyses the risk profile of the group and decides on appropriate measures. The risk controlling function required by MaRisk is headed by a member of the Management of ProCredit Holding. The Compliance Function, which ensures the implementation of legal regulations and requirements and avoids the risks associated with non-compliance, and Internal Audit report directly to the Management.

Risk management at group level is supported conceptually and implemented operationally by various risk management and finance functions. Various committees support and advise the Management in the performance of the risk management function.

- The Group Risk Management Committee develops the group-wide framework for risk management and monitors the risk profile of the group. This includes the monitoring of individual risk positions, limit compliance, and capitalisation 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, coordinating 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 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 a 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 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. Once per year, this department carries out risk assessments of all of the bank's activities in order to arrive at a risk-based annual audit plan. Each internal audit department reports to an audit committee, which generally meets on a quarterly basis. 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 an ALCO and a compliance committee, as well as specialised committees that address individual risks. These committees monitor and manage the risk profile of the respective institution.

At the individual bank level, risk positions are analysed regularly, discussed and documented in standardised reports. The risk departments 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 also 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.

The management of material risks in the ProCredit group is described in greater detail in the following section. This includes: credit risk, foreign currency risk, interest rate risk, liquidity and funding risk, operational risk, business risk and model risk, and risks arising from money laundering, terrorist financing and other acts punishable by law. Due to the worldwide spread of COVID-19, global economic growth may be severely reduced. In view of the current uncertainty, it is not possible to quantify the impact; these effects are not taken into account in the following presentation of risks.

Management of Individual Risks

Credit risk

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

in '000 EUR	**31.12.2019**	**31.12.2018**
Central bank balances	938,741	805,769
Loans and advances to banks	320,737	211,592
Derivative financial assets	306	1,307
Investment securities	378,281	297,308
Loss allowance for investment securities	*-46*	*-476*
Loans and advances to customers	4,690,961	4,267,829
Other assets (financial instruments)	41,182	40,568
Contingent liabilities and commitments	745,360	649,835
Loss allowance	*-1,683*	*-2,114*
Total	**7,113,840**	**6,271,619**

Maximum exposure to credit risk

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. The diversification of operations across four regions and 12 countries, and the experience that the ProCredit institutions have gained in operating in these markets over the past decades form the basis for the group's ability to limit customer credit risk effectively.

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

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

The group's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the group and at the level of each individual bank, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the group's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, loss allowances 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 mainly into small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for risk-relevant operations.

The experience of the ProCredit group has shown that a careful creditworthiness assessment is a necessary 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 on an assessment of creditworthiness. Regular on-site visits to clients are performed to ensure an adequate consideration of their specific features and needs.

All credit decisions in the ProCredit banks are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on medium credit exposures are taken by credit committees at the banks' head offices.

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

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

As a rule, the valuation of 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, annual plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialised ProCredit bank staff. The total amount of collateral held by the group as security is EUR 3.7 billion.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions, countries and economic sectors, similar to the distribution of the loan portfolio of the ProCredit group. In this context, the concentration risk via collateral is considered to be low.

	31.12.2019	31.12.2018
Mortgages	66.4%	66.8%
Financial guarantees	11.9%	11.6%
Other	21.7%	21.6%

Loan collateral

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

Moreover, the ProCredit group has developed indicators for the early identification of risks based on quantitative and qualitative risk features; these indicators are to be implemented by the banks. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the 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 on additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, as well as restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio 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 current economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, it is passed on to officers responsible for customer service. These officers are supported by the legal department of the respective bank. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 EUR	31.12.2019	31.12.2018
Real estate	11,266	15,555
Inventory	121	373
Other	765	2,104
Repossessed property	**12,152**	**18,032**

Repossessed property

Loss allowances

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach

Loans and advances to customers are broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- *Stage 1* comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.

- *Stage 2* comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. 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 indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.

Calculation of expected credit loss (ECL)
The following parameters are used in the calculation of expected credit loss:

- Exposure at Default (EAD)

EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. Based on historical data, estimates are made of the potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities. For financial guarantees, the EAD corresponds to the guaranteed amount; based on professional discretion, the conversion factor has generally been set at 100%.

- Probability of default (PD)

The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The ProCredit group uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. In addition, the PDs over the remaining lifetime of an exposure are estimated.

- Loss Given Default (LGD)

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. For PDs and LGDs, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors in the forecast year.

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. The ProCredit group acknowledges that discretionary decisions of the Management and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Such discretion is based on the applied definition of default, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors.

Significant increase in credit risk (SICR)
Quantitative and qualitative information is used to determine whether there is a significant increase in credit risk.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exists if the difference between the PDs exceeds a certain limit. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk has decreased significantly.

In addition, qualitative criteria are used for SICR decisions. A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days.
- Classification of the customer as "restructured" pursuant to internal policies (adjustment of contractually agreed conditions).
- The customer is assigned to a risk class defined as insufficient in the risk classification system.

Impaired credit exposures
A credit exposure is considered impaired and is thus transferred to Stage 3 if one of the following criteria applies at the reporting date:

- Contractual payments are more than 90 days past due.
- Indications of significant financial difficulties of the debtor.
- Loan repayment is not possible without the realisation of collateral.
- Initiation of bankruptcy proceedings for the customer.
- Legal proceedings against the customer that endanger the existence of the business or the repayment apacity of the customer.
- Allegations of fraud against the customer.

Definition of default
The ProCredit group has adjusted the definition of impairment according to IFRS 9 to the regulatory definition of default. This default definition is also used for internal risk management and is applied to all exposures which are part of the customer loan portfolio of the group. The group considers an exposure to be impaired if at least one of the above criteria is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

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. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. No migration between stages is possible for POCI exposures.

Purchase or Originated Credit Impaired (POCI) exposures

The group has separate rules for POCI (Purchased or Originated Credit Impaired) exposures. Within our business model, the acquisition of impaired exposures is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation through significant modification of the contractually agreed cash flows. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, all changes with regard to the expected losses over the remaining maturity period (lifetime ECL) are recognised as an expense in the income statement and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)

Changes to the originally agreed contractual conditions of an exposure are possible, in particular with the aim of improving the prospects of repayment and, if possible, avoiding default, foreclosure or the realisation of collateral. The ProCredit group uses qualitative and quantitative factors to determine the existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed conditions of an exposure (net present value test). In the event of a substantial change, the original contract is derecognised and a new exposure is recognised at the fair value at the time of modification. In the case of a non-substantial change, the gain or loss from modification is recognised in expenses.

Write-offs

When a loan is uncollectible, it is written off against the corresponding loss allowance which has been set aside, provided there is no justified expectation of repayment. The direct and indirect costs of actively managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure.

For exposures of any size, the banks carry out an individual assessment of the justified feasibility of repayments. For exposures below EUR 10 thousand, this assessment is to be carried out at the latest once payment is 180 days overdue; for larger exposures, at the latest after 360 days, particularly if there is no realisable collateral. Based on the assessment, the bank may decide to write off the exposure or continue to actively manage the exposure in order to allow for further repayment of the loan.

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

in '000 EUR **As of 31 December 2019**	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**POCI**	**Total**
Germany					
Gross outstanding amount	54,122	1,940	0	0	**56,062**
Loss allowances	-224	-69	0	0	**-293**
Carrying amount	53,898	1,871	0	0	**55,769**
South Eastern Europe					
Gross outstanding amount	3,169,889	115,976	74,649	1,667	**3,362,181**
Loss allowances	-20,613	-5,488	-44,599	-491	**-71,192**
Carrying amount	3,149,276	110,488	30,050	1,175	**3,290,989**
Eastern Europe					
Gross outstanding amount	1,018,989	34,981	34,031	2,204	**1,090,206**
Loss allowances	-7,878	-1,699	-17,937	-588	**-28,101**
Carrying amount	1,011,112	33,283	16,094	1,616	**1,062,105**
South America					
Gross outstanding amount	272,281	9,826	6,776	0	**288,884**
Loss allowances	-3,308	-319	-3,159	0	**-6,786**
Carrying amount	268,974	9,507	3,617	0	**282,098**

in '000 EUR **As of 31 December 2018**	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**POCI**	**Total**
Germany					
Gross outstanding amount	75,987	0	0	0	**75,987**
Loss allowances	-432	0	0	0	**-432**
Carrying amount	75,555	0	0	0	**75,555**
South Eastern Europe					
Gross outstanding amount	2,899,888	64,550	93,087	1,343	**3,058,869**
Loss allowances	-23,376	-10,061	-54,223	-178	**-87,837**
Carrying amount	2,876,512	54,490	38,864	1,165	**2,971,032**
Eastern Europe					
Gross outstanding amount	934,423	19,638	31,622	1,014	**986,697**
Loss allowances	-8,470	-2,538	-15,274	-308	**-26,591**
Carrying amount	925,953	17,100	16,348	706	**960,106**
South America					
Gross outstanding amount	245,129	15,659	9,620	212	**270,620**
Loss allowances	-2,703	-854	-5,920	-7	**-9,484**
Carrying amount	242,426	14,804	3,700	205	**261,136**

Loss allowances in customer lending activities

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

in '000 EUR As of 31 December 2019	Business loans					Private loans			
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Trans-portation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	Total
Stage 1									
Gross outstanding amount	1,197,729	917,513	1,017,809	231,414	840,859	262,689	38,314	8,955	4,515,282
Loss allowance for loans to customers	-8,410	-5,744	-6,368	-1,610	-5,795	-3,456	-534	-106	-32,022
Net outstanding amount	1,189,319	911,769	1,011,441	229,805	835,064	259,233	37,780	8,849	4,483,259
Stage 2									
Gross outstanding amount	49,722	26,382	38,682	11,766	28,701	6,427	745	300	162,724
Loss allowance for loans to customers	-2,134	-1,184	-2,316	-266	-1,130	-492	-45	-8	-7,575
Net outstanding amount	47,588	25,198	36,365	11,500	27,571	5,934	700	292	155,149
Stage 3									
Gross outstanding amount	31,074	28,289	21,471	6,104	20,317	5,666	1,713	821	115,456
Loss allowance for loans to customers	-18,474	-13,720	-13,497	-3,381	-11,553	-3,374	-1,184	-513	-65,696
Net outstanding amount	12,600	14,570	7,974	2,724	8,764	2,292	529	308	49,760
POCI									
Gross outstanding amount	957	888	226	13	1,675	85	0	28	3,871
Loss allowance for loans to customers	-494	-36	-214	-1	-281	-30	0	-24	-1,079
Net outstanding amount	463	852	12	12	1,394	55	0	4	2,792

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

Allowances for losses on loans and advances to customers

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write-offs, coverage level and concentration risk.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending in particular to small and medium-sized businesses in various economic sectors and to private clients. The distribution of the loan portfolio across 12 banks likewise makes a significant impact in terms of diversification.

in '000 EUR **As of 31 December 2019**	**EUR/USD < 50,000**	**EUR/USD 50,000 – 250,000**	**EUR/USD > 250,000**	**Total**
Business loans	**387,774**	**1,602,548**	**2,481,267**	**4,471,590**
Wholesale and retail trade	107,849	478,846	692,787	1,279,482
Agriculture, forestry and fishing	116,117	411,898	445,057	973,072
Production	62,793	342,366	673,028	1,078,187
Transportation and storage	36,631	103,969	108,697	249,297
Other economic activities	64,385	265,468	561,699	891,552
Private loans	**176,052**	**138,206**	**11,485**	**325,743**
Housing	135,944	129,327	9,596	274,867
Investment loans	31,988	7,392	1,392	40,772
Others	8,119	1,487	498	10,103
Customer loan portfolio (gross)	**563,826**	**1,740,754**	**2,492,752**	**4,797,332**

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

Portfolio diversification: Business areas, by loan size

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

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

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

Counterparty risk, including issuer risk

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

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

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

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

The group's exposure to counterparty and issuer risk increased compared to the previous year. This development is attributable to higher liquidity reserves in the banks.

in '000 EUR	31.12.2019	in %	31.12.2018	in %
Central bank balances	705,104	50.2	573,170	53.0
Loss allowances for central bank balances	*-484*		*-618*	
Mandatory reserve	*436,059*		*387,564*	
of which covered by insurance	*-233,637*		*-232,599*	
Other balances with central banks	*503,166*		*418,823*	
Loans and advances to banks	320,742	22.8	211,763	19.5
Loss allowances for loans and advances to banks	*-5*		*-170*	
Derivative financial assets	306	0.0	1,307	0.1
Investment securities	378,281	26.9	297,308	27.4
Loss allowance for investment securities	*-46*		*-476*	
Total	**1,404,383**	**100.0**	**1,082,902**	**100.0**

Exposures to counterparties and issuers

The exposure to banking groups contains repurchase agreements in the amount of EUR 59.5 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

The creditworthiness of another financial asset, i.e. a counterparty, is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. None of positions shown was past due nor showed any signs of impairment as of 31 December 2019. We have established provisions in accordance with IFRS 9 requirements (see also notes 15-18 to the consolidated financial statements).

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit banks conclude transactions only with counterparties that have previously been 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. 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.

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. The group has therefore insured more than half of this amount with guarantees from the Multilateral Investment Guarantee Agency (MIGA). The requirements for large exposures were met at all times.

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 companies conduct cross-border transactions with other group banks or clients abroad. The other ProCredit companies are only exposed to country risk to a very limited extent, particularly through their nostro accounts with ProCredit Bank Germany or selected third-party banks. 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 set in order to diversify cross-border transactions as much as possible. These country limits are defined taking into account both the risk perspective and the strategic business perspective. All cross-border transactions and developments in the ProCredit countries of operation are monitored regularly. Among other things, internal indicators, external ratings and country-specific information are used for this purpose.

The cross-border transactions generally take place between group companies, with country risk consisting of potential conversion or transfer restrictions. As a result, we do not consider provisions to be necessary for cross-border transactions within the group.

Market risks

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

Foreign currency risk

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

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

Domestic currency depreciation 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: 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.

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 ProCredit banks keep their equity in the respective domestic currency. Thus, from a consolidated group perspective, OCPs in the respective domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and 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 EUR terms.

The translation reserve changed from EUR -75.4 million at the end of 2018 to EUR -55.8 million in December 2019. This is primarily attributable to the significant appreciation of the Ukrainian currency and the deconsolidation of ProCredit Bank Colombia. Within the scope of the group's capital adequacy calculation in the economic approach, a value-at-risk procedure is defined for fluctuations in the translation reserve. This amount had increased EUR 28.7 million and stood at EUR 120.9 million as of December 2019, due mainly to the higher level of capital at ProCredit Bank Ukraine.

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The aim of interest rate risk management is to keep these differences as small as possible in all currencies. This is particularly relevant against the background of the limited opportunities to manage this risk using interest rate derivatives, especially in the local currencies of our banks (with the exception of the euro and US dollar).

The measurement, monitoring, limiting and management of interest rate risk is based on economic value impact and P&L-oriented indicators. The risk 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. Interest-bearing sight deposits and savings accounts are included in the gap analyses according to country- and currency-specific historical analyses.

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

At the group level, interest rate risk is quantified and limited accordingly on the basis of economic value impact and on the basis of the 12-month P&L effect. The indicators are calculated using historical Value-at-Risk models with a holding period of one year and confidence level of 99.9% (EVI) or 99% (P&L effect). Modelled country-specific risk-free curves are used to discount the cash flows. The maturity-specific interest rate shocks are based on the historical development of the reference curve per currency.

	31.12.2019		31.12.2018	
Interest rate risk in '000 EUR	**Economic Value Impact**	**12 month P&L-Effect**	**Economic Value Impact**	**12 month P&L-Effect**
Total	**-71,100**	**-8,529**	**-48,015**	**-7,272**

Calculation of economic capital requirements

The economic value impact increased in 2019 to EUR -71.1 million. This resulted primarily from a higher contribution from the loan portfolio in euros. The 12-month P&L effect increased by EUR 1.3 million in 2019. In addition, the ongoing calibration of currency-specific interest rate shocks affects the results.

In addition, the calculation of the present value of the interest book and the calculation of economic value impact according to the regulatory interest shock scenarios from BaFin were implemented at group level and limits were set accordingly.

Liquidity and funding risk

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

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

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

Liquidity is managed on a daily basis by the respective treasury departments, based on the ALCO-approved cash flow projections, and is monitored by risk management and ALCO as well as monthly by Group ALCO. Liquidity movements within the group are coordinated by Group ALCO in order to ensure efficient utilisation of liquidity. All banks had enough liquidity available at all times in 2019 to meet all financial obligations in a timely manner.

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

in '000 EUR **As of 31 December 2019**	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**over 5 years**	**Total**
Assets						
Central bank balances	1,126,627	0	0	0	0	1,126,627
Loans and advances to banks	289,387	16,013	26,427	32,899	9,398	374,125
Derivative financial assets	118	0	188	0	0	306
Investment securities	266,205	26,679	61,259	25,817	105	380,065
Loans and advances to customers	191,601	370,619	1,538,683	2,318,639	828,174	5,234,113
Current tax assets	907	1,112	2,043	1,253	0	5,314
Other assets	17,231	3,527	2,348	8,726	6,161	61,806
Total assets	**1,892,077**	**417,951**	**1,630,947**	**2,387,334**	**843,839**	**7,182,356**
Liabilities						
Liabilities to banks	26,894	5,588	33,167	154,459	14,791	234,730
Derivative financial liabilites	600	401	177	311	253	1,742
Liabilities to customers	2,865,614	221,914	903,004	362,799	22,046	4,499,034
Liabilities to international financial institutions	4,676	23,493	192,101	552,689	145,869	915,602
Debt securities	620	46,377	93,928	173,102	64,573	376,205
Current tax liabilities	0	1,574	327	0	0	2,022
Provisions	2,350	1,003	4,735	2,319	937	12,060
Other liabilities	14,963	1,807	3,420	8,392	2,565	33,361
Subordinated debt	455	1,081	7,992	58,239	56,332	122,902
Total liabilities	**2,916,171**	**303,237**	**1,238,850**	**1,312,311**	**307,367**	**6,197,657**
Contingent liabilities						
Financial guarantees	126,068	0	0	0	0	126,068
Credit commitments (irrevocable loan commitments)	15,037	0	22,000	0	0	37,037
Contractual liquidity surplus	**-1,165,199**	**114,713**	**370,097**	**1,075,023**	**536,472**	

in '000 EUR As of 31 December 2018	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	over 5 years	Total
Assets						
Central bank balances	963,706	0	0	0	0	805,761
Loans and advances to banks	202,742	3,582	7,500	6,944	1,081	221,849
Derivative financial assets	276	509	523	0	0	1,307
Investment securities	158,697	68,603	36,519	35,120	192	299,132
Loans and advances to customers	220,488	329,121	1,380,943	2,405,636	777,973	5,102,567
Current tax assets	334	2,136	1,188	686	0	4,344
Other assets	20,370	4,310	6,819	8,197	5,935	59,533
Total assets	**1,566,614**	**408,261**	**1,433,491**	**2,456,584**	**785,181**	**6,494,493**
Liabilities						
Liabilities to banks	31,993	25,597	53,339	83,634	4,810	199,273
Derivative financial liabilites	178	493	237	0	90	998
Liabilities to customers	2,565,575	202,132	854,127	258,381	16,292	3,896,507
Liabilities to international financial institutions	18,781	40,717	156,572	544,561	139,625	896,511
Debt securities	341	45,744	44,417	88,774	54,801	231,790
Current tax liabilities	5	2,033	445	0	0	2,483
Provisions	3,126	1,096	2,340	2,558	270	10,973
Other liabilities	12,179	2,849	626	0	0	18,448
Subordinated debt	687	1,840	22,082	32,227	140,989	196,393
Total liabilities	**2,632,866**	**322,501**	**1,134,186**	**1,010,135**	**356,876**	**5,453,377**
Contingent liabilities						
Financial guarantees	64,219	0	0	0	0	**64,219**
Credit commitments (irrevocable loan commitments)	14,605	0	0	0	0	**14,605**
Contractual liquidity surplus	**-1,145,076**	**85,760**	**299,305**	**1,446,449**	**428,306**	

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

Maturity structure, by contractual maturity

In order to measure liquidity risk in the banks, some positions, in particular customer deposits, are allocated to the various time buckets. This is performed according to assumptions about inflows and outflows, based on their observed historical behaviour in stress situations.

At group level, short-term liquidity risk is measured primarily by means of LCR. As of 31 December 2019, the LCR was 198% (2018: 187%) at group level, and thus comfortably above the regulatory requirement of 100% and our internally defined early warning threshold. This indicates a comfortable liquidity situation for the group.

The group had adequate liquidity levels at all times during the 2019 financial year.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits; our deposit-taking operations focus on our target group of business clients and private clients/savers, with whom we establish strong relationships. These are supplemented by long-term loans from international financial institutions (IFIs). The funding of the ProCredit group has proven to be resilient. As of end-December 2019, the largest funding source was customer deposits with EUR 4,333.4 million. IFIs are the second-largest source of funding, accounting for EUR 852.5 million.

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

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 and reputational risk. The principles set forth in the group operational risk management policies are in compliance with the requirements for the standardised approach for operational risk pursuant to CRR.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence. The main tools utilised to manage operational risks are the group-wide Risk Event Database (RED), the Annual Risk Assessments, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval process (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 in 2019 (data as of 21 January 2020).

Key operational risk figures 2019	
Gross loss, in EUR m	1.2
Current net loss, in EUR m	0.8
Number of loss events	197

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

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

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

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

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

Responsible behaviour is an integral part of the values-oriented business model of all ProCredit banks. This is reflected in the Code of Conduct for the group's employees as well as in the contents of the introductory courses for new staff and in the curricula of the ProCredit academies. The prevention of money laundering, terrorist financing and fraud is a key component of our self-perception. This is illustrated by the criteria used to select customers and by the few cases of internal fraud within the group.

ProCredit banks are in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Reviews performed by supervisory authorities and external auditors do not reveal any structural deficiencies in this area. Moreover, the banks have implemented the group-wide guidelines on the prevention of money laundering and terrorist financing, which can be stricter than the legal requirements prevailing in the individual countries of operation. Implementation is regularly reviewed by the group's Anti-Money Laundering Officer.

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

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

Besides identifying all contracting parties and clarifying the purpose of the business relationship, at ProCredit banks the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client.

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

Other material risk

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

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

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

Capital Management

Capital management in the group is guided by the principle that neither a ProCredit bank nor the group as a whole may at any time incur greater risks than they are able to bear. To ensure adequate capitalisation, the group applies both the normative and economic perspective. In May 2018, BaFin and Bundesbank published their revised expectations for ensuring adequate capitalisation (ICAAP); these were fully implemented by the group in the 2019 financial year.

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

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the group and the banks are able to act
- Support for the banks and for the group in implementing their plans for sustainable growth

The principle of capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators for each individual ProCredit bank and the group as a whole include, in addition to regulatory standards in each country, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of capitalisation in the economic perspective. Whereas the 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. The capital management of the ProCredit banks and the group as a whole is governed by group policies and monitored on a monthly basis by the Group Risk Management Committee.

Capitalisation in the economic perspective

Ensuring that the group as a whole and each individual bank maintains sufficient capitalisation in the economic perspective at all times is a key element of ProCredit's group-wide risk management and capital management processes. Capitalisation in the economic perspective was adequate at all times during the course of 2019. In the context of the economic perspective, 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 sufficient at all times. 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 calculations is that the group is able to withstand strong shock scenarios.

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 calculation of the economic perspective for the group:

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), defined as the consolidated group equity (net of intangibles, minority interests and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 858.1 million as of the end of December 2019 (2018: EUR 841.3 million). The Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 745.0 million (2018: EUR 720.0 million). This reflects the maximum acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set below the group's RTP in order to ensure the existence of a sufficient security buffer. The increase in RTP and RAtCR is mainly attributable to the higher level of consolidated own funds due to profit for the period, less early repayments of subordinated debt. 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 2019. Compared to the previous year, there were no significant changes to the risk models. In the standard scenario, which is calculated with a 99.9% confidence level, the ProCredit group needs 77.9% of its RAtCR (2018: 64.9%) and 67.7% of its RTP (2018: 55.5%) to cover its risk profile.

in '000 EUR **As of 31 December 2019**	**Limit**	**Limit Used**	**Limit Used** (in % of limit)
Credit Risk	385,000	306,457	79.6
Interest Rate Risk	97,000	71,100	73.3
Foreign Currency Risk	155,000	120,904	78.0
Operational Risk	27,000	19,060	70.6
Business Risk	28,000	19,725	70.4
Funding Risk	9,000	6,372	70.8
Model Risk	44,000	37,000	n.a.
Total	**745,000**	**580,617**	**77.9**

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

Capitalisation in the economic perspective

Stress tests

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

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

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 capitalisation of the group in the economic perspective would be adequate under the defined stress conditions.

Capitalisation in the normative perspective

Since 1 January 2014, the Basel III requirements, implemented in Europe through Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR), have been binding for the group. The ProCredit group makes no use of transitional (phase-in) provisions during the reporting period.

During the reporting period, all regulatory capital requirements were met at all times. The group's regulatory capital ratios are presented below:

	31.12.2019	31.12.2018
Common equity Tier 1 capital ratio	14.1%	14.4%
Tier 1 capital ratio	14.1%	14.4%
Total capital ratio	**15.7%**	**17.2%**

Capital ratios of the ProCredit group

The capital ratios of the ProCredit group decreased slightly in the 2019 financial year. During the course of 2019, the CET1 ratio and T1 ratio declined to 14.1% due to the growth of the group's balance sheet. The total capital ratio fell to 15.7% as a result of growth as well as the early repayment of Tier 2 capital instruments. The level of capitalisation in the ProCredit group is significantly higher than the current regulatory requirements, which include an SREP requirement amounting to 2.5%. In February 2020, ProCredit Holding was informed by BaFin of a reduction in the SREP capital add-on to 2.0%.

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. The minimum was set at 3% in CRR II and compliance is binding as from 28 June 2021. As of year-end 2019 the ProCredit group reported a very comfortable leverage ratio of 10.8%.

in `000 EUR	31.12.2019	31.12.2018
Equity	742,324	677,931
Assets	6,885,604	6,138,362
Leverage ratio	**10.8%**	**11.0%**

Leverage ratio

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

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

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance & Controlling implements the requirements of the Management and defines the specific parameters within the framework provided. Group Operational

Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

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

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

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

REMUNERATION REPORT FOR THE MANAGEMENT AND SUPERVISORY BOARD

Management

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

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

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

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

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

	Benefits granted		Allocation	
Borislav Kostadinov (until 15.09.2019)	2019	2018	2019	2018
Basic Salary	142,699	184,426	142,699	184,426
Short-term variable remuneration*	192,000	100,000	192,000	100,000
Pension cost**	3,150	4,200	3,150	4,200
Total remuneration	**337,849**	**288,626**	**337,849**	**288,626**

	Benefits granted		Allocation	
Sandrine Massiani	2019	2018	2019	2018
Basic Salary	199,684	187,137	199,684	187,137
Total remuneration	**199,684**	**187,137**	**199,684**	**187,137**

	Benefits granted		Allocation	
Dr Gabriel Schor	2019	2018	2019	2018
Basic Salary	145,606	145,137	145,606	145,137
Short-term variable remuneration	-	9,050	-	9,050
Pension cost**	33,031	33,031	33,031	33,031
Total remuneration	**178,637**	**187,217**	**178,637**	**187,217**

* *In the case of Borislav Kostadinov, the one-year variable remuneration for 2019 includes the contract termination agreement.*

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

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

Supervisory Board

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

DISCLOSURES REQUIRED BY TAKEOVER LAW PURSUANT TO SECTIONS 289a AND 315a (1) SENTENCE 1 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH)

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

In principle, all shares can be freely traded.

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

The Core Shareholders entered into an agreement dated 7 July 2011, as amended on 24 May 2019 (the **Core Shareholders' Agreement**), according to which each Core Shareholder agrees to exercise its influence as a shareholder in the Company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the Company and its subsidiaries continue to be in line with applicable law and best-practice banking and socially responsible standards. The Core Shareholders' Agreement stipulates that each Core Shareholder exercises its voting rights at its own discretion only, and that there is no obligation to exercise such voting rights jointly and in a coordinated manner with any or all of the other Core Shareholders. Moreover, the Core Shareholders' Agreement sets out certain minimum levels for the Core Shareholders' shareholding in the Company, collectively amounting to 20% of the Company's share capital, which the Core Shareholders agreed to maintain until 31 October 2021.

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

The following shareholders owned (directly or indirectly) as of 31 December 2019, pursuant to their most recent voting rights notification, 10% or more of the voting rights:

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

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

As of 31 December 2019, the employees of the Company, in deviation from the previous relevant legal voting rights notification, collectively owned 2.99% of the voting rights via two investment companies (ProCredit Staff Invest 1 GmbH & Co. KG and ProCredit Staff Invest 2 GmbH & Co. KG). The investment companies are the immediate shareholders and thus exercise the voting rights for the employees of the Company. As far as employees are direct shareholders, they themselves exercise the voting rights control.

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

The Management of the Company was authorised by the Extraordinary General Meeting of 15 November 2019 to acquire, within the legal limits, treasury shares up to a total of 1.5% of the share capital existing at the time the resolution is adopted by the General Meeting or – if this value is lower – of the share capital existing at the time the authorisation is exercised. The authorisation may be exercised directly by the Company or by third parties commissioned by the Company; it permits the acquisition of the Company's own shares in their entirety or in partial amounts as well as one-off or multiple acquisitions. The acquisition of treasury shares can only be effected via the stock exchange. The Company may only pay a price per share (excluding incidental acquisition costs) which does not deviate more than 10% above or below the arithmetic mean of the prices of the Company's non-par value shares in the closing auction in Xetra trading (or a corresponding successor system) on the Frankfurt Stock Exchange during the last ten trading days prior to the conclusion of the commitment transaction.

The Management of the Company was also authorised to use shares of the Company acquired on the basis of the above authorisation for all legally permissible purposes, and in particular for the following: They may be transferred free of charge to selected members of the respective management as well as to selected employees in managerial and key positions of certain enterprises affiliated with the Company within the meaning of sections 15 et seq. of the German Stock Corporation Act (AktG) and domiciled abroad under the proviso that these shares are transferred without delay as contributions in kind to ProCredit Staff Invest 1 GmbH & Co. KG in exchange for shares in the limited partnership; the transfer of the shares to the aforementioned employees shall be effected in accordance with a staff programme. Shareholders' subscription rights to these treasury shares are excluded to this extent pursuant to sections 71 (1) no. 8, 186 (3) and (4) AktG.

ProCredit General Partner AG, as the managing general partner pursuant to Article 4 (3) of the Articles of Association of the Company is authorised to issue new shares in a total amount of up to EUR 29,449,246.00 in the period until 22 May 2023 (Authorised Capital 2018).

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

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

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

Contents

- Corporate Governance Report (sec. 3.10 German Corporate Governance Code)
  - Management Board and Supervisory Board
  - Other Key Aspects of our Approach to Corporate Governance
- Statement of Compliance with German Corporate Governance Code (sec. 161 AktG)

Corporate Governance Report

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

Management Board and Supervisory Board

Relationship between Management Board and Supervisory Board

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

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

Management Board and Supervisory Board cooperate closely to the benefit of the Company. The Supervisory Board meets at least twice in each half year. In 2019, the Supervisory Board held four in-person meetings and two telephone conferences. The Supervisory Board has determined a comprehensive set of reports to be provided by the Management in due time before each meeting. The Management Board reports on the business and risk strategies of the group at least once per year and routinely reports on the status of implementation of the strategies. Since the Supervisory Board has decided not to establish committees, all relevant reports are provided to all members. The Supervisory Board reviews and approves the Annual Financial Statements for ProCredit Holding and the Consolidated Annual Financial Statements for the ProCredit group. The Supervisory Board examines the efficiency and effectiveness of its activities on a regular basis, and at least once in every calendar year. The Company complies with the German Corporate Governance Code except as outlined in the Statement provided below.

Management Board of ProCredit General Partner AG

The Management Board comprised the following individuals in the 2019 financial year:

Member of the Management Board (in alphabetical order)	First appointed	Appointed until	Responsibilities as of year-end
Borislav Kostadinov	2014	15 September 2019	Credit Risk, Group Environmental Management, Investor Relations, Group Communications, Administration and Translation, Legal, Group AML and Fraud Prevention
Sandrine Massiani	2017	28 February 2021	Human Resources, Internal Audit, Risk Management, IT, Business Support and Compliance; From 16 September 2019: Credit Risk, Group Environmental Management, Legal, Group AML and Fraud Prevention
Dr Gabriel Schor	2004	31 December 2021	Reporting and Controlling, Supervisory Reporting and Capital Planning, Accounting and Taxes, Group Treasury, Group Funding; From 16 September 2019: Investor Relations, Group Communications, Administration and Translation

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

Supervisory Board of ProCredit Holding AG & Co. KGaA

The Supervisory Board comprised the following individuals in the 2019 financial year:

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

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

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

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

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

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

All members of the Supervisory Board aim to act as independent members within the meaning of the provisions of the German Stock Corporation Act and the GCGC. At least 50% of the members of the Supervisory Board shall at all times be independent, pursuant to section 5.4.1 paragraph 2 sentence 1 of the GCGC. In accordance with section 5.4.2 of the GCGC, the Supervisory Board has determined that it has what it considers to be an adequate number of independent members. Members of the Supervisory Board are also members of the supervisory board of ProCredit General Partner AG. Five members have been nominated by core shareholders. However, in our opinion, this does not affect the independence of the Supervisory Board members involved as they have been carefully instructed to comply with all applicable laws, in particular with those obliging them to maintain their independence. Furthermore, the Management Board has not become aware of any circumstances that may compromise the independence of any Supervisory Board member.

The Supervisory Board requires prospective candidates to indicate any potential conflicts of interest and shall assess such conflicts and satisfy itself that the respective candidates can devote the required amount of time before making its proposals to the General Meeting of the Company concerning the election of new members of the Supervisory Board.

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

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

There were no committees of the Supervisory Board in the fiscal year 2019. The Company is of the opinion that the relatively small size of the Supervisory Board, with only six members, and the limited scope of the business activities of the group, generally make the formation of committees superfluous, particularly since all of its members are well qualified and devote sufficient time.

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

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

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

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

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

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

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

Managers' transactions
The members of the Management Board and of the Supervisory Board as well as persons closely associated to them are required pursuant to Art. 19 Regulation (EU) No. 596/2014 (Market Abuse Regulation – "MAR") to disclose transactions relating to the shares of the Company as well as other financial instruments linked thereto, if the total amount of such transactions reaches EUR 5,000 within a calendar year. Information on such transactions will be made public and can be seen on the Company's website under www.procredit-holding.com/en/investor-relations/news. In the previous financial year, there was one reportable transaction in which Borislav Kostadinov, then member of the Management Board of the general partner of ProCredit Holding, sold 27,523 shares in the company on 9 April 2019 via the Xetra trading centre of the Frankfurt Stock Exchange at a price of EUR 10.00 per share.

Other Key Aspects of our Approach to Corporate Governance

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

Transparency

ProCredit Holding is committed to transparency and open communication with its shareholders. Relevant information is to be made available to the public promptly to ensure the equal treatment of shareholders. ProCredit Holding oversees an effective consolidated reporting process. It makes quarterly financial statements available. The ProCredit Holding Investor Relations provides additional clarity via investor and analyst presentations, roadshows, press communication, including ad-hoc notifications, as necessary, and other means, as appropriate. Important non-financial information, including an annual non-financial group statement (Group Impact Report) according to section 315b (3.1b) HGB, as well as our Group Code of Conduct, will also be available on the ProCredit Holding website.

Risk Management

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

Compliance Management System

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

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

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

Pursuant to section 161 of the German Stock Corporation Act (AktG), the "Management Board" of ProCredit General Partner AG, as the sole "General Partner", and the "Supervisory Board" of ProCredit Holding AG & Co. KGaA ("Company") declare that the Company, in accordance with the special legal characteristics of a partnership limited by shares, has been in compliance with the recommendations of the German Corporate Governance Code ("GCGC") of 7 February 2017, as published by the Federal Ministry of Justice in the official part of the German Federal Gazette on 24 April 2017, since its last statement of compliance on 22 March 2019, with the deviations listed therein. Excepting the deviations listed in the following, the Company shall comply in the future with the recommendations of the GCGC.

Deviations based on the legal form of the Company

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

Deviations from the recommendations of the GCGC

3.8 (3)
The GCGC recommends that when a D&O insurance policy is concluded for the Supervisory Board, a deductible of at least 10% of the loss should be agreed, up to an amount equal to at least one and a half times the fixed annual remuneration of the Supervisory Board member.

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

4.2.1 sentence 1
The GCGC recommends that the Management Board shall consist of several persons and that it shall have a chairperson or spokesperson.

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

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

4.2.3 (2) sentences 2 et seq.

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

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

5.3.2

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

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

5.3.3

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

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

5.4.1 (2) sentence 1

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

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

5.4.6 (1)

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

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

Frankfurt am Main, 18 March 2020

Management Board of
ProCredit General Partner AG

Supervisory Board of
ProCredit Holding AG & Co. KGaA

ProCredit Holding AG & Co. KGaA
Annual Financial Statements as of 31 December 2019
and Combined Management Report

Rohmerplatz 33-37
60486 Frankfurt/Main, Germany

HR Frankfurt Section B No. 91858
Tax No. 04724142020

The management report for ProCredit Holding AG & Co. KGaA and the group management report for the ProCredit group have been combined and published together with the consolidated financial statements for ProCredit Holding AG & Co. KGaA for the financial year ending 31.12.2019.

The annual financial statements and the group management report, which includes the combined management report for ProCredit Holding AG & Co. KGaA for the 2019 financial year, will be submitted to the provider of the electronic Federal Gazette ("Bundesanzeiger") and published electronically in the Federal Gazette.

Balance sheet

in EUR	Note	31.12.2019	31.12. 2018
A. Fixed assets			
I. Intangible fixed assets			
1. Trademarks and software		18,586	36,850
II. Tangible fixed assets			
1. Land and buildings		2,427,955	2,760,234
2. Other equipment, operating and office equipment		364,560	460,041
III. Long-term financial assets			
1. Shares in affiliated companies	(2)	638,719,683	649,692,368
2. Loans to affiliated companies	(3)	460,197,131	395,646,282
3. Long-term securities		1,297,784	1,297,784
4. Other loans		8,597,311	10,542,888
		1,111,623,009	**1,060,436,447**
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	(4)	37,249,012	60,567,683
of which, with a time to maturity of more than one year:		*0*	*0*
2. Other assets	(5)	9,004,426	1,080,343
of which, with a time to maturity of more than one year:		*0*	*155,823*
II. Cash in hand, central bank balances, bank balances and cheques	(6)	*55,499,569*	*40,566,389*
of which, with affiliated companies:		*37,585,975*	*38,993,807*
		101,753,007	**102,214,414**
C. Prepaid expenses	(7)	6,969,477	7,535,041
Total assets		**1,220,345,493**	**1,170,185,902**
A. Equity	(8)		
I. Subscribed capital		294,492,460	294,492,460
of which, general partner:		*0*	*0*
of which, limited partner:		*294,492,460*	*294,492,460*
II. Capital reserves		149,749,052	149,749,052
of which, general partner:		*0*	*0*
of which, limited partner:		*149,749,052*	*149,749,052*
III. Revenue reserves			
1. Legal reserve		135,961	135,961
IV. Retained earnings	(9)	96,508,787	132,687,647
		540,886,260	**577,065,120**
B. Provisions			
1. Other provisions	(10)	798,717	548,465
C. Liabilities	(11)		
1. Bonds		416,440,732	321,862,879
of which, with a time to maturity of up to one year:		*135,341,836*	*8,314,844*
of which, with a time to maturity of more than one year:		*281,098,896*	*313,548,035*
2. Liabilities to banks		90,405,470	90,389,248
of which, with a time to maturity of up to one year:		*405,470*	*20,389,248*
of which, with a time to maturity of more than one year:		*90,000,000*	*70,000,000*
3. Trade payables		233,967	245,633
of which, with a time to maturity of up to one year:		*233,967*	*245,633*
of which, with a time to maturity of more than one year:		*0*	*0*
4. Liabilities to affiliated companies		877,910	1,099,649
of which, with a time to maturity of up to one year:		*877,910*	*943,826*
of which, with a time to maturity of more than one year:		*0*	*155,823*
5. Other liabilities		170,693,618	178,848,707
of which, taxes:		*91,066*	*89,588*
of which, for social security:		*1,343*	*10,713*
		678,651,697	**592,446,116**
D. Deferred income		**8,820**	**126,202**
Total equity and liabilities		**1,220,345,493**	**1,170,185,902**

Income statement

	in EUR	Note	1.1.–31.12.2019	1.1.–31.12.2018
1	Sales revenue	(13)	12,732,538	11,065,769
2	Other operating income	(14)	37,980	5,608,583
3	Personnel expenses		6,714,336	6,734,463
	a) Wages and salaries		*5,473,891*	*5,489,250*
	b) Social security, post-employment and other employee benefit costs		*1,240,445*	*1,245,213*
	of which, in respect of retirement pensions:		*228,814*	*255,899*
4	Depreciation on intangible and tangible fixed assets		520,260	535,638
5	Other operating expenses	(15)	15,302,833	16,743,717
	Net operating income (–loss)		**–9,766,911**	**–7,339,467**
6	Income from long-term equity investments	(16)	46,809,005	50,258,326
	of which, from affiliated companies:		*46,809,005*	*50,258,326*
7	Income from profit and loss transfer agreements	(17)	101,579	530,707
8	Other interest and similar income		15,950,169	13,686,200
	of which, from affiliated companies:		*15,627,873*	*13,644,394*
	Financial income		**62,860,753**	**64,475,233**
9	Depreciation on long-term financial assets		50,837,478	19,654,056
10	Expenses from profit and loss transfer agreements	(17)	362,976	489,466
11	Interest and similar expenses		19,843,820	18,875,441
	of which, to affiliated companies:		*0*	*0*
	Financial expenses		**71,044,275**	**39,018,963**
12	Taxes on income (corporate income tax, trade tax and other taxes)	(18)	558,880	278,579
13	**Result after taxes/ Net income (–loss) for the year**		**–18,509,313**	**17,838,224**
14	Profit carried forward from previous years		132,687,647	130,752,016
15	Dividend distribution		-17,669,548	-15,902,593
16	**Retained earnings**		**96,508,787**	**132,687,647**

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A. BASIS OF FINANCIAL ACCOUNTING

1. Disclosures on recognition, measurement and presentation principles

The financial statements of ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt/ Main, as of 31 December 2019, were prepared in accordance with the regulations of the German Commercial Code [Handelsgesetzbuch] and the German Stock Corporation Law [Aktiengesetz]. The preparation of these Financial Statements follows the same accounting policies and methods of computation as were used for the Financial Statements for the financial year 2018.

Intangible fixed assets and tangible fixed assets are valued at acquisition cost or production cost and, to the extent that they are depreciable, their value is reduced by regular depreciation amounts. The depreciation amounts are based on the expected useful life of the respective asset items and are calculated using the straight line method:

Intangible assets	3 – 5 years
Buildings	20 years
Operating and office equipment	3 – 20 years

If an asset is permanently impaired, it is written down to the impaired value.

In the case of financial assets, shares are valued at acquisition cost. Loans are valued at nominal amount, unless they are part of a valuation unit (see below). If a financial asset is impaired permanently, it is written down to the lower fair value amount. Impairment on long-term financial assets is generally tested by comparing the net present value of future cash flows from investments with the respective carrying value. In cases in which the reasons for impairment have ceased to exist, a reversal of the impairment is undertaken; the acquisition cost serves as the asset value ceiling.

Receivables and other assets are generally reported at nominal value or at lower market prices, unless they are part of a valuation unit (see also below). Premiums or discounts appear on a pro-rata temporis basis in the income statement.

Receivables from banks are recognised at nominal amounts. Equity is recognised at nominal amount.

Other provisions include all legal or constructive obligations to third parties which are discernible as of the balance sheet date. These are established at a settlement amount estimated on the basis of commercial judgement. Provisions with a duration exceeding one year were not recognised in the balance sheet.

Liabilities are reported at the amounts repayable. Differences between the amount to be repaid and the amount paid out are recognised as prepaid expenses and appear on a pro-rata temporis basis in the income statement.

Derivative financial instruments are used exclusively to reduce the risk resulting from transactions in foreign currencies. Valuation units, including derivative hedging transactions, are recognised in accordance with the requirements of section 254 HGB. In general, ProCredit Holding strives to reduce the risk from currency transactions to a minimum through the formation of micro- and macro-hedges. Micro-hedges are used to cover the risk of individually identifiable underlying transactions. The prospective and retrospective effectiveness is determined using the critical terms match. Macro-hedges are used to hedge other open currency positions in USD. Financial accounting is performed in accordance with the "Durchbuchungsmethode" (revaluation method).

ProCredit Holding AG & Co. KGaA Sucursal Colombiana, Bogota, Colombia is a branch of ProCredit Holding and is therefore included in these financial statements.

All amounts are presented in euros, unless otherwise stated. Positions in foreign currency are translated in the balance sheet using the closing rate valid at the end of the reporting period. In general the company keeps currency positions closed, and open positions are actively closed to a large extent on a daily basis (see note 5). Income and expenses from currency translation are recognised in profit or loss for the period. Income and expenses in foreign currencies are generally translated at the middle exchange rate. The US dollar exchange rate as of 31 December 2019 was EUR 1/USD 1.1234. For computational reasons, figures may exhibit rounding differences of ± one unit (EUR, %, etc.).

B BALANCE SHEET DISCLOSURES

2. Shares in affiliated companies

in '000 EUR Affiliated company	at bookvalue 01.01.2019	Participation in %	Addition in 2019	Depreciation in 2019	Disposal in 2019	at bookvalue 31.12.2019	Participation in %
ProCredit Bank sh.a. Tirana, **Albania**	27,541	100.0%	5,000	28,716	0	3,826	100.0%
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	26,594	100.0%	0	5,415	0	21,179	100.0%
ProCredit Bank (Bulgaria) EAD Sofia, **Bulgaria**	100,761	100.0%	10,000	0	0	110,761	100.0%
Banco ProCredit S.A. Bogotá, **Colombia**	7,529	96.7%	277	3,536	4,269	0	0.0%
Banco ProCredit S.A. Quito, **Ecuador**	29,205	100.0%	0	0	0	29,205	100.0%
ProCredit Bank JSC Tbilisi, **Georgia**	59,999	100.0%	8,051	0	0	68,050	100.0%
ProCredit Bank AG Frankfurt am Main, **Germany**	75,000	100.0%	0	0	0	75,000	100.0%
ProCredit Academy GmbH Fürth, **Germany**	500	100.0%	0	0	0	500	100.0%
Quipu GmbH Frankfurt am Main, **Germany**	6,141	100.0%	0	0	0	6,141	100.0%
ProCredit Bank Sh.a Prishtina, **Kosovo**	77,968	100.0%	0	0	0	77,968	100.0%
Pro Energy LLC Pristina, **Kosovo**	95	95.0%	0	0	0	95	95.0%
ProCredit Bank A.D. Skopje, **North Macedonia**	18,503	100.0%	0	0	0	18,503	100.0%
ProCredit Regional Academy Eastern Europe Veles, **North Macedonia**	1,962	100.0%	0	0	0	1,962	100.0%
ProCredit Reporting DOOEL Skopje, **North Macedonia**	5	100.0%	0	0	0	5	100.0%
Administración y Recuperación de Cartera Michoacán S. A. DE C. V., SOFOM, E. N. R. Morelia, **Mexico**	815	100.0%	0	0	815	0	0.0%
ProCredit Bank S.A. Chisinau, **Moldova**	25,322	100.0%	0	2,880	0	22,442	100.0%
ProCredit Bank S.A. Bucharest, **Romania**	45,129	100.0%	11,000	9,670	0	46,459	100.0%
ProCredit Bank a.d. Belgrade, **Serbia**	83,130	100.0%	0	0	0	83,130	100.0%
ProCredit Bank JSC Kiev, **Ukraine**	63,493	91.8%	10,000	0	0	73,493	92.6%
Total	**649,692**		**44,327**	**50,216**	**5,084**	**638,720**	

In 2019, ProCredit Holding sold its shares in Banco ProCredit S.A., Colombia and in Administración y Recuperación de Cartera Michoacán S.A. DE C. V., Mexico.

3. Loans to affiliated companies

in EUR	Senior	Subordinated	31.12.2019	31.12.2018
ProCredit Bank sh.a. Tirana, **Albania**	24,000,000	7,000,000	31,000,000	29,000,000
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	65,500,000	4,500,000	70,000,000	48,000,000
ProCredit Bank (Bulgaria) EAD Sofia, **Bulgaria**	0	0	0	35,000,000
Banco ProCredit S.A. Quito, **Ecuador**	65,871,462	0	65,871,462	32,314,410
ProCredit Bank JSC Tbilisi, **Georgia**	32,889,549	13,901,549	46,791,098	54,781,659
ProCredit Bank AG Frankfurt am Main, **Germany**	0	10,000,000	10,000,000	10,000,000
ProCredit Academy GmbH Fürth, **Germany**	0	6,000,000	6,000,000	6,000,000
Quipu GmbH Frankfurt am Main, **Germany**	7,000,000	0	7,000,000	0
ProCredit Bank Sh.a Pristhina, **Kosovo**	0	7,500,000	7,500,000	7,500,000
ProCredit Bank A.D. Skopje, **North Macedonia**	15,000,000	10,000,000	25,000,000	23,000,000
ProCredit Bank S.A. Chisinau, **Moldova**	7,000,000	6,556,763	13,556,763	15,556,763
ProCredit Bank a.d. Belgrade, **Serbia**	123,000,000	16,000,000	139,000,000	86,000,000
ProCredit Bank JSC Kiev, **Ukraine**	38,477,809	0	38,477,809	48,493,450
Total	**378,738,819**	**81,458,312**	**460,197,131**	**395,646,282**

Loans to affiliated companies are not secured. At the end of the reporting period, a variable interest rate was payable on about 12.0% of the loans; the remaining loans were granted on the basis of a fixed interest rate.

4. Receivables from affiliated companies

in EUR	31.12.2019	31.12.2018
Short term loans	25,450,774	48,220,524
Accrued Interest	5,051,182	4,380,077
Foreign-exchange and interest-rate swap	14,716	231,421
Collateral for swap transactions	3,000,000	3,000,000
Others	3,732,340	4,735,661
Total	**37,249,012**	**60,567,683**

All swap transactions were with ProCredit Bank Germany and are therefore recognised as receivables from or liabilities to affiliated companies.

ProCredit Holding aims to keep the risk resulting from foreign currency transactions to a minimum. The Group Foreign Currency Risk Management Policy stipulates that the total open currency position may not exceed 10% of the company's equity. As of 31 December 2019 the open currency position of ProCredit Holding was USD 430,355.

The fair value of derivative financial instruments is presented as follows:

		31.12.2019	
in EUR	nominal amount	positive fair value	negative fair value
Foreign-exchange swaps	13,053,743	14,716	-316,074
Total	**13,053,743**	**14,716**	**-316,074**

5. Other assets

in EUR	31.12.2019	31.12.2018
Receivable other loans	7,382,561	30,736
Tax receivables	1,037,250	847,245
Others	584,615	202,362
Total	**9,004,426**	**1,080,343**

The position "Receivable other loans" consists mainly of short-term loans of the formerly affiliated company Banco ProCredit Colombia S.A. (ProCredit Bank Colombia); these were repaid in January 2020.

6. Receivables from banks

ProCredit Holding reported receivables from banks in the following positions:

in EUR	31.12.2019	31.12.2018
Loans to affiliated companies	447,197,131	389,646,282
Receivables from affiliated companies	32,548,293	57,619,982
Other loans	8,011,394	8,733,624
Cash in hand, central bank balances, bank balances and cheques	55,498,149	40,563,959
Total	**543,254,966**	**496,563,848**

The receivables from banks have the following remaining maturities:

in EUR	31.12.2019	31.12.2018
Up to three months	85,644,147	81,835,762
More than three months and up to one year	63,974,308	42,511,934
More than one year and up to five years	315,276,651	294,748,903
More than five years	78,359,861	77,467,249
Total	**543,254,966**	**496,563,848**

7. Prepaid expenses

The item "Prepaid expenses" consists primarily of disbursement fees in relation to the issuance of loans and bonds. The expenses are amortised according to the terms of the loan. In the reporting period, amortised disbursement fees amounted to EUR 1,093,354.

8. Equity

	2019			2018		
	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR
As at January 1	58,898,492	294,492,460	149,749,052	53,544,084	267,720,420	115,480,841
Capital increase				5,354,408	26,772,040	34,268,211
As at 31. December	**58,898,492**	**294,492,460**	**149,749,052**	**58,898,492**	**294,492,460**	**149,749,052**

All issued shares are non-par value shares and fully paid. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share.

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

By resolution of the Extraordinary General Meeting of 15 November 2019, the general partner, ProCredit General Partner AG, was authorised to acquire treasury shares of stock in accordance with section 71 (1) no. 8 AktG. The acquisition is possible for any legally permissible purpose. The authorisation is valid until five years after the date of the resolution and is limited in total to 1.5% of the share capital existing at the time the resolution is adopted by the General Meeting or – if lower – of the share capital existing at the time the authorisation is exercised. As of 31 December 2019 the ProCredit group did not hold any treasury shares of stock.

9. Retained earnings

At the Shareholders Meeting, the management intends to propose the distribution of a dividend of EUR 0.30 per share, totalling EUR 17.7 million. After offsetting the loss for the year with retained earnings, the remaining profit for the period of EUR 78,839,239 is to be carried forward. A dividend of EUR 0.30 per share was distributed for 2018.

10. Other provisions

in EUR	31.12.2018	Used	Released	Additions	31.12.2019
Audit fees	276,700	275,575	1,125	446,700	446,700
Untaken vacation	115,600	115,600	0	109,469	109,469
Others	156,165	153,360	2,805	242,548	242,548
Total	**548,465**	**544,535**	**3,930**	**798,717**	**798,717**

11. Maturity structure of liabilities

The table below provides an overview of the remaining maturity of liabilities:

in EUR	31.12.2019	31.12.2018
Bonds		
up to three months	210,977	422,984
more than three months and up to one year	135,130,859	7,891,860
more than one year and up to five years	184,746,573	157,000,000
more than five years	96,352,323	156,548,035
Liabilities to banks		
up to three months	238,974	230,807
more than three months and up to one year	166,497	20,158,441
more than one year and up to five years	85,000,000	65,000,000
more than five years	5,000,000	5,000,000
Trade payables		
up to three months	233,967	245,633
Liabilities to affiliated companies		
up to three months	877,910	1,099,649
Other liabilities		
up to three months	431,159	399,814
more than three months and up to one year	16,762,459	24,948,892
more than one year and up to five years	153,500,000	153,500,000
Total	**678,651,697**	**592,446,115**

Other liabilities mainly includes promissory note loans from non-banking institutions.

12. Contingent liabilities

The contingent liabilities consist of guarantees issued to third parties amounting to EUR 383,108,053 (previous year-end: EUR 307,472,344); these guarantees are to secure liabilities of companies affiliated to ProCredit Holding. A claim relating to guarantees issued is not expected. ProCredit Holding also issued credit lines totalling EUR 84,231,084 (previous year-end: EUR 74,986,900) to affiliated companies.

C. INCOME STATEMENT DISCLOSURES

13. Sales revenue

in EUR	1.1.–31.12.2019	1.1.–31.12.2018
Income from management service agreements	7,471,268	7,866,368
Income from reimbursed expenses	1,437,252	1,215,827
Income from guarantees to subsidiaries	3,289,453	1,835,150
Other sales revenue	534,565	148,424
Total	**12,732,538**	**11,065,769**

in EUR	1.1.–31.12.2019	1.1.–31.12.2018
Germany	965,555	760,992
Other EU-Countries	2,329,726	1,958,114
Remaining Europe	8,326,327	7,514,751
South America	1,110,930	831,911
Total	**12,732,538**	**11,065,769**

14. Other operating income

in EUR	1.1.–31.12.2019	1.1.–31.12.2018
Income from the reversal of impairment of shares of subsidiaries	0	5,600,000
Other income	27,428	4,307
Income from previous periods	10,552	4,276
Total	**37,980**	**5,608,583**

15. Other operating expenses

in EUR	1.1.–31.12.2019	1.1.–31.12.2018
Administration expenses	8,136,213	6,825,196
Expenses to be reimbursed by affiliated companies	1,257,625	1,131,772
Expenses due to exchange rate differences and hedging transactions	1,958,366	2,444,637
Legal and advisory services	1,993,061	4,456,270
Other personnel expenses	1,332,908	1,245,940
Other expenses	624,660	639,902
Total	**15,302,833**	**16,743,717**

The other operating expenses consist mainly of administration expenses and advances to affiliated companies and other investors, for which ProCredit Holding will be reimbursed. The income from the reimbursement of advances for affiliated companies and other investors is included in the position “Sales revenue”.

As a general rule, open currency positions are closed at portfolio level by ProCredit Holding. If necessary, hedging transactions are concluded.

Summary of auditors expenses

in EUR	1.1.–31.12.2019	1.1.–31.12.2018
Audit fees group	408,000	**245,000**
Audit fees single financials	61,000	45,000
Tax advice	17,285	0
Other confirmatory services	83,445	110,000
Other services	0	12,000
Total	**569,730**	**412,000**

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

16. Income from long-term equity-investments

in EUR	1.1.-31.12.2019	1.1.-31.12.2018
ProCredit Bank E.A.D. Sofia, **Bulgaria**	18,111,309	16,373,100
ProCredit Bank JSC Tbilisi, **Georgia**	8,051,013	10,000,000
ProCredit Regional Academy Eastern Europe Veles, **North Macedonia**	0	798,827
ProCredit Bank A.D. Skopje, **North Macedonia**	0	1,895,635
ProCredit Bank S.A. Chisinau, **Moldova**	3,646,683	0
ProCredit Bank Sh a Pristina, **Kosovo**	17,000,000	20,000,000
Quipu GmbH Frankfurt am Main, **Germany**	0	1,190,764
Total	**46,809,005**	**50,258,326**

17. Profit and loss transfer agreements

During the reporting period, profit and loss transfer agreements existed with ProCredit Bank AG, Frankfurt/Main, ProCredit Academy GmbH, Fürth and Quipu GmbH, Frankfurt/Main. ProCredit Holding assumed the following profit:

in EUR	1.1.-31.12.2019	1.1.-31.12.2018
ProCreditAcademyGmbH Fürth, **Germany**	101,579	530,707
Total	**101,579**	**530,707**

ProCredit Holding assumed the following expenses:

in EUR	1.1.-31.12.2019	1.1.-31.12.2018
Quipu GmbH, Frankfurt/Main, **Germany**	362,976	489,466
Total	**362,976**	**489,466**

ProCredit Bank AG, Frankfurt/Main, Germany will transfer all of its profit to the legal reserve.

18. Taxes on income

Taxes on income consist in the current fiscal year mainly of foreign withholding taxes on interest income of EUR 284,587 (2018: EUR 169,332) and on dividend income of EUR 268,242 (2018: EUR 85,304).

D. ADDITIONAL DISCLOSURES

19. Other financial obligations

Rental commitments
ProCredit Holding incurred obligations totalling EUR 7,536,141 arising from rental contracts concluded at usual market conditions. The maturity period of the rental agreement for the office building is 10 years.

Guarantee framework agreement
ProCredit Holding signed a guarantee framework agreement with the European Investment Bank to secure the liabilities of ProCredit Holding's affiliated companies. The agreement covers obligations from loans by affiliated companies up to a maximum amount of EUR 319,000,000. As of the balance sheet date, EUR 209,886,784 had been utilised and recognised under contingent liabilities.

20. Supervisory Board and Management Board

The following persons served as members of the Supervisory Board:

Supervisory Board	
Dr Claus-Peter Zeitinger Frankfurt/Main	Entrepreneur (Chairperson since 2 April 2004) Member of the supervisory board of: ProCredit Bank A.D., Sofia, Bulgaria CJSC ProCredit Bank, Kiev, Ukraine
Jasper Snoek Amsterdam	Managing Director, Fair Capital Partners Impact Investing BV, Muiden, The Netherlands (Member since 11 July 2007)
Marianne Loner Zürich	Master of business administration (Member since 17 May 2017) Member of the supervisory board of: ProCredit Bank S.A., Bucharest, Romania Sura Asset Management S.A., Medellin, Colombia Amundi Planet Sicav-SIF, Luxembourg (Luxembourg) Britam Holdings Plc, Nairobi, Kenya Britam Life Assurance Co., Nairobi, Kenya
Petar Slavchev Slavov Sofia	Economist (Member since 28 January 2014) Member of the supervisory board of: ProCredit Bank A.D., Sofia, Bulgaria
Christian Krämer Frankfurt/Main	Fully qualified lawyer (Member since 28 January 2014) Member of the supervisory board of: ProCredit Bank A.D., Sofia, Bulgaria
Rainer Peter Ottenstein Frankfurt/Main	Diplom-Kaufmann (Member since 30 November 2016) Member of the supervisory board of: ProCredit Bank AG, Frankfurt/Main, Germany ProCredit Bank, Pristina, Kosovo ProCredit Bank S.A., Bucharest, Romania ProCredit Bank A.D., Belgrade, Serbia CJSC ProCredit Bank, Kiev, Ukraine ProCredit Bank JSC, Tbilisi, Georgia

Each member of the Supervisory Board receives a compensation of EUR 10 thousand.

The following individuals served as members of the Board of Management of ProCredit General Partner AG:

Vorstand	
Sandrine Massiani Frankfurt/Main	
Dr Gabriel Schor Frankfurt/Main	Borislav Kostadinov Frankfurt/Main until 15 September 2019

ProCredit Holding is represented by two members of the Management Board or by a Management Board member together with an authorised representative (Prokurist).

Total emoluments for the members of the Board of Management during the reporting period were:

Dr Gabriel Schor EUR 178,637 (of which payments to a pension fund EUR 33,031),
Borislav Kostadinov EUR 337,849 (of which payments to a pension fund EUR 3,150),
Sandrine Massiani EUR 199,684 (of which payments to a pension fund EUR 0).

The following positions were also held by the members of the Management Board:

Dr Gabriel Schor	Member of the Supervisory Board: Banco ProCredit S.A., Quito, Ecuador (Chairperson) ProCredit Bank AG, Frankfurt, Germany (Chairperson) ProCredit Bank JSC, Pristina, Kosovo (Chairperson)
Borislav Kostadinov	Member of the supervisory board of: ProCredit Bank A.D., Skopje, North Macedonia ProCredit Bank A.D., Belgrade, Serbia (Chairperson)
Sandrine Massiani	Member of the Supervisory Board: ProCredit Bank JSC, Tbilisi, Georgia ProCredit Bank A.D., Skopje, North Macedonia (Chairperson) ProCredit Bank A.D., Belgrade, Serbia Member of the Management Board: ProCredit Reporting DOOEL Import-Export, Skopje, North Macedonia Développement et Finance International S.A.R.L; Nice, France

21. Additional disclosures

The personal liable general partner of ProCredit Holding is ProCredit General Partner AG, headquartered at Rohmerplatz 33-37, 60486 Frankfurt/Main. The capital of ProCredit General Partner AG amounts to EUR 100,000.

In accordance with the provisions of Section 315e, part 1 of the German Commercial Code (HGB), ProCredit Holding prepares IFRS consolidated financial statements for the largest scope of entities; these statements are published in the Federal Gazette (Bundesanzeiger).

The average number of staff members employed by ProCredit Holding during 2019 was 107. The total number of staff members at 31 December 2019 was 111.

The declaration of compliance with the German Corporate Governance Codex pursuant to § 161 of the German stock corporation Act (*Aktiengesetz*) is part of the combined management report.

22. Events after the reporting period

In January 2020 ProCredit Holding acquired the outstanding minority shares in ProCredit Bank Ukraine. ProCredit Holding now holds 100% of the issued share capital of the bank.

Due to the worldwide spread of COVID-19, there may be a severe decline in economic growth. Depending on the development of our subsidiaries, this could have a negative impact on the profit for the year. Given the current uncertainty, it is not possible to quantify the financial effects.

Responsibility of the legal representatives

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

Frankfurt am Main, 18 March 2020

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

Management Board

Sandrine Massiani

Dr Gabriel Schor

Annex 1: Statement of changes in fixed assets

in EUR	Acquisition cost					Accumulated depreciatio				Net book values	
	as of 01.01.2019	Additions	Disposals/ Appreciations	Reclassifi-cations	as of 31.12.2019	as of 01.01.2019	Additions	Disposals/ Appreciations	as of 31.12.2019	as of 31.12.20198	as of 31.12.2018
I. Intangible fixed assets											
1. Trademarks and software	1,327,115	0	0	0	1,327,115	1,290,264	18,264	0	1,308,528	18,587	36,851
II. Tangible fixed assets											
1. Land and buildings	5,319,063	0	0	0	5,319,063	2,558,829	332,279	0	2,891,108	2,427,955	2,760,234
2. Other equipment, operating and office equipment	2,401,773	72,203	-32,204	0	2,441,772	1,941,731	167,550	-32,070	2,077,211	364,560	460,041
	9,047,951	**72,203**	**-32,204**	**0**	**9,087,950**	**5,790,825**	**518,093**	**-32,070**	**6,276,848**	**2,811,102**	**3,257,126**
III. Long-term financial assets											
1. Shares in affiliated companies	714,334,037	44,327,467	-56,345,875		702,315,628	63,343,886	50,216,228	-49,964,169	63,595,945	638,719,683	650,990,151
2. Loans to affiliated companies	395,646,282	176,598,883	-112,048,035		460,197,131	0	0	0	0	460,197,131	395,646,282
3. Long-term securities	1,297,784	0	0	0	1,297,784	0	0	0	0	1,297,784	1,297,784
4. Other loans	10,542,888	0	-1,324,328	0	9,218,561	0	621,250	0	621,250	8,597,311	10,542,888
	1,121,820,991	220,926,350	-169,718,238	0	1,173,029,103	63,343,886	50,837,478	-49,964,169	64,217,195	1,108,811,908	1,058,477,105
Total fixed assets	**1,130,868,942**	**220,998,553**	**-169,750,442**	**0**	**1,182,117,053**	**69,134,711**	**51,355,571**	**-49,996,239**	**70,494,043**	**1,111,623,010**	**1,061,734,231**

Annex 2: Share ownership

The two non-material subsidiaries – ProCredit Reporting DOOEL, North Macedonia, and Pro Energy LLC, Kosovo – are not included in the scope of consolidation. In December 2019, the special purpose entity PC Finance II B.V. was deconsolidated based on materiality considerations.

	Name of institution	Legal residence	Share capital incl. Capital reserve ('000 EUR)	Retained earnings and other reserves ('000 EUR)	Profit/-loss for the year ('000 EUR)	Share in %
1	ProCredit Bank sh.a. **Albania**	Tirana, Albania	33,698	-2,522	-6,646	100.0
2	ProCredit Bank d.d. **Bosnia and Herzegovina**	Sarajevo, Bosnia und Herzegovina	36,515	-10,695	-762	100.0
3	ProCredit Bank E.A.D **Bulgaria**	Sofia, Bulgaria	105,747	10,908	18,503	100.0
4	Banco ProCredit S.A. **Ecuador**	Quito, Ecuador	37,999	13,895	-1,282	100.0
5	ProCredit Bank JSC **Georgia**	Tbilisi, Georgia	62,248	-4,658	9,018	100.0
6	ProCredit Bank AG **Germany**	Frankfurt/Main, Germany	75,000	3,058	1,644	100.0
7	ProCredit Academy GmbH **Germany**	Fürth/Weschnitz, Germany	500	95	0	100.0
8	Quipu GmbH **Germany**	Frankfurt/Main, Germany	1,000	6,320	786	100.0
9	ProCredit Bank Sh.a **Kosovo**	Prishtina, Kosovo	66,061	10,441	21,453	100.0
10	ProCredit Bank A.D. **North Macedonia**	Skopje, North Macedonia	16,000	25,125	4,160	100.0
11	ProCredit Regional Academy Eastern Europe **North Macedonia**	Veles, North Macedonia	1,202	719	-182	100.0
12	ProCredit Bank S.A. **Moldova**	Chisinau, Moldova	25,099	3,384	4,457	100.0
13	ProCredit Finance II B.V. **The Netherlands**	Amsterdam, The Netherlands	18	0	0	n/a
14	ProCredit Bank S.A. **Romania**	Bucharest, Romania	60,534	-10,925	-4,091	100.0
15	ProCredit Bank A.D. **Serbia**	Belgrade, Serbia	80,786	50,438	5,910	100.0
16	ProCredit Bank JSC **Ukraine**	Kiev, Ukraine	83,785	39,374	24,182	92.6

1 REPRODUCTION OF THE INDEPENDENT AUDITOR'S REPORT

Based on the results of our audit, we have issued the following unqualified audit opinion:

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinions

We have audited the annual financial statements of ProCredit Holding AG & Co. KGaA, which comprise the balance sheet as at 31 December 2019 and the income statement for the financial year from 1 January to 31 December 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report of ProCredit Holding AG & Co. KGaA for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the „Other Information" section of our auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, in compliance with German legally required accounting principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the „Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of Shares in Affiliated Companies

With regard to applied accounting and valuation principles, we refer to Section „A.1" in the notes to the financial statements. Disclosures on business development can be found in the combined management report in the section „Management report of ProCredit Holding AG & Co. KGaA".

THE FINANCIAL STATEMENT RISK

Shares in affiliated companies of EUR 638.7 million are recognised in the Company's annual financial statements as at 31 December 2019. This item mainly includes the amounts recognised for the eleven operating subsidiaries based abroad. Shares in affiliated companies are recognised at acquisition cost or, in the case of a permanent impairment, at the lower fair value. The Company determines the fair value of the shares in affiliated companies using the discounted cash flow method.

The valuation methods are subject to judgement, particularly with respect to the budget figures used to derive cash flows and the determination of the discount rates. The financial statement risk arises from a permanent impairment of shares in affiliated companies as at the reporting date that was not appropriately presented in compliance with German commercial law due to the fair value was determined on the basis of inappropriate valuation models, assumptions and valuation parameters.

OUR AUDIT APPROACH

To determine our audit approach, we conducted a risk assessment of the model used to measure the shares in affiliated companies held by the Company, as well as of the parameters and the planning assumptions. Based on this risk assessment, we developed an audit approach that encompasses a test of design concerning controls as well as substantive audit procedures.

In the course of our audit procedures for the internal control system, we performed a test of design initially based on the written rules of procedure to gain an understanding of the valuation process. Furthermore, we assessed the appropriateness of relevant controls in terms of the budget figures used and the identification of any necessary impairment, as well as regarding the determination of corresponding valuations for the investments in affiliated companies.

With the involvement of our internal KPMG valuation specialists, we carried out risk-based substantive audit procedures to assess the appropriateness of the valuation model for the business valuations carried out by the Company as well as the significant valuation assumptions and parameters.

In this regard, we

- assessed the computational and formal plausibility of the budget figures used
- used a risk-oriented approach to check the plausibility of the budget figures based on budget/actual and budget/budget analyses as well as by comparing the budget with the corresponding explanations provided by the management of selected subsidiaries
- evaluated the appropriateness of the models used
- examined the parameters used in the models (budget assumptions and discount rates) and checked and validated these against externally available parameters on discount rates (risk-free rates, beta factors and market risk and country risk premiums)
- checked the computational accuracy of the fair value measurement
- verified the accounting entries for the value adjustments.

OUR OBSERVATIONS

The valuation model applied to measure the shares in affiliated companies and the parameters used were properly selected and applied in accordance with the applicable accounting law.

Other Information

Management and respectively the Supervisory Board are responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the non-financial group statement, which is referred to in the combined management report,
- the corporate governance report contained in the combined management report,
- the information not typically included in the combined management report marked as unaudited and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the combined management report information audited for content and our auditor's report.

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

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

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

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, management is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 17 May 2019. We were engaged by the Supervisory Board on 18 June 2019. We have been the auditor of ProCredit Holding AG & Co. KGaA since financial year 2019.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 20 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Fox	Zissel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

ProCredit

HOLDING

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