ProCredit
HOLDING



ANNUAL 2013 REPORT

Key Figures of the Group

Balance Sheet (consolidated; in EUR '000)	2013	2012	% Change
Total Assets	5,841,734	5,768,544	1.3%
Loans and Advances to Customers	4,185,071	4,190,607	-0.1%
Business Loan Portfolio	3,267,053	3,348,231	-2.4%
< EUR/USD 30,000	1,208,937	1,256,015	-3.7%
> EUR/USD 30,000 < EUR/USD 150,000	1,195,228	1,195,025	0.0%
> EUR/USD 150,000	862,888	897,191	-3.8%
Agricultural Loan Portfolio	617,267	524,274	17.7%
Housing Improvement Loan Portfolio	202,411	201,795	0.3%
Other Loan Portfolio	98,340	116,307	-15.4%
Allowance for Losses on Loans and Advances to Customers	-188,475	-175,451	7.4%
Net Loan Portfolio	3,996,596	4,015,156	-0.5%
Liabilities to Customers	3,801,895	3,627,194	4.8%
Liabilities to International Financial Institutions	673,076	796,432	-15.5%
Debt Securities	250,048	202,458	23.5%
Total Equity	502,736	503,134	-0.1%

Income Statement (consolidated; in EUR '000)			
Operating Income	430,506	435,476	-1.1%
Operating Expenses*	368,599	376,416	-2.1%
Profit Before Tax*	61,908	59,060	4.8%
Profit for the Year*	38,953	46,261	-15.8%

Key Ratios			
Cost Income Ratio	75.0%	75.7%	
Return on Equity	7.7%	10.3%	
Capital Ratio**	12.2%	12.9%	

Operational Statistics			
Number of Financial Institutions	22	22	
Number of Clients	2,400,006	2,797,177	-14.2%
of which Business Clients	748,252	1,045,628	-28.4%
Number of Staff	11,514	14,675	-21.5%
Number of Outlets	645	735	-12.2%

* Figures from the previous year have been adjusted due to changes in accounting regulations.
** According to the German Banking Act and Solvency Regulation.

Contents

Letter from the Chairperson of the Supervisory Board

2013 was a good year for strengthening our core positioning as specialist small business banks. The group achieved steady business results against a still difficult macroeconomic backdrop. However, the real achievements of the year lie with the further steps taken to improve the skills and focus of our staff in order to deliver benefits to our clients. These measures go hand in hand with our ambition to create streamlined, high-quality institutions able to make a difference for small businesses whilst operating with the efficiency necessary to thrive with tightening margins.

We refined the definitions of target client categories and streamlined the branch network in all banks. We now have outlets that are well located and optimally staffed to meet the particular needs of different target groups, whether Very Small or SME business clients or private clients. We reduced staff numbers by a further 21.5% to reach 11,514 as we become more selective in regard to staff who meet our expectations. Most of our Business Client Advisers, Branch Managers and Service Centre Heads received intensive training this year, particularly in the areas of client management and credit risk assessment.

There are certainly costs associated with managing transition as our business model evolves, and where necessary we have taken action. For example, we have invested in training rather than driving short-term results and we took the decision to exit Mozambique since the market potential for SME lending is too limited. Our financial performance, with an RoE of 7.7% and no overall loan portfolio growth, was somewhat behind plan in 2013, but on closer analysis the underlying trends are sound. We achieved good growth in lending with our core Very Small and Small business clients whilst volumes declined in non-core loan sizes below EUR 5,000 and above EUR 500,000. Loan portfolio quality is still significantly better than that of other financial institutions in the markets in which we operate. Generally, the financial performance of ProCredit institutions is encouraging.

In Eastern Europe we improved our financial performance in most banks, despite a generally difficult macroeconomic and political environment. Our banks in Balkan markets like Serbia, Bulgaria or Kosovo were again amongst the most profitable in their banking sectors, thanks to the quality of our loan portfolio, the loyalty of our clients and the efficiency of our operations. We improved the profitability of our mid-sized banks, particularly in Romania, Moldova and Ukraine. Our good performance, even in more developed Balkan markets where margins are tightest, is reassuring.

The emerging role of our bank in Germany, which has begun its co-financing activities with SME clients of the ProCredit banks in Bulgaria and Serbia, is opening interesting opportunities to expand connections between our German and Eastern European operations.

We had a particular focus on Latin America this year as these banks adapt to working with Very Small business clients with larger average loans sizes. The security situation in Central America and Mexico deteriorated further, requiring us to exit from the Michoacán region and to build additional provisions as a result. However, the performance of our largest banks, in Bolivia and Ecuador, continued to be strong. The ProCredit Regional Academy in Colombia was particularly busy with training staff and Service Centre Heads.

The group deposit base grew well over the year as we focused on increasing the average volumes saved by our private and business clients. The cost of funds also declined. We have completed the reorganisation of the front office in most banks to give front officers more time to talk with clients about the benefits of saving and non-cash transactions. Investments in technology in the form of e-banking and cash-in ATMs are also helping to bring more business client turnover to our banks and to enhance the efficiency of client and bank operations. Above all our Business Client Advisers are learning to put the "house bank" concept into practice and addressing the full suite of client needs beyond credit.

The challenges in working with our business and savings clients in a way which brings value to both our clients and the group remains a stimulating and satisfying one. Today we are working with fewer clients than we were five years ago, but we are working with them in a deeper and more productive way.

Looking ahead, we feel positive about the somewhat improved macroeconomic conditions next year and are looking forward to reaping the benefits of the investments we have made in our core business. The Board would like to thank our staff and managers for their dedication and the results that they have achieved.

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

Members of the Board as
of February 17, 2014:

Dr Claus-Peter Zeitinger
Chairperson of the Supervisory Board

Mr Christian Krämer
Deputy Chairperson
(Director, Management Affairs,
KfW, Germany)

Mr Petar Slavov
(Economist)

Mr Jasper Snoek
(Chief Financial Officer,
DOEN Foundation, The Netherlands)

Mr Wolfgang Bertelsmeier
(Financial Adviser)

Mr Rochus Mommartz
(Member of the Management Board,
responsAbility, Switzerland)


ProCredit Ban
Turkish shop
ФРИЗЕРСКО
СТУДИО

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Photo: ProCredit Bank Macedonia

The ProCredit Group – Responsible Banks for Small Businesses

Who we are: The ProCredit group today

The ProCredit group comprises 21 development-oriented banks operating in Eastern Europe, Latin America and Africa, as well as a bank in Germany. The parent company of the group is ProCredit Holding, a Frankfurt-based company which guides the group. At a consolidated level the group is supervised by the German federal banking supervision authorities (BaFin and Bundesbank). The ProCredit group aims to combine high development impact with commercial success for its shareholders.

ProCredit banks aim to help create transparent, inclusive financial sectors in developing countries and transition economies. A functioning and fair financial system, which enables people to save on the one hand and businesses to invest and expand on the other, is important for economic and social development. Whilst we may take banking services for granted in a country like Germany, in many countries small businesses have inadequate access to good credit and banking services, and people do not have enough trust to save in a bank. Levels of transparency in terms of pricing and consumer protection also tend to be low. ProCredit banks aim to address this important development challenge.

In the Eastern European, Latin American and African countries in which we work, ProCredit banks aim to be the "house bank" for very small, small and medium-sized businesses, as well as to provide simple savings services for ordinary people.

Photo: ProCredit Bank Moldova

House banks for small businesses in Eastern Europe, Latin America and Africa

ProCredit banks specialise in working with very small businesses and SMEs since this is where we can make the most difference in generating jobs and prosperity. These businesses cover a broad spectrum of simple enterprises, which provide livelihoods for many families and ordinary people, and growing, formalising SMEs which have the potential to prosper, to create new jobs and drive economic growth. A few facts help to underline our target group orientation. Today we typically have a minimum loan size threshold of USD/EUR 5,000, since below this threshold ready access to consumer finance is available. More than 95% of our loans are below USD/EUR 50,000 (so-called Very Small business clients); 46% of our loan volume is in loan sizes above USD/EUR 50,000 (Small and Medium business clients). The average business loan size in the group stands at about USD/EUR 12,000.

ProCredit has developed an approach to client relationship management and staff development which means we understand our clients, their businesses and their debt capacity well and are able to provide loans and other financial services in an effective and efficient manner. We put great emphasis on responsible services, that is services which put the client first. We do not forget that a loan is a debt which should benefit a client's business and be affordable. We go to great lengths to ensure that we do not contribute to overindebtedness. We pride ourselves in the fact that our loan portfolio quality is typically significantly better than that of other banks as a result.

The house bank concept means that we do not just provide loans to businesses, we provide the range of modern financial services which they may need to prosper: account services such as a e-banking, cards and efficient transactions; advice on liquidity management or accounting and reporting; payroll, documentary business and trade finance, as well as savings and personal banking services for the family unit. Our services help businesses expand and operate more efficiently, and our advice improves management skills. These services are very valuable for businesses operating in economies characterised by high levels of informality and lack of transparency. In comparison to other banks we provide our clients with steadier, more specialist attention (a long-term partnership - which helps stable businesses to manage incomes and growing businesses to make the most of opportunities). Key to successful business relationships are our experienced and well-trained Business Client Advisers ("BCAs"). Our BCAs are specialised in working with Very Small or Small businesses and are able to assess both the credit risk and business needs of clients.

The "house bank" for small businesses

- Focused on very small and small enterprises
- Understanding needs
- Broad-based and long-term client relationships
- Professional

Savings and banking services for ordinary people

- Focused on business owners, their employees and social circle
- Efficient, good, transparent services with transparent fees
- Responsible lending services aimed at building family assets

Strong, responsible institutions

- Well-trained, professional staff
- Committed to transparency, financial literacy and financial sector deepening

Promoting savings and financial literacy

ProCredit banks also focus on encouraging ordinary householders to save. Few households in our countries of operation save routinely in interest earning accounts. Trust in banks tends to be low and appreciation of the value of saving limited. Yet it is important to put some savings aside, particularly in countries where families cannot rely on government social security support when misfortune hits. Therefore, we design accessible savings services with fair interest rates and we train our front officers to talk with clients about the benefits of saving. Local savings mobilised in this way also provide a stable source of funding for our business lending activities.

ProCredit banks do not promote consumer loans. Since the beginning, ProCredit has distanced itself from consumer loans or "microloans" with unspecified purposes, since the risk of overindebtedness is high and the productive capacity of such loans low. This has become even more important as consumer lending providers have flourished in recent years in our countries of operation, creating widespread overindebtedness amongst vulnerable lower income groups. Therefore we lend to private households only on a limited scale, and where we do lend to this type of client, we aim to build family assets, for example, by providing housing improvement loans.

ProCredit banks also support financial literacy more widely through client conversations and organised seminars, events and children's programmes. Every bank should play an active role in empowering people by giving them the skills and understanding to manage their finances as well as possible.

The origins of ProCredit and its competitive strengths

The ProCredit group is firmly rooted in its pioneering history in development finance. Formally speaking, ProCredit Holding was founded in 1998 as IMI AG by the consulting firm IPC and many of that company's employees via IPC Invest. However, the foundation of IMI was only one, albeit important, stage in the evolution of IPC, the ProCredit partners and their experience with development finance, the origins of which stretch back over 25 years.

IPC was founded in 1980 as a consultancy company focused on bringing micro, small and medium-sized enterprises (MSMEs) and low-income groups into the formal financial sector. Since then, IPC and a core group of international financial institutions (IFIs) and donors, who today are partners in ProCredit, have benefited from a learning process covering three decades, out of which they have developed an effective approach to working

Early years of learning 1980–1991	**Downscaling** 1992–1996	**First "greenfield" microfinance bank** 1997	**ProCredit banks are established** 1998–2002
Foundation of IPC 1985 Launch of Municipal Savings Banks, Peru 1988 Launch of NGO Servicio Crediticio AMPES (today Banco ProCredit), El Salvador 1991 Launch of NGO ProCrédito (today Banco Los Andes ProCredit), Bolivia	Various advisory projects in government-owned development banks and credit-granting NGOs First downscaling projects in Latin America Costa Rica Paraguay Guatemala Various downscaling projects in Eastern Europe and CIS countries Russia Kazakhstan Kyrgyzstan Romania Bulgaria Armenia	First microfinance bank in Bosnia and Herzegovina	Foundation of most of the banks Foundation of ProCredit Holding (as IMI) (IPC, IPC Invest, KfW Group, DOEN) Partnership agreement with IPC for management services New shareholders join (IFC, FMO, BIO, FUNDASAL, responsAbility)

with clients and to institution building. The learning process covers a spectrum of financial sector deepening initiatives: from working with the NGOs and public institutions in Latin America in the 1980s to "downscaling" projects in the former Soviet Union in the 1990s.

The first "greenfield" target group-oriented bank was founded in 1997 in Bosnia. Other banks followed. IMI was then founded to raise the necessary capital. Over the years since, the group expanded in terms of number of banks, assets and shareholder equity. IMI became ProCredit Holding in 2003 and steadily consolidated its majority ownership of all banks and strengthened its role in supporting the ProCredit banks in key areas. In 2012 ProCredit Holding received its licence from the German Federal Financial Supervisory Authority (BaFin) as the "superordinated company" of the group responsible for maintaining an adequate level of equity and ensuring that all reporting, risk management and compliance obligations required under German banking regulations are met by the group banks.

ProCredit's strengths therefore lie in many years of experience with our clients and our markets. The years since the financial crisis and subsequent global recession have been particularly rich in learning for the ProCredit group. After ten years of sustained growth and rapid expansion, the buoyant development of the emerging economies in which we work was reversed. Our immediate challenge was to help our clients adapt to the macroeconomic downturn. We are well positioned to do this because we have excellent staff who have long-standing relationships with clients and a thorough understanding of their businesses. Our proactive approach to addressing arrears problems helped many business clients come through the crisis and supported the group's financial resilience.

At the same time we realised the extent to which our original mission had evolved. We were founded to provide access to finance for microenterprises and ordinary people. Today there are plenty of microfinance and con-

The ProCredit group takes shape
2003-2005

ProCredit Holding enlarges its role and consolidates ownership

Investment grade rating (BBB-)

New corporate identity for the group

ProCredit Bank

Banco ProCredit

The ProCredit group expands rapidly
2006-2008

Strong expansion with new institutions in Colombia, Honduras, Mexico, Armenia, Sierra Leone, Angola

Foundation of ProCredit Academies

ProCredit ACADEMY

IPC staff join ProCredit Holding

TIAA-CREF and Omidyar-Tufts join as shareholders

Graduation of first generation of Academy students

Financial sector crisis

Stability through global crisis as the group moves beyond microfinance
2009-2011

Full implementation of German regulatory standards in risk management and group reporting

Strengthening institutions to focus on quality and client relationships

New group staff recruitment and training policy introduced

Quipu joins the group

Quipu Part of the ProCredit Group

Banking licence in Germany

ProCredit Bank

ProCredit HOLDING

Change of legal form to AG & Co. KGaA

Looking to the future
2012-Today

ProCredit Holding recognised as "superordinated company" of the group

Consolidated group supervision by BaFin and Bundesbank begins

Full implementation of Young Bankers Programme

Strengthening "house bank for small business" positioning

sumer finance institutions. Many mainstream banks celebrate "outreach" and the opportunities to "cross-sell" loans to low-income account holders. As a result, many microenterprises succumbed to the pressure to take multiple consumer loans, with the result that in several markets "excess" is more of a problem than "access". Our response has been to focus more on larger small and medium businesses. On the savings side too, we no longer just celebrate the number of accounts opened, but instead focus on increasing the average volumes saved by ordinary householders in order to help create a meaningful buffer for uncertain times.

Today, we focus more strongly than ever on the quality of the relationships we build with our clients, the convenience of services we offer, and the quality of our staff. We have recognised that our services not only have to be high quality, they also have to be efficient to be affordable for our clients and profitable for the group. In recent years we have steadily reduced the number of staff while at the same time improving staff quality, focusing our branch infrastructure and embracing efficiency as an important theme. Meanwhile, we have invested heavily in staff training. A group recruitment policy built around the six-month "Young Bankers Programme" was introduced and the group salary policy was modified to link professional development, training requirements and compensation in a transparent way. Although many of these institution building developments have been demanding, they have ultimately been rewarding in terms of the high quality, convenient service that we provide to our clients, the job satisfaction of our staff and the financial results for the group.

Photo: ProCredit Bank Kosovo

Business prospects

The ProCredit group operates on a commercial and profitable basis. We strive for steady growth and profitability. In 2013 the group achieved a post-tax return on equity (RoE) of 7.7%. Looking forward we plan to grow the group loan portfolio by about 10% per year and to achieve a post-tax RoE of above 12%. Recent performance shows that our business model and business results are strong and predictable, even in volatile macroeconomic times.

The ProCredit group enjoys a simple balance sheet: assets largely comprise business loans and liabilities customer deposits. Our main source of income is the interest we charge on the EUR 4.2 billion loan portfolio. Interest rates are set transparently and are competitive in the market context in which we operate. The average annual interest income on the group loan portfolio is about 14.5%. Interest rates have gradually come down over the years as our business model changes, our clients evolve and market competition increases, and we have responded by reducing cost of funds, growing volume and increasing efficiency.

We have always had a strong focus on loan portfolio quality management which has kept our provisioning costs below those of competitors, although coverage ratios of our portfolio at risk are higher. A comprehensive "know your customer" approach and strong client loyalty in the broadest sense lie at the heart of our business model. Key to sustained success over the long term remains the training and productivity of our front office staff and the middle managers that guide them.

Looking forward, our focus will continue to be on quality: quality of the loan portfolio, quality and efficiency of customer service, and quality of staff. We aim to expand not only in lending to our business clients but also in terms of other services. We will strengthen business with our core very small and small business clients (broadly defined as those clients who take loans of less than EUR/USD 250,000). In our view, this is where we can make the greatest contribution to job creation. Few other banks are able to effectively cater to the specific demands of these very small and small businesses. We want to focus more on formal clients, on clients working in local production and agriculture, as well as on loans for green and energy-efficient technologies in businesses and in the home. With private clients our emphasis remains on providing attractive, accessible savings services.

Staff training and development will continue to be the main priority for the group. Now more than ever before, a committed team of highly competent staff will be the key to success both for our clients and for our banks. Together, the Young Bankers Programme, the three ProCredit academies, an attractive group salary policy, and a thorough approach to appraisal and career development are having a positive impact on staff and management skills, motivation and retention. This bodes well for the future of the group.

Our Responsible Approach

Business Ethics

Our approach and our success are underpinned by a systematic commitment to certain principles which anchor our business operations and decisions.

ProCredit Bank Mission

Every ProCredit Bank has the following mission statement:

ProCredit Bank is a development-oriented full-service bank. We offer excellent customer service to private individuals and enterprises. In our operations, we adhere to a number of core principles: we value transparency in our communication with customers, we do not promote consumer lending and we provide services which are based both on an understanding of each client's situation and on sound financial analysis. This responsible approach to banking allows us to build long-term partnerships with our clients based on mutual trust.

In our operations with business clients, we focus on very small, small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing sub-

Photo: Banco ProCredit Nicaragua

stantial resources in financial education we aim to promote a culture of savings and responsibility which can help to bring greater stability and security to ordinary households.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere, and to provide friendly and competent service for our customers.

It is clear from this shared mission statement that the aim of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference in terms of the target groups we serve, the quality of the financial services we provide and with regard to the business ethics which underpin what we do.

Corporate values

We have a strong set of corporate values on which our business ethics are based. Six essential principles guide the operations of the ProCredit institutions:

- **Transparency:** We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of non-transparent financial offers.
- **A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.
- **Social responsibility and tolerance:** We offer our clients sound, well-founded advice. Before offering loans, we assess the business needs and the repayment capacity of our clients in order to avoid overindebtedness and to offer appropriate products. We are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious or political beliefs.
- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business.
- **High professional standards:** Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.
- **Personal integrity and commitment:** Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These six values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. They are reflected in the ProCredit Code of Conduct, which translates the group's ethical principles into practical guidelines for all staff. To make sure that new employees fully understand all of the principles that have been defined, induction training includes sessions dedicated to the Code of Conduct and its significance for all members of our team. Regular refresher training sessions help to ensure that employees remain committed to our high ethical standards and are kept abreast of new issues and developments which have an ethical dimension for our institution. These events allow existing staff to analyse recent case studies and discuss any grey areas.

We also ensure that requests for loans are evaluated in terms of the applicant's compliance with ethical business practices. No loans are issued to enterprises or individuals if it is suspected that they are making use of unsafe or morally objectionable forms of labour, in particular child labour.

Environmental Management and Green Finance

Ensuring that we support economic development that is as environmentally and socially sustainable as possible is a central component of ProCredit's development mission. The environment and environmental awareness are integral to our identity. We have developed a comprehensive environmental management concept to reduce the direct and indirect environmental impact of the ProCredit institutions.

The ProCredit group has issued its **"Group Guidelines for Environmental Management"** aimed at implementing an all-inclusive and sustainable system for managing environmentally-related activities. The main pillars of the concept are:
- *Pillar 1:* Internal Environmental Management System (IEMS)
- *Pillar 2:* Management of environmental risks in lending
- *Pillar 3:* Expansion of the green loan portfolio

These pillars require a significant contribution from key staff and participation across all institutional levels of the ProCredit group. These efforts are guided by ProCredit Holding's Environmental Management Department and the Group Environmental Steering Committee. Each ProCredit bank has an Environmental Co-ordinator, an Environmental Management Unit and an Environmental Steering Committee which secures the participation of the banks' management and other key personnel.

Pillar 1 relates to all **in-house measures** aimed at reducing the banks' internal environmental impact. This includes ensuring that the appropriate policies and procedures are in place as well as implementing the group-wide resource use data collection tool. Given efforts over the last two years, the group is now well-placed to track overall energy, water and materials consumption, the use of different means of transport, and waste generation and recycling. This information being gathered enables the banks to define goals, activities and concrete action plans to improve their internal environmental performance. Additionally, a great deal of effort is invested in increasing internal awareness and changing staff behaviour. Steps were taken at most banks to either erect new "green" buildings or to retrofit existing branches and service points.

Pillar 2 aims to **reduce the external impact** of the banks' lending activities. Here, improvements are steadily being made to the "Group Standards for Managing the Environmental and Social Impact of Lending", which was accompanied by many staff capacity-building events. In 2013, a set of environmental and social guidelines and checklists were developed for key industries for staff to use in the risk assessment of lending clients. Consequently, our front office staff are now better equipped and more able to assess the environmental and social impacts of clients' activities, to make consistent assessments of cases, to draw informed conclusions and to suggest appropriate lending solutions. Plans for 2014 include expanding and deepening the guidelines and checklists being used and preparations for reporting in line with the Global Reporting Initiative (GRI) framework.

Pillar 3 is concerned with **expanding our "green loan" portfolio**. A ProCredit "green loan" is not a stand-alone lending product with subsidy and/or grant elements, as is often the case with other banks in our markets. Rather, for ProCredit the term "green loan" is used to distinguish certain lending solutions from others based solely on the purpose for which the funds will be used.

The ProCredit group is pioneering an approach where green loans can be used to finance investments undertaken for the following purposes:

- *Energy Efficiency (EE) investments* – use less energy or resources to achieve the same or an increased level of output, where required energy savings are at least 20%.
- *Renewable Energy (RE) investments* – harness natural resources that are inexhaustible within human time scales or that are replenished much more quickly than they are depleted.
- *Environmentally friendly investments (Gr)* – have a direct positive effect on the environment, even though there may not always be measurable energy savings or reductions in greenhouse gas emissions (e.g. organic agriculture, water and soil protection, licensing and certification, consulting and planning services to reduce environmental pollution, etc.).

The group has developed centrally approved *short lists* and *long lists* of eligible standard and non-standard *green* investments. These lists state the criteria an investment must meet in order to qualify as an energy efficient measure. Simple to understand and easy to use, these lists and guidelines aim to help staff present, identify and promote the investments in energy efficiency, renewable energy and environmentally friendly measures to our clients. This is supported by a reporting system within the group's core banking system to allow the flagging, categorisation and reporting of EE, RE and green loans in the banks' portfolios. A separate report providing more detailed results in all three pillars is available.

Photo: ProCredit Bank Serbia, Environmental Branch Niš

Photo above: ProCredit Bank Bulgaria. Photo below: Banco ProCredit Ecuador

The volume of outstanding green loans increased by more than 60% to EUR 126.5 million compared to end-2012. The average outstanding amount of the green loans in the portfolio was slightly below EUR 11,000.

Internationale Projekt Consult (IPC) provides technical support and training at both group and bank level. Efforts at the group level have benefited from generous support from the **DOEN Foundation** and the **Development Bank of Austria**.

Prevention of money laundering and fraud

Another important aspect of ensuring that ProCredit institutions adhere to the high ethical standards is the consistent application of international best-practice methods to protect ourselves from being used as a vehicle for money laundering or other illegal activities, such as the financing of terrorist activities. In order to prevent money laundering, fraud and the financing of terrorist activities, all ProCredit institutions 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. In addition, all ProCredit institutions adhere to local regulations on AML and the prevention of terrorist activities and fraud. At the heart of our approach are the efforts made by our staff to know their customers personally, and the set of safeguards created by the rigorous operational and security procedures employed by the group. All ProCredit banks have an AML officer who oversees the implementation of group-level and local policies and training. ProCredit Holding co-ordinates these efforts on a group-wide level and carries out detailed reporting in line with the applicable local and international regulations. All ProCredit institutions use the same monitoring software solution for the prevention of money laundering (Siron® AML, Siron® PEP and Siron® Embargo) provided by the German company Tonbeller.

Fraud is a risk which all banks must take measures to combat. Given our countries of operation and the high degree of decentralised decision-making necessary in our business, fraud is perceived to be a particularly important risk in our operations. However, our emphasis on building a corporate culture founded on strong business ethics and transparent communication has proved to be highly effective as a means of preventing fraud. We select only the best staff, train them thoroughly, and support our operations with the appropriate procedures for assessing and eliminating fraud risk.

Staff Development at ProCredit

The key to ProCredit's success is our employees, who are putting our "House Bank for Small Business" positioning and philosophy into practice in 22 countries. Responsible financial intermediation requires staff who are willing and able to establish long-term relationships with our customers and provide them with efficient and effective service in a friendly and competent manner. We are proud to have a team that lives the values of transparency, open communication, social responsibility and excellent customer service. They take their job seriously to offer clients good advice and appropriate services which help both in good times and in times of financial difficulty.

Group-wide philosophy and policies

Central to the ProCredit group's business model is therefore a deeply thought-through approach to our human resources. Group-wide standards have been established for the whole range of HR-related activities, from recruitment to training to remuneration. ProCredit banks have strong HR departments and committee structures to ensure a structured, transparent and institutionalised approach to all aspects of staff development.

Finding ProCredit people: Staff recruitment and the Young Bankers Programme

Our disciplined approach to recruitment illustrates our commitment to a certain way of doing business. We seek people who are honest, down to earth and willing to learn. We are looking for people who like to work with others and who take an interest in the world; people who enjoy working with clients and colleagues, and people who have a good instinct for business. We also encourage people from different educational and professional backgrounds as

Photo: ProCredit Academy, Germany

we believe in the diversity of our teams. At the same time our staff and our managers need sound analytical abilities, a professional approach and the capacity to develop good judgment skills.

All potential new recruits have to go through a rigorous selection process. People wishing to apply for a position at a ProCredit bank need to submit a CV and a motivation letter. The next stage is a telephone conversation with a member of the bank's HR department, after which promising applicants are then invited to participate in a written test in basic mathematics and logic. A one-day assessment, involving group discussions and individual interviews, follows. Successful candidates are then invited to a two-week focus session where they have the chance to both demonstrate that they possess the required social, communication and analytical skills and get an insight into ProCredit as an institution and as an employer.

Selected candidates then attend a six-month training programme (called the "**Young Bankers Programme**"), which covers all aspects of our approach to banking and challenges participants to take responsibility for the way in which they can contribute to ProCredit and building a fair financial sector. If you visit the website of any our international ProCredit banks, you can see this process outlined in detail. The programme combines classroom instruction with group work and practical training, covering a broad range of technical, business strategy, socio-economic and ethical topics.

The ProCredit approach to recruitment is unusually rigorous compared to the norm in the countries in which we work, where often "who you know" counts more than what your potential is. It is much appreciated by potential employees. It is also stimulating reforms in the wider banking sector as competitors see the need to provide more meaningful training for staff. Furthermore, investments in real training and challenging, independent thinking are unusual in the education system and in the private sector in most of our countries of operation. The ProCredit Young Bankers Programme therefore stands out: it is an opportunity to learn and to understand how ProCredit is different. It helps young people to make the right choices about their career and helps ProCredit identify people who are likely to contribute over the long-term. Take the view of Rona Rushiti, today a Client Advisor in ProCredit Bank Kosovo, and a Young Bankers Programme graduate:

"At university we didn't have a culture of debate and our opinions weren't considered. In ProCredit Bank many of the debates we held during the courses have helped me to advance a lot, both professionally and personally."

We received 110,000 applications; 3,600 were selected and 2,200 were hired (as of March 2014). Out of the programmes that have been completed so far, 2,200 graduates have been hired. We are pleased to see that colleagues who have joined ProCredit in this way have a firm foundation upon which to build a long and fruitful professional relationship with the company.

Training and the Academies

Having joined ProCredit, a career-long professional development path is available to all employees. New recruits go through at least one year on the job training, including six months as a Front Officer. Existing staff receive on-going training. Customer service and communication is always a focus. Furthermore, we offer many employees intensive English language classes. In addition there has been a focus on ensuring that all staff achieve the required level of advanced maths and accounting skills. Currently we have a particular focus on developing the broad-based client advisory skills of our client-facing staff:

Photos: ProCredit Academy, Germany

- **Business Client Advisers** lie at the heart of our business model. They need the skills to assess the credit risk and banking needs of a business client, whilst building a solid long-term relationship. Training and experience is needed to achieve the good productivity levels we expect.
- **Front Officers**, in the past more used to dealing with transactions, now also need to advise clients on account and savings services in a valuable yet efficient manner so training is still required.

At the same time the training of our middle managers is central, and in particular the training of our **Service Centre Heads** and **Branch Managers** to drive business with Very Small and Small business clients respectively. The performance of our staff does not rely on short-term bonuses, but rather results from their understanding of expectations, their taking initiative and responsibility, and above all from good management. The manner in which senior managers communicate with their employees on a day-to-day basis is the principal staff management tool within the ProCredit group. At the same time, middle and senior managers need to communicate with staff to understand developments in the market. Our performance relies on us being able to adapt quickly and well to the more volatile operating environment which generally prevails in emerging markets.

Given the demands we place on management staff, much attention is given to their training, particularly in the areas of client management, personnel management and communication. In order to ensure consistently high-quality training, the group operates academies in Macedonia, Colombia and Germany, and has developed its own curricula for them. Alongside the teaching of fundamental banking principles and courses on communication and leadership skills, there are courses on philosophy, anthropology and history.

The **regional academies** in Macedonia, where we train middle management staff from Africa and Eastern Europe, and in Colombia, where the middle management staff from our Latin American banks are enrolled, provide intensive training for middle managers, typically over six two-week periods per year. All Service Centre Heads are required to complete this Academy course. The training at the regional academies is complemented by dedicated training organised both by individual ProCredit banks and by ProCredit Holding for Service Centre Heads and Branch Managers.

At our **ProCredit International Academy in Germany**, we provide a three-year part-time course for our future high-level managers. The course covers all key areas of banking, financial analysis and business development. It also includes business ethics, development economics, history, anthropology and political theory, as well as a wide range of management and communication skills. The ProCredit Academy aims to train more than 600 managers over the next ten years. All Branch Managers and all Heads of Departments are required to complete this Academy course. Since the group of participants includes staff from each ProCredit institution, students have the unique opportunity to undergo intensive training over three years with peers from very different cultural backgrounds.

Remuneration

Our remuneration system does not provide any incentive to pursue short-term advantages – we do not use bonuses, instead staff have fixed salaries: we rely on clear job descriptions and regular feedback from managers to guide the performance of our staff. This approach creates a balanced working environment and fosters a service-oriented and long-term relationship with clients, and it has proven successful in terms of both staff satisfaction and business results.

In other words, the gap between the lowest and highest salary grades is narrower than usual, the salaries earned by managers are relatively close to those of the other staff, and are also dependent – among other factors – on the successful completion of certain training programmes. Our senior managers and graduates from the ProCredit International Academy are able to purchase shares in ProCredit Holding via the investment vehicle IPC Invest. These shares are sold at a favourable price, and must be held for at least five years.

In order to ensure that the principles on which staff compensation is based are uniform throughout the ProCredit group, we have introduced a group-wide salary system. While the banks determine the amounts paid to staff in individual positions, the relationships between the salaries for various positions are defined as are the training courses which are required for each specific position. Our specialist staff appreciate the long-term salary perspective they are given within their area of expertise. This salary structure is well known to all staff and provides a transparent and fair framework within which to work and plan a professional life.

Remuneration and promotion are linked to performance appraisals. Managers give regular formal feedback to their employees throughout the year. Combined with an annual feedback conversation with a representative of the senior management, this allows each employee to establish a professional development plan together within the institution. These staff appraisal and development measures are supported by the HR departments and centrally documented to ensure a consistent and transparent career plan for each employee. They are also supported by productivity benchmarks being developed across the group.

All in all, core to ProCredit and central to our competitive advantage is the way in which ProCredit staff work with one another and with clients. We demand a great deal, but we offer much in return: a challenging, friendly working atmosphere and excellent career prospects. Our staff can take advantage of professional development opportunities not only at their own institutions, but also through international staff exchange and secondment programmes within the group.

Photo above: ProCredit Bank Armenia. Photo below: ProCredit Bank Georgia

ProCredit Institutions Worldwide

ProCredit banks: A regional approach

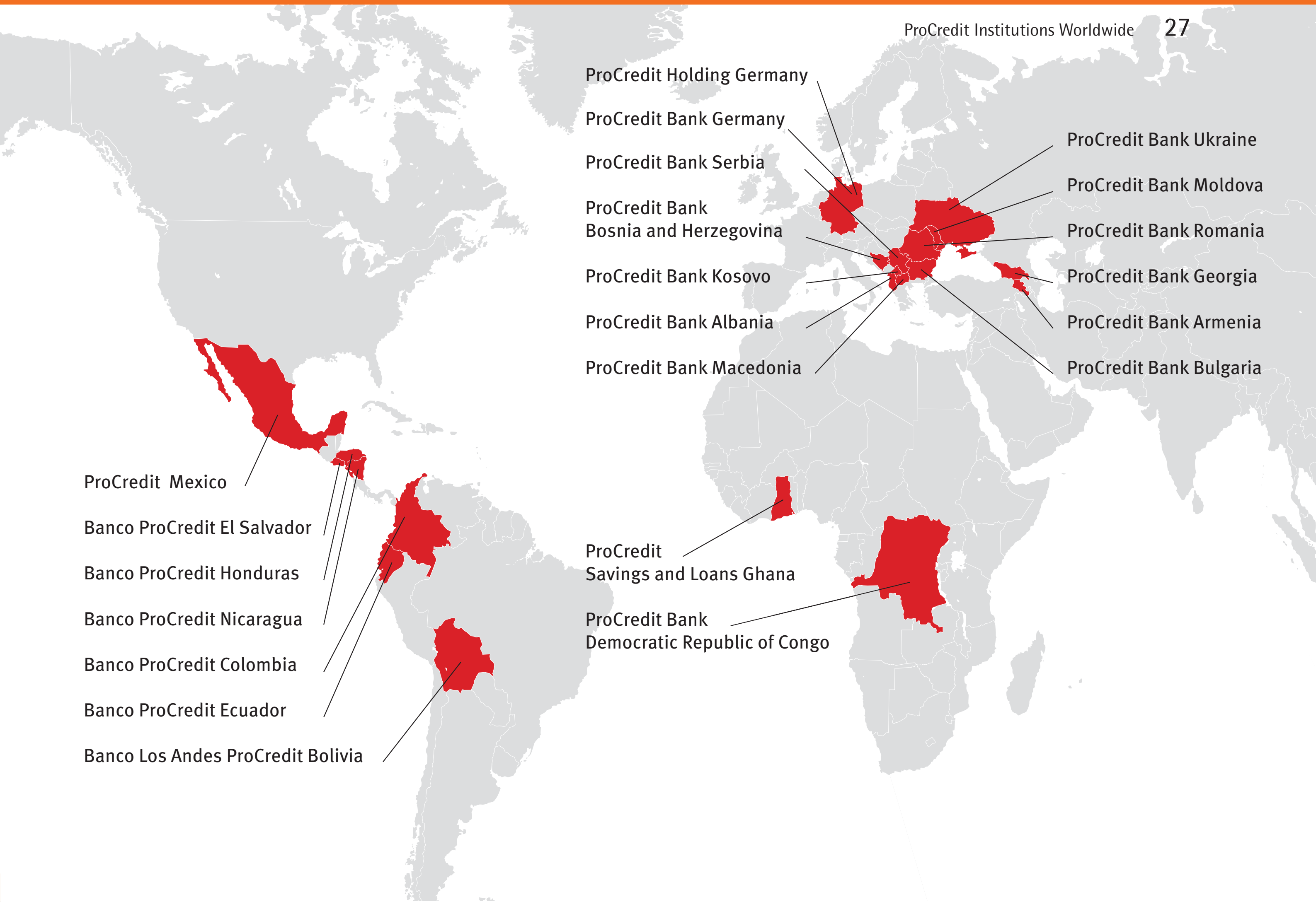
As of end-2013, the ProCredit group operates in 22 countries[1] in four regions:

- **Eastern Europe**, where 11 banks are located, accounting for 71% of group total assets
- **Latin America**, where 7 banks are located, accounting for 25% of group total assets
- **Africa**, where 3 banks[1] are located, accounting for 4% of group total assets
- **Germany**, where ProCredit Bank Germany, ProCredit Holding, Quipu and the ProCredit Fürth Academy are located, accounting for a negligible percentage of group total assets

The history of our involvement in these regions reflects the history of the group and reflects our assessment of where we have seen the best opportunities for development impact and profitable growth. We work in countries which we know well and where very small, small and medium-sized enterprises employ a major part of the population. The financial sectors of the first three regions have significantly less depth than those of Western Europe or North America: the ratios of private sector lending to GDP are typically well over 100% in the West, whereas in the transition economies and developing countries in which we work, these levels are typically at or below 50%. The potential development impact of target group-oriented banks such as ours is therefore great, and the growth potential for our banks is significant.

[1] Note: The decision to exit Mozambique was taken in early 2014. The transaction is in the process of being completed. At end-2013 the bank was still part of the ProCredit group.

Photo: ProCredit Bank Bosnia



Note: The decision to exit Mozambique was taken in early 2014. The transaction is in the process of being completed. At end-2013 the bank was still part of the ProCredit group.

We established a ProCredit Bank in Germany to provide interesting specialist services in the German market, strengthen the balance sheet of the group and support the other ProCredit banks.

ProCredit has a focused regional approach which allows us to make the most of the synergies between the different institutions in each region. For example, in each region we have regional IT service centres provided by Quipu. Furthermore, regional academies have been established to support the training of middle managers.

Our current priority is to consolidate our position in the markets in which we operate and not to expand into new countries or regions. One of the strengths of ProCredit is a management style that is based on frequent and direct personal communication. The limit we have placed on our regional expansion is to a large extent the consequence of our desire not to compromise on our highly personalised, "hands-on" style of management.

The positioning of ProCredit banks is similar in all of the markets in which they operate. All banks apply the same standards in terms of policies and approaches, branch infrastructure and HR philosophy. However, the external market environment – both in terms of macroeconomic conditions, client characteristics and the competitive situation – differs such that the group takes a regional segment approach.

Eastern Europe

Our institutions in Eastern Europe comprise:

- 7 banks in the Balkan countries of South Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR Macedonia, Romania, Serbia)
- 4 banks in the so-called Commonwealth of Independent States (CIS) (Armenia, Georgia (no longer a CIS member), Moldova and Ukraine)

The bulk of group assets lie in Eastern Europe, with our large, well-established banks in Bulgaria, Serbia and Kosovo accounting for 35.8% of our assets. The Eastern European markets in which we work are relatively more developed, competition from Western banks is strong and margins are tighter than in Latin America or Africa. The market position of ProCredit banks varies considerably – from being the largest bank in the country in the case of Kosovo to being one of the smallest, as in Romania. In all countries, however, we can meaningfully claim to be a leading player for small businesses in the geographic areas in which we work.

ProCredit banks continue to grow with our core Small business clients, although the macroeconomic context is flat. The aftermath of the financial crisis on the economies and banking sectors of Eastern Europe has been deeply negative. ProCredit banks stood out as banks which continued to lend reliably and wisely throughout the last five years. We win clients from other banks and we help existing clients to structure their finances to take advantage of any opportunities that are there. In 2013, the investment climate remained depressed, so clients were looking above all for working capital loans which we provide via well-structured credit lines and credit limit frameworks. With better economic prospects for the region in 2014 and beyond, we look forward to supporting clients as investments and expansion begin again.

Our clients in Eastern Europe are often larger and more formalised than those in other regions. Particularly in the Balkan countries we plan to grow more strongly now with formal small and medium-sized enterprises, attracting them with our more differentiated approach. The ProCredit banks in Bulgaria, Serbia and soon Romania are building relationships with larger clients who can benefit from long-term cross-border loans from ProCredit Bank Germany.

In Eastern Europe our institutions have to be particularly efficient and our staff must be highly productive, so the focus on improving staff skills and process design continues to be strong. Given the difficult macroeconomic environment and high level of NPLs in the banking sectors in which we operate, loan portfolio quality remains a continued priority. We are proud that our loan portfolio quality is so much better than that of other institutions in the markets in nearly every county in which we are present. It shows that we have helped our business clients to survive the crisis significantly better than other banks.

Latin America

Our institutions in Latin America comprise:

- 3 banks in South America (Bolivia, Colombia and Ecuador)
- 4 banks in Central America (El Salvador, Honduras and Nicaragua) and Mexico

Our history in Latin America is a long one. We helped to found the institutions in El Salvador and Bolivia already in 1988 and 1991, respectively, so our positioning and reputation there are strong. Banking sectors across the region have developed significantly over the last two decades, but much still needs to be done to improve the level of

Photo above: Banco ProCredit Colombia. Photo below: ProCredit Bank Albania financial intermediation, which is generally still below that of Eastern Europe. Small businesses are generally poorly served, non-cash-based transfers and savings are not well developed and consumer finance has created overindebtedness rather than financial empowerment amongst vulnerable groups. In this context, ProCredit banks play a valuable role.

In Latin America, very small business clients remain a mainstay of the economy and employment. Margins are wider than in our Eastern European banks and clients taking loans below USD 10,000 remain important target groups.

The macroeconomic conditions are very different in the fast-growing South American markets as compared to the more difficult Central American countries. In South America, ProCredit banks in Bolivia and Ecuador, both large banks each with more than EUR 400 million in assets, are growing well whilst at the same time becoming more efficient and streamlined. In Central America our banks are smaller, and staff and outlet numbers have come down more sharply to reflect the need to be focused given the prevailing economic and security situation.

Many of our staff in Latin America come from a long microenterprise lending tradition. They are therefore highly productive in lending terms, but are still acquiring the skills to serve the full spectrum of banking service needs of very small and small business clients. ProCredit banks are focused on training in this area to help build client loyalty and a stable retail deposit base, which is not as well developed in some Latin American ProCredit banks as in other regions. At the same time front office operations are becoming more efficient, with one-stop banking desks and modern technology such as cash-in payboxes, e-banking and cards. A reduction in the number of transaction account holders with very low average balances is helping front officers focus on building the average volumes saved. The Latin American banks are also playing an important pioneering role in bringing green finance services to clients and building public awareness about energy efficiency.

Africa

In Africa we have three institutions (in Congo, Ghana and Mozambique), although we decided in early 2014 to exit our operations in Mozambique given the limited market potential in the country. The market potential for small business clients is significant in Ghana and Congo.

Africa is in many ways the most challenging continent on which we operate. Margins are wide, but clients are informal and inexperienced, education levels are low and the operating environment is highly volatile. The demand for simple banking services from ordinary people is also great, adding complexity to the front office and requiring us to be selective with regard to the client profile that can benefit from a savings account with ProCredit.

The opportunities for ProCredit in Africa are powerful ones. ProCredit banks are unique in our African markets in providing business clients with long-term financing and a transparent partnership based on a thorough understanding of their financial position. We support professionalisation and formalisation in a way that clients value and benefit from. The value of helping families build a savings buffer and providing services in a transparent way is great.

The challenges for ProCredit banks in Africa revolve around stabilising strong teams of Service Centre Heads and Business Client Advisers able to build long-term relationships with business clients in such volatile countries. This is needed to build the loan portfolio volumes necessary to improve the financial success of our banks and bring interest rates down for clients.

ProCredit Bank Germany – A successful launch

ProCredit Bank AG (www.procreditbank.de)
ProCredit Bank AG launched its website and client business in March 2013 after it became a member of the Deposit Guarantee Fund of the Association of German Banks. With its offer of personalised and efficient service, a fair interest rate and excellent security, along with the promise to fund socially responsible lending to small and medium businesses, deposits grew quickly, reaching nearly EUR 60 million in just a few months. The long-term deposit opportunities, with maturities up to seven years, were especially well received, resulting in a stable funding base for the bank's lending operations.

In summer the bank scaled up its SME lending operations and succeeded in building up a loan portfolio of EUR 19 million by the end of the year. The bank provides long-term cross-border loans for investment projects of clients of the ProCredit banks in Bulgaria and Serbia. The bank also targets SMEs in Germany that are active in the countries in which the ProCredit group operates and has started to provide project financing for renewable energy projects. The first loan for a wind energy plant project was committed by the end of the year.

ProCredit Bank has attracted and pooled more than EUR 110 million of liquid funds from the other ProCredit banks worldwide. At the same time, the bank has provided them with funding in the form of short- to medium-term loans totalling EUR 66 million. Wherever possible, the bank arranged the funding in the respective institution's local currency, hedging the currency risk with a forward or swap. The bank adheres to a conservative investment policy based on strict sustainability criteria and has built up a bond portfolio worth EUR 50 million. These bonds are fully eligible for refinancing from the European Central Bank (ECB) and thus contribute to the group's liquidity management.

Finally, ProCredit Bank Germany plans to eventually clear and settle all international payments for all ProCredit banks worldwide. To this end, the bank launched a pilot project with two ProCredit banks in 2013. As soon as more processes have been successfully automated, the bank will scale up this service and bring the remaining ProCredit institutions on board in 2014.

From a "service bank" to an "international development-oriented bank" for clients in Germany
While the business model of ProCredit Bank Germany was initially developed around the idea of providing services for the group in the areas of funding, asset-liability management and transactions, as the year progressed the bank became increasingly confident that it was capable of doing more: With its values-based, transparent and responsible approach to banking, its implementation of the group's green finance strategy, and its personalised customer service geared towards creating long-term relationships, the bank was well received by German clients and the media. FinanzTest, a reputable independent German magazine, classified ProCredit Bank as one of eight "sustainability banks" out of more than 1,800 banks in the German market.

As companies and customers become increasingly aware of the importance of making sustainable decisions as investors and consumers, the need for a bank like ours, which is credibly positioned in this area and that reaches out to 21 developing and emerging countries, is clear. ProCredit Bank will continue to expand the range of its services and will strive to add value for this target group of potential customers.

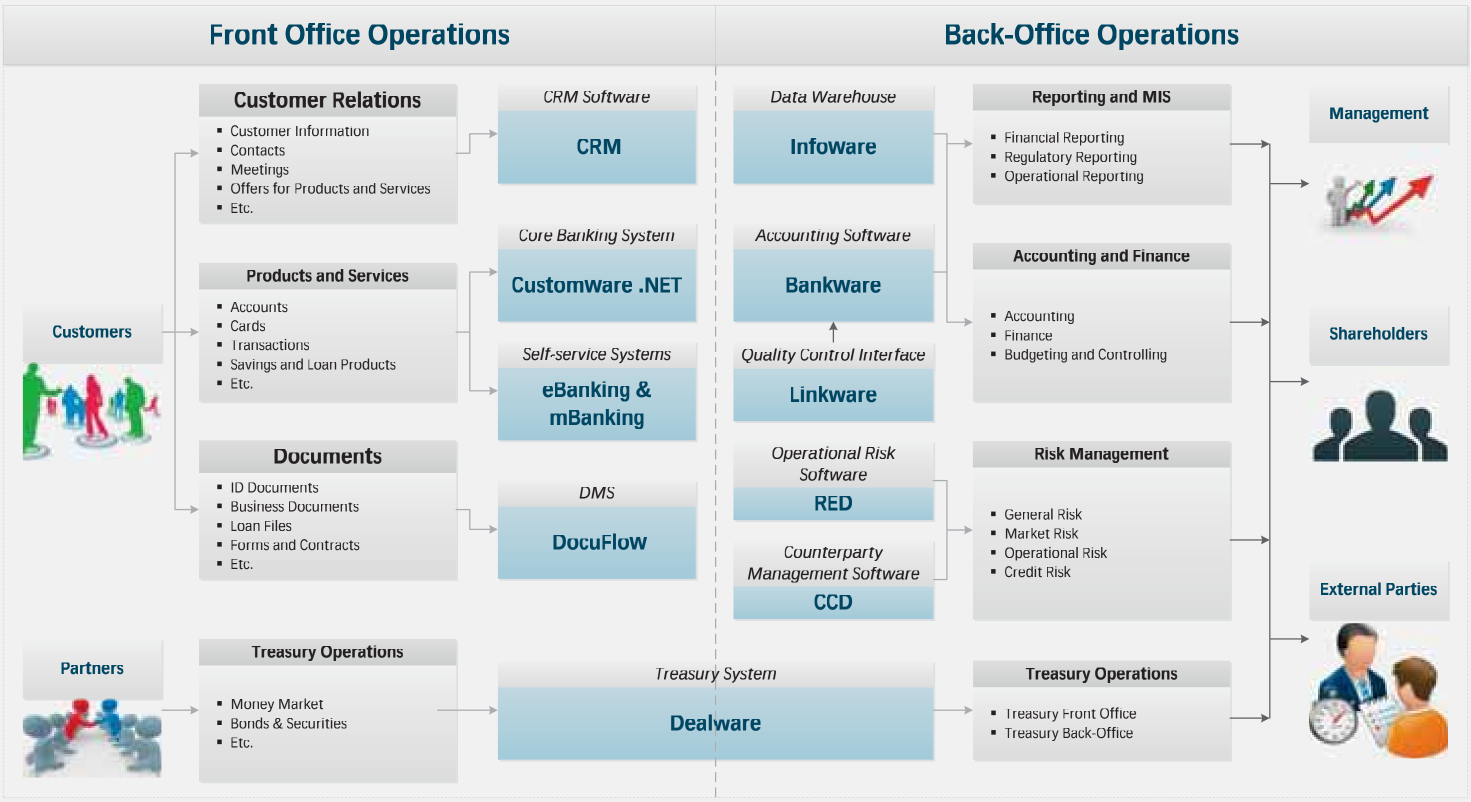


Photo above: ProCredit Bank Germany. Graphic below: Quipu Products and Services

Quipu

An inside look at Quipu – the IT service provider of ProCredit group

Quipu GmbH, the group IT service provider, brings the ProCredit institutions the benefits of an in-house provider with the discipline of an independent company. Quipu was established as a separate software company in 2004. The company has developed as the group has developed, steadily modernising its software and developing new tools as the group business model has expanded. The strength of Quipu lies in the knowledge it has developed over the years about the ProCredit banks, their business and the environments in which they operate.

Quipu is incorporated as a limited liability company (GmbH in Germany), established with the purpose of managing the IT-related services of the ProCredit group. It is fully owned by ProCredit Holding, yet it operates as an independent company providing services at a transparent cost and producing its own audited financial statements.

Quipu's internal organisation reflects its key functions. Broadly speaking, there are two main areas: **application development** and a **processing centre**. The first relates to the development, implementation and maintenance of our core banking system, while the second supports our global card business.

- **Application development** is accomplished in one of our four main development centres in Frankfurt, Skopje, Kiev and Moscow. Applications are organised as an integrated set of "Front Office" and "Back Office" business support functionalities.
- The process of **implementation** is supported by one of our regional offices. In the world of IT, as in many other fields, personal connection and communication is invaluable and key for successful co-operation. Quipu therefore has regional offices close to the ProCredit institutions in Ukraine, Macedonia, Ghana, Colombia and El Salvador. The specialised teams in these offices support the banks whenever a new application or new version needs to be deployed.
- The task of software **support and maintenance** is also largely performed by our regional offices, where the knowledge about and communication with each ProCredit bank are well-established.

The Processing Centre is at the heart of the growing Quipu card business.
The organisational structure of the Processing Centre reflects the card business cycle: card production takes place in our Personalisation Centre in Kosovo while transactions are processed in our Operational Department in Frankfurt, where our equipment is located. Every month, millions of transactions are processed in a very fast and reliable way.

Risk and security are fundamental issues in the card business. Every transaction is scrutinised by powerful algorithms which try to identify possible fraudulent activities on our customer cards.

In **summary**, Quipu provides comprehensive software solutions tailored for the specific business needs of ProCredit banks at a competitive price. Its priorities are guided by the banks and the ProCredit Group IT Steering Committee. Over years, its 164 staff have built a thorough understanding of and strong working relationships with the banks in the group, allowing the developments needed as banking sectors develop and innovative technology emerges to be swiftly and efficiently implemented.

Clients

Photo: Petko Katsarov
Owner of Helios Milk EOOD
Client of ProCredit Bank Bulgaria

"My relationship with ProCredit Bank is very open and clear. I can count on the bank's experts and can call them for advice at any time. That is why I only work with ProCredit Bank."

Petko Katsarov established his private business in 1993 when he was 29 years old. He already had some experience in sales of a famous brand of processed cheese, so for three years his company was mainly involved in the trade of dairy products. In 1996 he started manufacturing his own dairy products and since then the company has operated under the brand name "Helios".

"This profession seems to run in my family – my father also worked in the dairy industry for many years. Since I am not a graduate of any dairy industry college, the experience that my father gave me turned out to be extremely important."

Later, Mr Katsarov focused mainly on the production of processed cheese, which he considers to be the most cost effective. From 1999 to 2007, Helios Milk's wares were produced in premises of just 900m² near the city of Burgas on the Black Sea coast, but the site eventually became too small for the growing business. Therefore, in 2007, he built a new 2,000m² facility in the industrial zone of the town of Aitos and moved the company's entire production there.

The company is one of the few processed food manufacturers in the Burgas region, which is better known for tourism. The owner of Helios Milk approached ProCredit Bank in 2010 when he was looking for finance to purchase new machinery. Since then Helios Milk has taken advantage of ProCredit Bank's financial services more than five times. The company has benefited from investment and working capital loans, as well as credit lines and bank guarantees.

At the end of 2012 Mr Katsarov took out a loan from ProCredit Bank to invest in the purchase of two new machines. The new equipment is energy efficient and is used to wrap processed cheese in round or triangular packaging. The new packaging machines helped to boost the production volume by both increasing capacity and preventing losses through equipment failure, ensuring that all client orders can be fulfilled.

Although most of Helios Milk's processed cheese is sold on the Bulgarian market, increased productivity has allowed the company to look for new markets abroad. Recently, Helios Milk started exporting its processed cheese to Romania.

ProCredit Bank Bulgaria:

Petko Katsarov

Owner of Helios Milk EOOD

First contact with ProCredit Bank

2010

Name/type of business

Helios Milk EOOD, dairy product production

Number of employees

50

Services used

Investment loan
Credit line
Bank guarantees
Currency transfers
Online banking - ProB@nking

Why ProCredit?

"My relationship with ProCredit Bank is very open and transparent. When I need advice, I can always count on the bank's experts."

ProCredit Bank Macedonia:

Ramadan Veselovski

Agricultural producer of cherries and strawberries

First contact with ProCredit Bank

With his first loan to modernise equipment and machinery, 2007

Name/type of business

Family business
Agricultural production, primarily cherries and strawberries
Mainly exported to the Russian market

Number of employees

6 permanent staff (family members)
3 seasonal employees

Services used

Two investment loans for machinery and equipment
Current account
Debit card

Why ProCredit?

"The main reason I chose ProCredit is because my neighbours and colleagues recommended it as a bank that specialises in supporting agricultural businesses."

"ProCredit has accompanied all of my investment activities so far. As a next step, I hope to purchase freezers with the bank's support as well."

Along with his brother Shakir, Ramadan Veselovski became involved in his family's agricultural business at an early age. He has been a successful grower and exporter of regional produce in his village near Skopje, Macedonia for more than seven years.

Starting with only three acres of land to grow cherries, he and his brother soon agreed that they could expand the business.

"Me and my brother were convinced that we could do even better. We believed that we could support our extended family with the business."

They decided to plant more cherry trees and to diversify their output by adding strawberry crops as well. The entire Veselovski family, including Ramadan's wife and three kids and his brother's four-member family, worked very hard on this project. As their business grew, with more 27 acres of cherries and strawberries, they realised they would need to modernise their equipment in order to ensure high-quality processing of the seedlings.

"ProCredit held a direct promotion in our village explaining the bank's services and the possibility for farmers to repay loans according to the seasonality of their business. That was the first time I considered a loan. In addition, more than 50% of our neighbours had received loans from ProCredit, so the bank enjoys a good reputation as a financial partner for agricultural producers."

In 2007 Ramadan managed to find a wholesaler through which he could export his cherries and strawberries on the Russian market, a step that required a standardised guaranty of the quantity and quality of the produce. In line with the growth and harvest periods, he took out his first loan in 2007 in order to buy new cultivators, which he needed for faster and better processing of the orchard. Two years later he further modernised his production with additional equipment, such as orchard sprayers, with an additional loan from ProCredit Bank.

In the future, Ramadan plans to invest in freezers, which will enable him to keep the fruit fresh for much longer periods after it has been harvested. In this way he can be more competitive by continuing to sell his crops even after the main season.

Photo: Ramadan Veselovski
Agricultural producer of cherries and strawberries
Client of ProCredit Bank Macedonia

Photo: Tomislav Obradović
Owner and manager of Ni Tehno klime
Client of ProCredit Bank Serbia

“We deal with wholesalers and have over 1,200 customers; every year for the past 14 years we have achieved 20 to 30 percent growth. This is largely due to the co-operation and understanding of ProCredit Bank, which is a lot more than just a business partner for us.”

Ni Tehno klime, which is based in Niš, was established 15 years ago and today employs 14 people.

The company focuses on the sale and installation of air conditioning and ventilation units for commercial and residential clients. They have secured their place in the market by providing exclusively branded components and devices from recognised manufacturers, along with a proven reputation for quality, fair customer relations, professionally trained staff and the latest technologies in the field.

The company has experienced year-on-year growth and over the last two years has seen its biggest growth, with the number of operations reaching an all-time high.

ProCredit Bank has supported Ni Tehno klime as it developed a completely new look and expanded into larger and more modern business premises. For example, a EUR 75,000 investment loan enabled the company not only to renovate its offices and enlarge its warehouse, but also to construct an extension which now houses its showroom.

The company's management considers ProCredit Bank's courteous service and well-trained staff to be the bank's main assets.

“In my opinion, ProCredit Bank stands out due to the great number of very ambitious and efficient young people it employs, which is a good reason for recommending ProCredit Bank. We are more than satisfied with our co-operation with the bank, and I'm sure that our partnership will be even more successful in the coming years,” says Obradović.

Ni Tehno klime plans to continue to expand its network of operations and acquire new machines which will allow it to manufacture parts that it previously had to buy, and which will most certainly ensure a bright future.

ProCredit Bank Serbia:

Tomislav Obradović

Owner and manager of Ni Tehno klime

First contact with ProCredit Bank

2010

Name/type of business

Ni Tehno klime, sale and installation of air conditioning and ventilation units

Number of employees

14

Services used

Working capital loan
Investment loan
Overdraft
Domestic payment services
Internet banking

Why ProCredit?

“I was surprised by how professional ProCredit is and how much knowledge, financial and technical, their representatives have. Everything is always explained in detail, and supported by concrete analyses. The advisers from ProCredit Bank really know their clients, they work very quickly, and they are always ready to meet their clients' needs.”

Banco ProCredit Ecuador:

Manuel Roberto Tolozano Benítez

Founding Director of Instituto Tecnológico Bolivariano

First contact with Banco ProCredit

2011

Name/type of business

Instituto Superior Tecnológico Bolivariano de tecnologia, institute for technical studies

Number of employees

200 (administration and teaching staff)

Services used

Investment loans
Current accounts
Token, online banking
Text message service
Payroll service
Money transfers

Why ProCredit?

"What sets Banco ProCredit apart from other banks is its staff. Although it has been rated AAA- and despite the fact that it has grown tremendously, it has maintained its direct, caring and personal approach to customer service."

"We will always consider Banco ProCredit when planning our present and future projects, as it is a strategic institution for us – it's our ally."

Roberto Tolozano Benítez, a native of Guayaquil, the largest city in Ecuador, is the Founding Director of the Instituto Tecnológico Bolivariano (ITB), a recognised educational institution, which started as a family initiative. The business was formalised in 1995 and today has more than 200 staff members, including instructors and administrative staff.

Now 49, Tolozano emphasises that ITB's mission is to provide society with technical professionals specialising in fields such as nursing and pedology, among others. The institute aims to create well-rounded individuals, future leaders and responsible citizens with regard to the country and the environment.

In 2008, based on ITB's success, Mr Tolozano was named administrator of the Instituto Superior Tecnológico de Formación Profesional Administrativa y Comercial, which began with 40 students and today has 1,104. His interest in improving accessibility to the campus buildings underlines his efforts to include groups with disabilities. He manages the institute with his sister, Elena Tolozano, who is the Academic Assistant Director. Mr Tolozano first heard about ProCredit through a business acquaintance and began banking there in 2011. *"Banco ProCredit offered us a credit line, which enabled us to acquire a second campus for our institution. For us, ProCredit is more than a bank, it's a strategic ally for our business."*

The businessman mentions that ProCredit not only offered him financial services, but also a relationship with an institution with moral principles and an ethical business philosophy: *"One thing that sets Banco ProCredit apart from traditional banks is the fact that even though it is rated AAA-, and constantly growing and expanding, it remains close to its clients. We appreciate the direct contact that we have with ProCredit staff."*

Recently the institute was named the best educational SME for technological and higher education. Among the various future projects that ITB has in mind is creating a new campus.

Photo: Manuel Roberto Tolozano Benítez
Founding Director of Instituto Tecnológico Bolivariano
Client of Banco ProCredit Ecuador

Photo: Nelson Clímaco
Head of Design and CNC Production of SIRVELTSA
Client of Banco ProCredit El Salvador

Banco ProCredit has given us excellent service, from the personalised attention we received from the Business Client Adviser to helpful financial services.

With only one lathe and a drill, Mr Rosbel Clímaco and his uncle started their business – a metal parts workshop – in 1994.

In 1997, somewhat more independent and with a base of loyal customers who relied not only on his work but also on his advice and attentive customer service, Mr Clímaco saw his workshop and client base grow due to customer recommendations.

Mr Clímaco's brothers and father eventually joined the company, and in 2005 SIRVELTSA (Soluciones Industriales Roosevelt S.A. C.V.) was born, a legal entity dedicated to the manufacture of metal parts for industrial machinery. Some of the company's major achievements were to expand into new markets that were not covered by other local workshops and to begin producing metal parts for equipment and machinery used in the pharmaceutical and food processing industries. As a result, his customer base grew even further, which prompted him to expand his business and to move it to its current location.

Having become the local as well as regional market leader, SIRVELTSA decided to acquire its first high-tech computer-aided machinery in 2006, something that was not very common in El Salvador at that time.

In 2008, a Banco ProCredit Business Client Adviser approached Mr Clímaco to offer a range of financial services, which was the opportunity he had been waiting for, as he had plans to expand and acquire new machinery. With the loan he received from Banco ProCredit, he acquired a CNC lathe which can produce several metal pieces at the same time with less energy, thereby improving efficiency. Recognising the benefits of this investment, the family business now hopes to obtain an "eco loan" from Banco ProCredit to acquire another CNC lathe to further boost production levels and reduce energy costs.

Mr Nelson Clímaco, Mr Clímaco's brother and co-operator of SIRVELTSA, also emphasises that the bank's support has not been limited to financial aspects: *"No other bank has given us the all-round support that Banco ProCredit has."*

SIRVELTSA currently has 55 employees and boasts more than 200 customers. In the future, the company plans to expand its range of products and services through strategic alliances in order to continue to offer the unique industrial solutions for which the company has become known. As always, Mr Clímaco is confident that Banco ProCredit will help him to achieve these goals.

Banco ProCredit El Salvador:

Nelson Clímaco

Head of Design and CNC Production of SIRVELTSA

First contact with Banco ProCredit

2008

Name/type of business

SIRVELTSA (Soluciones Industriales Roosevelt S.A. C.V.), manufacture of metal parts for industrial machinery

Number of employees

55

Services used

Investment loan
Current account

Why ProCredit?

"Banco ProCredit is different from other banks. The service we receive gives us more benefits than just a loan."

ProCredit Bank Congo:

Dr Crispin Manzombi

Owner and medical director of Centre Hospitalier pour Anémiques SS/ St Crispin

First contact with ProCredit Bank

2009

Name/type of business

Centre Hospitalier pour Anémiques SS/ St Crispin, medical centre for sickle-cell disease

Number of employees

19

Services used

Investment loans

Transfers

e-Banking

Mobile Banking

Why ProCredit?

"When I needed help to grow my business, many institutions were suggested to me. I contacted all of them but I found ProCredit Bank was best able to accommodate my needs, and its employees were more professional and welcoming than the others."

"Besides the loan that was granted to me, I discovered that ProCredit is an international bank offering its customers a large package of modern banking products and services."

Crispin Manzombi, a 59-year-old father of nine children, is a doctor specialising in sickle-cell disease who graduated from the University of Kinshasa in 1981. Dr Manzombi has been practising for 33 years, and now owns a healthcare centre, "Centre Hospitalier pour Anémique SS/ St Crispin", located on Avenue Kongolo, in the Joli-Parc neighbourhood of Ngaliema, a district in the western part of the capital.

Before he opened the health centre, Dr Manzombi used to receive four or five patients a day at his home in addition to his service at the public hospital. Parents whose children were being treated by Dr Manzombi recommended him to others and quickly the number of patients grew. He soon realised that he would need more space and more medical equipment to receive and treat all these patients.

He first heard about ProCredit Bank Congo from a fellow physician who had borrowed from the bank in the past, and had been pleased with the service he received. Dr Manzombi submitted his first loan application in 2009, using the USD 20,000 to start building his health centre. Very satisfied with the way this project had been handled, he decided to broaden his relationship with the bank by opening salary accounts through which he now pays his 19 employees. In 2011, Dr Manzombi applied for a second loan of USD 30,000 which helped him to continue his construction project. With his current loan of USD 27,000, he intends to equip his health centre with modern medical equipment in order to provide his patients with quality service.

Crispin Manzombi says he is proud to be a client of ProCredit Bank, which has enabled him to achieve his greatest dream of establishing and developing his own health centre. This is an ongoing project – Dr Manzombi plans to continue expanding and modernising his facilities, and believes that ProCredit Bank is the only financial institution that can give him the support he needs. "*I'm convinced that my bank will always be by my side to make my dream come true*," he says confidently.

Photo: Dr Crispin Manzombi
Owner and medical director of Centre Hospitalier pour Anémiques SS/ St Crispin
Client of ProCredit Bank Congo

Corporate Governance

The ProCredit group operates in accordance with international best banking practices and with German regulatory standards. ProCredit Holding AG & Co. KGaA is the parent company of the group, controlling the majority of shares in all 22 ProCredit institutions worldwide. It recognises and protects the interests of the minority shareholders in all the institutions in which it invests. Since January 2012, ProCredit Holding has been licensed by the German Federal Financial Supervisory Authority (BaFin) as the "superordinated company" of the group, which according to section 10a, paragraph 3, line 1 of the German Banking Act (*Gesetz über das Kreditwesen or KWG*) is responsible for maintaining an adequate level of equity for the group and ensuring that all reporting, risk management and compliance obligations required under German banking regulations (specifically as defined in section 25a of KWG) are met, particularly in relation to risk management and the prevention of money laundering, fraud and the financing of terrorism.

All institutions in the group have a two-tier board regime consisting of a Supervisory Board and a Management Board. These boards are supported by an Internal Audit Department and an Audit Committee, the latter of

Photo: ProCredit Bank Democratic Republic of Congo which reports directly to the Supervisory Board and the shareholders. Appropriate controlling, risk management and compliance systems are in place across the group, in line with the principles and standards set forth in BaFin's policy document, "Minimum Requirements for Risk Management", commonly referred to as "MaRisk".

The role of ProCredit Holding

The main functions of ProCredit Holding vis-à-vis its subsidiaries are the provision of equity and debt financing, strategic guidance and supervision. It sets the overall policy guidelines and standards regarding all key areas of banking operations. These policies and standards are in line with the standards required by German banking regulations. ProCredit Holding is responsible for ensuring that all ProCredit institutions have appropriate organisational structures and procedures in place that reflect these policies, and that they apply appropriate standards for risk management and the prevention of money laundering, fraud and the financing of terrorism. It is also responsible for maintaining adequate capitalisation levels across the group. All economic transactions between the company and its subsidiaries are on an arm's length basis.

ProCredit Holding is strongly involved in staff management and training issues. ProCredit Holding staff sometimes occupy key senior management positions in ProCredit banks. Furthermore, all local senior managers will have passed through the international ProCredit Academy in Germany and so are familiar to ProCredit Holding management and well integrated into the ProCredit group. Via membership on local Supervisory Boards, ProCredit Holding is also involved in the appointment of local Management Board members. It takes the lead in the development and delivery of curricula in the central ProCredit Academy in Fürth and the group's Regional Academies. It also facilitates the rapid dissemination of best-practice approaches by running regular seminars and workshops for the senior middle managers (heads of departments and branch managers) of all ProCredit institutions.

Legal form of ProCredit Holding

ProCredit Holding is a so-called KGaA (*Kommanditgesellschaft auf Aktien*, or in English "partnership limited by shares"). This is a legal form not uncommonly used in Germany. It can basically be regarded as a joint stock company in which the role of the Management Board is assumed by a General Partner, and in which the General Partner has consent rights over certain key shareholder decisions. In the case of ProCredit Holding, the General Partner is ProCredit General Partner AG, a small separate company which is owned by some of the founding and largest shareholders of ProCredit Holding AG & Co. KGaA: IPC, IPC Invest, IPC Invest 2, DOEN, KfW and IFC. ProCredit General Partner AG does not have shares in the KGaA. It employs the same management team as the one at the head of ProCredit Holding AG when the KGaA was formed. The KGaA structure will allow ProCredit Holding to raise capital in the future without unduly diluting the influence of core shareholders in ensuring that the group maintains its dual goals: development impact and commercial success.

Management and supervision of ProCredit Holding

ProCredit General Partner AG provides the management of ProCredit Holding. As a stock corporation it has a supervisory structure which appoints and oversees its Management Board. There is an expert six-person Supervisory Board which meets at least three times per year. Its members are appointed by the Shareholders' Meeting of ProCredit General Partner AG and they co-ordinate the overall direction for ProCredit Holding and the group and supervise the Management Board. Specifically, the Supervisory Board must review the Group Business Strategy, Group Risk Strategy and Group IT Strategy. It also approves all significant investments. It is chaired by Dr Claus-Peter Zeitinger.

The Management Board of ProCredit General Partner AG (in turn the management of ProCredit Holding) comprises Dr Gabriel Schor, Dr Antje Gerhold, Borislav Kostadinov, Dr Anja Lepp and Helen Alexander. Their role is to guide the operations of the ProCredit banks and to oversee the activities of both the holding company's personnel in Frankfurt and the staff of the banks worldwide. Details of the compensation package of the Management Board members are available on the ProCredit Holding website.

In addition, **ProCredit Holding AG & Co. KGaA** has a Supervisory Board, appointed by the Shareholders' Meeting of ProCredit Holding, to monitor the performance of management and the group. Currently, the membership of the Supervisory Boards of ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA is identical, reflecting the similar role of the core shareholders in both entities.

Management and supervision of ProCredit institutions

ProCredit institutions are regulated by their local banking authorities. In 2012 all ProCredit institutions also came under group supervision by the German regulator. Appropriate arrangements are in place between the German and local supervisory authorities. Each ProCredit institution has an independent Supervisory Board appointed in compliance with local laws, banking regulations and local Shareholders' Agreements. As the majority shareholder in each bank, ProCredit Holding appoints the majority of members of each Supervisory Board. Typically, a senior manager of the ProCredit group acts as the chairperson of each Supervisory Board and thereby guides each institution in line with the group's business and risk strategies and policy framework. Minority shareholders may nominate additional Supervisory Board members, and independent directors are appointed where appropriate.

Each ProCredit institution has a Management Board whose role and composition are defined in accordance with local laws and banking regulations. This two- to five-person body comprises carefully selected local senior managers who are highly experienced in the fields of banking and financial sector development and have on average more than 10 years of experience with the ProCredit group. Local senior managers and members of the Management Board are required to have participated in the ProCredit Academy in Fürth, Germany. Additionally, the Management Board may include an experienced international employee of ProCredit Holding. A single General Manager or Chief Executive Officer may be appointed, particularly if required by local law, but as a rule the ProCredit group prefers its banks to have a balanced Management Board where responsibilities are well structured and shared. Service agreements between ProCredit Holding and its subsidiaries cover the provision of senior management staff as well as various support services. Key ProCredit group employees may participate in ProCredit Holding by purchasing shares in the company via IPC Invest GmbH & Co. KG at a preferential price. No other form of stock option or share purchase plan is in place for ProCredit managers or staff.

Audit, internal control and risk management systems

All ProCredit institutions have an Audit Committee as required by local banking regulations. The Audit Committee is typically appointed by the institution's Shareholders' Meeting and reports to its Supervisory Board and shareholders. The Chairperson of the Audit Committee is usually a member of ProCredit Holding's Group Audit team.

ProCredit Holding takes lead responsibility for the appointment and training of staff in the Internal Audit Department of each institution.

The ProCredit group applies a standardised, comprehensive approach to risk management, controlling and reporting; implementation is monitored by ProCredit Holding. Group risk management and anti-money laundering policies are in line with German banking regulations and are updated annually to reflect new experiences and developments. These policies and their implementation are audited by the group's Internal Audit teams and external auditor, KPMG. As a matter of principle, ProCredit is firmly committed to transparency and takes a conservative approach to risk management at every level of its operations. Each institution follows the "four-eyes principle", ensuring that significant transactions are independently cross-checked. All institutions implement appropriate control and risk management systems, as outlined in the Risk Management section of this report.

Capital and shares

All ProCredit Holding shares are voting shares. Decisions regarding dividends are made by the Shareholders' Meeting both at the level of the individual ProCredit institutions and at the ProCredit Holding level.

Photo: ProCredit Bank Ukraine

ProCredit Holding Shareholders

ProCredit Holding was founded by IPC and IPC staff (via IPC Invest), supported by the Dutch DOEN Foundation. They were then joined by the international financial institutions (IFIs) KfW, DEG, IFC, FMO and BIO, and in 2009 by PROPARCO. The IFIs had often invested in the individual institutions as well as in the holding company, and then sold their shares in the local institutions over the years, allowing the group to consolidate ownership at the level of ProCredit Holding.

Over the years a number of socially responsible investors have become shareholders, namely:

- in 2004: responsAbility and FUNDASAL
- in 2006: the U.S.-based pension group TIAA-CREF and the Omidyar-Tufts Microfinance Fund, and
- in 2012: MicroVest and the GAWA Microfinance Fund

The substantial investment of these partners shows that ProCredit Holding is an attractive investment for those who are seeking a reasonable return on equity from a secure investment which at the same time has a significant development impact.

In 2011, the shareholders unanimously decided to change the legal form of ProCredit Holding to a KGaA (Kommanditgesellschaft auf Aktien, or "partnership limited by shares") in order to facilitate future capital-raising activities. In this structure all shares are ordinary voting shares.

All shareholders are committed to the twin goals of the ProCredit group: commercial success and development impact.

Shareholder Structure of ProCredit Holding as of December 2013

Shareholder	Subscribed Capital (in EUR '000)	in %
IPC GmbH	45,039	17.7
IPC Invest GmbH & Co. KG*	17,384	6.8
KfW	34,609	13.6
DOEN	33,853	13.3
IFC	26,175	10.3
TIAA-CREF	25,282	10.0
Omidyar-Tufts Microfinance Fund**	14,439	5.7
BIO	14,390	5.7
FMO	13,456	5.3
responsAbility***	9,143	3.6
PROPARCO	6,606	2.6
Fundasal	4,878	1.9
MicroVest****	4,586	1.8
GAWA	1,341	0.5
responsAbility Participations	2,942	1.2
Total Subscribed Capital	**254,123**	**100**

* *IPC Invest's shares are held by IPC Invest GmbH & Co. KG with a par value of EUR 9.81 million and IPC Invest 2 GmbH & Co. KG with a par value of EUR 7.57 million.*

** *Omidyar-Tufts shares are held by the Omidyar-Tufts Microfinance Fund with a par value of EUR 13.2 million and Ohana-Holdings LLC (Omidyar Family office) with a par value of EUR 1.3 million.*

*** *responsAbility's shares are held by the responsAbility Global Microfinance Fund with a par value of EUR 5.9 million, the responsAbility Microfinance Leaders Fund with a par value of EUR 2.8 million and the responsAbility BOP Investments Fund with a par value of EUR 0.4 million.*

**** *MicroVest's shares are held by MicroVest II-A, LP with a par value of EUR 3.7 million and by MicroVest+Plus, LP with a par value of EUR 0.9 million.*

IPC – Internationale Projekt Consult GmbH, a Frankfurt-based company, was founded in 1980. Since then IPC has been breaking new ground in the field of development. IPC pursues its objectives by carrying out consulting assignments, assuming management responsibility and making selective investments. One of the guiding principles underlying IPC's work is the commitment to transmitting entrepreneurial values, which IPC regards as the motor of development. In particular, as founding shareholder of ProCredit Holding, IPC has set new standards in the establishment of target group-oriented financial institutions. We remain the group's leading shareholder and strategic investor. Today IPC's long-standing experience and expertise is concentrated in three main areas: 1) MSME finance – We advise institutions that offer financial services to micro, small and medium-sized enterprises and agricultural businesses. 2) Environmental management and energy finance – Together with interested financial institutions, we formulate strategies to redesign their infrastructure, business processes and services in an environmentally sound manner. We develop instruments for private and business clients to finance measures aimed at raising energy efficiency, enabling the use of renewable energy resources and protecting the environment. 3) Education finance and training/skills development – We advise financial and educational institutions wishing to develop and implement training programmes. We also support financial institutions planning to offer education finance products (e.g. educational loans).

IPC Invest GmbH & Co KG was founded in 1998 by a group of IPC employees who sought to complement their strong professional commitment to sound financial intermediation for very small, small and medium-sized businesses and ordinary people by becoming co-owners of the ProCredit banks, and thus assuming the responsibilities which this entails. Today, most of the employees of ProCredit Holding, including the members of the management teams at almost all of the ProCredit banks, as well as roughly 950 staff members from across the group are partners in IPC Invest. In carrying out their duties on a day-to-day basis, they all help to ensure that their investment in ProCredit Holding produces the desired results, in terms of both its developmental impact and the financial return it generates.

KfW Development Bank: On behalf of the German Federal Government, KfW Development Bank finances investments and accompanying advisory services in developing and transition countries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound and inclusive financial systems while protecting resources and ensuring a healthy environment. KfW Development Bank is a leader in supporting responsible and sustainable microfinance and is involved in target group-oriented financial institutions around the world. KfW Development Bank is Germany's leading development bank and an integral part of KfW. KfW enjoys Moody's, Standard & Poor's and Fitch Ratings' best possible rating, AAA or Aaa.

Stichting DOEN, or the **DOEN Foundation**, was set up in 1991 by the Dutch Postcode Lottery. The DOEN Foundation believes that a green, socially-inclusive and creative society is achievable. DOEN actively seeks enterprising people and organisations who can contribute to this mission. DOEN finds these pioneers within two themes, Green & Inclusive Economy and Culture & Cohesion, and frequently supports them at the outset of inspiring initiatives, by issuing subsidies, providing a loan or equity investments, but also to an increasing extent by interconnecting the various parties in its network. The DOEN Foundation funds initiatives from annual contributions received under long term contracts from its founder, the Dutch Postcode Lottery, and the two other Dutch charity lotteries, the BankGiro lottery and the Friends Lottery.

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in more than 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity. In FY13, our investments climbed to an all-time high of nearly $25 billion, leveraging the power of the private sector to create jobs and tackle the world's most pressing development challenges. For more information, visit www.ifc.org

TIAA CREF Financial Services

TIAA-CREF is a US national financial services organization with more than USD 564 billion (as of 12/31/2013) in combined assets under management. TIAA-CREF is the leading provider of retirement services in the academic, research, medical and cultural fields serving approximately 4.8 million individuals overall and 3.9 million clients in institutional retirement plans at more than 15,000 institutions. The company is headquartered in New York City with major offices in Denver, Colorado and Charlotte, North Carolina, as well as more than 90 local offices around the USA. The TIAA-CREF group of companies includes both an SEC registered investment advisor, Teachers Advisors, Inc., and a New York State registered insurance company, TIAA, which is one of only three insurance groups in the United States to hold the highest ratings currently awarded from all four leading independent insurance industry ratings agencies*. In addition to a wide range of retirement savings products, the organization offers life insurance, mutual funds, education savings accounts, trust services and annuities. TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. Insurance and annuity products issued by TIAA (Teachers Insurance and Annuity Association), New York, NY and TIAA-CREF Life Insurance Co., New York, NY. C3956

** For its stability, claims-paying ability and overall financial strength, TIAA currently holds the highest possible ratings from the four leading insurance company rating agencies: A.M. Best (A++ as of 5/13), Fitch (AAA as of 6/13), Moody's Investors Service (Aaa as of 7/13) and Standard & Poor's (AA+ as of 6/13). Per S&P criteria, the downgrade of U.S. long-term government debt limits the highest rating of U.S. insurers to AA+ (the second-highest rating available). There is no guarantee that current ratings will be maintained. Ratings represent a company's ability to meet policyholders' obligations and do not apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA's claims paying ability.*

Omidyar-Tufts Microfinance Fund

The **Omidyar-Tufts Microfinance Fund** invests in the financial services sector in emerging markets and developing countries. The fund seeks to demonstrate the viability of commercial investment in microfinance to institutional investors. The fund is housed within the Tufts University endowment. The fund was established in November 2005 through a gift to Tufts University by Pierre Omidyar, founder of eBay, and his wife, Pam, co-founder of Omidyar Network with her husband. Tufts University (www.tufts.edu), located on three Massachusetts campuses in Boston, Medford/Somerville, and Grafton, and in Talloires, France, is recognised among the premier research universities in the United States. Tufts enjoys a global reputation for academic excellence and for the preparation of students as leaders in a wide range of professions.

bio Development through Investment

The **Belgian Investment Company for Developing Countries (BIO)** is a Development Finance Institution (DFI) established in 2001 in the framework of the Belgian Development Cooperation to support private sector growth in developing and emerging countries. BIO supports financial institutions, investment funds, enterprises and private infrastructure projects. Endowed with a capital of EUR 600 million, BIO provides tailored long-term financial products (equity, quasi-equity, debt and guarantees) either directly or through intermediary structures. BIO can also fund technical assistance programmes for client companies as well as feasibility studies. BIO requires its business partners to implement environmental, social and governance standards. BIO operates as an additional partner to the traditional financial institutions and supports projects with a balance between return on investment and development impact. BIO is a member of EDFI (European Development Finance Institutions). Website: www.bio-invest.be, E-mail: info@bio-invest.be

FMO Entrepreneurial Development Bank

FMO (the Netherlands Development Finance Company) is the Dutch development bank. FMO supports sustainable private sector growth in developing and emerging markets by investing in ambitious entrepreneurs. FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With an investment portfolio of EUR 6.2 billion, FMO is one of the largest European bilateral private sector development banks. www.fmo.nl

responsAbility Social Investments AG is one of the world's leading independent asset managers specializing in the development-related sectors of emerging economies such as finance, agriculture, health, education and energy. responsAbility provides debt and equity financing to non-listed companies with business models that target the lower-income segment of the population and can thus drive economic growth and social progress. Serving both institutional and private investors, responsAbility offers professionally-managed investment solutions.
Founded in 2003, responsAbility currently has assets under management of USD 1.9 billion, which are invested in over 450 companies in more than 80 countries. responsAbility is headquartered in Zurich and has local entities in Paris, Lima, Mumbai and Nairobi. Its shareholders include a broad range of reputable institutions in the Swiss financial market as well as its own employees. responsAbility is authorized by the Swiss Financial Market Supervisory Authority FINMA. For further information visit www.responsAbility.com

PROPARCO is a development finance institution held by AgenceFrançaise de Développement (AFD) and private shareholders from the North and the South. PROPARCO's mission is to be a catalyst for private investment in developing countries which targets growth, sustainable development and reaching the Millennium Development Goals (MDGs). PROPARCO finances operations which are economically viable, socially equitable, environmentally sustainable and financially profitable. Its sectoral strategy is tailored to the level of a country's development and focuses on the productive sector, financial systems, infrastructures and equity investment. PROPARCO invests in a geographical area ranging from major emerging countries to the poorest countries, in particular in Africa, and has high-level requirements in terms of social and environmental responsibility. PROPARCO has a wide range of financial instruments to meet the specific needs of private investors in developing countries (loans, equity, guarantees and financial engineering). PROPARCO has a team of 188 people, 12 regional offices and is supported by 70 AFD Group agencies worldwide. In 2013 PROPARCO had a total portfolio of EUR 3.4 billion for almost 350 clients in more than 60 countries.

The **Salvadoran Foundation for Development and Basic Housing (FUNDASAL)** is an NGO which is oriented towards community development and which has a clear vision with regard to improving the living conditions of families with scarce economic resources. In addition to being one of the founding shareholders of Banco ProCredit El Salvador, FUNDASAL is also committed to the strategic vision, mission and corporate culture that have led both institutions over the years to successfully provide financing throughout the country to housing projects for communities with limited resources.

MicroVest is a private, for-profit investment advisor registered with the SEC and is headquartered in the Washington, DC metropolitan area. MicroVest was founded in 2003 with the mission to build financial markets that serve the poor. MicroVest seeks sustainable solutions to addressing the financial needs of the working poor through investment vehicles that deliver both financial and social return to investors. MicroVest is majority owned by three nonprofits: Cooperative for Assistance and Relief Everywhere, Inc. (CARE), Mennonite Economic Development Associates (MEDA), and Cordes Foundation. www.microvestfund.com

The **GAWA Microfinance Fund** is a Luxemburg based impact investment fund investing in microfinance institutions with the objective of providing financial return for its investors and a measurable social impact for low-income communities. The Fund has €21 million of capital, raised entirely by GAWA Capital from European private and institutional investors. It employs a boutique investment approach by carefully selecting its investment opportunities and leveraging its seasoned management team and the strong private equity experience of its investment committee. GAWA co-invested in ProCredit with MicroVest given their common strategic and social visions. www.gawacapital.com/gawa-microfinance-fund


Banco Los Andes ProCredit
Cuenta de Aho
Tu ahor
tu fut
CAJERO
AUTOMATICO
Banco Los Andes
ProCredit
Empuje

3

Photo: Banco Los Andes ProCredit Bolivia

Joint Management Report of the ProCredit Group and ProCredit Holding AG & Co. KGaA

Introduction

This Group 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
- **Report on the Economic Position of the Group** provides an overview of our business and financial results covering:
  - Macroeconomic and sector-specific environment
  - Course of business operations
  - Financial performance describing the development of the financial position of the group and the results of operations
- **Report on Post Balance Sheet Events**
- **Risk Report** focuses on the measures taken in response to prevailing conditions and also highlights the underlying resilience of the ProCredit group
- **Report on Expected Developments** presents the business opportunities and discusses the potential risks for the group in 2014 and beyond

Photo: ProCredit Bank Moldova

Fundamental Information about the Group

The ProCredit group comprises 22 financial institutions. ProCredit banks aim to combine commercial success with development impact. The group aims help to create transparent, inclusive financial sectors in developing countries and transition economies. ProCredit banks focus on providing financial services to specific target groups: the small businesses that provide livelihoods for many families and that drive economic growth and job creation; and the ordinary people who require savings and straightforward banking products delivered in a transparent and client-oriented manner.

ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), the parent company of the group, owns more than 75% of the shares of all ProCredit banks, with the exception of ProCredit Bank Congo (61%), and Ukraine (60% of voting shares). Almost all of the individual ProCredit institutions are regulated and supervised by their respective local banking supervisory authorities, and most of them have full banking licences. The exceptions here are ProCredit Savings and Loans Company in Ghana, which does not have a full banking licence but is supervised by the banking supervisory authority, and our institution in Mexico. For the purposes of this report the term "bank" is used to describe all the ProCredit financial institutions. The group is supervised on a consolidated level by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the Bundesbank.

The ProCredit banks' target customers are very small and small businesses in urban and rural areas, for whom we aim to be the "house bank" offering the full range of banking services, including credit facilities, payment services, documentary products (letters of credit and guarantees), salary services for employees, and various savings products. At the same time we serve the individuals associated with such businesses as well as other private individuals, in the latter case with a particular focus on savings. ProCredit banks do not promote consumer loans. Environmental and sustainability aspects are an integral part of our business.

The ProCredit group puts a particular focus on the quality and efficiency of the services we provide, which has proven to be in the best interests of our clients and of our business results. We sustain a strong focus on loan portfolio quality management. This reflects our commitment not to overindebt our clients. It has also kept our provisioning costs below those of competitors, although coverage ratios of our portfolio at risk (PAR) are higher. The ProCredit group has developed an approach to client relationship management and staff development which means we understand our clients, their businesses and their debt capacity well and are able to provide loans and other financial services in an effective and efficient manner. Key to successful business relationships are our experienced and well-trained Business Client Advisers ("BCAs"). A comprehensive "know your customer" approach and strong client loyalty in the broadest sense lie at the heart of our successful business model. Therefore, sustained success over the long term relies on the training and productivity of our front office staff and the middle managers that guide them.

At end-2013 the group had 11,514 staff (2012: 14,698). The group has a well thought through approach to staff development. There is a group-wide salary structure which defines job descriptions, salary levels and the qualifications expected for defined levels. Instead of paying short-term variable bonuses, we prefer to focus on fair fixed salaries combined with a long-term development prospects based on a regular dialogue about performance. ProCredit salaries are typically in market – indeed relative to most markets, mid-level ProCredit employees are relatively well-paid. The group has high training and recruitment standards. All ProCredit banks provide a 6-month stipend-based "Young Bankers Programme" (YBP) to all potential new recruits before a hiring decision is made. The quality and long-term loyalty of staff recruited via the YBP is anticipated to be higher than with staff recruited with less care. The group also has regional academies in Macedonia and Colombia for the training of middle managers. The ProCredit Academy in Fürth, Germany delivers a high-quality three-year part-time training course for ProCredit senior managers. The level of investment made in staff and the long-term perspective and professional opportunities we offer are unusual for our countries of operation. This commitment represents not just a fundamental building block for sustainable competitive advantage and securing financial results, it is also central to development impact and to the corporate culture we want to create.

The group organises its business operations in regional segments. ProCredit institutions are located in the following four regions:

- **Eastern Europe**, where 11 banks are located, accounting for 71% of group total assets
  - 7 banks are in the Balkan countries of South Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR Macedonia, Romania, Serbia)
  - 4 banks in the so-called Commonwealth of Independent States (CIS) countries (Armenia, Georgia (no longer a CIS member), Moldova and Ukraine)
- **Latin America**, where 7 banks are located, accounting for 25% of group total assets
  - 3 banks are in South America (Bolivia, Colombia and Ecuador)
  - 4 banks are in Central America (El Salvador, Honduras and Mexico and Nicaragua)
- **Africa**, where 3 banks are located (Ghana, Mozambique, D.R. Congo), accounting for 4% of group total assets
- **Germany**, where ProCredit Bank Germany, ProCredit Holding, Quipu and the ProCredit Fürth Academy are located, accounting for a negligible percentage of group assets

The positioning of ProCredit banks is similar in all of the developing countries and emerging markets in which they operate. However the external market environment – both in terms of macroeconomic conditions, client characteristics and the competitive situation – differs between the regions and countries such that a differentiated approach is needed.

Within each ProCredit bank operations are typically organised to reflect client categories, with divisions and reporting lines based on whether the services are provided to "business" clients (sub-divided into Very Small, Small or Medium business client categories) or to "private" clients, and "institutional" clients being served by one of these departments depending on the local context. A client-oriented institutional set-up at the bank level is designed to deepen our client relationships and improve the quality and efficiency of the services we provide. The different client categories are served by specially trained staff located in specialised outlets. For example:

- **Business clients**
  - Very Small business clients are served by specialised BCAs located in Service Centres
  - Small and Medium business clients are served by specialised BCAs located in Branches
- **Private clients** are served by the general front officers located in Service Points.

This level of specialisation allows for a high degree of focus in client acquisition, high-quality client service and good credit risk management. It allows for job descriptions and performance expectations to be clearly defined and assessed.

Group operations in Germany are different from operations in emerging markets since the institutions here play more of a support role for group banks. ProCredit Holding is the parent company of the group. It is the "superordinated company" of the group, responsible for maintaining an adequate level of equity for the group and ensuring that all reporting, risk management and compliance obligations required under German banking regulations, specifically as defined in section 25a of the German Banking Act ("KWG"), are met. ProCredit Holding has 168 staff, including many international staff seconded to the ProCredit banks. The management and staff of the parent company are strongly involved in guiding the operations of group banks. ProCredit Holding also provides debt to its subsidiaries. It has a simple balance sheet dominated by the debt and equity it provides to ProCredit banks, and a correspondingly simple profit and loss statement dominated on the income side by interest income, dividends and fees from management services, and on the cost side by interest expenses and staff and administrative costs.

ProCredit Bank Germany was founded in 2012 and began operations in 2013. The bank aims to support the ProCredit group worldwide as well as to bring its specific international expertise to the German market. The bank brings a modern banking perspective to the group as well as specific benefits in terms of being able to make lower-cost funding and international payment options available to ProCredit banks. It will provide a central role in group treasury. Its operations in Germany are initially focused on providing internet-based savings products and on co-financing Medium business clients of the ProCredit banks in Bulgaria, Romania and Serbia.

Quipu GmbH is the dedicated provider of software solutions for the ProCredit group. It is a 100% owned subsidiary of ProCredit Holding. Good IT infrastructure and banking system software are central to the group's business and risk management strategy. Out of the 22 ProCredit institutions, 20 use the software system developed by Quipu. The development work of Quipu forms the basis of the position inhouse developed software in the group financial statements (EUR 4.2 million), which represents accumulated expenses net of depreciation incurred for additional core system developments. The IT and software development priorities are set in the Group IT Strategy, developed and approved by the Group IT Steering Committee.

The ProCredit group operates on a commercial and profitable basis. We strive for steady growth and profitability. Our objective is to achieve a post-tax ROE of between 10% and 15%. The ProCredit group enjoys a simple balance sheet: assets largely comprise business loans and liabilities customer deposits. Our main source of income is the interest we charge on the loan portfolio. Interest rates are set transparently and are competitive in the market context in which we operate. The most significant costs are interest expenses and expenses related to the staff and branch network. The group aims to manage its liabilities carefully in order to manage interest expenses. A strong focus is put on retail deposits and in particular on attracting retail deposits from clients who put a premium on good service and transparency and not just on price. Staff-related expenses are managed by focusing on staff motivation, quality and productivity.

We aim for a relatively steady performance in terms of group operations and financial results, even in the face of economic turmoil or volatility in our markets, since we have a highly diversified and predictable loan portfolio, our target groups are relatively resilient and the way in which we work with our clients and manage risks is very conservative. The group does not engage in speculative lines of business and has no trading book.

Report on the Economic Position of the Group

Macroeconomic and Sector-specific Environment

The performance of ProCredit banks in the different regions is significantly influenced by the overall macroeconomic environment prevailing in our countries of operation since this impacts both the real economy and investment appetite of our business clients, as well as the growth and behaviour of competitor financial institutions. The brief analysis provided below of the economic and recent competitor trends in the different regions is based on data from the IMF (World Economic Outlook database of October 2013) and the World Bank (Global Economic Prospects Report) unless otherwise stated.

Eastern Europe

For the **Eastern European** countries in which ProCredit works, 2013 continued to be as subdued as in 2012. Most of the Balkan countries of South Eastern Europe experienced little GDP growth (typically below 2%) and flat banking sector growth. The performance of the group is strongly impacted by the performance of the group's largest institutions, the ProCredit banks in Serbia (est. GDP growth: 2%), Kosovo (est. GDP growth: 2.6%) and Bulgaria (est. GDP growth: 0.5%) which account for 35.9% of the group's total assets. The more eastern countries (the current or former CIS countries of Armenia, Georgia, Moldova and Ukraine) experienced more steady GDP growth (from a lower base) ranging from 2–5%, with the exception of Ukraine which experienced slight GDP decline.

The development of banking sectors in the region also continued to be depressed, as non-performing loans (NPLs, i.e. loans more than 90 days overdue) that were originally disbursed in the pre-crisis boom years continue to work their way through the system only very slowly. In most markets, sector NPL ratios exceeded 15% throughout 2013 (for example according to central bank data, the NPL's in the Serbian market are 20% and in Bulgaria 17%). In the Balkan countries meaningful growth in banking sector assets was only achieved in Kosovo.

Despite low asset growth, competition in the Eastern European markets remained strong in 2013, resulting in still strong interest rate pressure, particularly for loans to the Small and Medium business client categories. Interest rate pressure was reinforced in many markets by high profile subsidised lending programmes. Competition in Balkan countries is particularly strong since it comes above all from relatively strong Western banking groups such as Raiffeisen, Intessa and Unicredit, who picked up their activities in 2013 relative to 2012. Competitors in the CIS countries are more diverse, often local and regional players, and are generally weaker.

Given low GDP growth, tight government budgets and low consumer confidence, the investment appetite of business clients and their demand generally for banking services continued to be muted across most of our Eastern European countries in 2013. Demand on the credit side was above all for working capital loans, despite incentives provided for investment loans. In the agricultural sector, though, demand continued to be steady. In the Balkan countries the Very Small business clients, particularly the smallest of these clients, remain vulnerable given the tough and formalising macroeconomic environment, which means we take a cautious approach with these clients even though competition is more limited.

Overall, the performance of the ProCredit banks in Eastern Europe was more stable than most competitor banks. In Serbia, Bulgaria and Kosovo, the ProCredit banks were amongst the two or three most profitable banks in the market. In most markets, management concludes that the loan portfolio of ProCredit banks grew ahead of average market growth rates in our core Very Small and Small business client categories.

Latin America

2013 was generally still more buoyant for **Latin America**, at least in the South American countries, than Eastern Europe, although conditions in the latter half of the year were slower than in 2012. The Central American countries (Nicaragua, Honduras, El Salvador and Mexico) remain difficult with severe security problems. GDP growth in 2013 was between 1-3%, with only Nicaragua achieving close to 4%. The security situation deteriorated further in Honduras and Mexico. In Mexico this resulted in deciding to exit the worst affected region of Michoacán, where rule of law effectively collapsed in the course of 2013, resulting in significant unplanned additional provisioning costs. Generally, banking sector development is flat in Central America.

The South American countries (Bolivia, Colombia and Ecuador) are developing strongly. GDP growth rates of around 5% were recorded in 2013, and all three banking sectors continued to exhibit strong growth – although growth rates in 2013 were somewhat lower than in 2012; for example in Ecuador, according to IMF data, GDP growth declined from 5.4% (2012) to 4% (2013) and banking sector growth went from 17% to below 10%.

Competition in Latin American markets comes from well-established local banks and microfinance institutions. Market interest rates that can be charged on loans are higher in Latin America than in Eastern Europe reflecting somewhat lower competitive pressure, the fact that levels of private sector lending to GDP are lower than in Eastern Europe and the fact that there is still strong demand at the lower end of our Very Small business client categories. The formalisation of the economies is not advancing in Latin America as noticeably as in Eastern Europe such that Very Small businesses still employ the bulk of the population. The average interest income on loans in Latin American ProCredit banks is 16.2% as compared to 13.1% in Eastern Europe. Loan sizes of below EUR/USD 10,000 still account for 21.7% of the loan portfolio in Latin America (as compared to 15.6% in Eastern Europe). Competition is most intense in the faster developing markets of Bolivia, Colombia and Ecuador. Government intervention in the banking sector is relatively strong, but predictable in the Bolivian and Ecuadorian markets.

The performance of the ProCredit banks in Latin America, and specifically in Bolivia and Ecuador, the countries which represent 66.0% of the Latin American assets, was steady in 2013. The weakening of the USD vs the EUR over the year reduced their contribution to group results somewhat. In 2013 the Latin American banks grew in the core categories Very Small by 8.2% in USD terms (3.5% in EUR terms) and in Small by 11.9% in USD terms (7.1% in EUR terms), whilst loans to Medium business clients declined in 2013 (by 20.2% in USD and by 23.6% in EUR).

Africa

The countries in which we operate in **Africa** were macroeconomically relatively stable, although high levels of NPL remain a feature of banking sectors as a whole, and the regulatory and operational environment continues to be difficult. The economies of D.R. Congo, Ghana and Mozambique are all growing at around 7% p.a. The elections in Mozambique, however, were accompanied by considerable uncertainty and security concerns.

Competition in African markets comes from large local banks, regional banking groups and a dense array of more or less formal microfinance institutions. However the quality of service provided by competitors continues to be very poor such that the competitive position of ProCredit institutions is relatively robust. In Mozambique the competitive position of ProCredit is weaker since the Portuguese-dominated banking sector is well-established, the SME market is very small and microfinance institutions well subsidised. Market interest rates that can be charged on loans remain high in Africa: the average income on loans in African ProCredit banks in 2013 was 37.1%. The impact of competition, however, can be strongly felt in the difficulties of managing loan portfolio quality, since credit bureaus are not reliable in Africa.

The performance of African ProCredit institutions, more so than in other regions, is determined more by internal than external factors. Growth was less strong in 2013 (3.3%) than in 2012 (11.3%) due to challenges in building the skills of BCAs and Service Centre Heads to grow and manage loan portfolio quality in the "upper" Very Small and Small business client categories. The strategy in the African institutions will be to focus very consistently on building specialised institutions to work with these high-potential, but often challenging clients: high-potential from a development and a market perspective; challenging because these are often informal, volatile clients. Management deems there is potential with these clients since the quality and level of transparency of services provided by other financial institutions is very weak, and yet there are many such businesses, particularly in Ghana and D.R. Congo, and with support they can develop well and create stable employment.

Germany

As a still small start-up institution, **ProCredit Bank Germany** is not strongly influenced by the external environment. Overall the macroeconomic environment in Germany is stable and improving.

Course of Business Operations

In terms of business operations, 2013 was a year with a strong focus on institution building measures whilst at the same time ensuring steady development of the balance sheet, and enhancement of the services provided to our clients. There were no significant changes in terms of group structure or approach. Notable though was the successful completion of the purchase of most of the shares held by all other shareholders (IPC, KfW, Commerzbank, IFC and EBRD) in ProCredit Bank Romania, bringing ProCredit Holding's share to over 99.9%. ProCredit Holding maintained its BBB- rating from FitchRatings.

The key focus was on measures to improve the effectiveness of our client-facing staff and our BCAs above all. At end-2013 the group had 11,514 staff, a reduction of 3,161 people (21.5%) as compared to the 14,675 staff at the end of 2012. This was a significant decrease and a result of activities aimed at becoming more focused on how best and most efficiently to serve our core client groups, e.g. the implementation of a higher minimum loan size and thus the reduction in the number of single loans. For example the total number of outlets across the group declined over the year from 735 to 645 as the smallest, least well located and productive units were closed. The number of Branches, i.e. outlets formerly serving a broad range of clients, but today specialised in serving Small business clients , declined from 343 to 104, while the number of Service Centres serving Very Small clients increased from 127 to 213. This reorganisation was accompanied by a thorough review of support structures and staff capacities, resulting in a significant reduction of staff numbers in most ProCredit institutions.

At the same time, there was a significant increase in participation of all staff and middle managers in training, especially in the second half of 2013. The training focus has been on refreshing credit risk management skills as well as reinforcing broad-based client relationship management capacities. These investments impacted results in 2013, but position the group well for the future.

In 2013 the definition and approach to our various client categories was reviewed and certain changes introduced at the end of the year aimed at improving the quality and efficiency of the services ProCredit banks provide. Specifically for business clients:

- the minimum loan size of USD/EUR 5,000 for business clients was fully implemented;
- the decision was taken to change the definition of Very Small business clients to incorporate clients with a credit capacity of up to EUR/USD 50,000 (formerly EUR/USD 30,000), and the definition of Small business clients to cover clients with a credit capacity from EUR/USD 50,000 to EUR/USD 250,000 (formerly EUR/USD 150,000).

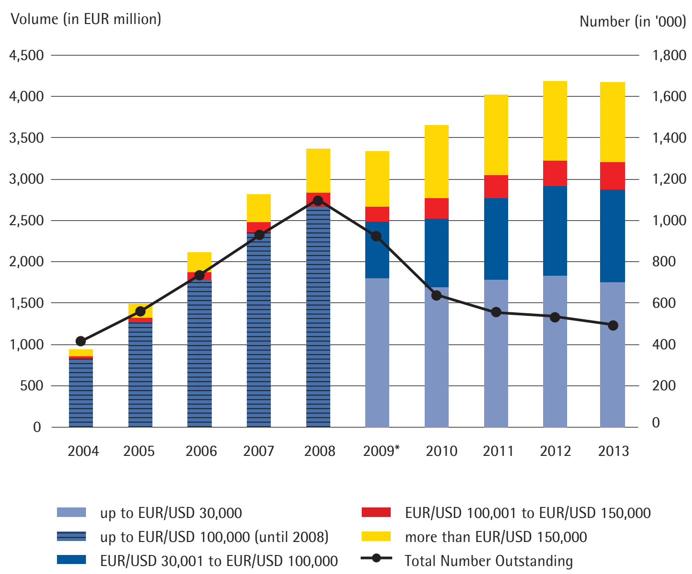
The credit risk approach for these client categories has also been reviewed and streamlined to focus analysis on key risks. Since operationally the new definitions began to be introduced only at the end of the year, for the purposes of the 2013 financial statements and management report the old client category definitions which prevailed for most of the year will be used.

In 2013 our focus was on growth in business (particularly in lending services) with our core Very Small and Small business clients, as well as on improving the efficiency of processing payments and working with our private clients. In summary:

- With regard to our **lending services** we focused on growing the loan portfolio with our Very Small and Small clients, particularly by increasing the average loan volume per client. Whilst the total group loan portfolio did not grow in 2013, the loan portfolio did grow in the target loan sizes EUR 10,000-30,000 (by 3.2%) and EUR 30,000-150,000 (by 3.9%). Loan portfolio quality remained relatively stable in 2013.
- With regard to our **deposit services** 2013 was a year focused on the structure of the deposit base as we aim to develop savings and current accounts rather than term deposits. Deposits grew by 4.8% during the year (as compared to 6.1% in 2012). The volume of current and savings accounts, our target deposit types, grew by 14.6% and 12.6% respectively.
- With regard to our **other banking services** we continued to increase the automation and efficiency of payment services whilst steadily increasing the breadth and quality of services provided.

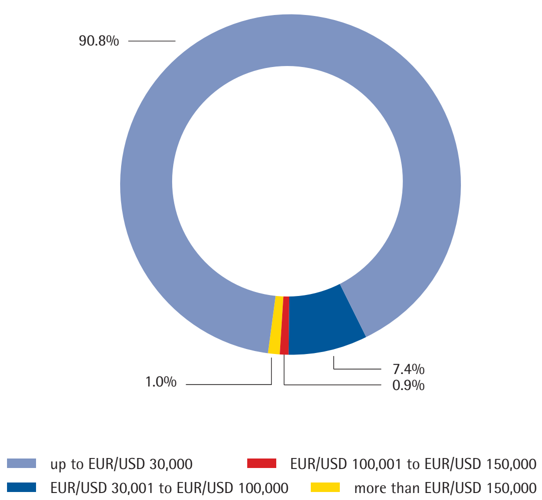
Lending Services

Development of the Loan Portfolio



* Starting from 2009, new volume splits applied

Breakdown of the Number of Outstanding Loans by Loan Size*



* including credit card receivables

At the end of the year the gross loan portfolio stood at EUR 4.2 billion (EUR 4.2 billion at end-2012). This lack of growth reflects the fact that the markets in which we operate are not growing, the weakening of the USD against the EUR over the year, the withdrawal from lending to client groups, that do not belong to our core target groups, and the fact that the group was investing strongly in the range of institution building measures outlined above.

In volume terms, our Eastern European banks account for roughly 71% and Latin American banks 26% of the overall portfolio. In 2013, growth in the loan portfolio was strongest in South America (growth rate of 2.9% over the year) and in Africa (growth rate of 3.3% over the year), reflecting the relatively more buoyant macroeconomic conditions in these segments. In Eastern Europe and Central America the loan portfolio declined by 1.2% and 4.1% respectively.

Loans to enterprises (business loans, agricultural loans and financial leases) account for 92.8% of the volume of our outstanding loan portfolio and 87.6% of the number of loans.

Enterprise loans with an initial amount of up to EUR/USD 30,000 ("**Very Small**" loans) comprise 36.9% of our outstanding loan volume and 78.8% of the number of loans. In 2013 the volume of loans in the Very Small category between EUR 10,000 and 30,000 grew by EUR 32 million (3.2%). This has been the result of a strong focus on this client category. In volume terms, loans smaller than USD/EUR 10,000 declined significantly (reduction of 13.5%) in line with the strategy of reducing the group's exposure to the smallest end of our Very Small lending activities, since these clients are most impacted by consumer finance competitors. The impact of the introduction of the minimum loan size of USD 5,000 was most marked in Latin America and the CIS countries.

Loans to enterprises with an outstanding amount of between EUR/USD 30,000 and EUR/USD 150,000 ("**Small**" loans) account for 35.6% of our outstanding loan volume and 9.0% of the number of loans. In 2013 the volume of loans in the Small category grew by EUR 54.1 million (3.9%).

"**Medium**" loans (defined as loans above EUR 150,000) to enterprises account for 24.6% of our outstanding loan volume, and 1.1% of the number of loans outstanding. Loans in this size category declined slightly by some 0.3% over 2013. This trend was the result of a strategy to reduce exposure in loan sizes larger than EUR/USD 500,000, particularly in Latin American and CIS countries, given the loan portfolio quality problems associated with these larger loans in some markets. Our Medium loan services are focused on selected customers that have grown with us and who bring to our banks a network of suppliers, customers and employees.

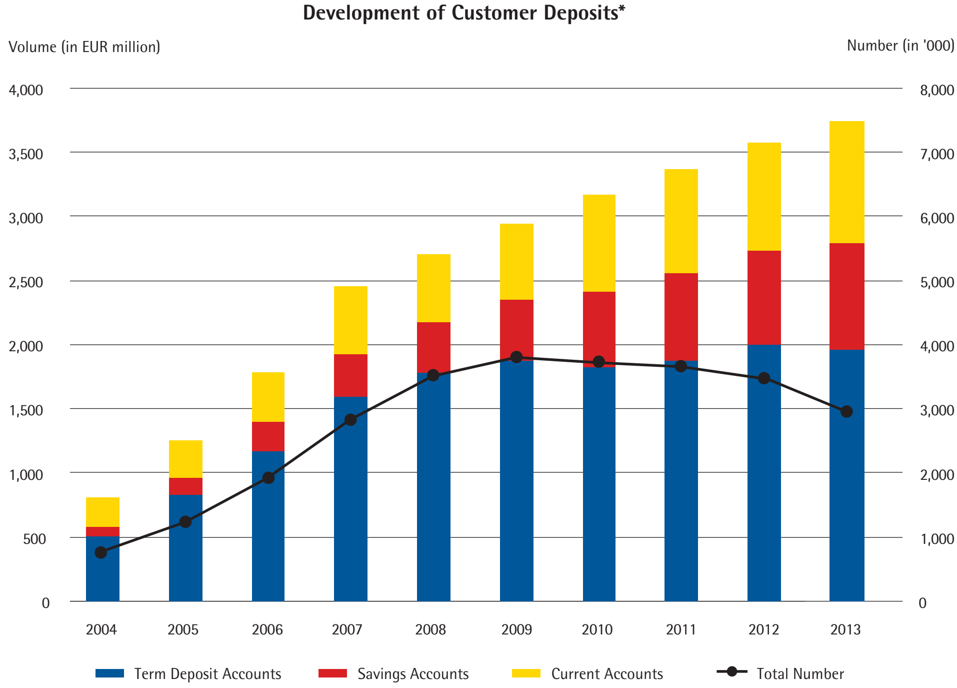
The share of agricultural loans in the total number of loans is 17.3%, representing 14.7% of the total outstanding loan portfolio. The group's agricultural loan portfolio grew significantly again in 2013 (by 17.7%). Agricultural lending is a niche neglected by other banks, has an important role in providing employment and economic activity in rural areas and is a line of business in which ProCredit has developed specialist expertise. Continued growth is planned for 2014.

Housing improvement and energy efficiency loans, or "green" loans represent 4.8% of our total outstanding loan portfolio. Energy efficiency loans for households are an area of growing focus for the group. ProCredit institutions do not actively promote consumer lending; consumer loans and other loans to private individuals, including overdrafts, account for only 2.2% of the group's outstanding loan portfolio. In total the volume of outstanding loans disbursed to private persons, including housing improvement loans, accounts for some 7.1% of the outstanding loan portfolio.

With generally depressed conditions and markets still adjusting to the consequences of the financial crisis and to uncertain global prospects, the quality of the loan portfolio continued to be an important focus for the group in 2013 as it was in 2012. At the end of 2013, PAR >30 was at 4.7% (as compared to 4.3% at end-2012). PAR >90 went from 3.4% to 3.7%. At the same time the net write-offs in 2013 reached 0.8% of the gross loan portfolio (the same level as in 2012 (0.8%)). The details on credit risk management are reported in the Risk Management section below.

Deposit Services

We aim to promote local financial intermediation, i.e. to mobilise local savings to support lending to local small businesses. Helping to build a savings culture in its countries of operation is part of the development mission of ProCredit.



* excluding accrued interest

At year-end, customer deposits totalled EUR 3.80 billion, an increase relative to end-2012 (EUR 3.63 billion) of 4.8%. Deposits grew particularly strongly in the CIS countries (by 9.6%) and in South America (by 5.4%), the two sub-regions where the retail deposit base was least well-developed.

About 30% of our total deposit base volume is accounted for by enterprises and 70% by private individuals. Over time the aim is to further increase the importance of business client deposits as a result of our "house bank" positioning and appropriate training and incentives for BCAs. Three quarters of group deposits were held in term and savings deposits, the rest in sight deposits. There was an increase in the relative importance of savings deposits as compared to term deposits over the year, and the aim is to encourage this tendency going forward. Accessible savings deposits are an account type which help build client trust and give clients flexibility in their volatile environments. The success in building the deposit base has been the result of the intensive efforts of our front office staff to communicate with our clients. In relation to the reduction achieved in the number of deposit accounts from 3.5 million to 2.9 million, we improved the efficiency and effectiveness in our front offices, since the majority of the deposit accounts closed were very low volume or inactive accounts. This result is in line with a strategy of working with clients who want build meaningful savings volumes, even if relatively small, to provide an important buffer against any difficulties in life.

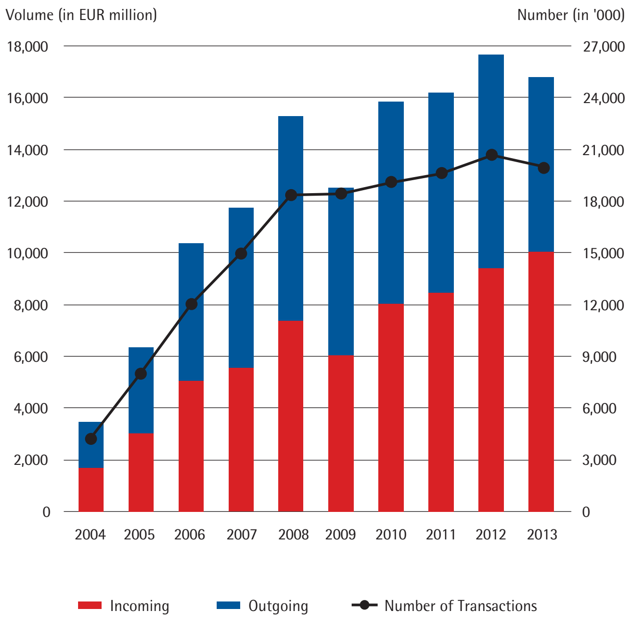
Other Banking Services

In addition to loans and deposits, the ProCredit institutions offer a range of other basic banking services to our target groups including various payment services and debit/credit cards. These services are important for our clients, give them access to modern, convenient banking services and support their integration into the formal financial sector. At the same time these services are an important source of income for the group and build client loyalty. In all, 1.1 million international payments with a volume of EUR 5.4 billion were processed during 2013.

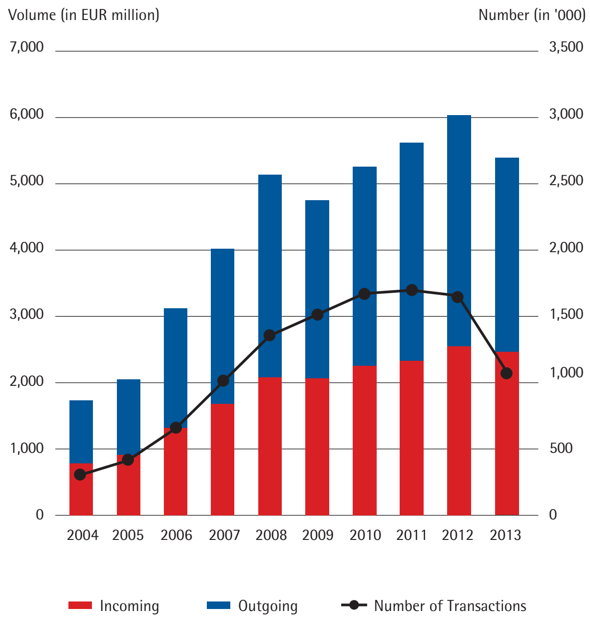
Generally it is the group's objective to emphasise non-cash payment systems, in the form of e-banking, cards and standing orders, in order to increase the efficiency of businesses and banking sectors, and generally to reduce costs and improve access to their accounts for clients. Given their large number of transactions, e-banking is particularly important for enterprise clients; these clients account for the majority of e-banking transactions. By the end of 2013, the group had 11.4 million transactions being completed via the internet over the year (as compared to 10.3 million transactions in 2012). Quipu, the ProCredit group's IT and software support company, continues to work with the ProCredit banks to enhance the services provided by platforms such as e-banking, m-banking and cards.

With steadily expanding country-wide ATM networks providing customers with rapid access to their funds wherever they are, ProCredit banks offer clients a valuable service. By the end of 2013, the group operated 1,170 ATMs and had issued a total of 855 thousand cards, most of which were debit cards, supported by Visa and/or MasterCard. The card business of many ProCredit banks is supported by the processing centre, operated by Quipu.

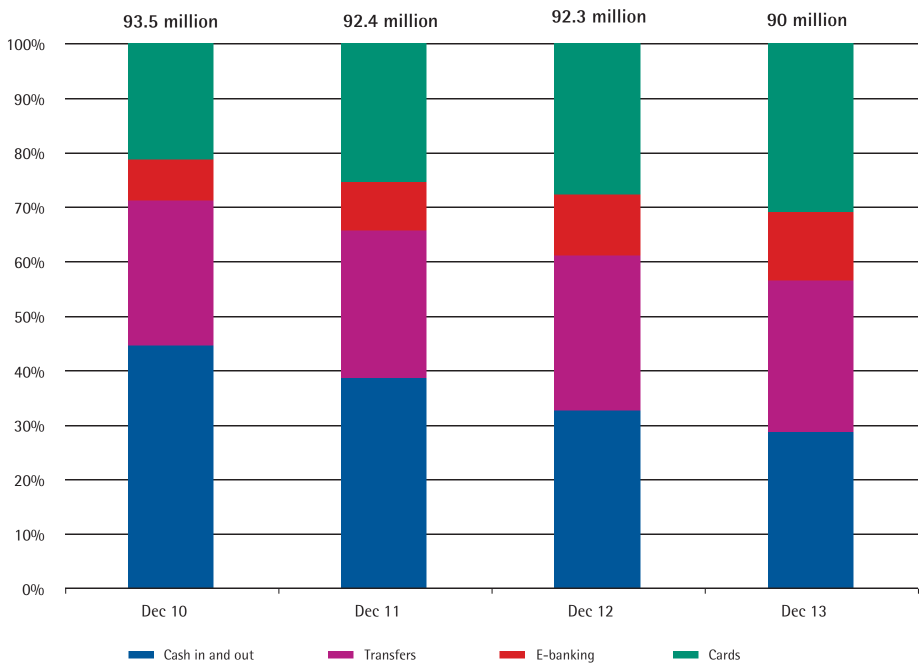
Development of Domestic Money Transfers



Development of International Money Transfers



Development of Non-cash Transactions



Ratings

In 2013 most institutions in the group again received an international rating (ProCredit Holding and the banks in Eastern Europe) or a national rating (Latin America) from FitchRatings. Typically our banks are rated at the country ceiling. ProCredit Holding maintained its investment grade rating of BBB-.

Institution	2013 Rating	2012 Rating	
ProCredit Holding	BBB-	BBB-	(international rating)
ProCredit Bank, Albania	B+	B+	(international rating)
ProCredit Bank, Bosnia	B	B	(international rating)
ProCredit Bank, Bulgaria	BB+	BB+	(international rating)
ProCredit Bank, Georgia	BB	BB	(international rating)
ProCredit Bank, Kosovo	B	B	(international rating)
ProCredit Bank, Macedonia	BB+	BB+	(international rating)
ProCredit Bank, Romania	BB+	BB+	(international rating)
ProCredit Bank, Serbia[1]	B+	BB-	(international rating)
ProCredit Bank, Ukraine[1]	B-	B	(international rating)
Banco Los Andes ProCredit, Bolivia	AAA	AAA	(national rating)
Banco ProCredit, Colombia	AA+	AA+	(national rating)
Banco ProCredit, Ecuador*	AAA-	AAA-	(national rating)
Banco ProCredit, El Salvador	AA+	AA+	(national rating)
Banco ProCredit, Honduras	AA+	AA+	(national rating)
Banco ProCredit, Nicaragua	AA+	AA+	(national rating)

** by Bankwatch Ratings S.A.*

[1] Note: The decline in the rating of the ProCredit banks in Ukraine and Serbia was a result of the decline in the respective country ceiling rating.

Financial Performance

Overview

The group showed a satisfactory financial development in 2013. Despite limited loan volume growth, the structural profitability was steady, but was negatively influenced by increased provisioning expenses, particularly at ProCredit Mexico. Here, provisioning expenses exceeded projected volumes by EUR 6.5 million following the decision to withdraw from most regions of operation in light of a strongly deteriorating security situation. Also, the group intensified its institution building measures, aiming at major efficiency gains which should benefit the group in the medium to long term. Despite the continuously difficult operating environment, the group reached a ROE of 7.7% with an after-tax profit of EUR 38.95 million.

Overall, the net assets, financial position and results of operations of the group were in order; the group as a whole and each individual company belonging to the group met its obligations in full at all times.

Development of Financial Position

Assets

The simple balance sheet structure of the ProCredit group is a reflection of the straightforward business operations. The assets were dominated by the customer loan portfolio which accounted for 68.4% of the balance sheet total at the end of 2013. The remaining volumes were either kept for liquidity purposes (25.7% of balance sheet total) or as non-financial assets (5.9% of balance sheet total). Volume and structure of the assets remained broadly unchanged in 2013. The volume development was negatively influenced by devaluation of other currencies, mainly the USD, against the EUR, as 60.1% of the group balance sheet was held in USD or local currencies strongly linked to it. While in nominal terms the gross loan portfolio decreased by EUR 5.5 million (0.1%), the FX-adjusted growth was EUR 98.7 million (2.4%). The negative deviation from planned volumes of EUR 331 million or 7.9% of total loan portfolio was largely a result of the second half of 2013. Until June (starting from the beginning of the year) the deviation from plan was largely stable at EUR 40-50 million. The strong focus on institution building, above all the intensive training measures at all staff levels and the restructuring of the branch network, combined with the still difficult business environment in Eastern Europe resulted in a declining loan portfolio in that region which was not fully offset by growth in Latin America and Africa.

Structural changes of the loan portfolio included the size and currency composition, both affecting the average yield. Loans in currencies other than EUR or USD accounted for 36.4% of total loans, compared to 34.5% at the end of 2012. Including the loan portfolios in Ecuador, El Salvador and Kosovo, where the USD or the EUR is the local legal tender, the share of local currency loans in total portfolio reached 59.2% (2012: 57.7%). From the group's perspective, this is considered to be a positive long-term trend as it reduces the currency risk for customers in countries facing an elevated risk of exchange rate fluctuations. The share of non-USD/EUR loan portfolio also positively influenced the average income on loans, as such loans often yield a higher nominal interest rate.

Loans below USD/EUR 10,000 carry comparatively high nominal interest rates reflecting the administrative expenses involved in processing them. The volume of such loans decreased by EUR 112 million representing 17.2% of total loan portfolio by the end of the year (2012: 19.9%). This was partially a result of the introduction of a minimum loan amount of USD/EUR 5,000 for business lending. In terms of maturity distribution no major changes were observed. 35.6% of loans had a remaining maturity of up to 24 months at the end of 2013 (2012: 35.3%).

The volume of liquid assets increased by EUR 93.3 million compared to 31 December 2012. In structural terms, the largest part (EUR 373.3 million) was kept to ensure compliance at all times with local regulatory liquidity requirements as minimum reserve. EUR 462.0 million was placed at OECD banks or in highly rated OECD bonds, while only EUR 102.1 million was kept in non-OECD banks or local (mainly central government) bonds (EUR 95.4 million). The share of liquid assets to total assets exceeded planned levels throughout 2013. This was partially a result of still conservative regulatory requirements. In addition, lower-than-anticipated loan growth led to excess liquidity towards the end of the year in some of the ProCredit banks.

Non-financial assets decreased by EUR 1.6 million to EUR 344.4 million by the end of the year. The largest part (EUR 221.3 million) represented the fixed assets of the group (including software licences), mainly land and buildings (EUR 204.2 million). No major changes were observed in 2013.

Liabilities

The group financed its assets mainly by raising local deposits. Due to an increase in volume by EUR 174.7 million, the share of customer funds in total liabilities increased from 68.9% (2012) to 71.2% at the end of 2013.

Photo above: ProCredit Bank Armenia; Photo below: ProCredit Savings and Loans Company Ghana

The ratio of deposits to gross loan portfolio reached 90.8% (2012: 86.6%). The volume of customer funds was above planned levels for most of the part of 2013. Only during the last quarter, a negative gap appeared in nominal terms (EUR 75.4 million at the end of the year) partly due to exchange rate movements but also due to the fact that banks slowed down growth in light of the very high level of liquidity in their balance sheets.

Major structural developments include changes in the currency and product composition. The growing share of local currency deposits mainly followed the trend in loan portfolio. Non-USD/EUR deposits accounted for 41.4% of total deposits at the end of 2013 (2012: 39.1%). Including USD/EUR customer funds in Ecuador, El Salvador and Kosovo, the share of local currency deposits in total deposits reached 64.1% (2012: 63.9%). The increased share of current and savings accounts in total customer funds was in line with plan and reflected the intended business focus. The intensified co-operation with business clients resulted in increasing current account volumes (plus EUR 121.4 million), while the group put strong emphasis on the growth of savings accounts held by private individuals. Accordingly, savings accounts increased by EUR 93.2 million. The combined volume of current and savings accounts accounted for 47.0% of total customer liabilities at the end of 2013 (2012: 43.3%). Despite their fixed contractual maturity, term deposits are not considered to be a more stable source of funding which would justify the additional premium paid on them compared to savings or sight deposits: On the one hand, 76.2% of the group's term deposits had a maturity of up to 12 months; on the other hand, in most of the Eastern European countries, customers have the right to cancel term deposits before maturity date with limited financial consequences.

Liabilities to international financial institutions (IFIs) and similar borrowings (excluding subordinated debt) remain the second largest position. They continued to be an important factor in the maturity composition of the group's liabilities due to their medium- to long-term nature; however, the volume of such borrowings decreased by EUR 123.4 million at the end of 2013, and their share in total liabilities declined to 12.6% (2012: 15.1%). Debt securities accounted for only 4.7% of total liabilities representing EUR 250.0 million, compared to EUR 202.5 million in 2012 (3.8%) . On the one hand, debt security markets remain difficult in most of the group's countries of operation; on the other hand, the need to raise such funding was generally limited. An exception was the bank in Ecuador where USD 52.2 million was raised on the local market through the emission of bonds through a so-called Fideicomiso, a special debt issuance mechanism under Ecuadorian law.

The volume of off-balance sheet items of the group remained limited at EUR 532.5 million (2012: EUR 515.1 million) mainly reflecting the focus of ProCredit's business model on small businesses. Furthermore, the largest part consisted of credit commitments with immediate right of cancellation, while the amount of irrevocable credit commitments was only EUR 17.2 million compared to EUR 52.5 million in 2012. Accordingly, the liquidity risk arising for the group from these commitments was low. The remaining off-balance sheet items largely reflect the documentary business of group banks with small and medium-sized business clients.

Capital

The share of the group's balance sheet funded by capital instruments, i.e. equity and subordinated debt, remained basically unchanged at 12.6% (2012: 12.9%). The equity remained almost unchanged with a small decrease of EUR 0.4 million. The increase resulting from the annual profit was neutralised by an increase of the negative translation reserve. caused by the weakening of the USD against the EUR. No capital increases were performed in 2013, while ProCredit Holding paid a dividend of 20 cents per share (as in 2012). The volume of subordinated debt stayed stable at EUR 230.6 million as no new transactions were performed.

The regulatory capital ratios of the group under German supervision rules remained above the internal targets of >9% (Tier 1 ratio) and >12% (Total capital ratio) throughout 2013.

	31.12.2013	31.12.2012
Core Tier 1 capital ratio	9.0%	9.2%
Tier 1 capital ratio	10.2%	10.4%
Total capital ratio	**12.2%**	**12.9%**

The slight reduction in the total capital ratio compared to 2012 was mainly due to the amortisation of subordinated debt in regulatory terms, i.e. a decreasing amount taken into consideration as Tier 2 capital of the group, while risk-weighted assets showed a moderate increase. At the same time, the group's Tier 1 capital ratio remained above 10% due to sufficient profitability. In respect to the capital ratios under German regulation, it should be noted that the group does not take collateral into consideration in the calculation of risk-weighted assets. Also, the group's open currency position resulting from the investment of group equity in local currency at bank level is fully risk-weighted without considering compensating effects on other risk-weighted assets in the case of a devaluation of the respective currency. The ProCredit group applies the standardised approach to quantify operational risk. In comparison to the regulatory capital requirements of EUR 64 million for operational risk derived from the standardised approach, the data collected in the Risk Event Database in the last three years indicate an average annual operational loss of EUR 1.9 million.

Result of Operations

Group overview

The group ended the year with a total profit of EUR 38.9 million compared to EUR 46.3 million in 2012. The ROE of the group decreased to 7.7% (2012: 10.3%). The annual profit was EUR 9.9 million lower than planned (EUR 48.9 million, corresponding to a ROE of 8.8%). Lower than planned volumes in the main sources of income (net interest and net fee income - combined plan deviation EUR -12.5 million) were compensated by lower personnel and administrative expenses (combined EUR – 12.7 million). Accordingly, the plan deviation in profitability was largely caused by higher provisioning expenses and value adjustments to goodwill, repossessed properties and tax assets, predominantly in relation to the Latin American segment. No major extraordinary items influenced the profitability of the group in 2013.

The net interest margin of the group declined from 7.8% to 7.4% in 2013, which was in line with plan, but the lower-than-expected business volume negatively impacted group profit in absolute terms.

The net interest income developed as expected until mid-2013. In the second half of the year, however, the lower-than-anticipated loan volume resulted in an increasing gap against projections. The decrease in the average income on loans by 0.7% percentage points to 14.5% was largely anticipated. Driving factors for the decrease remained a structural shift of the loan portfolio (less volume in loans below USD/EUR 10,000). Other interest income developed largely in line with expectations (EUR 0.5 million above projections).

The profitability of the group was positively influenced by the decline in average funding costs from 3.8% in 2012 to 3.6% in 2013. This was mainly driven by the decrease in the average cost of non-customer funds (down to 4.7% from 5.3% in 2012). The average cost of customer funds showed a declining trend in the second half of 2013 after a slight increase in the first half. Year-on-year, the average cost of customer funds stayed broadly the same. The decline in funding costs was anticipated in light of envisaged funding transactions, the larger share of customer funds in total liabilities, and the targeted product mix in customer funds, i.e. an increasing share of current and savings accounts.

The provisioning expenses in 2013 were in line with the expense levels in previous years, reflecting a still difficult business environment and moderate business growth. Particularly high provisions were set aside in ProCredit Mexico. A decision was made to cease operations in the regions most affected by the deterioration of the security situation. Expenses for specific (EUR 44.5 million) and lump-sum specific provisions (EUR 39.5 million) had an equal share in overall expenses. Portfolio-based provisions were low as a result of limited portfolio growth. Recoveries from previously written-off loans amounted to EUR 19.8 million, thereby exceeding 2012 volumes by EUR 1.2 million. Overall, net provisioning expenses amounted to EUR 61.0 million (2012: EUR 61.5 million) or 1.5% of gross loan portfolio.

The share of non-interest income (net) in total operating income remained modest, but increased slightly to 13.7% (2012: 13.1%). Net fee income amounted to EUR 60.7 million compared to EUR 58.9 million in the previous year. The group was able to compensate for a decline in fee income-related to domestic payments by increased income from account maintenance and other (partly card-related) fee income. Still, overall net fee income fell short of projections by EUR 6.8 million.

The number of operational staff (excluding staff on permanent leave) declined by 22% to 11.514 at the end of 2013. This led to a decline in personnel expenses particularly in the second half of the year, though disproportionally to the decrease in number as a consequence of compensation payments to leaving staff and general salary increases. Total personnel expenses declined by EUR 5.9 million to EUR 183.3 million.

Administrative expenses amounted to EUR 185.3 million, a decrease of EUR 2.1 million compared to 2012. In addition to smaller decreases in a number of line items, cost reductions of EUR 2.3 million were achieved in respect to in office rent and transport/communication expenses. Increases appeared mainly in relation to IT-related expenses and higher non-profit taxes (together up EUR 1.9 million). Depreciation was largely in line with projections and on 2012 levels.

Segment performance

Eastern Europe – The Eastern European ProCredit banks showed strong financial performance in a still difficult operational environment. In particular, the larger ProCredit banks in Bulgaria, Kosovo and Serbia contributed positively to the segment and group results. Basically all banks in the region operated profitably. The only exception was ProCredit Bank Albania, closing the year with a moderate loss (EUR 1.2 million). The bank was suffering from a depressed economic context resulting in limited business growth and elevated levels of non-performing loans.

Overall, the development of the gross loan portfolio in the region showed a decreasing trend, which was mainly caused by lower portfolio volumes in the group's largest institutions, in Bulgaria, Georgia, Kosovo and Serbia. Their combined loan portfolio decreased by 6.8% or EUR 133.8 million. Loan growth in a number of other ProCredit banks, e.g. Bosnia, Macedonia and Romania, partially compensated for this decrease. As a result, the loan portfolio in the region decreased from EUR 3,019 million to EUR 2,982 million at the end of 2013. Structurally, the banks in the region grew in the loan range between EUR 10,000 to EUR 500,000, while shrinking in the ranges above and below.

The banks financed an increasing part of their balance sheet through customer deposits. All banks in the region experienced a steady inflow of customer funds, their share in total liabilities increasing from 71.9% to 75.2% at the end of 2013. In order to avoid a further increase of already high liquidity ratios, banks reduced their borrowings from IFIs and similar borrowings. The overall balance sheet size of the segment was stable at EUR 4,121 million (2012: 4,119 million).

Regional net interest income was under pressure from comparatively high liquid asset ratios and decreasing loan yields. As a result, the net interest margin of the banks declined from 7.0% to 6.6% at the end of 2013. In addition, the decrease in loan portfolio volume contributed to the decline in net interest income.

The average income on loans in the region decreased to 13.1% (2012: 13.8%). The decline was observed across the region, with ProCredit Bank Ukraine being the only exception. While we observe an underlying, long-term trend of declining lending rates in Eastern Europe, an additional driver for this development is the declining share of loan exposures below EUR 10,000 in overall loan portfolio, such loans typically yielding a comparatively high interest rate.

The interest income from other interest earning placements, mostly short-term bank placements and OECD government bonds, remained limited: their share in total interest income was a mere 2.8% (2012: 2.7%). The average income on liquid assets remained largely unchanged at 1.0% (2012: 1.1%).

The declining interest income on loans was partially offset by reduced funding costs. The average cost of funding was positively influenced by the higher share of lower-yielding customer deposits, but also by the lower average cost of both customer and non-customer funding compared to the previous year. Through repayment of existing loan contracts and their partial replacement with lower-yielding transactions, banks were able to reduce the average cost of non-customer funds from 6.7% to 6.0% in 2013. The average cost of customer funds declined from 3.4% to 3.3% due to the lower share of term deposits in overall customer funds and a general decrease in interest rates.

The lower net interest income was almost fully compensated by lower provisioning expenses, which declined from EUR 48.3 million in 2012 to EUR 37.3 million. The decrease was driven by reduced provisioning expenses at the ProCredit banks in Serbia and Ukraine, where improved portfolio quality and high coverage ratios resulted in lower provisioning needs. Other banks in the region showed either stable or marginally increased provisioning expenses. Net interest income after provisions amounted to EUR 235.0 million (2012: EUR 233.0 million).

Changes in the other income positions did not have a visible influence on the financial performance of the banks in the region as net fee income and trading results were broadly unchanged. Aside from seasonal fluctuations in some fee income positions, there were no major changes. The still difficult economic environment is reflected in limited increases in transaction volumes for payments and card transactions. Similarly, the trading result (predominantly from FX transactions with clients) showed no major change.

The reorganisation in the banks is reflected in the personnel expenses. The decline in the number of staff to 6,772 (2012: 8,742) contributed to a decrease in personnel expenses. However, due to severance payments to leaving staff and salary increases mainly for professional staff and lower management staff, reflecting the aim of increasing quality, the banks did not experience a similar decrease in their staff-related expenses. Average personnel expenses per staff member increased by 13.3% to EUR 12,932.

All Eastern European banks continued their focus on cost management. Overall, administrative expenses decreased by 0.2% to EUR 110.1 million. While IT-related expenses and repairs and maintenance were cost drivers with growth rates of 31.0% and 13.8%, respectively, banks were able to reduce their cost base in respect to basically all other expense positions. Depreciation expenses slightly exceeded 2012 levels (EUR 20.9 million compared to EUR 20.5 million in 2012).

As pre-provisioning operating income and overall administrative expenses declined by EUR 8.5 million and EUR 5.8 million respectively, the cost-income ratio declined slightly to 65.1% (2012: 65.2%).

Although the average tax rate in the segment increased from 11.5% to 13.0% in 2013, net profit after tax amounting to EUR 65.6 million was still 10.5% above 2012; the segment ROE reached 12.9% (2012: 12.3%).

Latin America – This segment accounts for 25% of group assets (pre-consolidation) at year-end 2013. The financial results of the Latin American segment were below expectations in terms of business development and profitability. All banks were investing strongly in institution building measures in terms of staff training and branch network restructuring which impacted financial development. At the same time, the Central American institutions were facing a difficult economic environment and deteriorating security situation, particularly in Honduras, Mexico and El Salvador. Within the segment, the larger institutions in South America (Bolivia and Ecuador) met or exceeded their projections for the year and positively contributed to group results, given a positive macroeconomic environment and good institutional capacity. Balance sheet volumes in the segment were negatively influenced by the EUR/USD exchange rate, as all Latin American currencies are closely linked to the USD.

Limited growth of the gross loan portfolio by EUR 8.9 million to EUR 1,084 million at the end of 2013 was mainly driven by the two largest institutions in Bolivia and Ecuador. Their portfolios grew by a combined EUR 44.5 million or 6.7%. The institutions in Mexico, Colombia and El Salvador experienced a decline in gross loan portfolio by EUR 30.4 million. The loan growth in the segment was concentrated in the range between EUR 5,000 to EUR 150,000. Below and above these thresholds loan volumes were consciously decreased (for example the volumes of loans above EUR 150,000 declined as planned by 23.6%).

The funding requirements of the segment were limited due to the moderate growth in balance sheet volume. The development of customer deposits was broadly in line with the loan portfolio; the deposit-to-loan ratio was 79.2% compared to 79.5% at the end of 2012. The bank in Ecuador raised additional external funding (USD 52.2 million) via the issuance of collateralised bonds. Liabilities to IFIs and other borrowings declined by EUR 12.9 million.

The segment profitability was negatively influenced by an increase in provisioning expenses, particularly in Mexico and Colombia. Operating income improved slightly while operating expenses were largely stable. Accordingly, the cost-income ratio improved to 81.3% (2012: 84.5%). The region recorded a small loss of EUR 0.6 million compared to a profit of EUR 8.5 million in 2012. The larger institutions, i.e. the ProCredit banks in Bolivia and Ecuador, demonstrated solid profitability with net profit of EUR 9.1 million and EUR 5.4 million, respectively and a significant increase in profits vs 2012. However, the other institutions, with the exception of El Salvador, closed the year with negative results.

Total interest income was stable at EUR 178.4 million (2012: EUR 179.2 million). The decline in average income on loans from 16.9% to 16.2% was not fully compensated by volume growth, resulting in a slight reduction in income from loans by EUR 1.2 million to EUR 175.3 million. This decrease was partially compensated by EUR 0.4 million higher income from other placements.

The decrease in the average cost of funding was moderate (down 0.1 percentage points) and mainly driven by the average cost of non-customer funds (down to 5.4% from 6.4% in 2012). The average cost of customer funds slightly increased to 2.9% (2012: 2.7%). Higher business volumes therefore resulted in increasing interest expenses. The net interest margin declined by only 10 basis points to 9.6%, while net interest income was almost stable at EUR 135.6 million due to the increased balance sheet volume.

Although provisioning expenses compared to gross loan portfolio were still below group average, the segment experienced an increase in absolute terms. Higher provisioning expenses were booked by the institutions in Bolivia (up EUR 1.2 million, albeit from very low levels), Colombia (up EUR 3.8 million) and mainly Mexico (up EUR 4.8 million).

Other operating income positions remain of lesser importance for the Latin American institutions, particularly as the ProCredit banks in Bolivia and Ecuador face severe legal restrictions in charging fees for banking services. Also, the level of formality in most Latin American countries remains comparatively low, thereby limiting the possibility to generate meaningful volumes of fee income.

Personnel expenses declined by 4.5% to EUR 47.6 million. Administrative expenses stayed broadly the same due to increases in IT-related expenses, repair and maintenance and an increase in non-profit taxes, which were compensated by cost savings in other positions. The average tax rate increased due to write-downs on tax assets and changes in the tax legislation.

Africa – The African segment consisted of three institutions and was the smallest segment in the group, accounting for 3.9% of group assets (pre-consolidation) at year-end 2013. The development in terms of business volumes and profitability differed strongly between ProCredit Bank Congo on the one hand, and the ProCredit banks in Ghana and Mozambique on the other hand. While in Congo sustained volume growth resulted in moderate profitability, the other two institutions experienced a shrinking loan portfolio as their main source of income. In addition, ProCredit Ghana faced rising provisioning expenses. Accordingly, both institutions closed the year with negative financial results. However, the results in Mozambique improved compared to 2012.

Overall, the loan portfolio in the segment increased by 3.3% to EUR 99.6 million at the end of the year. Decreasing loans in the ranges below EUR 5,000 and above EUR 500,000 were compensated by growth in the intermediate range. The share of loan portfolio in total assets decreased slightly to 43.7%. All three African institutions continued to hold high levels of liquid assets, in particular ProCredit Bank Congo with 53% of total assets.

All African institutions finance their business operations predominantly from local deposits. Customer funds accounted for 88.8% of total liabilities at the end of 2013 (2012: 93.5%) and reached EUR 175.9 million (up 6.3%). Growth in Congo and Mozambique was partially offset by a decline in customer funds in Ghana. The institutions in Ghana and Mozambique are operating in local currency only, while ProCredit Bank Congo's balance sheet is largely dollarised.

The net interest margin in the African segment decreased only slightly to 14.7% (15.1% in 2012). In combination with the moderate volume growth, this resulted in an increase of net interest income by EUR 0.8 million to EUR 32.6 million in 2013. A moderate decrease in average income from loans to 37.1% (2012: 38.6%) was compensated by the higher share of loan portfolio in total assets. Average funding costs decreased marginally by 12 basis points to 2.8%.

The visible increase in provisioning by EUR 1.5 million to EUR 4.8 million was a major driver that contributed to the declining profitability of the segment. The institutions in Congo and Ghana experienced a substantial increase in this position. Only the bank in Mozambique benefited from reduced provisioning expenses.

Personnel and administrative costs were largely stable. Increased IT expenses, non-profit taxes and consultancy, legal and audit fees were mostly balanced by cost reductions in basically all other expense lines. The average tax rate was influenced by the expiry of certain tax benefits in Congo and strongly reduced losses in Banco ProCredit Mozambique. The cost-income ratio improved to 84.5% compared to 87.9% in the previous year.

Germany – The development of the German segment is largely dominated by the operations of ProCredit Holding and ProCredit Bank Germany. The latter was the main contributor to the increase in total assets by 18.0% to EUR 1.3 billion. The growth was driven by an inflow of customer funds of EUR 58.1 million and placements by other ProCredit banks in ProCredit Bank Germany. Liabilities to banks therefore increase to EUR 475.3 million (2012: EUR 408.3 million). The bank also started lending operations, with a gross loan portfolio of EUR 19.1 million at the end of the year, but most of the incoming funds were held in highly liquid assets.

The net interest income of the German segment remained negative at EUR 8.8 million (2012: EUR -9.2 million) because of ProCredit Holding's equity investments in the subsidiaries. These were partly financed by debt instruments, capital instruments and long-term senior debt.

Other operating income positions were dominated by gains and losses from shares in subsidiaries and mainly consisted of dividends in an amount of EUR 72.6 million received from subsidiary banks, an increase of 47.5% over 2012 figures. Other positions were broadly stable.

Operating expenses increased by EUR 6.0 million to EUR 47.1 million. Most of the increase was related to ProCredit Bank Germany (plus EUR 1.7 million) and Quipu (plus EUR 2.2 million), the group's IT provider.

Because the increase in operating income exceeded expense increases, net profit reached EUR 48.7 million compared to EUR 29.1 million. The increase in tax expenses reflect the withholding tax paid on the higher volume of dividends received.

Management Report of ProCredit Holding AG & Co. KGaA

The activities and therefore the operational and financial results of ProCredit Holding AG & Co. KGaA ("ProCredit Holding", "holding company" or "PCH") are deeply intertwined with the development of the group and its entities. Therefore, it has been decided to integrate the management report for PCH into the management report of the group. Please note, that different from the group financial statement, the financial statements of PCH are compiled in accordance with German accounting principles (HGB).

Business activities of ProCredit Holding AG & Co. KGaA

ProCredit Holding is the parent company of the ProCredit group. In particular, the company performs the following functions:

- strategic management 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 risk management and internal audit, for which purpose the holding company has developed group policies
- providing equity for the subsidiaries and ensuring adequate equity levels 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
- other support services and providing management personnel
- reporting to shareholders and third parties (BaFin, Bundesbank)

No business activities are undertaken which are not connected to the ProCredit group.

ProCredit Holding is located in Frankfurt am Main, Germany. At the end of 2013, the holding company had 168 employees, 50 of whom were based abroad in the companies belonging to the group, partly occupying management positions. This includes the entire local staff base of 27 employees of the ProCredit Academy in Colombia, the group training facility for staff in Latin America, which operates as part of ProCredit Holding.

Since 2012, ProCredit Holding has been the "superordinated company" of the ProCredit group for financial supervision purposes. Alongside ensuring appropriate capital endowment of the group, key responsibilities of the superordinated company include the group-wide implementation of the requirements specified under section 25a of the German Banking Act ("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 law on anti-money laundering ("Geldwäschegesetz – GWG").

Major parts of ProCredit Holding's personnel resources were and will continue to be invested in this area. At the end of 2013, the group risk management departments of the holding company accounted for 24 staff members. The anti-money laundering (AML) and Fraud Prevention area and Group Audit had 7 and 8 staff members, respectively. A major part of the holding company's institutional capacity was also allocated to the Finance area, i.e. the departments responsible for accounting, controlling and internal reporting as well as for supervisory reporting. Overall, the total number of holding company staff decreased from 199 to 168. However, the decrease was mainly due to the transfer of staff from PCH to the individual banks' payrolls, as the staff members were expected to continue their work in the respective ProCredit institution without the need for further relocation to other countries. Accordingly, the number of PCH staff based abroad decreased by 29.

ProCredit Holding's close involvement in the activities of the group is reflected in the structure of 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 management service fees account for the major part of the holding company's overall earnings. Accordingly, the financial position of the holding company is strongly dependent on the operational and financial development of its subsidiaries.

Development of financial position

As the parent company of the group, ProCredit Holding continued to be the key provider of equity to its subsidiaries. In addition, the holding company provides medium- to long-term funding, including subordinated debt facilities, to the ProCredit banks. Finally, ProCredit Holding continued to keep a central liquidity reserve of committed stand-by lines and highly liquid assets to back the stand-by facilities signed with the subsidiary banks for the coverage of short-term liquidity needs particularly in individual stress scenarios. Aside from shareholders' equity, ProCredit Holding financed its assets mainly through accessing medium- to long-term facilities from banks and IFIs or the issuance of bonds by way of private placements.

Placements with banks increased by EUR 30.6 million to EUR 33.2 million at the end of 2013, of which EUR 3.4 million was kept at non-group OECD banks and the remainder at ProCredit Bank Germany. The volume of loans to subsidiaries decreased by 2.5% to EUR 199.9 million at the end of 2013, in line with the planned volume (EUR 193.8 million). Structurally, larger volumes placed in El Salvador (plus EUR 22.0 million) and Serbia (plus EUR 6.0 million) outbalanced reduced lending to a number of other ProCredit institutions, with ProCredit Moldova showing the strongest reduction (minus EUR 12.6 million).

The total volume of equity investments increased from EUR 606.4 million at the end of 2012 to EUR 650.3 million in 2013. A major part of the increase reflects the purchase of minority shares in ProCredit Bank Romania for a total volume of EUR 23.5 million. Aside from this transaction, new equity investments in 2013 amounted to EUR 43.9 million, of which EUR 16.5 million consisted of re-invested dividend income. The remaining capital increases of EUR 27.3 million were spread over a number of capital increases, the single largest being a capital increase in ProCredit Bank Germany amounting to EUR 10 million. The deviation from planned volume (EUR 16.8 million) was due to a write-down of the participation value totalling EUR 20.8 million.

In 2013, no capital increases were performed at the level of ProCredit Holding. The increase in the equity position to EUR 405.6 million (up EUR 21.464 million) reflected an increase in retained earnings, net of a dividend payment of EUR 9.9 million (20 cent per share) in May 2013. The deviation from planned equity volumes was mainly related to lower than planned year-to-date profit.

ProCredit Holding's total liabilities increased during the reporting period by 5.9% to EUR 506.8 million (planned volume: EUR 474.6 million). The decrease in the volume of issued securities was overcompensated by an increase in liabilities to banks. The moderate changes in the structure of liabilities did not lead to changes in the maturity or currency structure. 42.3% of liabilities have a remaining maturity of more than 5 years.

ProCredit Holding has signed stand-by agreements with the majority of its subsidiary banks (total amount EUR 127.0 million) and at the same time built up liquidity reserves in order to be able to provide the required funds quickly in case of need. Aside from the liquid assets held at banks, ProCredit Holding had access to a committed, undrawn stand-by facility of EUR 25.0 million.

Result of operations

The financial results of the holding company are strongly linked to the development in the subsidiary banks. In the absence of third party business, the main income sources of the holding company remain, in order of importance, dividends from equity investments, interest income from funding provided to the subsidiary banks and income from the management services agreements signed with the subsidiaries.

Compared to 2012, the dividend income increased by close to 47.5% to EUR 72.6 million, which is in line with anticipated volumes (EUR 74.3 million). The higher volume reflected the steady financial performance of major subsidiary banks in combination with high levels of capitalisation. The single largest payment was an amount of EUR 25.0 million received from ProCredit Bank Kosovo, of which EUR 5.0 million was re-invested.

Despite the increased volume of funding provided to the ProCredit banks abroad, the interest income earned by ProCredit Holding decreased by EUR 3.5 million to EUR 14.7 million mainly due to the structural (country) mix of the portfolio. At the same time, interest expenses decreased to EUR 25.0 million (2012: EUR 27.5 million), mainly reflecting a downward trend in the average cost of funding (down to 5.2% from 5.8% in 2012). Still, net interest income deteriorated to EUR -10.3 million (2012: EUR -9.3 million), thereby deviating from the planned volume of EUR 9.4 million. The negative net interest was a consequence of the company's balance sheet structure, since part of its equity investments (generating dividend income) are financed with interest bearing debt.

The income from management services agreements decreased moderately by 5.7% to EUR 12.6 million (included in other operating income) in line with projections, reflecting a certain stabilisation of personnel and administrative expenses, which form the basis for the respective calculation of fees. ProCredit Holding covers approximately 50% of its administrative expenses through the management services agreements.

Total operating expenses increased moderately by EUR 0.2 million compared to 2012 reaching a total of EUR 30.4 million. Personnel expenses decreased moderately by EUR 0.3 million to EUR 10.4 million due to the decrease in the number of staff from 199 in 2012 to 168 at the end of 2013. Administrative expenses increased by EUR 0.5 million. The increase was driven by increased IT-related expenses (up EUR 0.6 million) and higher start-up losses of ProCredit Bank Germany (up EUR 1.1 million) which were reflected in the holding company's financial statements at year-end under the profit-sharing agreement. Except for this position, total operating expenses developed broadly in line with projections.

As the level of dividend income subject to withholding tax increased, the item taxes on income, reflecting the withholding tax paid on dividends and interest income in the countries in which ProCredit Holding's subsidiaries are based, increased from EUR 2.5 million in 2012 to EUR 3.7 million in 2013. ProCredit Holding closed the year with a profit of EUR 31.4 million. The deviation from anticipated profit levels was caused by the write-down of participation value mentioned above.

Report on Post Balance Sheet Events

In the first quarter of 2014, ProCredit Holding and Ecobank Transnational Incorporated (ETI) entered into discussions with a view to ETI acquiring a majority stake in Banco ProCredit Mozambique. ETI has formally expressed an interest in purchasing Banco ProCredit Mozambique by acquiring the shares currently held by ProCredit Holding representing 89.4% of Banco ProCredit's total capital.

Risk Report

ProCredit's business strategy as a responsible bank especially for very small and small enterprises has far-reaching consequences not only for the various banks' day-to-day business operations, but also for the group's risk profile and thus for risk management. The group risk strategy is built around a number of core principles which characterise the way ProCredit banks work. The consistent application of these principles strongly contributes to the conservative risk profile of the group.

- **Focus on core business**

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

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

Given its business focus, ProCredit's concept of responsible banking entails a very high degree of diversification in both customer loans and deposits. Geographically, this diversification is across regions, countries and across urban and rural areas within countries. In terms of client groups, this diversification is across economic sectors, client groups (very small, small and medium-sized businesses, private individuals and institutions) and income groups. The diversification of the loan portfolio is an important part of the group's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients with simple, easily understandable products. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and our simple, transparent products and procedures reduce the overall risk profile of the group.

- **Careful staff selection and intensive training**

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. To build such long-term relationships we select our staff very carefully and invest heavily in staff training. Key elements of ProCredit's approach to staff management are a very thorough staff selection process, a six-month intensive training programme for all new recruits ("Young Bankers Programme"), regular training for all existing staff, intensive training for management staff in the three ProCredit academies and the application of a uniform salary system across the group that is based on fixed salaries and avoids bonus payments. 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, which is one focus of our risk management efforts. Therefore, intensive staff training is a precondition not only for our further business expansion but also for the successful implementation of our risk management framework, and it is a cornerstone of our approach to risk management in general.

All ProCredit institutions apply a single common risk management framework. This framework reflects the group's risk philosophy and defines group-wide minimum standards for risk management. The principles and standards comprising this framework are based on those formulated in the German Banking Act and the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk". The ProCredit group's risk management framework is in a process of continuous development in line with changes in the relevant legislation and international best practice in risk management. A core aspect of our risk management system is the review of all processes and areas of operations (including branches) by the Internal Audit division on a regular basis, i.e. at least once every three years, subject to a risk assessment.

The ProCredit group identifies and classifies the materiality of its risks in a risk inventory that is conducted at least annually. For all material risks the group-wide minimum standards for risk management define key risk indicators and set limits. Additionally, early warning indicators are monitored through reporting triggers. These triggers may be exceeded, but if this occurs, the situation must be explained and if necessary, mitigating measures introduced. Any exceptions to the risk management framework require Group Risk Management Committee approval.

Organisation of the Risk Management Function

The organisation of the risk management function in the ProCredit group as described below has proven to be effective and efficient as it has enabled decision-makers to early identify deteriorations of the risk profile of the ProCredit group and specific banks and quickly take the necessary measures to assure appropriate risk management, even in difficult environments. As a consequence, the ProCredit group as a whole and all individual banks complied with regulatory capital requirements at all times in 2013. Furthermore, the group as a whole and, with the exception of ProCredit Mexico, all individual banks have complied with the limits set in the context of the group's risk-bearing capacity concept at all times in the past.[2]

Ultimate responsibility for risk management of the ProCredit group lies with the Management Board of ProCredit Holding, which in turn reports on risk management issues to the holding company's Supervisory Board[3]. Within each individual ProCredit institution, responsibility for risk management lies with the respective institution's executive management.

At the group level, the risk management function comprises various organisational units, including the Credit Risk Management function, the Operational Risk Management function and the Financial Risk Management function. Responsibility for monitoring capital management lies with ProCredit Holding's Finance division; responsibility for monitoring the risk-bearing capacity of the group and of each ProCredit institution lies with ProCredit Holding's Risk Control function. These five functions report to the Management Board of ProCredit Holding, and to the Group Risk Management Committee, which meet monthly.

The individual banks' Management Boards and risk committees regularly monitor and manage the risk profile of their respective institutions. Specialised committees address individual risks such as market risks (Assets and Liabilities Committee – "ALCO"), credit risks (Credit Risk Committee) and operational risks (Operational Risk Committee). Some banks have decided to combine these committees into one. In operational terms, risk management in the banks is implemented and developed by a risk management department which is an autonomous department within the organisation and is not involved in any way with the bank's customer service operations (credit or deposit business) or treasury operations. The risk departments of all banks report regularly to the different risk departments at ProCredit Holding.

The group's risk policies and standards, which are revised annually, address all material risks the ProCredit group is exposed to. In addition to the limits set by the group policies, more specific limits may be agreed upon with specific banks, based on that bank's needs and experiences. The individual banks' risk management departments carry out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits agreed, i.e. that the risk-bearing capacity of the bank is not exceeded, so that sufficient capital is also available to cover unlikely potential losses.

[2] ProCredit Mexico does not have a banking licence and does not attract deposits.

[3] An audit committee, which reported to the supervisory board, existed in 2013. On the supervisory board meeting held on 17 February 2014 it was decided to integrate the functions of the audit committee with those of the supervisory board. This management report reflects this new structure.

The respective risk positions of the individual banks are described in standard reports which are generated by all banks. These reports are analysed by the different risk management functions in ProCredit Holding and an aggregate risk report for the Group Risk Management Committee and the Supervisory Board of ProCredit Holding is prepared on this basis. 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 data drawn from other reports generated locally and on a group level.

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

Management of individual risks

Credit Risk

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

Customer Credit Risk

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to banks	**339,026**	**335,108**
Financial assets at fair value through profit or loss	**6,130**	**16,823**
Trading assets	2,157	629
Fixed interest rate securities	3,973	16,195
Available-for-sale financial assets	**323,178**	**192,056**
Fixed interest rate securities	312,041	180,853
Variable interest rate securities	9,283	9,661
Shares in companies situated in OECD countries	798	524
Shares in companies situated in non-OECD countries	1,057	1,018
Loans and advances to customers	**3,996,596**	**4,015,156**
Loans and advances to customers	4,185,071	4,190,607
Allowance for losses on loans and advances to customers	-188,475	-175,451
Contingent liabilities and commitments	**153,524**	**185,398**
Guarantees and stand-by letters of credit	94,863	100,676
Documentary and commercial letters of credit	2,611	2,249
Credit commitments (irrevocable loan commitments)	17,182	52,508
Performance bonds	36,531	26,091
Others	2,337	3,875

Customer credit risk is the single largest risk ProCredit banks face. From a credit risk perspective, lending to businesses in transition economies and developing countries typically needs to address the high degree of informality that exists with regard to documentation of the enterprises' business activities. After more than two decades of successfully operating in these environments, ProCredit has developed robust processes in its lending operations which enable the institutions to manage the specific credit risks in their countries of operation.

The ProCredit institutions are recognised experts in lending to very small, small and medium-sized businesses. The banks operate based on a set of principles for the management of credit risk which prescribe, in particular, an intensive analysis of the debt capacity of the individual client, the avoidance of over-indebtedness on the part of the client, strict monitoring of the repayment of all outstanding credit exposures and rigorous problem credit exposure management. All of these activities are carried out in the framework of carefully designed processes that are based on the application of the "four-eyes principle" and implemented by well-trained and highly motivated staff.

Customer credit risk is managed according to the Group Credit Risk Management Policy and Group Credit Risk Management Standards, which set mandatory rules on the management of credit risk. The policies and standards focus on organisational structures, such as operating procedures, job descriptions which precisely define responsibilities, and a clear allocation of decision-making authority. Moreover, they describe minimum requirements and best practice for credit risk analysis, collateral valuation and coverage, as well as problem loan management and the calculation of loan loss provisions. Thus, the policies and standards define risk-mitigating measures, including both the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring and problem loan management).

ProCredit banks distinguish between risk-relevant and non-risk-relevant credit exposures, which leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are different mainly in terms of the segregation of duties. A strict division of front and back office functions is applied for risk-relevant credit exposures.

The experience ProCredit has gained in its challenging operating environments has shown that an appropriate credit risk assessment constitutes the most effective form of credit risk management. The key criteria for credit exposure decisions are based on the financial situation of the client, supplemented by a review of liquid funds and an assessment of the creditworthiness of the client. All customers are regularly visited on-site to ensure an adequate consideration of the client's specific features and needs.

The decision-making process at ProCredit ensures that all credit decisions are taken by a credit committee and within approval limits that reflect the experience of the decision-makers. Decisions on all credit exposures to medium customers are taken by credit committees at the head office of the banks and, in exceptional cases, by the supervisory boards.

Defining appropriate credit limits, deciding on suitable services to provide for the financial needs of clients and establishing a proper structure of the credit exposure all form an integral part of the discussions within the credit committee before a final decision is taken.

As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the turnover of the client with the bank, the lower will be the collateral requirements.

According to group policy, only non-risk-relevant and/or short-term credit exposures may be issued without being fully collateralised. The threshold varies between countries, depending on the level of stability of the overall economic environment. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages.

As the majority of credit exposures are fixed instalment loans of rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount, and therefore is not monitored. The total amount of collateral held as security is EUR 3,497 million. For an insignificant number of financial assets the banks hold cash collateral.

in '000 EUR	31.12.2013	31.12.2012
Mortgage	58.1%	59.5%
Inventories	12.7%	23.6%
Guarantees	19.9%	10.3%
Other	9.2%	6.5%

The early detection of credit risk is incorporated in all lending-related processes, resulting in fast and efficient management of financial difficulties faced by ProCredit banks' clients. These processes are designed to detect increased credit risk in individual credit exposures. Once an increase in credit risk has been identified, processes are in place to ensure a swift review of the credit exposures in question.

The loan portfolios of the ProCredit institutions are predominantly composed of instalment loans with regular monthly payments. Accordingly, payment delays have proven to be a reliable indicator of increased default risk.

The key indicator employed by ProCredit to assess the level of credit risk is the portfolio at risk (PAR 30), which is defined as all credit exposures with one or more payment of interest and/or principal overdue by more than 30 days. The total outstanding exposure towards a client and related parties is considered for the indicator, and no deductions for available collateral nor any de *minimis* thresholds apply. The indicator is expressed as a percentage of the total gross loan portfolio. The quality of the loan portfolio is monitored based on this key indicator on an ongoing basis.

Credit exposures with overdue payments are reported daily to the responsible branch manager, the respective bank's head office and to ProCredit Holding, and a set of predefined measures is initiated. In addition, specialised Recovery Officers may be involved to support the intensified management of the credit exposure.

Management activities centre around close communication with the client, identification of the source of higher credit default risk and closer monitoring of the client's business activities. At the individual banks, decisions on the most effective measures to reduce the credit default risk for individual credit exposures are taken with the requisite speed by the authorised decision-making bodies for the credit exposures in question.

At the end of 2013 PAR 30 stood at 4.7%, higher than the level reported for the end of 2012 (4.3%), and was briefly above 5% for the group in 2013. This increase was attributable to an overall increase in overdue payments at most institutions due to the prolonged economic crisis, with ProCredit institutions in Eastern European countries and in Central America being affected most significantly. The PAR 30 indicator for the Eastern European institutions stood at 5.0% (2012: 4.7%), in Latin America it was 3.6% (2012: 2.8%) and in Africa the value was 7.7% (2012: 7.1%). All banks have allocated significant resources to managing loan portfolio quality and have strengthened both their organisational set-up and their training of staff to ensure this comparably high loan portfolio quality is maintained and to work out problematic credit exposures swiftly and solidly. In 2013, net write-offs stood at 0.8% of the gross loan portfolio (2012: 0.8%).

in '000 EUR As at December 31, 2013	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business	2,828,492	117,178	185	3	21	29	266	2,946,173
Agricultural	563,113	18,418	0	2	1	0	10	581,544
Housing improvement	191,734	4,929	0	0	1	3	0	196,667
Consumer	22,484	2,576	0	0	0	0	0	25,060
Finance leases	54,879	3,830	0	1	0	0	3	58,713
Other	29,093	406	1	1	0	1	1	29,504
Other advances to customers	4,650	0	0	0	0	0	0	4,650
Impaired								
Business	91,900	41,206	20,464	12,464	25,857	34,669	66,451	293,012
Agricultural	7,797	1,846	3,589	2,011	4,024	3,468	12,988	35,724
Housing improvement	1,184	441	871	408	837	610	1,391	5,743
Consumer	1,266	38	81	21	148	137	1,118	2,808
Finance leases	833	79	624	266	416	443	863	3,524
Other	495	47	63	41	143	123	1,037	1,950
Total	**3,797,918**	**190,994**	**25,880**	**15,218**	**31,449**	**39,483**	**84,128**	**4,185,071**

in '000 EUR As at December 31, 2012	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	other signs of impairment	Total
Loans and advances to customers								
Collectively assessed								
Business	2,930,036	130,070	8,602	4,957	9,565	22,923	23,011	3,129,164
Agricultural	477,550	19,233	1,985	1,089	2,388	4,646	2,169	509,060
Housing improvement	192,162	4,347	776	277	761	1,543	594	200,460
Consumer	63,927	3,469	552	183	374	876	478	69,859
Finance leases	24,529	1,573	161	31	164	1,227	0	27,686
Other	40,320	290	105	63	131	1,514	550	42,972
Other advances to customers	3,181	0	0	0	0	0	0	3,181
Individually assessed								
Business	2,305	115	9,841	4,504	16,337	69,612	86,645	189,360
Agricultural	203	69	1,062	640	924	8,468	3,847	15,214
Housing improvement	53	0	100	0	133	466	583	1,335
Consumer	0	0	5	0	0	35	216	256
Finance leases	0	0	0	0	7	1,348	666	2,020
Other	0	0	0	0	0	4	36	40
Total	**3,734,267**	**159,166**	**23,189**	**11,745**	**30,783**	**112,662**	**118,795**	**4,190,607**

An integral part of arrears management is a proactive alignment of the repayment plans with the client's actual and expected future payment capacity. Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the current or future payment capacity, mostly caused by the significantly changed macroeconomic environment in which our clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

Throughout the year, a decreasing volume and number of credit exposures which would otherwise be past due or impaired were renegotiated. As of year-end, the combined total volume of such credit exposures came to EUR 52.9 million, lower than recorded at the end of 2012 (EUR 66.7 million).

in '000 EUR **As at December 31, 2013**	**Loan portfolio**	**Restructured loans**	**Restructured loans as % of loan portfolio**
Germany	19,086	0	0.0%
Eastern Europe	2,981,850	42,250	1.4%
Latin America	1,084,488	9,438	0.9%
Africa	99,646	1,207	1.2%
Total	**4,185,071**	**52,895**	**1.3%**

in '000 EUR **As at December 31, 2012**	**Loan portfolio**	**Restructured loans**	**Restructured loans as % of loan portfolio**
Germany	0	0	0.0%
Eastern Europe	3,018,589	53,296	1.8%
Latin America	1,075,536	12,048	1.1%
Africa	96,482	1,350	1.4%
Total	**4,190,607**	**66,695**	**1.6%**

Once a credit exposure reaches problem credit exposure status (at the latest after more than 90 days of arrears), Recovery Officers take over full responsibility for further actions concerning the case. ProCredit treats exposures as problem credit exposures if the bank has significant doubts about the ability of the client to comply with the contractual terms and conditions. If necessary, Recovery Officers are supported by Litigation Officers or specialists in the repossession and sale of assets or collateral. The group policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price, typically via public auction. Most repossessed property consists of land and buildings. A smaller part is composed of inventory and of vehicles and consumer durables (TVs, fridges etc.).

in '000 EUR	**31.12.2013**	**31.12.2012**
Real estate	36,153	30,953
Inventory	177	558
Others	477	367
Repossessed property	**36,807**	**31,879**

ProCredit banks apply strict rules regarding writing-off credit exposures for which, in our view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. Any measures to be taken are decided by the appropriate authority levels for the respective problem credit exposures with the aim of ensuring a high degree of recovery.

Depending on the arrears and/or problem status of their loan portfolios, ProCredit banks set aside provisions for expected losses. While individually significant credit exposures which show signs of impairment are provisioned based on the results of an individual impairment test, for individually insignificant exposures with signs of impairment ProCredit banks apply a lump-sum approach. Respective provisioning rates are determined through a migration analysis, which, based on historic default rates, gives an estimate for expected losses depending on the number of days in arrears.

in '000 EUR As at December 31, 2013	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Coverage ratio	Net write-offs	Net write-offs as % of loan portfolio
Germany	19,086	-233	0	0.0%	0.0%	0	0.0%
Eastern Europe	2,981,850	-143,953	148,498	5.0%	96.9%	23,655	0.8%
Latin America	1,084,488	-37,274	39,218	3.6%	95.0%	6,300	0.6%
Africa	99,646	-7,015	7,640	7.7%	91.8%	2,485	2.5%
Total	**4,185,071**	**-188,475**	**195,356**	**4.7%**	**96.5%**	**32,441**	**0.8%**

in '000 EUR As at December 31, 2012	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Coverage ratio	Net write-offs	Net write-offs as % of loan portfolio
Germany	0	0	0	0.0%	0.0%	0	0.0%
Eastern Europe	3,018,589	-140,252	141,504	4.7%	99.1%	26,689	0.9%
Latin America	1,075,536	-29,196	30,054	2.8%	97.1%	6,263	0.6%
Africa	96,482	-6,003	6,821	7.1%	88.0%	1,549	1.6%
Total	**4,190,607**	**-175,451**	**178,379**	**4.3%**	**98.4%**	**34,502**	**0.8%**

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee of the respective bank. For such credit exposures, the bank performs an impairment test once objective evidence of impairment exists, i.e.:

- delinquencies in contractual payments of interest or principal by more than 30 days;
- breach of covenants or conditions, unless waived or modified by the bank;
- initiation of legal proceedings by the bank;
- initiation of bankruptcy proceedings;
- any specific information on the customer's business or changes in the customer's market environment that has led or is expected to lead to a reduction in the likelihood that the client will meet the contractual payment obligations towards the bank.

The impairment test takes into consideration the realisable net value of collateral held. For the calculation of the individual impairment a discounted cash flow approach is applied.

in '000 EUR As at December 31, 2013	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	229,227	-65,558	163,670
Agricultural	22,490	-8,562	13,928
Housing improvement	1,342	-245	1,096
Consumer	376	-57	319
Finance Lease	1,863	-533	1,330
Other	195	-46	149
Total	**255,493**	**-75,002**	**180,491**

in '000 EUR As at December 31, 2012	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	189,360	-56,036	133,324
Agricultural	15,214	-3,783	11,431
Housing improvement	1,335	-442	893
Consumer	256	-95	160
Finance Lease	2,020	-1,069	951
Other	40	-10	30
Total	**208,225**	**-61,435**	**146,790**

In addition, credit exposures towards clusters of clients may be classified as showing signs of impairment because of deterioration in the quality due to external influences and/or extraordinary events.

For all unimpaired credit exposures, individually significant and insignificant, portfolio-based allowances for impairment are made, again based on historical loss experience.

in '000 EUR **As at December 31, 2013**	**Gross outstanding amount**	**Allowance for individually insignificant impaired loans & collectively assessed loans**	**Net outstanding amount**
Business	3,009,958	-84,322	2,925,636
Agricultural	594,778	-17,246	577,532
Housing improvement	201,069	-5,650	195,419
Consumer	61,861	-3,135	58,726
Finance Lease	26,005	-1,366	24,639
Other	31,259	-1,754	29,505
Other advances to customers	4,650	0	4,650
Total	**3,929,578**	**-113,473**	**3,816,105**

in '000 EUR **As at December 31, 2012**	**Gross outstanding amount**	**Allowance for individually insignificant impaired loans & collectively assessed loans**	**Net outstanding amount**
Business	3,129,164	-85,873	3,043,291
Agricultural	509,060	-15,836	493,224
Housing improvement	200,460	-5,203	195,257
Consumer	69,859	-2,600	67,259
Finance Lease	27,686	-2,317	25,369
Other	42,972	-2,186	40,785
Other advances to customers	3,181	0	3,181
Total	**3,982,382**	**-114,016**	**3,868,366**

ProCredit institutions have been actively working with clients on an individual basis throughout the economic crisis and beyond. In 2013, however, the banks increasingly concluded for a number of credit exposures that all possible out-of-court measures for the client to recover from the effects of the significant macroeconomic downturn had been exhausted. Therefore, the banks initiated the legal recovery process on these credit exposures. In most countries of operation, however, the legal process is relatively inefficient and time consuming. Accordingly, a substantial share of the PAR 30 in the group consists of credit exposures that are in this lengthy legal recovery process. However, ProCredit institutions have sufficient capacity to actively support this process.

Besides the impact of individual cases on the overall credit risk, banks regularly review the structure of the loan portfolio in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas.

Generally, the high granularity of the loan portfolios of ProCredit banks is a highly effective credit risk-mitigating factor. The core business of the banks, lending to very small and small enterprises, made a high degree of standardisation in lending processes necessary and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors.

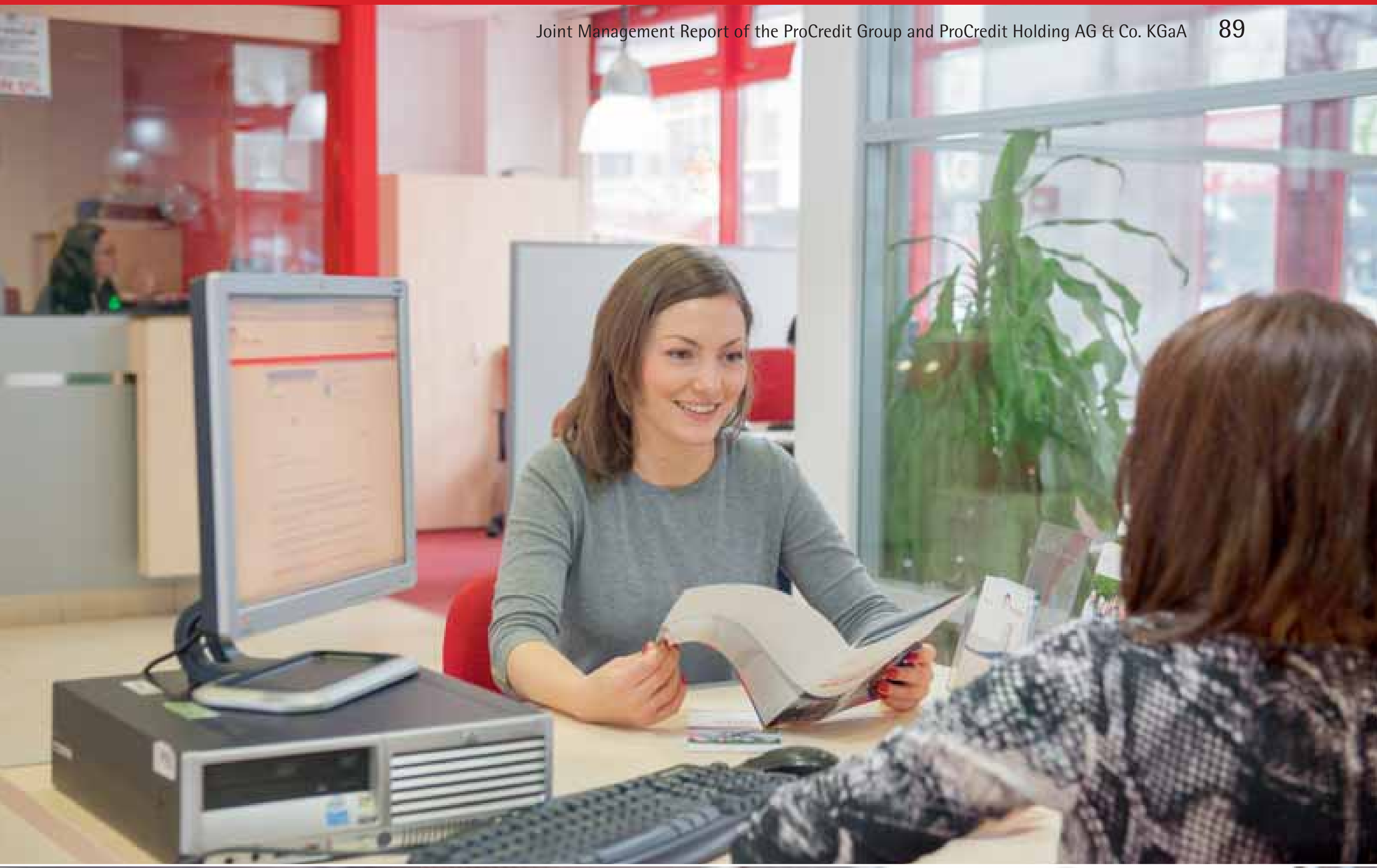


Photo above: ProCredit Bank Romania; Photo below: ProCredit Bank Bosnia

in '000 EUR As at December 31, 2013	EUR/USD < 30,000	EUR/USD 30,000 – 150,000	EUR/USD > 150,000	Total
Germany	26	136	18,925	19,086
Eastern Europe	1,082,655	1,091,423	807,772	2,981,850
Latin America	654,083	320,142	110,264	1,084,488
Africa	46,036	32,918	20,693	99,646
Total	**1,782,799**	**1,444,618**	**957,654**	**4,185,071**

in '000 EUR As at December 31, 2012	EUR/USD < 30,000	EUR/USD 30,000 – 150,000	EUR/USD > 150,000	Total
Germany	0	0	0	0
Eastern Europe	1,155,367	1,060,849	802,374	3,018,589
Latin America	632,149	298,984	144,403	1,075,536
Africa	50,541	30,694	15,247	96,482
Total	**1,838,056**	**1,390,527**	**962,024**	**4,190,607**

ProCredit banks follow a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (credit exposures exceeding 10% of regulatory capital) of any individual ProCredit institution require the approval by the Group Risk Management Committee. Moreover, no single large credit exposure may exceed 25% of regulatory capital.

in '000 EUR As at December 31, 2013	Business	Agricultural	Housing improvement	Consumer	Finance leases	Other	Other advances to customers
< 30,000 EUR/USD	1,198,760	336,864	158,176	56,556	10,178	17,616	4,650
30,000 to 150,000 EUR/USD	1,181,453	187,842	42,579	5,132	13,775	13,838	0
>150,000 EUR/USD	858,972	92,562	1,655	550	3,915	0	0
Total	**3,239,185**	**617,268**	**202,411**	**62,237**	**27,868**	**31,454**	**4,650**

in '000 EUR As at December 31, 2012	Business	Agricultural	Housing improvement	Consumer	Finance leases	Other	Other advances to customers
< 30,000 EUR/USD	1,245,691	324,893	165,453	64,355	10,323	24,161	3,181
30,000 to 150,000 EUR/USD	1,182,286	137,972	33,812	5,136	12,739	18,582	0
> 150,000 EUR/USD	890,547	61,410	2,531	624	6,644	268	0
Total	**3,318,524**	**524,274**	**201,795**	**70,114**	**29,706**	**43,012**	**3,181**

Additionally, the quality of credit operations is assured by credit controlling units at the individual bank level which are responsible for monitoring the bank's credit operations and compliance with its procedures. These units, made up of experienced lending staff, ensure compliance, in form and substance, with the lending policy and procedures through on-site checks and system screening, in particular once significant increases in the number and volume of arrears are detected.

The significant strengthening of capacities in portfolio management departments and recovery units since 2010 ensures that all credit exposures are closely followed throughout their lifetime. The fact that the ProCredit institutions have emphasised this basic principle, especially when efforts to recover a particular credit exposure became more challenging, has contributed to a comparatively high loan portfolio quality, despite the difficult external environments in the countries in which ProCredit operates.

Counterparty and Issuer Risk

The ProCredit group is exposed to counterparty and issuer risk insofar as all ProCredit banks need to keep highly liquid assets for the purpose of managing transactions and mitigating liquidity risk. While the group tries to generate some income from these assets, the overriding objective is to ensure their secure placement and a high level of availability; risk considerations predominate. ProCredit banks are not allowed to conduct any speculative trading activities.

The highly liquid assets are kept with central banks, central governments or commercial banks, primarily in the form of mandatory reserves, placements or highly liquid securities. Thereby the risk that a counterparty or issuer is unwilling or unable to fulfil its obligations is incurred (= counterparty and issuer risk). Counterparty and issuer risk is split into different sub-risks: *principal risk*, which is the risk of losing the principal amount due to the counterparty failing to repay it in full and/or on time; replacement risk, which is the risk of incurring extra costs when replacing an outstanding deal with an equivalent one on the market; *settlement risk*, which is the risk of loss due to the failure of a counterparty to deliver assets as contractually agreed; and *issuer risk*, which is the probability of loss resulting from the default and insolvency of the issuer of a security.

Counterparty and issuer risks are managed according to the Group Counterparty Risk Management (incl. Issuer Risk) Policy and the Group Treasury Policy, which define counterparty and issuer risk, establish mitigating measures (e.g. counterparty/issuer selection, set of permissible transactions and rules for their processing) and allocate responsibilities on bank and group level. As a general rule no exposure can be incurred and no deal can be made without a limit. Limits that fulfil certain criteria can be set by a bank's ALCO or Risk Management Committee without needing Group ALCO or Group Risk Management Committee approval. The limit setting process is based on a thorough counterparty analysis, generally conducted by the local risk management and treasury departments. Eligible counterparties are selected carefully and must be reliable banks with high credit quality, a good reputation and good financial standing. Because of these risk considerations, liquidity is mainly placed with centrally chosen core counterparties, in general reputable OECD banks. Furthermore, maturities are generally kept very short at up to three months, but often also significantly shorter. For the purpose of investing surplus liquidity the banks are also allowed to buy and hold securities (T-bills, bonds or certificates). For local currency, preferably certificates or securities issued by the local central bank or government should be bought, whereas for EUR/USD they should preferably be paper issued by governments or international/multinational institutions with very high credit ratings (international rating of AA- or better). 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 prudent risk criteria. Derivatives are only used for hedging purposes, liquidity management or as a service for clients.

Because of the above mentioned features and criteria, counterparty risk is low for the ProCredit banks and the group. On group level a certain concentration exists with regard to exposures towards central banks. The group has insured more than half of the amount. In 2014 the group will continue to exercise this policy.

in '000 EUR	31.12.2013	in %	31.12.2012	in %
Banking groups	339,026	31.2	335,108	33.5
OECD banks	*233,952*	*21.5*	*234,770*	*23.5*
Non-OECD banks	*105,074*	*9.7*	*100,339*	*10.0*
Central banks*	311,363	28.6	354,048	35.4
Mandatory reserve	*373,266*	*15.8*	*359,916*	*15.3*
thereof covered by insurance	*-201,310*		*-206,525*	
Other exposures	*139,408*	*12.8*	*200,657*	*20.1*
Securities*	436,740	40.2	310,450	31.1
Total	**1,087,130**	**100.0**	**999,606**	**100.0**

* Previous years' figures have been reclassified.

The exposure to banking groups contains repurchase agreements in the amount on EUR 20.8 million, for which securities with a fair value of EUR 21.0 million were obtained. None of them were repledged or sold.

Since the end of 2012 the total counterparty and issuer risk exposure increased by EUR 87.5 million, mainly kept in the form of securities. The portfolio quality is high, as most of the securities are issued by at least AA- rated OECD sovereigns. The exposure towards banking groups stayed stable, at a similar level as end 2012.

Due to our conservative approach, we are largely unaffected by the ongoing Eurozone sovereign debt crisis. In response to the increased uncertainty, counterparty limits were, however, reviewed and adjusted where necessary.

Country Risk

We define country risk as the risk that the group is not able to enforce rights over certain assets in its countries of operation or that a counterparty in these countries is unable to perform an obligation because of specific political, economic or social risks of that country, resulting in an adverse effect on credit exposures. In a broad sense we see country risk as being driven by volatile macroeconomic conditions (e.g. volatile FX rates, credit and liquidity crunches), an unstable political situation (e.g. changing political and institutional set-up) and an unfavourable natural environment (e.g. earthquakes, floods). Most of these aspects of country risk are covered by different areas of risk management, i.e. credit, counterparty, issuer, liquidity, foreign currency, interest rate and operational risk. As a consequence, we define country risk as the risk of convertibility, transferability, expropriation, macroeconomic and security risks and the risk arising from the degree to which the banks' regulatory framework is discretionary.

The ProCredit group is exposed to country risk in a diversified way considering that the group operates in 22 countries in four regions. Country risk may have a strong adverse impact on earnings, capital or liquidity, and needs to be managed carefully. The ProCredit group has many years of experience in transition economies and developing countries and has a business model that has proven to be resistant to macroeconomic and political shocks.

We manage country risk according to the ProCredit Country Risk Management Policy, which defines country risk and establishes mitigating measures against it (e.g. setting internal country ratings, establishing exposure limits) and also allocates responsibilities on bank and group level. Each ProCredit bank, for example, closely monitors developments in its respective country and reports regularly and ad-hoc to group financial risk management on all specific country risk elements. External sources complement our in-depth knowledge, enabling us to react in a comprehensive and timely manner based on sound and well-founded information and analyses. The level of exposure of ProCredit Holding and ProCredit Bank Germany to the other ProCredit banks is limited and depends on the banks' internal country ratings. Other intra-group (i.e. cross-border) financing is strongly restricted and centrally co-ordinated.

Market Risks

Relevant market risks for the ProCredit group are currency and interest rate risk. They will be treated separately in the following.

Foreign Currency Risk

Foreign currency (FX) risk is defined as the risk of negative effects on an institution's financial results and capital adequacy caused by changes in exchange rates. As the ProCredit group operates in several currencies, foreign currency risks can arise and need to be managed. As a matter of principle, ProCredit banks do not engage in proprietary trading and do not enter any speculative positions on foreign exchange markets. Therefore, ProCredit banks are strictly non-trading book credit institutions in the sense of the German Banking Act. The banks close currency positions to the extent possible and ensure that an open currency position (OCP) remains within the conservative limits at all times. Derivatives can only be used for hedging purposes to close positions of the bank as well as for liquidity purposes (in addition to being a service provided to clients). We do not apply hedge accounting in accordance with IAS 39. FX risk has three different elements: *currency risk of the bank's income statement*, which arises from a bank's foreign currency positions; *currency risk of the capital adequacy ratio*, which arises when the capital of the bank is held in a different currency than many of the assets it supports; and *foreign currency investment risk*, which appears on group level if a bank holds its equity in a different currency than EUR (the accounting currency of the consolidated group).

Currency risk is managed according to the Group Foreign Currency Risk Management Policy, which defines risk-mitigating measures and allocates responsibilities on bank and group level. ProCredit banks' treasury departments are responsible for continuously monitoring the developments of exchange rates and foreign currency markets. They are also in charge of managing the currency positions of the bank on a daily basis and ensuring that they stay within the conservatively set limits (the total OCP is limited to 10% of the banks' regulatory capital and an early warning threshold is set at 5% per currency and 7.5% for the total OCP). The activities of the treasury department are monitored by the banks' risk controlling and risk management functions. As of end-2013, all ProCredit banks had OCPs within approved limits.

The following table shows the consolidated EUR and USD OCPs of the banks. The "other currencies" mainly include the local currencies of the countries we operate in. Since most banks keep their equity in the respective local currency, they have significantly more assets than liabilities in this local currency and thereby expose the group to foreign currency investment risk.

in '000 EUR **As at December 31, 2013**	**EUR**	**USD**	**Other currencies**
Assets			
Cash and cash equivalents	255,738	181,174	395,527
Loans and advances to banks	155,154	134,831	49,041
Financial assets at fair value through profit or loss	2,156	3,872	102
Available-for-sale financial assets	215,640	47,361	60,004
Loans and advances to customers	1,581,784	984,116	1,454,803
of which: indexed to EUR / USD	499,121	27,948	0
Tax assets	1,679	0	3,405
Other assets	12,005	9,769	32,543
Total assets	**2,224,156**	**1,361,124**	**1,995,424**
Open forward position (assets)	**63,183**	**6,029**	**3,209**
Liabilities			
Liabilities to banks	210,938	69,288	49,120
Financial liabilities at fair value through profit or loss	28	0	8
Liabilities to customers	1,409,095	818,800	1,574,344
of which: indexed to EUR / USD	7,800	6,567	0
Liabilities to international financial institutions	374,507	233,116	67,467
Debt securities	167,666	80,675	5,350
Tax liabilities	540	312	5,710
Provisions	2,240	2,797	7,040
Other liabilities	4,276	7,384	12,006
Subordinated debt	102,551	55,599	5,608
Hybrid capital	67,095	0	0
Total liabilities	**2,338,936**	**1,267,971**	**1,726,653**
Open forward position (liabilities)	**7,995**	**61,996**	**41,854**
Net position	**-59,592**	**37,187**	**230,125**

in '000 EUR **As at December 31, 2012**	**EUR**	**USD**	**Other currencies**
Assets			
Cash and cash equivalents	336,924	182,088	344,436
Loans and advances to banks	142,902	133,209	58,998
Financial assets at fair value through profit or loss	5,884	8,627	2,313
Available-for-sale financial assets	99,235	52,681	40,141
Loans and advances to customers	1,621,309	1,032,364	1,389,170
of which: indexed to EUR / USD	497,674	30,356	0
Tax assets	1,234	0	2,092
Other assets	12,823	11,479	25,660
Total assets	**2,220,311**	**1,420,448**	**1,862,809**
Open forward position (assets)	**57,757**	**10,607**	**2,186**
Liabilities			
Liabilities to banks	221,074	58,821	66,046
Financial liabilities at fair value through profit or loss	213	51	8
Liabilities to customers	1,327,398	881,146	1,419,487
of which: indexed to EUR / USD	7,906	8,028	0
Liabilities to international financial institutions	428,683	288,033	82,427
Debt securities	148,732	43,816	13,796
Tax liabilities	321	1,519	2,883
Provisions	1,961	2,478	6,861
Other liabilities	3,985	8,807	13,192
Subordinated debt	115,072	56,619	3,064
Hybrid capital	67,218	0	0
Total liabilities	**2,314,658**	**1,341,288**	**1,607,764**
Open forward position (liabilities)	**6,851**	**43,659**	**32,250**
Net position	**-43,441**	**46,109**	**224,980**

Foreign currency investment risk is the FX risk element with the biggest impact, as most banks keep their equity in the respective local currency. At the group level this leads to a currency risk between the EUR-denominated equity of ProCredit Holding and its equity investments in the banks. This is reflected in fluctuations of the value of the group's equity, captured roughly by the group translation reserve. Over the medium term this risk is reduced by the fact that we have a diversified basket of currencies and the depreciations are ultimately covered by profit (expectations). Furthermore, the ProCredit banks in Albania, Bosnia and Bulgaria keep long EUR as a hedge for their equity. The translation reserve in the equity position of the group increased from EUR -44.6 million at the end of 2012 to EUR -67.2 million as of December 2013. This was driven to a large extent by the USD depreciation against the EUR.

Interest Rate Risk

Interest rate risk arises from structural differences between the re-pricing maturities of assets and liabilities. The typical maturity difference comes from obtaining shorter-term deposits and disbursing longer-term loans at fixed rates. This exposes a bank to the risk that deposit costs increase over time and new deposits can only be obtained by paying a higher price, which would reduce our margin as the return on the loans remains the same for a longer time. This interest rate risk is also called re-pricing risk.

In our countries of operation most loans are offered at fixed interest rates. The average maturity of loans typically exceeds that of customer deposits, making our banks subject to interest rate risk as described above. As financial instruments to mitigate interest rate risk (hedges) are usually not available in local currencies, we have to manage interest rate risk in a different way. In order to maintain an acceptable level of interest rate risk even when loans are disbursed with longer maturities, many ProCredit banks are increasingly offering variable-rate loans and short-term loans to their customers. In this way, the re-pricing maturities of assets can be matched to the re-pricing 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, and communicate this clearly to the client at the time of disbursement.

The approach used to measure and manage interest rate risk is guided by the Group Interest Rate Risk Management Policy. The interest rate risk is discussed by the banks' Risk Management Committees and the Group Risk Management Committee at least quarterly.

The main indicator for interest rate risk is the potential economic value impact (EVI) on all our assets and liabilities resulting from a detrimental change in interest rates. The EVI analyses the potential loss in value the group would suffer if interest rates in all currencies suddenly shifted up or down. The EVI across all currencies is not allowed to exceed 10% of each bank's capital. A reporting trigger is set at 5% for each currency, providing an early warning signal. A second indicator is the interest earnings (IE) indicator of the next three months. This measure indicates how our income statement may be influenced by interest rate risk under a short-term perspective. A reporting trigger is set at 1% of each bank's capital.

In order to further analyse the bank's sensitivity to interest rate risk, two stress scenarios are calculated, the first one simulating a shock of the external rates, without internal rates changing, and the second one assuming that the interest rate in each currency moves in the direction (up or down) that is most detrimental to the bank.

	Standard scenario		Worst case scenario	
	31.12.2013	31.12. 2012	31.12. 2013	31.12. 2012
in '000 EUR **Currency**	**Economic value Impact**	**Economic value Impact**	**Economic value Impact**	**Economic value Impact**
EUR	4,044	1,698	4,116	1,710
USD	3,246	2,385	3,304	2,403
Local currencies*	9,159	7,504	14,645	21,310
Total amount	**16,449**	**11,587**	**22,065**	**25,424**
Total in relation to group risk taking potential**	**2.5%**	**1.6%**	**3.3%**	**3.6%**

* The interest rate shock for local currencies is the average of shocks used weighted by the interest rate risk exposure in the respective currency.
** Last year the total was compared to group capital.

Throughout 2013, interest rate risk exposure was within approved limits at all ProCredit banks. The ProCredit banks in Bulgaria and Bolivia had higher limits approved. The group's EVI in the standard risk-bearing capacity scenario increased in 2013, and amounted to EUR 16.5 million end-December 2013. However, this continues to represent only 2.5% of the group's risk-taking potential, compared to the 10% limit. Therefore, interest rate risk on group level is considered low.

Liquidity and Funding Risk

Liquidity risk (risk of insolvency) is the danger that a bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Funding risk is the danger that additional funding can no longer be obtained, or can only be obtained at significantly increased market interest rates. It thereby covers parts of the non-systemic effect of interest rate changes.

The group's liquidity risk is low above all by our simple business model and products. On the one hand our loan portfolio is characterised by a large number of short- and medium-term exposures to very small and small businesses. The majority of these loans are disbursed as annuity term loans and have low default rates. From a liquidity risk point of view, this leads to highly diversified, and reliable cash inflows. On the other hand, deposits from our target group of small savers are our primary source of funding. With our depositors we establish strong relationships in order to maintain loyalty even in difficult times. The usage of financial markets instruments is low. The risk of sudden outflows and rollover risks are thus limited.

The liquidity risk management system of the group is specified by the Group Liquidity Risk Management Policy and the Group Treasury Policy and monitored by the Group Risk Management Committee. The Group ALCO is responsible for all key operational decisions regarding group liquidity management. Group Treasury department is responsible for the execution of the Group ALCO's decisions. Compliance with strategies, policies and limits is constantly monitored by back office and group financial risk management. This organisational structure is also replicated in each of the ProCredit banks.

The key tool for managing liquidity risks is the standard liquidity gap analysis. This is complemented with a cash flow forecast, which covers the next three months and is updated regularly. The gap analysis shows the contractual maturity structure of assets and liabilities. For the purpose of quantifying liquidity risk, we use conservative withdrawal assumptions based on historical analysis for certain liability positions that do not have a contractual maturity when calculating the indicators.

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

in '000 EUR **As at December 31, 2013**	**Up to 1 month**	**1–3 months**	**3–6 months**	**7–12 months**	**1–5 years**	**More than 5 years**	**Total**
Assets							
Financial instruments							
Cash and cash equivalents	806,561	26,107	0	0	0	0	832,667
Loans and advances to banks	316,142	27,394	119	602	41	12	344,309
Financial assets at fair value through profit or loss	827	331	564	572	4,468	0	6,762
of which derivatives	*827*	*276*	*540*	*392*	*135*	*0*	
Available-for-sale financial assets	50,119	45,355	24,969	152,953	53,256	805	327,457
Loans and advances to customers	268,492	363,318	523,366	975,831	2,303,134	550,491	4,984,631
Non-financial instruments							
Current tax assets	426	803	1,966	1,889	0	0	5,084
Other assets	15,610	1,652	320	14,543	21,923	269	54,317
Total assets	**1,458,176**	**464,961**	**551,305**	**1,146,390**	**2,382,820**	**551,576**	**6,555,228**
Liabilities							
Financial instruments							
Liabilities to banks	46,718	23,686	29,702	63,736	134,487	72,340	370,668
Financial liabilities at fair value through profit or loss	86	114	0	164	214	0	577
of which derivatives	*86*	*114*	*0*	*164*	*214*	*0*	*577*
Liabilities to customers	2,087,168	345,277	385,000	634,963	366,095	75,331	3,893,834
Liabilities to international financial institutions	29,358	44,644	65,337	86,812	395,323	120,382	741,857
Debt securities	3,565	1,776	5,121	14,012	192,659	87,009	304,142
Subordinated debt	1,945	3,236	4,689	8,770	135,046	184,101	337,787
Hybrid capital	0	0	0	2,095	0	65,000	67,095
Non-financial instruments							
Other liabilities	15,244	4,436	1,377	1,130	630	849	23,666
Provisions	1,416	1,042	627	1,241	3,386	4	7,716
Current Tax liabilities	37	5,521	134	870	0	0	6,562
Total liabilities	**2,185,537**	**429,732**	**491,987**	**813,793**	**1,227,841**	**605,015**	**5,753,904**
Contingent liabilities							
Financial guarantees	136,342	0	0	0	0	0	136,342
Credit commitments (irrevocable loan commitments)	17,182	0	0	0	0	0	17,182
Contractual Liquidity surplus	**-880,885**	**35,229**	**59,318**	**332,597**	**1,154,980**	**-53,439**	

in '000 EUR As at December 31, 2012	Up to 1 month	1–3 months	3–6 months	7–12 months	1–5 years	More than 5 years	Total
Assets							
Financial instruments							
Cash and cash equivalents	853,635	9,998	9	0	0	0	863,642
Loans and advances to banks	325,374	11,592	14,824	10,857	16,857	7,849	387,352
Financial assets at fair value through profit or loss	13,061	3,444	95	1,085	785	60	18,530
of which derivatives	*608*	*0*	*21*	*0*	*0*	*0*	*629*
Available-for-sale financial assets	27,872	53,043	15,767	67,594	28,902	998	194,176
Loans and advances to customers	239,553	361,883	530,313	976,992	2,350,166	572,970	5,031,876
Non-financial instruments							
Current tax assets	236	1,713	144	1,233	0	0	3,326
Other assets	16,312	1,614	227	10,946	19,992	872	49,962
Total assets	**1,465,983**	**443,288**	**561,377**	**1,068,706**	**2,416,702**	**592,809**	**6,548,865**
Liabilities							
Financial instruments							
Liabilities to banks	63,841	13,759	27,172	37,010	170,705	88,560	401,047
Financial liabilities at fair value through profit or loss	410	38	86	-82	-180	0	272
of which derivatives	*410*	*38*	*86*	*-82*	*-180*	*0*	*272*
Liabilities to customers	1,895,413	367,977	417,672	615,962	321,419	104,622	3,723,065
Liabilities to international financial institutions*	58,584	33,555	59,459	82,232	473,204	183,349	890,383
Debt securities	1,542	23,134	3,312	4,767	130,530	90,397	253,681
Subordinated debt	2,488	3,527	4,505	21,339	144,580	200,154	376,594
Hybrid capital	0	0	0	2,218	0	65,000	67,218
Non-financial instruments							
Other liabilities	18,260	4,296	1,159	781	543	945	25,984
Provisions	1,121	1,700	544	2,064	5,022	850	11,301
Current Tax liabilities	704	1,995	1,450	574	0	0	4,723
Total liabilities	**2,042,364**	**449,980**	**515,359**	**766,865**	**1,245,823**	**733,878**	**5,754,268**
Contingent liabilities							
Financial guarantees	132,890	0	0	0	0	0	132,890
Credit commitments (irrevocable loan commitments)	52,508	0	0	0	0	0	52,508
Contractual liquidity surplus	**-761,779**	**-6,692**	**46,019**	**301,842**	**1,170,879**	**-141,069**	

* Due to the violation of covenants by ProConfianza Mexico liability to international financial institutions in the amount of EUR 3.2 million were formally repayable on demand and are included in the column "Up to 1 month".

Photo above: Banco ProCredit El Salvador; Photo below: Photo: Banco Los Andes ProCredit Bolivia

The following table shows the distribution of liquidity-relevant positions across certain time buckets. Some positions, especially liabilities to customers (daily due), are distributed into the time buckets according to their historical behaviour in times of stress.

in '000 EUR As at December 31, 2013	Up to 1 month	1–3 months	3–6 months	7–12 months	More than 1 year	Total
Assets						
Cash	212,333	0	0	0	0	212,333
Mandatory reserves with central bank	373,266	0	0	0	0	373,266
Other central bank balances (excl. minimum reserve)	139,408	0	0	0	0	139,408
Unused irrevocable and unconditional credit commitments	45,752	0	0	0	0	45,752
Government bonds & marketable securities	327,003	49,559	16,981	16,366	19,116	429,025
Placements with external banks	328,030	7,661	108	198	0	335,997
Loans and advances to customers	186,848	312,543	444,852	810,491	2,307,499	4,062,234
Currency derivatives (asset side)	54,105	25,084	16,979	10,687	1,454	108,310
Total Assets	**1,666,745**	**394,848**	**478,921**	**837,742**	**2,328,069**	**5,706,325**
Liabilities						
Current liabilities to banks (due daily)	18,191	18,191	0	0	0	36,382
Current liabilities to customers (due daily)	357,237	89,309	89,309	89,309	1,161,021	1,786,187
Contingent liabilities from guarantees	6,241	0	0	0	0	6,241
Unused irrevocable credit commitments	78,983	0	0	0	0	78,983
Liabilities to external banks	7,097	22,116	25,434	58,346	174,709	287,702
Liabilities to IFI's	5,707	17,268	31,329	48,176	342,694	445,174
Liabilities to customers (TDA's)	240,440	319,249	358,233	573,295	370,803	1,862,019
Debt securities / Bonds	848	227	1,585	8,070	239,521	250,250
Subordinated debt	0	0	724	724	324,059	325,508
Currency derivatives (liability side)	68,199	25,082	16,979	10,687	8,826	129,774
Total Liabilities	**782,943**	**491,442**	**523,593**	**788,607**	**2,621,634**	**5,208,220**
Excess from previous band	0	883,802	787,207	742,535	791,670	
Expected liquidity surplus	**883,802**	**787,207**	**742,535**	**791,670**	**498,104**	
Sufficient Liquidity Indicator	**2.1**					
Highly liquid assets	**38%**					

The expected liquidity surplus quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess of liquidity if it has a positive value. This calculation includes excess liquidity from the previous time buckets. As of December 2013 the group sufficient liquidity indicator stood at 2.1 and the HLA ratio at 38%, both indicating a comfortable liquidity situation.

The Group Liquidity Risk Management Policy defines three key liquidity risk indicators called sufficient liquidity, interbank market and overnight funding. The sufficient liquidity indicator requires each bank to keep, as a minimum, the liquidity necessary to cover a one-month stress scenario. The other two indicators restrict the level of funding from the interbank market to a low level. Throughout the reporting period, all group companies had enough liquidity available at all times to meet all financial obligations in a timely manner. At year-end all banks had a sufficient liquidity indicator of at least 1.

In addition to the key risk indicators, early warning indicators are defined. These indicators are monitored through reporting triggers, which may be exceeded, but if this occurs, the situation must be explained, with mitigating measures being decided by the bank's ALCO and communicated to the Group ALCO. The highly liquid assets indicator, which relates highly liquid assets to customer deposits, is monitored on a daily basis on a bank level and is reported weekly to the Group ALCO. As a general rule the bank must hold enough highly liquid assets to pay out at least 20% of all customer deposits. Except for three banks that are still in the phase of building a retail deposit base, and one bank, which has long-term funding from institutional depositors, significant concentrations do not exist. These banks, where 10 largest depositors represent more than 20% of the deposit base, are subject to closer monitoring and are implementing measures to reduce their concentrations.

In order to assess the robustness of the liquidity situation in the ProCredit banks, risk management also conducts group idiosyncratic, market and combined stress tests and develops emergency plans for stress scenarios. If unusual circumstances arose and an individual bank proved not to have sufficient liquid funds, ProCredit Holding would serve as a "lender of last resort". The ProCredit group keeps a liquidity reserve available for this purpose, consisting of ProCredit Holding's highly liquid assets, unutilised irrevocable credit lines to ProCredit Holding, and the ProCredit banks' EUR/USD surplus liquidity made available to the group through early PCH loan repayments and intra-group lending. As of end-December 2013 the group liquidity reserve amounted to approximately EUR 142 million, which lies comfortably above its target of EUR 100 million. Of this, around EUR 71 million was contributed by the holding company.

The starting points for addressing funding risk (structural liquidity risk) are the banks' business plans, which are reviewed annually by ProCredit Holding and the banks' supervisory boards. The funding plans, derived from the business plans, serve as a basis for determining medium-term funding needs in regard to both equity and debt financing for the banks and the group as a whole. The funding needs of the banks are monitored and regularly reviewed and discussed with ProCredit Holding. The Group ALCO reviews the progress of all significant funding projects and offers bridge financing in case a funding project does not move ahead or is delayed.

We consider our funding risk to be low due to our strong reliance on diversified retail customer deposits as well as the fact that the banks also continue to have access to funding from various international sources. In addition, ProCredit Holding provides short- and long-term funding to ProCredit banks. Short-term overnight and interbank funding is only used to a very limited degree. As of end-December 2013 the largest funding source was customer deposits with EUR 3,801.9 million (2012: EUR 3,627.2 million). IFIs are the second largest source of funding, accounting for EUR 673.1 million (2012: EUR 796.4 million). In total the ProCredit group considers its funding sources to be diversified sufficiently, especially as the largest part of the banks' funds is provided by a large number of customers' deposits.

Operational and Fraud Risk

In line with Basel II, we define operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. This definition includes legal risk. Furthermore, the ProCredit group defines reputational risk as part of operational risk. Dedicated policies on operational risk management, fraud prevention, information security and outsourcing have been implemented across all group entities and are reviewed annually. The principles outlined in these documents have been designed to effectively manage the group's operational and fraud risk exposure and that of each bank, and they are in compliance with the Basel II requirements for the "standardised approach" for operational risk (as outlined in Section 276 of the German Ordinance on Solvency (SolvV)).

The allocation of responsibilities and tasks within the operational risk management framework of ProCredit comprises the following levels:

- At **group level** operational risk is overseen by the Management Board of PCH, the Group Risk Management Committee and the Group Committee on Financial Crime Prevention. Furthermore, the Group Operational Risk Management Department in PCH is responsible for the development of methodologies in the area of operational risk management and fraud prevention as well as for monitoring the group's operational risk situation and providing support to the banks in the management of operational and fraud risks. With regard to fraud prevention, the Group Operational Risk Management Department and the Group AML Department in PCH collaborate closely.
- At **single institution level** each bank has an assigned operational risk manager to ensure the effective implementation of the operational and fraud risk management framework within the institution. Operational risk managers work in close co-operation with process owners who are responsible for the day-to-day management of operational and fraud risks in their area of expertise. Analogous to the Group Risk Management Committee, each bank has an (Operational) Risk Management Committee which serves as the decision-making body for operational risk matters. Each bank's management bears overall responsibility for appropriate implementation of the framework in the institution.
- As an independent body, **Internal Audit** ensures adherence to the rules defined for the management of operational risk in each of the ProCredit institutions.

A centralised and decentralised reporting procedure ensures that the management of ProCredit Holding and the management of each ProCredit bank, as well as other members of the (Operational) Risk Management Committee, receive regular comprehensive reports on operational risks to serve as a basis for their decisions.

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

The Risk Event Database (RED) is a technical tool developed to ensure that all identified operational risk events are documented, analysed and communicated effectively. It guides all ProCredit institutions through the risk management process, ensuring that adequate attention is given to the implementation of necessary corrective or preventive measures for risk reduction or mitigation. In contrast to the ex-post analysis of risk events from RED, the Annual Risk Assessments are a systematic way of identifying and evaluating key risks in order to confirm the adequacy of the control environment. As with RED, Annual Risk Assessments are used throughout the risk management process. These two tools complement each other and provide an overall picture of the operational risk profile of each institution and of the group as a whole.

Key Risk Indicators (KRI) are used to detect elevated fraud risk in specific areas of banking operations or specific branch locations that could be used by a potential fraudster. These indicators are analysed regularly and preventive measures are agreed on as necessary. To complete the picture of operational risk, new products, processes and instruments need to be analysed to identify and manage potential risks before implementation. This is ensured by the New Risk Approval (NRA) process.

In addition to the above mentioned principles and methodologies which are applicable to operational and fraud risk, the group employs methods and processes designed to handle specific aspects of operational risk, such as information security and system risk, external risk, legal and compliance risk and outsourcing risk. These are described briefly below:

Information security and system risk: The IT software and hardware support for the ProCredit group is provided by Quipu GmbH, which is part of the ProCredit group. The group has set standards with respect to IT infrastructure, business continuity and information security. Information security controls are part of existing processes and procedures, and security procedures have been developed to bridge the gaps in identified areas. The banks carry out a comprehensive classification of their information assets to ensure that the right level of security is assigned based on criticality.

A robust business continuity framework developed in the group allows threats to be understood, critical processes to be identified, and resources for recovery to be allocated depending on the priorities of the processes.

External risks: ProCredit banks obtain local insurance policies against losses arising from natural disasters as a means of risk mitigation. External risks that might disrupt business are addressed in the business continuity plans of each bank. Our staff are trained how to behave in risky situations in order to protect their life and health, especially in countries with a precarious security situation.

Legal and compliance risk are handled on the one hand by diligent staff in the different head office departments as well as the branches. On the other hand each bank has a specialised department or unit which is responsible for the identification and implementation of all relevant regulations in the jurisdiction in which the bank operates. This department or unit also monitors compliance with these regulations.

Outsourcing risk: The ProCredit group outsources relatively few activities, since reliable outsourcing partners are rarely available in our countries of operation, hence outsourcing risk is minimal for the group. The Group Outsourcing Policy in line with KWG provisions ensures appropriate risk assessment and control measures.

The table below provides an overview of gross and net losses due to operational risk events incurred by all ProCredit institutions in 2013.[4]

Key Operational Risk Figures 2013	
Gross Loss, EUR	3,414,435
Current Net Loss, EUR	2,259,421
Expected Final Net Loss, EUR	1,401,975
Number of Loss Events	1,288

Risks Arising from Money Laundering, Terrorist Financing and Other Acts Punishable by Law

The prevention of money laundering and terrorist financing is a key function of all ProCredit banks. The business ethics and strong corporate values of the ProCredit group play a key role in this regard. ProCredit banks consistently apply the Know Your Customer (KYC) principle to all customers. Furthermore, in addition to applying international standards and best practice in the area of AML, ProCredit banks comply with national rules and regulations in their countries of operation.

[4] Data as of 26 February 2014, date of detection.

Additionally, ProCredit banks adhere to the uniform policy framework of the Group Anti-Money Laundering Policy (Group AML Policy) and various AML standards, all of which are in compliance with German and EU regulatory requirements. The AML framework of the group is based on the principle of the strictest norm: any national money laundering legislation which is of a higher standard than that provided by the Group AML Policy must be applied by the respective ProCredit bank. Otherwise the stricter standards of the Group AML Policy apply.

ProCredit banks also adhere to all relevant financial sanctions and embargoes against certain persons, entities, and countries.

In order to consistently monitor accounts and transactions, ProCredit banks use specialised software to detect conspicuous activities and identify business relationships involving money from dubious sources. The system brings conspicuous activity to the attention of the AML Officer of the bank, who then researches the background of the respective transaction or business relationship.

The AML framework of the group ensures that:

- every ProCredit bank appoints an AML Officer who regularly reports to the Management Board of the respective bank as well as to the Group AML Officer at ProCredit Holding
- every ProCredit bank applies a strict Know Your Customer and Know Your Correspondent approach in its customer due diligence and correspondent banking procedures
- Group AML annually assesses the risk of money laundering and terrorist financing throughout the ProCredit group on the basis of a distinct risk model developed during 2010 and 2011
- ProCredit staff members receive AML training when they first join a ProCredit institution and thereafter on an ongoing basis within the framework of the respective ProCredit bank's training plan
- every ProCredit bank maintains a risk classification of its customers to prevent money laundering and terrorist financing and applies due diligence and monitoring procedures accordingly
- every ProCredit bank applies consistent standards for data and transaction monitoring and adheres to international sanctions and embargoes

The AML Officers of ProCredit banks report suspicious activities to their responsible Financial Intelligence Unit (FIU) and to the Group AML Officer.

Capital Management

At no point may either a ProCredit bank or the group as a whole incur greater risks than they are able to bear. This principle is implemented using different indicators for which early warning indicators and limits have been established. The indicators for each individual ProCredit bank and the group as a whole include, in addition to local regulatory standards, a Basel II capital adequacy calculation, the Tier 1 leverage ratio, and a risk-bearing capacity model.

The capital management of the group has the following objectives:

- compliance with external capital requirements set by the respective local banking sector regulators
- compliance with the internally defined minimum capital adequacy requirements
- support for the group in implementing its plans for continued growth while following its business strategy as a "house bank for small businesses".

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

Risk-bearing Capacity

The risk-bearing capacity concept is a key element of ProCredit's group-wide risk management and internal capital adequacy assessment process. In the context of the risk-bearing capacity calculation the capital needs arising from our specific risk profile are compared with the available capital resources to assure that the ProCredit group's capitalisation is at all times sufficient to match our risk profile. It is an ongoing process that raises group-wide awareness of our capital requirements and exposure to material risks.

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. In general we quantify risks by applying extreme situations, observed in individual countries of operation in the past, to the group in its entirety to test its ability to withstand such shocks, both in individual risk areas and in combination. Assessing the impact of a combined shock event across risk areas is important for the group, as political or economic events often affect the group, a specific region or an individual bank in numerous ways. A political crisis, for example, might not only have a strongly negative impact on overall business activity and therefore loan portfolio quality, but might also lead to the devaluation of the local currency and strong interest rate fluctuations. Particularly in our countries of operation there is typically limited scope to contain the spread of negative events over the whole economy.

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

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

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

- Classical customer credit risk is quantified based on a Value at Risk (VaR)-type statistical analysis of its loss history. The basic idea is to use the historical experience to quantify changes in the quality of the loan portfolio over time to obtain forecasts for expected and unexpected losses. The underlying assumption of this approach is that the historical development is representative for future movements and can hence be used to simulate the portfolio loss levels. The outstanding portfolio is partitioned into arrears categories and the respective migration rates from one into another arrears category are reviewed. Based on this, the probability of default (PD) can be estimated, based on which conservative approximations of recovery given default can be applied.
- Counterparty and issuer risk is quantified by determining the risk-adjusted exposure, i.e. the amount that the ProCredit bank/group could potentially lose. For this the exposure at default, the counterparty's risk, the

maturity of the exposure and the loss given default are taken into account. The counterparty risk is captured by the external rating and the corresponding unexpected probability of default. Consistent with the other risk areas, the time horizon is one year and the loss given default is conservatively assumed to be 100%.

- Foreign currency risk of the ProCredit group is measured via a VaR-type analysis, which is performed on a monthly basis. The banks' OCPs are multiplied by a harsh exchange rate shock determined based on historical data. The holding period is one year, the look-back period 7 years.
- Interest rate risk is measured by determining the net present value of all interest rate-sensitive asset and liability positions over all currencies via a VaR-type analysis. Savings accounts are distributed across maturities based on historical analyses. The economic capital required to cover interest rate risk is calculated by multiplying the re-pricing gaps by the modified duration and defined shock ("Ausweichmethode"), i.e. a shock of +/- 2% for EUR/USD positions and higher, historically based shocks in the case of local currencies. The holding period is one year, the look-back period 7 years.
- Operational risk: The ProCredit group calculates its economic capital requirements for operational risk within the risk-bearing capacity concept in line with the standardised approach according to Basel II. The data collected in the RED indicates that the currently allocated share of the group's risk-bearing capacity overestimates the level of operational risk incurred by the group.

The economic capital requirements arising from the risk profile of the group are compared monthly with the available capital. The group's risk-taking potential, defined as the consolidated group's equity (net of intangibles and deferred tax assets) plus subordinated debt, amounted to EUR 670.9 million as of the end of December 2013 (2012: EUR 673.0 million). The Resources Available to Cover Risk (RAtCR) are set at 60% of the risk-taking potential, i.e. EUR 402.5 million (2012: EUR 403.8 million). Only the RAtCR are used to define the limits in each risk category. These restrictions were mainly chosen to take into account the limitations and shortcomings of statistical models, but also adverse effects that might arise from risk areas not included in the risk-bearing capacity calculations. Thus, a sufficient buffer is set aside.

The table below shows the distribution of RAtCR among the different risks. This was done by attributing limits to each risk according to its significance for the group. Customer credit risk is the most important risk the group is exposed to as ProCredit banks are lending institutions and consequently the highest share of RAtCR is assigned to customer credit risk. The table also depicts the level of utilisation as of the end of December 2013. In the standard scenarios the ProCredit group needs only 40.8% of its RAtCR to cover its risk profile.

Risk Factor	Risk Detail	Limit (in %)	Limit (in '000 EUR)	Actual (in '000 EUR)	Limit Used (in % of limit)
Credit Risk (Clients)		33	221,397	77,058	34.8
Counterparty Risk	Commercial Banks	1	6,709	622	9.3
	Sovereigns	4	26,836	4,164	15.5
Interest Rate Risk		10	67,090	16,449	24.5
Foreign Currency Risk		2	13,418	1,872	13.9
Operational Risk		10	67,090	64,257	95.8
Resources Available to Cover Risk			**402,540**	**164,422**	**40.8**

Stress tests are performed quarterly on a group level to test the group's risk-bearing capacity under severe conditions. In such scenarios we assume a significant deterioration of worldwide macroeconomic conditions. The stress scenario includes a sharp economic decline, a simultaneous shock of all local currencies, high interest rate volatility and, as a result, a significantly increased risk of sovereign and bank, i.e. counterparty and issuer, failure. The impact of this stress scenario on the RAtCR as of 31 December 2013 is summarised in the following table:

Risk Factor	Risk Detail	Reporting Trigger (in %)	Reporting Trigger (in '000 EUR)	Actual (in '000 EUR)	Reporting Trigger Used (in % of limit)
Credit Risk		33	221,397	166,736	75.3
Counterparty Risk	Commercial Banks	1	6,709	1,172	17.5
	Central Banks	4	26,836	4,164	15.5
Interest Rate Risk		10	67,090	46,924	69.9
Foreign Currency Risk		2	13,418	3,840	28.6
Operational Risk		10	67,090	64,257	95.8
Resources Available to Cover Risk			**402,540**	**287,094**	**71.3**

The results of the stress test show that only 71.3% of the RAtCR would be required to cover the risks to which the group would be exposed in an extreme stress scenario. Our analysis of the ProCredit group's risk-bearing capacity thus confirms that the group has an adequate level of capitalisation for the group even under adverse conditions. In addition, inverse stress tests are conducted regularly, at least annually.

Regulatory Capital Adequacy

Whereas the external minimum capital requirements for the ProCredit group are imposed and monitored by the German Federal Financial Supervisory Authority (BaFin), the individual ProCredit banks are subject to the requirements imposed by the local banking supervisory authorities.

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

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

In the following the group's regulatory capital requirements and capital ratios according to the German Banking Act and Solvency Regulation are presented.

	31.12.2013		31.12.2012	
in '000 EUR	Risk weighted assets	Capital requirements	Risk weighted assets	Capital requirements
Credit risk	4,172,576	333,806	4,200,400	336,032
Market risk	512,070	40,966	505,303	40,424
Operational risk	803,214	64,257	772,156	61,772
Total	**5,487,860**	**439,029**	**5,477,859**	**438,229**

For assessing the exposure towards credit risk, the credit risk standardised approach (CRSA) is used for all exposure classes. Credit risk mitigation techniques in the form of a guarantee against the credit risk and the risk of expropriation from the Multilateral Investment Guarantee Agency (MIGA) are applied for mandatory minimum reserves held with central banks in non-EEA[5] countries not having a prudential regime materially equivalent to that provided for by the German Banking Act, since exposure to these central banks and states in these countries, independent of the currency, are risk-weighted 100% according to German regulations. Collateral is not included in the risk-weighted asset calculation.

[5] European Economic Area

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 determination of the capital requirement for foreign currency risk is based on the aggregation method. At bank level the foreign currency risk is limited strictly by policies (generally) requiring closing open currency positions. At the group level foreign currency risk arises from equity participations of ProCredit Holding in the subordinated companies, since the majority of banks keep their equity in the respective local currency or in USD. Thus, from a consolidated group perspective, open foreign currency positions in these local currencies and USD exist, roughly equalling the amount of the respective equity base. Nevertheless the impact of exchange rate fluctuations on capital ratios is limited, since changes in equity are partially offset by corresponding changes in risk-weighted assets held in the respective currency.

The ProCredit group applies the standardised approach to quantify operational risk. In comparison to the regulatory capital requirements of EUR 64 million for operational risk derived from the standardised approach, the data collected in the Risk Event Database in the last three years indicate an average annual operational loss of the EUR 1.9 million.

2013 the risk-weighted assets were in line with asset behaviour and stayed nearly constant.

in '000 EUR	31.12.2013	31.12.2012
Core Tier I capital	493,282	503,113
Additional Tier I capital	65,000	65,000
Tier II capital	113,714	137,032
Total capital	**671,996**	**705,145**
Total risk weighted assets	5,487,860	5,477,859
Core Tier 1 capital ratio	9.0%	9.2%
Tier 1 capital ratio	10.2%	10.4%
Total capital ratio	**12.2%**	**12.9%**

The core capital of the ProCredit group is mainly composed of subscribed capital and reserves. The additional Tier 1 capital consists of hybrid capital in the form of Trust Preferred Securities and the Tier 2 capital mainly 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 2013 neither Tier 1 nor Tier 2 capital instruments were issued. The combination of the buyout of the minority shareholders of ProCredit Bank Romania, foreign currency fluctuation and the recognition of the profits of 2013 resulted in a decrease in the Tier 1 capital. The reduction of Tier 2 capital was caused by maturing subordinated liabilities and decreased recognition of subordinated loans due to their remaining maturity.

The minimum required capital ratios as derived from the German Banking Act and the Solvency Regulation are set to 4% for the Tier 1 capital ratio and 8% for the total capital ratio. The group aims for capital ratios of >12% (total capital ratio) and >9% (Tier 1 ratio) and has been able to comply with this target at all times. With a Tier 1 capital ratio of 10.2% and a total capital ratio of 12.2% as of 31 December 2013, the ProCredit group's ratios exceed the current regulatory requirements and the internal requirements.

In addition, the group showed a comfortable leverage ratio. According to the German Banking Act the leverage ratio is defined as the ratio of balance sheet equity to the sum of total assets and off-balance sheet liabilities and the replacement cost for claims arising from off-balance sheet transactions (modified balance sheet capital ratio).

in '000 EUR	31.12.2013	31.12.2012
Equity	502,736	503,134
Assets	5,841,734	5,768,544
Off-balance sheet liabilities (irrevocable)	153,524	185,398
Leverage ratio	**8.4%**	**8.5%**

From 2014 on the Basel III requirements as set forth in CRD IV/CRR (Capital Requirements Directive and Capital Requirements Regulation) will become binding for the group. Based on our analysis, the impact of this change will be limited and the group will comply with the newly defined regulatory requirements. In respect to the Tier 1 capital of the group no transactions or capital increases are planned for implementation in 2014, while additional subordinated debt is envisaged to replace current instruments that are either maturing or do not fully comply with the new regulatory requirements. In the medium term, the replacement of the Trust Preferred Securities is envisaged as the share of principal recognised as additional Tier 1 capital is decreasing, which makes the instrument progressively less attractive for the group.

Report on Expected Developments

Management assesses the expected developments of the group based on a comprehensive dialogue and iterative business planning process instituted with the management teams of the ProCredit banks. A centralised business planning tool is used in this process to ensure a high degree of transparency and consistency on key assumptions used to generate five-year projections. The sensitivity of these projections to opportunities and risks is also considered. The expected developments reported on herein are based on this approach.

Management views the outlook for the years 2014 and 2015 for the ProCredit group as steadily positive. We assume that relatively difficult macroeconomic conditions will continue in 2014 in the regions in which we work. However as the US and the Eurozone countries recover, 2014 will likely be more positive than 2013 and further steady improvement will probably be seen in subsequent years. In Eastern Europe, GDP growth rates are projected to be better in nearly all markets in 2014 relative to 2013 (with the exception of Serbia and Moldova), with steady improvement thereafter. However banking sectors are still fragile given legacy loan portfolio quality problems. In South America current GDP growth rates of 4-5% are expected to continue in 2014 and beyond, and in Central America some improvement in GDP growth rates (ranging from 2-4%) are projected.

Given the recent investments made in staff development and reorganising the branch network, we see potential for sound business growth and ongoing development impact. In the transition economies and developing countries in which we operate, the levels of private sector lending to enterprises and the ratios of domestic savings to GDP are still below Western standards. The Very Small and Small business community is still relatively poorly served by other providers of financial services, leaving opportunities for ProCredit as a group of banks highly specialised in providing quality services for these target clients. There is good potential to support our business and private clients to save more and to effect more transactions using bank account services, in particular e-banking, rather than using cash.

In our core business, we see no major international competitor pursuing a similar global strategy. Locally, competition remains strong, particularly in lending to larger Small and Medium businesses in many markets. Nevertheless, ProCredit banks are successfully growing market share in their business with core client categories, and we believe this trend can continue. In 2014 we project growth of above 5% in the group loan portfolio, a stronger rate than achieved in 2013. In relative terms, growth is expected to be stronger in South American, African and CIS countries, since the Balkan markets are expected to remain macroeconomically more difficult and competitive. Management assesses stronger growth can be achieved assuming that: the impact of the strong reduction in loan sizes below USD 5,000 and above USD 500,000 has plateaued; that investments in staff development and organisation to meet the needs of our core clients continue to bear fruit in 2014; and that macroeconomic developments remain somewhat positive and the USD remains stable against the Euro. In the medium term, management plans for a growth rate in loan portfolio of about 10%, depending on market growth rates.

On the asset side, the focus in 2014 will continue to be on growing our business with Very Small and Small business clients. In Latin America growth is projected to be above all with Very Small clients as a result of the more focused approach to clients with somewhat higher average credit capacity (up to USD 50,000), the more specialised Service Centres and the strong investment in training of Very Small BCAs and Service Centre Heads. In Eastern Europe, an additional strong focus will be expanding operations with more formal Small and Medium clients. The "co-financing" of larger Medium business clients in Bulgaria, Serbia and Romania by ProCredit Bank Germany will also support this process.

On the liability side the importance of the composition and stability of our customer deposits is clear. With good training of our front officers and improved overall efficiency, we will continue to focus on increasing the average volume of savings and sight deposits amongst all our clients, rather than simply managing large numbers of clients and transactions or attracting term deposit accounts at higher interest rates. Banking services are also important for integrating our clients into the formal financial sector, building customer loyalty and generating fee income. We aim to have some increase in the number of "service points" or small, efficient banking services outlets, to improve the accessibility of our services to our client base. Complementary, convenient channels in the form of internet banking and mobile phone banking will also be further encouraged and enhanced.

ProCredit will also need to continue to manage tight margins and longer maturities. Over the next five years we plan to keep margins (net interest income/total average assets) as stable as possible. Also, tight management of the cost of funds will continue, although it is unlikely that the reduction in relative cost of funds we have achieved in recent years can continue, particularly as the US approach to quantitative easing is not expected to continue over the longer term.

In 2014 we will continue to focus on loan portfolio quality. Provisioning costs going forward are projected to remain in line with those of 2013. Over a five-year period, arrears levels (PAR >30 days) are expected to gradually decline and stabilise at around 3%, again assuming there are no strong negative macroeconomic developments.

Efficiency, without compromising on quality of service, will be an ongoing focus for the group. Many measures have been introduced to enhance front and back office functions and to reduce cash transactions. The focus in 2014 will be to consolidate these improvements and to enhance the productivity of BCAs (Very Small and Small) with training, with process improvements and with the more focused branch infrastructure. This approach will result in a further moderate decline in staff numbers in 2014. Training in 2014 will focus on BCAs, Service Centre Heads and Branch Managers. Their performance will be central to achieving the planned results in 2014 and beyond.

We aim to gradually reduce our cost-income ratio to reach a mid-term target of under 70% with ongoing efficiency improvements, i.e. steadily growing the balance sheet of the group without increasing personnel and administration costs. Above all, this will be a function of staff skills, loyalty, focus and confidence, combined with the intelligent use of technology. Should markets allow higher growth rates in business volume, then the cost-income ratio will come down faster.

In terms of profitability we anticipate a somewhat higher post-tax ROE of about 10% in 2014 (compared to 7.7% in 2013). In the medium term, management aims to achieve a ROE of above 12%.

In terms of capital management, the introduction of CRD IV is not anticipated to create a need for significant additional capital. The group already has good Tier 1 capital levels which will broadly be maintained in the coming years. In 2014, operational profit will provide most of the capital required to support growth in risk-weighted assets. A modest dividend distribution is planned for 2014 and subsequent years. Additional share capital will be sought in 2014 to replace the Trust Preferred Securities in due course. Further options for sourcing additional equity in the medium term to increase the Tier 1 capital level, such as a public listing, will be explored when market conditions are deemed appropriate.

Assessment of Business Opportunities and Risks

Management does not see opportunities to significantly increase the planned growth rates or profitability of the group outlined in the Report on Expected Developments section above in 2014 since the overall macroeconomic and competitive environment, although improved, will remain difficult. The expected growth rate and profitability outlined above are already based on relatively optimistic assumptions about the improvement in staff productivity in 2014. If the recovery of the global macroeconomic environment continues to go well, and if exports from and FDI in our countries of operation strengthen, then stronger annual growth rates in group loan portfolio volume than the currently planned 10-13% can be achieved in 2015 and beyond.

The section in this Management Report on Risk Management outlines the conservative group approach to risk management. Management does not foresee any major deviations from expected developments that would undermine the capital base or sustainability of the business model. Were there to be major disruption in the Eurozone, a dramatic change in US monetary policy and significant foreign exchange fluctuations, an increase in arrears and reduced profitability would be a consequence. However, in comparison to competitor banks, ProCredit institutions are assessed to be relatively resilient even to major disruption given the diversified base of assets and liabilities, close relationships with clients, limited exposure to capital markets and closed currency positions.

Key potential risks to the planned group financial results are lower-than-planned loan portfolio growth, a higher-than-planned decline in interest income and a deterioration in loan portfolio quality. These could result from disappointing developments in the global macroeconomic environment, unforeseen political or macroeconomic events in one or more countries where a large ProCredit bank is located, or as a result of staff productivity not increasing in line with expectations combined with stronger price pressure, particularly in our Eastern European markets. A plausible downside scenario, for example, could be a loan portfolio growth rate of below 5% or a faster-than-planned decline in net interest income/avg. total assets to below 7%. Although the group can react by reducing costs, such developments would reduce group ROE by 1 to 2 percentage points. Given the positive economic outlook and our experienced approach to credit risk management, a significant increase in loan loss provisioning costs in 2014 is not deemed very likely, even despite our strong focus on BCA productivity. Our plans already take into account a relatively conservative approach to provisioning, particularly in our more difficult markets, like Mexico.

The quality and motivation of our staff continue to be the key factor in achieving development impact and our target business results. We plan to continue to work closely with our staff on improving customer service quality and productivity. There is always the risk that staff recruitment and retention becomes more difficult if competitors target our highly competent staff, but with our personal approach, along with our commitment to transparency, fair remuneration and strong group identity, we aim to maintain a corporate culture where people want to stay and contribute long-term.


тедете во банка
а доверба!

4

Photo: ProCredit Bank Macedonia

Consolidated Financial Statements of the ProCredit Group

Auditor's Report

We have audited the consolidated financial statements prepared by ProCredit Holding AG & Co. KGaA, Frankfurt/Main, comprising the Consolidated Statement of Financial Position, Con-solidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, together with the joint management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the joint management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] are the responsibility of the General Partner's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the joint management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec-tion 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the joint management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the joint management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the General Partner's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the joint management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The joint management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suit-ably presents the opportunities and risks of future development.

Frankfurt am Main, 18 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft
[German Version signed by:]

Bernhard	*Gallert*
Wirtschaftsprüfer	*Wirtschaftsprüfer*
[German Public Auditor]	*[German Public Auditor]*

Consolidated Statement of Profit or Loss

in '000 EUR	Note	1.1.–31.12. 2013	1.1.–31.12. 2012
Interest and similar income		620,139	635,187
Interest and similar expenses		187,802	195,259
Net interest income	(19, 21)	**432,336**	**439,929**
Allowance for impairment losses on loans and advances	(11, 22)	60,966	61,531
Net interest income after allowances		**371,370**	**378,397**
Fee and commission income		77,742	74,442
Fee and commission expenses		17,010	15,508
Net fee and commission income	(20, 23)	**60,731**	**58,934**
Result from foreign exchange transactions	(24)	13,139	13,910
Net result from financial instruments at fair value through profit or loss	(25)	53	857
Net result from available-for-sale financial assets	(26)	1,002	-1,378
Net other operating income	(27)	-15,789	-15,244
Operating income		**430,506**	**435,476**
Personnel expenses*	(28)	183,267	189,077
Administrative expenses	(29)	185,331	187,339
Operating expenses		**368,599**	**376,416**
Profit before tax		**61,908**	**59,060**
Income tax expenses	(30)	22,955	12,800
Profit for the year		**38,953**	**46,261**
Profit attributable to equity holders of the parent company		36,878	44,812
Profit attributable to non-controlling interests		2,075	1,449

* previous year figures were slightly adjusted due to revised IAS 19 (2011). See also note 48)

Consolidated Statement of Other Comprehensive Income

in '000 EUR	Note	1.1.–31.12. 2013	1.1.–31.12. 2012
Profit for the year		**38,953**	**46,261**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefits*		236	19
Change in deferred tax from remeasurements of post employment benefits*		-49	0
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from available-for-sale financial assets	(34)	52	2,020
Change in deferred tax on revaluation reserve from available-for-sale financial assets	(34)	-10	-249
Change in translation reserve	(9)	-21,773	-11,700
Other comprehensive income for the year, net of tax		**-21,544**	**-9,911**
Total comprehensive income for the year		**17,409**	**36,350**
Total comprehensive income attributable to equity holders of parent company		14,438	31,773
Total comprehensive income attributable to non-controlling interests		2,971	4,578

* previous year figures were slightly adjusted due to revised IAS 19 (2011). See also note 48)

Consolidated Statement of Financial Position

in '000 EUR	Note	31.12.2013	31.12. 2012
Assets			
Cash and cash equivalents	(10, 31)	832,440	863,448
Loans and advances to banks	(7, 32)	339,026	335,108
of which were transferred to creditors and can be sold or repledged	*(53)*	*0*	*3,373*
Financial assets at fair value through profit or loss	(7, 33)	6,130	16,823
Available-for-sale financial assets	(7, 11, 34)	323,178	192,056
of which were transferred to creditors and can be sold or repledged	*(53)*	*4,984*	*1,780*
Loans and advances to customers	(7, 35)	4,185,071	4,190,607
Allowance for losses on loans and advances to customers	(11, 22, 36)	-188,475	-175,451
Property, plant and equipment	(13, 38)	204,176	207,697
Investment properties	(13, 38)	3,959	2,734
Intangible assets	(12, 37)	33,723	37,820
Current tax assets	(15)	7,264	5,616
Deferred tax assets	(15, 40)	13,518	18,154
Other assets	(41)	81,724	73,930
Total assets		**5,841,734**	**5,768,544**
Liabilities			
Liabilities to banks	(7, 42)	327,326	343,637
Financial liabilities at fair value through profit or loss	(7, 33)	36	272
Liabilities to customers	(7, 43)	3,801,895	3,627,194
Liabilities to international financial institutions	(7, 44)	673,076	796,432
Debt securities	(7, 45)	250,048	202,458
Other liabilities	(46)	29,033	29,996
Provisions	(16, 47)	15,353	14,608
Current tax liabilities	(15)	6,607	5,026
Deferred tax liabilities	(15, 40)	5,055	4,179
Subordinated debt	(7, 48)	163,473	174,391
Hybrid capital	(49)	67,095	67,218
Total liabilities		**5,338,997**	**5,265,410**
Equity attributable to equity holders of the parent company	(50)		
Subscribed capital		254,123	254,123
Capital reserve		96,529	96,529
Legal reserve		136	136
Retained earnings*		197,939	173,301
Translation reserve*	(9)	-67,212	-44,564
Revaluation reserve*		1,116	908
Equity attributable to equity holders of the parent company		**482,632**	**480,433**
Non-controlling interests		20,105	22,701
Total equity		**502,736**	**503,134**
Total equity and liabilities		**5,841,734**	**5,768,544**

* previous year figures were slightly adjusted due to revised IAS 19 (2011). See also note 48)

Consolidated Statement of Changes in Equity

in '000 EUR	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2013	**254,123**	**96,529**	**136**	**173,321**	**–44,565**	**890**	**480,433**	**22,701**	**503,134**
Reclassification resulting from revised IAS 19 (2011)				–19	1	18	0		0
Reclassified balance at January 1, 2013	**254,123**	**96,529**	**136**	**173,301**	**–44,564**	**908**	**480,433**	**22,701**	**503,134**
Change in translation reserve					–22,648		–22,648	875	–21,773
Revaluation of afs securities						19	19	23	42
Revaluation of actuarial gains and losses						189	189	–2	188
Other comprehensive income for the year, net of tax					–22,648	209	–22,440	896	–21,544
Profit for the year				36,878			36,878	2,075	38,953
Total comprehensive income for the year				36,878	–22,648	209	14,438	2,971	17,409
Change of profit attributable to non-controlling interests[1]								–109	–109
Net total comprehensive income of the period				36,878	–22,648	209	14,438	2,862	17,300
Reserve derived from purchase of shares of subsidiaries				–4,557			–4,557		–4,557
Currency translation differences on retained earnings				–71			–71		–71
Distributed dividends				–9,940			–9,940	–27	–9,968
Shares with put options held by non-controlling interests				2,329			2,329	–4,284	–1,956
Change of non-controlling interests[2]								–1,146	–1,146
Balance at December 31, 2013	**254,123**	**96,529**	**136**	**197,939**	**–67,212**	**1,116**	**482,632**	**20,105**	**502,736**

in '000 EUR	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2012	**225,225**	**67,290**	**136**	**130,374**	**–29,997**	**–1,061**	**391,966**	**76,813**	**468,779**
Reclassification resulting from revised IAS 19 (2011)				–441		441	0		0
Reclassified balance at January 1, 2012	**225,225**	**67,290**	**136**	**129,933**	**–29,997**	**–621**	**391,966**	**76,813**	**468,779**
Change in translation reserve					–14,568		–14,568	2,868	–11,700
Revaluation of afs securities						1,511	1,511	260	1,771
Revaluation of actuarial gains and losses						19	19		19
Other comprehensive income for the year, net of tax					–14,568	1,530	–13,039	3,129	–9,910
Profit for the year				44,812			44,812	1,449	46,261
Total comprehensive income for the year				44,812	–14,568	1,530	31,773	4,578	36,351
Change of profit attributable to non-controlling interests[1]								–16,210	–16,210
Net total comprehensive income of the period				44,812	–14,568	1,530	31,773	–11,633	20,140
Reserve derived from purchase of shares of subsidiaries				7,277			7,277		7,277
Currency translation differences on retained earnings				–66			–66		–66
Distributed dividends				–9,009			–9,009	–1,461	–10,470
Capital increase	28,898	29,239					58,137	330	58,467
Shares with put options held by non-controlling interests				355			355	–5,501	–5,146
Change of non-controlling interests[2]							0	–35,847	–35,847
Balance at December 31, 2012	**254,123**	**96,530**	**136**	**173,301**	**–44,566**	**909**	**480,433**	**22,701**	**503,134**

[1] The change in the share of non-controlling interest in the profit results from the acquisition of additional shares in subsidiaries by ProCredit Holding and the concomitant dividend entitlements.
[2] From the purchase of shares and the capital increase of the subsidiaries.

Consolidated Statement of Cash Flows

in '000 EUR	Note	1.1.–31.12. 2013	1.1.–31.12. 2012
Net profit after tax*		38,953	46,261
Income tax expenses*		22,955	12,800
Profit before tax*		**61,908**	**59,060**
Non-cash items included in the profit for the year and transition to the cash flow from operating activities			
Allowance for impairment losses on loans and advances		60,966	61,531
Measurement gains / losses from financial assets / liabilities designated at fair value through profit or loss		411	-138
Depreciation		38,006	38,334
Unrealised gains / losses from currency revaluation		145	-724
Addition to/ release of provisions*		1,252	2,767
Gains / losses from disposal of property, plant and equipment		-71	1,796
Interest and dividends		-432,336	-439,929
Other non-cash items		2,273	-364
Subtotal		-267,447	-277,666
Increase / decrease of assets and liabilities from operating activities after non-cash items			
Loans and advances to banks		-39,557	-22,739
Financial assets at fair value through profit or loss		10,283	-2,583
Financial assets available for sale		-130,455	13,578
Loans and advances to customers		-36,821	-246,381
Other assets		-3,158	-9,398
Liabilities to banks		-12,497	21,315
Financial liabilities at fair value through profit or loss		-236	-984
Liabilities to customers		174,499	201,311
Other liabilities		-4,717	-862
Interest received		616,002	632,875
Interest paid		-188,693	-190,906
Income tax paid		-18,340	-9,833
Cash flow from operating activities		**98,862**	**107,728**
Purchase of / proceeds from sale of:			
Property, plant and equipment		-45,362	-54,786
Securities		933	-1,613
Cash flow from investing activities		**-44,429**	**-56,399**
Dividends paid		-9,968	-10,470
Shares issued		1,022	58,467
Acquisition of shares in subsidiaries from non-controlling interest		-21,154	-40,320
Long-term borrowings		-71,695	9,152
Cash flow from financing activities		**-101,794**	**16,829**
Cash and cash equivalents at end of previous year		**883,878**	**784,207**
Cash flow from operating activities		98,862	107,728
Cash flow from investing activities		-44,429	-56,399
Cash flow from financing activities		-101,794	16,829
Effects of exchange rate changes		-19,674	31,514
Cash and cash equivalents at end of year	**(31)**	**816,842**	**883,879**

* previous year figures were slightly adjusted due to revised IAS 19 (2011)

Notes to the Consolidated Financial Statements

A. Basis of Preparation

B. Summary of Significant Accounting Policies

C. Notes to the Statement of Profit or Loss

D. Notes to the Statement of Financial Position

E. Additional Notes

Notes to the Consolidated Financial Statements

A. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The ProCredit 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 adopted 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.

The principle accounting policies have been consistently applied to all the years presented, unless otherwise stated. All amounts are presented in thousands of euros, unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (EUR, %, etc).

The fiscal year of the ProCredit group – of the holding company as well as of all consolidated subsidiaries – is the calendar year.

Reporting and valuation are made on a going concern assumption.

(2) Compliance with German law

ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt am Main, is a financial holding according to section 10a 3 German Banking Act (KWG). As the parent company of subsidiaries of which a majority are banks or financial institutions (ProCredit group), ProCredit Holding is required to prepare the group's Consolidated Financial Statements.

The ProCredit group's Consolidated Financial Statements have been prepared in accordance with IFRS, as adopted by the EU, and the additional requirements established under section 340i HGB in conjunction with section 315a 1 HGB. The Consolidated Financial Statements according to IFRS were prepared in accordance with section 315a 3 HGB in conjunction with section 315a 1 HGB on a voluntary basis. A management report was prepared according to section § 340i HGB in conjunction with section 315 HGB.

ProCredit Holding is not a capital market-oriented parent company.

These Consolidated Financial Statements of the group for the fiscal year 2013 were approved for issue by the Management Board of the ProCredit General Partner AG, Frankfurt am Main, as the representative of ProCredit Holding on 17 March 2014.

(3) Consolidation

The Consolidated Financial Statements comprise the financial statements of ProCredit Holding and its subsidiaries as of 31 December 2013. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. For the ProCredit group, the control over a subsidiary typically coincides with the parent company holding a share of more than 50% in the voting shares of the respective entity either directly or indirectly. All subsidiaries are fully consolidated. 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. The group has no associates or joint ventures.

In April 2013, Banco ProCredit Ecuador established a special purpose vehicle ("SPV"), "Fideicomiso primera titularizacion de cartera commercial pymes ProCredit", Quito, Ecuador. Banco ProCredit Ecuador transferred a part of their loan portfolio to the SPV which will be sold in the form of a securitisation. The SPV is fully consolidated as the majority of the risks and rewards remain with Banco ProCredit Ecuador.

In May 2013, ProCredit S.A., Chisinau, Moldova was dissolved and is no longer in the scope of consolidation. Over the course of time, the business activities of ProCredit S.A., Moldova had been fully taken over by ProCredit Bank S.A., Chisinau, Moldova. ProCredit S.A., Moldova was therefore rendered obsolete.

There was no further change in the group composition during 2013 as compared to the Consolidated Financial Statements as of 31 December 2012.

In addition, the group has connections to two special purpose vehicles, ProCredit Company B.V., Amsterdam, Netherlands and PC Finance II BV, Amsterdam, Netherlands. Following the risk and reward concept, the SPVs are fully consolidated. Both companies are SPVs via which parts of the respective loan portfolios of ProCredit Bank Bulgaria and ProCredit Bank Serbia were sold in the form of a "True Sale Securitisation". The companies are consolidated by ProCredit Holding as the holding company primarily bears the risks and rewards for these companies. ProCredit Holding provides part of the capital for the funding of this loan portfolio by means of subordinated debt which represents the first loss piece (12%) of the respective securitised loan portfolio.

The entire securitised loan portfolio of ProCredit Company B.V. has been transferred back to ProCredit Bank Bulgaria and the SPV is in the process of dissolution.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (for impairment of goodwill see note (12)a). If the cost of acquisition is less than the fair value of the group's share in the net assets of the subsidiary acquired, the difference is recognised in the Statement of Profit or Loss.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

(4) Accounting developments

(a) Standards, amendments and interpretations effective on or after 1 January 2013

The following standards, amendments and interpretations have been issued by the IASB and endorsed by the EU and have an impact on the group's financial statements:

Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" have an impact on the presentation of financial statements. The amendments are applicable for annual periods beginning on or after 1 July 2012.

IFRS 13 "Fair Value Measurement" has an impact on the fair value disclosure and a minor impact on the measurement of financial instruments carried at fair value. The standard is applicable for annual periods beginning on or after 1 January 2013.

Amendments to IAS 19 "Employee Benefits" have a minor impact on the recognition and presentation of actuarial gains and losses and on the disclosures in the financial statements. The amendments are applicable for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities" have an impact on the disclosures in the financial statements. The amendments to IFRS 7 are applicable for annual periods beginning on or after 1 January 2013.

Annual Improvements to IFRS (2009-2011) only have a minor impact on the financial statements. The improvements are applicable for annual periods beginning on or after 1 January 2013.

(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 the present Consolidated Financial Statements:

IFRS 10 "Consolidated Financial Statements" will have a minor impact on the financial statements of the group. The standard is applicable for annual periods beginning on or after 1 January 2014.

IFRS 12 "Disclosures of Interests in Other Entities" will have an impact on the disclosure of financial statements. The standard is applicable for annual periods beginning on or after 1 January 2014.

Amendments to IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities" will have an impact on the disclosures in the financial statements. The amendments to IAS 32 are applicable for annual periods beginning on or after 1 January 2014.

Annual Improvements to IFRSs 2010-2012 Cycle will have a minor impact on the financial statements of the group. The improvements are applicable for annual periods beginning on or after 1 January 2014.

Annual Improvements to IFRSs 2011-2013 Cycle might have a minor impact on the financial statements of the group. The exposure draft proposes that the improvements will be effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" will have an impact on the disclosure of financial statements. The amendments to IAS 36 are applicable for annual periods beginning on or after 1 January 2014.

IFRS 9 "Financial Instruments" and subsequent amendments (amendments to IFRS 9 and IFRS 7) will have an impact on the measurement and presentation of financial instruments. The current version of IFRS 9 does not specify an effective date.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the group's financial statements: IFRS 11 "Joint Arrangements" , revised version of IAS 27 "Separate Financial Statements" (rev. 2011), revised version of IAS 28 "Investments in Associates and Joint Ventures" (rev. 2011), amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities", amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting", Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" and IFRIC Interpretation 21 "Levies".

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

B. Summary of Significant Accounting Policies

(5) Segment reporting

ProCredit divides its operations solely into segments in geographical terms. The geographical segmentation is the structure by which operating results are regularly reviewed by management to assess performance and to allocate resources. Based on the location of the principal operations of the parent company and the subsidiaries, the segments are: Germany, Eastern Europe, Latin America and Africa. Each of those segments exhibits individual risk and return characteristics.

(6) 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 in conformity with IFRS 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

To determine the group-wide rates to be applied for portfolio-based loan loss provisioning, the group performed an evaluation of the quality of the loan portfolio, taking into account historical loss experiences of all our institutions. As this migration analysis is based on statistical data up to 2013, it reflects the average losses during a period which contains both 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 it appropriate to use the results of the migration analysis with a confidence level of 60% (previous year: 60%) to cover expected (and partially unexpected) losses. Further information on the group's accounting policy on loan loss provisioning can be found in note (11).

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

According to IAS 32, a contract that contains the obligation to purchase one's own equity instruments for cash gives rise to a financial liability for the present value of the redemption amount. For put options with a put price related to the subsidiary's equity at the time of exercise, the redemption amount is calculated based on the expected book value or fair value of the equity shares. In accordance with the anticipated acquisition method, all risks and rewards connected with these transactions are considered as being already transferred to ProCredit Holding. The difference between the book value of the equity shares and the related liabilities was reflected as goodwill in accordance with IAS 27 (2008) for all transactions before 2008. Thereafter the difference is recognised as equity transaction. For put options in which the put prices are defined as the fair value of the equity share at the time of exercising the put, the redemption amount is calculated as a discounted cash flow. The respective cash flows have been estimated on the basis of the latest business plans. Discounting rates have been determined to reflect the perceived risk profile of each individual investment. Significant management judgement is involved in estimating business plans and in determining the discount rates. Adjustments from the subsequent measurement of the liability are recognised in the 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 standard discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Significant management judgement is involved in estimating future cash flows and in determining the discount rate assigned to each cash-generating unit. The cash flow projection is based on the latest business planning 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 discount factors are derived from a pricing model based on observable market data and are between

9.3% and 16.1% (2012: between 10.8% and 16.0%). 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 (including goodwill). The group's accounting policy for goodwill is described in note (12)a).

(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 (15)). The profit projection is based on the latest business planning as of December 2013 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 (30) and (40).

(7) Financial instruments

In accordance with IAS 39, 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. 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 assets are classified as financial assets held for trading or financial assets designated at fair value through profit or loss.

Financial instruments held for trading 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 assets designated at fair value through profit or loss include government bonds with embedded derivatives, because it is prohibited to separate the embedded derivative from the underlying.

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, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Statement of Profit or Loss of the period. Together with interest earned on financial instruments designated at fair value through profit and loss they are shown as "Net result from financial instruments at fair value through profit or loss".

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 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. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note (11) for the accounting policy for impairment of credit exposures, and notes (22), and (36). 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. 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 Profit or Loss and Other Comprehensive Income in the position "Revaluation reserve from available-for-sale financial assets", until the financial asset is derecognised or impaired (for details on impairment, see note (11)). At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "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. Dividends on available-for-sale equity instruments are recognised in the Consolidated Statement of Profit or Loss when the entity's right to receive the payment is established.

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.

(8) 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.

IFRS 13 defines fair value 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 same standard defines a fair value hierarchy which categorises into three levels 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.

Level 3 Inputs
Unobservable inputs for the asset or liability.

(9) 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").

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

(b) Transactions and balances
Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the monthly average rate of exchange when these approximate actual 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).

Monetary items denominated in foreign currency are translated with the period end closing rate. Translation differences on monetary items are recognised in the Consolidated Statement of Profit or Loss.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the historical exchange rate as of the date of the transaction.

(c) Group companies
The financial statements of all group entities (none of which use the currency of a hyper-inflationary economy) 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; and
- all resulting exchange differences of the group equity investments are recognised as "translation reserve" in the consolidated statement of other comprehensive income and are reclassified from equity to profit or loss on disposal.

(10) Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with less than three months' maturity from the date of acquisition when eligible for discounting with central banks, other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value, and bills of exchange and other bills eligible for discounting with central banks.

Generally, all cash and cash equivalent items are recognised at fair value. Treasury bills and other money market instruments that qualify as cash equivalents are classified as available-for-sale financial assets.

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and non-restricted balances with central banks (in some countries minimum reserve balances are included under restricted balances), non-pledged treasury bills and other bills eligible for refinancing with central banks, and loans and advances to banks and amounts due from other banks.

(11) 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 financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. Collectively assessment is carried out if on an individual basis objective evidence cannot be identified. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The group does not recognise losses from expected future events.

- Individually assessed loans and advances

Credit exposures are considered individually significant if they have a certain size, partly depending on the individual bank. As a group-wide rule, all credit exposures over EUR 30,000 are individually assessed to determine whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the bank:
- delinquencies in contractual payments of interest or principal;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings or financial reorganisation;
- any specific information on the customer's business that is expected to have a negative impact on the future cash flow;
- changes in the customer's market environment that are expected to have a negative impact on the future cash flow.

When determining the allowance for impairment the aggregate exposure to the customer and the realisable value of collateral held are taken into account.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a credit exposure has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flow of a collateralised financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral.

- Collectively assessed loans and advances

There are two cases in which credit exposures are collectively assessed for impairment:

- individually insignificant credit exposures that show objective evidence of impairment;
- the group of credit exposures which do not show objective evidence of impairment on an individual credit exposure basis, in order to cover all losses which have already been incurred but not detected.

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 credit exposures (allowance for collectively assessed loans) belonging to a group of financial assets is based on a quantitative analysis of default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, the holding company's management prescribed appropriate rates to the banks of the ProCredit group as the basis for their portfolio-based impairment allowances. Twice a year, these rates are subject to backtesting.

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 loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

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 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 as part of the allowance 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.

Assets acquired in exchange for loans (repossessed property)

Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "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. Repossessed properties are held for sale and no depreciation is charged for the respective assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Consolidated Statement of Profit or Loss in "Net other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "Net other operating income", together with any realised gains or losses on disposal.

(b) Assets classified as available-for-sale

The group assesses at each balance sheet date whether there is objective evidence of impairment for financial assets classified as available-for-sale. For debt securities, the group uses the criteria for loans and advances as described above. For equity investments, a significant or prolonged decline in fair value of the security below its carrying value is considered as objective evidence for impairment.

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.

(12) 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. Impairment losses in the current period are charged to "Net other operating income" in the consolidated Statement of Profit or Loss. Slight changes in ownership interest without changes of control are accounted for as equity transactions with owners and do not result in changes to goodwill. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold and are recognised in the Consolidated Statement of Profit or Loss.

(b) Software

Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 to 10 years and 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.

(13) 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 cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are considered separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent 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 repairs and maintenance 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
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.

Both, assets that are subject to amortisation and land, 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.

(14) Leases

(a) ProCredit is the lessee

Finance lease

Agreements which transfer to the lessee substantially all the risks and rewards incidental to the ownership of assets, but not necessarily a legal title, are classified as finance leases.

In general, ProCredit does not conclude finance lease agreements. In exceptional cases, however, some lease agreements for land are classified as finance leases (see also note (39)).

Operating lease

Operating leases are all lease agreements which do not qualify as finance leases.

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. The leasing objects are recognised 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

ProCredit rented out several properties as operating leases. Leasing income is recognised in Consolidated Statement of Profit or Loss on a straight-line basis over the lease term.

ProCredit applies IFRIC 4, which requires it to determine if an arrangement contains a lease.

(15) Income tax

(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 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.

The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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.

(16) Provisions

Provisions are recognised if

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be 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 certain 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 (54)).

(17) Post-employment benefits

The group contributes to its employees' post-employment plans as prescribed by the local legislation on pensioning of the countries in which the subsidiaries are located.

In the case of defined contribution plans, the group pays contributions to privately or publicly administered pension insurance plans on a contractual basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

In the case of defined benefit plans, the liability recognised in the statement of financial position is the present value of the defined post-employment benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit plans arise from plans that are unfunded. As a rule, the obligation is calculated annually by independent actuaries. The present value of the obligation is determined by discounting the estimated future cash outflows (e.g. taking into account mortality tables and salary increases) using interest rates of high-quality government bonds that are denominated in the currency in which the obligation will be paid, and that have terms to maturity approximating to the terms of the related pension liability, where applicable, or comparable similar interest rates which were estimated by the ProCredit banks.

(18) Grants

The ProCredit group receives grants from donor institutions in some instances. It is the group's policy to use such grants exclusively for institutional development. Grants are accounted for in accordance with IAS 20 "Accounting for Government grants and Disclosure of Government Assistance", as management judges this standard to be appropriate to address similar and related issues. Grants are accounted for following the gross approach, where the money received and the obligation to use the money for ongoing expenses is not offset. The liability to fulfil the obligation, recognised in the statement of financial position, is amortised through the "Net other operating income" at the same time as funds are spent to cover expenditures. When donor contributions are used to purchase assets, the assets are recognised in the statement of financial position. Another liability is recognised to reflect the obligation to use the funds for restricted purposes. The liability is amortised through the consolidated Statement of Profit or Loss at the same rate at which the respective assets are depreciated.

(19) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "Interest income" and "Interest expense" in the Consolidated Statement of Profit or Loss using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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.

(20) Fee and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

C. Notes to the Statement of Profit or Loss

(21) Net interest income

Included within "Net interest income" are interest income and expenses and the amortisation of premiums and discounts on financial instruments at amortised cost. Interest income from financial instruments at fair value through profit or loss is shown under "Net result from financial assets at fair value through profit or loss" (note (25)).

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Interest income from cash and cash equivalents and loans and advances to banks loans and advances to banks	6,377	6,755
Interest income from available-for-sale assets	7,542	6,467
Interest income from loans and advances to customers	602,885	617,862
Interest income from finance leases	2,309	2,900
Interest income from early closure	1,026	1,148
Other interest income	0	56
Interest and similar income	**620,139**	**635,187**

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Interest expenses on liabilities to banks	13,232	15,934
Interest expenses on liabilities to customers	115,848	112,163
Interest expenses on liabilities to international financial institutions	32,367	39,449
Interest expenses on subordinated debt	10,397	10,864
Interest expenses on debt securities and hybrid capital	15,380	16,536
Interest expenses on option agreements	676	1,300
Activated borrowing costs	-99	-988
Interest and similar expenses	**187,802**	**195,259**
Net interest income	**432,336**	**439,929**

The interest income from loans and advances to customers includes interest income from impaired financial assets accrued in accordance with IAS 39.AG93 in the amount of EUR 9,036 thousand (2012: EUR 6,884 thousand).

(22) Allowance for impairment losses on loans and advances

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

Risk provisioning on loans and advances to customers is reflected in the Statement of Profit or Loss as follows:

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Increase of impairment charge	239,945	220,591
Release of impairment charge	-160,752	-141,694
Recovery of written-off loans	-19,816	-18,653
Direct write-offs	1,589	1,286
Allowance for impairment losses on loans and advances	**60,966**	**61,531**

The total increase of impairment charge comprises the following entries:

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Specific impairment	86,688	72,222
Allowance for individually insignificant impaired loans	90,684	88,654
Allowance for collectively assessed loans	62,572	59,715
Increase of impairment charge	**239,945**	**220,591**

(23) Net fee and commission income

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Payment transfers and transactions	34,464	34,277
Account maintenance fee	13,199	11,789
Letters of credit and guarantees	3,468	3,350
Debit/credit cards	17,269	16,179
Other fee and commission income	9,342	8,848
Fee and commission income	**77,742**	**74,442**

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Payment transfers and transactions	6,764	6,438
Account maintenance fee	1,880	1,716
Letters of credit and guarantees	641	456
Debit/credit cards	6,812	6,508
Other fee and commission expenses	913	390
Fee and commission expenses	**17,010**	**15,508**
Net fee and commission income	**60,731**	**58,934**

(24) Result from foreign exchange transactions

"Result from foreign exchange transactions" refers primarily to the results of foreign exchange dealings with and for customers. The group does not engage in any foreign currency trading on its own account. In addition, this position includes the result from foreign currency hedging operations and unrealised foreign currency revaluation effects. The group does not apply hedge accounting as defined by IAS 39.

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Currency transactions	13,594	13,314
Net gains and losses from revaluation	-455	595
Result from foreign exchange transactions	**13,139**	**13,910**

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

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Net result from fair value changes of financial instruments at fair value through profit or loss:		
Financial instruments held for trading	-190	104
Financial instruments designated at fair value through profit or loss	-221	-78
Net interest income from financial instruments at fair value through profit or loss:		
Financial instruments held for trading	-247	733
Financial instruments designated at fair value through profit or loss	710	97
Net result from financial instruments at fair value through profit or loss	**53**	**857**

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

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Net result from disposal of available-for-sale financial assets	933	-1,501
Dividend income from available-for-sale financial assets	158	123
Impairment of available-for-sale financial assets	-89	0
Net result from available-for-sale financial assets	**1,002**	**-1,378**

(27) Net other operating income

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Decrease of liabilites from put option agreements	2,306	1,422
Income from previous years	1,330	1,049
Reversal of Provisions	1,855	3,899
Income from reimbursement of expenses	987	3,524
Surplus from sale/reversal of impairment of repossessed property*	1,765	1,598
Surplus from sale of property, plant and equipment	1,913	1,035
Income from litigation settlements	885	1,022
Others	3,203	3,981
Other operating income	**14,245**	**17,531**

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Deposit insurance	11,035	9,904
Increase of liabilites from put option agreements	395	413
Expenses to be reimbursed	1,028	2,477
Loss from sale of property, plant and equipment	2,775	1,330
Impairment of repossessed property	5,525	4,376
Impairment of goodwill**	2,682	0
Expenses from litigation settlements	1,515	1,298
Expenses for Provisions	548	3,447
Expenses from previous years	516	1,838
Expenses for registration***	0	1,381
Others***	4,016	6,310
Other operating expenses	**30,034**	**32,775**
Net other operating income	**–15,789**	**–15,244**

** The fair value adjustments are caused by the difficulty in determining precise fair values in relativly inactive markets.*

***Expenses for goodwill impairment were reclassified from other administrative expenses*

**** Expenses for registration and expenses for surcharges in the total amount of EUR 1,924 thousand were reclassified to administrative expenses (see also note 29).*

The income from reimbursement of expenses includes grant income of EUR 477 thousand (2012: EUR 2,596 thousand) out of which EUR 252 thousand (2012: EUR 1,622 thousand) were used to cover training-related expenses.

(28) Personnel expenses

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Salary expenses	140,824	145,980
Social security expenses	22,235	24,562
Post-employment benefits plans (Defined contribution plans)	4,371	3,859
Post-employment benefits plans (Defined benefit plans)	2,121	1,944
Short-term employee benefits	13,716	12,731
Personnel expenses	**183,267**	**189,077**

(29) Administrative expenses

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Operating lease expenses	30,625	32,434
Utility and electricity expenses	7,544	8,042
Communication and royalties on software	12,478	11,883
Transport	12,942	14,025
Office supplies	6,235	7,257
Security services	8,340	9,489
Marketing, advertising and representation	12,682	12,861
Repairs and maintenance	11,175	10,389
Depreciation fixed and intangible assets incl. impairment	38,545	38,902
Legal and audit fees	5,768	5,608
Non-profit tax	17,469	17,465
Consulting services	5,310	4,572
Recruitment and other personnel-related expenses	4,910	6,015
Other administrative expenses*	11,309	8,397
Administrative expenses	**185,331**	**187,339**

** Expenses for registration and expenses for surcharges in the total amount of EUR 1,924 thousand were reclassified from other operating expenses. Expenses for goodwill impairment in the amount of EUR 2,682 thousand were reclassified to other operating expenses.*

Of the total administrative expenses, EUR 15,760 thousand (2012: EUR 17,473 thousand) were incurred for staff training.

Total fees incurred for the services provided by the group auditor were as follows:

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Audit fees*	362	411
Tax advice	16	0
Other confirmatory services	52	0
Other services	0	60
Group auditor expenses	**430**	**471**

** For the purpose of comparison, the audit expenses of Quipu and ProCredit Bank Germany are included in previous year figures.*

(30) Income tax expenses

This item includes all taxes on income. Income tax expenses were as follows:

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Current tax	18,273	13,060
Deferred tax	4,682	-260
Income tax expenses	**22,955**	**12,800**

Of the expenses from deferred taxes, nothing is attributable to changes in tax rates.

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 16.8% (2012: 11.6%), calculated by dividing the total tax burden to the unconsolidated profits.

D. Notes to the Statement of Financial Position

(31) Cash and cash equivalents

in '000 EUR	31.12.2013	31.12.2012
Cash in hand	212,333	201,305
Balances at central banks excluding mandatory reserves	177,879	230,320
Government bonds	31,625	21,338
Other money market instruments	37,337	50,569
Mandatory reserve deposits	373,266	359,916
Cash and cash equivalents	**832,440**	**863,448**
Loans and advances to banks with a maturity up to 3 months	338,302	330,025
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	-353,899	-309,595
Cash and cash equivalents for the statement of cash flows	**816,842**	**883,879**

(32) Loans and advances to banks

in '000 EUR	31.12.2013	31.12.2012
up to three month	338,302	330,025
up to one year	694	5,043
more than one year	30	40
Loans and advances to banks	**339,026**	**335,108**

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

in '000 EUR	31.12.2013	31.12.2012
Financial assets held for trading	2,157	629
Financial assets designated at fair value through profit or loss	3,973	16,195
Financial assets at fair value through profit or loss	**6,130**	**16,823**
Financial liabilities	36	272
Financial liabilities at fair value through profit or loss	**36**	**272**

Financial assets held for trading and financial liabilities at fair value through profit or loss consists solely of fair values arising from derivative financial instruments. The following table provides an overview:

in '000 EUR **As at December 31, 2013**	**Contractual amount**	**Fair value** **Assets**	 **Liabilities**
Fair value from derivatives with third parties			
a) Foreign exchange derivatives			
Swaps	9,438	1,953	8
Forwards	2	0	0
b) Interest rate derivatives			
Interest rate swaps	774	204	28
Total derivatives with third parties	**10,214**	**2,157**	**36**

in '000 EUR **As at December 31, 2012**	**Contractual amount**	**Fair value** **Assets**	 **Liabilities**
Fair value from derivatives with third parties			
a) Foreign exchange derivatives			
Swaps	9,260	628	161
Forwards	372	1	0
b) Interest rate derivatives			
Interest rate swaps	4,743	0	111
Total derivatives with third parties	**14,375**	**629**	**272**

(34) Available-for-sale financial assets

in '000 EUR	31.12.2013	31.12.2012
Fixed interest rate securities	312,041	180,853
Variable interest rate securities	9,283	9,661
Company shares	1,855	1,542
Available-for-sale financial assets	**323,178**	**192,056**

Changes in the revaluation reserve for available-for-sale financial assets are as follows:

in '000 EUR	2013	2012
Revaluation reserve from available-for-sale financial assets		
As at January 1	465	-1,306
Changes in fair value	-976	3,521
Amount recognised in consolidated income statement	933	-1,501
Impairment	95	0
Deferred taxes	-10	-249
As at December 31	**507**	**465**

(35) Loans and advances to customers

in '000 EUR As at December 31, 2013	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**3,239,185**	**-149,880**	**3,089,305**	**77.3%**	**265,674**	**55.3%**
loan size up to 30.000 EUR/USD	1,198,760	-58,321	1,140,439	28.5%	228,946	47.7%
loan size 30.000 to 150.000 EUR/USD	1,181,453	-45,951	1,135,502	28.4%	32,661	6.8%
loan size more than 150.000 EUR/USD	858,972	-45,608	813,365	20.4%	4,067	0.8%
Agricultural loans	**617,268**	**-25,808**	**591,460**	**14.8%**	**83,292**	**17.3%**
loan size up to 30.000 EUR/USD	336,864	-15,276	321,588	8.0%	77,775	16.2%
loan size 30.000 to 150.000 EUR/USD	187,842	-5,294	182,548	4.6%	4,988	1.0%
loan size more than 150.000 EUR/USD	92,562	-5,238	87,324	2.2%	529	0.1%
Housing improvement loans	**202,411**	**-5,895**	**196,515**	**4.9%**	**43,997**	**9.2%**
loan size up to 30.000 EUR/USD	158,176	-5,082	153,095	3.8%	43	8.9%
loan size 30.000 to 150.000 EUR/USD	42,579	-789	41,790	1.0%	1,148	0.2%
loan size more than 150.000 EUR/USD	1,655	-24	1,631	0.0%	13	0.0%
Consumer loans*	**62,237**	**-3,192**	**59,044**	**1.5%**	**1,930**	**15.0%**
loan size up to 30.000 EUR/USD	56,556	-3,013	53,542	1.3%	1,496	14.9%
loan size 30.000 to 150.000 EUR/USD	5,132	-164	4,967	0.1%	407	0.0%
loan size more than 150.000 EUR/USD	550	-15	535	0.0%	27	0.0%
Finance leases	**27,868**	**-1,900**	**25,968**	**0.6%**	**71,834**	**0.4%**
loan size up to 30.000 EUR/USD	10,178	-1,332	8,846	0.2%	71,678	0.3%
loan size 30.000 to 150.000 EUR/USD	13,775	-525	13,250	0.3%	148	0.1%
loan size more than 150.000 EUR/USD	3,915	-43	3,873	0.1%	8	0.0%
Other loans	**31,454**	**-1,800**	**29,653**	**0.7%**	**13,464**	**2.8%**
loan size up to 30.000 EUR/USD	17,616	-1,538	16,078	0.4%	13,075	2.7%
loan size 30.000 to 150.000 EUR/USD	13,838	-263	13,575	0.3%	389	0.1%
loan size more than 150.000 EUR/USD	0	0	0	0.0%	0	0.0%
Other advances to customers**	**4,650**	**0**	**4,650**	**0.1%**	**0**	**0.0%**
Total	**4,185,071**	**-188,475**	**3,996,596**	**100%**	**480,191**	**100.0%**

* *"Consumer loans" also include overdrafts to private individuals*

** *"Other advances to customers" contain mainly account maintenance fees*

in '000 EUR As at December 31, 2012	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**3,318,524**	**-141,909**	**3,176,615**	**79.1%**	**297,828**	**55.4%**
loan size up to 30.000 EUR/USD	1,245,691	-55,892	1,189,799	29.6%	262,409	48.8%
loan size 30.000 to 150.000 EUR/USD	1,182,286	-43,053	1,139,233	28.4%	31,357	5.8%
loan size more than 150.000 EUR/USD	890,547	-42,964	847,583	21.1%	4,062	0.8%
Agricultural loans	**524,274**	**-19,619**	**504,655**	**12.5%**	**91,606**	**17.1%**
loan size up to 30.000 EUR/USD	324,893	-12,568	312,325	7.8%	87,579	16.3%
loan size 30.000 to 150.000 EUR/USD	137,972	-3,990	133,982	3.3%	3,690	0.7%
loan size more than 150.000 EUR/USD	61,410	-3,061	58,349	1.5%	337	0.1%
Housing improvement loans	**201,795**	**-5,645**	**196,150**	**4.9%**	**49,747**	**9.3%**
loan size up to 30.000 EUR/USD	165,453	-4,714	160,739	4.0%	48,797	9.1%
loan size 30.000 to 150.000 EUR/USD	33,812	-905	32,907	0.8%	934	0.2%
loan size more than 150.000 EUR/USD	2,531	-27	2,504	0.1%	16	0.0%
Consumer loans*	**70,114**	**-2,695**	**67,420**	**1.7%**	**77,821**	**14.5%**
loan size up to 30.000 EUR/USD	64,355	-2,516	61,839	1.5%	77,670	14.5%
loan size 30.000 to 150.000 EUR/USD	5,136	-160	4,976	0.1%	146	0.0%
loan size more than 150.000 EUR/USD	624	-18	605	0.0%	5	0.0%
Finance leases	**29,706**	**-3,386**	**26,320**	**0.7%**	**2,531**	**0.5%**
loan size up to 30.000 EUR/USD	10,323	-1,919	8,404	0.2%	1,960	0.4%
loan size 30.000 to 150.000 EUR/USD	12,739	-943	11,795	0.3%	532	0.1%
loan size more than 150.000 EUR/USD	6,644	-524	6,121	0.2%	39	0.0%
Other loans	**43,012**	**-2,196**	**40,815**	**1.0%**	**17,693**	**3.3%**
loan size up to 30.000 EUR/USD	24,161	-1,908	22,253	0.6%	17,216	3.2%
loan size 30.000 to 150.000 EUR/USD	18,582	-286	18,297	0.5%	475	0.1%
loan size more than 150.000 EUR/USD	268	-3	265	0.0%	2	0.0%
Other advances to customers**	**3,181**	**0**	**3,181**	**0.1%**	**0**	**0.0%**
Total	**4,190,607**	**-175,451**	**4,015,156**	**100.0%**	**537,226**	**100.0%**

* *"Consumer loans" also include overdrafts to private individuals*
** *"Other advances to customers" contain mainly account maintenance fees*

The size categories refer to the originally disbursed amount.

(36) Allowance for losses on loans and advances

Allowance for impairment losses on loans and advances cover the risks which arise from the category "Loans and advances to customers" (see also note (11)). In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, allowances for individually insignificant impaired loans and for collectively assessed loans were formed to cover impairment loss relating to the customer loan portfolio as a whole:

in '000 EUR	31.12.2013	31.12.2012
Allowance for impairment on loans and advances to customers		
Specific impairment	75,002	61,435
Allowance for individually insignificant impaired loans	57,269	56,854
Allowance for collectively assessed loans	56,204	57,163
Allowance for losses on loans and advances to customers	**188,475**	**175,451**

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

in '000 EUR	2013	2012
As at January 1	175,451	158,535
Increase of impairment charge	239,945	220,591
Usage of allowance	50,668	51,868
Release of impairment charge	160,752	141,694
Unwinding effects	-9,036	-6,884
Exchange rate adjustments	-6,465	-3,230
As at December 31	**188,475**	**175,451**

Allowances for losses on loans and advances to banks are considered on an individual basis. In 2013 no allowances for impairment losses for loans and advances to banks were set aside, as there was no objective evidence of impairment.

(37) 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

Goodwill resulting from business combinations and from option agreements is as follows:

in '000 EUR	31.12.2013 from business combinations	31.12.2013 from option agreements	31.12.2012 from business combinationss	31.12.2012 from option agreements
Goodwill				
Eastern Europe	9,047	2,642	6,655	6,812
Latin America	3,503	1,260	3,969	2,468
Africa	190	0	334	0
Total	**12,740**	**3,902**	**10,958**	**9,281**

Due to the exercise of put options over shares in ProCredit Bank Romania, the corresponding share of goodwill from option agreements is shown as goodwill from business combinations.

In 2013, impairment losses resulted from ProCredit Banks in Armenia (EUR 673 thousand), Bosnia and Herzegovina (EUR 828 thousand), Honduras (EUR 217 thousand), Mexico (EUR 836 thousand), and Mozambique (EUR 128 thousand). The development of goodwill within the reporting period is as follows:

in '000 EUR	2013	2012
Goodwill		
Net book value at January 1	20,239	22,368
Additions	0	0
Disposal	0	0
Impairment	-2,682	-1,717
Exchange rate adjustments	-914	-413
Net book value at December 31	**16,642**	**20,239**

Option agreements

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

ProCredit Holding signed put/call options to purchase from the European Bank for Reconstruction and Development (EBRD), London, Great Britain, additional shares in ProCredit Bank Macedonia, and ProCredit Bank Ukraine or give EBRD the right to sell the respective shares to ProCredit Holding. The contractually agreed purchase price and timing for the exercise of these options vary.

ProCredit Holding signed put option agreements which give the Inter-American Development Bank, Washington D.C., USA, the right to sell all of its shares in Banco ProCredit Honduras, Banco ProCredit Colombia and ProConfianza Mexico to ProCredit Holding. The put options can be exercised during certain strike periods; the purchase price depends on the total amount of equity held at the time of exercise.

ProCredit Holding signed put options which give the EBRD and KfW, Frankfurt, Germany, the right to sell all of their shares in ProCredit Bank Armenia to ProCredit Holding. The options can be exercised at any time and the purchase price will be based on the market value at the time of exercise.

In August 2013, Commerzbank AG, EBRD, International Finance Corporation, and KfW exercised their put options on ProCredit Bank S.A. Romania shares. As a result of these transactions, the respective liabilities decreased by EUR 19.4 million.

In December 2013, ProCredit Holding signed a put/call option to purchase KfW's shares in ProCredit Bank Moldova or give KfW the right to sell its shares to ProCredit Holding. The option can be exercised during a certain strike period; the purchase price depends on the total amount of equity held at the time of exercise.

The following table provides an overview of the existing options:

Option agreements	counterparty	share	starting point option period
ProCredit Bank CJSC, Armenia	EBRD	10.8%	effective
ProCredit Bank CJSC, Armenia	KfW	9.7%	effective
ProCredit Bank S.A., Colombia	IDB	7.8%	effective
Banco ProCredit S.A., Honduras	IDB	10.6%	effective
ProCredit Bank A.D., Macedonia	EBRD	12.5%	31.12.2014
ProConfianza S.A. de C.V., SOFOM, E.N.R., Mexico	IDB	8.5%	effective
ProCredit Bank S.A., Moldova	KfW	14.1%	31.12.2016
ProCredit Bank JSC, Ukraine	EBRD	15.2%	01.01.2014

The calculation of the anticipated strike price is based on the original amount paid, the future equity and/or the future fair value, depending on the respective put agreement. The present value of the future obligation is discounted at an interest rate of 4.75% (2012: 5%), which is appropriate to the level of risk involved. The recognised financial liability replaced the non-controlling interest of the respective counterparties. The difference between the liability and the replaced non-controlling interests was recognised as goodwill under IAS 27 (2008).

Summing up, the put agreements result in a total liability of EUR 22.5 million as of 31 December 2013 (2012: EUR 40.3 million). This liability is largely offset by the reduction in the reserve for shares held by other shareholders, which amounted to EUR 15.7 million (2012: EUR 31.8 million), and by goodwill in the amount of EUR 3.9 million (2012: EUR 9.8 million).

(b) Software

in '000 EUR	2013	2012
Software		
Net book value at January 1	17,213	13,303
Total acquisition costs at January 1	59,357	48,615
Additions	8,844	9,474
Disposals	524	241
Transfers*	246	1,509
Total acquisition costs at December 31	**67,922**	**59,357**
Accumulated amortization January 1	37,413	30,762
Amortization	8,492	6,651
Accumulated amortization at December 31	**45,905**	**37,413**
Total exchange rate adjustments January 1	-4,730	-4,550
Exchange rate adjustments current year	-211	-180
Total exchange rate adjustments at December 31	**-4,942**	**-4,730**
Net book value at December 31	**17,075**	**17,213**

** Part of the other intangible assets was reclassified to software*

(38) 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)
Net book value at January 1, 2013	112,896	15,911	22,375	11,389	45,127	207,697	2,734
Acquisition costs at January 1, 2013	130,001	56,352	24,725	47,528	185,538	444,144	3,044
Transfers	12,774	299	-14,910	0	0	-1,838	1,838
Additions	8,016	5,082	5,168	4,150	21,155	43,571	253
Acquisition through business combination	0	0	0	0	0	0	0
Disposals	1,939	1,857	1,592	274	3,154	8,817	292
Total acquisition costs at December 31, 2013	**148,851**	**59,876**	**13,390**	**51,404**	**203,539**	**477,060**	**4,842**
Accumulated depreciation January 1, 2013	14,240	39,434	366	35,427	137,138	226,604	314
Depreciation	3,771	4,893	0	3,824	17,287	29,774	195
Transfers	-268	0	0	0	0	-268	268
Accumulated depreciation at December 31, 2013	**17,743**	**44,327**	**366**	**39,251**	**154,424**	**256,111**	**777**
Exchange rate adjustments January 1, 2013	-2,864	-1,007	-1,984	-713	-3,274	-9,842	3
Exchange rate adjustments current year	-3,287	-391	-1,905	-404	-944	-6,931	-110
Total exchange rate adjustments at December 31, 2013	**-6,151**	**-1,399**	**-3,890**	**-1,116**	**-4,218**	**-16,774**	**-106**
Net book value at December 31, 2013	**124,957**	**14,151**	**9,135**	**11,037**	**44,897**	**204,176**	**3,959**

in '000 EUR	Land and buildings	Leasehold improvements	Assets under construction	Furnitures and fixtures	IT and other equipment	Total PPE	Investment properties (at cost)
Net book value at January 1, 2012	103,365	19,733	19,447	11,914	45,144	199,604	0
Acquisition costs at January 1, 2012	115,463	54,258	21,323	43,681	167,596	402,321	0
Transfers	1,111	455	-5,076	39	917	-2,553	2,553
Additions	14,031	3,244	12,365	4,165	19,861	53,667	491
Acquisition through business combination	0	0	0	0	0	0	0
Disposals	605	1,605	3,888	358	2,836	9,291	0
Total acquisition costs at December 31, 2012	**130,001**	**56,352**	**24,725**	**47,528**	**185,538**	**444,144**	**3,044**
Accumulated depreciation January 1, 2012	11,091	33,903	366	31,285	120,120	196,765	0
Depreciation	3,430	5,531	0	4,142	17,018	30,120	33
Transfers	-280	0	0	0	0	-280	280
Accumulated depreciation at December 31, 2012	**14,240**	**39,434**	**366**	**35,427**	**137,138**	**226,604**	**314**
Exchange rate adjustments January 1, 2012	-1,006	-622	-1,510	-482	-2,331	-5,952	0
Exchange rate adjustments current year	-1,858	-386	-474	-230	-942	-3,890	3
Total exchange rate adjustments at December 31, 2012	**-2,864**	**-1,007**	**-1,984**	**-713**	**-3,274**	**-9,842**	**3**
Net book value at December 31, 2012	**112,896**	**15,911**	**22,375**	**11,389**	**45,127**	**207,697**	**2,734**

Borrowing costs of EUR 99 thousand were capitalised during 2013 (2012: EUR 988 thousand); the amount was calculated at an average rate of 6.7% (2012: 9.5%).

(39) Leasing

Finance lease receivables

in '000 EUR	31.12.2013 Gross investment	31.12.2013 Unearned finance income	31.12.2013 Net investment	31.12.2012 Gross investment	31.12.2012 Unearned finance income	31.12.2012 Net investment
Finance lease receivables						
no later than one year	11,821	1,546	10,275	12,624	1,773	10,851
later than one year and no later than five years	16,003	1,374	14,629	13,944	1,602	12,342
for termination of contracts	482	6	476	1,184	10	1,174
Total	**28,307**	**2,926**	**25,381**	**27,752**	**3,385**	**24,367**

The finance lease receivables stem from the leasing companies in Bulgaria and Serbia, which are mainly engaged in the leasing of equipment to small and medium enterprises. The leasing companies are wholly-owned subsidiaries of the respective local ProCredit institutions.

in '000 EUR	31.12.2013	31.12.2012
Allowance for uncollectable leasing receivables	2,153	3,234
Total	**2,153**	**1,595**

Finance lease commitments

ProCredit group has long-term leases of land which are classified as finance lease commitments. The full leasing amounts were paid in advance. The net carrying amount at the end of the reporting period was EUR 722 thousand (2012: EUR 887 thousand).

Operating lease commitments

in '000 EUR	31.12.2013	31.12.2012
Operating lease commitments		
no later than one year	17,045	19,470
later than one year and no later than five years	46,728	53,584
later than five years	21,912	26,806
Total	**85,684**	**99,859**

Operating lease commitments result 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 2013 is EUR 30,625 thousand (2012: EUR 32,434 thousand).

Operating lease receivables

in '000 EUR	31.12.2013	31.12.2012
Operating lease receivables		
no later than one year	108	144
later than one year and no later than five years	916	320
later than five years	0	0
Total	**1,025**	**464**

The operating lease receivables result from investment properties.

(40) Income taxes

Deferred income taxes are calculated in full, under the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the applicable tax rates as stipulated by the tax legislation of the respective countries.

The table below shows the changes in net deferred income taxes and the underlying business transactions:

in '000 EUR	2013	2012
As at 1 January	13,975	13,993
Available-for-sale securities:		
fair value remeasurement	-91	-130
transfer to net profit	22	-119
Charges to income statement	-4,682	260
Exchange rate adjustments	-760	-28
As at 31 December	**8,464**	**13,975**

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

in '000 EUR	31.12.2013	31.12.2012
Accelerated tax depreciation	1,140	1,822
Provisions for loan impairments	2,254	2,519
Derivatives	349	401
Temporary differences, Equity reserve available for sale	-3	0
Tax loss carried forward	9,993	12,132
Other provisions	-110	-44
Other temporary differences	-104	1,323
Deferred tax assets	**13,518**	**18,154**

in '000 EUR	31.12.2013	31.12.2012
Accelerated tax depreciation	727	562
Provisions for loan impairments	5,866	5,136
Derivatives	-166	-12
Temporary differences, Equity reserve available for sale	154	-27
Other provisions	228	-191
Other temporary differences	-1,753	-1,289
Deferred tax liabilities	**5,055**	**4,179**

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

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Accelerated tax depreciation	1,232	765
Provisions for loan impairments	3,139	1,863
Derivatives	21	41
Tax loss carried forward	3,144	903
Other provisions	954	309
Other temporary differences	1,934	1,486
Deferred tax charges	**10,424**	**5,368**

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Accelerated tax depreciation	391	283
Provisions for loan impairments	2,142	1,880
Derivatives	0	0
Tax loss carried forward	1,703	1,475
Other provisions	475	470
Other temporary differences	1,031	1,521
Deferred tax income	**5,743**	**5,628**

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

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Profit/(loss) before tax	64,107	59,080
Tax expected	13,264	10,741
Tax effects of items which are not deductable:		
non-taxable income	-17,577	-15,075
non-tax deductable expenses	11,816	7,416
tax effect on consolidation	15,453	9,526
Tax effects from changes in tax rate	0	192
Income tax expense for the year according to IFRS	**22,955**	**12,800**
Exchange rate differences	760	278
Changes in deferred tax assets	-4,636	-29
Changes in deferred tax liabilities	-876	46
Changes in comprehensive income	69	0
Current income tax expenses	**18,273**	**13,095**

For a total of EUR 3,523 thousand (2012: EUR 1,459 thousand) of unused tax losses of the current period a deferred tax asset was not recognised.

(41) Other assets

in '000 EUR	31.12.2013	31.12.2012
Accounts receivable	18,192	17,712
Prepayments	15,672	14,614
Repossessed properties	36,807	31,879
Deferred income	1,574	1,719
Guarantees	650	583
Other inventory items	1,600	1,678
Others	7,228	5,744
Other assets	**81,724**	**73,930**

Repossessed properties as shown in the above table are carried at fair value less cost to sell. There were expenses for impairment of EUR 5,525 thousand (2012: EUR 4,376 thousand), reversals of impairment on repossessed properties amounting to EUR 1,085 thousand (2012: EUR 821 thousand) and gains from the sale of repossessed property amounting to EUR 680 thousand (2012: EUR 777 thousand). The total amount for repossessed property in the group can be subdivided into segments for Eastern Europe EUR 26,153 thousand (2012: EUR 21,254 thousand); Latin America EUR 10,364 thousand (2012: EUR 10,020 thousand); and Africa EUR 290 thousand (2012: EUR 605 thousand).

(42) Liabilities to banks

in '000 EUR	31.12.2013	31.12.2012
up to three month	66,144	72,059
up to one year	86,311	54,454
more than one year	174,871	217,124
Liabilities to banks	**327,326**	**343,637**

(43) Liabilities to customers

in '000 EUR	31.12.2013	31.12.2012
Current accounts	954,241	832,797
private individuals	*455,326*	*393,435*
legal entities	*498,915*	*439,362*
Savings accounts	831,946	738,767
private individuals	*773,142*	*685,876*
legal entities	*58,804*	*52,891*
Term deposit accounts	1,851,216	1,882,661
private individuals	*1,338,680*	*1,324,625*
legal entities	*512,536*	*558,035*
Other liabilities to customers*	164,492	172,969
Liabilities to customers	**3,801,895**	**3,627,194**

** The differences compared to 2012 figures result from the fact that accrued interests were reclassified to "other liabilities to customers"*

The category "Legal entities" includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

(44) Liabilities to international financial institutions

in '000 EUR	due in 2014	in 2015	in 2016	in 2017	after 2017	31.12.2013	31.12.2012
Liabilities with fixed interest rates	52,566	14,172	35,051	35,467	75,229	212,484	227,742
Liabilities with variable interest rates	27,446	67,861	43,994	103,730	195,098	438,129	532,395
Liabilities from put/call options	18,876	0	3,587	0	0	22,463	36,295
Total	**98,888**	**82,032**	**82,631**	**139,198**	**270,327**	**673,076**	**796,432**

(45) Debt securities

in '000 EUR	due in 2014	in 2015	in 2016	in 2017	after 2017	31.12.2013	31.12.2012
Debt securities with fixed interest rates	6,172	53,387	38,893	18,805	45,579	162,837	181,268
Debt securities with variable interest rates	2,272	2,506	2,427	12,496	67,510	87,211	21,190
Debt securities	**8,444**	**55,893**	**41,321**	**31,301**	**113,089**	**250,048**	**202,458**

The securities issued by ProCredit Holding are traded on the unregulated market ("Freiverkehr"). Thus, the company is not capital market-oriented as defined by the German Commercial Code (HGB). In 2013, debt securities totalling EUR 29,113 thousand were repaid and new securities totalling EUR 78,045 were issued.

(46) Other liabilities

in '000 EUR	31.12.2013	31.12.2012
Deferred income	5,189	5,201
Liabilities for goods and services	9,621	9,837
Liabilities to employees	2,994	3,157
Liabilities from social insurance contributions	1,517	1,391
Donations, grants for investments	1,051	1,387
Non-income tax liabilities	3,667	4,084
Others	4,995	4,939
Other liabilities	**29,033**	**29,996**

(47) Provisions

in '000 EUR	31.12.2013	31.12.2012
Provisions for post-employment benefits	4,361	4,332
Provisions for imminent losses from off-balance sheet items	1,029	858
Provisions for imminent losses from pending transactions	1,213	1,345
Provisions for untaken vacation	3,773	3,605
Other provisions	4,977	4,468
Total	**15,353**	**14,608**

The development of the provisions is as follows:

in '000 EUR	2013	2012
As at January 1	14,608	12,411
Exchange rate adjustments	-507	-455
Additions	10,470	13,241
Used	2,551	4,114
Releases	6,733	6,529
Unwinding	67	53
As at December 31	**15,353**	**14,608**

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 (2013: EUR 756 thousand, 2012: EUR 675 thousand) and with clients (2013: EUR 388 thousand, 2012: EUR 508 thousand). 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 6.5% (2012: 11.2%) was used for the discounting of expected cash flows.

In some countries, local regulations require benefits to be paid when employment relationships come to an end (defined benefit plans). Their value is determined in accordance with IAS 19, and is calculated using actuarial mathematical methods. The obligation to make these payments exists solely because of local requirements; apart from these obligations, there are no retirement plans or any other benefits after the termination of contracts. Therefore no further pension provisions had to be set aside and no plan assets had to be taken into account (see note (17)).

The following table shows the development of provisions for post-employment benefits:

in '000 EUR	2013	2012
Net book value at January 1	4,332	3,930
Current service cost	2,054	2,054
Interest cost	67	53
Actuarial gains or losses from changes in demographic assumptions	-25	20
Actuarial gains or losses from changes in financial assumptions	-211	-142
Benefits paid	-1,662	-1,359
Other increases or decreases	-194	-224
Net book value at December 31	**4,361**	**4,332**

Provisions for post-employment benefits are calculated using discount rates that are derived from interest rates on government bonds in the respective countries and actuarial assumptions as determined by local actuaries. The majority of provisions for post-employment benefits result from the ProCredit Banks in Bolivia and Ecuador and discount rates of 8.2% (Bolivia) and 7% (Ecuador) are applied. A sensitivity analysis is performed without any material impact.

Amendments to IAS 19 "Employee benefits" made changes to the recognition and presentation of provisions for post-employment benefits necessary. The amendments are applied on a retrospective basis.

"Actuarial gains and losses" have been renamed "remeasurements" and will no longer be recognised in the Statement of Profit or Loss, but rather in Other Comprehensive Income. Previously recognised actuarial gains and losses in the Statement of Profit or Loss were retrospectively reclassified to Other Comprehensive Income. Remeasurements recognised in Other Comprehensive Income will not be recycled through the Statement of Profit or Loss in subsequent periods.

The following table provides an overview of the reclassified remeasurements:

in '000 EUR	01.01.2012	01.01.2013	Total
Retained earnings	-441	-19	-460
Translation reserve	0	1	1
Revaluation reserve	441	18	459

(48) Subordinated debt

in '000 EUR	due in 2014	in 2015	in 2016	in 2017	after 2017	31.12.2013	31.12.2012
Liabilities with fixed interest rates	549	7,783	32,810	15,580	34,729	91,452	76,136
Liabilities with variable interest rates	222	0	5,000	12,161	54,638	72,021	98,255
Subordinated Debt	**772**	**7,783**	**37,810**	**27,741**	**89,367**	**163,473**	**174,391**

Creditors' claims to repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, they will only be paid after the claims of all non-subordinated creditors have first been satisfied.

(49) Hybrid capital

The holding company issued hybrid capital in the form of Trust Preferred Securities (TPS). The balance sheet value as of year-end 2013 consists of a principal amount of EUR 65 million plus accrued interest outstanding to third parties.

(50) Equity capital

Shareholder	31.12.2013 Size of stake	31.12.2013 Number of shares	31.12.2013 Amount EUR	31.12.2012 Size of stake	31.12.2012 Number of shares	31.12.2012 Amount EUR
IPC - Internationale Projekt Consult GmbH Frankfurt am Main, Germany	17.72%	9,007,725	45,038,625	17.72%	9,007,725	45,038,625
KfW Frankfurt am Main, Germany	13.62%	6,921,734	34,608,670	13.62%	6,921,734	34,608,670
DOEN Foundation Amsterdam, The Netherlands	13.32%	6,770,602	33,853,010	13.32%	6,770,602	33,853,010
IFC - International Finance Corporation Washington D.C., USA	10.30%	5,234,996	26,174,980	10.30%	5,234,996	26,174,980
TIAA-CREF - Teachers Insurance and Annuity Association New York, USA	9.95%	5,056,468	25,282,340	9.95%	5,056,468	25,282,340
BIO - Belgian Investment Company for Developing Countries Brussels, Belgium	5.66%	2,877,980	14,389,900	5.66%	2,877,980	14,389,900
FMO - Netherlands Development Finance Company The Hague, The Netherlands	5.29%	2,691,115	13,455,575	5.29%	2,691,115	13,455,575
Omidyar-Tufts Microfinance Fund Boston, USA	5.19%	2,635,827	13,179,135	5.19%	2,635,827	13,179,135
IPC Invest GmbH & Co. KG Frankfurt am Main, Germany	3.86%	1,962,880	9,814,400	3.86%	1,962,880	9,814,400
IPC Invest 2 GmbH & Co. KG Frankfurt am Main, Germany	2.98%	1,514,000	7,570,000	2.98%	1,514,000	7,570,000
Proparco - Groupe Agence Française de Développement Paris, France	2.60%	1,321,190	6,605,950	2.60%	1,321,190	6,605,950
responsAbility Global Microfinance Fund (GMF) Luxembourg, Luxembourg	2.32%	1,179,805	5,899,025	2.32%	1,179,805	5,899,025
FUNDASAL - Fundación Salvadoreña de Desarrollo y Vivienda Mínima San Salvador, El Salvador	1.92%	975,576	4,877,880	1.92%	975,576	4,877,880
Micro Vest II-A, LP Grand Cayman, Cayman Islands	1.44%	733,816	3,669,080	1.44%	733,816	3,669,080
responsAbility Participations AG Zurich, Switzerland	1.16%	588,344	2,941,720	1.16%	588,344	2,941,720
responsAbility Microfinance Leaders (SICAV) Luxembourg, Luxembourg	1.11%	564,854	2,824,270	1.11%	564,854	2,824,270
Gawa Microfinance Fund (SICAR) Luxembourg, Luxembourg	0.53%	268,200	1,341,000	0.53%	268,200	1,341,000
Ohana Holdings LLC Santa Barbara, USA	0.50%	251,989	1,259,945	0.50%	251,989	1,259,945
Micro Vest +Plus, LP Delaware, USA	0.36%	183,454	917,270	0.36%	183,454	917,270
responsAbility BOP Investments (SICAR) Luxembourg, Luxembourg	0.17%	84,009	420,045	0.17%	84,009	420,045
Total	**100.0%**	**50,824,564**	**254,122,820**	**100.0%**	**50,824,564**	**254,122,820**

All issued shares are voting shares. The par value per share is EUR 5.00. The management intends to propose to the Shareholders' Meeting the distribution of a dividend of EUR 0.20 per share.

	31.12.2013	31.12.2012
Dividend per share* (in EUR)	0.20	0.20
Total dividend payment* (in '000 EUR)	10,165	9,940

** proposed (2013)*

Of this amount, EUR 2,396 thousand (2012: EUR 2,337 thousand) in withholding taxes will have to be paid by the holding company to the German tax authorities.

E. Additional Notes

(51) Segment reporting

in '000 EUR 31 December 2013	Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities and commitments
Germany	1,309,014	814,460	5,630
Eastern Europe	4,112,247	3,599,014	372,415
Latin America	1,432,270	1,262,676	149,755
Africa	224,969	197,235	4,747
Consolidation	-1,257,549	-546,048	0
Total	**5,820,951**	**5,327,336**	**532,547**

in '000 EUR **31 December 2012**	**Total assets excl. taxes**	**Total liabilities excl. taxes**	**Contingent liabilities and commitments**
Germany	1,109,689	663,697	1,300
Eastern Europe	4,109,123	3,615,118	340,340
Latin America	1,372,888	1,193,840	168,750
Africa	212,250	183,042	4,676
Consolidation	-1,059,177	-399,492	0
Total	**5,744,774**	**5,256,205**	**515,066**

The group divides its operations into segments solely according to geographical regions. It carries out its business activities in the regions **Germany, Eastern Europe, Latin America** and **Africa**. The segment "Germany" comprises ProCredit Holding; ProCredit Bank AG, Frankfurt, Germany; ProCredit Capital Funding LLC, Wilmington, USA; ProCredit Capital Funding Trust, Wilmington, USA; ProCredit Academy GmbH, Fürth, Germany; and Quipu GmbH, Frankfurt, Germany. The operating income for the parent company is derived mainly within the group.

Since business activities in all countries are carried out with local customers, all items are allocated to the country in which the respective subsidiary is based. In all countries, the core business consists of lending to small and very small enterprises and the provision of other banking services.

With the exception of the relationship between the German segment and the individual 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 from 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 temporarily restricted the transfer of cash dividends, requiring a direct reinvestment in the respective subsidiary.

in '000 EUR **1.1.-31.12.2013**	**Germany**	**Eastern Europe**	**Latin America**	**Africa**	**Consoli-dation**	**Group**
Interest and similar income	26,944	404,168	178,382	37,860	-27,216	620,139
of which inter-segment	*26,431*	*770*	*11*	*4*		
Interest and similar expenses	35,761	131,819	42,798	5,237	-27,812	187,802
of which inter-segment	*9,894*	*12,918*	*4,725*	*275*		
Net interest income	**-8,816**	**272,349**	**135,584**	**32,623**	**597**	**432,336**
Allowance for impairment losses on loans and advances	233	37,345	18,589	4,799	0	60,966
of which inter-segment	*0*	*0*	*0*	*0*		
Net interest income after allowances	**-9,049**	**235,004**	**116,995**	**27,824**	**597**	**371,370**
Fee and commission income	6,813	61,520	8,088	9,667	-8,346	77,742
of which inter-segment	*6,809*	*1,532*	*5*	*0*		
Fee and commission expenses	705	15,307	3,369	3,284	-5,655	17,010
of which inter-segment	*1*	*4,285*	*562*	*807*		
Net fee and commission income	**6,108**	**46,213**	**4,719**	**6,383**	**-2,691**	**60,731**
Result from foreign exchange transactions	-1,568	12,279	1,689	982	-243	13,139
Net result from financial instruments at fair value through profit or loss	-126	186	-8	0	0	53
Net result from available-for-sale financial assets	-946	1,112	112	74	-650	1,002
of which inter-segment	*650*	*0*	*0*	*0*		
Net other operating income	104,585	-9,081	-72	720	-111,942	-15,789
of which inter-segment	*105,572*	*1,702*	*4,668*	*0*		
Operating income	**99,004**	**285,713**	**123,435**	**35,984**	**-113,630**	**430,506**
Personnel expenses	21,538	100,310	47,597	13,823	0	183,267
Administrative expenses	25,591	110,075	67,938	20,671	-38,944	185,331
of which inter-segment	*8,834*	*14,047*	*12,246*	*3,817*		
Operating expenses	**47,129**	**210,385**	**115,535**	**34,494**	**-38,944**	**368,599**
Profit before tax	**51,875**	**75,328**	**7,900**	**1,490**	**-74,686**	**61,908**
Income tax expenses	3,194	9,756	8,492	1,513	0	22,955
Profit for the year	**48,681**	**65,572**	**-592**	**-23**	**-74,686**	**38,953**
Profit attributable to equity holders of the parent company						*36,878*
Profit attributable to non-controlling interests						*2,075*

in '000 EUR **1.1.–31.12.2012**	**Germany**	**Eastern Europe**	**Latin America**	**Africa**	**Consoli-dation**	**Group**
Interest and similar income	29,864	419,759	179,166	36,980	-30,581	635,187
of which inter-segment	*29,641*	*927*	*14*	*0*		
Interest and similar expenses	39,022	138,411	42,219	5,158	-29,551	195,259
of which inter-segment	*10,367*	*14,144*	*4,762*	*279*		
Net interest income	**-9,158**	**281,348**	**136,947**	**31,821**	**-1,029**	**439,929**
Allowance for impairment losses on loans and advances	0	48,337	9,867	3,326	0	61,531
of which inter-segment	*0*	*0*	*0*	*0*		
Net interest income after allowances	**-9,158**	**233,011**	**127,079**	**28,495**	**-1,029**	**378,397**
Fee and commission income	5,565	60,505	7,416	8,743	-7,787	74,442
of which inter-segment	*5,565*	*2,221*	*1*	*0*		
Fee and commission expenses	664	15,061	3,070	3,066	-6,353	15,508
of which inter-segment	*0*	*4,881*	*759*	*712*		
Net fee and commission income	**4,901**	**45,443**	**4,346**	**5,677**	**-1,434**	**58,934**
Result from foreign exchange transactions	-1,596	12,448	1,896	1,339	-177	13,910
Net result from financial instruments at fair value through profit or loss	-697	1,573	-18	0	-1	857
Net result from available-for-sale financial assets	0	-1,396	-31	49	0	-1,378
of which inter-segment	*0*	*0*	*0*	*0*		
Net other operating income	78,834	-7,873	-6,495	299	-80,010	-15,244
of which inter-segment	*77,200*	*1,426*	*1,384*	*0*		
Operating income	**72,285**	**283,206**	**126,778**	**35,859**	**-82,652**	**435,476**
Personnel expenses	19,544	105,823	49,842	13,868	0	189,077
Administrative expenses	21,625	110,350	65,687	20,596	-30,918	187,339
of which inter-segment	*7,034*	*12,537*	*8,114*	*3,232*		
Operating expenses	**41,168**	**216,173**	**115,529**	**34,464**	**-30,918**	**376,416**
Profit before tax	**31,116**	**67,033**	**11,250**	**1,396**	**-51,734**	**59,060**
Income tax expenses	2,052	7,677	2,793	278	0	12,800
Profit for the year	**29,065**	**59,356**	**8,457**	**1,118**	**-51,734**	**46,261**
Profit attributable to equity holders of the parent company						*44,812*
Profit attributable to non-controlling interests						*1,449*

(52) Fair value of financial instruments

The following tables provide an overview of the carrying amounts and fair values of the financial assets and liabilities. The following IFRS 13 classes are according to the classes of financial instruments, defined in accordance with the business of the group (see note 7)).

in '000 EUR **31.12.2013**	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash and balances at central banks	AFV	725,007	725,007	725,007	0	0
Loans and advances to banks	LaR	339,026	338,800	0	338,800	0
Financial assets at fair value through profit or loss (Derivatives)	AFV	2,156	2,156	0	2,156	0
Financial assets at fair value through profit or loss (Designated at Fair value)	AFV	3,973	3,973	0	3,973	0
Available-for-sale financial assets (Shares)	AfS	1,855	1,855	386	1,295	174
Available-for-sale financial assets (Securities)	AfS	428,756	428,750	298,017	130,733	0
Loans and advances to customers*	LaR	4,185,071	4,002,259	0	0	4,002,259
Investment properties	n/a	3,959	4,409	0	4,004	405
Repossessed property	n/a	36,807	36,807	0	27,803	9,004
Total		**5,726,611**	**5,544,016**	**1,023,410**	**508,764**	**4,011,842**

in '000 EUR **31.12.2013**	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities						
Liabilities to banks	AC	327,326	326,508	0	99,840	226,669
Financial liabilities at fair value through profit or loss (Derivatives)	AFV	36	36	0	36	0
Liabilties to customers*	AC	3,801,895	3,788,282	0	0	3,788,282
Liabilties to international financial institutions	AC	673,076	663,868	0	223,358	440,509
Debt securities	AC	250,048	251,510	0	47,765	203,745
Subordinated debt	AC	163,473	165,980	0	74,873	91,107
Hybrid capital	AC	67,095	67,095	0	67,095	0
Total		**5,282,949**	**5,263,280**	**0**	**512,968**	**4,750,312**

in '000 EUR **31.12.2013**	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Contingent liabilities						
Guarantees and stand-by letters of credit	n/a	0	-729	0	0	-729
Credit commitments (irrevocable loan commitments)	n/a	0	-94	0	0	-94
Total		**0**	**-824**	**0**	**0**	**-824**

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

** the level estimates were adjusted in the course of the introduction of IFRS 13*

in '000 EUR 31.12.2012	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash and balances at central banks	AFV	791,541	791,541	791,541	0	0
Loans and advances to banks	LaR	335,108	337,645	0	337,645	0
Financial assets at fair value through profit or loss	AFV	16,823	16,823	12,166	4,657	0
Available-for-sale financial assets including cash equivalents	AfS	263,963	263,963	141,798	122,165	0
Loans and advances to customers	LaR	4,190,607	4,184,819	0	4,184,819	0
Investment properties	n/a	2,734	3,294	0	3,294	0
Repossessed property	n/a	31,879	31,879	0	24,080	7,799
Total		**5,632,656**	**5,629,965**	**945,506**	**4,676,660**	**7,799**

in '000 EUR 31.12.2012	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities						
Liabilities to banks	AC	343,637	346,741	0	346,741	0
Financial liabilities at fair value through profit or loss	AFV	272	272	0	272	0
Liabilties to customers	AC	3,627,194	3,614,245	0	3,614,245	0
Liabilties to international financial institutions	AC	796,432	793,367	0	793,367	0
Debt securities	AC	202,458	204,825	0	204,825	0
Subordinated debt	AC	174,391	179,772	0	179,772	0
Hybrid capital	AC	67,218	67,218	0	67,218	0
Total		**5,211,601**	**5,206,438**	**0**	**5,206,438**	**0**

in '000 EUR 31.12.2012	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Contingent liabilities						
Guarantees and stand-by letters of credit	n/a	0	-732	0	0	-732
Credit commitments (irrevocable loan commitments)	n/a	0	-37	0	0	-37
Total		**0**	**-769**	**0**	**0**	**-769**

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

The item "cash and balances at central banks" includes cash at hand and short-term balances at central banks including mandatory reserve disclosed under "cash and cash equivalents" (see note 31). The item "Available-for-sale financial assets including cash equivalents" includes the position "Available-for-sale financial assets" and short-term government bonds and other money market instruments disclosed under "Cash and cash equivalents".

The fair value of assets and liabilities was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates.

In general, financial instruments carried at fair value are recognised at quoted prices in active markets (Level 1). In some circumstances, fair value determinations are not based on quoted market prices but on inputs observable for the asset or liability, either directly or indirectly (Level 2). The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters, e.g. interest rates and exchange rates (see also notes (7) and (8)). 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 which are measured at cost.

Fair values of investment properties are established on the basis of internal calculations. Fair values of repossessed properties are established on the basis of market prices, or, if these are unavailable, then based on historical data. The fair value of repossessed properties is determined using non-recurring fair value measurements.

Level 2 debt investments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of similar quoted debt instruments.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

The fair values of contingent liabilities represent potential credit losses and are based on ProCredit Group provisioning rates for off-balance exposures.

There have been no transfers of fair value financial instruments between the input levels of the fair value hierarchy.

(53) Pledged and Transferred assets

	31.12.2013			31.12.2012		
in '000 EUR	Pledged asset	thereof transferred	Related liability	Pledged asset	thereof transferred	Related liability
Loans and advances to banks	275	0	0	5,363	3,373	7,482
Financial assets at fair value through profit or loss	792	0	0	842	0	842
Financial assets available for sale	4,984	4,984	4,377	1,780	1,780	1,561
Loans and advances to customers	162,851	0	142,365	63,415	0	61,398
Others	0	0	0	675	0	806
Total	**168,903**	**4,984**	**146,741**	**72,075**	**5,153**	**72,089**

The majority of the pledged assets item consists of assets which were pledged on a portfolio basis against funds which ProCredit banks obtained at market rates. The pledges would be exercised in case of default of interest or principal payment on the respective loans; the maturities of the pledges are the same as the maturities of the respective related liabilities. Transferred assets that are not derecognised represent repurchase agreements.

(54) Contingent liabilities and commitments

in '000 EUR	31.12.2013	31.12.2012
Guarantees and stand-by letters of credit	94,863	100,676
Documentary and commercial letters of credit	2,611	2,249
Credit commitments with immediate right of cancellation	379,023	329,668
Credit commitments (irrevocable loan commitments)	17,182	52,508
Performance bonds	36,531	26,091
Others	2,337	3,875
Contingent liabilities and commitments	**532,547**	**515,066**

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. We expect that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements.

In addition ProCredit Holding has signed a guarantee framework to secure the liabilities of ProCredit Holding subsidiaries to a third party, the European Investment Bank. The guarantee covers a maximum of EUR 175,000 thousand (2012: EUR 175,000 thousand) in obligations from loans for its subsidiaries. Of this sum, EUR 115,812 thousand (2012: EUR 101,013 thousand) had been drawn by its subsidiaries at the time these financial statements were prepared and these were reported as contingent liabilities.

(55) Grants

ProCredit Holding has arranged several grants totalling EUR 2,234 thousand, of which EUR 1,775 thousand have already been utilised. The majority of these grants are related to energy efficiency.

(56) Investments in subsidiaries

Consolidated subsidiaries included in the Consolidated Financial Statements are as follows:

	Name of institution	Address	Share capital incl. capital reserves ('000 EUR)	Retained earnings and other reserves ('000 EUR)	Profit/ loss for the year ('000 EUR)	Share in %
1	ProCredit Bank sh.a., **Albania**	Rruga Sami Frashëri, Tirana	25,698	8,916	-1,193	100.0
2	ProCredit Bank CJSC, **Armenia**	31, Moskovyan Street, Building 99, Yerevan 0002	21,261	-5,702	40	79.5
3	Banco Los Andes ProCredit S.A., **Bolivia**	Av. 16 de Julio Nº 1486 A, La Paz	38,704	15,463	9,098	100.0
4	ProCredit Bank d.d., **Bosnia and Herzegovina**	Emerika Bluma 8, 71 000 Sarajevo	26,970	-5,314	188	100.0
5	ProCredit Bank E.A.D., **Bulgaria**	131, Hristo Botev Blvd., Sofia 1233	66,136	10,357	11,084	100.0
6	ProCredit Bank S.A., **Colombia**	Av. Calle 39 N. 13 A-16, Bogotá	26,460	-6,068	-3,885	92.1
7	ProCredit Bank S.A.R.L., **DR Congo**	Av. des Aviateurs 4B, Kinshasa/Gombe	12,297	3,360	1,411	61.0
8	Banco ProCredit S.A., **Ecuador**	Av. Amazonas y Atahualpa, esquina, Quito	30,558	5,200	5,362	100.0
9	Fideicomiso Primera Titularización de Catera Comercial Pymes ProCredit, **Ecuador**	Av. Amazonas y Atahualpa, esquina, Quito	0	0	0	n/a
10	Banco ProCredit S.A., **El Salvador**	Boulevard Constitución y 1a Calle, Poniente No. 3538 (Colonia Escalón), San Salvador	16,679	2,799	261	99.9
11	ProCredit Bank JSC, **Georgia**	154 D. Agmashenebeli Ave., 0112 Tbilisi	49,679	2,103	8,852	100.0
12	ProCredit Bank AG, **Germany**	Rohmerplatz 33-37, 60486 Frankfurt am Main	37,500	0	0	100.0
13	ProCredit Academy GmbH, **Germany**	Hammelbacher Str. 2, 64658 Fürth/Weschnitz	500	108	0	100.0
14	Quipu GmbH, **Germany**	Grosse Seestrasse 43, 60486 Frankfurt am Main	1,000	6,046	112	100.0
15	ProCredit Savings and Loans Company Ltd, **Ghana**	Property No. B28A, Airport City P.O. Box NT 328, New Town, Accra	9,074	50	-1,049	95.8
16	Banco ProCredit S.A., **Honduras**	Colonia Florencia, Blvd. Suyapa 3730, Edificio ProCredit, Tegucigalpa M.D.C.	26,939	-15,169	-1,290	86.5
17	ProCredit Bank JSC, **Kosovo**	"Mother Tereze" Boulevard No. 16, 10 000 Prishtina	61,061	19,111	16,078	100.0
18	ProCredit Bank A.D., **Macedonia**	Bul. Jane Sandanski 109a, 1000 Skopje	13,000	9,864	2,843	87.5
19	ProCredit Regional Academy Eastern Europe, **Macedonia**	ul. Dimitar Nevec bb - Ezero Mladost, 1400 Veles	1,202	614	367	100.0
20	ProConfianza S.A. de C.V., SOFOM, E.N.R., **Mexico**	Av. Niños Héroes No. 1816, Col. Moderna Guadalajara, Jalisco	25,938	-11,665	-9,836	90.8
21	ProCredit Bank S.A., **Moldova**	65, Stefan cel Mare Ave., Office 901, Chisinau	25,099	-5,939	1,260	82.1
22	Banco ProCredit S.A., **Mozambique**	Av. Zedequias Manganhela No 267, Jat IV, 6th floor right, Maputo	5,932	-680	-385	89.4
23	ProCredit Company B.V., **The Netherlands**	Fred. Roeskestraat 123, 1076 EE Amsterdam	0	0	0	n/a
24	ProCredit Finance II B.V., **The Netherlands**	Fred. Roeskestraat 123, 1076 EE Amsterdam	18	0	0	n/a
25	Banco ProCredit S.A., **Nicaragua**	Rotonda Güegüense, 75 vrs. al sur, Managua	29,315	-13,941	-526	94.7
26	ProCredit Bank S.A., **Romania**	62-64 Buzesti Strada, Sector 1, 011017 Bucharest	40,784	-13,040	2,017	100.0
27	ProCredit Bank A.D., **Serbia**	Milutina Milankovica 17, Belgrade	80,786	-4,195	20,092	100.0
28	ProCredit Bank JSC, **Ukraine**	107a Peremogy Ave., Kyiv 03115	35,199	-11,924	3,897	45.7
29	ProCredit Capital Funding LLC, **USA**	c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200 Wilmington, Delaware 19805	2	0	0	100.0
30	"ProCredit Capital Funding Trust, **USA**	c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200 Wilmington, Delaware 19805	1	0	0	100.0

This table is prepared according to § 313 II No 1-3 HGB.

In 2013, "Fideicomiso primera titularizacion de cartera commercial pymes ProCredit", Quito, Ecuador was established and ProCredit S.A., Moldova was dissolved (see also note 3)).

(57) Related party transactions

The group's related parties include the parent company (ProCredit Holding), fellow subsidiaries, key management personnel (also from ProCredit General Partner AG), 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.

(a) Transactions between ProCredit Holding and its subsidiaries

Net income of the holding company from transactions with its subsidiaries

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012
Income	32,285	34,621
Expenses	5,408	6,094
Net income	**26,877**	**28,528**

Outstanding balances of the holding company with its subsidiaries

in '000 EUR	31.12.2013	31.12.2012
Assets		
Loans and advances to banks	236,693	221,097
Other Assets	2,687	3,985
Liabilities		
Financial liabilities at fair value through profit or loss	0	15
Subordinated loans	67,095	67,218
Other liabilities	4,856	2,897
Off-balance sheet positions		
Credit lines	126,981	127,260

(b) Transactions with key management personnel, their close family members and entities which are controlled by them

Net income derived from transactions with key management personnel, their close family members and entities which are controlled by them

in '000 EUR	1.1.–31.12.2013	1.1.–31.12.2012*
Income	132	155
Expenses	2,075	2,959
Net income	**–1,943**	**–2,804**

** 2012 figures have been adjusted to include also income and expenses with IPC GmbH*

Outstanding balances of the group to key management personnel, their close family members and entities which are controlled by them

in '000 EUR	31.12.2013	31.12.2012*
Assets		
Other assets	1,697	1,590
Liabilities		
Liabilities to customers	726	506
Other liabilities	-109	98

** 2012 figures have been adjusted to include also assets and liabilities with IPC GmbH*

The position "Other assets" consists mainly of loans to members of the Management Board. There have been no significant additions or repayments to these assets. The interest rate is based on the effective interest rate that banks charge on new business to households, as published by the German Bundesbank. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

(58) 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.–31.12.2013	1.1.–31.12.2012
Short-term benefits	428	415
Post employment benefits	93	76
Total	**521**	**491**

The members of the Supervisory Board do not receive any compensation from ProCredit Holding.

(59) Number of employees

	2013		2012	
	Average	At year end	Average	At year end
in Germany	392	392	308	314
in Eastern Europe	7,390	6,772	9,143	8,742
in Latin America	3,574	3,228	4,478	4,292
in Africa	1,186	1,122	1,364	1,327
Total	**12,542**	**11,514**	**15,293**	**14,675**

(60) Events after the reporting period

In the first quarter of 2014, ProCredit Holding and Ecobank Transnational Incorporated (ETI) entered into discussions with a view to ETI acquiring a majority stake in Banco ProCredit Mozambique. ETI has formally expressed an interest in purchasing Banco ProCredit Mozambique by acquiring the shares currently held by ProCredit Holding representing 89.4% of Banco ProCredit's total capital.

Address and general information

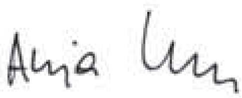
ProCredit Holding AG & Co. KGaA is a partnership limited by shares and is incorporated and domiciled in Germany. The postal address of its registered office is as follows:
Rohmerplatz 33-37, 60486 Frankfurt, Germany.

Frankfurt, 17 March 2014

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

Board of Management






Helen Alexander | Dr Gabriel Schor | Dr Anja Lepp | Borislav Kostadinov

Glossary

A

➜ Allowance for impairment losses on loans and advances to customers:
Loan loss provisions set aside in order to absorb current losses from non-repayment of loans. Provisioning is calculated on the basis of a classification of the loan portfolio into three categories: 1) Specific impairment, 2) Allowance for individually insignificant impaired loans and 3) Allowance for collectively assessed loans (provisions for all unimpaired loans).

C

➜ Capital adequacy ratio:
Calculated as the ratio of a bank's equity components (➜ Tier 1 and ➜ Tier 2) to its risk-weighted assets. This ratio is used as a measurement of a bank's capital position with respect to its exposures to credit risk and operational risk. National regulators track a bank's capital adequacy ratio to ensure that its capital cover remains above the minimum required to absorb a reasonable amount of loss.

➜ Cash flow:
Inflows and outflows of cash and cash equivalents generated by ProCredit's operations in a given period.

➜ Cost/income ratio:
Measure of cost efficiency which sets operating expenses in relation to operating income before provisioning.

D

➜ Default risk:
The possibility that counterparties in a financial transaction will not be able to repay principal and interest on a timely basis or comply with other conditions of an obligation or an agreement, causing a financial loss to the creditor.

E

➜ Effective interest method:
A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is defined as the rate that exactly discounts the expected stream of future cash flows through the expected life of the financial instrument to the current net carrying amount of the financial asset or liability.

➜ Economic value impact:
The economic value impact is the change in present value of the bank's future cash flows which would result in the case of an interest rate shock. It aims to quantify how sensitive the bank is towards changes in interest rates, with a long-term perspective. The size of the economic value impact depends on the size and maturity of the re-pricing gaps.

F

➜ Fair value:
Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

G

➜ Goodwill:
Goodwill within the ProCredit group generally 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.

I

➜ Impairment of non-financial assets:
Non-financial assets not carried at fair value are tested annually for impairment, and additionally if there are any indications that impairment may have occurred.

➜ Interest rate risk:
The risk that movements in market interest rates will adversely affect the bank's interest earnings and capital. The movements may generally result in changes in the fair value of already contracted interest rate-sensitive assets and liabilities of the bank, and in changes in the bank's net interest margin, affecting the bank's future interest earnings. Interest rate risk is managed using maturity gap and duration analysis.

➜ Interest margin:
The difference between the interest income over average interest-earning assets minus interest expenses over average financial liabilities.

➜ International Financial Reporting Standards (IFRS):
Accounting standards published by the International Accounting Standards Board (IASB). The IFRS as applied in the financial statements are endorsed by the European Union.

L

➜ Liquidity risk:
Liquidity risk is the risk that a bank within the ProCredit group will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in times of stress.

M

➜ Market risk:
The risk that the value of an investment will decrease due to moves in diverse market factors. The ProCredit group defines market risk as interest rate risk and currency risk.

O

➜ Open currency position:
Difference, expressed in euros, between all assets held and all liabilities incurred in a foreign (non-euro) currency.

➜ Operational risk:
Operational risk comprises process risks (e.g. risk of internal fraud or money laundering) or compliance risks. The ProCredit group seeks to control operational risk by consistent application of the dual control principle and "know-your-customer" policies. Operational risk also refers to IT security issues and business continuity plans, including staff turnover impact.

P

➜ Portfolio at risk (PAR):
The portion of the loan portfolio for which payments (typically instalments composed of principal repayment and interest payment) have not been fully made on time and continue to be delayed for a period of more than 30 days. Even if only a fraction of one instalment is overdue ("in arrears"), the full amount of principal still outstanding under this loan contract, as well as all other loans disbursed to this customer, are considered to be "at risk".

R

➜ Return on equity (ROE):
Return on the average equity attributable to the shareholders of ProCredit excluding non-controlling interests. This is calculated by setting net income (profit), attributable to the equity holders of the parent company, in relation to the average balance sheet equity, defined as the average of equity at the beginning and at the end of the period.

S

➜ Securitisation:
An off-balance sheet refinancing technique which consists of selecting assets (such as loans, mortgages) based on the quality of their collateral or level of risk, converting those assets into negotiable securities and redistributing them to investors.

➜ Special purpose vehicle (SPV):
The SPV is a separate legal entity specifically created to handle a venture on behalf of a company.

T

➜ Tier 1 (core capital):
Tier 1 includes ordinary share capital, capital reserve, legal reserve, retained earnings, non-controlling interests and hybrid capital, less goodwill and other intangibles.

➜ Tier 2 (supplementary capital):
Tier 2 includes subordinated loans and other inherent loss allowance.

V

➜ Value-at-risk (VaR):
Value-at-risk is a method of quantifying risk. The VaR expresses the maximum expected loss, i.e. the level of loss that will not be exceeded with a probability defined as the confidence level within a given time period. For instance: a portfolio's market value today is known, but its value tomorrow is not. A 1-day VaR of EUR 1 million at a confidence level of 95% means that with a likelihood of 95% the value of the portfolio will not decrease by more than EUR 1 million during 1 day.

Y

➜ Yield curve:
A graph depicting the relationship between interest rates (cost of borrowing) and time to maturity of a debt for a given risk category in a given currency.

Name of Institution		Head Office Address
Africa		
ProCredit Bank Democratic Republic of Congo	Founded in 2004	4b Avenue des Aviateurs Gombe, Kinshasa Tel.: +243 81 830 25 00 Fax: +49 69 255 770 42 mail@procreditbank.cd www.procreditbank.cd
ProCredit Savings and Loans Company Ghana	Founded in July 2002	Plot No. B28A, Airport City Airport Residential Area, Airport Opposite Silver Star Tower P.O. Box NT 328, New Town, Accra Tel.: +233 302 775 830/46 Fax: +233 302 775 809 info@procredit.com.gh www.procredit.com.gh
Banco ProCredit Mozambique[1]	Founded in December 2000	10 Av. Vladimir Lenine Maputo Tel.: +258 21 313 344 Fax: +258 21 313 345 info@bancoprocredit.co.mz www.bancoprocredit.co.mz
Eastern Europe		
ProCredit Bank Albania	Founded in October 1998	Legal address: Rr. "DritanHoxha". Nd. 92, H.15, Njësia Bashkiake Nr. 11 P.O. Box 1026, Tirana Tel./Fax: +355 4 23 89 300 / 22 33 918 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Armenia	Founded in December 2007	105/1 Teryan St., area 11 0009 Yerevan Tel./Fax: + 374 11 20 20 20 / 21 info@procreditbank.am www.procreditbank.am
ProCredit Bank Bosnia and Herzegovina	Founded in October 1997	Franca Lehara bb 71000 Sarajevo Tel./Fax: +387 33 250 950 / 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001	26 Todor Aleksandrov Blvd. 1303 Sofia Tel./Fax: +359 2 813 5100 / 5110 contact@procreditbank.bg www.procreditbank.bg
ProCredit Bank Georgia	Founded in May 1999	21 Al. Kazbegi Ave. 0160 Tbilisi Tel./Fax: +995 32 2202222 / 2202223 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank Kosovo	Founded in January 2000	"Mother Tereze" Boulevard, No 16 10000 Prishtina Tel./Fax: +381 38 555 777 / 248 777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003	109a Jane Sandanski Blvd. 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
ProCredit Bank Moldova	Founded in December 2007	65 Stefan cel Mare Ave. office 901, Chisinau, MD-2001 Tel.: +373 22 836555 office@procreditbank.md www.procreditbank.md

[1] Note: The decision to exit Mozambique was taken in early 2014. The transaction is in the process of being completed. At end-2013 the bank was still part of the ProCredit group.

Name of Institution		Head Office Address
ProCredit Bank Romania	Founded in May 2002	62-64 Buzesti St., Sector 1 011017 Bucharest Tel./Fax: +40 21 201 6000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001	17 Milutina Milankovica 11070 Belgrade Tel./Fax: +381 11 20 77 906 / 905 info@procreditbank.rs www.procreditbank.rs
ProCredit Bank Ukraine	Founded in January 2001	107a Peremohy Ave. 03115 Kyiv Tel./Fax: +380 44 590 10 00 / 01 info@procreditbank.com.ua www.procreditbank.com.ua

Latin America

Banco Los Andes ProCredit Bolivia	Founded in July 1995	Av. Cristo Redentor N° 3730 Entre 4to. y 5to. anillo Santa Cruz Tel./Fax: +591 3 341 2901 / 2718 contactanos@losandesprocredit.com.bo www.losandesprocredit.com.bo
Banco ProCredit Colombia	Founded in December 2006	Av. Calle 39 N° 13 A-16 Bogotá Tel./Fax: +57 1 5954040 / 2857139 servicioalcliente@bancoprocredit.com.co www.bancoprocredit.com.co
Banco ProCredit Ecuador	Founded in October 2001	Av. Atahualpa y Amazonas, esquina Quito Tel./Fax: +593 2 600 38 20 / 19 servicioalcliente@bancoprocredit.com.ec www.bancoprocredit.com.ec
Banco ProCredit El Salvador	Founded in March 1995	Boulevard Constitución y 1a. Calle Poniente N° 3538, Col. Escalón, San Salvador Tel.: +503 2223-7676 info@bancoprocredit.com.sv www.bancoprocredit.com.sv
Banco ProCredit Honduras	Founded in June 2007	Colonia Florencia, Blvd. Suyapa 3730, Edificio ProCredit, Tegucigalpa M.D.C. Tel./Fax: +504 2290 10 10 / 2239 58 28 info@procredit.com.hn www.procredit.com.hn
ProCredit Mexico	Founded in November 2006	Av. Niños Héroes 1816, Col. Moderna C.P. 44190 Guadalajara, Jalisco Tel./Fax: +52 33 3040 2000 / ext. 10099 procredit@procredit.com.mx www.procredit.com.mx
Banco ProCredit Nicaragua	Founded in August 2000	Edificio BancoProCredit Avenida Jean Paul Genie Managua Tel./Fax: +505 2255 76 76 / 76 70 procredit@procredit.com.ni www.procredit.com.ni

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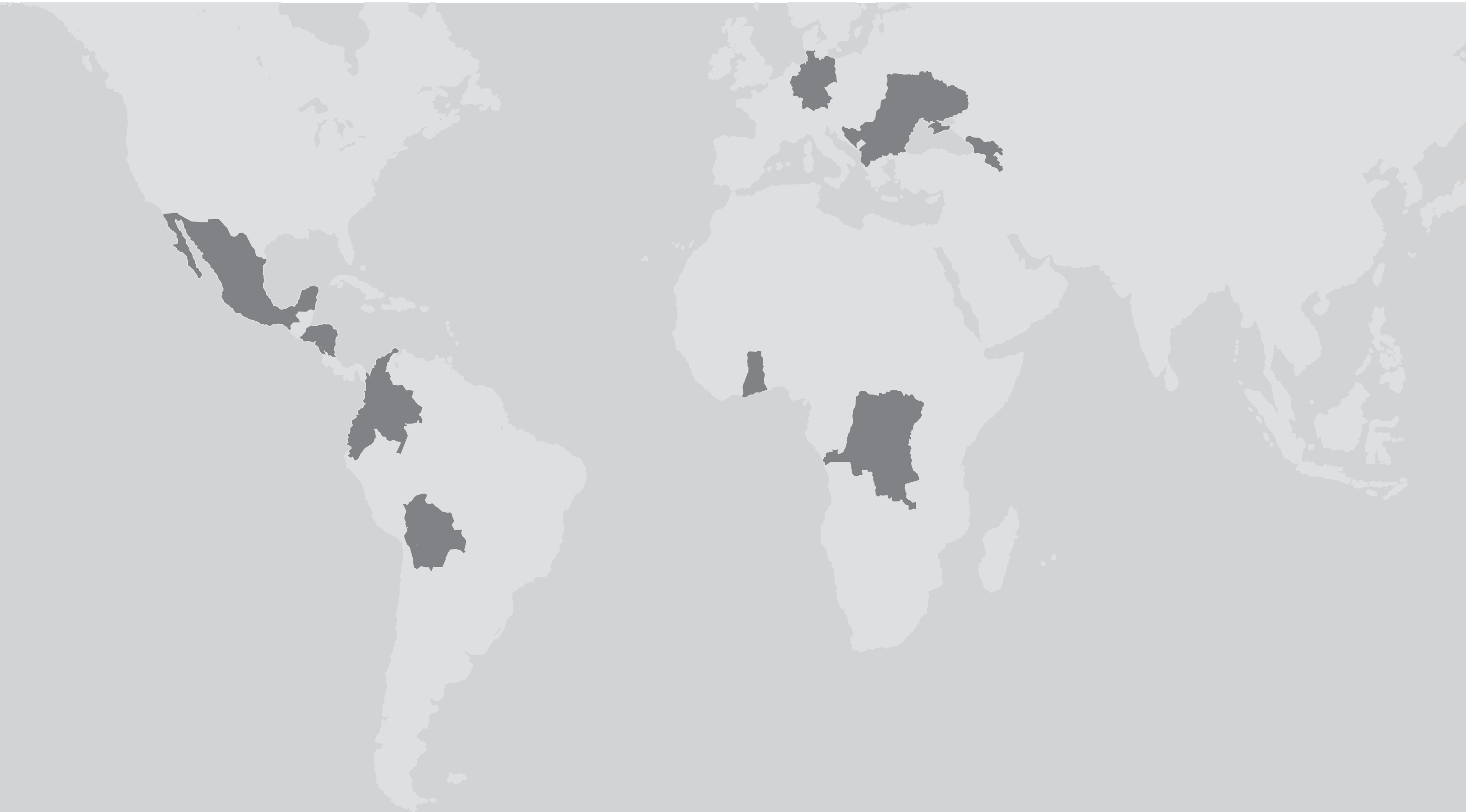

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