

2017

Annual Report

Key Figures of the Group

Consolidated Statement of Financial Position (in '000 EUR)	Dec 2017	Dec 2016	Change
Total assets	5,499,378	5,667,776	-168,398
Loans and advances to customers	3,909,911	3,628,700	281,210
Allowance for losses on loans and advances to customers	-128,527	-150,651	22,124
Liabilities to customers	3,570,932	3,475,099	95,834
Total equity	658,533	654,272	4,260

Consolidated Statement of Profit or Loss (in '000 EUR)			
Operating income	247,989	259,345	-4.4%
Operating expenses	186,785	198,220	-5.8%
Profit of the period from continuing operations	46,641	47,031	-0.8%
Profit of the period	48,102	61,009	-21.2%

Key Performance Indicators			
Change in loan portfolio over EUR 30,000	17.8%	13.0%	4.8%
Return on equity (ROE)	7.1%	9.6%	-2.5%
CET 1 Ratio	13.7%	12.5%	1.2%

Additional indicators			
Ratio of customer deposits to loan portfolio	91.3%	95.8%	-4.5%
Net interest margin	3.8%	4.6%	-0.8%
Cost-income ratio	73.7%	71.3%	2.4%
% of loans in arrears (PAR30)	2.9%	3.9%	-1.0%
Ratio of allowances to loans in arrears (PAR30)	112.1%	105.6%	6.5%

Operational Statistics			
Number of Financial Institutions*/**	13	13	0.0%
Number of Staff*	3,328	4,078	-18.4%
Number of Outlets*	118	291	-59.5%

* The presentation contains only continuing operations for 2017 as well as for 2016, i.e. without Banco Pyme Los Andes ProCredit Bolivia, Banco ProCredit El Salvador, ProConfianza Mexico, and Banco ProCredit Nicaragua

** excluding Mexico ARDEC

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Letter from the Chairman of the Supervisory Board

2017 was, as the year before, a good year for the ProCredit group on its way to becoming an important financial services provider for small and medium enterprises (SMEs). For some years now, our banks have been undergoing a structural transformation from a banking group with an unwieldy number of very small and micro clients, including over one million micro savers, to a lean and specialised bank providing high quality services for successful SMEs.

Today, this transformation can be regarded as largely completed. Over the last five years, we have withdrawn from client segments and countries where we saw little potential to foster and grow with SMEs. We have implemented deep-rooted changes to realign our operations. Despite the scale of restructuring, the group's loan portfolio has continued to grow through cooperation with our target clients: successful, comparatively large companies, and we have delivered steady financial results. At the same time, we have built up our bank in Germany to provide valuable central services for the group, and to offer German SMEs a partner for their activities, especially in Eastern Europe. I am convinced that today we are well positioned for the future.

Our SME portfolio grew by EUR 500 million in Eastern Europe alone in 2017, outperforming the other European banking groups that compete with us in the same countries. Given our high-quality, motivated team of client advisers and the improving market conditions, we expect to see further strong growth in the years to come. A thorough and conservative approach to credit risk assessment ensures that our strong growth expectations do not come at the expense of loan portfolio quality. Good indicators of this are our low "portfolio at risk over 30 days" ratio, which is only 2.9%, and the fact that our bank's NPL ratios are typically half those of our main competitors.

We have also modernised and focused our private client strategy. Our small and medium business clients account for more than one third of group deposits, but the majority comes from private clients. The number of private clients decreased somewhat in the past fiscal year – a process that will continue, but without negatively impacting deposit volume. This trend reflects the ever higher level of digitalisation of our services, and our consequent move away from cash transactions. However, what may not appeal to very small customers will appeal to middle-income earners who aspire to western banking standards. With our state-of-the-art e-Banking and m-Banking platforms, developed by Quipu, we are confident that we will attract and support the increasingly modern, digitally adept and, above all, growing population of salary earners, and thereby also provide a firm deposit base for the further expansion of our lending business.

All in all, it can be said that we as a group are supported by two stable and future-oriented pillars. On the one hand, we are a lean SME bank, providing close, personal customer contact and intensive support for our business clients. On the other hand, we are a direct bank providing a simple, integrated online service package with transparent deposit facilities (current account, savings and term deposits) linked to a debit card, free transactions as well as limited overdraft facilities, smaller investment loans and long-term housing financing. These services are standardised and intuitive, which significantly reduces time and effort spent on personal support.

Highly trained staff and strict controls for the prevention of money laundering and tax fraud underscore our commitment to establishing long-term, solid business partnerships and maintaining widely recognised ethical standards.

On average, our green loans makes up over 12% of the portfolio, and we are confident that we will have reached 15% by the end of this year. We are especially pleased that the funding is broadly distributed, with financing provided to around 7,000 clients. We also aim to lead by example through our bank-internal initiatives, from

vehicle fleets that are mostly electric to bank premises that have been constructed or improved to meet ecological or improved building standards.

We have further intensified staff training and discussions, with 18 work days invested in each employee this year. Among other things, this aims to prepare them to cope with both digitisation and the demanding nature of the SME business. The 34 management board positions of the 13 ProCredit banks are occupied by citizens of the respective countries, who on average have been with the group for 12 years, with 56% being women. The management level below is made up of around 200 high calibre middle managers, and here too about half are women. Almost all have completed the three-year management academy in Fürth im Odenwald, Germany. All ProCredit Bank staff speak English. It is the dedication and loyalty of these colleagues that have made it possible to carry out the remarkable structural changes of recent years while maintaining business growth and achieving solid financial results. My first thanks go to these women and men, many of whom I have met personally through our academy courses and visits to the banks.

After thirty years of dedicated work, Dr Anja Lepp has retired from the management of ProCredit Holding; however, she will remain available to the company as a consultant for another year. I would like to thank her for her lifelong support and hard work. The management team consisting of Mr Borislav Kostadinov, Ms Sandrine Massiani and Dr Gabriel Schor have all shown their fullest commitment this past year, as in previous years, and pushed ahead with the structural changes in our company. My special thanks go to them, too.

There was also a change in the Supervisory Board: Mr Wolfgang Bertelsmeier, who has accompanied us for more than five years with his expertise and long experience, has resigned. He will, however, continue to serve the group on the supervisory boards of three ProCredit banks in the future, for which I am very grateful. We would therefore like to welcome to our ranks Ms Marianne Loner, who is also a proven financial expert and who can look back on many years of experience with UBS.

A successful capital increase carried out at the beginning of 2018 has secured the group's anticipated growth and has certainly attracted the attention of new investors. I particularly welcome the EBRD and Frankfurt's MainFirst as shareholders with a stake of over 3% each.

Frankfurt am Main, March 2018



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

Supervisory Board
As of 31 December 2017:

Dr Claus-Peter Zeitinger
Chairman of the
Supervisory Board

Mr Christian Krämer
Deputy Chairman of the
Supervisory Board

Mr Petar Slavov

Mr Jasper Snoek

Mr Rainer Peter Ottenstein

Mr Wolfgang Bertelsmeier
until 17 May 2017

Ms Marianne Loner
from 17 May 2017



Letter from Management

Dear Ladies and Gentlemen,
Dear Shareholders,

For the ProCredit group, 2017 was once again a successful year.

The rigour, passion and conviction with which our staff applies our "Hausbank" principle in serving small and medium-sized enterprises (SMEs) resulted in accelerated growth of our business loan portfolio, growth of our business deposits and an increase in the number of transactions per business client. We believe that this shows the great extent to which our business clients appreciate ProCredit's banking services and competent partnership.

Portfolio growth was particularly strong in the group's core segment: loans over EUR 30,000. In this size category, our portfolio grew by 18%, with our Eastern European banks alone recording an impressive 21%. At the same time, our SME clients further intensified their business with us; deposits from business clients increased, contributing to growth in the group's total deposit volume to EUR 3.6 billion.

Across the group, efforts to reduce the portfolio of non-core loans smaller than EUR 30,000 continued, and as of end-2017 this process had been largely completed in the majority of our banks. Therefore, we are now in an even better position to focus on larger formal SMEs with good growth potential. Notably, the loan portfolio per staff member rose by 32.0% to EUR 1.2 million in 2017. Indeed, this indicator has already reached EUR 2.0 million in our largest institution by assets, ProCredit Bank Bulgaria, underscoring the scalability of our business model. Here again we emphasise our conviction that we are providing not only excellent service and sound advice, but also much-needed financial stability to companies in our regions that are transitioning from informality into professional, prosperous and progressive enterprises.

Loan portfolio growth was accompanied by a further improvement in loan portfolio quality. This was attributable to our withdrawal from lending to very small businesses, which allowed us to focus on larger, financially more robust clients with stable repayment capacity, and not least due to our rigorous approach to risk management. As a result, provisioning expenses fell from EUR 18.6 million in 2016 to a historic low of EUR 5.3 million, while maintaining our coverage ratio at an adequate level. The improved portfolio quality and its positive effects on provisioning expenses played a role in offsetting the decline of net interest income from EUR 230.8 million to EUR 204.8 million in 2017.

An important development during the year was the steady implementation of our "Direct Banking" offer for our target private clients. Direct banking channels provide clients with instant access to their bank accounts from any location and at any time, simplifying the management of their funds and offering flexible savings options. At the same time, we have made the cost of banking much more predictable for clients by applying a single flat monthly fee covering the vast majority of routine transactions. Direct banking also means greater autonomy and flexibility for clients wishing to take advantage of services such as overdrafts, small investment loans and mortgage loan facilities. The seamless rollout of our "Direct Banking" across the group once again underscores the key position that Quipu, the group's own IT service provider, has in the very fabric of the company.

Our confidence in our digital services has allowed us to further streamline our network, thereby reducing our cost base without compromising on service quality. At the end of 2017, we were operating only 47 full-fledged branches, down from 67 a year ago, and 71 Service Points, compared with 224 in 2016. We are pleased with the

active utilisation of our digital services. We regard this as confirmation that we are bringing important benefits to our clients and helping to modernise the economies in which we operate, where cash usage is otherwise still widespread.

In the interests of our SME clients and of our countries of operation, in 2017 the ProCredit group concluded funding and guarantee agreements with institutions such as the European Investment Bank (EIB), the European Investment Fund (EIF) and the European Bank for Reconstruction and Development (EBRD). These agreements make it easier for our clients to gain access to well-structured finance facilities to help implement their investment plans.

Our portfolio of "green" loans grew by 47.8% to EUR 489.1 million during the course of the year, emphasising the fact that we are a bank of choice for forward-looking clients who understand the advantages of investing in innovation and energy efficiency. We expect our green loan portfolio to continue growing and to reach a share of at least 15% (today 12.6%) of the total customer loan portfolio in 2018. We also see this as a strong indicator that we are working with those SMEs whose ecologically sound investment projects form the backbone of social and economic progress in the countries where we operate.

The key factor for the success of our development-oriented business model is quality: high-quality services provided within the framework of high-quality relationships with our clients. This can only be achieved by expert staff with strong ethical values which is why the ProCredit group pays so much attention to recruitment and continuous professional development. For an average 17.8 training days per staff member, the group invested EUR 6.9 million in training and development in 2017, and these staff investments will continue to play a vital strategic role in the future.

As previously announced, we sold our banks in Nicaragua and El Salvador in 2017, completing another important step in focusing our business model: the operating environment in these countries had become increasingly difficult in recent years, and the potential for growth with target SMEs was limited.

Our CET1 capital ratio reached a solid 13.7% at year-end and is thus in line with the forecast of "more than 13%". The reduction in administrative expenses and credit risk provisioning costs has helped to keep our result from continuing operations stable: despite narrower interest margins, it amounted to EUR 46.6 million and is on the same level as in the previous year.

The group cost-income ratio of 73.7% is higher than in 2016, but improved in the second half of the year. That was largely due to the still declining net interest income and to extraordinary expenses connected to the changes in the network of outlets.

Despite the challenging interest rate climate, which has affected our net interest income, and the negative one-off effects that branch network restructuring has had on our cost structure, we were nonetheless able to achieve an overall positive result of EUR 48.1 million. This represents a return on average equity (RoAE) of 7.1% and is at the lower end of the forecasted range (between 7% and 9%). Our shareholders can again expect to receive a share of the profit: at the Annual General Meeting to be held on 23 May 2018 in Frankfurt, we will propose a dividend of EUR 0.27 per share, in line with our payout target rate of one third of the unappropriated profits of the financial year.

We are particularly satisfied that we were able to place 5.4 million new shares on the capital market at the beginning of 2018, just over a year after our technical listing on the Frankfurt Stock Exchange. The gross proceeds of the share issue, around EUR 61 million, will help finance the ongoing growth of our banking group. By

maintaining an open and regular dialogue with capital market participants, we aim to make our business model even better known to all interested parties.

Looking forward, we will continue to build on the exceptional knowledge we have accumulated over the years. Our experience has shown that the kind of SMEs we target overwhelmingly decide to invest in amounts over EUR 50,000; hence, in the future we will focus our attention on loans above this new threshold. This refined emphasis gives us additional reasons to be confident about the positive development of our customer loan portfolio and the additional increase in operational efficiency. Apart from that, in 2018 further economic growth is forecast for the countries in South Eastern and Eastern Europe where ProCredit banks are active, and we expect the business environment to be conducive to investments by the SME sector in these markets. Consequently, we anticipate stronger loan portfolio growth compared to 2017. As part of our private client strategy, we will continue to sharpen our focus and expand e-banking utilisation. With our exceptional staff, our strong IT platform and our streamlined branch network, we will continue to work hard to convince more target clients to bank with us, while keeping a close watch on costs.

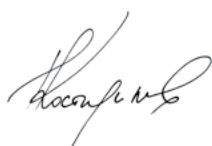
We expect 2018's RoAE to be between 7.5% and 8.5%; in the medium term, however, we anticipate a level of approximately 10%.

The implementation of our strategy and the ongoing development of the ProCredit group would not have been possible without the dedicated efforts of our highly committed employees. We would therefore like to take this opportunity to express our sincere gratitude for the motivation and enthusiasm you showed in 2017. We are counting on your continuing support as we work together for another successful year as the "Hausbank" for small and medium-sized businesses.

Overall, 2017 was a good year, and we believe that it has laid a solid foundation for more successful years to come. We would like to thank you – our clients, shareholders and business partners – for the trust you have placed in us, and we hope that you will continue to accompany us as the ProCredit group advances along its chosen path.

Frankfurt, March 2018

Management Board, ProCredit General Partner AG



Borislav Kostadinov



Sandrine Massiani



Dr. Gabriel Schor



Photo: Kriolit-Dnipro, production and trade of confectionery goods, client of ProCredit Bank Ukraine

ProCredit on the capital market

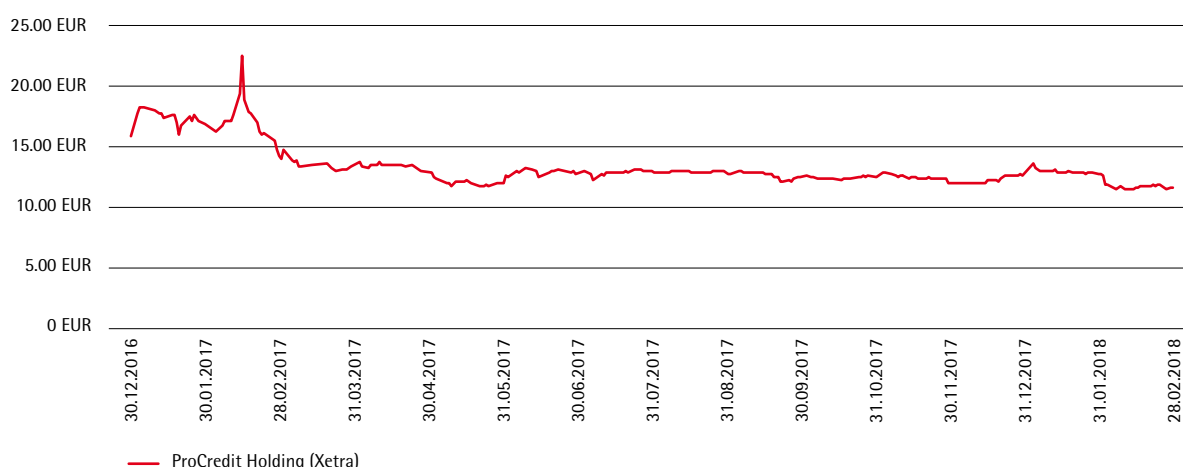
The shares of ProCredit Holding AG & Co. KGaA have been listed on the Prime Standard of the Frankfurt Stock Exchange since 22 December 2016.

The share price followed a sideways trend for most of the last twelve months. After a volatile start to the year, from the second quarter of 2017 onwards the Xetra closing price for ProCredit shares remained fairly stable, ranging between EUR 11.50 and EUR 13.695 until the end of February 2018.

On the last trading day of 2017, the shares ended the year at an Xetra closing price of EUR 12.55. Based on the 53,544,084 shares outstanding as at 31 December 2017, the market capitalisation of ProCredit Holding at that time was approximately EUR 672 million.

Over the last calendar year, an average of around 1,400 ProCredit Holding shares were traded through the Xetra system every day. Towards the end of the year there were signs of an upturn in activity and the average daily trading volume on Xetra was around 3,900 shares in December 2017. This trend continued into the beginning of 2018 and the average trading volume on Xetra was around 5,100 shares a day between 1 January and 28 February.

Share price performance (Xetra closing price; as of 28 February 2018)



Successful Capital Increase on 2 February 2018

On 2 February 2018, as part of a cash capital increase, ProCredit Holding AG & Co KGaA placed 5,354,408 new shares at a price of EUR 11.40 with institutional investors, primarily in German-speaking countries and the United Kingdom. This was undertaken within the scope of the authorised capital and increased the share capital of ProCredit Holding by 10%. The new shares are entitled to dividends for the financial year 2017 and were included in the existing listing in the regulated market sub-segment (Prime Standard) of the Frankfurt Stock Exchange on 9 February 2018.

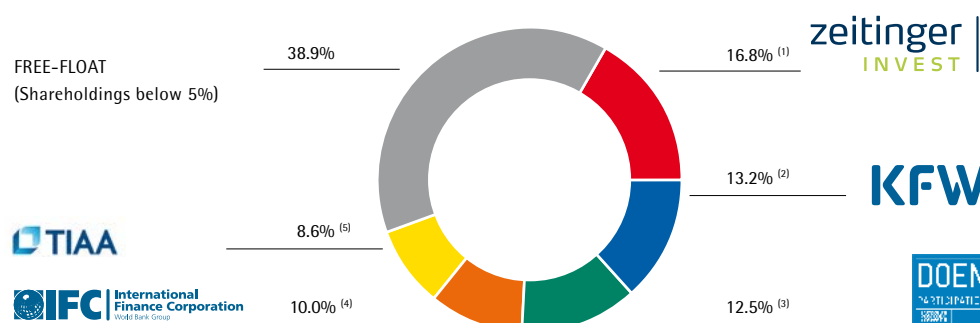
ProCredit received gross proceeds of around EUR 61 million from the capital increase. The company plans to utilise the successfully raised capital to continue the growth course of the banking group and to expand its customer business with small and medium-sized enterprises (SMEs), especially in South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

Based on 58,898,492 outstanding shares and the Xetra closing price of EUR 11.60 on 28 February 2018, the market capitalisation of ProCredit Holding AG & Co KGaA was around EUR 683 million.

Key share data

ISIN	DE0006223407
Security ID no. (WKN)	622340
Stock exchange code	PCZ
Sector	Banks
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurter Wertpapierbörse
Designated Sponsors	equinet Bank AG, ODDO SEYDLER Bank AG
First listing	22 December 2016
Initial share price	EUR 12.29
Xetra closing price on 30 December 2016	EUR 15.90
Xetra closing price on 29 December 2017	EUR 12.55
Number of shares (incl. shares newly placed in capital increase of 2 February 2018)	58,898,492 registered ordinary shares with no par value (Namensaktien)

Shareholder structure



(1) Voluntary information disclosed by Zeitingner Invest on 28 February 2018 (see "Other information" in the Investor Relations section of the ProCredit Holding website); (2) As per voting rights notification dated 28 December 2016; (3) As per voting rights notification dated 29 December 2016; (4) As per voting rights notification dated 27 February 2018; (5) As per voting rights notification dated 29 December 2016

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

As at 28 February 2018, approximately 61% of the shares in ProCredit Holding were held by our largest shareholders Zeitingner Invest GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Participaties BV, the International Finance Corporation (part of the World Bank Group), and the Teachers Insurance and Annuity Association of America, which each hold more than 5% of the shares.

The free float, defined as holdings below the threshold of 5% of voting rights, was around 39% on 28 February 2018. This includes investments of more than 3% in ProCredit Holding AG & Co. KGaA by FMO (Netherlands Development Finance Company), BIO (Belgian Investment Company for Developing Countries), Omidyar-Tufts Microfinance Fund, ProCredit Staff Invest, responsAbility, the European Bank for Reconstruction and Development and MainFirst.

Analysts

ProCredit Holding is covered by equinet Bank. The latest research update was published on 14 November 2017.

Institution	Analyst	Date	Rating	Share price target (EUR)
equinet Bank	Dr Philipp Häbeler	14 November 2017	Buy	15.60

Current ESG Ratings of ProCredit Holding AG & Co. KGaA

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

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

An update by the sustainability rating agency oekom research AG in November 2017 confirmed the "Prime" status of ProCredit Holding AG & Co. KGaA. At the time of this evaluation, ProCredit Holding was one of the three best-placed companies (i.e. Industry Leaders) in the Sustainable Finance segment.

The "ProCredit Group Impact Report 2017" provides further information on the significance of ecological and social aspects for the ProCredit group as well as on corporate governance.

Investor Relations

The Management¹ of ProCredit Holding AG & Co. KGaA aims to maintain an intensive dialogue with the capital market. The Management strongly believes that regular, transparent communication with share- and stakeholders is crucial in order to keep them continually informed about the development of ProCredit Holding. In this respect, it is especially important to ensure the regular publication of company news and to provide detailed financial reports, as well as to cultivate ongoing, personal contacts with investors, analysts, the media and the interested public.

In 2017, the Management of ProCredit Holding made several presentations on the ProCredit group at roadshows and investor conferences in Frankfurt am Main, Munich, Stuttgart, The Hague, Helsinki, London, Tallinn, Venice and Vienna. ProCredit will continue to maintain regular contact with investors in 2018. An overview of upcoming events is regularly updated in the financial calendar on the ProCredit Holding website.

Up-to-date information about the company is available to investors, analysts and the interested public in the Investor Relations section of the ProCredit Holding website, www.procredit-holding.com. As well as the usual financial reports, mandatory notices and corporate news, visitors to the website also have access to information on results and investor presentations.

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

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



Photo: ProCredit Holding AG & Co. KGaA

Annual General Meeting

The 2017 Annual General Meeting of ProCredit Holding AG & Co. KGaA was held in Frankfurt am Main on Wednesday, 17 May 2017, at which 80.75% of the voting capital was represented.

All of the proposed resolutions were approved by the shareholders of ProCredit Holding AG & Co. KGaA, including the distribution of a dividend of EUR 0.38 per share. The Annual General Meeting also confirmed the re-election to the Supervisory Board of Dr Claus-Peter Zeiting, Christian Krämer, Petar Slavov and Jasper Snoek. Marianne Loner was elected to the Supervisory Board as a new member.

Detailed information on the 2017 Annual General Meeting can be found on the ProCredit Holding website under Investor Relations.

Financial calendar 2018

15 May 2018	Quarterly report 31 March 2018
23 May 2018	Annual General Meeting
14 August 2018	Half-yearly report 30 June 2018
14 November 2018	Quarterly report 30 September 2018

IR Contact

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Combined Management Report for ProCredit Holding AG & Co. KGaA, Frankfurt am Main for the 2017 Financial Year

The Combined Management Report presents the course of business and the present situation of the ProCredit group and ProCredit Holding AG & Co. KGaA for the 2017 financial year. It was prepared in accordance with sections 289ff and 315ff of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Accounting Standard 20 (Deutscher Rechnungslegungsstandard 20 – DRS 20). The Risk Report also contains the notes pursuant to IFRS 7.

The Combined Management Report is divided into the following sections:

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

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

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

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

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

In the countries where we operate, it is our goal to play a leading role as the "Hausbank" for SMEs. We offer the full range of banking services in terms of financing, account operations, payments and deposit business. Through our work, we make a contribution to creating jobs, enhancing capacity for innovation, and encouraging investments in ecological projects. Our clients value us as a partner that understands the particular challenges they face and the needs they have as small and medium enterprises. We focus on innovative companies showing dynamic growth and stable, formalised structures. We also place an emphasis on promoting local production, especially in agriculture.

In addition to serving SMEs, the ProCredit group also pursues a direct banking strategy for private clients. Our target group is primarily the growing middle class. Our offer to private clients focuses on account management and savings services. Additionally, we provide financing to enable such clients to purchase real estate and make other smaller investments. We do not actively pursue consumer lending.

We offer to all of our clients a range of innovative service channels, as we combine the intelligent application of technology with comprehensive quality of advice. Our user-friendly online banking is at the centre of this approach. In addition, our outlets are equipped with 24-hour self-service areas where the entire package of

payment transactions can be completed. By means of these two channels, nearly all transactions have been fully automated. Our clients have access to personalised advice in our branches and through our call centres.

Quipu, the software company which is part of the group, likewise makes a key contribution to the digitisation of our banking business. Quipu supports the ProCredit banks with efficient and reliable IT services. This allows us to implement sophisticated IT solutions throughout the group in a very short timeframe. Furthermore, the ProCredit Bank in Germany performs the group's treasury function and serves as the central funding source and clearing partner for the banks.

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 investments in energy efficiency and renewable energies. We do not provide financing for business activities that are problematic from a social, moral or ecological standpoint, or that fail to comply with standard health and safety regulations. Compliance with the group's Code of Conduct is compulsory for all staff members. It emphasises the 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.

We continued to advance our strategic focus on SMEs during the financial year. This emphasis was reflected in strong growth in the portfolio of loans above EUR 50,000. The portfolio of smaller loans, however, was reduced further. Based on these developments, for the future we will define our core segment as loans over EUR 50,000. We have further developed our private client strategy with a focus on using digital channels. We have implemented a group-wide approach featuring standardised services and fee structure. The increasing automation of transactions along with the optimisation of internal processes has enabled the group to significantly improve efficiency through reductions in staff and outlets.

Organisation of the ProCredit group

The ProCredit group comprised 13 banks and employed 3,328 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 in all of its subsidiaries, with 100% ownership of the voting shares in ten subsidiary financial institutions. 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 ProCredit Holding are members of the supervisory boards of the ProCredit banks, and are thus involved in all strategic business decisions. ProCredit Holding sets binding policy guidelines and standards for risk management and other important areas of banking operations in order to ensure that appropriate organisational structures and processes are in place in the 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.

Furthermore, the ProCredit Bank in Germany supports the group in the areas of international payment transactions, trade finance, group treasury, and by providing funding to the ProCredit banks.

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

- *South Eastern Europe*, accounting for 53.1% of the group's total assets, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, Macedonia, Romania and Serbia
- *Eastern Europe*, accounting for 15.6% of the group's total assets, with three banks located in the following countries: Georgia, Moldova and Ukraine
- *South America*, accounting for 5.1% of the group's total assets, consisting of two banks in: Ecuador and Colombia¹
- *Germany*, accounting for 26.2% of the group's total assets, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

In 2017, ProCredit Holding sold its equity participations in the ProCredit banks in El Salvador and Nicaragua.

Our shareholders

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

ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN, IFC and ProCredit Staff Invest

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

GmbH & Co. KG). The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

The following shareholders held more than 10% of the shares in ProCredit Holding as of 31 December 2017: The largest single shareholder is Zeiting Invest GmbH (originally, IPC GmbH). Zeiting Invest was a key initiator behind the founding of the ProCredit group and continues to have a significant influence on its development. KfW, acting on behalf of the German Federal Government and other entities, finances investments and accompanying advisory services in developing countries and emerging economies with the aim of creating sustainable, integrative financial systems. The Dutch DOEN Foundation holds shares via its wholly owned subsidiary, DOEN Participaties. This entity is financed by the Dutch Postcode, BankGiro and Vrienden lotteries, which aim to promote an ecological, socially integrative and creative society. IFC, the International Finance Corporation, is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector.

Management system

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

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

The ProCredit group uses an integrated system of indicators to monitor and manage the implementation and further development of the group's business and risk strategy. In addition to selected operational and financial indicators, in the 2017 financial year we applied the following key performance indicators:

- Growth of gross loan portfolio, particularly in the area of business loans with an original disbursement amount greater than EUR 30,000. This has a significant influence on the success of new business and for the future earning capacity of the group.
- Return on equity (RoE) is the most important indicator in terms of profitability. The group places a strong emphasis on maintaining a long-term, stable RoE in conjunction with an appropriate risk profile.
- The Common Equity Tier 1 (CET 1) ratio is calculated as CET 1 capital in relation to the risk-weighted assets of the group. Fulfilment of the regulatory and internal capital requirements is a key aspect of our management system at group level.

HUMAN RESOURCES REPORT

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

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

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

Staff recruitment and integration of new employees

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

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

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

Training

As the first step in professional development within the ProCredit group, the ProCredit onboarding process provides new members of staff with optimal preparation for their first roles. We also offer part-time continuing professional development to all staff. The necessary knowledge and skills are transferred through standardised seminars for various positions. For our Business Client Advisers (BCAs), for instance, we focus on developing client advisory competence, which means correctly evaluating the needs of our clients for banking services, assessing credit risk and building long-term customer relationships. For our Client Advisers, training is



Photo: ProCredit Academy, Fürth (Germany)

concentrated not only on advising clients and acquiring new customers, but also on communicating the advantages of our electronic transaction channels. 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, the number of employees who have graduated from or are currently attending the academies is 550, which comprises almost all management staff in the group.

Regular ethics courses are a key component of the training we offer. We likewise impart the philosophical and ethical principles which have developed since Antiquity. Against the backdrop of our sustainable and responsible approach to banking, we deem this link between past and present to be highly important. In addition, we carry out annual workshops focusing on our Code of Conduct, which is binding for all staff. 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 the practice of giving bonuses as a means of incentivising our staff. We believe that such bonus payments can have a negative impact on the quality of advice provided to our clients and can even result in a degradation of relationships between colleagues. The remuneration of employees mainly consists of a fixed salary. Variable remuneration elements are not contractually granted. These can be granted when a member of staff has performed exceptionally well during the course of a financial year or has made a key contribution to the team or group. Salaries reflect market averages and are adjusted regularly on the basis of individual performance evaluations. Our remuneration approach has been established with a long-term perspective, which helps our staff to securely plan their lives. In contrast, the remuneration of our senior managers is not always comparable with our competitors, particularly without granting bonus payments.

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

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

REPORT ON THE ECONOMIC POSITION OF THE GROUP

Course of business operations

The course of the ProCredit group's business operations in 2017 was positive and exceeded our expectations with regard to growth in the core portfolio of loans over EUR 30,000. During the period, the focus of our lending activities continued to be on small and medium business clients. Strong growth was achieved in our core segment. The group's profit for the period of EUR 48.1 million represents a return on equity of 7.1% and is thus in line with our expectations.

In our private client business, we have tailored our services to clients who are interested in innovative banking services. In this context, we reviewed our range of services and the fee structure for account operations, further advancing the automation of our service channels. We also focused on the extension of our trade finance business and international payments, supported by the ProCredit Bank in Germany. The number of outlets and staff was further reduced, resulting in extraordinary expenditures. Overall, these measures already showed improvements in cost efficiency and in fee and commission income during the period.

ProCredit Holding sold its shares in the banks in Nicaragua und El Salvador during the financial year.

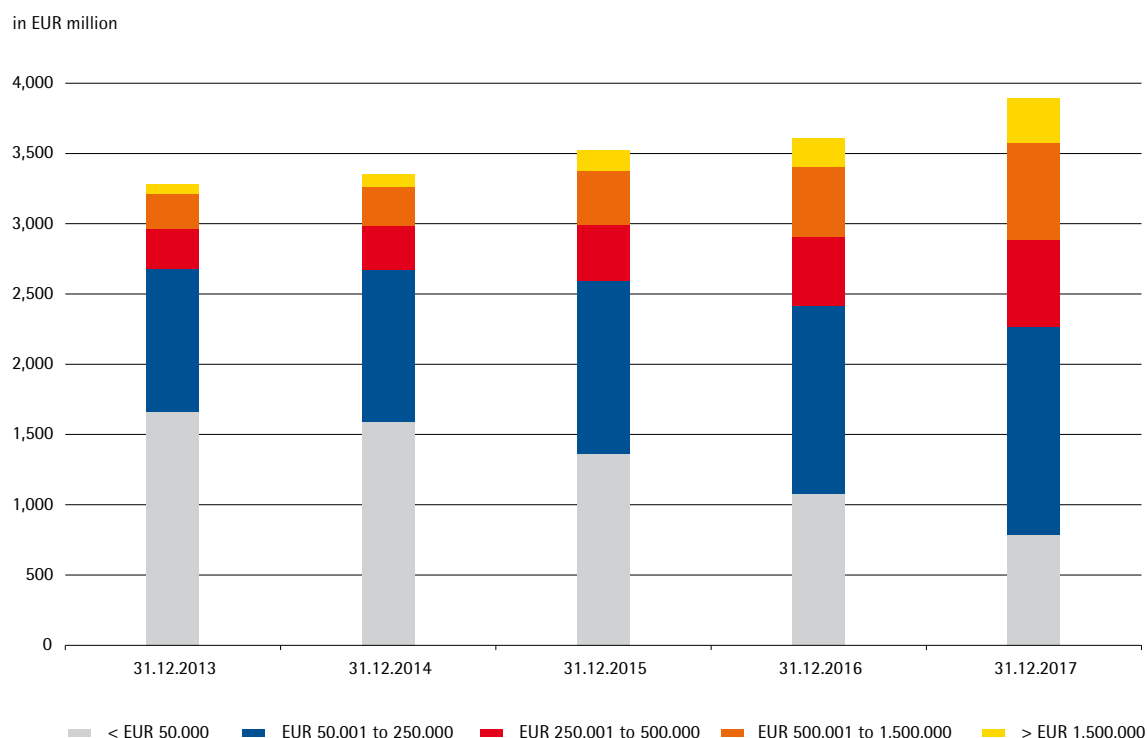
Lending

The ProCredit group's loan volume (receivables from clients) stood at EUR 3.9 billion at the end of 2017. We recorded growth of 8.0%². This increase was significantly higher than in the previous year. Due to negative currency effects, it was just possible to reach the guidance level.

The growth was largely due to a strong rise in loans over EUR 30,000. This segment showed an increase of 18.0%², which is a significant improvement over the previous year. We were thus able to meet our guidance of "more than 10%".

The planned reduction of the portfolio of loans under EUR 30,000 was continued, with a total decrease of EUR 236.1 million. The withdrawal from this area is a consequence of the group's strategic focus on SMEs with good development and growth potential.

² Outstanding portfolio, excluding the ARDEC (Mexico) portfolio to be wound up.



Loan portfolio development, by loan volume

Loans to businesses account for 89.6% of the customer loan portfolio, and 10.4% are loans to private clients. The total loan portfolio contains 20.3% loans to agricultural enterprises and 12.6% are classified as green loans. Regarding the loans to private clients, the great majority are mortgage loans to purchase, renovate or improve the energy efficiency of real estate. Consumer loans are not a focal area of ours and they constitute only a negligible share of the portfolio.

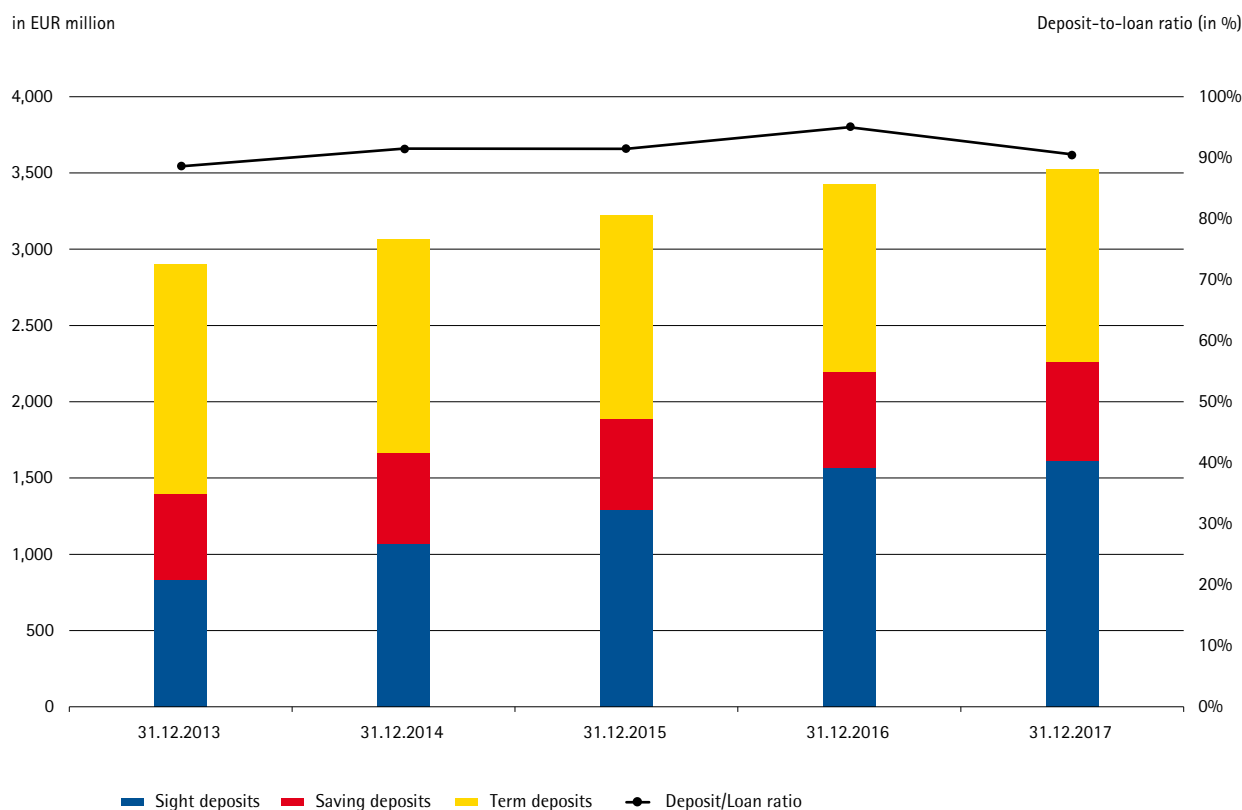
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented 1.4% of the group's total portfolio volume at the end of 2017.

The ProCredit group cooperates closely with European institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF). Of particular note is the agreement with EIF for the InnovFin guarantee programme, which facilitates lending to innovative SMEs and small MidCaps in South Eastern and Eastern Europe through the provision of guarantees. The programme was expanded by EUR 450 million during the period, bringing the total available volume to EUR 820 million.

Deposits and other banking services

Customer deposits stood at EUR 3.6 billion, up by EUR 96 million from the previous year. The ratio of customer deposits to the loan portfolio was 91.3% at year-end (2016: 95.8%).

We developed our direct banking strategy for private clients during the period, increased the utilisation of our online banking and revised our range of account operations and the respective fee structure. Growing automation of transactions has enabled further optimisation of our outlet network. Such changes have also brought reductions in smaller deposits; these have in turn been offset by additional deposits from businesses and institutions.



Customer deposits

Financial development

The ProCredit group recorded an after-tax profit of EUR 48.1 million in 2017 (2016: EUR 61.0 million). This represents a return on equity of 7.1% and falls within the range of our guidance. The decrease in profit was almost entirely due to the lower profit from discontinued operations. Profit from continuing operations amounted to EUR 46.6 million, similar to the previous period, and was influenced by a higher level of extraordinary costs than expected for restructuring the network of outlets.

The factors which had the greatest impact on the group balance sheet were the strong growth of the loan portfolio and the sale of the banks in Nicaragua and El Salvador. The capital adequacy of the ProCredit group was strengthened. The fully loaded CET 1 capital ratio increased by 1.2 p.p. to 13.7% and was in line with our guidance of "more than 13%".

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2017	31.12.2016	Change
Statement of Financial Position			
Customer loan portfolio	3,909.9	3,628.7	281.2
Customer deposits	3,570.9	3,475.1	95.8
in million EUR	1.1. – 31.12.2017	1.1. – 31.12.2016	Change
Statement of Profit or Loss			
Net interest income after allowances	199.5	212.2	-12.7
Net fee and commission income	45.8	43.0	2.8
Operating expenses	186.8	198.2	-11.4
Profit after tax	48.1	61.0	-12.9
Key performance indicators³			
	31.12.2017	31.12.2016	Change in pp
Change in loan portfolio over EUR 30,000	17.8%	13.0%	4.8 pp
Return on equity (ROE)	7.1%	9.6%	-2.5 pp
Tier I Capital Ratio	13.7%	12.5%	1.2 pp
Additional indicators			
	31.12.2017	31.12.2016	Change in pp
Ratio of customer deposits to loan portfolio	91.3%	95.8%	-4.5 pp
Net interest margin	3.8%	4.6%	-0.8 pp
Cost-income ratio	73.7%	71.3%	2.4 pp
% of loans in arrears (PAR30)	2.9%	3.9%	-1.0 pp
Ratio of allowances to loans in arrears (PAR30)	112.1%	105.6%	6.5 pp

Balance sheet and income statement positions as well as other key figures³ for the ProCredit group

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

Assets

Total assets decreased by EUR 168.4 million in 2017, influenced by the sale of the banks in Nicaragua and El Salvador. This drop was partially offset by strong growth in the customer loan portfolio. The structure of the assets changed very little compared to the previous year. Assets mainly comprise the customer loan portfolio. Other financial assets⁴ serve primarily as a liquidity reserve.

The customer loan portfolio increased by EUR 281.2 million compared to the previous year; it stood at EUR 3.9 billion at year-end. The amount of growth was impacted by negative currency effects arising primarily from the depreciation of the US dollar and various domestic currencies in the second half of the year. Loan portfolio expansion was financed largely through additional customer deposits and other liabilities.

³ Key performance indicators and other indicators have been defined as follows:

- Change in loans above EUR 30,000: Change during the period in the outstanding amount of all loans with an original amount above EUR 30,000, divided by the loan portfolio with an original amount above EUR 30,000 as of 31 December of the previous year. Return on equity: Profit attributable to ProCredit shareholders, divided by the average equity held by the ProCredit shareholders
- Ratio of customer deposits/gross 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
- Cost-income ratio: Operating expenses relative to operating income less provisioning expenses
- Share of past-due loans: Loans and advances to customers, including accrued interest, on which individual instalments are more than 30 days past due as a percentage of the total volume of loans and advances to customers.
- PAR 30 risk coverage: Risk provisioning relative to the share of past-due loans (PAR 30)

⁴ Other financial assets include cash and cash equivalents, loans and advances to banks and available-for-sale financial assets.

At EUR 1.5 billion, liquid assets remained stable compared to the previous year. The high level of liquidity at year-end is due in particular to the seasonal increase in deposits in Q4.

Liabilities

Liabilities comprise mostly customer deposits. Further sources of funding include liabilities to international financial institutions and banks as well as debt securities. Total liabilities decreased in 2017 due to the sale of the banks in Nicaragua and El Salvador.

At year-end customer deposits stood at EUR 3.6 billion, up EUR 95.8 million from the previous period. Deposits from business clients showed strong growth, whereas smaller deposit volumes showed a decreasing trend; this was expected and is due to the strategic focus on middle class private clients.

The group's equity increased slightly and stood at EUR 658.5 million. The profit of the period was nearly offset by the dividend payout and a reduction in the translation reserve.

Earnings

The profit of the period for the ProCredit group was in line with our expectations and stood at EUR 48.1 million, which represents a return on equity of 7.1%. The result from continuing business operations amounted to EUR 46.6 million, which is similar to the previous year. This amount takes account for various extraordinary effects which have a negative net impact. The result from discontinued operations, which still contributed EUR 14.0 million to the profit of the period in 2016, amounted to EUR 1.5 million this year.

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

Net interest income decreased by EUR 26.0 million compared to the previous year; it stood at EUR 204.8 million at year-end. Factors contributing to this trend included the low level of interest rates, the strategic withdrawal from lending to the smallest enterprises, and negative currency effects. Net interest income dropped mostly in the first quarter and stabilised in the remainder of 2017. A further narrowing of the interest margin was offset by strong loan portfolio growth.

Compared to the previous year, risk provisioning expenses showed a decrease of EUR 13.3 million. This was due primarily to an improvement in portfolio quality. Despite the reduction in risk provisioning, the PAR 30 coverage ratio increased by 6.5 percentage points to 112.1%.

Non-interest income came mainly from commission and brokerage services. As a result of the adjustment of fees for account operations, an increase of EUR 2.9 million in net fee and commission income was achieved in the second half of the year.

Personnel and administrative expenses fell by EUR 11.4 million or 5.8% compared to the previous year. Extraordinary expenditures arose in connection with reductions in staff and the network of outlets; these were roughly equivalent to 5% of operating expenses.

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 regions 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 2017) and the EBRD (Transition Report 2017-2018), unless otherwise stated.

South Eastern Europe

Macroeconomic and sector-specific environment

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

These countries continued to report low (but no longer negative) inflation rates in 2017, and on average were below the 2% target level set by the European Central Bank (ECB). Effects from the ECB's asset purchase programme and the now-rising interest rate curve for the USA were offset by the increase in petroleum prices. With the exception of Bulgaria, the balance of activities for the countries in this segment remained negative despite growing exports. The exchange rates for domestic currencies showed little movement, particularly as several countries in the region have pegged their currencies to the euro. Due to more favourable macroeconomic indicators, the unemployment figure for South Eastern Europe showed a decrease; however, it remains at a high level in the Western Balkans. Bulgaria and Romania, both part of the EU, now report figures which are below the average for the Eurozone.

Positive economic development has continued throughout the region. Specifically, Romania recorded growth of 5.5% and continues to benefit from strong consumption and pro-cyclical fiscal policy. In Serbia, GDP grew by 3.0% during the year. GDP increased in Bosnia and Herzegovina (2.5%) and in Albania (3.7%) due to industrial production in Bosnia and Herzegovina and infrastructure projects in Albania. The economy in Kosovo grew by 3.5%, driven by private consumption. The same applies to Bulgaria, which recorded economic growth of 3.6%. Due to the political crisis, the figure for Macedonia was only 2.5%. Public spending was restrained due to state budget consolidation efforts.

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

The banking sector was characterised by low interest rates and a high level of non-performing loans. Double-digit figures were recorded for non-performing loans in nearly all countries in the region. The exceptions were Kosovo and Macedonia. This is also to be seen in the context of stronger regulatory efforts: Especially in Macedonia and Romania, banks had to write off old defaulted loans; the central banks in other countries in the region have also announced similar measures.

Competition in South Eastern Europe continues to be driven by European banking groups. The profitability of the ProCredit banks in 2017 was consistent with the averages for these competitors. The share of non-performing loans in the ProCredit banks is generally below the average for banks in South Eastern Europe.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve EUR 224.2 million in loan portfolio growth. Profit after tax declined by 16.5% to EUR 45.4 million, representing a return on equity of 9.8%.

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2017	31.12.2016	Change
Statement of Financial Position			
Customer loan portfolio	2,759.1	2,534.9	224.2
Customer deposits	2,518.8	2,457.3	61.5
Statement of Profit or Loss			
Net interest income after allowances	130.8	142.4	-11.6
Net fee and commission income	31.3	28.7	2.6
Operating expenses	107.3	111.1	-3.8
Profit after tax	45.4	54.4	-9.0
Key performance indicators			
Change in loan portfolio over EUR 30,000	18.6%	12.5%	6.1 pp
Return on equity (ROE)	9.8%	12.3%	-2.5 pp
Additional indicators			
Ratio of customer deposits to loan portfolio	91.3%	96.9%	-5.6 pp
Net interest margin	3.6%	4.3%	-0.7 pp
Cost-income ratio	67.2%	61.5%	5.7 pp
% of loans in arrears (PAR30)	2.9%	3.8%	-0.9 pp
Ratio of allowances to loans in arrears (PAR30)	111.3%	105.6%	5.7 pp

Balance sheet and income statement positions as well as other key figures for the South Eastern Europe segment

The gross loan portfolio for this segment increased by EUR 224.2 million in 2017, ending the year at EUR 2.8 billion. The banks in this region generally recorded strong growth figures for the year. In the segment above EUR 30,000, we recorded growth of 18.6% or EUR 373.7 million.

Customer deposits totalled EUR 2.5 billion at the end of 2017. The growth of EUR 61.5 million is primarily attributable to ProCredit Bank Bulgaria. Deposits from business clients showed strong growth, whereas smaller deposit volumes showed a decreasing trend; the latter was expected and is due to the closure of outlets and the new strategic orientation towards private client business. The ratio of customer deposits to the gross loan portfolio thus decreased by 5.6 p.p. to 91.3%.

The net interest margin narrowed by 0.7 p.p. during the period, which is a smaller decline than the previous year. The decrease in lending rates was partially offset by the reduction in deposit rates. The ProCredit banks in Romania and Serbia were most strongly affected by the tightening of the net interest margin.

At 2.9%, the share of past-due loans (PAR30) in the ProCredit banks in South Eastern Europe is lower than the banking sector average; moreover, the banks were able to achieve a further 0.9 p.p. improvement in this indicator compared to the previous year. The ratio of risk provisions to past-due loans climbed to 111.3% at the end of 2017. At the same time, expenses for risk provisions were reduced significantly.

A decrease was also recorded for operating expenses, which is mainly attributable to reduced personnel expenses. The figure for profit was lower than in the previous period, due not only to an exceptional positive income in 2016 but also to the narrowing interest margin and extraordinary expenses from outlet closures.

Eastern Europe

Macroeconomic and sector-specific environment

In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. In 2017, the impact from the ongoing Russia-Ukraine conflict was much lower than in previous years, which allowed for positive growth in all three countries. Following on the low base of the previous year, the economy in Ukraine grew by 2%. Moldova and Georgia both reported growth of 4%.

The strong growth in Moldova was driven by household consumption and a higher level of exports, with only modest depreciation of the domestic currency. In contrast, both Ukraine and Georgia witnessed local currency depreciation of around 15% against the euro, much more than in the previous year. As a result, the price for domestic consumer goods climbed further and inflation ranged from 13% (Ukraine) to 6% (Georgia).

The financial markets in Eastern Europe have stabilised in comparison to the previous years. Following additional bank closures in Ukraine and the "special monitoring" of the largest banks in Moldova by the local central bank, there have been no further incidents. In all three countries, the share of non-performing loans increased in comparison to the previous year. It is noteworthy that the number of loans in foreign currency, mostly in USD, is high. The central banks are increasingly inclined to address the situation. The impact on profitability of banks has remained minor. Profitability has remained at a relatively high level in all three countries, with loan portfolio contractions being observed in the banking sectors in Moldova and Ukraine at the same time. Stronger economic growth in Georgia led to a substantial increase in bank assets there.

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

Development of financial position and financial performance

The Eastern Europe segment recorded EUR 114.7 million in loan portfolio growth. Profit after tax rose by 21.4% to EUR 26.0 million, representing a return on equity of 18.2%.

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2017	31.12.2016	Change
Statement of Financial Position			
Customer loan portfolio	823.4	708.7	114.7
Customer deposits	634.6	698.2	-63.6
in million EUR	1.1. – 31.12.2017	1.1. – 31.12.2016	Change
Statement of Profit or Loss			
Net interest income after allowances	50.0	47.0	3.0
Net fee and commission income	8.8	8.8	0.0
Operating expenses	31.6	34.3	-2.7
Profit after tax	26.0	21.4	4.6
Key performance indicators			
	31.12.2017	31.12.2016	Change in pp
Change in loan portfolio over EUR 30,000	21.4%	17.7%	3.7 pp
Return on equity (ROE)	18.2%	17.5%	0.7 pp
Additional indicators			
	31.12.2017	31.12.2016	Change in pp
Ratio of customer deposits to loan portfolio	77.1%	98.5%	-21.4 pp
Net interest margin	5.1%	5.9%	-0.8 pp
Cost-income ratio	46.5%	47.0%	-0.5 pp
% of loans in arrears (PAR30)	2.2%	3.3%	-1.1 pp
Ratio of allowances to loans in arrears (PAR30)	151.9%	140.0%	11.9 pp

Balance sheet and income statement positions as well as other key figures for the Eastern Europe segment

The gross loan portfolio for the Eastern Europe segment stood at EUR 823.4 million at the end of 2017, with the ProCredit banks in Georgia and Ukraine accounting for the majority. Growth of EUR 139.3 million or 21.4% was achieved in the core segment of loans above EUR 30,000; this was mainly due to the result recorded by ProCredit Bank Ukraine. The portfolio of loans below that threshold was reduced by EUR 23.7 million; this represents a much smaller decrease than in the previous period, as strong progress had already been made in terms of the strategic re-orientation in this region. Loan portfolio growth was negatively impacted by currency depreciation in Georgia and Ukraine and in the US dollar.

Customer deposits in the Eastern Europe segment declined by 9.1%. A decrease in small deposits was recorded, particularly in Georgia, in connection with the optimisation of the network of outlets and the new private client strategy.

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

A significant reduction of 1.1 p.p. was achieved in the share of loans past due more than 30 days (PAR 30), ending the year at 2.2%. An improvement in loan portfolio quality was achieved in all banks in the region, with particular mention given to the banks in Moldova (-3.0 p.p.) and Ukraine (-1.1 p.p.).

Due to the substantial improvement of portfolio quality, and despite the notable 11.9 p.p. rise in the PAR30 coverage ratio to 151.9%, provisioning expenses decreased by around EUR 6.8 million.

Compared to the previous year, operating expenses also decreased. Cost savings from efficiency improvement measures had a particularly strong impact on the reduction of personnel expenses. This, combined with the strong increase in the net interest income after provisioning, led to a EUR 4.6 million or 21.4% increase in profit for the year.

South America

Macroeconomic and sector-specific environment

The South America segment, which consists of the ProCredit banks in Ecuador and Colombia, accounts for 5.1% of the group's assets, though the majority is held by ProCredit bank Ecuador. In 2017 the GDP growth in both countries remained low, with 1.7% in Colombia and 0.2% in Ecuador. The recessive tendencies were spurred by the low but meanwhile climbing prices for oil as well as country-specific factors. Although Ecuador continues to be impacted by relatively low oil prices, it was able to achieve greater stability at the political level. This stimulated consumption within the country, which in turn was reflected in a trade deficit and a spike in imports. The balance of trade is further impacted by the use of the US dollar and restrictions on the transfer of goods and capital; in contrast, the inflation rate fell below 1%. The peso in Colombia remained stable against the US dollar, despite volatility and lowered base interest rates. The rate of inflation was 4.3%. Stabilisation of petroleum prices and the exchange rate offered further relief for Colombia's trade balance. Although both countries continue to struggle with diminished state revenues due to low oil prices, the economic situation appears to have stabilised compared to the previous periods.

The financial market in Colombia continued to grow in 2017, particularly due to the rise in consumer and real estate lending. The contained inflation resulted in a relaxation of interest margins. In Ecuador, growth in the volume of loans outpaced that of deposits.

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

Development of financial position and financial performance

The loan portfolio in the South America segment fell by EUR 68.0 million in 2017. Profit after tax decreased by EUR 3.2 million; it stood at EUR -5.5 million at year-end.

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2017	31.12.2016	Change
Statement of Financial Position			
Customer loan portfolio	238.9	306.9	-68.0
Customer deposits	161.2	205.4	-44.2
Statement of Profit or Loss			
in million EUR	1.1. – 31.12.2017	1.1. – 31.12.2016	Change
Statement of Profit or Loss			
Net interest income after allowances	20.4	25.8	-5.4
Net fee and commission income	-0.1	-0.2	0.1
Operating expenses	24.9	28.8	-3.9
Profit after tax	-5.5	-2.3	-3.2
Key performance indicators			
	31.12.2017	31.12.2016	Change in pp
Change in loan portfolio over EUR 30,000	-2.3%	13.2%	-15.5 pp
Return on equity (ROE)	-8.8%	-3.5%	-5.3 pp
Additional indicators			
	31.12.2017	31.12.2016	Change in pp
Ratio of customer deposits to loan portfolio	67.5%	66.9%	0.6 pp
Net interest margin	4.6%	5.0%	-0.4 pp
Cost-income ratio	121.2%	112.2%	9.0 pp
% of loans in arrears (PAR30)	6.8%	7.5%	-0.7 pp
Ratio of allowances to loans in arrears (PAR30)	68.0%	67.8%	0.2 pp

Balance sheet and income statement positions as well as other key figures for the South America segment

The gross loan portfolio for the South America segment contracted by a total of EUR 68.0 million; this resulted from the depreciation of the US dollar and from the strong efforts to withdraw from lending below EUR 30,000. Particularly in Ecuador, the portfolio of loans below this threshold was reduced by 60.0%. This strategic shift allows for resources to be focused on the core client segment and sets a solid framework for future portfolio growth.

Customer deposits in the segment fell by EUR 44.2 million or 21.5%. This decrease is linked to the closure of outlets and the move away from smaller deposit volumes, compounded by the depreciation of the US dollar.

As a result of the strategic shift, the drop in the interest margin was 0.4 p.p.; this factor, combined with portfolio contraction and negative currency effects, led to a EUR 5.4 million decline in the net interest income after provisioning. Operating expenses were reduced by EUR 3.9 million through the successful implementation of efficiency improvement measures.



Photo above: ProCredit Bank Kosovo
Photo below: Palladio East, producer of pharmaceutical packaging, client of ProCredit Bank Serbia

Germany

Macroeconomic and sector-specific environment

ProCredit Bank Germany is not very heavily impacted by the macroeconomic and financial market trends in Germany. Last year, Germany developed positively compared to other economies in Europe, with GDP growth of more than 2%. Due to the expansionary central bank policy, the interest margin has narrowed even further, which poses a large challenge for the banking sector.

Development of financial position and financial performance

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

Statement of Financial Position and of Profit or Loss in million EUR	31.12.2017	31.12.2016	Change
Statement of Financial Position			
Customer loan portfolio	88.5	78.3	10.2
Customer deposits	256.3	114.2	142.1
in million EUR	1.1.-31.12.2017	1.1.-31.12.2016	Change
Statement of Profit or Loss			
Net interest income after allowances	-2.4	-1.3	-1.1
Operating income	93.1	96.4	-3.3
Operating expenses	54.6	51.2	3.4
Profit after tax	37.1	44.0	-6.9
Profit after taxes and consolidation effects	-19.3	-26.4	7.1

Balance sheet and income statement positions for the Germany segment

The loan portfolio and customer deposits in the segment are attributed to the ProCredit Bank in Germany. The segment showed EUR 10.2 million loan portfolio growth.

Customer deposits increased by EUR 142.1 million. This growth in deposits supports loan portfolio growth and the other ProCredit banks with favourable and short-term financing.

The negative 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 52.9 million. Further income came from commission and brokerage services by the ProCredit Bank in Germany, from the IT services performed by Quipu GmbH, from consultancy services provided to the ProCredit banks by ProCredit Holding, and from the sale of investments in subsidiaries.

Operating expenses increased by EUR 3.4 million or 6.7%, largely due to expenses in connection with investments in IT.

Ratings

In 2017, FitchRatings again awarded an international rating to ProCredit Holding and the ProCredit banks in Eastern and South Eastern Europe, and a national rating to the ProCredit banks in South America. The ratings are determined in large part by the respective country ceiling.

Institution	2017 Rating	2016 Rating	
ProCredit Holding	BBB	BBB	(international rating)
ProCredit Bank, Albania*	B+	B+	(international rating)
ProCredit Bank, Bosnia and Herzegovina	B	B	(international rating)
ProCredit Bank, Bulgaria	BBB-	BBB-	(international rating)
ProCredit Bank, Georgia	BB	BB	(international rating)
ProCredit Bank, Germany	BBB		(international rating)
ProCredit Bank, Kosovo	BB-	BB-	(international rating)
ProCredit Bank, Macedonia	BB+	BB+	(international rating)
ProCredit Bank, Romania	BBB-	BBB-	(international rating)
ProCredit Bank, Serbia	BB+	BB-	(international rating)
ProCredit Bank, Ukraine	B-	B-	(international rating)
Banco ProCredit, Colombia	AA+	AA+	(national rating)
Banco ProCredit, Ecuador**	AAA-	AAA-	(national rating)

* Rating of ProCredit Bank, Albania was upgraded to BB- on January 18, 2018

** by Bankwatch Ratings S.A.

Ratings for ProCredit Holding and the individual ProCredit institutions

MANAGEMENT REPORT OF PROCREDIT HOLDING AG & CO. KGaA

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

Business activities of ProCredit Holding AG & Co. KGaA

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

- steering the strategy of the group and its subsidiaries
- providing support for the subsidiaries in implementing group strategies for the various business areas and in the area of risk management
- monitoring and supervising the subsidiaries, especially in the areas of HR management, marketing, internal audit, anti-money laundering activities and risk management, for which purpose ProCredit Holding has developed group policies
- providing equity for the subsidiaries and ensuring sufficient capital adequacy at group level
- providing medium- and long-term financing to the subsidiaries
- supporting the subsidiaries in liquidity management, e.g. by providing short-term financing
- performing other support services as well as providing management staff in two countries
- developing training programmes for the staff of the ProCredit banks
- reporting to shareholders and third parties, including supervisory reporting (in particular to BaFin and the Bundesbank)

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

As of year-end 2017, ProCredit Holding had 94 staff members. This includes six 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 shareholdings in the subsidiaries make up over 90% of its assets. Payments from the subsidiaries to ProCredit Holding in the form of dividends, interest, and fees for consultancy services account for the largest part of ProCredit Holding's earnings.

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

ProCredit Holding's total assets increased by EUR 87.0 million in 2017. The equity investments in affiliated companies increased by EUR 7.7 million in 2017. The reductions resulting from the sale of the investments in El Salvador and Nicaragua were offset by additional investments, primarily in the ProCredit banks in Germany, Romania and Ukraine. Loans to affiliated companies increased by EUR 67.6 million in 2017 primarily due to additional loans to the ProCredit banks in Serbia and Bulgaria.

ProCredit Holding's financial liabilities increased by EUR 79.5 million due to newly issued bonds and liabilities to banks.

Equity increased by a total of EUR 9.9 million in 2017. This rise was the result of the profit for the year minus dividend payments.

Result of operations

The financial results of ProCredit Holding are primarily determined by transactions with the subsidiary banks, the main factors being the dividend payments received, interest payments, and fees for consultancy services. The expense positions primarily consist of operating expenses as well as interest expenses.

ProCredit Holding's profit decreased by EUR 17.2 million in 2017 to EUR 30.2 million. This trend is mainly attributable to the higher income from the sale of shares in the previous year. Dividend income was EUR 6.5 million higher than in the previous year.

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

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



Photo: ProCredit Bank Serbia

REPORT ON EXPECTED DEVELOPMENTS, INCLUDING BUSINESS OPPORTUNITIES AND RISKS

Macroeconomic environment and competitive situation

We expect the economic environment to remain unchanged in 2018. This assessment is based on the assumption that both the Eurozone and the USA will experience positive economic growth and that neither the recession in the Russian Federation nor the conflict in Ukraine will escalate.

In the South Eastern European countries in which we are present, we expect that 2018 will see economic growth rates of 2-4%. Assuming that the geopolitical situation is stable in Eastern Europe, we anticipate a lower growth rate of 2% in Ukraine and Georgia. Moldova achieved higher GDP growth in 2017 than expected, and in 2018 we also expect growth of 4%.

In our South American countries of operation, 2017 was again characterised by low prices for raw materials. We therefore expect a slight increase of around 0.5% in Ecuador's economic performance in 2018. In Colombia, however, GDP growth rates between 2% and 3% are to be expected.

In the short term, we expect interest rates to remain at a low level. We anticipate an increase in the rates in the medium term.

For 2018, we expect competitive pressure in the SME segment to be at a continuously high level but varying between countries. In South Eastern Europe our main competitors are international banking groups, while in Eastern Europe and South America we mostly compete with local or regional banks and financial institutions. We feel that our lean structures, innovative service channels and the high quality of advisory services provided by our staff place us in a very good competitive position.

Expected development of the ProCredit group

We continue to anticipate good prospects for sustainable, profitable growth as a bank specialised in serving small and medium enterprises. This will entail more extensive lending and deposit activities as well as commission and brokerage services. Our geographical focus will be on Eastern and South Eastern Europe, and also on South America.

In 2018 we expect a gross loan portfolio growth of 12-15% based on the expectation of a positive economic development and without major exchange rate fluctuations. This growth will primarily be achieved in loans above EUR 50,000. In the medium term we plan to achieve gross loan portfolio growth of 10%. Furthermore, loans classified as "green finance" will account for more than 15% of the overall portfolio.

With respect to deposits, we plan to enlarge the share of sight deposits from business clients. In terms of private clients, we are focused on stable deposits from the growing middle class.

With regard to transaction banking, we plan to introduce our new mobile banking services for our clients. In combination with our innovative online banking and 24/7 self-service areas, we aim for complete automation of payment transactions and an increase in fee and commission income.

Based on these developments, we expect the profit of the period from our continuing operations to increase in 2018. This assumption is based on a reduction of operating expenses through efficiency improvement measures implemented during the period just ended. We expect a further decrease on the average portfolio return,

which will not be fully compensated by portfolio growth. Additional fee and commission income will largely compensate for the modest reduction in the net interest result. Overall, we expect the cost-income ratio to fall below 70%. Depending on the development of the net interest margin and loan portfolio growth, we expect a return on equity of 7.5% to 8.5% in the coming year. In the medium term we anticipate that the cost-income ratio will improve and drop below 60%, with a stable return on equity of around 10%.

We plan to maintain a CET 1 capital ratio of above 13%. The Management considers this level of capital to be sufficient in terms of regulatory and internal capital requirements. The group's overall risk profile is expected to remain stable.

Assessment of business opportunities and risks

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

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

RISK REPORT

An informed and transparent approach to risk management is a central component of ProCredit's socially responsible business model. This is also reflected in our risk culture, resulting in decision-making processes that are well-balanced from a risk point of view. The Code of Conduct, which is binding for all staff, plays a key role in this respect as it describes these principles.

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the group and each individual bank continues to be appropriate at all times no matter if external conditions are volatile, as well as to achieve steady results. The overall risk profile of the group is adequate and stable. This is based on an overall assessment of the individual risks, as presented below.

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

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

- **Focus on core business**

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

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

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

- **Careful staff selection and intensive training**

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. This is why we select our staff very carefully and have made significant investments in training our employees for many years. Our intensive training efforts not only produce a high level of professional competence, but also

and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Key elements of risk management

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

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

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

Organisation of the risk management function

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

management, the head of finance and controlling, and various other risk management and finance functions. Various committees support the Management in the performance of the risk management function.

- The Group Risk Management Committee develops the group-wide framework for risk management and monitors the risk profile of the group. This includes the monitoring of individual risk positions, limit compliance, and the internal and regulatory capital adequacy at the level of individual institutions and the group.
- The Group Asset and Liability Committee (Group ALCO) is responsible for monitoring the liquidity reserve and liquidity management of the group, 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 supports and advises the Management with respect to approving significant changes to the models used to quantify risks.
- The Group Committee on Financial Crime Prevention supports and advises the Management in connection with the ongoing monitoring of the group's risk profile regarding money laundering and fraud, as well as in the adoption of suitable measures to prevent these risks.
- The Group Compliance Committee serves as the central platform for exchanging information about compliance risks, thus supporting the Management of ProCredit Holding in 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 supports and advises the Management in the approval of annual internal audit plans at the level of individual banks and ProCredit Holding, and in monitoring the timely implementation of measures to resolve the findings of internal and external auditors. Moreover, this body aims to achieve ongoing improvement in the Internal Audit Policy.

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

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

The Management at each individual bank bears responsibility for risk management within their institution. All ProCredit banks have risk management departments, a risk management committee and an ALCO, as well as

specialised committees that address individual risks. These committees monitor and manage the risk profile of the respective institution.

Both at group level and in all ProCredit banks, adequate processes and procedures for an effective internal control system are in place. The system is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.

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

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

The risk department of each bank reports regularly to the different risk functions at ProCredit Holding, and the respective supervisory board is informed on at least a quarterly basis about all risk-relevant developments.

The management of material risks in the ProCredit group is described in greater detail in the following section. These include credit risk, foreign currency risk, interest rate risk, operational risk, business risk, funding risk, model risk and liquidity risk.



Photo above: ProCredit Bank Bosnia and Herzegovina
Photo below: Cromex, laser cutting, client of ProCredit Bank Bosnia and Herzegovina

Management of individual risks

Credit risk

in '000 EUR	31.12.2017	31.12.2016
Loans and advances to banks	196,243	286,673
Financial assets at fair value through profit or loss	1,074	243
Trading assets	1,074	243
Available-for-sale financial assets	214,701	249,757
Fixed interest rate securities	151,632	173,628
Variable interest rate securities	59,477	73,983
Shares in companies	3,592	2,146
Loans and advances to customers	3,781,384	3,478,049
Loans and advances to customers	3,909,911	3,628,700
Allowance for losses on loans and advances to customers	-128,527	-150,651
Contingent liabilities and commitments	640,862	609,625
Credit commitments (revocable)	429,330	431,832
Guarantees	183,487	162,787
Credit commitments (irrevocable)	18,862	8,781
Letters of credit	9,183	6,224

Maximum exposure to credit risk

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

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. Thanks to the diversification of operations across four regions and 13 countries, and to the experience that the ProCredit institutions have gained in operating in these markets over the past 20 years, the group has extensive expertise with which 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:

- Intensively analysing the debt capacity of our loan clients
- Carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties
- Rigorously avoiding overindebtedness among our loan clients
- Building a personal and long-term relationship with the client, maintaining regular contact
- Strictly monitoring the repayment of credit exposures
- Applying closely customer-oriented, intensified loan management in the event of arrears
- Collecting collateral in the event of insolvency

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

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

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

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

Setting appropriate credit limits, deciding which services correspond to the financial needs of clients and determining the proper structure of the credit exposure form an integral part of the decision-making process within the credit committee. In this context, the following general principles apply: the lower the loan amount, the more detailed the documentation provided by the client, the shorter the loan period, the longer the client's history with the bank, and the higher the client's account turnover with the bank, then the lower the collateral requirements will be.

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

The total amount of collateral held by the group as security is EUR 2.9 billion. The valuation of immovable collateral is 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, the banks regularly monitor the value of all collateral items. The verification of external appraisals and the regular monitoring activities are carried out by specialist staff members at the ProCredit banks.



Photo: Chelty, winery, client of ProCredit Bank Georgia

	31.12.2017	31.12.2016
Mortgages	68.0%	72.6%
Cash collateral	1.5%	1.3%
Financial guarantees	8.0%	2.0%
Other	22.5%	24.1%

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. The responsible member of staff checks whether there are indications of increased risk of default and, if necessary, ensures that additional steps are taken in accordance with the policies. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to ProCredit Holding. The use of early warning indicators and the close monitoring of clients allow for improved tracking of increases in credit risk related to individual credit exposures (migration risk).

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of the client's business activities. 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 arrears management measure is the proactive redefinition of the repayment plans to align them with the client's actual and expected future payment capacity. The necessity of such a measure is mostly due to a significant change in the client's economic environment. These restructurings follow a thorough analysis of payment capacity in order to ensure that the client can comply with the renegotiated payment plan. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure.

During 2017, significantly fewer restructurings were undertaken at group level than in the previous year. As of year-end, the combined total volume of restructured credit exposures which had not already been classified as impaired came to EUR 28.4 million, compared to EUR 43.9 million at the end of 2016. This is the result of a decrease in restructurings in all segments.

in '000 EUR As at December 31, 2017	Loan portfolio	Restructured loans	Restructured loans as % of loan portfolio
Germany	88,454	0	0.0%
South Eastern Europe	2,759,123	20,244	0.7%
Eastern Europe	823,399	5,516	0.7%
South America	238,935	2,643	1.1%
Total	3,909,911	28,403	0.7%

in '000 EUR As at December 31, 2016	Loan portfolio	Restructured loans	Restructured loans as % of loan portfolio
Germany	78,306	0	0.0%
South Eastern Europe	2,534,854	31,059	1.2%
Eastern Europe	708,669	9,571	1.4%
South America	306,872	3,236	1.1%
Total	3,628,700	43,866	1.2%

Restructured loans

When a credit exposure is classified as problematic, it is passed on to the recovery unit. The bank generally considers an exposure to be problematic when there is strong doubt that the client will be able to meet his/her contractual obligations, e.g. in the case of bankruptcy or arrears exceeding 90 days. If necessary, recovery officers are supported by litigation officers (legal department) and/or specialists in the sale of assets or collateral. Collateral is always liquidated through sales to third parties. Repossessed property is sold 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	31.12.2017	31.12.2016
Real estate	22,910	25,607
Inventory	533	179
Other	2,391	1,056
Reposessed property	25,834	26,842

Reposessed property

As a general principle, the ProCredit institutions do not write off their receivables from clients until they no longer expect to receive any further payments. As a rule, the more days that the client's payments are past due and the lower the recoverability of the collateral, the lower the probability of further payments is. Additionally, the direct and indirect costs of managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure. Bearing these points in mind, the banks generally write off insignificant credit exposures earlier than significant ones. In 2017, net write-offs stood at 0.4% of the gross loan portfolio (2016: 0.7%). Thus, net write-offs in 2017 did not differ substantially from the previous year.

The ProCredit group establishes appropriate risk provisions for customer credit risk. When determining provisions, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR/USD 30,000.

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

Individually insignificant credit exposures are considered to be showing signs of impairment if they are past due by more than 30 days. In this case, the ProCredit banks calculate lump-sum specific provisions. The basis for calculating the specific provisions is a quantitative analysis of the historical default rates in the individual banks. The default rates are calculated according to the time in arrears.

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

in '000 EUR As at December 31, 2016	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR (> 30 days) as % of loan portfolio	PAR 30 Coverage ratio	Net write-offs	Net write-offs as % of loan portfolio
Germany	78,306	-656	0	-	-	2,350	3.0%
South Eastern Europe	2,534,854	-101,442	96,077	3.8%	105.6%	11,717	0.5%
Eastern Europe	708,669	-32,962	23,553	3.3%	140.0%	11,551	1.6%
South America	306,872	-15,591	22,993	7.5%	67.8%	880	0.3%
Total	3,628,700	-150,651	142,622	3.9%	105.6%	26,498	0.7%

Risk provisions in lending

Individually significant credit exposures are individually monitored by the risk management committee of the respective bank. For these credit exposures, the bank performs an impairment test (specific impairment) once objective evidence exists that their quality has deteriorated. The main indicator of this is that the exposure is more than 30 days past due. However, credit exposures can show other signs of default as well. Typical examples are:

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

If there are signs of a deterioration in the quality of the credit exposure, an impairment test is performed, applying the discounted cash flow method. In this context, expected future cash flows from realised collateral items as well as other realisable cash flows are taken into account. The level of loan loss provisions is determined by the difference between the book value of the credit exposure and the net present value of the expected future cash flows.

When a certain group of clients is adversely affected by external factors and/or extraordinary events, those clients' credit exposures are as a rule also tested for impairment.

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

in '000 EUR As at December 31, 2016*	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	
Specific impairment									
Gross outstanding amount	65,430	14,615	30,172	5,010	41,469	5,701	458	118	162,973
Allowance for specific impairment	-27,380	-6,178	-10,967	-2,107	-13,707	-1,217	-257	-62	-61,875
Net outstanding amount	38,050	8,438	19,205	2,902	27,761	4,484	201	56	101,097
Lump-sum allowance for specific impairment									
Gross outstanding amount	20,495	13,027	7,259	5,026	10,291	4,479	5,175	865	66,616
Lump-sum allowance for specific impairment	-10,168	-7,467	-4,124	-2,892	-4,725	-2,762	-3,903	-660	-36,700
Net outstanding amount	10,327	5,560	3,135	2,134	5,566	1,717	1,272	205	29,916
Portfolio-based allowance for impairment									
Gross outstanding amount	955,206	717,255	631,986	216,303	522,360	199,207	140,311	16,483	3,399,112
Portfolio-based allowance for impairment	-14,754	-11,717	-9,505	-2,995	-7,424	-3,090	-2,510	-81	-52,076
Net outstanding amount	940,452	705,538	622,481	213,308	514,937	196,117	137,801	16,402	3,347,037

* The previous year figures have been adjusted to the current presentation

Specific, lump-sum specific and portfolio-based allowances for impairment

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past-due portfolio) and concentration risk. For the ProCredit group, important indicators of loan portfolio quality are the shares of the portfolio that are past due by more than 30 days (PAR 30) or more than 90 days (PAR 90). We also track the degree to which credit exposures past due by more than 30 days and 90 days are covered with loan loss provisions, as an indicator of the adequate provisioning of our loan portfolio. The portfolio of restructured credit exposures, the corresponding provisions and the level of write offs are also closely monitored.

In addition, three 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 a risk classification system and on additional risk characteristics of the exposures (e.g. whether a loan has been restructured). The indicators allow for a clear overview of the quality of the group's portfolio and of an individual bank, and provide support for the credit risk management process.

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.

At the end of 2017 PAR 30 stood at 2.9%, an improvement compared to the 3.9% recorded for the previous year and a better figure than we had had anticipated. The sale of the shares in the institutions in Nicaragua and El Salvador over the course of 2017 had no substantial impact on the improved PAR 30 figure. Rather, the continuing improvement of the indicator is attributable to the positive development of the overall economic environment in most of our countries of operation, and to the consistent focus on our core customer group of small and medium-sized enterprises.

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

in '000 EUR At December 31, 2016*	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business loans	2,984,058	99,640	31	0	0	0	0	3,083,730
Wholesale and retail trade	942,433	33,629	31	0	0	0	0	976,093
Agriculture, forestry and fishing	708,174	19,081	0	0	0	0	0	727,255
Production	618,657	23,329	0	0	0	0	0	641,986
Transportation and storage	210,354	5,949	0	0	0	0	0	216,303
Other economic activities	504,441	17,652	0	0	0	0	0	522,093
Private loans	301,214	14,168	0	0	0	0	0	315,382
Housing	188,591	7,441	0	0	0	0	0	196,031
Investment loans and OVDs	96,761	6,107	0	0	0	0	0	102,867
Others	15,863	620	0	0	0	0	0	16,483
Impaired								
Business loans	61,532	22,240	13,145	5,763	17,040	27,600	70,539	217,858
Wholesale and retail trade	24,095	7,695	3,853	2,278	5,975	13,851	32,977	90,723
Agriculture, forestry and fishing	5,945	1,911	3,716	1,770	4,562	4,000	5,737	27,642
Production	9,514	5,293	1,929	623	2,399	4,126	13,548	37,431
Transportation and storage	2,143	1,014	898	413	1,054	1,667	2,847	10,035
Other economic activities	19,835	6,327	2,749	678	3,050	3,956	15,430	52,026
Private loans	2,162	1,265	1,280	577	1,240	1,513	3,692	11,730
Housing	1,580	1,104	546	221	394	438	831	5,114
Investment loans and OVDs	494	151	638	311	710	930	2,400	5,634
Others	88	10	97	45	136	145	462	982
Total	3,348,967	137,313	14,456	6,340	18,280	29,113	74,231	3,628,700

* The previous year figures have been adjusted to the current presentation

Loan portfolio, by days in arrears



Photo above: ProCredit Bank Ecuador

Photo below: Marti Komerc, producer of automotive cable connectors, client of ProCredit Serbia

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

in '000 EUR As at December 31, 2017	EUR/USD < 50,000	EUR/USD 50,000 – 250,000	EUR/USD > 250,000	Total
Germany	157	1,810	86,487	88,454
South Eastern Europe	631,757	1,034,167	1,093,199	2,759,123
Eastern Europe	77,254	339,384	406,761	823,399
South America	94,357	102,967	41,611	238,935
Total	803,525	1,478,328	1,628,058	3,909,911

in '000 EUR As at December 31, 2016	EUR/USD < 50,000	EUR/USD 50,000 – 250,000	EUR/USD > 250,000	Total
Germany	3,948	428	73,930	78,306
South Eastern Europe	808,648	934,868	791,338	2,534,854
Eastern Europe	105,994	307,025	295,650	708,669
South America	177,160	100,843	28,869	306,872
Total	1,095,750	1,343,163	1,189,787	3,628,700

Portfolio diversification: Loan size, by region

In addition, the ProCredit banks limit the concentration risk of their portfolios by means of the following restrictions: Large credit exposures (those exceeding 10% of regulatory capital of the respective ProCredit bank) require the approval of 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.

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

in '000 EUR As at December 31, 2016*	EUR/USD < 50,000	EUR/USD 50,000 – 250,000	EUR/USD > 250,000	Total
Business loans	795,868	1,273,480	1,186,555	3,255,903
Wholesale and retail trade	229,440	431,379	380,312	1,041,131
Agriculture, forestry and fishing	249,916	275,796	219,185	744,897
Production	109,278	239,715	320,424	669,417
Transportation and storage	87,105	99,569	39,665	226,339
Other economic activities	120,129	227,021	226,969	574,119
Private loans	299,882	69,683	3,232	372,798
Housing	139,860	66,931	2,596	209,387
Investment loans and OVDs	142,579	2,730	637	145,945
Others	17,443	23	0	17,466
Total	1,095,750	1,343,163	1,189,787	3,628,700

* The previous year figures have been adjusted to the current presentation

Portfolio diversification: Business areas, by loan size

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.

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. As a matter of principle, only highly liquid securities are bought, typically with a maximum maturity of three years at fixed-interest rates. 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 reasons are that the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

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

We effectively limit counterparty and issuer risk within the ProCredit group through our conservative investment strategy. Due to mandatory minimum reserves, a concentration exists at group level with regard to exposures towards central banks. Since 2010 the group has insured more than half of this amount with guarantees from the Multilateral Investment Guarantee Agency (MIGA).

The group's exposure to counterparty and issuer risk increased compared to 2016 due to the higher liquidity level.

in '000 EUR	31.12.2017	in %	31.12.2016	in %
Banking groups	209,865	18.6	305,045	28.4
Central banks	575,415	50.9	393,208	36.5
Mandatory reserve	356,749	12.6	327,412	10.1
of which covered by insurance	-214,400		-218,691	
Other exposures	433,065	38.3	284,488	26.4
Securities	344,612	30.5	377,629	35.1
Total	1,129,892	100.0	1,075,883	100.0

Exposures to counterparties and issuers

The exposure to banking groups contains repurchase agreements in the amount of EUR 11.0 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

For counterparty risk, the same definitions for "past due" and "non-performing" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was past due nor showed any signs of impairment as of 31 December 2017. Accordingly, no provisions were made for these exposures during the 2017 financial year.

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit banks conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit towards a non-OECD bank or banking group may not exceed 10% of the ProCredit bank's capital without prior additional approval from Group ALCO or the Group Risk Management Committee. For an OECD bank, the threshold is 25%. The typical maximum maturity of our term deposits is three months; longer maturities must be approved by Group ALCO or the Group Risk Management Committee. Approval is likewise required before any investments in securities, except for centrally issued securities or central bank papers in the domestic currency of the respective country with a remaining maturity of up to three months. Exposures to shadow banks are limited to 20% of total group capital, which is stricter than the regulatory limit of 25%. Essentially, these comprise transactions in the framework of ordinary business activities with locally regulated commercial banks in those countries where we operate whose banking regulations are not aligned with CRR/CRD IV.

In order to avoid risk concentrations on group level, an additional maximum limit towards each banking group and each state group (total exposure towards central bank, government and state-owned entities) exists.

Country risk

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

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

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

Market risks

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

Foreign currency risk

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

Results are impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). At the bank level, the total OCP is limited to 10% of the bank's regulatory capital, unless deviation from this limit has been approved by the Group ALCO or Group Risk Management Committee. A threshold of 7.5% of a ProCredit bank's capital has been defined as an early warning indicator for the total OCP, and $\pm 5\%$ for each individual currency OCP.

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

Foreign currency risk at group level arises as a result of the equity holdings that ProCredit Holding maintains in its subordinated companies in countries which do not have the euro as the domestic currency. Most banks keep their equity in the respective domestic currency. Thus, from a consolidated group perspective, OCPs in the respective domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risk-taking potential are exposed to fluctuations due to changes in the exchange rates of the domestic currencies against the EUR. These differences are included in the translation reserve in the consolidated equity. These fluctuations are usually accompanied by simultaneous changes in the loan portfolio expressed in EUR terms. The translation reserve grew from EUR -62.1 million at the end of 2016 to EUR -84.0 million as of December 2017. This increase was influenced by the weak US dollar at the end of 2017 and thus the corresponding depreciation of the domestic currency in Georgia and Ukraine, as well as by the sale of the banks in El Salvador and Nicaragua.

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

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

in '000 EUR As at December 31, 2016	USD	Other currencies
Assets		
Cash and cash equivalents	142,528	361,306
Loans and advances to banks	114,492	52,838
Financial assets at fair value through profit or loss	0	14
Available-for-sale financial assets	26,863	60,942
Loans and advances to customers	575,356	1,150,955
of which: indexed to USD	13,385	0
Tax assets	292	1,545
Other assets	1,403	30,059
Total assets	860,934	1,657,659
Open forward position (assets)	11,858	16,274
Liabilities		
Liabilities to banks	60,238	20,578
Financial liabilities at fair value through profit or loss	0	4
Liabilities to customers	548,353	1,298,915
of which: indexed to USD	0	0
Liabilities to international financial institutions	132,974	68,590
Debt securities	21,278	0
Tax liabilities	208	1,244
Provisions	5,125	3,780
Other liabilities	1,984	7,535
Subordinated debt	82,999	0
Total liabilities	853,160	1,400,647
Open forward position (liabilities)	23,547	51,588
Net position	-3,915	221,698

Open currency position

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities.

In order to manage interest rate risk, the ProCredit banks primarily issue variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, banks use a publicly available interest rate as a benchmark when adjusting the interest rates. Financial instruments to mitigate interest rate risk (hedges) are not available in most domestic currencies.

The measuring, monitoring and limiting of interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts.

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. Sight deposits and savings accounts are included in the gap analyses according to their expected repricing maturities. These maturities are derived from a group-wide analysis of historical developments. The economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate

shock across all currencies must not exceed 15% of a bank's regulatory capital, unless approved by the Group Risk Management Committee; the early warning indicator for each currency is set at 10% (non-netted in each case). The P&L effect is deemed significant if it exceeds 5% of the bank's capital (early warning indicator). The P&L effect must not exceed 10% of the capital (non-netted in each case).

At the group level, interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect; limits are set for this risk on the basis of economic value impact. The indicators are calculated using historical Value-at-Risk models with a holding period of one year and confidence level of 99.9% (EVI) or 99% (P&L effect). Sight deposits and savings accounts are included in the gap analyses according to their expected repricing maturities and are derived from country- and currency-specific historical analyses. The maturity-specific interest rate shocks are based on the historical development of the reference curve per currency. The methodology for determining the 12-month P&L effect was expanded and, as from 2017, takes particular account for more granular repricing gap analyses, new business assumptions and currency-specific interest rate shocks.

in '000 EUR Currency	31.12.2017		31.12.2016	
	Economic Value Impact	12 month P&L-Effect	Economic Value Impact	12 month P&L-Effect
EUR	-5,475	-305	-4,216	-1,268
USD	-58,733	-548	-50,318	-3,530
Others	-666	-8,103	3,259	-8,764
Total	-64,873	-8,956	-51,275	-13,562

The tenor specific interest rate shocks are based on historical scenarios on the changes of the reference curves per currency.

Calculation of economic capital requirements

In the course of 2017, the economic value impact rose by EUR 13.6 million to EUR 64.9 million. This development was driven by the growth of the high-performing banks. In addition, part of the increase was due to adjustments to the interest rate shocks applied as of end-2017. The 12-month P&L effect fell by around EUR 4.6 million in 2017. This reduction is mainly due to an adjustment of the scaling within the model using the Square-root-of-time Rule for positions due during the year.

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.

In general, liquidity and funding risk is limited in individual banks and at group level by the fact that we primarily issue instalment loans with monthly repayments, financed largely by customer deposits. Our deposit-taking operations focus on our target group of business clients and savers, with whom we establish strong relationships. The financial crisis in 2008 and 2009 has shown that our customer deposits are a stable and reliable source of funding.

We measure our short-term liquidity risk using a liquidity gap analysis, among other instruments, and monitor this risk based on a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), as well as in accordance with the minimum liquidity ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether institutions have sufficient liquidity for the expected inflows and outflows of funds in the next 30 days. 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.

In addition, early warning indicators are defined and monitored. A key indicator in this respect is the highly liquid assets (HLA) indicator, which ensures that the banks hold sufficient highly liquid assets at all times to be able to pay out a certain percentage, as defined by ProCredit Holding, of all customer deposits.

Market-related, 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.

The liquidity of the banks and of ProCredit Holding is managed on a daily basis by the respective treasury departments, based on the Group ALCO-approved cash flow projections, and is monitored by risk management and ALCO.

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



Photo above: Gelibert, producer of non-alcoholic beverages and bottled water, client of ProCredit Bank Moldova
Photo below: ProCredit Bank Romania

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

in '000 EUR As at December 31, 2016	Up to 1 month	1 – 3 months	4 – 6 months	7 – 12 months	1 – 5 years	More than 5 years	Total
Assets							
Financial instruments							
Cash and cash equivalents	918,844	18,696	0	0	0	0	937,540
Loans and advances to banks	257,965	21,532	-65	673	1,727	1,307	283,139
Financial assets at fair value through profit or loss	17	12	202	0	0	12	243
<i>of which derivatives</i>	17	12	202	0	0	12	243
Available-for-sale financial assets	43,123	34,469	28,483	45,037	98,962	1,762	251,837
Loans and advances to customers	203,869	256,370	401,766	736,646	1,863,916	485,557	3,948,123
Non-financial instruments							
Current tax assets	817	2,302	286	0	697	0	4,101
Other assets	24,653	4,635	851	6,791	10,550	0	47,479
Total assets	1,449,289	338,014	431,523	789,147	1,975,851	488,638	5,472,462
Liabilities							
Financial instruments							
Liabilities to banks	71,211	26,198	19,254	39,898	110,855	82,418	349,834
Financial liabilities at fair value through profit or loss	260	702	190	15	0	200	1,367
<i>of which derivatives</i>	260	702	190	15	0	200	1,367
Liabilities to customers	2,393,910	249,407	266,550	400,373	189,278	9,327	3,508,846
Liabilities to international financial institutions	10,744	43,435	29,681	69,789	298,857	74,465	526,971
Debt securities	2,411	1,170	3,833	28,635	71,025	74,961	182,035
Subordinated debt	1,045	1,953	5,653	6,120	81,829	162,062	258,662
Non-financial instruments							
Other liabilities	11,506	3,401	442	340	0	234	15,923
Provisions	1,441	1,631	917	2,573	5,006	106	11,675
Current Tax liabilities	0	778	376	299	0	0	1,452
Total liabilities	2,492,528	328,675	326,895	548,043	756,850	403,773	4,856,764
Contingent liabilities							
Financial guarantees	62,284	0	0	0	0	0	62,284
Credit commitments (irrevocable loan commitments)	8,781	0	0	0	0	0	8,781
Contractual liquidity surplus	-1,114,304	9,339	104,628	241,104	1,219,001	84,865	

Maturity structure, by contractual maturity

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

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

in '000 EUR As at December 31, 2016	Up to 1 month	1 – 3 months	4 – 6 months	7 – 12 months	More than 1 year	Total
Assets						
Cash	179,406	0	0	0	0	179,406
Mandatory reserves with central bank	46,563	0	0	0	0	46,563
Other central bank balances (excl. minimum reserve)	284,488	0	0	0	0	284,488
Unused irrevocable and unconditional credit commitments from IFIs	10,000	0	0	0	0	10,000
Government bonds & marketable securities	329,063	25,724	9,660	3,606	4,989	373,042
Placements with external banks	257,116	21,718	397	1,500	3,180	283,911
Loans and advances to customers	49,982	193,444	307,816	554,527	2,359,798	3,465,567
Currency derivatives (asset side)	152,451	53,691	24,718	7,315	0	238,175
Total assets	1,309,070	294,577	342,592	566,947	2,367,967	4,881,153
Liabilities						
Current liabilities to banks (due daily)	12,730	0	0	0	0	12,730
Contingent liabilities from guarantees	8,451	0	0	0	0	8,451
Unused credit commitments to customers	37,894	0	0	0	0	37,894
Liabilities to external banks	44,941	24,586	16,105	35,681	170,066	291,380
Liabilities to international financial institutions	7,646	40,221	29,856	59,658	354,617	491,999
Total liabilities to customers	288,724	127,152	190,043	254,304	2,593,202	3,453,426
Debt securities / bonds	1,373	0	1,373	25,438	116,810	144,993
Subordinated debt	0	0	0	0	267,019	267,019
Currency derivatives (liability side)	152,845	53,810	24,381	8,110	0	239,146
Total liabilities	554,604	245,769	261,757	383,191	3,501,715	4,947,036
Surplus from previous time bucket	0	754,466	803,274	884,109	1,067,865	
Expected liquidity surplus	754,466	803,274	884,109	1,067,865	-65,883	
Sufficient Liquidity Indicator	2.4					
Highly liquid assets	32%					

Maturity structure, by expected maturity

A negative value for the expected liquidity surplus quantifies the potential liquidity needs within a certain time period, while a positive value shows the potential excess of liquidity. This calculation includes excess liquidity from the previous time buckets. As of December 2017 the group's sufficient liquidity indicator stood at 1.9 (2016: 2.4) and the ratio of highly liquid assets to customer deposits was 29% (2016: 32%), both indicating that the group had a comfortable liquidity situation.

As of 31 December 2017, the LCR was 179% (2016: 194%) at group level, and thus comfortably above the regulatory requirement of 80%.

At year-end, all ProCredit banks fulfilled the respective liquidity ratio requirement. The banks had enough liquidity available at all times in 2017 to meet all financial obligations in a timely manner. The group had adequate liquidity levels at all times during the 2017 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 retail customer deposits, supplemented by long-term credit lines from international financial institutions (IFIs). We make little use of interbank and capital markets. The funding of the ProCredit group has proven to be resilient even in times of stress. As of end-December 2017 the largest funding source was customer deposits, with EUR 3,570.9 million (2016: EUR 3,475.1 million). International Financial Institutions (IFIs) are the second largest source of funding, accounting for EUR 549.6 million (2016: EUR 499.3 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. This is defined as the share of the ten largest depositors relative to the bank's total deposit base, which should not exceed 15%. Two more indicators additionally restrict the level of funding from the interbank market to a low level.

Operational risk

In line with CRR, we define operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Policies on operational risk management have been implemented across all group entities; they have been approved by the Management of ProCredit Holding and are updated annually. This ensures effective management of operational risk throughout the group. The principles set forth in the group 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 at group level and in the banks to manage operational risks are the group-wide Risk Event Database (RED), the Annual Risk Assessments, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks document their risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk. The table below provides an overview of the gross and net losses due to operational loss events and fraud cases in 2017 (data as of 30 January 2018).

Key operational risk figures 2017	
Gross loss, EUR million	5.0
Current net loss, EUR million	3.1
Number of loss events	367

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 or specific outlets that could be used by potential fraudsters. These indicators are analysed regularly and where needed preventive measures are agreed on.

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

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

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

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

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

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

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

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

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

Other material risk

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

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

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

Capital Management

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

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

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

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

Internal capital adequacy

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

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

The group applies a gone concern approach in managing and monitoring internal capital adequacy. We are committed to being able to meet our (non-capital) obligations at all times in the event of unexpected losses in the gone-concern approach, both in normal and in stress scenarios. The group considers the going concern approach to be an auxiliary condition which must be met. This implies that, as a regulated financial holding group, we must satisfy the minimum capital requirements set by the supervisory authority at all times. The internal capital adequacy of the group was sufficient at all times during 2017, both in the gone concern approach and in the going concern approach.

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

Material risk	Quantification/treatment
Credit risk, comprising: <ul style="list-style-type: none"> • customer credit risk • counterparty risk • country risk 	Portfolio model based on a Monte Carlo simulation (VaR)
Foreign currency risk	Monte Carlo simulation (VaR)
Interest rate risk	Historical simulation (VaR)
Operational risk	Quantitative model based on a Monte Carlo simulation
Business risk	Analytical method (business VaR)
Funding risk	Qualified expert assessment
Model risk	Qualified expert assessment

The group's risk-taking potential (RTP) in the gone concern approach, defined as the consolidated group equity (net of intangibles, minority interests and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 752.5 million as of the end of December 2017. At the end of 2017, the Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 675.0 million. This reflects the acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set significantly below the group's RTP in order to ensure the existence of a sufficient security buffer. The RAtCR is then, on the basis of the risk appetite, distributed among the individually quantifiable risks, and the economic capital required to cover the risks is compared with the available capital.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation as of end-December 2017. In the standard scenario, which under the gone concern approach is calculated with a 99.9% confidence level, the ProCredit group needs 71.3% of its RAtCR and 63.9% of its RTP to cover its risk profile.

Risk Factor 2017	Limit (in EUR m)	Limit Used (in EUR m)	Limit Used (in % of Limits)
Credit Risk	350,0	253,1	72,3
Interest Rate Risk	80,0	64,9	81,1
Foreign Currency Risk	120,0	75,3	62,7
Operational Risk	30,0	20,8	69,2
Business Risk	25,0	23,1	92,4
Funding Risk	10,0	5,9	58,8
Model Risk	60,0	38,0	n.a.
Total	675,0	481,0	71,3

Risk Factor 2016	Limit (in EUR m)	Limit Used (in EUR m)	Limit Used (in % of Limits)
Credit Risk	350,0	274,3	78,4
Interest Rate Risk	80,0	51,3	64,1
Foreign Currency Risk	120,0	76,8	64,0
Operational Risk	30,0	19,1	63,7
Business Risk	25,0	19,3	77,2
Funding Risk	10,0	6,5	65,0
Model Risk	60,0	53,0	n.a.
Total	675,0	500,3	74,1

Internal capital adequacy, gone concern approach

Stress tests

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

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

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

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

Regulatory capital adequacy

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

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

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

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

in '000 EUR	31.12.2017	31.12.2016
Common equity Tier 1 capital	594,835	574,111
Additional Tier 1 capital	0	0
Tier 2 capital	129,931	149,920
Total capital	724,766	724,031
Risk weighted assets	4,330,309	4,602,896

in '000 EUR	31.12.2017	31.12.2016
Common equity Tier 1 capital ratio	13.7%	12.5%
Tier 1 capital ratio	13.7%	12.5%
Total capital ratio	16.7%	15.7%

Capital ratios of the ProCredit group

The capital ratios of the ProCredit group increased substantially in the 2017 financial year. This was due to both an increase in shareholders' equity and at the same time a reduction of the total risk amount for the group. During the course of 2017, the CET1 ratio climbed to 13.7%, with a Tier 1 ratio likewise at 13.7%, and a total capital ratio of 16.7%. The level of capitalisation in the ProCredit group is thus significantly higher than the current regulatory requirements.

The transitional provisions of CRR for some equity positions only had a minor impact on the capital ratios of the ProCredit group. Without applying these provisions, the fully loaded CET1 ratio and T1 ratio would both have stood at 13.7%, and the total capital ratio would have likewise been 16.7%.

The CRR minimum capital ratios are set to 4.5% for the Common Equity Tier 1 capital ratio, 6% for the Tier 1 capital ratio and 8% for the total capital ratio. Furthermore, as of 1 January 2016 the incrementally implemented capital conservation buffer for 2017 is 1.25%. The institution-specific countercyclical capital buffer applicable as of 1 January 2016 currently plays no role for the ProCredit group, due to the geographical distribution of loan exposures.

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

The Common Equity Tier 1 capital reported as of 31 December 2017 amounts to EUR 594.8 million. This represents an increase of EUR 20.7 million during the period. The strongest positive effects came from the recognition of the results from Q4-2016 and the interim profits as of 30 September 2017, less foreseeable charges and dividends amounting to EUR 42.4 million. In contrast, a negative trend arose from the expansion of the negative translation reserve, which grew by EUR 21.9 million.

The Tier 2 capital of the ProCredit group consists of long-term subordinated loans which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. In July 2017, ProCredit Holding carried out an early repayment of grandfathered subdebt with the Overseas Private Investment Corpo-

ration (OPIC) in the amount of EUR 25 million, which led to a reduction of T2 capital by EUR 10.3 million. No new subordinated debt instruments were issued in 2017.

in '000 EUR	31.12.2017		31.12.2016	
	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Credit risk	3,340,728	267,258	3,445,607	275,649
Market risk (currency risk)	438,514	35,081	461,856	36,948
Operational risk	549,429	43,954	693,939	55,515
CVA* risk	1,638	131	1,494	119
Total	4,330,309	346,425	4,602,896	368,232

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

Risk-weighted assets and capital requirements, by risk category

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

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

The ProCredit group applies the standardised approach to quantify operational risk. Compared to the regulatory capital requirements for operational risk, which amount to EUR 44.0 million, the average annual net loss according to data recorded in the Risk Event Database in the last three years amounted to less than EUR 2.0 million.



Photo above: ProCredit Bank Bulgaria

Photo below: Slobozhansky Soap Boiler, producer of soap bars, client of ProCredit Bank Ukraine

Given the small volume of derivatives held by the group, the risk arising from credit valuation adjustment (CVA)⁵ is insignificant. The ProCredit group uses the standardised approach to calculate the capital requirements to cover CVA risk.

The total volume of risk-weighted assets in the ProCredit group decreased by EUR 272.6 million in 2017. This change was due largely to the reduced level of assets on the group's balance sheet following the sale of the equity investments in Nicaragua and El Salvador. The amount of currency risk likewise fell sharply as a result of these sales transactions. Moreover, the fall in the amount of operational risk due to sales in previous periods also contributed to a lower total amount of RWAs.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. A binding minimum requirement for the leverage ratio has yet to take effect; however, in future it will be 3%. As of year-end 2017 the ProCredit group reported a very comfortable leverage ratio of 10.5%.

in '000 EUR	31.12.2017	31.12.2016
Equity	594,835	574,111
Assets	5,671,237	5,825,991
Leverage ratio	10.5 %	9.9 %

Leverage ratio

⁵ The CRR introduced a capital requirement to cover the CVA risk arising from over-the-counter (OTC) derivatives. In contrast to counterparty default risk, this risk refers to the danger that the market value of the derivatives is reduced because the credit risk premium for the counterparty increases, without a default occurring.

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

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

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

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

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

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

REMUNERATION REPORT FOR THE MANAGEMENT AND SUPERVISORY BOARD

Management

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

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

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

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

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

	Benefits granted		Allocation	
	2017	2016	2017	2016
Helen Alexander (untill 31.03.2017)				
Basic Salary	20,700	82,800	20,700	82,800
Pension cost*	12,637	30,328	12,637	30,328
Total remuneration	33,337	113,128	33,337	113,128

	Benefits granted		Allocation	
	2017	2016	2017	2016
Dr Antje Gerhold				
Basic Salary	-	52,000	-	52,000
Pension cost*	-	4,000	-	4,000
Total remuneration	-	56,000	-	56,000

	Benefits granted		Allocation	
	2017	2016	2017	2016
Borislav Kostadinov				
Basic Salary	163,800	163,800	163,800	163,800
Pension cost*	4,835	4,200	4,835	4,200
Total remuneration	168,635	168,000	168,635	168,000

	Benefits granted		Allocation	
	2017	2016	2017	2016
Dr Anja Lepp				
Basic Salary	97,500	126,000	97,500	126,000
Pension cost*	30,883	32,248	30,883	32,248
Total remuneration	128,383	158,248	128,383	158,248

	Benefits granted		Allocation	
	2017	2016	2017	2016
Sandrine Massiani (from 01.03.2017)				
Basic Salary	140,000	-	140,000	-
Total remuneration	140,000	-	140,000	-

	Benefits granted		Allocation	
	2017	2016	2017	2016
Dr Gabriel Schor				
Basic Salary	138,000	138,000	138,000	138,000
Pension cost*	37,148	35,057	37,148	35,057
Total remuneration	175,148	173,057	175,148	173,057

* 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

In 2017, the members of the Supervisory Board received 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 participation in the meetings of the Supervisory Board.

Amounts in EUR	Remuneration 2017	Remuneration 2016
Dr Claus-Peter Zeitingner	10,000	10,000
Mr Christian Krämer	10,000	10,000
Mr Wolfgang Bertelsmeier (till May 2017)	4,167	10,000
Ms Marianne Loner (from May 2017)	6,667	-
Mr Petar Slavov	10,000	10,000
Mr Jasper Snoek	10,000	10,000
Mr Rainer Ottenstein	10,000	-
Mr Rochus Mommartz	-	10,000

Remuneration of the Supervisory Board

Disclosures Required by Takeover Law pursuant to sec. 289a (1) and 315a (1) German Commercial Code (Handelsgesetzbuch)

As at 31 December 2017, the share capital of ProCredit Holding AG & Co. KGaA (the *Company*) is divided into 53,544,084 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 Zeiting Invest GmbH, Stichting DOEN, 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 31 October 2016 (the *Core Shareholders' Agreement*), according to which each Core Shareholder agrees to exercise its influence as a shareholder in the Company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the Company and its subsidiaries continue to be in line with applicable law and best practice banking and socially responsible standards. The Core Shareholders' Agreement stipulates that each Core Shareholder exercises its voting rights at its own discretion only, and that there is no obligation to exercise such voting rights jointly and in a coordinated manner with any or all of the other Core Shareholders. Moreover, the Core Shareholders' Agreement sets out certain minimum levels for the Core Shareholders' shareholding in the Company, collectively amounting to 20% of the Company's share capital, which the Core Shareholders agreed to maintain until 31 October 2019.

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

The following shareholders owned (directly or indirectly) as of 31 December 2017, pursuant to their most recent voting rights notification, 10% or more of the voting rights:

- Zeiting Invest GmbH (voting rights notification dated 29 December 2016)
- 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)
- International Finance Corporation (voting rights notification dated 28 December 2016)

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

As of 31 December 2017, the employees of the Company collectively owned 4.4% of the voting rights via three investment companies (ProCredit Staff Invest 1 GmbH & Co. KG, ProCredit Staff Invest 2 GmbH & Co. KG and ProCredit Staff Invest 3 GmbH & Co. KG). The investment companies are the immediate shareholders and thus exercise the voting rights for the employees of the Company. As far as employees are direct shareholders, they themselves exercise the voting rights control.

The activities of the Company are managed by ProCredit General Partner AG, which, due to the legal nature of a partnership limited by shares (*Kommanditgesellschaft auf Aktien – KGaA*), does not have to be appointed but has been the managing entity of the Company since its establishment. The activities of ProCredit General Partner AG are managed by natural persons who are appointed and removed by the Supervisory Board of ProCredit General

Partner AG in accordance with sec. 84 and 85 AktG and Art. 6 (2) of the Articles of Association of ProCredit General Partner AG. Pursuant to Art. 22 (1) of the Articles of Association of the Company and sec. 179 AktG, the Articles of Association of the Company can be amended upon resolution of the Company's General Meeting with simple majority, unless otherwise stipulated by compulsory law. Furthermore, ProCredit General Partner AG has rights of approval for such changes pursuant to Art. 22 (2) of the Articles of Association of the Company; subsequently, the Supervisory Board of ProCredit General Partner AG shall resolve on the confirmation of such approval in accordance with Art. 7 (4) of the Articles of Association of ProCredit General Partner AG.

The Management of the Company has not been authorised to purchase its own shares. ProCredit General Partner AG has not been authorised to issue new shares after the full utilisation of Approved Capital 2016 on 2 February 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. These principles pervade all aspects of how the group is governed.

Management Board and Supervisory Board

Relationship between Management Board and Supervisory Board

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

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

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 2017, the Supervisory Board held five in-person meetings, three telephone conferences and one written vote. 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 build 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 2017 financial year:

Management Board member (in alphabetical order)	First appointed	Appointed until	Responsibilities at year-end
Helen Alexander	2001	31-Mar-17	-
Borislav Kostadinov	2014	31-Mar-19	Credit Risk, Group Environmental Management, Investor Relations and Group Communications
Dr Anja Lepp	2008	31-Dec-17	Risk Management, Group Anti-Money Laundering and Fraud Prevention, Administration
Sandrine Massiani	2017	28-Feb-21	Human Resources, IT, Internal Audit, Business Support, Legal, Compliance
Dr Gabriel Schor	2004	31-Dec-18	Finance and Controlling, Group Treasury and Funding

On 1 March 2017, Sandrine Massiani was appointed as a member of the Management Board. Her mandate is for four years. Helen Alexander's term as a member of the Management Board ended as planned on 31 March 2017 under cordial mutual agreement. Dr Anja Lepp's term as a member of the Management Board ended as planned on 31 December 2017 under cordial mutual agreement.

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 2017 financial year:

Supervisory Board member	First elected	Date term expires	Supervisory and Management Board positions held outside the Group
Dr Claus-Peter Zeitinger (Chairman)	2004	2022	None
Christian Krämer (Deputy Chairman)	2014	2022	Berliner Energieagentur GmbH, Germany, member of the supervisory board
Wolfgang Bertelsmeier	2011	2017	Vietnam Enterprise Investments Limited, Vietnam, member of the supervisory board
			Zalar S.A., Morocco, member of the supervisory board
Marianne Loner	2017	2022	Sura Asset Management S.A., Colombia, member of the supervisory board
			Britam Holdings Plc, Nairobi, Kenya, member of the supervisory board
Rainer Ottenstein	2016	2021	None
Petar Slavov	2014	2022	None
Jasper Snoek	2007	2022	None

Wolfgang Bertelsmeier was a member of the Supervisory Board until 17 May 2017. After six years on the Board, he decided to not stand for re-election and Ms Marianne Loner was newly elected to the Supervisory Board.

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 in 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 the composition of the Supervisory Board should duly represent members who apart from good knowledge of banking have:

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

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

All members of the Supervisory Board aim to act as independent members within the meaning of the provisions of the German Stock Corporation Act and the CGC. At least 50% of the members of the Supervisory Board shall at all times be independent, pursuant to section 5.4.1 paragraph 2 sentence 1 of the CGC. In accordance with section 5.4.2 of the CGC, the Supervisory Board 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 and 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 respective candidates to indicate any potential conflicts of interest and shall assess such conflicts and satisfy itself that the respective candidates can devote the expected amount of time required when 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 2017. 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 group, generally make the formation of committees superfluous, particularly since all of its members are well qualified and devote sufficient time.

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

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

Furthermore, the Management Board set targets for the minimum percentage of any gender at 25% for the first and second management levels.

Remuneration and share ownership of the Management and Supervisory Boards' 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, 2 and/or 3 GmbH & Co. KG). However, in no individual case or together does the aggregated volume of shares reach 1% of the total share capital of the Company. There is no share option scheme for staff or Management Board members.

The combined volume of direct and indirect shares owned by all Management Board and Supervisory Board members amounts to less than 1.00% of the shares of the Company.

Managers' Transactions

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

Other Key Aspects of our Approach to Corporate Governance

Working Relationship between ProCredit Holding and its subsidiaries

Central to the effective governance of the ProCredit group is the relationship between the Company as the holding entity and its subsidiaries. A strength of the ProCredit group is its ability, despite having operations across the countries, to implement its business and risk strategies with a very high degree of efficiency and uniformity. All

ProCredit banks are independent, licensed and regulated banks. The Company holds a controlling stake (typically 100%) of its subsidiaries and is in a position to appoint the majority of supervisory board members of its subsidiaries. The management board at each ProCredit bank bears responsibility for the operations in 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 aims to make quarterly financial statements available. The ProCredit Holding Investor Relations team will provide additional clarity via investor and analyst presentations, roadshows, press communication, including ad-hoc notifications, as necessary, and other means, as appropriate. Important non-financial information, including an annual Group Impact Report according to section 315b (3.1b) HGB, as well as our Group Code of Conduct, will also be available on the ProCredit Holding website.

Risk Management

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

Compliance

The group has a comprehensive set of policies and practices, overseen by the Group Compliance Officer and Group Compliance Committee, to ensure compliance at every level of the group with all relevant regulations. All ProCredit banks have a Compliance Officer and are required to follow centrally set standards and report accordingly. The Supervisory Board receives an Annual Group Compliance Risk Management Report. All ProCredit institutions also apply international best-practice methods to protect themselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorism. All ProCredit institutions comply with local regulations and in addition apply a uniform policy framework (the Group Anti-Money Laundering (AML) Policy and the Group Fraud Prevention Policy) which is in compliance with German and EU regulatory standards. The Group Code of Conduct is available on the ProCredit Holding website.

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

Pursuant to section 161 of the German Stock Corporation Act (AktG), the "Management Board" of ProCredit General Partner AG, as the sole "General Partner", and the "Supervisory Board" of ProCredit Holding AG & Co. KGaA ("Company") declare that the Company, in accordance with the special legal characteristics of a partnership limited by shares, has been in compliance with the recommendations of the German Corporate Governance Code ("CGC") of 5 May 2015, as published by the Federal Ministry of Justice in the official part of the German Federal Gazette on 12 June 2015, since its last statement of compliance on 13 February 2017, with the deviations listed therein. Excepting the deviations listed in the following, the Company shall comply in the future with the recommendations of the CGC 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.

Deviations based on the legal form of the Company

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

Deviations from the recommendations of the CGC

3.8 (3)

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

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

4.2.1 sentence 1

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

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

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

4.2.3 (2) sentences 2 et seq.

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

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

5.3.2

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

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

5.3.3

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

There is no nominations committee within the Company's Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business

activities of the Company and the group as a whole, make the formation of committees superfluous. The relatively small size of the Supervisory Board, which is in any case made up solely of shareholder representatives, and the shareholder structure of the Company do not warrant setting up a dedicated committee to propose shareholder representatives. Moreover, the Company's Supervisory Board deems it important that all of its members are familiar with the areas of responsibility that normally fall within the remit of a nominations committee.

5.4.1 (2) sentence 1

The CGC recommends that the Supervisory Board shall set concrete targets with regard to its composition which, considering the Company's specific business situation, shall take into account its international activities, potential conflicts of interest, the number of independent Supervisory Board members as per item 5.4.2 of the CGC, setting fixed limits on age and length of service for Supervisory Board members as well as ensuring its diversity. Although the Company's Supervisory Board regularly sets concrete targets for its composition in compliance with the criteria stipulated under item 5.4.1 (2) sentence 1 of the CGC, there is no fixed limit on length of service for its members. The Supervisory Board takes the view that any decision on an individual member remaining in office shall be taken on a case by case basis. Setting a fixed limit would constitute an unreasonable restriction, as the Company fundamentally relies on the expertise of its experienced Supervisory Board members.

5.4.6 (1)

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

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

Frankfurt am Main, 22 March 2018

Management Board of
ProCredit General Partner AG

Supervisory Board of
ProCredit Holding AG & Co. KGaA

Responsibility of the legal representatives

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

Frankfurt am Main, 22 March 2018

ProCredit Holding AG & Co. KGaA

represented by:

ProCredit General Partner AG (personally liable shareholder)

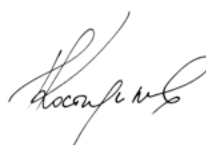
Management Board



Sandrine Massiani



Dr. Gabriel Schor



Borislav Kostadinov

PROCREDIT HOLDING AG & CO. KGaA SUPERVISORY BOARD REPORT 2017

Dear Shareholders,

In the following, I would like to inform you about the work undertaken by the Supervisory Board ("**Supervisory Board**") of ProCredit Holding AG & Co. KGaA ("**ProCredit Holding**" or "**Company**") in the fiscal year 2017.

In 2017, the Supervisory Board performed its tasks as defined by the law, the Articles of Association and the Internal Rules of Procedure, in particular:

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

Working relationship between the Supervisory Board and the General Partner

In the fiscal year 2017, the Supervisory Board again regularly advised the General Partner on the management of ProCredit Holding and continuously supervised its conduct of business. The Supervisory Board concluded that the management of the Company was lawful, proper and appropriate.

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

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

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

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

Supervisory Board meetings during 2017

The Supervisory Board of the Company held five routine in-person meetings, three telephone votes and one written vote in the fiscal year 2017.

The Supervisory Board's in-person meetings were attended by all of its members on two occasions, while Mr Ottenstein attended one of them via phone. Mr Krämer participated in the adoption of resolutions at two of those on the basis of votes communicated in writing and did not attend one of them. The telephone conferences were attended by all Supervisory Board members on two occasions. In one of the telephone votes, Mr Bertelsmeier participated in the adoption of the resolutions via prior telephone conference with the Chairman of the Supervisory Board. All members of the Supervisory Board participated in the written vote. The members of the Management Board of the General Partner took part in the Supervisory Board meetings, unless otherwise determined by the Chairman of the Supervisory Board.

A representative of the German Banking Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) participated in one in-person meeting, and a representative of the German Central Bank (*Deutsche Bundesbank*) was present at two in-person meetings.

At each meeting, the Supervisory Board received timely and detailed reports from the General Partner on the current business and financial performance of the ProCredit group, including analysis in relation to plan, as well as analysis of the group risk position and risk management, internal audit findings and significant personnel and organisational issues. Particular attention has always been given to indicators and initiatives which relate to credit risk and human resources management. Furthermore, the Supervisory Board has always given due consideration to the impact and ethical aspects of our operations and not just the financial results. In 2017, the Supervisory Board was also updated regularly on all post-listing investor-relations activities and received a progress report with regard to the measures taken in response to the Bundesbank inspection.

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

At the first meeting in the reporting year, on 13 February 2017, the General Partner updated the Supervisory Board on all topics discussed and approved by the supervisory board of ProCredit General Partner AG on 13 February 2017, which the Supervisory Board unanimously agreed with: In addition to routine agenda items, these topics included discussions of the Group Business Strategy (also covering the Business Plan and the Capital Plan 2017-2021), the Group Risk Strategy and the Group IT Strategy, which set the tone for a year focused on further strengthening the positioning of ProCredit banks as "*Hausbanks*" for SMEs and on implementing the well-defined range of digital services offered to our private clients. The post-listing developments were discussed, as were ProCredit Holding's plans to become a member of the Social Stock Exchange in London in 2017 and to develop GRI non-financial reporting at group level. Discussions were also held on the preliminary audit report (part 1) (*Teilprüfungsbericht 1*) for the ProCredit group, prepared by KPMG, the annual internal audit reports for 2016 for the ProCredit group and ProCredit Holding, as well as the compliance statement with regard to the German Corporate Governance Code.

By means of a **written vote on 9 March 2017**, the Supervisory Board unanimously resolved that the General Partner be mandated to organise the procedure to select the Company's external auditor for 2017 in line with the Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

By means of a **telephone conference on 27 March 2017**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 27 March 2017 and unanimously agreed with the same. The Supervisory Board focused on the reporting, auditing and approval of the Company's financial statements for fiscal year 2016. The statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, joined the meeting and presented the audited Annual Financial Statements for the Company and the Consolidated Annual Financial Statements for the ProCredit group for fiscal year 2016. A limited number of findings were discussed, and KPMG confirmed that the findings resulting from the Bundesbank inspection were being adequately addressed. The Supervisory Board unanimously approved the Annual Financial Statements of ProCredit Holding and the Consolidated Annual Financial Statements for the ProCredit group as well as the combined Management Report for fiscal year 2016. Furthermore, the Supervisory Board resolved, in each case unanimously after

discussion, the following decisions: (1) the approval of the proposal of ProCredit General Partner AG concerning the appropriation of profits; (2) the distribution to the shareholders, out of the profits (Bilanzgewinn) from the financial year 2016 a dividend of EUR 0.38 per non-par value share, (3) the carry-on of the remaining profits (Bilanzgewinn) from the financial year 2016 forward to new account, and (4) the report of the Supervisory Board which is to be submitted in accordance with sec. 171 AktG. The Supervisory Board unanimously resolved to propose the following to the Shareholders' Meeting: (1) the adoption of the Company's Annual Financial Statements and the Consolidated Annual Financial Statements for the ProCredit group for fiscal year 2016; (2) the formal Ratification of the acts of ProCredit General Partner AG for fiscal year 2016, and (3) the formal Ratification of the acts of the members of the Supervisory Board for fiscal year 2016. The annual Group Compliance Report was also discussed.

By means of a **telephone conference on 5 April 2017** the Supervisory Board was given comprehensive information from the General Partner on the process for selecting the external auditors, which was undertaken in compliance with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities. After discussing and validating the information, the Supervisory Board unanimously resolved to propose to the Ordinary Shareholders' Meeting the appointment of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as statutory auditor of ProCredit Holding and the group for the fiscal year 2017, as well as the auditor for a possible review of the condensed financial statements and interim management report for the group for the first half of 2017.

At the second in-person **meeting on 11 May 2017**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 11 May 2017 and unanimously agreed with the same. In addition to the routine agenda items, these topics included detailed Management Report updates on the strong loan portfolio development, the high quality of the loan portfolio and the direct banking concept for private individuals. The Supervisory Board reviewed the Annual Group Environmental Report for 2017 and was informed of the successful admission of ProCredit as a member of the London-based Social Stock Exchange. Furthermore, the Supervisory Board unanimously appointed Mr Florian Stahl, partner of the law firm Bouchon & Partner, Frankfurt am Main, to chair the Company's Ordinary Shareholders' Meeting in 2017.

At the third in-person **meeting on 17 May 2017**, the members of the Supervisory Board unanimously elected Dr Claus-Peter Zeitinger as Chair and Mr Christian Krämer as Deputy Chair of the Supervisory Board.

At the fourth in-person **meeting on 21 July 2017**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 21 July 2017 and unanimously agreed with the same. In addition to the routine agenda points and updates on business developments in the first half of the year, these topics included discussions on the group's remuneration structure and a presentation on the different options for a potential capital increase from authorised capital of up to 10% of the existing share capital. The Supervisory Board noted the decision to sell ProCredit Holding's share in Banco ProCredit Nicaragua.

By means of a **telephone conference on 10 August 2017**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 10 August 2017 and unanimously agreed with the same. The members of the Supervisory Board discussed the updated version of the German Corporate Governance Code and its implications for the Supervisory Board. The Supervisory Board unanimously approved the amendments to the List of Reporting Obligations and to the Internal Rules of Procedure of the Supervisory Board. Furthermore, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board held on 10 August 2017 and agreed with the same; this included the review of the financial

results and the interim report as of June 2017. The statutory auditors from PricewaterhouseCoopers GmbH WPG, Frankfurt/Main reported on their review and on the quality of the collaboration.

At the final in-person **meeting on 9 November 2017**, the General Partner updated the Supervisory Board on all topics discussed and approved by the supervisory board of the General Partner; the Supervisory Board unanimously agreed with their content. In addition to routine agenda items, these topics included the review of the group financial results as of September 2017 and the interim report as of September 2017. The discussions also included the preliminary business plan for the ProCredit group for 2018-2022 based on its performance in 2017, which was characterised by a strong and healthy development in core business segments, the successful deployment of a more targeted approach to private clients based on electronic channels, and the optimisation of the outlet network. Moreover, positive developments concerning the Group Environment Management System were discussed, particularly the certification of all ProCredit Banks according to ISO 14001 and EMAS certification for the entities located in Germany. As the strategic in-house IT partner for the ProCredit group, Quipu GmbH gave a detailed presentation of its organisation and operations as well as its plans in terms of business and security support for 2018.

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

Committee Work

No Supervisory Board committees were formed in the fiscal year 2017. The relatively small size of the Supervisory Board and the fact that all Supervisory Board members are sufficiently qualified and devote sufficient time to their duties renders the formation of such committees superfluous.

Audit of ProCredit Holding AG & Co. KGaA

The annual financial statements for ProCredit Holding, the consolidated annual financial statements and the combined management report for ProCredit Holding and the ProCredit group for fiscal year 2017 were audited by the statutory auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Germany. The external audit did not result in any objections; the external auditors granted an unqualified audit opinion in each case. The Supervisory Board also carefully examined the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for fiscal year 2017. The external auditors participated in the Supervisory Board meeting at which the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for fiscal year 2017 were reviewed. The Supervisory Board acknowledged the findings of the auditor's reports and stated that it also had no objections. The Supervisory Board approved the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group and recommended that the shareholders' meeting adopt the annual financial statements for ProCredit Holding.

The Supervisory Board also examined the proposal of the General Partner concerning the appropriation of profits from fiscal year 2017. It assented to the proposal of the General Partner and recommends the proposal to distribute a dividend of EUR 0.27 per share to shareholders out of the profits for the fiscal year 2017 of

EUR 48,102,077.40. This corresponds to total dividend payments of EUR 15,902,592.84 on the subscribed capital of EUR 294,492,460 entitled to receive dividends (58,898,492 shares) and to carry the remaining profit of EUR 32,199,484.56 from the fiscal year 2017 forward to new account in accordance with sections 278 (3) and 58 (3) AktG (*German Stock Corporation Act*).

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

As the term of office of Mr Wolfgang Bertelsmeier was due to expire with the conclusion of the Company's Shareholders' Meeting on 17 May 2017, in its meeting on 27 March 2017 the Supervisory Board resolved to propose Ms Marianne Loner to the Shareholders' Meeting to be elected as a new member of the Supervisory Board. Ms Marianne Loner was duly elected as a new member of the Supervisory Board as of the end of said Shareholders' Meeting. Dr Claus-Peter Zeitingner, Mr Christian Krämer, Mr Jasper Snoek, Mr Petar Slavchev Slavov were re-elected as members of the Supervisory Board during the same Shareholders' Meeting. At the Supervisory Board meeting on 17 May 2017, Dr Claus-Peter Zeitingner was unanimously re-elected as Chair and Mr Christian Krämer as Deputy Chair of the Supervisory Board.

Ms Helen Alexander's term as Manager of the General Partner expired on 31 March 2017, and Dr Anja Lepp's on 31 December 2017. In its meeting on 13 February 2017 the Supervisory Board noted the decision to appoint Ms Sandrine Massiani to the Management Board of the General Partner for a term of four years beginning on 1 March 2017.

Frankfurt am Main, March 2018

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



Consolidated Financial Statements of the ProCredit Group

I. Report of the Auditor's Opinion

1. In accordance with the final results of our audit, we rendered the following unqualified audit opinion on 26 March 2018:

"INDEPENDENT AUDITOR'S REPORT"

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

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

Audit Opinions

We have audited the consolidated financial statements of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2017 to December 2017, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ProCredit Holding AG & Co. KGaA, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report, in accordance with the German legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315e paragraph 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of

the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Risk provisions in customer lending

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

- ❶ Matter and issue
- ❷ Audit approach and findings
- ❸ Reference to further information

Hereinafter we present the key audit matter:

❶ Risk provisions in customer lending

- ❶ In the Company's consolidated financial statements, credit exposures are recognised under the balance sheet item "Loans and advances to customers" in an amount of EUR 3,909.9 million (71.1% of balance sheet total). For the loan portfolio as of 31 December 2017, risk provisions are reported on the balance sheet comprising specific provisions (EUR 56.2 million), lump-sum specific provisions (EUR 25.9 million) and portfolio-based provisions (EUR 46.4 million). The measurement of risk provisions in customer credit business is determined in particular through judgments of the executive directors concerning future credit default, the structure and quality of the loan portfolios, and the overall economic factors. The executive directors make assumptions regarding the financial circumstances of the borrower and the expected future cashflows. This is done on an individual and collective basis. The amount of specific provisions for customer loans is the difference between the outstanding credit amount and the lower net present value as of the reporting date. To determine the rates to be applied for lump-sum loan loss provisioning, the group evaluates the quality of the loan portfolio, taking into account historical default rates for the institutions included in the scope of consolidation. Available collateral is taken into account. Provisions for customer loans are highly significant in terms of their impact on the financial position and financial performance of the Company; at the same time, the executive directors have substantial leeway with regard to such provisions. In addition, the applied measurement parameters introduce a material level of uncertainty and have a meaningful influence on the establishment of potentially required provisions or on the volume thereof. Therefore, this matter was of particular significance in our audit.
- ❷ In the framework of our audit of the consolidated financial statements, we first assessed the appropriateness of the control structures in the relevant internal control system of the group and we tested the functionality of the controls. We thus took into consideration the business organisation, the IT systems and the relevant valuation techniques. In addition, we used random sampling of credit exposures to evaluate the manner in which customer loans are assessed in the institutions included in the scope of consolidation; this included an evaluation of the appropriateness of estimated amounts. In order to perform this evaluation, we analysed the available documents from consolidated companies with regard to the financial situation and the recoverability of relevant collateral. For the evaluation of the established specific provisions, lump-sum specific provisions and portfolio-based provisions, we also took into account the calculation methods applied in the group as well as the underlying assumptions and parameters. Moreover, using random sampling we investigated the group "Migration Analysis", which serves as the basis to set rates for collectively assessed loan loss provisions and loan default risks, with a focus on the calculations behind the resulting rates. The audit risk inherent in this auditable unit was addressed through the implementation of uniform auditing procedures for the entire group. We also instructed the auditors responsible for auditing the financial statements of the institutions included within the scope of group consolidation to consider customer credit risk as a potentially material audit risk, and to inform us of any findings relating to the respective internal control system and matters relevant for financial reporting. Based on the auditing procedures which we carried out in the framework of our audit of the consolidated financial statements, we were able to ascertain the overall appropriateness of the assumptions made by the executive directors in assessing the value of the loan portfolio and of the appropriateness and effectiveness of the processes implemented in the group.
- ❸ The Company provides information on risk provisions in customer credit business in sections 9 and 16 of the notes to the consolidated financial statements.

Other information

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

- the statement on corporate governance pursuant to Article 289f HGB and Article 315d HGB included in the "Statement on Corporate Governance" section of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial group report pursuant to Article 315b paragraph 3 HGB

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

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the general meeting on 17 May 2017. We were engaged by the supervisory board on 22 May 2017. We have been the group auditor of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, without interruption since the financial year 2017.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Eva Handrick."

Consolidated Statement of Profit or Loss

in '000 EUR	Note	1.1.–31.12.2017	1.1.–31.12.2016
Interest and similar income		287,935	327,597
Interest and similar expenses		83,150	96,771
Net interest income	(15)	204,785	230,825
Allowance for losses on loans and advances to customers	(9, 16)	5,290	18,632
Net interest income after allowances		199,495	212,193
Fee and commission income		61,048	58,220
Fee and commission expenses		15,215	15,249
Net fee and commission income	(17)	45,833	42,971
Result from foreign exchange transactions	(18)	10,805	8,869
Net result from financial instruments at fair value through profit or loss	(19)	-670	-975
Net result from available-for-sale financial assets	(20)	101	4,585
Net other operating income	(21)	-7,575	-8,298
Operating income		247,989	259,345
Personnel expenses	(22)	84,666	88,163
Administrative expenses	(23)	102,119	110,057
Operating expenses		186,785	198,220
Profit before tax		61,204	61,125
Income tax expenses	(24)	14,563	14,093
Profit of the period from continuing operations		46,641	47,031
Profit of the period from discontinued operations	(49)	1,461	13,977
Profit of the period		48,102	61,009
Profit attributable to ProCredit shareholders		46,282	59,422
<i>from continuing operations</i>		<i>44,840</i>	<i>45,491</i>
<i>from discontinued operations</i>		<i>1,443</i>	<i>13,931</i>
Profit attributable to non-controlling interests		1,820	1,586
<i>from continuing operations</i>		<i>1,801</i>	<i>1,541</i>
<i>from discontinued operations</i>		<i>19</i>	<i>46</i>
Earnings per share* in EUR		0.86	1.16
<i>from continuing operations</i>		<i>0.84</i>	<i>0.89</i>
<i>from discontinued operations</i>		<i>0.03</i>	<i>0.27</i>

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

Consolidated Statement of Other Comprehensive Income

in '000 EUR	Note	1.1.–31.12.2017	1.1.–31.12.2016
Profit of the period		48,102	61,009
Items that will not be reclassified to profit or loss			
Change in revaluation reserve from remeasurements of post employment benefits*		0	-583
Change in deferred tax from remeasurements of post employment benefits*		0	103
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve from available-for-sale financial assets	(28)	1,114	-4,274
<i>Reclassified to profit or loss</i>		33	-4,211
<i>Change in value not recognised in profit or loss</i>		1,081	-64
Change in deferred tax on revaluation reserve from available-for-sale financial assets	(28)	-199	546
Change in translation reserve	(8)	-17,782	-731
<i>Change in value not recognised in profit or loss</i>		-17,782	-731
Other comprehensive income of the period, net of tax continuing operations		-16,867	-4,939
Other comprehensive income of the period, net of tax discontinued operations		-4,095	-14,222
Total comprehensive income of the period		27,140	41,848
Profit attributable to ProCredit shareholders		25,303	36,407
<i>from continuing operations</i>		27,905	36,709
<i>from discontinued operations</i>		-2,603	-302
Profit attributable to non-controlling interests		1,837	5,440
<i>from continuing operations</i>		1,868	5,383
<i>from discontinued operations</i>		-31	57

* Recognition of remeasurements of post employment benefits according to IAS 19 are omitted due to insignificance for the group

Consolidated Statement of Financial Position

in '000 EUR	Note	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents	(25)	1,076,616	937,307
Loans and advances to banks	(6, 26)	196,243	286,673
Financial assets at fair value through profit or loss	(6, 27)	1,074	243
Available-for-sale financial assets	(6, 9, 28)	214,701	249,757
Loans and advances to customers	(6, 29)	3,909,911	3,628,700
Allowance for losses on loans and advances to customers	(9, 16, 30)	-128,527	-150,651
Property, plant and equipment	(10, 31)	139,239	157,336
Investment properties	(10, 31)	3,108	1,918
Intangible assets	(11, 32)	21,153	21,446
Current tax assets	(13, 34)	3,541	4,101
Deferred tax assets	(13, 34)	4,745	6,411
Other assets	(35)	57,574	63,136
Assets held for sale	(49)	0	461,398
Total assets		5,499,378	5,667,776
Liabilities			
Liabilities to banks	(6, 36)	359,477	317,592
Financial liabilities at fair value through profit or loss	(6, 27)	174	1,367
Liabilities to customers	(6, 37)	3,570,932	3,475,099
Liabilities to international financial institutions	(6, 38)	549,598	499,263
Debt securities	(6, 39)	183,145	143,745
Other liabilities	(40)	19,996	18,735
Provisions	(14, 41)	13,976	15,775
Current tax liabilities	(13, 34)	1,718	1,452
Deferred tax liabilities	(13, 34)	1,040	1,900
Subordinated debt	(6, 42)	140,788	171,024
Liabilities related to assets held for sale	(49)	0	367,551
Total liabilities		4,840,845	5,013,504
Equity			
Subscribed capital	(43)	267,720	267,720
Capital reserve		115,253	115,253
Legal reserve		136	136
Retained earnings		351,154	325,019
Translation reserve	(8)	-84,007	-62,112
Revaluation reserve		934	20
Equity attributable to ProCredit shareholders		651,190	646,035
Non-controlling interests		7,343	8,237
Total equity		658,533	654,272
Total equity and liabilities		5,499,378	5,667,776

Consolidated Statement of Changes in Equity

	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non- controlling interests	Total equity
in '000 EUR									
Balance at January 1, 2017	267,720	115,253	136	325,019	-62,112	20	646,035	8,237	654,272
Change in translation reserve					-21,895		-21,895	18	-21,877
Revaluation of afs securities						914	914	1	915
Other comprehensive income of the period, net of tax					-21,895	914	-20,981	18	-20,963
Profit of the period				46,282			46,282	1,820	48,102
Total comprehensive income of the period				46,282	-21,895	914	25,302	1,837	27,139
Distributed dividends				-20,347			-20,347		-20,347
Change of ownership interests				198			198	-2,731	-2,533
Balance at December 31, 2017	267,720	115,253	136	351,153	-84,007	934	651,189	7,343	658,532

	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholder	Non- controlling interests	Total equity
in '000 EUR									
Balance at January 1, 2016	254,123	97,178	136	283,908	-43,688	4,610	596,267	7,731	603,998
Change in translation reserve					-18,424		-18,424	3,879	-14,545
Revaluation of afs securities						-3,729	-3,729		-3,729
Revaluation of actuarial gains and losses						-862	-862	-25	-887
Other comprehensive income of the period, net of tax					-18,424	-4,591	-23,015	3,854	-19,161
Profit of the period				59,422			59,422	1,586	61,009
Total comprehensive income of the period				59,422	-18,424	-4,591	36,407	5,440	41,848
Distributed dividends				-20,330			-20,330		-20,330
Capital increase	13,598	18,074					31,672		31,672
Change of ownership interests				2,019			2,019	-4,935	-2,916
Balance at December 31, 2016	267,720	115,253	136	325,019	-62,112	20	646,035	8,237	654,272

Consolidated Statement of Cash Flows

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016*
Profit of the period	48,102	61,009
Income tax expenses (continuing operations)	14,563	14,093
Income tax expenses (discontinued operations)	791	4,248
Profit before tax (including discontinued operations)	63,457	79,350
Non-cash items included in the profit of the period and transition to the cash flow from operating activities		
Depreciation, impairment and appreciation of loans and advances, property, plant and equipment and financial investments	28,762	47,130
Increase / decrease of provisions	5,649	8,826
Gains / losses from disposal of fixed assets	24,066	2,014
Other non-cash expenses and income	-213,366	-232,868
Cash flow from discontinued operations	-21,421	2,836
Subtotal	-112,854	-92,712
Net change in assets and liabilities from operating activities:		
Loans and advances to banks	-37,879	33,246
Loans and advances to customers	-286,351	-138,346
Other assets from operating activities	52,858	-48,258
Liabilities to banks and to international financial institutions	70,712	-1,188
Liabilities to customers	155,951	207,371
Debt securities	34,014	-50,173
Other liabilities from operating activities	-35,801	-6,680
Interest received	303,622	331,593
Interest paid	-85,249	-97,326
Income tax paid	-13,596	-13,970
Operating cash flow from discontinued operations	45,326	-8,606
Cash flow from operating activities*	90,754	114,951
Proceeds from disposal of fixed assets	8,188	4,988
Payments for purchase of fixed assets	-23,581	-36,850
Proceeds from sale of subsidiaries	-77,611	-31,678
Investing cash flow from discontinued operations	38,338	16,493
Cash flow from investing activities	-54,665	-47,048
Dividends paid	-21,079	-20,330
Proceeds from capital increases	448	31,672
Acquisition of shares from NCI's	-542	-1,255
Proceeds/ payments from subordinated loans	-23,760	39,147
Financing cash flow from discontinued operations	732	15,492
Cash flow from financing activities	-44,201	64,726
Cash and cash equivalents at end of previous year	979,068	849,124
Cash flow from operating activities	90,754	114,951
of which discontinued operations	45,326	-8,606
Cash flow from investing activities	-54,665	-47,048
of which discontinued operations	38,338	16,493
Cash flow from financing activities	-44,201	64,726
of which discontinued operations	732	15,492
Effects of exchange rate changes	-19,234	-2,685
Cash and cash equivalents at end of period	951,722	979,068

* The previous year's figures have been adjusted to the current presentation

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Notes to the Consolidated Financial Statements

A. Significant accounting principles

(1) Basis of Accounting

ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt am Main, is the financial holding company of the ProCredit group ("Group"). The Group prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and endorsed by the European Union.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. The information required by IFRS 7 on the nature and extent of risks arising from financial instruments and their management is presented in the Risk Report section of the Management Report.

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

(2) Principles of Consolidation

The Consolidated Financial Statements comprise the financial statements of ProCredit Holding together with its subsidiaries. Subsidiaries are all companies which are controlled by the group. For the ProCredit group, control over a subsidiary is achieved when ProCredit Holding is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date on which control ceases. An overview of the principal subsidiaries is given in note (49). The group has no interest in joint ventures or associates.

All group-internal transactions, balances and interim profits are eliminated in full.

(3) Accounting developments

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

- Amendments to IAS 7 "Disclosure Initiative" had a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2017.
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" have had a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2017.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the group's financial statements: Annual Improvements to IFRS (2014–2016).

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

The following standards, amendments and interpretations are issued by the IASB and will have an impact on the group's financial statements. These were not applied in preparing these Financial Statements:

- IFRS 9 "Financial Instruments" will have an impact on the classification and measurement of financial instruments and on the recognition of impairment. In order to be able to perform the classification, a business model test was first carried out. This provided confirmation that the group's business model is to hold financial assets or to hold and sell them as part of the liquidity reserve. The second step comprised a cashflow characteristics test as part of the classification of financial instruments; this test confirmed that the underlying contractual conditions give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding. Overall, the analysis demonstrated that the application of IFRS 9 in the measurement categories results in no major changes. Financial instruments categorised as loans and receivables are measured at amortised cost; instruments categorised as financial assets at fair value through profit or loss are measured at fair value, with fair value changes recognised in profit or loss; instruments categorised as available-for-sale financial assets are measured at fair value, with fair value changes recognised in equity. The requirements for impairment also change under IFRS 9. The expected credit loss will be taken into account in the future when recognising impairment. Loss allowances are measured already at initial recognition of the financial asset based on the potential expected credit loss at that time. According to the expected credit loss model in IFRS 9, loss allowances are recognised for expected credit losses which could result from default events of performing credit exposures within the next 12 months (Stage 1). For assets which are still performing but whose credit risk has increased significantly since initial recognition (Stage 2) and for assets which are impaired (Stage 3), IFRS 9 requires the recognition of loss allowances for the expected credit losses for the entire remaining maturity of the asset. The transition to IFRS 9 increases loss allowance and will result in a reduction in the CET 1 capital ratio by about 0.4 pp. The hedge accounting requirements have not affected the financial statements as the group does not apply hedge accounting. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" to address concerns about how certain financial instruments with early repayment arrangements are classified under IFRS 9. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Clarifications to IFRS 15" will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2018 (IFRS 15) and on or after 1 January 2019 (amendments to IFRS 15).
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" will have a minor impact on the financial statements. The interpretation is effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 40 "Transfers of Investment Property" will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2018.
- IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of existing contracts as lessees. Receivables from finance leases are relatively minor. The impact of the standard mainly affects the group's existing leases and is currently being assessed. The standard is applicable for annual periods beginning on or after 1 January 2019.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the group's financial statements: IFRS 17 "Insurance Contracts", IFRIC 23 "Uncertainty over Income Tax Treatments", amendments to IAS 19 "Plan amendments, curtailments, and settlements", amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures", amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" as well as the annual improvements to IFRS (2015-2017).

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

(4) Segment reporting

The group aggregates its operations into reporting segments according to geographical regions. Each of these segments exhibits individual risk and return characteristics, as described in the management report. Based on the location of the principal operations of the entities, the segments are: Germany, Eastern Europe, South Eastern Europe and South America.

(5) Use of assumptions and estimates

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

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

(a) Impairment of credit exposures

The estimation of impairments of credit exposures requires management judgement to determine whether there is objective evidence of impairment and to make assumptions about the financial conditions of the borrower and expected future cash flows. This is done on an individual basis and on a collective basis. To determine the rates to be applied for lump-sum specific and portfolio-based provisions, the group performed an evaluation of the quality of the loan portfolio in each institution, taking into account historical default rates for similar portfolios. This analysis reflects the average losses during a period which contains economic growth and favourable economic environments as well as the economic downturn during the financial crisis in many of our countries of operation. Therefore management considers this methodology to be appropriate for the assessment of expected losses. Further information on the group's accounting policy on loan loss provisioning can be found in note (9).

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

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

(c) Goodwill impairment testing

Goodwill on the acquisition of subsidiaries is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. In performing goodwill impairment testing, a discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Significant management judgement is involved in estimating future cash flows and in determining the discount rate assigned to each cash-generating unit. The cash flow projection is based on the latest five-year business planning as approved by the Supervisory Board of the respective entity and therefore necessarily and appropriately reflects management's view of future business prospects. Estimated future cash flows are extrapolated in perpetuity due to the long-term perspective of the equity investments, using management's best estimate for determining future net growth rates based on currently observable data and economic projections. The estimated future cash flows are discounted at specific equity discount rates which reflect the risk profile of the individual entity. The pre-tax discount factors are derived from a group pricing model and are between 8.7% and 11.7% (2016: between 10.1% and 13.5%). Goodwill is tested by comparing the respective net present value of future cash flows from a subsidiary (value in use) with the carrying value of its net assets plus goodwill. The group's accounting policy for goodwill is described in note (11).

(d) Measurement of deferred tax asset

The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised (for the group's accounting policy for income taxes see note (13)). The profit projection is based on the latest business planning as of December 2017 approved by the Supervisory Board of the respective entity and therefore reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see notes (24) and (34).

(6) Financial instruments

The group classifies its financial instruments into the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and other financial liabilities measured at amortised costs. The group holds no held-to-maturity instruments. Management determines the classification of financial assets and liabilities at the time of initial recognition.

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

Financial instruments at fair value through profit or loss consist solely of fair values arising from derivative financial instruments used for hedging for risk management purposes, but not as hedging arrangements under the terms of hedge accounting as defined by IAS 39. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Financial assets at fair value through profit or loss". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Financial liabilities at fair value through profit or loss".

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances to banks as well as loans and advances to customers fall under the category "Loans and receivables". They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the Consolidated Statement of Profit or Loss under "net interest income". At each balance sheet date and whenever there is evidence of potential impairment, the group assesses the value of its loans and receivables. As a consequence, their carrying amount may be reduced through the use of an allowance account (see note (9) for the accounting policy for impairment of credit exposures, as well as (16), and (30)). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

(c) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite amount of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. In exceptional cases, in which fair value information cannot otherwise be measured reliably, they are measured at cost. The fair values reported are either observable market prices in active markets or values calculated with a valuation technique based on currently observable market data. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in the Consolidated Statement of Other Comprehensive Income in the position "Revaluation reserve". If the financial asset is derecognised or impaired (for details on impairment, see note (9)), the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Consolidated Statement of Profit or Loss in the position "Net result from available-for-sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the Consolidated Statement of Profit or Loss. Dividend payments on available-for-sale equity instruments are recognised in the Consolidated Statement of Profit or Loss.

Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

(d) Other financial liabilities at amortised cost

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

(7) Measurement basis

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

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

The ProCredit group applies the IFRS fair value hierarchy, with a three-level categorisation of the inputs used in valuation techniques to measure fair value:

Level 1 Inputs

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

Level 2 Inputs

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

Level 3 Inputs

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

(8) Foreign currency translation*(a) Functional and presentation currency*

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

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

(9) Allowance for losses on loans and advances and impairment of available-for-sale financial assets*(a) Assets carried at amortised cost – loans and advances*

- Impairment of loans and advances

The group assesses at each balance sheet date whether there is objective evidence that a loan or group of financial assets is impaired. If so, appropriate risk provisions are established. When determining provisions, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR/USD 30,000. For all credit exposures that currently show no signs of impairment, allowances are made based on historical probability of default (portfolio-based impairment). The amount of impairment is recognised in the Consolidated Statement of Profit or Loss. We do not recognise expenses for expected future events.

- Specific provisions for loan impairment

Credit exposures are considered to be individually significant if they have a certain size, which depends in part on the threshold defined by the individual bank. At group level, all exposures in amounts above EUR/USD 30,000 are subject to an individual assessment to determine if there is objective evidence of impairment. The main indicator of this is that the exposure is more than 30 days past due. However, credit exposures can show other signs of default as well. Typical examples are:

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

If there are signs of a deterioration in the quality of the credit exposure, an impairment test is performed, applying the discounted cash flow method. For this purpose, the expected future cash flows from realised collateral items as well as other realisable cash flows are discounted at the original effective interest rate. The difference to the book value of the credit exposure is taken into account as risk provisioning.

- Collectively assessed loans and advances

For the purpose of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of more than 30 days are considered to be a sign of impairment.

The collective assessment of impairment for individually insignificant credit exposures (allowance for individually insignificant impaired loans) and for unimpaired individual significant credit exposures (allowance for collectively assessed loans) is based on a quantitative analysis of default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis). The resulting quantitatively determined default rates are used by the management to establish appropriate default rates for the calculation of portfolio-based allowances. These default rates are reviewed annually.

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical default rates for assets with credit risk characteristics similar to those in the group. The historical default rate is adjusted on the basis of current observable data in order to reflect the effects of current conditions that did not affect the period on which the

historical default rate is based and to eliminate the impact of past conditions that no longer exist. The methods and assumptions used to estimate future cash flows are reviewed regularly by ProCredit in order to minimise any differences between estimated defaults and actual defaults.

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reduced or reversed by adjusting the allowance account. The amount of the reversal is recognised in the Consolidated Statement of Profit or Loss.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Statement of Profit or Loss under "Allowances for impairment losses on loans and advances". Uncollectible loans for which no provisions have been formed in full are recognised in the Consolidated Statement of Profit or Loss as direct write-offs under "Allowances for impairment losses on loans and advances".

Restructured credit exposures

Restructured credit exposures which would otherwise be past due or impaired and which are considered to be individually significant are assessed on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans which would otherwise be past due or impaired and which are individually insignificant are collectively assessed for impairment. The same applies to individually significant loans, where on an individual basis it has been determined that no impairment loss would occur.

Assets acquired in exchange for loans (repossessed property)

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

(b) Available-for-sale financial assets

The group assesses at each balance sheet date whether there is objective evidence of impairment of available-for-sale financial assets. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Consolidated Statement of Profit or Loss.

Impairment losses recognised in the Consolidated Statement of Profit or Loss on equity instruments are not reversed through the Consolidated Statement of Profit or Loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Consolidated Statement of Profit or Loss.

(10) Property, Plant and Equipment and Investment Property

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

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

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

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

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Real estate used by third parties is classified as investment property. Rental income from investment property and gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Net other operating income" in the Consolidated Statement of Profit or Loss.

(11) Intangible assets

(a) Goodwill

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

(b) Software

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

(12) Leasing

(a) ProCredit is the lessee

Operating leases

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

(b) ProCredit is the lessor

Finance leases

When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "Loans and advances to customers". Payments received under leases are divided into an amortisation component, which is not recognised in the Statement of Profit or Loss, and an income component. The income component is recognised under "Interest and similar income". Premiums received are recognised over the term of the lease using the effective interest rate method under "Interest and similar income".

Operating leases

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

(13) Income taxes

(a) Current income tax

Income tax payable on profits is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense in the period in which taxable profits arise.

(b) Deferred income tax

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

(14) Provisions

Provisions are recognised if:

- the group has a present legal or constructive obligation resulting from past events
- it is more likely than not that an outflow of resources will be required to settle the obligation
- the amount can be reliably estimated

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

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be not earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities, which mainly consist of guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the financial statements but are disclosed in the notes to the financial statements (see note (49)).

B. Notes to the Statement of Profit or Loss

(15) Net interest income

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Interest and similar income from		
Cash and cash equivalents	6,418	10,174
Loans and advances to banks	4,402	3,069
Available-for-sale assets	1,294	805
Loans and advances to customers	269,924	306,873
Unwinding	5,473	5,984
Prepayment penalty	423	692
Interest and similar income	287,935	327,597
Interest and similar expenses on		
Liabilities to banks	9,508	10,575
Liabilities to customers	42,853	52,958
Liabilities to international financial institutions	16,377	17,304
Debt securities	5,792	7,183
Subordinated debt	8,620	8,633
Option agreements	0	120
Interest and similar expenses	83,150	96,771
Net interest income	204,785	230,825

For loans where there is objective evidence that an impairment loss has been incurred, the accrual of interest income is terminated not later than 90 days after the last payment. Payments received in respect of written-off loans are not recognised in net interest income.

Once an impairment loss for an individually significant financial asset is recognised, the increase in the net present value over time (unwinding) is recognised as interest income.

(16) Allowance for impairment losses on loans and advances

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Increase of impairment charge	108,751	150,780
Release of impairment charge	-87,888	-114,855
Recovery of written-off loans	-16,797	-18,608
Direct write-offs	1,225	1,315
Allowance for losses on loans and advances to customers	5,290	18,632

The total increase of impairment charge comprises the following entries:

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Specific impairment	36,978	47,111
Allowance for individually insignificant impaired loans	30,372	48,264
Allowance for collectively assessed loans	41,400	55,405
Increase of impairment charge	108,751	150,780

There is no risk provisioning on loans and advances to banks, as historically no defaults have been recorded and there are currently no loans or advances to banks with objective indications of impairment.

(17) Net fee and commission income

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Fee and commission income from		
Payment services	22,086	24,902
Debit/credit cards	12,164	11,853
Account maintenance fee	17,405	11,864
Letters of credit and guarantees	4,502	4,545
Other fee and commission income	4,891	5,056
Fee and commission income	61,048	58,220
Fee and commission expenses on		
Payment services	3,483	4,178
Debit/credit cards	8,596	7,790
Account maintenance fee	2,069	2,011
Letters of credit and guarantees	585	716
Other fee and commission expenses	482	554
Fee and commission expenses	15,215	15,249
Net fee and commission income	45,833	42,971

(18) Result from foreign exchange transactions

This position refers primarily to the results of foreign currency exchange with and for customers. The group does not engage in foreign currency trading on its own account. This position also includes unrealised foreign currency revaluation effects. The group does not apply hedge accounting as defined by IAS 39.

(19) Net result from financial instruments at fair value through profit or loss

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Net result from fair value changes of financial instruments at fair value through profit or loss:		
Derivative financial instruments	-89	314
Net interest income from financial instruments at fair value through profit or loss:		
Derivative financial instruments	-582	-1,288
Net result from financial instruments at fair value through profit or loss	-670	-975

(20) Net results from available-for-sale financial assets

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Net result from disposal (reclassified)	-33	4,211
Dividend income	134	375
Net result from available-for-sale financial assets	101	4,585

(21) Net other operating income

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Decrease of liabilities from put option agreements	101	561
Income from previous years	1,063	534
Reversal of Provisions	1,867	1,911
Income from reimbursement of expenses	1,417	686
Reversal of impairment of repossessed property	4,518	648
Surplus from sale of repossessed property	724	1,120
Surplus from sale of property, plant and equipment	2,394	969
Income from IT-services	5,469	4,903
Income from litigation settlements	675	440
Income from rents from investment properties	227	109
Others	2,448	2,777
Other operating income	20,903	14,658

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Expenses for deposit insurance	10,154	10,411
Increase of liabilities from put option agreements	315	0
Expenses to be reimbursed	130	168
Loss from disposal of property, plant and equipment	4,218	2,685
Impairment of repossessed properties	4,637	3,221
Expenses for credit recovery services and solvency checks	938	837
Administration of repossessed properties	1,130	1,174
Expenses from litigation settlements	1,933	1,355
Expenses for provisions for off-balance sheet items	486	634
Tax expenses from previous years	121	547
Others	4,417	1,926
Other operating expenses	28,478	22,956
Net other operating income	-7,575	-8,298

(22) Personnel expenses

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Salary expenses	67,597	71,926
Social security expenses	8,787	8,676
Post-employment benefits plans (Defined contribution plans)	3,606	3,755
Post-employment benefits plans (Defined benefit plans)	1	211
Other employee benefits	4,675	3,595
Personnel expenses	84,666	88,163

(23) Administrative expenses

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Depreciation fixed and intangible assets (incl. Impairment)	22,535	25,008
Operating lease expenses	12,866	15,808
Non-profit tax	10,041	11,698
IT expenses	8,891	7,906
Communication	4,326	4,729
Transport	5,815	6,013
Repairs and maintenance	4,148	3,861
Office supplies	2,087	2,357
Security services	3,990	4,360
Marketing, advertising and representation	3,018	3,763
Utility and electricity expenses	3,359	3,869
Legal and consulting fees	10,539	11,412
Insurances	3,583	3,264
Recruitment and other personnel-related expenses	2,189	1,866
Other administrative expenses	4,731	4,143
Administrative expenses	102,119	110,057

Of the total administrative expenses, EUR 6,941 thousand (2016: EUR 8,744 thousand) were incurred for staff training.

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

in '000 EUR	1.1.–31.12.2017
Audit fees	325
Tax advice	0
Other confirmatory services	51
Other services	0
Group auditor expenses	376

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

(24) Income tax expenses

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Current tax	14,322	13,859
Deferred tax	241	234
Income tax expenses	14,563	14,093

In calculating both the current taxes on income and earnings and the deferred income tax, the respective country-specific tax rates are applied. The average income tax rate for the reporting period was 14.7% (2016: 16.4%), calculated by dividing the total tax burden by the unconsolidated profits.

C. Notes to the Statement of Financial Position**(25) Cash and cash equivalents**

in '000 EUR	31.12.2017	31.12.2016
Cash in hand	144,343	179,406
Balances at central banks	789,814	611,900
Money market instruments	142,459	146,002
Cash and cash equivalents	1,076,616	937,307
Cash from discontinuing operations	0	77,889
Loans and advances to banks with a maturity up to 3 months	183,241	279,707
Minimum reserve, which does not qualify as cash for the statement of cash flows	-308,135	-315,835
Cash and cash equivalents for the statement of cash flows	951,722	979,068

(26) Loans and advances to banks

in '000 EUR	31.12.2017	31.12.2016
up to three months	183,241	279,707
up to one year	10,520	2,315
more than one year	2,482	4,651
Loans and advances to banks	196,243	286,673

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

Financial instruments at fair value through profit or loss consist solely of fair values arising from derivative financial instruments. The following tables provide an overview:

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

in '000 EUR	Contractual amount	Fair value	
As at December 31, 2016		Assets	Liabilities
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	97,530	231	1,167
Forwards	26	0	0
b) Interest rate derivatives			
Interest rate swaps	9,876	12	200
Total derivatives with third parties	107,432	243	1,367

(28) Available-for-sale financial assets

in '000 EUR	31.12.2017	31.12.2016
Fixed interest rate securities	151,632	173,628
Variable interest rate securities	59,477	73,983
Equity instruments	3,592	2,146
Available-for-sale financial assets	214,701	249,757

The revaluation reserve for available-for-sale financial assets developed as follows during the financial year:

in '000 EUR	2017	2016
As at January 1	20	3,749
Changes in fair value	1,146	-64
Amount recognised in income statement	-33	-4,211
Impairment	0	0
Deferred taxes	-199	546
As at December 31	935	20

(29) Loans and advances to customers

in '000 EUR As at December 31, 2017	Gross amount	Allowance for impairment	Net amount	Share of total portfolio
Business loans	3,503,193	-115,090	3,388,103	89.6%
Wholesale and retail trade	1,069,659	-42,581	1,027,078	27.2%
loan size up to 50.000 EUR/USD	150,931	-10,867	140,064	3.7%
loan size 50.000 to 250.000 EUR/USD	441,990	-16,401	425,589	11.3%
loan size more than 250.000 EUR/USD	476,738	-15,313	461,425	12.2%
Agriculture, forestry and fishing	788,186	-21,714	766,472	20.3%
loan size up to 50.000 EUR/USD	175,508	-8,989	166,519	4.4%
loan size 50.000 to 250.000 EUR/USD	318,003	-7,343	310,660	8.2%
loan size more than 250.000 EUR/USD	294,675	-5,381	289,293	7.7%
Production	800,497	-21,440	779,056	20.6%
loan size up to 50.000 EUR/USD	76,389	-5,377	71,012	1.9%
loan size 50.000 to 250.000 EUR/USD	266,850	-7,866	258,984	6.8%
loan size more than 250.000 EUR/USD	457,257	-8,197	449,060	11.9%
Transportation and storage	220,711	-5,781	214,930	5.7%
loan size up to 50.000 EUR/USD	51,821	-2,687	49,134	1.3%
loan size 50.000 to 250.000 EUR/USD	103,358	-2,464	100,894	2.7%
loan size more than 250.000 EUR/USD	65,532	-630	64,902	1.7%
Other economic activities	624,140	-23,575	600,565	15.9%
loan size up to 50.000 EUR/USD	85,779	-5,953	79,826	2.1%
loan size 50.000 to 250.000 EUR/USD	230,928	-8,451	222,477	5.9%
loan size more than 250.000 EUR/USD	307,434	-9,171	298,263	7.9%
Private loans	406,718	-13,436	393,281	10.4%
Housing	214,809	-5,657	209,152	5.5%
loan size up to 50.000 EUR/USD	118,020	-3,606	114,414	3.0%
loan size 50.000 to 250.000 EUR/USD	91,693	-1,986	89,707	2.4%
loan size more than 250.000 EUR/USD	5,097	-65	5,031	0.1%
Investment loans and OVDs	124,824	-5,233	119,591	3.2%
loan size up to 50.000 EUR/USD	120,481	-5,073	115,408	3.1%
loan size 50.000 to 250.000 EUR/USD	3,893	-159	3,734	0.1%
loan size more than 250.000 EUR/USD	451	-2	449	0.0%
Others	67,085	-2,546	64,538	1.7%
loan size up to 50.000 EUR/USD	24,596	-1,317	23,279	0.6%
loan size 50.000 to 250.000 EUR/USD	21,614	-753	20,861	0.6%
loan size more than 250.000 EUR/USD	20,874	-476	20,399	0.5%
Total	3,909,911	-128,527	3,781,384	100%

in '000 EUR As at December 31, 2016*	Gross amount	Allowance for impairment	Net amount	Share of total portfolio
Business loans	3,255,903	-136,110	3,119,793	89.7%
Wholesale and retail trade	1,041,131	-52,302	988,829	28.4%
loan size up to 50.000 EUR/USD	229,440	-17,638	211,803	6.1%
loan size 50.000 to 250.000 EUR/USD	431,379	-18,535	412,844	11.9%
loan size more than 250.000 EUR/USD	380,312	-16,130	364,183	10.5%
Agriculture, forestry and fishing	744,897	-25,362	719,535	20.7%
loan size up to 50.000 EUR/USD	249,916	-12,539	237,377	6.8%
loan size 50.000 to 250.000 EUR/USD	275,796	-8,429	267,368	7.7%
loan size more than 250.000 EUR/USD	219,185	-4,394	214,791	6.2%
Production	669,417	-24,596	644,821	18.5%
loan size up to 50.000 EUR/USD	109,278	-7,290	101,988	2.9%
loan size 50.000 to 250.000 EUR/USD	239,715	-8,222	231,493	6.7%
loan size more than 250.000 EUR/USD	320,424	-9,084	311,340	9.0%
Transportation and storage	226,339	-7,994	218,345	6.3%
loan size up to 50.000 EUR/USD	87,105	-4,618	82,487	2.4%
loan size 50.000 to 250.000 EUR/USD	99,569	-2,743	96,826	2.8%
loan size more than 250.000 EUR/USD	39,665	-633	39,032	1.1%
Other economic activities	574,119	-25,856	548,263	15.8%
loan size up to 50.000 EUR/USD	120,129	-7,631	112,498	3.2%
loan size 50.000 to 250.000 EUR/USD	227,021	-9,066	217,954	6.3%
loan size more than 250.000 EUR/USD	226,969	-9,159	217,811	6.3%
Private loans	372,798	-14,542	358,256	10.3%
Housing	209,387	-7,069	202,318	5.8%
loan size up to 50.000 EUR/USD	139,860	-5,203	134,657	3.9%
loan size 50.000 to 250.000 EUR/USD	66,931	-1,829	65,102	1.9%
loan size more than 250.000 EUR/USD	2,596	-37	2,559	0.1%
Investment loans and OVDs	145,945	-6,670	139,275	4.0%
loan size up to 50.000 EUR/USD	142,579	-6,523	136,056	3.9%
loan size 50.000 to 250.000 EUR/USD	2,730	-144	2,585	0.1%
loan size more than 250.000 EUR/USD	637	-3	633	0.0%
Others	17,466	-802	16,664	0.5%
loan size up to 50.000 EUR/USD	17,443	-792	16,651	0.5%
loan size 50.000 to 250.000 EUR/USD	23	-10	13	0.0%
loan size more than 250.000 EUR/USD	0	0	0	0.0%
Total	3,628,700	-150,651	3,478,049	100%

* The previous year's figures have been adjusted to the current presentation

The size categories refer to the initial loan amount.

(30) Allowances for impairment losses on loans and advances

in '000 EUR	31.12.2017	31.12.2016
Specific impairment	56,220	61,875
Allowance for individually insignificant impaired loans	25,911	36,700
Allowance for collectively assessed loans	46,396	52,076
Allowance for losses on loans and advances to customers	128,527	150,651

The following table shows the development of allowances for impairment losses on loans and advances to customers:

in '000 EUR	2017	2016
As at January 1	150,651	176,608
Increase of impairment charge	108,751	150,780
Usage of allowance	-31,754	-42,054
Release of impairment charge	-87,888	-114,855
Unwinding effects	-5,450	-5,976
Exchange rate adjustments	-5,783	-885
Reclassification to discontinued operations	0	-12,967
As at December 31	128,527	150,651

In 2017, no allowances for impairment losses on loans and advances to banks were set aside as there was no objective evidence of impairment.

(31) Property, Plant and Equipment and Investment Property

in '000 EUR	Land and buildings	Leasehold improvements	Assets under construction	Furnitures and fixtures	IT and other equipment	Total PPE	Investment properties (at cost)
Total acquisition costs at January 1, 2017	115,677	25,224	4,344	20,681	105,089	271,016	2,397
Additions	2,397	1,485	1,489	1,332	7,318	14,021	455
Disposals	-3,171	-9,111	0	-2,803	-19,049	-34,133	-1,069
Transfers	3,052	83	-5,199	-26	26	-2,064	2,064
Exchange rate adjustments	-2,875	-1,006	-427	-1,080	-1,472	-6,860	-111
Total acquisition costs at December 31, 2017	115,080	16,676	206	18,104	91,913	241,980	3,736
Accumulated depreciation January 1, 2017	-19,077	-14,553	0	-12,084	-67,968	-113,680	-479
Depreciation	-3,225	-3,082	0	-1,913	-10,348	-18,569	-395
Disposals	1,130	6,226	0	2,068	16,915	26,339	476
Appreciation	0	0	0	0	0	0	0
Transfers	251	0	0	15	-15	251	-251
Exchange rate adjustments	617	706	0	572	1,024	2,919	21
Accumulated depreciation at December 31, 2017	-20,304	-10,704	0	-11,341	-60,392	-102,741	-628
Net book value	94,777	5,972	206	6,763	31,521	139,239	3,108

in '000 EUR	Land and buildings	Leasehold improvements	Assets under construction	Furnitures and fixtures	IT and other equipment	Total PPE	Investment properties (at cost)
Total acquisition costs at January 1, 2016	119,005	28,816	8,526	24,294	133,755	314,396	2,508
Additions	1,383	4,773	6,805	2,817	16,011	31,789	577
Disposals	-2,661	-4,715	0	-3,511	-16,084	-26,972	-611
Reclassification to discontinued operations	-10,438	-4,678	-228	-2,561	-28,485	-46,390	0
Transfers	9,766	935	-10,700	-22	22	0	0
Exchange rate adjustments	-1,377	94	-59	-337	-129	-1,808	-76
Total acquisition costs at December 31, 2016	115,677	25,224	4,344	20,681	105,089	271,016	2,397
Accumulated depreciation January 1, 2016	-17,542	-17,383	0	-14,612	-92,648	-142,185	-332
Depreciation	-3,465	-3,582	0	-2,171	-13,242	-22,461	-334
Disposals	480	3,172	0	2,828	14,200	20,680	183
Reclassification to discontinued operations	1,358	3,430	0	1,697	23,853	30,338	0
Appreciation	0	0	0	0	0	0	0
Transfers	0	0	0	7	-7	0	0
Exchange rate adjustments	92	-189	0	168	-123	-53	4
Accumulated depreciation at December 31, 2016	-19,077	-14,553	0	-12,084	-67,968	-113,680	-479
Net book value	96,601	10,672	4,344	8,597	37,121	157,336	1,918

The fair value of investment property amounts to EUR 3.1 million (2016: EUR 1.9 million).

(32) Intangible assets

Intangible assets consist predominantly of goodwill and software. Only a small amount is related to trademarks. The development of intangible assets is shown in the following tables.

(a) Goodwill

in '000 EUR	31.12.2017	31.12.2016
Goodwill		
Eastern Europe	1,913	2,167
South Eastern Europe	6,934	6,979
South America	1,009	1,147
Total	9,856	10,294

The development of goodwill within the reporting period is as follows:

in '000 EUR	2017	2016
Goodwill		
Net book value at January 1	10,294	11,550
Impairment	0	0
Exchange rate adjustments	-437	-157
From discontinued operations	0	-1,100
Net book value at December 31	9,856	10,294

The largest share of goodwill is concentrated in the segment South Eastern Europe, in particular ProCredit Bank Romania (EUR 3.6 million). The following key assumptions were applied when testing goodwill impairment for ProCredit Bank Romania: A five year management planning period and related assumptions were extrapolated based on an equity growth rate of 8.0% and a terminal growth rate of 2.0%. The estimated future cash flows are discounted by 9.1%.

(b) Software

in '000 EUR	Internally generated software		Acquired externally software	
	2017	2016	2017	2016
Software				
Total acquisition costs at January 1	12,003	10,254	36,153	42,940
Additions	1,569	1,749	2,638	4,035
Disposals	0	0	-3,127	-1,696
Reclassification to discontinued operations	0	0	0	-9,222
Exchange rate adjustments	0	0	-568	95
Total acquisition costs at December 31	13,572	12,003	35,097	36,153
Accumulated depreciation January 1	-8,154	-6,543	-28,850	-34,445
Depreciation	-852	-1,611	-2,832	-4,368
Disposals	0	0	2,822	1,640
Reclassification to discontinued operations	0	0	0	8,486
Exchange rate adjustments	0	0	492	-163
Accumulated amortisation at December 31	-9,005	-8,154	-28,368	-28,850
Net book value at December 31	4,566	3,849	6,729	7,302

(33) Leasing

Finance lease receivables

in '000 EUR	31.12.2017			31.12.2016		
	Gross investment	Unearned finance income	Net investment	Gross investment	Unearned finance income	Net investment
Finance lease receivables						
no later than one year	57	0	57	936	100	836
later than one year and no later than five years	16	0	16	926	149	778
later than five years	636	0	636	859	150	709
Total	709	0	709	2,722	399	2,323

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

in '000 EUR	31.12.2017	31.12.2016
Allowance for uncollectable leasing receivables	-17	-177
Total	-17	-177

Operating lease commitments

in '000 EUR	31.12.2017	31.12.2016
Operating lease receivables		
no later than one year	6,130	8,791
later than one year and no later than five years	15,020	21,528
later than five years	7,426	13,729
Total	28,577	44,048

Operating lease commitments result primarily from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements. The total amount of expenses recognised in connection with such leases in 2017 is EUR 12,866 thousand (2016: EUR 15,808 thousand).

Future minimum lease income

in '000 EUR	31.12.2017	31.12.2016
Future minimum lease income		
no later than one year	149	64
later than one year and no later than five years	130	60
later than five years	0	0
Total	279	124

All future minimum lease income results from investment properties.

(34) Income taxes

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

in '000 EUR	31.12.2017	31.12.2016
Accelerated tax depreciation	262	265
Allowance for losses on loans and advances to customers	942	1,274
Tax loss carried forward	2,754	4,316
Provisions	660	205
Other temporary differences*	128	351
Deferred tax assets	4,745	6,411

* The breakdown of the previous year's figures has been adapted to the current disclosure structure. Small positions will be shown as "Other temporary differences".

in '000 EUR	31.12.2017	31.12.2016
Accelerated tax depreciation	157	591
Allowance for losses on loans and advances to customers	1,475	2,266
Provisions	-643	-655
Other temporary differences*	50	-301
Deferred tax liabilities	1,040	1,900

* The breakdown of the previous year's figures has been adapted to the current disclosure structure. Small positions will be shown as "Other temporary differences".

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

in '000 EUR	2017	2016
As at 1 January	4,515	2,986
Available-for-sale financial assets:		
fair value remeasurement	-196	108
transfer to net profit	-4	541
Charges to income statement	-241	-234
Exchange rate adjustments	-370	-983
Reclassification in discontinued operations	0	2,098
As at 31 December	3,704	4,515

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

in '000 EUR	1.1.-31.12.2017	1.1.-31.12.2016
Accelerated tax depreciation	104	94
Allowance for losses on loans and advances to customers	200	1,002
Tax loss carried forward	1,274	371
Provisions	-208	-31
Other temporary differences	480	545
Deferred tax expenses	1,851	1,982

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016
Accelerated tax depreciation	-524	90
Allowance for losses on loans and advances to customers	-641	1,541
Provisions	-313	-38
Other temporary differences	-132	155
Deferred tax income	-1,610	1,748

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

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2017
Profit before tax	61,204	61,125
Tax expected	10,510	10,347
Tax effects of items which are not deductible:		
non-taxable income	-16,971	-26,326
non-tax deductible expenses	6,072	10,661
no tax asset built on tax loss carry forwards	7,177	5,829
tax effect on consolidation	7,775	13,583
Income tax expenses	14,563	14,093
Exchange rate differences	0	-935
Changes in deferred tax assets	-1,230	-1,001
Changes in deferred tax liabilities	781	2,351
Changes in comprehensive income	208	-648
Current income tax expenses	14,322	13,859

Unused loss carry-forwards contain an amount of EUR 4.4 million for ProCredit Holding. ProCredit Holding does not establish deferred tax assets for losses carried forward, as it will not be possible to make use of these assets within the five-year tax planning period.

(35) Other assets

in '000 EUR	31.12.2017	31.12.2016
Reposessed properties	25,834	26,842
Accounts receivable*	11,713	11,989
Prepayments	11,149	13,107
Others*	8,878	11,198
Other assets	57,574	63,136

* The breakdown of the previous year's figures has been adapted to the current disclosure structure. Small positions will be shown as "Others" or "Accounts receivable".

Reposessed properties are sold as soon as practicable. The total amount for reposessed property is subdivided into segments as follows:

in '000 EUR	31.12.2017	31.12.2016
Eastern Europe	1,761	2,929
South Eastern Europe	18,708	19,910
South America	5,364	4,003
Reposessed properties	25,834	26,842

(36) Liabilities to banks

in '000 EUR	31.12.2017	31.12.2016
up to three months	97,755	94,055
up to one year	78,538	53,471
more than one year	183,185	170,066
Liabilities to banks	359,477	317,592

(37) Liabilities to customers

in '000 EUR	31.12.2017	31.12.2016
Current accounts	1,649,620	1,606,443
<i>private individuals</i>	677,736	721,615
<i>legal entities</i>	971,884	884,828
Savings accounts	702,836	722,004
<i>private individuals</i>	498,854	607,898
<i>legal entities</i>	203,983	114,107
Term deposit accounts	1,218,477	1,146,651
<i>private individuals</i>	763,674	905,999
<i>legal entities</i>	454,802	240,653
Liabilities to customers	3,570,932	3,475,099

(38) Liabilities to international financial institutions

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

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2020	noncash-relevant	31.12.2016
Liabilities with fixed interest rates	67,223	42,481	27,308	19,923	38,980	-898	195,017
Liabilities with variable interest rates	73,204	73,484	54,988	38,022	60,978	-181	300,495
Liabilities from put/call options	3,750	0	0	0	0	0	3,750
Liabilities to international financial institutions	144,177	115,966	82,296	57,946	99,957	-1,079	499,263

(39) Debt securities

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

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2020	noncash-relevant	31.12.2016
Debt securities with fixed interest rates	11,423	7,000	0	10,000	60,000	-2,522	85,901
Debt securities with variable interest rates	18,572	9,810	0	30,000	0	-538	57,844
Debt securities	29,995	16,810	0	40,000	60,000	-3,060	143,745

In 2017, debt securities totalling EUR 41,829 thousand were repaid and new securities totalling EUR 83,500 thousand were issued.

(40) Other liabilities

in '000 EUR	31.12.2017	31.12.2016
Deferred income*	4,481	3,145
Liabilities for goods and services	8,214	8,762
Liabilities to employees	362	455
Liabilities from social insurance contributions	537	687
Donations, grants for investments	480	679
Non-income tax liabilities	2,595	2,152
Others*	3,326	2,855
Other liabilities	19,996	18,735

* Previous year's figures have been adapted to the current disclosure structure. Received prepayments had been reclassified from "Others" to "Deferred income".

(41) Provisions

in '000 EUR	31.12.2017	31.12.2016
Provisions for		
Post-employment benefits	1,456	2,289
Imminent losses from off-balance sheet items	1,133	1,258
Imminent losses from pending transactions	2,303	1,954
Untaken vacation	1,992	2,275
Unbilled services	5,435	6,167
Other provisions	1,658	1,832
Provisions	13,976	15,775

The development of provisions is as follows:

in '000 EUR	2017	2016
As at January 1	15,775	17,923
Additions	7,397	11,385
Releases	-2,566	-2,552
Used	-5,851	-7,209
Exchange rate adjustments	-694	207
Unwinding	-24	-7
Sale of subsidiaries	-62	-3,971
As at December 31	13,976	15,775

For the provisions for imminent losses from off-balance sheet items and for untaken vacation, the outflow of economic benefits is expected during the next one or two years.

Provisions for imminent losses from pending transactions are mainly composed of provisions established for legal cases with former employees. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The majority of the legal cases are expected to be settled within a one-year period and the maximum expected settlement time is three years. For the settlements expected to be made after one year, an average interest rate of 3.8% (2016: 4.3%) was used for discounting expected cash flows.

(42) Subordinated debt

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

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2020	noncash-relevant	31.12.2016
Subordinated Debt with fixed interest rates	1,688	0	23,717	0	38,000	-1,893	61,512
Subordinated Debt with variable interest rates	734	0	14,190	0	94,588	0	109,512
Subordinated Debt	2,422	0	37,907	0	132,588	-1,893	171,024

The change in subordinated debt is as follows:

in '000 EUR	12.2016	Cashflow		Non-cash changes		
		Cash out	Cash in	Deferred fees and accrued interest	Foreign exchange movement	31.12.2017
Subordinated debt	171,024	-30,165	0	8,254	-6,988	140,788
Total	171,024	-30,165	0	8,254	-6,988	140,788

(43) Equity

a) Subscribed capital

	Subscribed capital		Number of ordinary shares	
	2017	2016	2017	2016
As at January 1	267,720,420	254,122,820	53,544,084	50,824,564
Capital increase		13,597,600		2,719,520
As at December 31	267,720,420	267,720,420	53,544,084	53,544,084

All issued shares are non-par value shares and fully paid. The holder of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share. At the Annual General Meeting, the management intends to propose the distribution of dividends totalling of EUR 15.9 million (2016: EUR 20.3 million). This corresponds to EUR 0.27 per share¹. A dividend of EUR 0.38 per share was distributed to shareholders for 2016.

The management board is authorised, with the consent of the Supervisory Board, to increase the share capital by issuing 5,354,408 new registered value shares for cash and noncash consideration by a total amount of up to EUR 26.8 million which may be issued in whole or in part until 31 May 2021.

b) Capital reserve

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

c) Legal reserve

Reserves that are obligatory under national law are recognised in the balance sheet under the Legal reserve; in the individual financial statements, these reserves are subject to a prohibition on distributions.

d) Retained earnings

The retained earnings mainly result from profit carried forward from previous years, less dividends distributed.

e) Translation reserve

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

f) Revaluation reserve

The results from the measurement of available-for-sale financial assets, after taking deferred taxes into account, are recognised in the revaluation reserve.

¹ Includes shares issued after the balance sheet date (see Note (53)).

D. Additional Notes

(44) Segment reporting

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

in '000 EUR 31 December 2016	Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities and commitments
Germany	1,528,715	922,221	7,970
Eastern Europe	1,090,794	952,977	100,672
South Eastern Europe	3,563,062	3,112,139	487,564
South America	481,153	415,321	13,418
Discontinued Operations*	461,784	1,044,716	0
Consolidation	-1,468,245	-1,437,223	0
Total	5,657,264	5,010,151	609,625

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

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

in '000 EUR 1.1.-31.12.2017	Germany	Eastern Europe	South Eastern Europe	South America	Consolidation	Group
Interest and similar income	18,512	99,761	152,630	32,280	-15,248	287,935
<i>of which inter-segment</i>	<i>14,851</i>	<i>291</i>	<i>108</i>	<i>-1</i>		
Interest and similar expenses	20,877	43,823	21,561	12,788	-15,899	83,150
<i>of which inter-segment</i>	<i>479</i>	<i>5,253</i>	<i>7,250</i>	<i>2,917</i>		
Net interest income	-2,365	55,938	131,069	19,492	651	204,785
Allowance for losses on loans and advances to customers	7	5,974	229	-920	0	5,290
Net interest income after allowances	-2,372	49,964	130,840	20,412	651	199,495
Fee and commission income	10,484	12,818	46,235	1,567	-10,055	61,048
<i>of which inter-segment</i>	<i>8,497</i>	<i>0</i>	<i>1,492</i>	<i>67</i>		
Fee and commission expenses	1,935	3,989	14,918	1,711	-7,338	15,215
<i>of which inter-segment</i>	<i>38</i>	<i>1,515</i>	<i>5,100</i>	<i>685</i>		
Net fee and commission income	8,549	8,829	31,317	-144	-2,717	45,833
Result from foreign exchange transactions	-1,420	5,051	7,161	59	-48	10,805
Net result from financial instruments at fair value through profit or loss	-919	-374	630	-7	-1	-670
Net result from available-for-sale financial assets	-33	6	120	8	0	101
Net other operating income	89,262	-1,513	-10,560	1,101	-85,865	-7,575
<i>of which inter-segment</i>	<i>83,618</i>	<i>5</i>	<i>1,657</i>	<i>584</i>		
Operating income	93,067	61,963	159,509	21,431	-87,980	247,989
Personnel expenses	23,705	10,853	40,805	9,303	0	84,666
Administrative expenses	30,941	20,761	66,514	15,560	-31,657	102,119
<i>of which inter-segment</i>	<i>8,088</i>	<i>5,346</i>	<i>15,247</i>	<i>2,976</i>		
Operating expenses	54,646	31,614	107,319	24,863	-31,657	186,785
Profit before tax	38,421	30,350	52,189	-3,432	-56,323	61,204
Income tax expenses	1,363	4,335	6,761	2,104		14,563
Profit of the period from continuing operations	37,058	26,014	45,428	-5,537	-56,323	46,641
Profit of the period from discontinued operations*						1,461
Profit of the period	37,058	26,014	45,428	-5,537	-56,323	48,102
<i>Profit attributable to ProCredit shareholders</i>						<i>46,282</i>
<i>Profit attributable to non-controlling interests</i>						<i>1,820</i>

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

in '000 EUR 1.1.-31.12.2016	Germany	Eastern Europe	South Eastern Europe	South America	Consolidation	Group
Interest and similar income	20,493	107,959	177,457	39,149	-17,461	327,597
of which inter-segment	17,333	97	24	7		
Interest and similar expenses	21,901	48,212	26,969	15,322	-15,633	96,771
of which inter-segment	175	4,651	7,274	3,533		
Net interest income	-1,408	59,747	150,488	23,827	-1,829	230,825
Allowance for losses on loans and advances to customers	-132	12,745	8,039	-2,019	0	18,632
Net interest income after allowances	-1,276	47,002	142,449	25,846	-1,829	212,193
Fee and commission income	9,126	12,627	43,821	1,864	-9,218	58,220
of which inter-segment	7,789	0	1,428	0		
Fee and commission expenses	2,586	3,865	15,107	2,031	-8,340	15,249
of which inter-segment	762	1,324	5,349	906		
Net fee and commission income	6,540	8,762	28,714	-167	-878	42,971
Result from foreign exchange transactions	-1,967	4,587	7,003	-111	-643	8,869
Net result from financial instruments at fair value through profit or loss	-1,406	-125	476	80	0	-975
Net result from available-for-sale financial assets	-260	316	4,231	298	0	4,585
Net other operating income	94,731	-404	-10,167	1,757	-94,216	-8,298
of which inter-segment	89,625	4	1,974	2,613		
Operating income	96,363	60,138	172,706	27,703	-97,565	259,345
Personnel expenses	21,560	12,540	43,969	10,095	0	88,163
Administrative expenses	29,655	21,718	67,107	18,724	-27,146	110,057
of which inter-segment	5,562	4,586	12,329	4,669		
Operating expenses	51,214	34,257	111,075	28,818	-27,146	198,220
Profit before tax	45,149	25,881	61,631	-1,116	-70,420	61,125
Income tax expenses	1,168	4,456	7,256	1,213		14,093
Profit of the period from continuing operations	43,981	21,424	54,375	-2,329	-70,420	47,031
Profit of the period from discontinued operations*						13,977
Profit of the period	43,981	21,424	54,375	-2,329	-70,420	61,009
Profit attributable to ProCredit shareholders						59,422
Profit attributable to non-controlling interests						1,586

* Banco Pyme Los Andes ProCredit Bolivia, Banco ProCredit El Salvador, ProConfianza Mexico, and Banco ProCredit Nicaragua are shown as discontinued operations

(45) Earnings per share

in '000 EUR	Continuing Operations		Discontinued Operations		Total	
	2017	2016	2017	2016	2017	2016
Profit of the period	46,641	47,031	1,461	13,977	48,102	61,009
Profit attributable to ProCredit shareholders	44,840	45,491	1,443	13,931	46,282	59,422
Profit attributable to non-controlling interests	1,801	1,541	19	46	1,820	1,586
Weighted average number of ordinary shares	53,544,084	51,051,191	53,544,084	51,051,191	53,544,084	51,051,191
Earnings per share* (in EUR)	0.84	0.89	0.03	0.27	0.86	1.16

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

(46) Fair value of financial instruments

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

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

in '000 EUR 31.12.2016	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Loans and advances to banks	LaR	286,673	286,673	0	286,673	0
Financial assets at fair value through profit or loss	AFV	243	243	0	243	0
Available-for-sale financial assets	AfS	249,757	249,757	165,935	83,033	789
Loans and advances to customers	LaR	3,478,049	3,487,405	0	0	3,487,405
Total		4,014,722	4,024,078	165,935	369,949	3,488,194
Financial liabilities						
Liabilities to banks	AC	317,592	330,889	0	93,222	237,667
Financial liabilities at fair value through profit or loss	AFV	1,367	1,367	0	1,367	0
Liabilities to customers	AC	3,475,099	3,473,586	0	2,370,019	1,103,567
Liabilities to international financial institutions	AC	499,263	492,757	0	12,849	479,908
Debt securities	AC	143,745	161,610	21,278	0	140,332
Subordinated debt	AC	171,024	162,572	0	0	162,572
Total		4,608,090	4,622,780	21,278	2,477,456	2,124,046

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

ProCredit's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value determination is carried out as described in note (7). For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value. No transfers took place between the levels of the measurement hierarchy. The ProCredit group has no fair value financial instruments with Level 3 inputs, with the exception of an insignificant amount of available-for-sale shares.

(47) Pledged and transferred assets

in '000 EUR	31.12.2017		31.12.2016	
	Pledged assets that can be repledged or sold	related liability	Pledged assets that can be repledged or sold	related liability
Loans and advances to banks	2,336	65	4,759	1,136
Available-for-sale financial assets	18,902	21,155	995	4,035
Loans and advances to customers	37,624	49,453	44,937	49,865
Total	58,862	70,674	50,691	55,036

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

(48) Contingent liabilities

in '000 EUR	31.12.2017	31.12.2016
Credit commitments (revocable)	429,330	431,832
Guarantees	183,487	162,787
Credit commitments (irrevocable)	18,862	8,781
Letters of credit	9,183	6,224
Total	640,862	609,625

The above table discloses the nominal principal amounts of contingent liabilities. The group expects that a significant portion will expire without being drawn upon.

(49) Principal subsidiaries

Principal subsidiaries included in these Consolidated Financial Statements are as follows:

#	Name of institution	Company purpose	Principal place of business	Turnover in '000 EUR	Profit before tax in '000 EUR	Income tax expenses in '000 EUR	Staff No. 31.12.2017	Proportion of ownership interest	
								31.12.2017	31.12.2016
EU member states									
1	ProCredit Bank (Bulgaria) E.A.D.	Credit institution with banking licence	Bulgaria	40,193	18,408	1,963	362	100.0	100.0
2	ProCredit Bank AG	Credit institution with banking licence	Germany	8,217	793	0	66	100.0	100.0
3	ProCredit Academy GmbH*	Training academy	Germany	4,305	-14	0	33	100.0	100.0
4	Quipu GmbH	IT consulting and software company	Germany	24,947	723	40	334	100.0	100.0
5	PC Finance II B.V.	Special purpose vehicle	The Netherlands	294	0	0	0	n/a	n/a
6	ProCredit Bank S.A.	Credit institution with banking licence	Romania	14,597	218	116	196	100.0	100.0
Non-EU member states									
7	ProCredit Bank Sh.a	Credit institution with banking licence	Albania	6,579	-4,338	-340	175	100.0	100.0
8	ProCredit Bank d.d.	Credit institution with banking licence	Bosnia and Herzegovina	7,173	-1,932	43	151	100.0	100.0
9	Banco ProCredit Colombia S.A.	Credit institution with banking licence	Colombia	1,806	-2,970	1,203	90	95.0	94.3
10	Banco ProCredit S.A.	Credit institution with banking licence	Ecuador	19,067	1,494	898	244	100.0	100.0
11	Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit	Special purpose vehicle	Ecuador	542	0	0	0	n/a	n/a
12	Banco ProCredit S.A.	Credit institution with banking licence	El Salvador	12,415	687	307	0	0.0	99.9
13	JSC ProCredit Bank	Credit institution with banking licence	Georgia	23,484	8,059	50	262	100.0	100.0
14	ProCredit Bank Sh.a	Credit institution with banking licence	Kosovo	41,671	20,846	2,362	382	100.0	100.0
15	ProCredit Bank A.D.	Credit institution with banking licence	Macedonia	14,162	5,483	553	175	100.0	100.0
16	ProCredit Regional Academy* Eastern Europe	Training academy	Macedonia	1,139	621	63	18	100.0	100.0
17	Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R	Special purpose vehicle	Mexico	-910	-1,900	0	5	100.0	100.0
18	BC ProCredit Bank	Credit institution with banking licence	Moldova	9,747	2,150	372	119	82.1	82.1
19	Banco ProCredit S.A.	Credit institution with banking licence	Nicaragua	8,813	844	485	0	0.0	94.9
20	ProCredit Bank a.d. Beograd	Credit institution with banking licence	Serbia	32,121	12,927	2,004	358	100.0	100.0
21	JSC ProCredit Bank	Credit institution with banking licence	Ukraine	34,706	20,140	3,913	264	89.3	86.0

* not considered in the regulatory scope of consolidation

Turnover is defined as operating income before loan loss provisions and administrative expenses. The amounts shown are reported for each country without eliminating transactions between group companies, i.e. based on the respective annual financial statements for each subsidiary. The group has no subsidiary with a material non-controlling interest according to voting shares.

In 2017, the ProCredit group received public funding totalling EUR 238 thousand (2016: 407 thousand).

(a) Acquisition of interest in a subsidiary

ProCredit Holding increased its stake by capital increases in Banco ProCredit Colombia by 0.7% and in ProCredit Bank Ukraine by 3.3%.

(b) Disposal of interest in a subsidiary

In 2017, ProCredit Holding sold its shares in Banco ProCredit Nicaragua and Banco ProCredit El Salvador. The net results on disposal are recognised as profit of the period from discontinued operations. The assets, liabilities, and profit of the period of the discontinued operations are presented as follows:

	El Salvador	Nicaragua
Net assets disposed	22,362	20,294
Proportion of non-controlling interests	0.10%	5.1%
Non-controlling interests	22	1,035
Time of sale	Nov. 17	Aug. 17
Consideration received	23,780	19,588
Net assets disposed without non-controlling interests	22,340	19,259
Reclassification of translation reserve	2,885	-3,332
Reclassification of capital reserves	-31	291
Tax on sale of institution	-300	-560
Result on disposal	3,994	-3,272

The result of discontinued operations is as follows:

in '000 EUR	1.1.–31.12.2017	1.1.–31.12.2016*
Results of discontinued operations		
Income	34,204	108,069
Expenses	32,673	96,513
Result on disposal (exclusive taxes)	722	6,670
Profit before tax	2,253	18,226
Income tax expenses	791	7,056
Profit of the period	1,461	13,977
Profit attributable to ProCredit shareholders	1,443	13,931
Profit attributable to non-controlling interests	19	46
Items that will not be reclassified to profit or loss		
Change in revaluation reserve from remeasurements of post employment benefits (incl deferred taxes)	0	-407
Items that are or may be reclassified to profit or loss		
Change in translation reserve	-4,095	-13,814
Reclassified to profit or loss	447	-17,204
Change in value not recognised in profit or loss	-4,542	3,390
Other comprehensive income of the period, net of tax discontinued operations	-4,095	-14,222
Total comprehensive income of the period	-2,634	-244

* Banco Pyme Los Andes ProCredit Bolivia, Banco ProCredit El Salvador, ProConfianza Mexico, and Banco ProCredit Nicaragua are shown as discontinued operations.

(c) Significant restrictions

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

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

At the end of 2014, the National Bank of Ukraine introduced limits on foreign currency transactions with the aim of stabilising the Ukrainian currency. Among other restrictions, the purchase and transfer abroad of foreign currency for the payment of dividends to foreign investors is only permitted to a limited extent.

(d) Option agreements

ProCredit Holding signed put/call or put option agreements on the purchase of shares of subsidiaries from non-controlling interests. Existing option agreements are as follows:

Option agreements	counterparty	share	starting point option period
ProCredit Bank S.A., Colombia	IDB	5.0%	effective
ProCredit Bank S.A., Moldova	KfW	14.1%	effective

The option agreements result in a total liability of EUR 4.0 million as of 31 December 2017 (2016: EUR 3.8 million). This is largely offset by the reduction in the reserve for shares held by other shareholders of EUR 3.9 million (2016: EUR 4.1 million). KfW has informed ProCredit Holding that it intends to exercise its option right over the shares in ProCredit Bank Moldova.

(50) Related party transactions

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

All transactions are performed substantially on the same terms, including interest rates and security, as for transactions of a similar nature with third party counterparts. All transactions between ProCredit Holding and its subsidiaries are eliminated on consolidation, so they are not disclosed as related party transactions.

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

* IPC GmbH doesn't belong to related parties of ProCredit Group since November 2017

in '000 EUR	Management Board	Supervisory board	Family members of key personnel	IPC GmbH	ProCredit General Partner AG	Zeitinger Invest GmbH	1.1.-31.12.2016
Income	0	0	0	46	0	7	53
Expenses	22	3	37	892	924	0	1,878
Net income	-21	-3	-37	-846	-924	7	-1,824
							31.12.2016
Assets	9	7	0	43	0	1	59
Liabilities	44	329	79	0	17	0	468

(51) Management compensation

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

in '000 EUR	1.1.-31.12.2017	1.1.-31.12.2016
Short-term benefits	560	586
Post employment benefits	86	106
Total	646	692

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

Helen Alexander's term as a member of the Management Board ended as planned on 31 March 2017 under cordial mutual agreement. Dr Anja Lepp's term as a member of the Management Board ended as planned on 31 December 2017 under cordial mutual agreement.

A detailed description of the management compensation can be found in the remuneration report.

(52) Number of employees

	2017		2016	
	Average	At year end	Average	At year end
Germany	451	463	435	444
Eastern Europe	702	645	901	781
South Eastern Europe	2,144	1,881	2,523	2,352
South America*	414	339	1,241	1,174
Total	3,711	3,328	5,100	4,751

* includes discontinued operations

(53) Events after the reporting period

ProCredit Holding carried out a capital increase in February 2018. After the capital increase, the share capital amounts to EUR 294.5 million and is divided into 58,898,492 non-par value shares. The newly issued shares carry dividend rights as of 1 January 2017. The authorised capital was thus fully utilised and the corresponding paragraph in the Articles of Association was deleted without substitution.

Address and general information

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

Frankfurt am Main, 22 March 2018

ProCredit Holding AG & Co. KGaA

represented by:

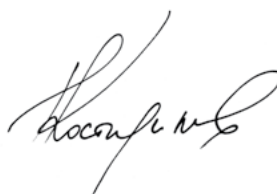
ProCredit General Partner AG (personally liable shareholder)

Management Board


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