ProCredit
HOLDING

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

ProCredit Holding AG & Co. KGaA

Combined Management Report

The Combined Management Report presents the course of business and the present situation of the ProCredit group and ProCredit Holding AG & Co. KGaA for the 2016 financial year. It was prepared in accordance with sections 289 and 315 of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Accounting Standard 20 (Deutscher Rechnungslegungsstandard 20 – DRS 20). The Risk Report also contains the notes pursuant to IFRS 7.

The Combined Management Report is divided into the following sections:

- **Fundamental Information about the Group** describes the key aspects of the business model and the objectives of the group
    - Our Strategy
    - Organisation of the ProCredit group
    - Our shareholders
    - Internal management system
- **Human Resources Report** describes the approach to recruitment, training and remuneration.
- **Report on the Economic Position of the Group** provides an overview of the business and financial results and covers the following subjects:
    - Macroeconomic and sector-specific environment
    - Course of business operations
    - Financial development, with a description of the group's financial position and financial performance
- In the **Report on Expected Developments**, we also assess and describe the projected development of business in the ProCredit group, including all significant opportunities and risks.
- **Risk Report** provides an overview of the group's risk profile and describes risk-mitigating measures.
- The **Remuneration Report** presents information concerning the remuneration for the Management and for the Supervisory Board.
- The **Corporate Governance Statement** (section 289a HGB) includes the Corporate Governance Report (3.10 German Corporate Governance Code - GCGC), the Statement of Compliance with GCGC (section 161 AktG) and the disclosures pursuant to section 315 (4) HGB.

Fundamental Information about the Group

Our Strategy

The ProCredit group is made up of banks that have specialised in small and medium-sized enterprises (SMEs) in transition economies. Our business model consists of the core activities of traditional banking business. We are active in South Eastern Europe, Eastern Europe, South America and Germany. The superordinated company of the group is ProCredit Holding AG & Co. KGaA, based in Frankfurt am Main, hereinafter referred to as ProCredit Holding.

Our strategy and our operational business are guided by the objective of making a sustainable contribution to economic, social and environmental development in countries where we operate. We focus on transition economies where we can make a significant contribution to economic development, and we work with SMEs, as they form the backbone of economic and social development. ProCredit's business strategy is based on long-term relationships with our clients and staff. Our risk strategy is conservative and expands upon our simple, transparent and sustainable business strategy. The group does not engage in speculative lines of business. With our business policies focused on sustainability, we aim to achieve stable profitability even in times of economic volatility.

The goal of the ProCredit group is to take a leading position as the *"Hausbank"* for small and medium-sized businesses in each country where we operate. Through our collaboration with SMEs, we aim to contribute to creating jobs, enhancing capacity for innovation and raising ecological and social awareness. In this regard, we concentrate on enterprises with sufficiently stable, formalised structures, and attach particular importance to supporting local production, especially in agriculture.

We focus on clients who value ProCredit as a partner that understands the needs of SMEs and the unique challenges they face. In recent years, the ProCredit group has moved away from lending to "very small" businesses (typically, exposures below EUR 30,000) in order to focus even more on sufficiently established businesses with stable, formalised structures. From development, risk and efficiency perspectives, we value clients with a solid business model. We take this approach because of the strong significance that the enterprise sector has for the development and modernisation of economies.

Our special corporate culture and our clear business model put us in a position to react in a timely and comprehensive manner to the changes in our markets. This allows us to claim a leading role in terms of efficiency and quality of banking services for SMEs. One of the key competitive advantages of the ProCredit banks is our competent and loyal staff. The high-quality, individual advice provided by our client advisers is the foundation for successfully establishing and maintaining long-term business relationships with our customers. Our business client advisers make regular visits to customers in order to analyse the clients' business situation and risk profile and to support them with comprehensive advice.

We aim to further expand our business with innovative and sustainable SMEs. In line with our "Hausbank" concept, this implies more extensive lending and deposit activities as well as commission and brokerage services. We plan to strengthen our payment business with business clients through our modern e-Banking platform. Furthermore, we have placed an emphasis on growing our trade finance business and international payments, supported by the ProCredit Bank in Germany and the centralised settlement function it provides.

With regard to private clients, the ProCredit group concentrates on the stable deposits from private individuals connected to our SME customers, e.g. owners and their families. In addition, the ProCredit banks provide other private, middle-class clients with user-friendly online banking services that they can use to perform all of their banking business.

Lending to private clients is limited, and comprises mainly housing loans and financing for investments to improve energy efficiency in homes. Consumer lending is not a line of business which we actively pursue.

We offer our clients a modern network of outlets as well as e-Banking and payment services featuring the newest technological standards. The majority of ProCredit bank branches are equipped with modern 24-hour Self-Service Areas which very positively stand out from the competition in terms of equipment and functionality. This allows all transactions to be performed in a secure and efficient manner. Almost all of the cash transactions previously performed by cashiers in our outlets are now carried out via automated cash terminals. Quipu, the group's software provider, continues to develop the user-friendliness and security of our functionalities. The ongoing enhancements to our customer-relationship-management tool serve to strengthen the quality of the service we provide to customers.

The strategic focus in the ProCredit group on SMEs (i.e. away from very small businesses) was accompanied by our successful modernisation measures throughout our branch network, a substantial reduction in the number of staff and a significant increase in the automation and optimisation of internal processes. This led in turn to a decrease in administrative and personnel expenses and provides a solid and efficient foundation for us to increase the level of business volume per staff member. These measures will likewise result in an improved cost-income ratio.

With regard to *regional segments*, we plan to build further on our strengths in our current markets. We are already very well positioned in these markets and are convinced that we enjoy an excellent reputation in terms of quality and transparency. We have thus identified good development potential through a combination of profitable growth by acquiring new clients and intensifying our existing business relationships. In 2017, the group will conclude its withdrawal from the markets in Central America (El Salvador and Nicaragua).

The group's risk strategy is closely linked to the business strategy. Our conservative risk profile is based on a clearly defined business model, a high degree of diversification and the careful selection and ongoing training of our staff. Credit risk is the most significant risk facing the ProCredit group. We place a strong emphasis on high portfolio quality, which is supported by our strict management of credit risk. Our high portfolio quality stands out among the competition. Our capital management ensures that we comply with regulatory requirements at all times, with a planned annual dividend distribution amounting to one third of the consolidated profit from the previous year.

As a banking group with an ethically based corporate mission, we attach great importance to ensuring that our institutions are not used as a vehicle for money laundering, terrorist financing or other illegal activities, and we forcefully combat fraud risks in the ProCredit banks. To ensure compliance with our standards, a uniform set of rules is applied at all banks which is sometimes even stricter than the German, European and local regulations. Moreover, our employees are instructed to counteract the risks of money laundering and fraud even before they occur, through the establishment of long-term client relationships and a culture of open and transparent communication.

The ProCredit group has a Code of Conduct which is binding for all staff members. It is based upon the fundamental principles of human dignity and emphasises the commitment to mutual respect and responsible behaviour. The Code of Conduct aims to serve the staff as an ethical compass for their behaviour and their decisions. The Code of Conduct also contains an Exclusion List specifying business activities that are harmful from a social, moral or ecological standpoint or that are not in compliance with standard health and safety regulations, and must therefore not be financed by the ProCredit banks.

The *Principles and Values* in our Code of Conduct:

- Personal integrity and tolerance
- High professional standards
- Social responsibility and commitment
- Open communication
- Transparency

The Code of Conduct is closely linked to the daily life of our staff and influences their dealings with clients, colleagues and public authorities. It does not include a set of rules with instructions for how to behave in every possible situation. Instead, it presents the principles upon staff behaviour should be based on a case-by-case basis. The Code of Conduct is discussed intensively with our staff.

The ProCredit group applies an extremely careful staff selection procedure and runs a structured, group-wide training programme in its own training centres. This ensures that our staff members meet the high standards we expect of them, expectations which go far beyond mere professional skills, and assures compliance with our ethical standards. Our local and inter-regional trainings cover not only business management and financial subjects, but also historical, philosophical, ethical and socio-political topics. We offer our staff long-term career prospects based on a transparent, standardised group-wide salary and promotion structure. Bonuses are not a key aspect of the remuneration and motivation of our staff. Instead, regular feedback talks and performance assessments are decisive, as is participation in our multi-level continuing professional development programmes.

Ecological and social sustainability has a special role in ProCredit's vision. In this context, environmental protection plays an especially prominent part. The ProCredit group has developed a comprehensive environmental management system. This consists of internal measures aimed at reducing the negative impact of our banks on the environment, such as reducing consumption of energy and materials, and minimising waste production. In addition, we conduct an analysis of the environmental impact of our clients' business activities, with a view to identifying potential environmental damage, socially unacceptable working conditions and noise pollution. Furthermore, we encourage our clients to invest in energy efficiency, renewable energy and the implementation of other environmentally sound solutions. The ProCredit group intends to grow further in the area of green finance.

Organisation of the ProCredit group

ProCredit Holding is the parent company and, from a regulatory perspective, the "superordinated company" of the group. It is responsible for the strategic guidance of the group, for maintaining an adequate level of equity for the group and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations, and particularly the requirements defined in section 25a of the German Banking Act ("KWG"), are met. At a consolidated level the ProCredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank).

The Management[1], members of the Supervisory Board and selected management-level staff of ProCredit Holding are members of the supervisory boards of the ProCredit banks, and are thus involved in all strategic business decisions. ProCredit Holding sets binding policy guidelines and standards for risk management and other material areas of banking operations in order to ensure that appropriate organisational structures and processes are in place in the ProCredit banks. These guidelines and standards are supplemented by the exchange and dissemination of best practices at seminars that ProCredit Holding holds on a regular basis. ProCredit Holding also plays an important role in determining the group's human resources policies and in the development and delivery of curricula in the ProCredit academies.

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

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

The ProCredit group divides its business operations into regional segments. The banks are split into the following four regions:[2]

- *South Eastern Europe*, accounting for 50.0% of the group's total assets, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, Macedonia, Romania and Serbia

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

[2] Assets from discontinued business operations account for 6.5% of the group's assets.

- *Eastern Europe*, accounting for 15.3% of the group's total assets, with three banks located the following countries: Georgia, Moldova and Ukraine

- *South America*, accounting for 6.8% of the group's total assets, consisting of two banks in: Ecuador and Colombia[3]

- *Germany*, accounting for 21.5% of the group's total assets, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

In 2016, ProCredit Holding sold Pro Confianza Mexico and Banco PyME Los Andes ProCredit Bolivia.

[3]The South America segment also includes the institution "Administración y Recuperación de Cartera Michoacán S. A" (ARDEC) in Mexico, which is not assigned to a separate segment due to its negligible share (0.2%) of the group's assets.

Our shareholders

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

ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, a small independent company owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN, IFC and ProCredit Staff Invest GmbH & Co. KG). The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

The following shareholders held more than 10% of the shares in ProCredit Holding as of 31 December 2016, thus representing the main shareholders: The largest single shareholder is Zeitinger Invest GmbH (originally, IPC GmbH), which holds 18.4% of the shares. Zeitinger Invest was a key initiator behind the founding of the ProCredit group and continues to have a significant influence on its development. KfW (13.6%), acting on behalf of the German Federal Government and other entities, finances investments and accompanying advisory services in developing countries and emerging economies with the aim of creating sustainable, integrative financial systems. The Dutch DOEN Foundation holds 13.3% of the shares via its wholly owned subsidiary, DOEN Participaties. This entity is financed by the Dutch Postcode, BankGiro and Vrienden lotteries, which aim to promote an ecological, socially integrative and creative society. IFC, the International Finance Corporation (10.3%) is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector.

The ProCredit Holding shares were admitted to trading on the Prime Standard regulated market of the Frankfurt Stock Exchange in December 2016.

Management system

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

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

We use an integrated system of indicators to monitor and manage the implementation and further development of the group's business and risk strategy. In addition to selected operational and financial indicators, we apply the following key performance indicators:

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

Human Resources Report

We have established development-oriented, profitable financial institutions on the basis of our ethical principles. The key to the success of the ProCredit group is our staff. We rely on a pro-active and professional culture in the group. The implementation of our strategy requires staff who establish long-term relationships with customers and provide them with efficient service in a friendly manner. We provide our staff with long-term prospects and opportunities for further professional development.

The management teams in the individual ProCredit banks are the cornerstone of our sustainable approach to staff. Our management staff have been with ProCredit for more than 12 years on average and have, as a rule, graduated from the ProCredit Academy. They have thus been well integrated into the group and have developed a comprehensive understanding of our business model.

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

Staff recruitment and integration of new employees

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

The ProCredit recruitment process is rigorous compared to the norm in the countries in which we work, where sometimes personal connections count more than competence. After passing through the steps of a standard selection procedure, such as a written application, mathematics and logic tests and interviews, successful candidates are invited to attend a two-week "Focus Session". These sessions give us an impression of the social, communication and analytical skills of the applicant. Candidates also have the opportunity to get to know the ProCredit group as an institution and employer.

At the end of this selection process, fewer than 5% of all applicants are invited to participate in our six-month ProCredit Entry Programme. This training stage covers all aspects that we believe are a part of responsible banking. We expect that participants want to make a contribution to ProCredit and to the development of a transparent and sustainable financial sector. The ProCredit Entry Programme helps candidates to make the career decisions that are right for them and allows ProCredit to identify potential members of staff at the same time.

Training

The ProCredit Entry Programme is the first step in professional development within the ProCredit group. We also offer part-time continuing professional development to all staff.

The necessary knowledge and skills are further supported through standardised seminars for specific positions. For our Business Client Advisers (BCAs), for instance, we focus on developing client advisory competence, which means correctly evaluating the needs of our clients for banking services, assessing credit risk and building long-term customer relationships. For staff in our Service Points, training is concentrated on client advisory support, particularly with regard to automated transaction channels and deposit services. Regular, group-wide seminars are held in each area to ensure the transfer and exchange of the proven procedures, current developments and strategic vision.

We also place great importance on training our middle management. In order to ensure high-quality training, the group has developed training programmes with tailored curricula. These include the one-year ProCredit Banker Academy as well as the three-year ProCredit Management Academy. Alongside training on the principles of banking and courses on communication and leadership skills, there are units dedicated to philosophy, anthropology, history and political economics. To date, the number of employees who have graduated from or are currently attending the academies is 600, which comprises almost all management staff in the group.

Because English is the group's working language and we expect a good level of English from all our staff, we offer support in the form of six-week courses in our academies. We likewise hold regular ethics courses covering the philosophical and ethical principles which have developed since the Antiquity. Participants then correlate these principles with our specific approach to banking. We also conduct yearly staff workshops concerning our Code of Conduct.

Our remuneration approach

We place great value on a transparent salary structure with fixed salaries and consciously refrain from the practice of giving bonuses as a means of incentivising our staff. We believe that such bonus payments can have a negative impact on the quality of advice provided to our clients and can even result in a degradation of relationships between colleagues. The salaries paid to our staff reflect market averages. Our remuneration approach has been established with a long-term perspective, which helps our staff to securely plan their lives. In contrast, the remuneration of our senior managers is not always comparable with our competitors, particularly when considering bonus payments.

The ProCredit group has a standardised salary system in which group-wide rules are established, including salary levels for certain positions, the maximum allowed ratio between the lowest and highest salary steps, and the training requirements for each position. Variable remuneration elements can be provided when members of staff have demonstrated extraordinary performance during the year or have made a significant contribution to their team or the institution. In individual cases, an institution may provide non-monetary remuneration elements, such as visits to other ProCredit banks or participation in additional training. The management boards of the ProCredit banks report annually to their respective supervisory board about the remuneration structure.

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

Report on the Economic Position of the Group

<u>Course of business operations</u>

During the previous financial year, the focus continued to be on small and medium business clients. In the core loan segment, with amounts above EUR 30,000, strong growth of 13% was recorded for the period.

As the “Hausbank” for SMEs, we offer a full range of relevant banking services for our business clients. In 2016 we were able to intensify our customer relationships, particularly with SMEs, which helped us to achieve growth in deposit volumes and an increase in payment transactions by businesses.

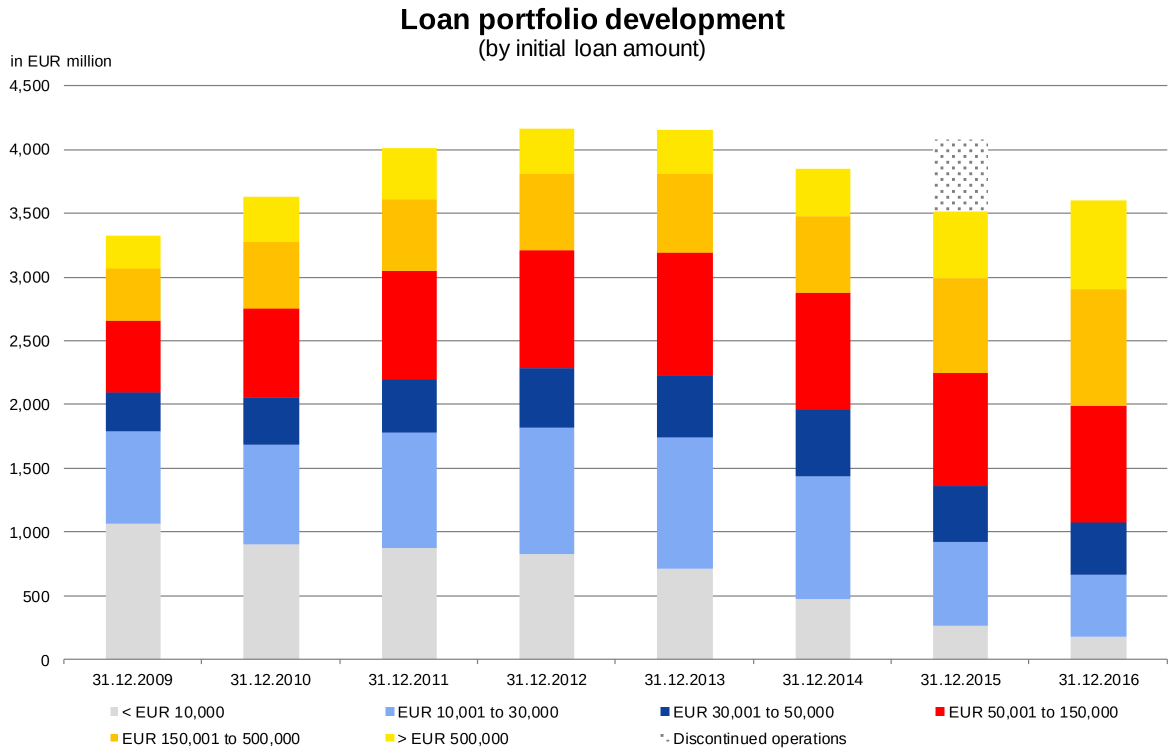
Our measures to modernise and optimise our network of outlets and implement modern self-service areas had largely been completed by the end of 2016. The banking services which do not involve advisory support from our staff are provided almost exclusively through our online banking platform and self-service areas. This allows our clients to carry out their cash and payment transactions around the clock, without having to wait. At the same time, this allows our employees to place greater focus on the services that are more advice-intensive.

In 2016, ProCredit Holding sold its shares in Pro Confianza Mexico and in Banco PyME Los Andes ProCredit Bolivia. The equity investments in the institutions in El Salvador and Nicaragua have been reported as discontinued business operations.

Lending

The ProCredit group’s gross loan volume stood at EUR 3.6 billion at the end of 2016. This means that we achieved growth of 2.4% during the year, adjusted for the effects from the sale of the institutions in Bolivia and Mexico.

The group’s constant focus on the core segment of loans above EUR 30,000 led in turn to an active reduction of the portfolio of loans with amounts below that threshold. The volume of such smaller loans decreased by 28% or EUR 256 million during the period. Overall, portfolio growth remained below expectations, due to both the sale of the institution in Bolivia and the reduction in the portfolio of loans smaller than the core segment. The group was able to fulfil its expectations in the core segment of loans, ending the year with growth of 13% or EUR 336 million.



Loan portfolio development, by loan volume

The focus of the ProCredit group is on business clients. Overall, 90.9% of the total loan portfolio comprised business loans, of which 18.4% were provided to agricultural enterprises. Loans to private clients account for 9.1% of the total portfolio, and most of these are mortgage loans to purchase or renovate real estate or to improve its energy efficiency. Consumer loans made up only 1.9% of the total portfolio and are not, as a rule, actively pursued as a line of business.

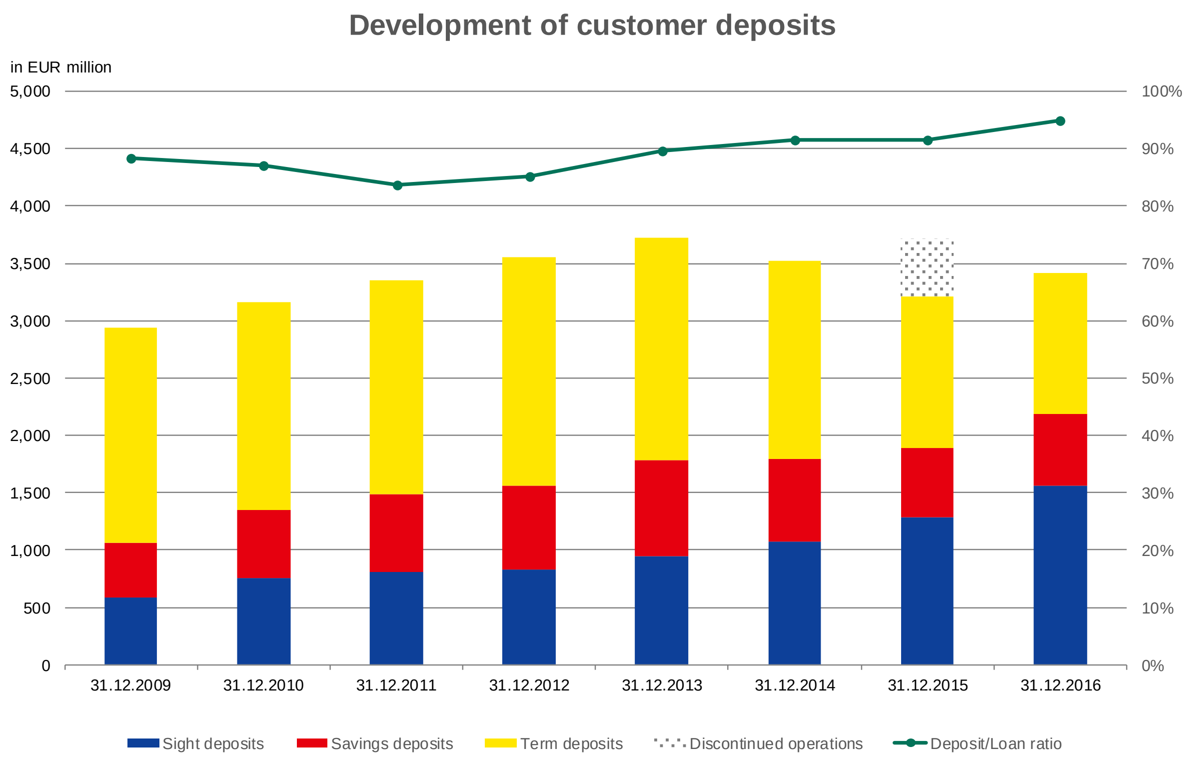
As in previous years, the loan portfolio of the ProCredit group remained highly diversified in 2016 as well. The largest ten exposures represented 1.7% of the group's total portfolio volume at the end of 2016.

The ProCredit group co-operates closely with European institutions such as EIB and EIF. Of particular note for 2016 is the agreement with EIF for the InnovFin guarantee programme, which facilitates lending to innovative SMEs and small MidCaps in Southeastern and Eastern Europe through the provision of guarantees.

Deposits and other banking services

Customer deposits in sight deposit accounts, savings accounts and term deposits are the most important source of funding for our loan portfolio. In 2016 we were able to increase the level of funding from customer deposits. At the end of 2016, the ratio of customer deposits to loan portfolio stood at 95.8%, up from 92.4% in 2015.

Overall, the volume of customer deposits at the end of 2016 stood at EUR 3.5 billion, which, after adjustments for the effects from the sale of the institution in Bolivia, represents an increase of 6.2% compared to the previous year. The share of deposits from businesses in total customer deposits increased from 32.0% to 35.7% during the year. In particular, sight deposits from our business clients grew significantly in 2016, thus reflecting our “Hausbank” approach for SMEs, providing the full range of banking services from a single source. The volume of savings likewise grew substantially, whereas term deposits decreased.



Customer deposits

Financial development

The group's financial development was good during the year, despite the still difficult economic conditions. The ProCredit group recorded an after-tax profit of EUR 61.0 million in 2016, a stable result considering the EUR 61.3 million recorded for the previous year. The drop in interest income was compensated in part by greater efficiency gained through organisational restructuring measures. Furthermore, the group benefited from an improvement in portfolio quality and the corresponding reduction in expenditures for risk provisions. The group improved its Core Equity Tier 1 ratio, which climbed from 10.2% to 12.5%, due to the sale of shares in the institution in Bolivia as well as a capital increase. As a result, despite stable earnings the return on equity fell by 0.9 p.p. to 9.6%. This development met the expectations of the Management.

in million EUR

Statement of Financial Position and of Profit or Loss

Statement of Financial Position	**31.12.2016**	**31.12.2015**	**Change in %**
Gross loan portfolio	3,628.7	4,104.9	-11.6%
Customer deposits	3,475.1	3,793.0	-8.4%
Statement of Profit or Loss	**01.01.-31.12.2016**	**01.01.-31.12.2015**	**Change in %**
Net interest income after allowances*	212.2	218.6	-2.9%
Net fee and commission income*	43.0	47.7	-10.0%
Operating expenses*	198.2	211.4	-6.3%
Profit after tax	61.0	61.3	-0.5%
Key performance indicators[4]	**31.12.2016**	**31.12.2015**	**Change in pp**
Change in loan portfolio over EUR 30,000	13.0%	8.0%	5.0 pp
Return on equity (ROE)	9.6%	10.5%	-0.9 pp
Tier I Capital Ratio	12.5%	10.2%	2.3 pp
Additional indicators[4]	**31.12.2016**	**31.12.2015**	**Change in pp**
Ratio of customer deposits to loan portfolio	95.8%	92.4%	3.4 pp
Net interest margin*	4.6%	5.5%	-0.9 pp
Cost-income ratio*	71.3%	68.9%	2.5 pp
% of loans in arrears (PAR30)*	3.9%	4.9%	-0.9 pp
Ratio of allowances to loans in arrears (PAR30)*	105.6%	95.0%	10.6 pp

* The presentation contains only continuing operations for 2016 as well as for 2015, i.e. without Bolivia, El Salvador, Mexico and Nicaragua

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

[4] Key performance indicators and other indicators have been defined as follows:

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

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

Assets

Total assets decreased by EUR 341.7 million in 2016, mainly due to the sale of shares in the institution in Bolivia with a total asset amount of EUR 720.8 million.

The structure of the assets changed very little compared to the previous year. The assets consist of the net customer loan portfolio (61.4%), assets mainly held for liquidity purposes (26.0%),[5] and non-financial assets (4.5%).

Loans and advances to customers decreased by EUR 476.2 million compared to the previous year, largely influenced by the sale of shares in the institution in Bolivia. The portfolio of loans in the core segment above EUR 30,000 showed a strong increase of EUR 336.3 million or 13.0%. Overall, loan portfolio growth in the continuing business operations was relatively minor (EUR 83.7 million), influenced by the strategic withdrawal from the segment of loans below EUR 30,000. Exchange rate fluctuations had a slightly positive impact on the growth.

The share of liquid assets in total assets remained stable compared to the previous period. At year-end, they amounted to EUR 1.5 billion. The high degree of liquidity is primarily due to the regulatory requirements in the countries in which we operate.

Non-financial assets, which largely comprise fixed assets, decreased mainly due to the reduction of assets in Bolivia. In continuing business operations, the level of furniture and fixtures remained largely constant. The decrease from the reduction in the branch network was offset by additional investments in the introduction of automated services and 24-hour self-service areas.

[5] Assets mainly held for liquidity purposes includes: cash reserves, loans and advances to banks, and available-for-sale financial assets

Liabilities

Liabilities decreased by EUR 392.0 million in 2016, mainly due to the sale of the shares in Bolivia with a total liability amount of EUR 623.5 million. There was almost no change in the structure of the liabilities compared to the previous year.

Liabilities comprise mainly customer deposits (69.3%), liabilities to international financial institutions (10.0%), liabilities to banks (6.3%), debt securities (3.4%) and subordinated debt (2.9%).

At the end of the year, customer deposits stood at EUR 3.5 billion, down by EUR 317.9 million from the previous period. This decrease is primarily attributable to the sale of the shares in Bolivia. Exchange rate fluctuations had a slightly positive effect. The growth of customer deposits in the continuing business operations came to EUR 204.2 million, thus exceeding the growth in the customer loan portfolio. The ratio of customer deposits to gross loan portfolio thus rose from 92.4% to 95.8%. Optimisation of funding costs was achieved, as the increase in customer deposits was primarily generated through growth in sight deposits, which bear relatively low interest expenses, while at the same time reducing the level of term deposits, which typically have higher rates.

Liabilities to international financial institutions (EUR 499.3 million) and liabilities to banks (EUR 317.6 million) represent an additional important source of funding, as they are mainly available as medium- and long-term funds.

The equity of the ProCredit group increased by EUR 50.3 million, amounting to EUR 654.3 million at the end of the 2016 financial year. This was largely the result of a capital increase carried out in November 2016 in the amount of EUR 31.9 million. The equity of the group was also bolstered by an increase in retained earnings.

This capital increase and the sale of the shares in the institution in Bolivia had the combined effect of increasing the capital ratios to a level which is significantly above the regulatory minimum requirements. The increase in subordinated debt by EUR 39.7 million to EUR 171.0 million made an additional positive contribution to the total capital ratio.

	31.12.2016	**31.12.2015**
Common equity Tier 1 capital ratio	12.5%	10.2%
Tier 1 capital ratio	12.5%	10.2%
Total capital ratio	**15.7%**	**12.1%**

Capital ratios of the ProCredit group

Earnings

The consolidated result for the ProCredit group was EUR 61.0 million, which is at the level recorded for the previous year. The result from continuing business operations increased by EUR 8.7 million or 22.6%, thus offsetting the drop in profit from discontinued operations. The increase in profit from continuing operations is due to a reduction in risk provisions and operating costs, which more than offset the decrease in interest income. Due to the capital increase, the return on equity fell by 0.9 p.p. to 9.6% despite stable earnings.

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

Net interest income decreased by EUR 29.9 million compared to the previous year; it stood at EUR 230.8 million at year-end. Lower global interest rates and our strategic withdrawal from the segment of loans below EUR 30,000 contributed to this trend. It was possible to partially offset the lower interest income with reduced interest expenses, mainly by increasing the share of sight deposits. Although the withdrawal from lending activities involving smaller amounts reduces the share of loans with higher interest rates, those loans were also accompanied by higher default rates and elevated operating costs. The net interest margin decreased by 0.9 p.p.

Further improvement in portfolio quality was achieved in line with our strategic focus. Despite the higher level of risk coverage, better quality led to a significant reduction in net provisioning expenses, which at year-end stood at EUR 18.6 million (previous year: EUR 42.1 million). We were thus able to largely offset the drop in net interest income with lower provisioning costs for credit risk. The group’s net interest income after risk provisioning was EUR 212.2 million, which is 2.9% below the level recorded for the previous year.

Non-interest income came mainly from commission and brokerage services. In 2016, the net income from these operations amounted to EUR 43.0 million, and thus below the EUR 47.7 million recorded for the previous year. The positioning of ProCredit banks as the “Hausbank” for small and medium-sized enterprises is associated with a reduction in the number of clients and increasing automation. As a consequence, earnings from cash transactions fell sharply and could not be offset by other fee income.

Rising operational efficiency due to the focus on SMEs has led to a reduction in personnel and administrative expenses. These stood EUR 13.2 million or 6.3% lower than in the previous year, which more than made up for the decrease in operating income.

The decrease in operating expenses is mainly attributable to personnel expenses, which fell by EUR 10.5 million or 10.6%. Taking into account the effect of the sale of the bank in Bolivia, the number of staff dropped by 12.1% to 4,751 at year-end. Expenses did not decrease in proportion to the decrease in staff numbers, due to severance payments and an increase in the average salary amount.

Administrative expenses including depreciation fell by a total amount of EUR 2.8 million or 2.5% compared to the previous year. The reduction was mainly achieved in the expenses relating to the branch network. Gains in efficiency were consumed in part by one-time expenses in connection with branch closings, the listing of ProCredit Holding shares and additional investments in IT.

Income from the institutions held for sale as well as proceeds from the sale of institutions, including the realisation of the translation reserve, were assigned to discontinued business operations. Overall, these operations contributed a profit of EUR 14.0 million.

The consolidated result was influenced by several extraordinary items which had a combined impact that was slightly positive. The result from available-for-sale financial assets includes extraordinary income from the merger between Visa Europe and Visa Inc. This was offset by extraordinary administrative expenses in connection with the public listing as well as one-time tax payments.

Segment overview

The performance of the ProCredit group is influenced by macroeconomic development and by the economic and financial market policy conditions. These have an impact on the real economies of the regions and therefore on the investment behaviour of our business clients and competitor financial institutions. The following segment overview describes the specific conditions and the development of the financial market situation in the individual regions. The brief analysis of the economic and recent competitor trends in the different regions is based on data from the IMF (World Economic Outlook database, October 2016) and the EBRD (Transition Report 2016-2017), unless otherwise stated.

South Eastern Europe

Macroeconomic and sector-specific environment

South Eastern Europe, comprising the banks in Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, Macedonia, Romania and Serbia, is the region accounting for the greatest share of ProCredit group assets (50.0%). As in the previous year, the region showed a slight increase in economic growth. Despite the still stagnant Greek economy and unchanged demand from the Eurozone, the gap is narrowing between the growth rates in the region and those in other emerging countries. The fact that capital investments have only increased marginally again this year in the region is another reflection of this trend, and the level is expected to remain low due to a geopolitical situation which continues to be perceived as difficult.

As in the previous year, in 2016 the countries in South Eastern Europe recorded very low rates of inflation, in some cases even negative; however, the trend has stabilised. Effects from asset purchase programme of the ECB, which was expanded again, were offset by the slight increase in petroleum prices and the interest rate shift in the USA. In many countries, the current account balance remained at a negative level. This also contributed to the lack of exchange rate fluctuations, as several countries in the region have pegged their currencies to the euro. Although it remains at a high level, the official unemployment figure for South East Europe showed a decrease based on more favourable macroeconomic indicators.

Positive economic development continued in particular in Romania and Serbia, where economic growth of 5% and 2.5%, respectively, was recorded for 2016. Both countries benefited from an increase in investments and rising consumption. GDP increased in Bosnia and Herzegovina (3%) and in Albania (3.4%) due to the infrastructure projects in both countries combined with industrial production in Bosnia and Herzegovina and an increase in consumption in Albania. The economy in Kosovo grew by 4%, driven by private consumption. The same applies to Bulgaria, which recorded economic growth of 3%, albeit with a lower level of exports. Economic growth figures for Macedonia dropped significantly to 2.2% in 2016, not least due to political crisis in the country. This decrease was the result of restrained public spending due to state budget consolidation efforts.

This positive economic development had an impact on lending business, with all banking sectors reporting modest increases in loan disbursements and deposits. Deposit rates thus continued to approach 0%, as the interest rates for lending sank further in the expansionary monetary environment. Profitability trends for the banking sectors were nevertheless positive.

In addition to the low interest rates, the main topic in the region in 2016 was non-performing loans, which is evident as well in the rise in regulatory efforts. Double-digit figures were recorded for non-performing loans in nearly all of the countries where ProCredit operates. The exceptions were Kosovo and Macedonia. In those markets, as previously in Romania, banks had to write off old defaulted loans; the central banks in other countries in the region have also announced similar measures. A review of bank asset quality in Bulgaria in the second half of 2016 indicated that particularly the foreign financial institutions were sufficiently capitalised to withstand turbulent conditions. ProCredit Bank Bulgaria’s good credit quality was confirmed.

Competition in South Eastern Europe continued to be led by the Austrian, French and Italian banking groups, although investors and banking groups from other countries are also active in some markets. The profitability of the ProCredit banks in 2016 was consistent with the averages for our foreign competitors. However, the share of non-performing loans in the ProCredit banks in South Eastern Europe overall remained predominantly below the average for banks, and particularly in our core area of SME business the rates were substantially better than the competition.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve 3.2% loan portfolio growth. Profit after tax rose by 2.1% to EUR 54.4 million, representing a return on equity of 12.3%.

in million EUR

Statement of Financial Position and of Profit or Loss

Statement of Financial Position	31.12.2016	31.12.2015	Change in %
Gross loan portfolio	2,534.9	2,455.8	3.2%
Customer deposits	2,457.3	2,393.1	2.7%

Statement of Profit or Loss	01.01.-31.12.2016	01.01.-31.12.2015	Change in %
Net interest income after allowances	142.4	155.5	-8.4%
Net fee and commission income	28.7	33.8	-15.0%
Operating expenses	111.1	121.9	-8.9%
Profit after tax	54.4	53.2	2.1%

Key performance indicators	31.12.2016	31.12.2015	Change in pp
Change in loan portfolio over EUR 30,000	12.5%	16.6%	-4.2 pp
Return on equity (ROE)	12.3%	12.8%	-0.5 pp

Additional indicators	31.12.2016	31.12.2015	Change in pp
Ratio of customer deposits to loan portfolio	96.9%	97.4%	-0.5 pp
Net interest margin	4.3%	5.3%	-0.9 pp
Cost-income ratio	61.5%	60.3%	1.2 pp
% of loans in arrears (PAR30)	3.8%	4.4%	-0.6 pp
Ratio of allowances to loans in arrears (PAR30)	105.6%	100.3%	5.3 pp

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

The gross loan portfolio for this segment increased by EUR 79.0 million in 2016, ending the year at EUR 2.5 billion. A significant portion (78.5%) of the gross loan portfolio for this segment is held by the ProCredit banks in Bulgaria, Kosovo, Serbia and Macedonia. With a combined 6.6%, these banks reported above-average loan portfolio growth. In addition, the ProCredit banks in Albania, Bosnia and Herzegovina and Romania were affected more significantly by the strategic withdrawal from business lending activities below EUR 30,000, and these institutions recorded a decrease in the gross loan portfolio. At 12.5% or EUR 222.4 million, the growth recorded for the region in the target segment above EUR 30,000 was substantially greater than the figure for net growth.

Customer deposits totalled EUR 2.5 billion at the end of 2016. The growth of EUR 64.2 million is primarily attributable to the ProCredit banks in Bulgaria and Macedonia, which recorded growth rates of 11.6% and 11.2%, respectively. The ratio of customer deposits to the gross loan portfolio stood at 96.9%, which was a similarly high level as the previous year. The ProCredit banks in the region were able to significantly increase the volume of sight deposits. The share of sight deposits in the total volume of customer deposits increased to 49.0% (2015: 42.4%).

The net interest margin declined by 0.9 p.p. in comparison to the previous year. However, the drop in lending rates was partially offset by the reduction in deposit rates. ProCredit Bank Serbia was hardest hit by the tightening of the net interest margin.

The share of past-due loans (PAR30) in the ProCredit banks in South Eastern Europe is 3.8% lower than the banking sector average; moreover, the banks were able to achieve a further 0.6 p.p. reduction in this indicator compared to the previous year. The ratio of risk provisions to past-due loans climbed to 105.6% at the end of 2016. At the same time, expenses for risk provisions were reduced significantly.

A decrease was also recorded for operating expenses, which is mainly attributable to reduced personnel expenses. Administrative expenses, including depreciation, also decreased slightly compared to the previous year. The reduced operating expenses completely covered the drop in net interest income, allowing a slight increase in profit to be recorded.

Eastern Europe

Macroeconomic and sector-specific environment

In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. The region accounts for 15.3% of the group's assets. Again in 2016 the climate was dominated by the ongoing Russia-Ukraine conflict, albeit in a more limited capacity than in previous years, which allowed for positive portfolio growth in all three countries. Following the low figures recorded in previous years, the economy in Ukraine grew by 1.5% in 2016. The case was similar in Moldova, where 2% growth was achieved. Economic performance in Georgia was 3.4% higher than in the previous year.

Despite the improved economic situation, only Moldova was able to improve its current account balance, with the exchange rate remaining somewhat stable there despite fluctuations during the year. In contrast, both Ukraine and Georgia witnessed local currency depreciation of around 10% against the euro, much less than in the previous year. As a result, the price for domestic consumer goods climbed at a much slower rate than in previous years and inflation ranged from 3% to 13%.

Financial market turbulence in Eastern European countries appears to have largely subsided in comparison the previous year. Following additional bank closures in Ukraine and the "special monitoring" of three banks in Moldova by the central bank there, there have been no further scandals. In all three countries, the share of non-performing loans increased in comparison to the previous year. It is noteworthy that the number of loans in foreign currency, mostly in USD, continues to be high. The impact on profitability of banks has remained minor. Profitability increases of several percentage points were recorded in all three countries, with loan portfolio contractions being observed in the banking sectors in Moldova and Ukraine at the same time. Stronger growth in Georgia led to a substantial increase in bank assets there.

In contrast to South Eastern Europe, the competitive situation in Eastern Europe is dominated by local banks; only in Ukraine are several large European banking groups represented. In mid-2016, Société Générale sold its subsidiary in Georgia to TBC Bank, which then became the largest Georgian bank. Now, TBC Bank and Bank of Georgia hold an 80% share of the market. Overall, the level of competition in all three countries is rather weak, and the markets are dominated by high interest rates on loans in foreign and domestic currency.

Development of financial position and financial performance

Despite the ongoing difficult climate, profit after tax in this region rose considerably, by 25.5% to EUR 21.4 million; this resulted in a 1.4 p.p. improvement in return on equity, which increased to 17.5%. ProCredit Bank Ukraine was the main contributor to this trend.

in million EUR

Statement of Financial Position and of Profit or Loss

Statement of Financial Position	**31.12.2016**	**31.12.2015**	**Change in %**
Gross loan portfolio	708.7	681.5	4.0%
Customer deposits	698.2	604.5	15.5%

Statement of Profit or Loss	**01.01.-31.12.2016**	**01.01.-31.12.2015**	**Change in %**
Net interest income after allowances	47.0	40.9	14.9%
Net fee and commission income	8.8	9.4	-6.4%
Operating expenses	34.3	37.2	-7.9%
Profit after tax	21.4	17.1	25.5%

Key performance indicators	**31.12.2016**	**31.12.2015**	**Change in pp**
Change in loan portfolio over EUR 30,000	17.7%	20.3%	-2.6 pp
Return on equity (ROE)	17.5%	16.1%	1.4 pp

Additional indicators	**31.12.2016**	**31.12.2015**	**Change in pp**
Ratio of customer deposits to loan portfolio	98.5%	88.7%	9.8 pp
Net interest margin	5.9%	6.6%	-0.7 pp
Cost-income ratio	47.0%	48.9%	-1.9 pp
% of loans in arrears (PAR30)	3.3%	5.3%	-2.0 pp
Ratio of allowances to loans in arrears (PAR30)	140.0%	96.9%	43.0 pp

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

The gross loan portfolio for the Eastern Europe segment stood at EUR 708.7 million at the end of 2016, with the ProCredit banks in Georgia, Ukraine and Moldova accounting for 44.2%, 41.8% and 14.0%, respectively. This segment was able to achieve 4.0% gross loan portfolio growth. Growth of EUR 98.2 million or 18% was achieved in the core segment of loans above EUR 30,000; this was mainly due to the result recorded by ProCredit Bank Ukraine. This strong level of growth was offset in part by a EUR 69.3 million decrease in the portfolio of loans below EUR 30,000, which was largely the result of ProCredit Bank Georgia selling a part of its loan portfolio.

Customer deposits in the Eastern Europe segment showed much more dynamic growth of 15.5%, which led to significant increase in the ratio of customer deposits to gross loan portfolio. This growth was primarily driven by ProCredit Bank Ukraine. The structure of customer deposits shifted in favour of sight deposits (+5.8 p.p. to 32.1%), whereas share term deposits decreased at a similar rate.

Due to the strong growth in local currency loans with high interest rates at ProCredit Bank Ukraine, the impact of the drop in the net interest margin became less significant. During the year, this margin slid 0.7 p.p. to 5.9%. The narrowing margin was offset entirely by portfolio growth, thus resulting in a slight increase in the net interest income before provisioning.

A significant improvement of 2 p.p. was achieved in the share of loans past due more than 30 days (PAR 30), ending the year at 3.3%. An improvement in loan portfolio quality was achieved in all banks in the region, with particular mention given to the banks in Ukraine (-3.1 p.p.) and Georgia (-1.5 p.p.).

Due to the substantial improvement of portfolio quality, and despite the notable 43 p.p. rise in the PAR30 coverage ratio to 140%, the provisioning expenses decreased by EUR 6.0 million.

The strong increase in the net interest margin after provisioning was offset in part by the drop in non-interest income in the region. Overall, the operating income in the region grew by EUR 2.8 million.

Compared to the previous year, operating expenses also decreased. Cost savings related to reductions in the branch network resulted in a 13.4% drop in personnel expenses and a 4.5% decrease in administrative expenses. This in turn led to a EUR 4.3 million or 25.5% increase in profit for the year.

South America

Macroeconomic and sector-specific environment

The South America segment, which consists of the ProCredit banks in Ecuador and Colombia, accounts for 6.8% of the group's assets, though the majority is held by the former. In 2016 the GDP growth in both countries continued to sag, with 2.2% in Colombia and -2.3% in Ecuador. The recessive tendencies were spurred by the low but stabilising prices for oil as well as country-specific factors. In Ecuador, the earthquake in April 2016 on the coast led to a collapse of the local economy. Temporary restrictions on state expenditures following years of expansionary monetary policy likewise had a negative impact on the economy, with inflation dropping to 3% as a consequence. Ecuador was able to decrease its foreign trade deficit in 2016, despite the disadvantageous foreign trade position for the country, which is a product of being bound to the US dollar as well as restrictions on the transfer of goods and capital. The Colombian peso stabilised against the dollar and inflation dropped to 6%, as the central bank reacted to strong depreciation in the previous year with increases in the key interest rate. Stabilisation of petroleum prices and the exchange rate offered some relief for Colombia's foreign trade position. Both countries continued to struggle with diminished state revenues due to low prices for oil, which also led to new tax reforms in 2016.

The financial markets in the region developed at different rates due to the macroeconomic situation. In 2016, Colombia reported further loan portfolio growth, particularly due to the rise in consumer and real estate lending. Shored-up inflation resulted in a relaxation of interest margins. The liquidity situation in Ecuador continued to be difficult, albeit to a lesser degree than in the previous year, which allowed for an increase in deposits in 2016.

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

Development of financial position and financial performance

The total assets for the segment decreased by EUR 720.8 million as a result of the sale of the bank in Bolivia; at year-end the figure stood at EUR 484 million. The ProCredit banks in Ecuador and Colombia had to re-orient their business in response to the strategic focus. This process, which is more time-consuming than in the banks in Eastern Europe, has a negative impact on financial performance.

in million EUR

Statement of Financial Position and of Profit or Loss

Statement of Financial Position	31.12.2016	31.12.2015	Change in %
Gross loan portfolio	306.9	885.7	-65.4%
Customer deposits	205.4	684.5	-70.0%

Statement of Profit or Loss	01.01.-31.12.2016	01.01.-31.12.2015	Change in %
Net interest income after allowances*	25.8	28.3	-8.7%
Net fee and commission income*	-0.2	0.5	-131.4%
Operating expenses*	28.8	31.7	-9.1%
Profit after tax*	-2.3	-0.3	597.3%

Key performance indicators	31.12.2016	31.12.2015	Change in pp
Change in loan portfolio over EUR 30,000	13.2%	17.9%	-4.7 pp
Return on equity (ROE)*	-3.5%	-0.5%	-3.0 pp

Additional indicators	31.12.2016	31.12.2015	Change in pp
Ratio of customer deposits to loan portfolio*	66.9%	77.3%	-10.3 pp
Net interest margin*	5.0%	6.9%	-1.9 pp
Cost-income ratio*	112.2%	85.9%	26.3 pp
% of loans in arrears (PAR30)*	7.5%	8.4%	-0.9 pp
Ratio of allowances to loans in arrears (PAR30)*	67.8%	68.7%	-0.9 pp

* The presentation contains only continuing operations for 2016 as well as for 2015, i.e. without Bolivia, El Salvador, Mexico and Nicaragua

Balance sheet and income statement positions as well as other key figures for the South America segment[6]

The gross loan portfolio in the South America segment decreased in 2016, primarily due to the sale of the bank in Bolivia, a decision we took on the basis of the particularly difficult business environment there. Whereas Colombia recorded positive growth of EUR 5.6 million or 20.3%, the loan portfolio in Ecuador showed a contraction. The decrease in the portfolio due to the withdrawal from lending below EUR 30,000 was relatively high at 28.5%, and it was not to offset this drop with the 13.2% growth in loans in the target segment.

This decrease in client deposits is likewise attributable to the sale of the bank in Bolivia. Deposits from clients in the ProCredit banks in Ecuador and Colombia grew by 24.4% and 46.8%, respectively.

The drop in the interest margin in response to the strategic shift was particularly strong at 1.9 p.p. This effect was offset in part by lower expenses for credit risk provisions, meaning that interest income after provisioning only declined by EUR 2.5 million. Operating expenses in the South America segment fell by EUR 2.9 million in 2016.

Germany

Macroeconomic and sector-specific environment

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

Development of financial position and financial performance

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

in million EUR

Statement of Financial Position and of Profit or Loss

Statement of Financial Position	**31.12.2016**	**31.12.2015**	**Change in %**
Gross loan portfolio	78.3	82.0	-4.5%
Customer deposits	114.2	110.9	3.0%
Statement of Profit or Loss	**01.01.-31.12.2016**	**01.01.-31.12.2015**	**Change in %**
Net interest income after allowances	-1.3	-2.8	54.2%
Operating income	96.4	95.8	0.6%
Operating expenses	51.2	49.0	4.5%
Profit after tax	44.0	44.2	-0.4%
Profit after taxes and consolidation effects	-26.4	-31.6	-16.4%

Balance sheet and income statement positions for the Germany segment

The loan portfolio and customer deposits in the segment are attributed to the ProCredit Bank in Germany.

The negative figure for net interest income is explained by the fact that ProCredit Holding’s equity investments in its subsidiaries are partly financed by debt instruments. The amount declined due to prevailing trends in interest rates.

Operating income was dominated by dividend payments received from subsidiary banks totalling EUR 46.2 million. Further income came from commission and brokerage services by the ProCredit Bank in Germany, from the IT services performed by Quipu GmbH, from consultancy services provided to the ProCredit banks by ProCredit Holding, and from the sale of shares.

Operating expenses increased by EUR 2.2 million or 4.5%, largely due to expenses in connection with public listing and additional investments in IT. The contribution of the segment to group results, after taking account for consolidation effects, amounts to EUR -26.4 million.

Ratings

In 2016, FitchRatings again awarded an international rating to ProCredit Holding and the ProCredit banks in Eastern and South Eastern Europe, and a national rating to the ProCredit banks in South America. The ratings are determined in large part by the respective country ceiling.

Institution	2016 Rating	2015 Rating	
ProCredit Holding	BBB	BBB	(international rating)
ProCredit Bank, Albania	B+	B	(international rating)
ProCredit Bank, Bosnia	B	B	(international rating)
ProCredit Bank, Bulgaria	BBB-	BBB-	(international rating)
ProCredit Bank, Georgia	BB	BB	(international rating)
ProCredit Bank, Kosovo	BB-	B+	(international rating)
ProCredit Bank, Macedonia	BB+	BBB-	(international rating)
ProCredit Bank, Romania	BBB-	BBB-	(international rating)
ProCredit Bank, Serbia	BB-	B+	(international rating)
ProCredit Bank, Ukraine	B-	CCC	(international rating)
Banco ProCredit, Colombia	AA+	AA+	(national rating)
Banco ProCredit, Ecuador*	AAA-	AAA-	(national rating)
Banco ProCredit, El Salvador	AAA	AAA	(national rating)
Banco ProCredit, Nicaragua	AA+	AA+	(national rating)

** by Bankwatch Ratings S.A.*

Ratings for ProCredit Holding and the individual ProCredit institutions

Management Report of ProCredit Holding AG & Co. KGaA

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

Business activities of ProCredit Holding AG & Co. KGaA

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

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

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

As of year-end 2016, ProCredit Holding had 94 staff members. This includes six employees who are based abroad. The majority of the Germany-based employees work in the areas of "Finance & Controlling", "Risk Management" and "Credit Risk Management".

Development of financial position

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

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

ProCredit Holding’s total assets increased by EUR 65.3 million in 2016. This is mainly due to the increase in liquid assets generated by the sale of the shares in the Bolivian institution in December 2016.

The equity investments in affiliated companies decreased by EUR 22.9 million in 2016. The reductions resulting from the sale of the company’s shares in Bolivia and Mexico were only partly offset by additional investments, primarily in the ProCredit banks in Bulgaria and Ukraine.

Loans to affiliated companies increased by EUR 17.8 million in 2016 due to additional loans to the ProCredit banks in Serbia and Georgia.

The ProCredit group’s financial liabilities are almost unchanged from the previous year. Liabilities to banks were repaid and replaced with additional debt securities.

Equity increased by a total of EUR 58.9 million in 2016. This rise was the result of a capital increase of EUR 31.9 million as well as the profit for the year minus dividend payments.

Result of operations

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

In 2016 ProCredit Holding’s profit increased by EUR 12.6 million to EUR 47.4 million, in line with the expectations of the Management. This positive development is mainly attributable to the additional income from the sale of shares, which more than offset the lower dividend income.

Dividend income was EUR 9.6 million lower than in the previous year, as in 2016 no dividend income was generated from Serbia and Georgia. Both banks strengthened their equity base by capitalising the previous year’s profit.

Compared to the previous year, the changes in equity investments had a more positive effect on the profit for the year, brought about by lower expenses for impairments as well as by the additional income from the sale of shares in the ProCredit institutions in Mexico and Bolivia.

ProCredit Holding's operating expenses remained largely constant in 2016.

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

Report on Expected Developments, including Business Opportunities and Risks

Macroeconomic environment and competitive situation

We expect an improvement of the economic situation in 2017, although the business environment will continue to be challenging. This assessment is based on the assumption that both the Eurozone and the USA will experience positive economic growth and that neither the recession in the Russian Federation nor the conflict in Ukraine will escalate further.

In the South Eastern European countries in which we are present, we expect that 2017 will see improved economic performance, with growth rates between 2% and 4%. Assuming that the geopolitical situation is stable, we anticipate a lower growth rate of 2% in Ukraine and Moldova. Georgia achieved higher GDP growth in 2016 than in previous years, and in 2017 we also expect even higher growth of 5%.

In our South American countries of operation, 2016 was again characterised by low prices for raw materials. We therefore expect a decline of around 2% in Ecuador’s economic performance in 2017. In Colombia, however, GDP growth rates between 2% and 3% are to be expected.

In the short term, we also anticipate a further drop in lending rates, which can only partly be offset by reducing funding costs. Our business planning thus assumes further tightening of the interest margin. In the medium term, however, interest rates are likely to rise as a result of the rate hikes by the US Federal Reserve and the expiry of the ECB asset purchase programme.

For 2017, we expect competitive pressure in the SME segment to be at a continuously high level. In South Eastern Europe our main competitors are international banking groups, while in Eastern Europe and South America we mostly compete with local or regional banks and financial institutions. We feel that our lean structures, modern branch network and the high quality of advisory services provided by our staff place us in a very good competitive position.

<u>Expected development of the ProCredit group</u>

We anticipate good prospects for stable, profitable growth as a bank specialised in serving small and medium enterprises. Our geographical focus will be on Eastern and South Eastern Europe, and also on South America.

We aim to further expand our business with innovative and sustainable SMEs. This will entail more extensive lending and deposit activities as well as commission and brokerage services. We plan to strengthen our payment business with business clients through our modern e-Banking platform. Furthermore, we are also committed to growing our trade finance business and international payments, supported by the ProCredit Bank in Germany. In 2017 we anticipate growth of around 10% in our core segment of loans over EUR 30,000, based on a net increase of between 5% and 8% in the total customer loan portfolio and a decline in the portfolio of very small loans. After the restructuring process is complete, we expect to see growth of 10% in the medium term. With respect to deposits, we plan to enlarge the share of sight deposits from business clients.

With regard to private clients, we focus on stable deposits from private individuals connected to our SME customers, e.g. owners and their families. In addition, the ProCredit banks provide other private, middle-class clients with user-friendly online banking services that they can use to perform all of their banking business.

Based on these developments, we expect the profit from our continuing operations to increase in 2017. In view of the growing loan portfolio and slightly falling margins, we anticipate largely stable earnings and further efficiency gains. The basis for this assessment is our clear focus on SMEs and selected private clients as well as the increasing level of automation in standardised transactions. In addition, we will create additional synergies, e.g. in HR by co-ordinating recruitment activities; in training by providing staff training in regional centres; and in IT by continuing to centralise the data centres of all ProCredit banks.

The sale of the banks in El Salvador and Nicaragua should be concluded in 2017. The sale of discontinued operations will result in a proportional reduction in profit. We anticipate that the additional earnings from continuing business operations in 2017 will not yet be sufficient to entirely make up for this decrease. Therefore, depending on the development of the interest rate margin and loan portfolio growth, we expect a return on equity of 7% to 9% in the coming year.

In the medium term, we intend to achieve a significant improvement in our cost-income ratio to below 60% through additional growth and stringent cost management. We project that the quality of our loan portfolio will be stable or slightly improve. We plan to achieve a stable return on equity of around 10%.

The group has an adequate capital base. By selling the institutions in El Salvador and Nicaragua, we expect an additional increase in the CET1 capital ratio, bringing it to more than 13%. The Management considers this level of capital to be sufficient in terms of regulatory and internal capital requirements. The group's overall risk profile is expected to remain stable.

Assessment of business opportunities and risks

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

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

Risk Report

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. The aim is to ensure the internal capital adequacy of the group and each individual bank at all times and to achieve stable results, despite volatile external conditions, by following a consistent group-wide approach to managing risks. The overall risk profile of the group is adequate and stable. This is based on an overall assessment of the individual risks, as presented below.

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

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

Focus on core business

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

High degree of transparency, simplicity and diversification

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans regions and countries, as well as urban and rural areas within countries. In terms of client groups, this diversification spans economic sectors, client segments (small and medium enterprises) and income groups. The diversification of the loan portfolio is a central pillar of the group's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients with simple, easily understandable 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 processes result in a significant reduction of the group's risk profile.

Careful staff selection and intensive training

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

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

- All ProCredit institutions apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Holding and are updated at least annually. These specify the responsibilities at bank and group level, and establish minimum requirements for managing, monitoring and reporting.

- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the group and all ProCredit institutions.

- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.

- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks at the group level and at the level of each individual bank.

- Regular stress tests are performed for all material risks at the group level and at the level of each individual bank; stress tests are carried out for each individual risk category as well as across all risk categories.

- Regular and ad hoc reporting on the risk profile, including detailed descriptions and commentaries, is carried out at group level and at the level of each individual bank.

- Monitoring and control of risks and possible risk concentrations is carried out using suitable analysis tools for all material risks.

- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.

- All new or significantly changed products undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

These key elements of risk management in the ProCredit group are based on the substantial experience we have gained over the past 20 years in our markets and on a precise understanding of both our clients and the risks we assume. The ProCredit group operates in countries that are at different stages of development. Some of the countries in which ProCredit banks operate are characterised by relatively volatile macroeconomic environments, with public institutions that are not yet fully developed.

Organisation of the risk management function

At the group level, overall responsibility for risk management is assumed by the Management of ProCredit Holding, which regularly analyses the risk profile of the group and decides on the measures to be taken. Various committees support the Management in the performance of the risk management function.

The Group Risk Management Committee develops the group-wide framework for risk management, monitors the risk profile of the group and takes decisions on risk mitigation measures if necessary. The Group Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity reserve and liquidity management of the group, co-ordinating measures aimed at securing funding for the ProCredit banks and ProCredit Holding, and reporting on material developments in financial markets. As a general rule, the committees meet monthly.

The Group and PCH Model Committee supports and advises the Management with respect to approving significant changes to the models used to quantify risks and defining the capital buffer for model risk. As a general rule, this committee meets every two months.

The Group Committee on Financial Crime Prevention supports and advises the Management in connection with the ongoing monitoring of the group's risk profile regarding money laundering and fraud, as well as in the adoption of suitable measures to prevent these risks. This committee meets quarterly and on an ad-hoc basis, as required.

The Group Compliance Committee serves as the central platform for exchanging information about compliance risks, thus supporting the Management of ProCredit Holding in ensuring implementation of legal requirements. The committee is a forum for evaluating compliance risks, discussing the impact of changes in legal regulations and prioritising identified compliance risks. Furthermore, this body can issue recommendations on measures which may be required. This committee meets every six months and on an ad-hoc basis, as required.

The Internal Audit Committee supports and advises the Management in the approval of annual internal audit plans at the level of individual banks and ProCredit Holding, and in monitoring the timely implementation of measures to resolve the findings of internal and external auditors. Moreover, this body aims to achieve ongoing improvement in the Internal Audit Policy. This committee meets every six months and on an ad-hoc basis, as required.

The group's risk management approach is supported on a conceptual level by various risk management and finance functions, which are likewise charged with the operational implementation. The responsibilities of these functions include proposing the framework for risk management in the group as well as limits for risk positions to the Group Risk Management Committee, monitoring risk positions and compliance with limits, performing the group's capital planning and monitoring the capital adequacy at both bank level and group level. The risk controlling function required by MaRisk is headed by a member of the Management of ProCredit Holding, who is supported by the Manager Risk Management and the various risk management functions.

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

The group has an effective compliance system based on our Code of Conduct, and we ensure on an ongoing basis that our staff adhere to the Code. The Group Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements at the level of the group, at ProCredit Holding and in the individual banks. Any conduct which is inconsistent with the established rules, whether at ProCredit Holding or in a bank, can be reported anonymously to an e-mail address established for the group. Each ProCredit bank has a compliance function which reports on a regular and ad-hoc basis to the Management of the bank through the Compliance Committee.

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

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

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

In addition, the risk departments of all banks report regularly to the different risk functions at ProCredit Holding and the local supervisory board is informed on at least a quarterly basis on all risk-relevant developments.

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

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

Credit risk

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to banks	**286,673**	**339,395**
Financial assets at fair value through profit or loss	**243**	**891**
Trading assets	243	891
Available-for-sale financial assets	**249,757**	**206,970**
Fixed interest rate securities	173,628	136,045
Variable interest rate securities	73,983	65,487
Shares in companies	2,146	5,437
Loans and advances to customers	**3,478,049**	**3,928,332**
Loans and advances to customers	3,628,700	4,104,939
Allowance for losses on loans and advances to customers	-150,651	-176,608
Contingent liabilities and commitments	**609,625**	**559,464**
Credit commitments (revocable)	431,832	384,591
Guarantees	162,787	158,437
Credit commitments (irrevocable)	8,781	10,084
Letters of credit	6,224	6,353

Maximum credit risk

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

Customer credit risk

Thanks to the diversification of operations across four regions and 17 countries, and to the experience that the ProCredit institutions have gained in operating in these markets over the past 20 years, the group has extensive expertise with which to limit customer credit risk effectively.

The ProCredit banks serve a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. Our thorough knowledge of the risks associated with the countries in which we operate and of our clients forms the basis for the policies that stipulate the requirements for risk management in the group. For our lending operations, we apply the following principles:

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

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

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

The experience of the ProCredit group has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions of the ProCredit group are therefore based predominantly on an analysis of the client’s financial situation and creditworthiness. All customers are regularly visited on-site to ensure an adequate consideration of the client’s specific features and needs. There is no collateral-based lending.

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

Setting appropriate credit limits, deciding which services correspond to the financial needs of clients and determining the proper structure of the credit exposure form an integral part of the decision-making process within the credit committee. In this context, the following general principles apply: The lower the amount of the credit exposure, the more complete 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 account turnover of the client with the bank, the lower the collateral requirements will be.

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

The total amount of collateral held by the group as security is EUR 2.8 billion. The valuation of immovable collateral is conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, the banks regularly monitor the value of all collateral items. The verification of external appraisals and the regular monitoring activities are carried out by specialist staff members at the ProCredit banks.

	31.12.2016	**31.12.2015**
Mortgages	72.6%	75.7%
Cash collateral	1.3%	1.0%
Financial guarantees	2.0%	0.7%
Other	24.1%	22.6%

Loan collateral

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

Moreover, the ProCredit group has developed indicators for the early identification of risks based on quantitative and qualitative risk features; these indicators are to be implemented by the banks. These indicators include, but are not limited to, declining account turnover, high usage of granted credit lines over a longer period of time, and arrears. The responsible staff check whether the risk of default has increased, and, if necessary, ensures that additional steps are taken in accordance with the policies. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to ProCredit Holding. The use of early warning indicators and the close monitoring of clients allow for improved tracking of increases in credit risk related to individual credit exposures (migration risk).

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of the client's business activities. Decisions on the most effective measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

One arrears management measure is the proactive redefinition of the repayment plans to align them with the client's actual and expected future payment capacity. The necessity of such a measure is mostly due to a significant change in the client's economic environment which reduces payment capacity. These restructurings follow a thorough analysis of the client's changed payment capacity in order to ensure that the client can comply with the renegotiated payment plan. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure.

During 2016, significantly fewer restructurings were undertaken at group level than in the previous year. As of year-end, the combined total volume of restructured credit exposures which had not already been classified as impaired came to EUR 43.9 million, compared to EUR 56.9 million at the end of 2015. This is the result of a decrease in restructurings in all segments.

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

in '000 EUR **As at December 31, 2015**	**Loan portfolio**	**Restructured loans**	**Restructured loans as % of loan portfolio**
Germany	81,958	0	0.0%
South Eastern Europe	2,455,817	36,323	1.5%
Eastern Europe	681,475	15,648	2.3%
South America	885,690	4,928	0.6%
Total	**4,104,939**	**56,899**	**1.4%**

Restructured loans

When a credit exposure is classified as a problem credit exposure, recovery officers take over full responsibility for dealings with the client. The handover is based on factors such as insolvency and occurs at the latest when the loan has been in arrears for 90 days. Generally speaking, problem credit exposures are classified as such because 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 (legal department) and/or specialists in the sale of assets or collateral. Collateral is always liquidated through sales to third parties. Repossessed property is sold at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 EUR	31.12.2016	31.12.2015
Real estate	25,607	25,225
Inventory	179	225
Other	1,056	451
Repossessed property	**26,842**	**25,902**

Repossessed property

As a general principle, the ProCredit institutions do not write off their receivables from clients until they no longer expect to receive any further payments. As a rule, the more days that the client's payments are past due and the more doubtful the recoverability of the collateral, the lower the probability of further payments is. Additionally, the direct and indirect costs of managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure. Bearing these points in mind, the banks generally write off insignificant credit exposures earlier than significant ones. In 2016, net write-offs stood at 0.7% of the gross loan portfolio (2015: 0.8%). Thus, net write-offs in 2016 did not differ substantially from the previous year.

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

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

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

in '000 EUR **As at December 31, 2016**	**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	78,306	-656	0	-	-	2,350	3.0%
South Eastern Europe	2,534,854	-101,442	96,077	3.8%	105.6%	11,717	0.5%
Eastern Europe	708,669	-32,962	23,553	3.3%	140.0%	11,551	1.6%
South America	306,872	-15,591	22,993	7.5%	67.8%	880	0.3%
Total	**3,628,700**	**-150,651**	**142,622**	**3.9%**	**105.6%**	**26,498**	**0.7%**

in '000 EUR As at December 31, 2015	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	81,958	-788	0	-	-	0	0.1%
South Eastern Europe	2,455,817	-108,925	108,636	4.4%	100.3%	20,785	0.8%
Eastern Europe	681,475	-34,994	36,104	5.3%	96.9%	7,539	1.1%
South America	885,690	-31,901	37,385	4.2%	85.3%	2,995	0.3%
Total	**4,104,939**	**-176,608**	**182,125**	**4.4%**	**97.0%**	**31,319**	**0.8%**

Risk provisions in lending

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

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

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

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

in '000 EUR As at December 2016	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Finance lease loans	Other loans	Total
Specific impairment							
Gross outstanding amount	146,613	13,113	2,442	195	535	75	**162,973**
Allowance for specific impairment	-55,861	-5,315	-450	-175	-40	-34	**-61,875**
Net outstanding amount	90,752	7,798	1,992	20	495	40	**101,097**
Lump-sum allowance for specific impairment							
Gross outstanding amount	44,436	13,025	4,611	3,398	136	1,009	**66,616**
Lump-sum allowance for specific impairment	-22,836	-7,593	-3,165	-2,248	-108	-750	**-36,700**
Net outstanding amount	21,600	5,432	1,446	1,150	28	260	**29,916**
Portfolio-based allowance for impairment							
Gross outstanding amount	2,443,003	639,076	226,782	66,616	1,651	21,985	**3,399,112**
Portfolio-based allowance for impairment	-36,102	-10,883	-3,917	-967	-29	-179	**-52,076**
Net outstanding amount	2,406,902	628,193	222,864	65,649	1,623	21,806	**3,347,037**

in '000 EUR As at December 2015	Business loans	Agricultural loans	Housing improvement loans	Consumer loans	Finance lease loans	Other loans	Total
Specific impairment							
Gross outstanding amount	182,425	21,581	3,030	455	315	173	**207,978**
Allowance for specific impairment	-61,264	-7,765	-759	-191	-184	-86	**-70,249**
Net outstanding amount	121,161	13,815	2,270	264	131	87	**137,729**
Lump-sum allowance for specific impairment							
Gross outstanding amount	64,880	19,440	6,155	5,160	243	1,255	**97,133**
Lump-sum allowance for specific impairment	-33,233	-9,282	-3,717	-2,948	-173	-874	**-50,226**
Net outstanding amount	31,647	10,158	2,438	2,212	71	381	**46,906**
Portfolio-based allowance for impairment							
Gross outstanding amount	2,851,802	647,651	212,914	64,787	5,272	17,403	**3,799,829**
Portfolio-based allowance for impairment	-40,998	-10,228	-3,641	-977	-75	-213	**-56,132**
Net outstanding amount	2,810,804	637,424	209,272	63,811	5,196	17,190	**3,743,697**

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

At group and bank level, the loan portfolio is monitored continuously for possible risk-relevant developments with the aid of indicators. These include, among other items, past due credit exposures (PAR 30 and PAR 90), restructured credit exposures, written-off credit exposures, allowances for impairment on the loan portfolio and risk concentrations towards single counterparties. These indicators are described and analysed in the ProCredit group's Risk Report and discussed by the ProCredit Group Risk Management Committee. In addition, three asset quality indicators have been developed, on the basis of which the group's loan portfolio is divided into the categories: performing, underperforming and non-performing. The process of assigning exposures to these categories is based on a risk classification system and on additional risk characteristics of the exposures (e.g. whether a loan has been restructured). The indicators allow for a clear overview of the quality of the group's portfolio and of an individual bank, and provide support for the credit risk management process. In addition, exceptional events which could have an impact on large areas of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. If appropriate, these discussions lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

At the end of 2016 PAR 30 stood at 3.9%, an improvement compared to the 4.4% recorded for the previous year. Our expectations for the quality of the loan portfolio in 2016 were therefore exceeded. The sale of the shares in the institutions in Mexico and Bolivia over the course of 2016 had no substantial impact on the improved PAR 30 figure. Rather, the positive development is attributable, among other reasons, to the consistent focus on our core customer group of small and medium-sized enterprises.

At December 31, 2016

in '000 EUR	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business	2,359,743	83,230	31	0	0	0	0	2,443,003
Agricultural	622,789	16,287	0	0	0	0	0	639,076
Housing improvement	218,025	8,757	0	0	0	0	0	226,782
Consumer	61,659	4,957	0	0	0	0	0	66,616
Finance leases	1,528	123	0	0	0	0	0	1,651
Other	21,531	453	0	0	0	0	0	21,985
Impaired								
Business	55,236	20,489	9,835	3,985	12,612	23,734	65,157	191,049
Agricultural	5,763	1,738	3,306	1,777	4,410	3,854	5,289	26,137
Housing improvement	1,485	1,168	683	322	764	948	1,683	7,053
Consumer	480	90	558	234	448	505	1,278	3,593
Finance leases	533	12	4	0	18	12	92	672
Other	197	7	40	21	28	60	731	1,084
Total	**3,348,967**	**137,313**	**14,456**	**6,340**	**18,280**	**29,113**	**74,231**	**3,628,700**

At December 31, 2015

in '000 EUR	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business	2,765,956	85,030	659	0	158	0	0	2,851,802
Agricultural	627,169	20,420	62	0	0	0	0	647,651
Housing improvement	204,231	8,537	146	0	0	0	0	212,914
Consumer	59,359	5,407	1	0	20	0	0	64,787
Finance leases	4,952	320	0	0	0	0	0	5,272
Other	16,891	512	1	0	0	0	0	17,403
Impaired								
Business	78,526	25,378	16,740	6,779	25,577	33,130	61,174	247,304
Agricultural	11,860	1,943	5,037	2,994	6,039	4,332	8,815	41,021
Housing improvement	2,094	1,234	1,261	532	1,208	1,288	1,566	9,184
Consumer	1,395	123	692	320	721	805	1,560	5,615
Finance leases	0	42	26	0	28	40	423	559
Other	303	24	53	21	135	92	799	1,428
Total	**3,772,735**	**148,969**	**24,678**	**10,647**	**33,886**	**39,687**	**74,338**	**4,104,939**

Loan portfolio, by days in arrears

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium businesses in various economic sectors and the distribution of the loan portfolio across 15 institutions.

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

in '000 EUR **As at December 31, 2015**	**EUR/USD < 50,000**	**EUR/USD 50,000 - 250,000**	**EUR/USD > 250,000**	**Total**
Germany	70	823	81,065	81,958
South Eastern Europe	951,392	856,958	647,467	2,455,817
Eastern Europe	210,959	294,677	175,839	681,475
South America	598,964	234,614	52,111	885,690
Total	**1,761,385**	**1,387,073**	**956,482**	**4,104,939**

Portfolio diversification: Loan size, by region

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

in '000 EUR **As at December 31, 2016**	**Business**	**Agricultural**	**Housing Improvement**	**Consumer**	**Finance leases**	**Other**
< 50,000 EUR/USD	568,687	244,043	194,302	68,540	590	19,588
50,000 - 250,000 EUR/USD	1,042,877	257,028	38,772	1,669	178	2,640
>250,000 EUR/USD	1,022,488	164,142	761	0	1,556	841
Total	**2,634,052**	**665,213**	**233,835**	**70,209**	**2,323**	**23,068**

in '000 EUR **As at December 31, 2015**	**Business**	**Agricultural**	**Housing Improvement**	**Consumer**	**Finance leases**	**Other**
< 50,000 EUR/USD	1,147,685	334,331	193,090	67,368	3,425	15,487
50,000 - 250,000 EUR/USD	1,116,188	234,598	28,361	3,034	1,547	3,344
> 250,000 EUR/USD	835,233	119,743	647	0	859	0
Total	**3,099,106**	**688,672**	**222,098**	**70,402**	**5,830**	**18,831**

Portfolio diversification: Business areas, by loan size

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

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

Counterparty risk (including issuer risk)

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

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

Issuer risk is likewise managed according to these principles. The ProCredit banks are prohibited from engaging in speculative trading. As a matter of principle, only highly liquid securities are bought, typically with a maximum maturity of three years at fixed-interest rates. Liquidity in domestic currency is predominantly invested in central bank papers or sovereign bonds in the respective country. EUR or USD, on the other hand, are generally invested in OECD sovereigns or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited. The reasons are that the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

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

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

The group’s exposure to counterparty and issuer risk increased compared to 2015 due to the higher liquidity level.

in '000 EUR	31.12.2016	in %	31.12.2015	in %
Banking groups	305,045	28.4	406,573	42.4
Central banks	393,208	36.5	274,257	28.6
Mandatory reserve	*327,412*	*10.1*	*314,593*	*11.5*
of which covered by insurance	*-218,691*		*-204,079*	
Other exposures	*284,488*	*26.4*	*163,743*	17.1
Securities	377,629	35.1	278,617	29.0
Total	**1,075,883**	**100.0**	**959,447**	**100.0**

Exposures to counterparties and issuers

The exposure to banking groups contains repurchase agreements in the amount of EUR 25.9 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

For counterparty risk, the same definitions for “past due” and “non-performing” apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was past due nor showed any signs of impairment as of 31 December 2016. Accordingly, no provisions were made for these exposures during the 2016 financial year.

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit banks conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit towards a non-OECD bank or banking group may not exceed 10% of the ProCredit bank’s capital without prior additional approval from Group ALCO or the Group Risk Management Committee. For an OECD bank, the threshold is 25%. The typical maximum maturity of our term deposits is three months; longer maturities must be approved by Group ALCO or the Group Risk Management Committee. Approval is likewise required before any investments in securities, except for centrally issued securities or central bank papers in the domestic currency of the respective country with a remaining maturity of up to three months.

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

Country risk

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

Country risk is a material risk only for ProCredit Holding, the ProCredit bank in Germany and, to a very limited extent, the ProCredit bank in Bulgaria, because only these institutions conduct cross-border transactions with other group banks or clients abroad. Other ProCredit banks only carry out cross-border transactions in exceptional cases and only with prior approval from the Group Risk Management Committee.

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

Market risks

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for the ProCredit group are foreign currency risk and interest rate risk in the banking book. The ProCredit group manages market risks so as to ensure that they only play an insignificant role from an overall risk perspective.

In accordance with the group risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. All ProCredit banks are non-trading book institutions.

Foreign currency risk

We define foreign currency risk as the risk that an institution or the group as a whole incurs losses or is negatively affected by exchange rate fluctuations. At the level of individual banks, foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios. Income is impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the FX rates move unfavourably.

The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). At the bank level, the total OCP is limited to 10% of the bank’s regulatory capital, unless deviation from this limit has been approved by the Group ALCO or Group Risk Management Committee. A threshold of 7.5% of a ProCredit bank’s capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP.

The individual banks primarily hold their capital in the domestic currency. Appreciation of foreign currencies against the domestic currency results, to the extent that the individual bank holds assets in foreign currencies, in an increase in the risk-weighted assets translated into the domestic currency; therefore, assuming no change in the amount of equity, the bank will suffer a drop in its regulatory capital ratios. To mitigate this risk, the group aims to keep a high share of assets in the domestic currency of the respective banks. At least once a year, extensive currency risk stress tests are performed that depict the effects of unfavourable exchange rate developments on the banks’ capital ratios.

Foreign currency risk at group level arises as a result of the equity holdings that ProCredit Holding maintains in its foreign subordinated companies. The functional currency of most banks is the currency of the respective country, and this also applies to equity. Thus, from a consolidated group perspective, OCPs in the respective domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risk-taking potential are exposed to fluctuations due to changes in the exchange rates of the domestic currencies against the EUR. These differences are included in the translation reserve in the consolidated equity. The translation reserve increased from EUR -43.7 million at the end of 2015 to EUR -62.1 million as of December 2016. This increase is primarily attributable to the sale of the bank in Bolivia as well as to the depreciation of the domestic currency in Georgia.

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

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

in '000 EUR **As at December 31, 2015**	**USD**	**Other currencies**
Assets		
Cash and cash equivalents	166,916	346,521
Loans and advances to banks	97,825	80,879
Financial assets at fair value through profit or loss	0	17
Available-for-sale financial assets	16,481	41,815
Loans and advances to customers	686,619	1,551,593
of which: indexed to USD	17,171	0
Tax assets	358	2,566
Other assets	4,939	30,458
Total assets	**973,138**	**2,053,848**
Open forward position (assets)	**2,973**	**13,110**
Liabilities		
Liabilities to banks	72,013	69,961
Financial liabilities at fair value through profit or loss	0	39
Liabilities to customers	563,719	1,635,267
of which: indexed to USD	0	0
Liabilities to international financial institutions	155,593	56,040
Debt securities	49,945	0
Tax liabilities	0	1,980
Provisions	4,036	7,988
Other liabilities	4,145	12,821
Subordinated debt	66,403	0
Total liabilities	**915,854**	**1,784,097**
Open forward position (liabilities)	**77,764**	**62,631**
Net position	**-17,507**	**220,231**

Open currency position

Interest rate risk in the banking book

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

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

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

The economic value impact is an important indicator for managing interest rate risk, and measures the economic value change on all interest rate-sensitive assets and liabilities determined by a sudden unfavourable change in interest rates. A second key indicator measures the potential impact of interest rate shocks on the expected earnings of the individual banks (P&L effect) over a period of 12 months.

At the bank level, we assume a parallel shift of the interest rate curve based on the BaFin Circular on interest rate risk management dated November 2011. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis of the past seven years. Sight deposits and savings accounts are included in the gap analyses according to their expected repricing maturities. These maturities are derived from a group-wide analysis of historical developments. The economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies must not exceed 15% of a bank's regulatory capital, unless approved by the Group Risk Management Committee; the early warning indicator for each currency is set at 10% (non-netted in each case). The P&L effect is deemed significant if it exceeds 5% of the bank's capital (early warning indicator). The P&L effect must not exceed 10% of the capital (non-netted in each case).

At the group level, interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect; limits are set for this risk on the basis of economic value impact. Sight deposits and savings accounts are included in the gap analyses according to their expected repricing maturities and are derived from country- and currency-specific historical analyses. The maturity-specific interest rate shocks are based on a seven-year history of the reference curve per currency.

in '000 EUR

	31.12.2016			31.12.2015	
Currency	**Cash effect** *revised approach*	**12-month interest earnings** *old method*	**Interest rate shock basis points**	**12-month interest earnings** *old method*	**Interest rate shock basis points**
EUR	-4,216	-11,530	-200	-6,026	-200
USD	-50,318	-146	-200	-3,401	-200
Other*	3,259	-16,014	-230	-13,279	-176
Total	**-51,275**	**-27,691**		**-22,706**	

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

Calculation of risk-bearing capacity

During the 2016 financial year, the basis for the calculation of the economic capital requirement for interest rate risk in the group was changed from the 12-month P&L effect to the economic value impact. As a rule, this yields a larger result; at year-end, the amount was EUR 51.3 million. The 12-month P&L effect (according to the old method) rose by around EUR 5 million in 2016, mostly due to stronger domestic currency shocks and a significantly higher contribution of the EUR portfolio to the risk amount; however, this was partly offset by a decrease in the USD contribution.

Liquidity and funding risk

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

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

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

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

To assess our short-term liquidity risk, we also monitor the LCR as defined in CRR, both at the level of each ProCredit bank and at group level. This ratio indicates whether the banks and the group have sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. As of 31 December 2016, the LCR was 194% at group level, and thus comfortably above the regulatory requirement of 70%.

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

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

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

Maturity structure, by contractual maturity

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

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

Maturity structure, by expected maturity

A negative value for the expected liquidity surplus quantifies the potential liquidity needs within a certain time period, while a positive value shows the potential excess of liquidity.

This calculation includes excess liquidity from the previous time buckets. As of December 2016 the group's sufficient liquidity indicator stood at 2.4 and the ratio of highly liquid assets to customer deposits was 32%, both indicating that the group had a comfortable liquidity situation.

At year-end, all ProCredit banks fulfilled the respective liquidity ratio requirement. The banks had enough liquidity available at all times in 2016 to meet all financial obligations in a timely manner. The group had adequate liquidity levels at all times during 2016.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits, supplemented by long-term credit lines from international financial institutions. We make little use of interbank and capital markets. The funding of the ProCredit group has proven to be resilient even in times of stress. As of end-December 2016 the largest funding source was customer deposits, with EUR 3,475.1 million (2015: EUR 3,793.0 million). International Financial Institutions (IFIs) are the second largest source of funding, accounting for EUR 499.3 million (2015: EUR 509.4 million).

The ProCredit group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the banks, identified in the business planning process, are monitored and regularly reviewed at group level. Group ALCO monitors the progress of all individually significant transactions with external funding providers, especially IFIs. ProCredit Holding and the ProCredit Bank in Germany also offer bridge financing in the event that a funding project is delayed. A key indicator for limiting funding risk is the deposit concentration indicator. This is defined as the share of the ten largest depositors relative to the bank's total deposit base, which should not exceed 15%. Two more indicators additionally restrict the level of funding from the interbank market to a low level.

Operational risk and fraud risk

In line with CRR, we define operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Policies on operational risk management have been implemented across all group entities; they have been approved by the Management of ProCredit Holding and are updated annually. This ensures effective management of operational risk throughout the group. The principles set forth in the group policies are in compliance with the requirements for the standardised approach for operational risk pursuant to CRR.

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

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks document their risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk. The table below provides an overview of the gross and net losses due to operational loss events and fraud cases in 2016 (data as of 01 February 2017).

Key operational risk figures 2016	
Gross loss, EUR million	4.1
Current net loss, EUR million	1.3
Number of loss events	740

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

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

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

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

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

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

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

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

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

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

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

Other material risk

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

Business risk represents the risk of lower profitability due to external and internal factors, such as worsening economic conditions, sudden regulatory measures or disadvantageous business decisions. This risk is mitigated by means of a structured process for the planning, implementation, assessment and adjustment of the business and risk strategy, as well as through the regular communication between the Management of ProCredit Holding and the management teams in the individual banks. Quipu, the group's IT provider, also has a risk-mitigating impact with its standardised software products. Of comparable importance are our internal training programmes, which ensure a consistently high level of competence among our management staff.

Model risk is understood as the risk that, due to modelling errors, inaccurate information is used as a basis for decision-making, resulting in a higher level of risk than intended. Model risk applies to the models used for the calculation of internal capital adequacy. The group mitigates this risk by means of model selection (market standards), conservative calibration of the applied models, and comprehensive validation measures and stress testing.

Capital Management

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

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

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

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

Internal capital adequacy

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

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our internal capital adequacy assessment is that the group is able to withstand strong shock scenarios without endangering depositors and other providers of funding. In our view, the crisis years 2009 and 2010 underscored, firstly, the necessity for a conservative approach towards capital management, and secondly, the developments during that time proved the strength of the group in dealing with a difficult economic environment. Throughout this period, the group showed strong levels of capital, leaving ample headroom for additional loss absorption had the economic conditions further deteriorated.

The group applies a gone-concern approach in managing and monitoring internal capital adequacy. We are committed to being able to meet our (non-capital) obligations at all times in the event of unexpected losses in the gone-concern approach, both in normal and in stress scenarios.

The group considers the going-concern approach to be an auxiliary condition which must be met. This implies that, as a regulated financial holding group, we must satisfy the minimum capital requirements set by the supervisory authority at all times. The internal capital adequacy of the group was sufficient at all times during 2016, both in the going-concern approach and in the gone-concern approach.

Fundamental developments to the group's risk-bearing capacity concept were undertaken during the year, particularly as concerns the models used for the quantification of individual material risks and the stress testing programme. Additional developments will continue in 2017 as well.

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 following risks are included in the internal capital adequacy calculation as material risks:

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

The group's risk-taking potential (RTP) in the gone-concern approach, defined as the consolidated group equity (net of intangibles, minority interests and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 774.8 million as of the end of December 2016. At the end of 2016, the Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 675.0 million, applicable for one year. This reflects the maximum acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set significantly below the group's RTP in order to ensure the existence of a sufficient security buffer. The RAtCR is then, on the basis of the risk appetite, distributed among the individually quantifiable risks, and the economic capital needed to cover the risks is compared with the available capital.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation as of end-December 2016. As the models used to quantify the risk positions have been developed further and changes have been made to the limit system, it is not possible to make direct comparisons with figures from the previous year. In the standard scenario, which under the gone concern approach is calculated with a 99.9% confidence level, the ProCredit group needs 74.1% of its RAtCR and 64.6% of its RTP to cover its risk profile.

Risk Factor	Limit (in EUR m)	Limit Used (in EUR m)	Limit Used (in % of
Credit Risk	350.0	274.3	78.4
Interest Rate Risk	80.0	51.3	64.1
Foreign Currency Risk	120.0	76.8	64.0
Operational Risk	30.0	19.1	63.7
Business Risk	25.0	19.3	77.2
Funding Risk	10.0	6.5	65.0
Model Risk	60.0	53.0	n.a.*
Total	**675.0**	**500.3**	**74.1**

% for limit used is not provided because the value is fixed

Risk-bearing capacity, gone concern approach

Stress tests

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

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

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

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

Regulatory capital adequacy

Whereas the Pillar 1 minimum capital requirements for the ProCredit group are imposed and monitored by the German Federal Financial Supervisory Authority and by the Supervisory College pursuant to section 8a of the German Banking Act, the individual ProCredit banks are subject to the requirements imposed by the local banking supervisory authorities.

Methods for the calculation of capital adequacy vary between countries, but an increasing number of jurisdictions where the ProCredit banks operate base their calculation methods on the recommendations of the Basel Committee on Banking Supervision. Compliance with local supervisory requirements is monitored for each ProCredit institution on the basis of the respective local requirements, 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.

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

in '000 EUR	31.12.2016	31.12.2015
Common equity Tier 1 capital	574,111	535,396
Additional Tier 1 capital	0	0
Tier 2 capital	149,920	103,325
Total capital	**724,031**	**638,721**
Risk weighted assets	**4,602,896**	**5,258,041**
	31.12.2016	**31.12.2015**
Common equity Tier 1 capital ratio	12.5%	10.2%
Tier 1 capital ratio	12.5%	10.2%
Total capital ratio	**15.7%**	**12.1%**

Capital ratios of the ProCredit group

The capital ratios of the ProCredit group increased substantially in during the 2016 financial year. This was due to both an increase in shareholders' equity and a reduction in parallel to the total risk amount for the group. During the course of 2016, the CET1 ratio climbed to 12.5%, with a Tier 1 ratio likewise at 12.5%, and a total capital ratio of 15.7%. The level of capitalisation in the ProCredit group is thus significantly higher than the current regulatory requirements, which provides a sound basis for future growth.

The transitional provisions of CRR for some equity positions only had a minor impact on the capital ratios of the ProCredit group. Without applying these provisions, the fully loaded CET1 ratio and T1 ratio would both have stood at 12.4%, whereas the total capital ratio would have been 15.4%.

The CRR minimum capital ratios are set to 4.5% for the CET1 ratio, 6% for the T1 ratio and 8% for the total capital ratio. Furthermore, as of 1 January 2016 the incrementally implemented capital conservation buffer for 2016 is 0.625%. The institution-specific countercyclical capital buffer applicable as of 1 January 2016 currently plays no role for the ProCredit group, due to the geographical distribution of loan exposures.

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

The Common Equity Tier 1 capital reported as of 31 December 2016 includes interim profits as of 30 September 2016, less foreseeable charges and dividends. Furthermore, ProCredit Holding increased the CET1 capital by EUR 31.9 million in 2016, resulting in a total year-end amount of EUR 574.1 million.

The Tier 2 capital of the ProCredit group consists of long-term subordinated loans which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. By issuing new subordinated instruments in 2016, the level of T2 capital increased by EUR 46.6 million during the year.

	31.12.2016		31.12.2015	
in '000 EUR	Risk weighted	Capital requirements	Risk weighted assets	Capital requirements
Credit risk	3,445,607	275,649	3,950,318	316,025
Market risk (currency risk)	461,856	36,948	505,084	40,407
Operational risk	693,939	55,515	800,719	64,058
CVA* risk	1,494	119	1,919	154
Total	**4,602,896**	**368,232**	**5,258,041**	**420,643**

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

Risk-weighted assets and capital requirements, by risk category

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

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

The ProCredit group applies the standardised approach to quantify operational risk. Compared to the regulatory capital requirements for operational risk, which amount to EUR 55.5 million, the average annual net loss according to data recorded in the Risk Event Database in the last three years amounted to EUR 1.5 million.

Given the small volume of derivatives held by the group, the risk arising from credit valuation adjustment (CVA)[8] is insignificant. The ProCredit group uses the standardised approach to calculate the capital requirements to cover CVA risk.

The total volume of risk-weighted assets in the ProCredit group decreased by EUR 655.1 million in 2016. This was due primarily to the lower level of group assets following the sale of the shares in the institutions in Bolivia and Mexico. The amount for foreign currency risk likewise dropped sharply subsequent to those sales transactions. Moreover, the fall in the amount of operational risk due to sales in previous periods also contributed to a lower total amount of RWAs.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. A mandatory minimum ratio has not yet been set; however, a minimum ratio of 3% will likely be required as from 2019. As of year-end 2016 the ProCredit group reported a very comfortable leverage ratio of 9.9%.

in '000 EUR	**31.12.2016**	**31.12.2015**
Equity	574,111	535,396
Assets	5,825,991	6,190,769
Leverage ratio	**9.9%**	**8.6%**

Leverage ratio

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

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

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

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

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

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

Remuneration Report for the Management and Supervisory Board

Management

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

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

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

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

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

Helen Alexander	Benefits granted		Allocation	
	2015	2016	2015	2016
Basic Salary	85,100	82,800	85,100	82,800
Short-term variable remuneration	-	-	-	-
Pension cost*	30,328	30,328	30,328	30,328
Total remuneration	**115,428**	**113,128**	**115,428**	**113,128**

Dr Antje Gerhold	Benefits granted		Allocation	
	2015	2016	2015	2016
Basic Salary	156,000	52,000	156,000	52,000
Short-term variable remuneration	96,320	-	96,320	-
Pension cost*	12,000	4,000	12,000	4,000
Total remuneration	**264,320**	**56,000**	**264,320**	**56,000**

Dr Antje Gerhold resigned as a member of the Management on 21 April 2016 in order to assume a position on the Management Board of ProCredit Bank Romania.

Borislav Kostadinov	Benefits granted		Allocation	
	2015	**2016**	**2015**	**2016**
Basic Salary	163,800	163,800	163,800	163,800
Short-term variable remuneration	89,782	-	89,782	-
Pension cost*	4,200	4,200	4,200	4,200
Total remuneration	**257,782**	**168,000**	**257,782**	**168,000**

Dr Anja Lepp	Benefits granted		Allocation	
	2015	**2016**	**2015**	**2016**
Basic Salary	126,000	126,000	126,000	126,000
Short-term variable remuneration	-	-	-	-
Pension cost*	32,183	32,248	32,183	32,248
Total remuneration	**158,183**	**158,248**	**158,183**	**158,248**

Dr. Gabriel Schor	Benefits granted		Allocation	
	2015	**2016**	**2015**	**2016**
Basic Salary	138,000	138,000	138,000	138,000
Short-term variable remuneration	-	-	-	-
Pension cost*	34,962	35,057	34,962	35,057
Total remuneration	**172,962**	**173,057**	**172,962**	**173,057**

*Includes: Disability insurance and life insurance, contributions to company pension insurance and voluntary/private health insurance as well as statutory allocations

The remuneration presented here does not contain employer contributions to health and long-term care insurance. No severance payments were agreed.

Supervisory Board

In 2016, the members of the Supervisory Board received remuneration in the amount of EUR 10,000. ProCredit Holding reimbursed the travel costs for Supervisory Board members. Furthermore, ProCredit Holding concluded a D&O insurance policy which provides coverage for the members of the Supervisory Board. No fees are paid for participation in the meetings of the Supervisory Board.

Remuneration of the Supervisory Board

Amounts in EUR	**2016 Remuneration**	**2015 Remuneration**
Dr. Claus-Peter Zeitinger	10,000.00	10,000.00
Hr. Christian Krämer	10,000.00	10,000.00
Hr. Wolfgang Bertelsmeier	10,000.00	10,000.00
Hr. Rochus Mommartz (till Nov 2016)	10,000.00	10,000.00
Hr. Petar Slavov	10,000.00	10,000.00
Hr. Jasper Snoek	10,000.00	10,000.00
Hr. Rainer Ottenstein (since Nov 2016)	-	-

Corporate Governance Statement *(Erklärung zur Unternehmensführung)* (sec. 289a HGB)

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- Corporate Governance Report (sec. 3.10 German Corporate Governance Code)
    - Management Board and Supervisory Board
    - Other Key Aspects of our Approach to Corporate Governance
- Statement of Compliance with German Corporate Governance Code (sec. 161 AktG)
- Disclosures Required by Takeover Law pursuant to sec. 315 para. 4 German Commercial Code *(Handelsgesetzbuch)*

Corporate Governance Report

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

The German Corporate Governance Code ("**CGC**") has long been a reference point for the group and since the Company's shares were admitted to trading on the Frankfurt Stock Exchange on 20 December 2016, the CGC has gained in significance. With the exception of the deviations listed in this report, the Company operates in compliance with the recommendations of the CGC.

Management Board and Supervisory Board

Working Relationship between Management Board and Supervisory Board

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

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

Management Board and Supervisory Board cooperate closely to the benefit of the Company. Specifically the Supervisory Board meets at least twice in each half year. In 2016, the Supervisory Board held five routine meetings, and one written vote. The Supervisory Board has determined a comprehensive set of reports to be provided by the Management in due time before each meeting. The Management Board reports on the business and risk strategies of the group at least once per year and routinely reports on the status of implementation of the strategies. Since the Supervisory Board has decided not to build committees all relevant reports are provided to all members. The Supervisory Board reviews and approves the Annual Financial Statements for ProCredit Holding AG & Co. KGaA and the Consolidated Annual Financial Statements for the ProCredit group. The Supervisory Board examines the efficiency and effectiveness of its activities on a regular basis, and at least once in every calendar year. The Company complies with the German Corporate Governance Code except as outlined in the Statement provided below.

Management Board of ProCredit General Partner AG

The Management Board comprised at the end of December 2016 the following individuals:

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

On 1 March 2017, Sandrine Massiani was appointed as a member of the Management Board. Her mandate is for four years. Her responsibilities comprise Human Resources, IT and Internal Audit.

Dr. Antje Gerhold was a member of the Management Board from 1 April 2014 to 21 April 2016. Dr Gerhold stepped down in order to assume a management board position at ProCredit Bank, Romania.

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

Supervisory Board of ProCredit Holding AG & Co. KGaA

The Supervisory Board comprised at the end of December 2016 the following individuals:

Supervisory Board member	**First elected**	**Date term expires***	**Supervisory and Management Board positions held outside the Group**
Dr. Claus-Peter Zeitinger (Chairman)	2004	2017	None
Christian Krämer (Deputy Chairman)	2014	2017	Berliner Energieagentur GmbH, Germany, member of the supervisory board

Wolfgang Bertelsmeier	2011	2017	Vietnam Enterprise Investments Limited, Vietnam, member of the supervisory board ProCredit Bank Congo S.A.R.L., Democratic Republic of the Congo, member of the supervisory board Zalar S.A., Morocco, member of the supervisory board
Rainer Ottenstein	2016	2021	None
Petar Slavov	2014	2017	None
Jasper Snoek	2008	2017	Stichting DOEN, The Netherlands, executive director
*Board mandates are likely to be renewed at the date the current term expires			

Rochus Mommartz was a member of the Supervisory Board until 30 November 2016. He resigned due to time constraints following his appointment to CEO of responsAbility Investments AG, Zurich (Switzerland).

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

Objectives for the composition of the Supervisory Board and status of implementation

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

Otherwise, the Supervisory Board has determined that the composition of the Supervisory Board should duly represent members who apart from good knowledge of banking have:

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

Generally, since the Supervisory Board comprises only 6 members, as far as possible all members should have these core attributes. In so far as there is not a separate audit committee (as explained in the Statement of Compliance with the CGC), all members should have sufficient knowledge of financial analysis and risk aspects of banking. Furthermore, since the Company's shares are listed on the Frankfurt Stock Exchange, a general understanding of capital markets is valuable.

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

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

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

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

There were no committees of the Supervisory Board in the fiscal year 2016. The Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the group, generally make the formation of committees superfluous, particularly since all of its members are well qualified and devote sufficient time.

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. The Supervisory Board notes that currently there are no women on the Supervisory Board, but notes also that 50% of the Management Board are women such that women are not underrepresented in the overall structure of the Company.

The Supervisory Board has set the target that at least one woman join the Supervisory Board should there only be one or fewer women in the Management Board, and that at least one woman should be part of the Management Board.

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

<u>Remuneration and share ownership of the Management and Supervisory Boards' members</u>

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

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

Management Board members hold shares in ProCredit Holding either directly or indirectly (via ProCredit Staff Invest 1, 2 and/or 3 GmbH & Co. KG). However, in no individual case or together does the aggregated volume of shares reach 1% of the total share capital of the Company. There is no share option scheme for staff or Management Board members.

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

Managers' Transactions

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

Other Key Aspects of our Approach to Corporate Governance

Working Relationship between ProCredit Holding and its subsidiaries

Central to the effective governance of the ProCredit group is the relationship between the Company as the holding entity and its subsidiaries. A strength of the ProCredit group is its ability, despite having operations across 17 countries, to implement its business and risk strategies with a very high degree of efficiency and uniformity. All ProCredit banks are independent, licensed and regulated banks. The Company holds a controlling stake (typically 100%) of its subsidiaries and is in a position to appoint the majority of supervisory board members of its subsidiaries. The management board at each ProCredit bank bears responsibility for the operations in its respective institution. They operate within the tight business and risk management framework set by ProCredit Holding.

Transparency

ProCredit Holding is committed to transparency and open communication with stakeholders and its shareholder in particular. Relevant information is to be made available to the public promptly to ensure the equal treatment of shareholders. ProCredit Holding oversees an effective consolidated reporting process. It aims to make quarterly financial statements available. The ProCredit Holding Investor Relations team will provide additional clarity via investor and analyst presentations, roadshows, press communication, including ad-hoc notifications, as necessary, and other means, as appropriate. Important non-financial information, including in particular an annual Group Environmental Performance Report, an annual Group Anti-Money Laundering Report as well as our Group Code of Conduct, will also be available on the ProCredit Holding website.

Risk Management

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

Compliance

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

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

Pursuant to section 161 of the German Stock Corporation Act (AktG), the "**Management Board**" of ProCredit General Partner AG, as the sole "**General Partner**", and the "**Supervisory Board**" of ProCredit Holding AG & Co. KGaA ("**Company**") declare that the Company, in accordance with the special legal characteristics of a partnership limited by shares and with the exception of the deviations listed in the following, has been in compliance with the recommendations of the German Corporate Governance Code ("**CGC**") of 5 May 2015, as published by the Federal Ministry of Justice in the official part of the German Federal Gazette, since its shares were admitted for trading on the regulated market (Prime Standard) of the Frankfurt Stock Exchange on 20 December 2016 and it will continue to do so in the future.

<u>Deviations based on the legal form of the Company</u>

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

<u>Deviations from the recommendations of the Code</u>

3.8 (3)

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

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

4.2.1 sentence 1

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

The managerial duties are performed by a legal entity (i.e. the General Partner); the General Partner is run by a management team (i.e. the Management Board) consisting of four persons (at the end of December 2016).

The Management Board has neither a chairperson nor a spokesperson, as all Management Board members work on an equal footing in their respective, clearly defined areas of competence; they therefore jointly bear the overall responsibility for the Company. The Supervisory Board and the Management Board are of the opinion that this joint approach with regard to the Management Board continues be appropriate practice.

4.2.3 (2) sentences 2 et seq.

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

The remuneration of the Management Board members comprises mainly a fixed component and no regular variable components. The responsible-minded and long-term oriented corporate culture of the group as a whole does not advocate variable remuneration. In the opinion of the Company, fixed salaries are enough to guarantee sustainable growth for the Company and that no additional incentives are required. In occasional cases, the Supervisory Board may at its discretion, and considering the Company’s economic situation, award special remuneration in order to reward specific instances of outstanding performance

5.3.2

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

As the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole, generally does not require the formation of committees, there is no audit committee within the Supervisory Board. This opinion is reinforced by the fact that all of the Supervisory Board members are sufficiently qualified to perform the duties of an audit committee, that they meet on a regular basis and that they devote sufficient time. Moreover, the Company’s Supervisory Board deems it important that all of its members are familiar with the areas of responsibility that normally fall within the remit of an audit committee.

5.3.3

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

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

5.4.1 (2) sentence 1

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

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

5.4.6 (1)

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

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

Frankfurt am Main, 13 February 2017

Management Board of ProCredit General Partner AG	Supervisory Board of ProCredit Holding AG & Co. KGaA

Disclosures Required by Takeover Law pursuant to sec. 315 para. 4 German Commercial Code *(Handelsgesetzbuch)*

The share capital of ProCredit Holding AG & Co. KGaA (the ***Company***) is divided into 53,544,084 registered shares with no par-value. Each share entitles its holder to one vote.

In principle, all shares can be freely traded.

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

The Core Shareholders entered into an agreement dated 7 July 2011, as amended on 31 October 2016 (the ***Core Shareholders' Agreement***), according to which each Core Shareolder agrees to exercise its influence as a shareholder in the Company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the Company and its subsidiaries continue to be in line with applicable law and best practice banking and socially responsible standards. The Core Shareholders' Agreement stipulates that each Core Shareholder exercises its voting rights at its own discretion only, and that there is no obligation to exercise such voting rights jointly and in a coordinated manner with any or all of the other Core Shareholders. Moreover, the Core Shareholders' Agreement sets out certain minimum levels for the Core Shareholders' shareholding in the Company, collectively amounting to 20% of the Company's share capital, which the Core Shareholders agreed to maintain until 31 October 2019.

Furthermore, restrictions apply to Zeitinger Invest GmbH, KfW, Stichting DOEN, the International Finance Corporation, the Teachers Insurance and Annuity Association of America as well as the members of the Management Board (including Ms Sandrine Massiani) and the Company's Supervisory Board member, Mr Petar Slavov (the ***Lock-up Shareholders***). The Lock-up Shareholders entered in a lock-up agreement on 14 December 2016. The Lock-up Shareholders thereby undertook until the date which falls 180 days after the first day of trading of the Company's Shares on the Frankfurt Stock Exchange (i.e. 22 December 2016) not to, without the prior written consent, of Joh. Berenberg, Gossler & Co. KG, sell, distribute, transfer or otherwise dispose of any of their respective shares of the Company; or enter into a transaction regarding their respective shares of the Company having the same economic effect as a sale.

Furthermore, our shares are not subject to any special rights of control.

The following shareholders owned (directly or indirectly) as of the date of the first-time admission (i.e. 20 December 2016) of the shares of the Company to trading on the Frankfurt Stock Exchange 10% or more of the voting rights:

- Zeitinger Invest GmbH 17.48%
- Federal Republic of Germany (indirectly via KfW) 14.52%

- Stichting DOEN (indirectly via DOEN Participaties B.V.) 13.76%
- The International Finance Corporation 10.97%

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

As of the first-time admission (20 December 2016) of the shares of the Company to trading on the Frankfurt Stock Exchange the employees of the Company collectively owned 4.92% of the share capital via three investment companies (i.e. ProCredit Staff Invest 1, 2 and 3 GmbH & Co. KG). The investment companies are the immediate shareholders and thus exercise the voting rights for the employees of the Company. As far as employees are direct shareholders, they themselves exercise the voting rights control.

The Company is managed by ProCredit General Partner AG which, due to the legal nature of a partnership limited by shares (*Kommanditgesellschaft auf Aktien – KGaA)*, does not have to be appointed but has been the managing entity of the Company since its establishment. ProCredit General Partner AG is managed by natural persons, who are appointed by the supervisory Board of ProCredit General Partner AG in accordance with sec. 84 and 85 AktG and Art. 6 para. 2 of the Articles of Association of ProCredit General Partner AG. Pursuant to Art. 22 para. 1 of the Articles of Association of the Company and sec. 179 AktG, the Articles of Association of the Company can be amended upon resolution of the Company's General Meeting with simple majority, unless otherwise stipulated by compulsory law. Furthermore, ProCredit General Partner AG has to give its approval to such change in accordance with Art. 22 para. 2 of the Articles of Association of the Company, and finally the supervisory board of ProCredit General Partner AG has to give its consent to the such approval in accordance with Art. 7 para. 4 of the Articles of Association of ProCredit General Partner AG.

The Management Board has not been authorised to purchase its own shares. ProCredit General Partner AG is entitled to the issuance of new shares up to the amount of EUR 26,772,042.- until 31 May 2021 in accordance with Art. 4 para. 3 of the Articles of Association of the Company (Authorised Capital 2016).

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

Further, there are no compensation agreements in place with the members of the Management Board or with any employees of the Company in case of a take-over bid.

ProCredit Holding AG & Co. KGaA
Annual Financial Statements as of 31. December 2016
and Combined Management Report

Rohmerplatz 33-37
60486 Frankfurt am Main, Germany

HR Frankfurt Section B No. 91858
Tax No. 04724142020

The management report for ProCredit Holding AG & Co. KGaA and the group management report for the ProCredit group have been combined and published together with the consolidated financial statements for ProCredit Holding AG & Co. KGaA for the financial year ending 31.12.2016.

The annual financial statements and the group management report, which includes the combined management report for ProCredit Holding AG & Co. KGaA for the 2016 financial year, will be submitted to the provider of the electronic Federal Gazette ("Bundesanzeiger") and published electronically in the Federal Gazette.

Balance sheet

in EUR	(Note)	31.12.2016	31.12.2015
A. Fixed assets			
I. Intangible fixed assets			
1. Trademarks and software		34,629	55,353
II. Tangible fixed assets			
1. Land and buildings		3,429,762	3,821,705
2. Other equipment, operating and office equipment		669,781	866,793
III. Long-term financial assets			
1. Shares in affiliated companies	(2)	614,922,272	637,828,045
2. Loans to affiliated companies	(3)	204,549,653	182,449,507
3. Other loans	(4)	17,393,304	22,545,715
		840,999,400	847,567,118
B. Current assets			
I. Receivables and other assets			
2. Receivables from affiliated companies		25,026,682	32,510,782
of which, with a time to maturity of more than one year:		*0*	*0*
3. Other assets	(5)	1,273,963	4,510,907
of which, with a time to maturity of more than one year:		*0*	*0*
II. Cash in hand, central bank balances, bank balances and cheques		112,142,586	29,615,854
of which, with affiliated companies:		*109,999,476*	*10,124,082*
		138,443,231	66,637,543
C. Prepaid expenses	(7)	8,233,805	8,173,371
Total assets		**987,676,436**	**922,378,032**
A. Equity			
I. Subscribed capital	(8)	267,720,420	254,122,820
of which, general partner		*0*	*0*
of which, limited partner		*267,720,420*	*254,122,820*
II. Capital reserves		115,480,841	97,178,471
of which, general partner		*0*	*0*
of which, limited partner		*115,480,841*	*97,178,471*
III. Revenue reserves			
1. Legal reserve		135,961	135,961
IV. Retained earnings	(9)	120,887,923	93,793,389
		504,225,145	445,230,641
B. Provisions			
1. Other provisions	(10)	1,847,911	778,173
C. Liabilities			
1. Bonds		242,380,664	231,523,225
of which, with a time to maturity of up to one year:		*20,292,864*	*35,630,372*
of which, with a time to maturity of more than one year:		*222,087,800*	*195,892,854*
2. Liabilities to banks		198,748,532	211,641,460
of which, with a time to maturity of up to one year:		*55,248,532*	*34,391,460*
of which, with a time to maturity of more than one year:		*143,500,000*	*177,250,000*
3. Trade payables		406,411	133,059
of which, with a time to maturity of up to one year:		*406,411*	*133,059*
of which, with a time to maturity of more than one year:		*0*	*0*
4. Liabilities to affiliated companies		789,543	1,475,582
of which, with a time to maturity of up to one year:		*789,543*	*1,475,582*
of which, with a time to maturity of more than one year:		*0*	*0*
5. Other liabilities		39,087,707	31,386,642
of which, taxes		*96,915*	*88,299*
of which, for social security		*22,164*	*15,317*
		481,412,857	476,159,968
D. Deferred income		190,523	209,249
Total equity and liabilities		**987,676,436**	**922,378,032**

Income statement

in EUR	(Note)	01.01.- 31.12.2016	01.01.- 31.12.2015	reclassified 01.01.- 31.12.2015
1. Sales revenue	(14)	9,910,230	0	13,660,479
2. Other operating income	(15)	40,569,533	13,795,731	17,361,246
3. Personnel expenses:	(16)	6,366,330	7,306,635	7,306,635
a) Wages and salaries		*5,280,167*	*6,124,190*	*6,124,190*
b) Social security, post-employment and other employee benefit costs		*1,086,163*	*1,182,445*	*1,182,445*
of which, in respect of retirement pensions:		*173,130*	*192,845*	*192,845*
4. Depreciation on intangible and tangible fixed assets		726,233	744,606	744,606
5. Other operating expenses	(17)	18,711,767	17,041,657	17,041,657
Net operating income (-loss)		**24,675,433**	**-11,297,167**	**5,928,826**
6. Income from long-term equity investments	(18)	45,928,382	55,538,642	55,538,642
of which, from affiliated companies:		*45,928,382*	*55,538,642*	*55,538,642*
7. Income from profit and loss transfer agreements	(19)	424,389	268,345	268,345
8. Other interest and similar income		14,500,961	14,530,588	14,530,588
of which, from affiliated companies:		*13,611,309*	*13,579,301*	*13,579,301*
Financial income		**60,853,731**	**70,337,575**	**70,337,575**
9. Depreciation on long-term financial assets		12,892,611	14,731,468	14,731,468
10. Expenses from profit and loss transfer agreements		0	1,214,800	1,214,800
11. Interest and similar expenses		20,820,701	22,319,648	22,319,648
of which, to affiliated companies:		*0*	*2,853,105*	*2,853,105*
Financial expenses		**33,713,312**	**38,265,915**	**38,265,915**
12. Extraordinary Income		0	17,225,994	0
Extraordinary Income		**0**	**17,225,994**	**0**
				0
13. Result from ordinary business operations		**51,815,852**	**38,000,486**	**38,000,486**
14. Taxes on income (corporate income tax, trade tax and other taxes)	(20)	4,391,493	3,143,339	3,143,339
15. Net income (-loss) for the year		**47,424,360**	**34,857,147**	**34,857,147**
16. Profit carried forward from previous years		93,793,389	69,101,155	69,101,155
17. Dividend distribution		20,329,826	10,164,913	10,164,913
18. Retained earnings		**120,887,923**	**93,793,389**	**93,793,389**

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A. BASIS OF FINANCIAL ACCOUNTING

1. Disclosures on recognition, measurement and presentation principles

The financial statements of ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt am Main, as at 31. December 2016, were prepared in accordance with the regulations of the German Commercial Code [*Handelsgesetzbuch*] and the German Stock Corporation Law [*Aktiengesetz*]. The preparation of these Financial Statements follows the same accounting policies and methods of computation as were used for the Financial Statements for the financial year 2015, except for the changes according to BilRUG (*Bilanzrichtlinienumsetzungsgesetz).* The amendments were fully applied for financial years beginning after 31 December 2015 and respective reclassifications have been made accordingly. Disclosures have been changed for the items in the income statement: Sales revenue (s. note 14), other operating income (s. note 15) and extraordinary income (s. reclassification in the income statement).

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

Long-term financial assets are valued at acquisition cost, unless they are part of an evaluation unit (see also below). If impairment of a financial asset is expected to be permanent, non-scheduled depreciation is reported on the impaired assets. Impairment on long-term financial assets is generally tested by comparing the net present value of future cash flows from investments with the respective carrying value. In cases in which the reasons for impairment have ceased to exist, a reversal of the impairment is undertaken.

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

Other provisions include all legal or constructive obligations to third parties and are recognised at a settlement amount estimated on the basis of commercial judgement. No provisions for more than one year had to be accounted for.

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

Derivative financial instruments are used to reduce the risk resulting from transactions in foreign currencies and are only used for hedging purposes. Hedge relationships, including derivative hedging transactions, are recognised in accordance with the principles of section 254 of the German Commercial Code. In general, ProCredit Holding strives to reduce the risk from currency transactions to a minimum through the formation of micro-and macro hedges. Micro-hedges are used to cover the risk of individually identifiable underlying transactions. The prospective and retrospective effectiveness is determined using the critical terms match. Macro-hedges are used to hedge other open currency positions. Financial accounting is done according to the "Durchbuchungsmethode" (revaluation method).

ProCredit Holding AG & Co. KGaA sucursal colombiana, Bogota, Colombia operates as a regional training centre and is considered as a branch of ProCredit Holding and is therefore included in these financial statements.

All amounts are presented in euros, unless otherwise stated. Positions in foreign currency were measured at the middle exchange rate valid at the end of the reporting period. It is the company's policy to hold closed FX positions as far as possible and it actively seeks to close positions daily (see also note 5). Gains and losses from the revaluation of these currency positions are recognised in the income statement. Income and expenses in foreign currencies are generally translated at the middle exchange rate. The period-end USD-exchange rate as at 31. December 2016 was EUR 1/USD 1.0541. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (EUR, %, etc.).

B. BALANCE SHEET DISCLOSURES

2. Shares in affiliated companies

in ´000 EUR

Affiliated company	as at 01.01.2016	Size of stake in %	Addition in 2016	Depreciation in 2016	Disposal in 2016	as at 31.12.2016	Size of stake in %
ProCredit Bank sh.a. Tirana, **Albania**	29,141	100.0%	0	0	0	29,141	100.0%
Banco Pyme Los Andes ProCredit S.A. La Paz, **Bolivia**	44,446	100.0%	3,567	0	48,012	0	0.0%
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	24,725	100.0%	0	0	0	24,725	100.0%
ProCredit Bank (Bulgaria) EAD Sofia, **Bulgaria**	76,150	100.0%	14,610	0	0	90,761	100.0%
Banco ProCredit S.A. Bogotá, **Colombia**	16,662	93.0%	2,500	10,383	0	8,779	94.3%
Banco ProCredit S.A. Quito, **Ecuador**	27,197	100.0%	2,008	0	0	29,205	100.0%
Banco ProCredit S.A. San Salvador, **El Salvador**	20,271	99.9%	0	0	0	20,271	99.9%
ProCredit Bank JSC Tbilisi, **Georgia**	59,999	100.0%	0	0	0	59,999	100.0%
ProCredit Bank AG Frankfurt, **Germany**	50,000	100.0%	0	0	0	50,000	100.0%
ProCredit Academy GmbH Fürth, **Germany**	500	100.0%	0	0	0	500	100.0%
Quipu GmbH Frankfurt, **Germany**	6,141	100.0%	0	0	0	6,141	100.0%
ProCredit Bank Sh.a Prishtina, **Kosovo**	77,968	100.0%	0	0	0	77,968	100.0%
ProCredit Bank A.D. Skopje, **Macedonia**	15,503	100.0%	0	0	0	15,503	100.0%
ProCredit Regional Academy Eastern Europe Veles, **Macedonia**	1,962	100.0%	0	0	0	1,962	100.0%
ProCredit Reporting DOOEL Skopje, **Macedonia**	5	100.0%	0	0	0	5	100.0%
Administración y Recuperación de Cartera Michoacán S. A. DE C. V., SOFOM, E. N. R. Morelia, **Mexico**	624	100.0%	718	0	0	1,342	100.0%
ProConfianza S.A. de C.V., SOFOM, E.N.R. Guadalajara, **Mexico**	3,859	99.2%	0	0	3,859	0	0.0%
ProCredit Bank S.A. Chisinau, **Moldova**	21,093	82.1%	0	0	0	21,093	82.1%
Banco ProCredit S.A. Managua, **Nicaragua**	17,620	94.7%	946	0	0	18,565	94.9%
ProCredit Bank S.A. Bucharest, **Romania**	36,379	100.0%	0	0	0	36,379	100.0%
ProCredit Bank a.d. Belgrade, **Serbia**	83,130	100.0%	0	0	0	83,130	100.0%
ProCredit Bank JSC Kiev, **Ukraine**	24,453	72.2%	15,000	0	0	39,453	86.1%
Total	**637,828**		**39,348**	**10,383**	**51,871**	**614,922**	

In 2016, ProCredit Holding sold all of its shares in ProConfianza S.A., Mexico and Banco Pyme Los Andes ProCredit S.A., Bolivia.

3. Loans to affiliated companies

in EUR	Senior	Subordinated	31.12.2016	31.12.2015
ProCredit Bank sh.a. Tirana, **Albania**	0	5,000,000	5,000,000	5,000,000
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	7,500,000	4,500,000	12,000,000	14,500,000
Banco ProCredit S.A. Quito, **Ecuador**	21,819,562	0	21,819,562	23,881,694
Banco ProCredit S.A. San Salvador, **El Salvador**	28,934,636	3,794,706	32,729,343	31,689,171
ProCredit Bank JSC Tbilisi, **Georgia**	38,895,740	9,486,766	48,382,506	22,044,640
ProCredit Academy GmbH Fürth, **Germany**	800,000	0	800,000	3,100,000
ProCredit Bank Sh.a Pristhina, **Kosovo**	0	7,500,000	7,500,000	7,500,000
ProCredit Bank A.D. Skopje, **Macedonia**	0	11,000,000	11,000,000	11,000,000
ProConfianza S.A. de C.V., SOFOM, E.N.R. Guadalajara, **Mexico**	0	0	0	9,886,595
ProCredit Bank S.A. Chisinau, **Moldova**	0	6,556,763	6,556,763	6,556,763
Banco ProCredit S.A. Managua, **Nicaragua**	0	5,692,060	5,692,060	9,644,530
ProCredit Bank S.A. Bucharest, **Romania**	0	8,750,000	8,750,000	8,750,000
ProCredit Bank a.d. Belgrade, **Serbia**	0	31,000,000	31,000,000	16,000,000
ProCredit Bank JSC Kiev, **Ukraine**	3,794,706	9,524,713	13,319,419	12,896,115
Total	**101,744,645**	**102,805,008**	**204,549,652**	**182,449,507**

Loans to affiliated companies are not secured. At the end of the reporting period, a variable interest rate was payable on about 38.1 % of the loans; the remaining loans were granted on the basis of a fixed interest rate.

4. Other loans

in EUR	31.12.2016	31.12.2015
ProCredit Bank CJSC Yerevan, **Armenia**	0	6,888,950
PC Finance II B.V. Amsterdam, **The Netherlands**	4,042,251	6,471,498
ProConfianza S.A. de C.V., SOFOM, E.N.R. Guadalajara, **Mexico***	3,864,288	0
Inter-American Investment Corporation Washington D.C., **USA**	9,486,766	9,185,267
Total	**17,393,304**	**22,545,715**

* the loan had been decreased by an extraordinary depreciation in the amount of EUR 2,296,538.

5. Other assets

in EUR	31.12.2016	31.12.2015
Collateral for swap transactions	0	2,799,519
Interest receivable other loans	109,908	17,321
Tax receivable	699,823	531,676
Foreign exchange swaps with third parties	0	391,890
Advances to free-lance consultants and employees	280,839	290,740
Others	183,393	479,761
Total	**1,273,963**	**4,510,907**

In 2016, all swap transactions are contractually agreed with ProCredit Bank Germany and are therefore shown as Receivables from or liabilities to affiliated companies.

In general, the risk resulting from foreign currency transactions is kept to a minimum. The Group Foreign Currency Risk Management Policy stipulates that the total open currency position may not exceed 10% of the company's equity. As at 31. December 2016 the open currency position of ProCredit Holding was USD 285,143.

The fair value information on derivative financial instruments is listed in the following overview:

		31.12.2016	
in EUR	nominal amount	positive fair value	negative fair value
Foreign-exchange swaps	84,669,266	364,292	-583,071
Total	**84,669,266**	**364,292**	**-583,071**

6. Receivables from banks

ProCredit Holding reported receivables from banks in the following positions:

in EUR	31.12.2016	31.12.2015
Loans to affiliated companies	203,749,652	169,462,912
Receivables from affiliated companies	11,507,108	18,120,037
Other assets	0	3,300,147
Cash in hand, central bank balances, bank balances and cheques	112,140,444	29,612,281
Total	**327,397,205**	**220,495,377**

The receivables from banks have the following remaining maturities:

in EUR	31.12.2016	31.12.2015
Up to three months	122,009,620	44,821,618
More than three months and up to one year	25,354,848	32,848,121
More than one year and up to five years	77,227,730	63,733,811
More than five years	102,805,008	79,091,828
Total	**327,397,205**	**220,495,377**

7. Prepaid expenses

The item "Prepaid expenses" consists primarily of disbursement fees in relation to the issuance of loans and bonds. The expenses will be amortised according to the terms of the loan.

8. Subscribed capital

	2016			2015		
	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR
As at January 1	50,824,564.00	254,122,820.00	97,178,471.15	50,824,564.00	254,122,820.00	97,178,471.15
Capital increase	2,719,520.00	13,597,600.00	18,302,369.60	-	-	
As at December 31	**53,544,084.00**	**267,720,420.00**	**115,480,840.75**	**50,824,564.00**	**254,122,820.00**	**97,178,471.15**

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

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

9. Retained earnings

At the Shareholders Meeting, the management intends to propose the distribution of a dividend of EUR 0.38 per share, equating to EUR 20.3 million.

10. Other provisions

in EUR	31.12.2015	Used	Released	Additions	31.12.2016
Audit fees	446,976	394,413	52,563	330,910	330,910
Untaken vacation	109,810	109,810	0	131,074	131,074
Others	221,387	201,984	19,403	1,385,927	1,385,927
Total	**778,173**	**706,207**	**71,966**	**1,847,911**	**1,847,911**

Other provisions include an amount of 1.2 Mio EUR for invoices related to the listing of the shares of ProCredit Holding at the German stock exchange in December 2016.

11. Other liabilities

This amount consists mainly of borrowings from international financial institutions.

12. Maturity structure of liabilities

From the perspective of remaining time to maturity, liabilities are as follows:

in EUR	31.12.2016	31.12.2015
Bonds		
up to three months	493,120	457,639
more than three months and up to one year	19,799,744	35,172,733
more than one year and up to five years	47,000,000	64,000,000
more than five years	175,087,800	131,892,854
Liabilities to banks		
up to three months	20,504,212	12,048,387
more than three months and up to one year	34,744,321	22,343,073
more than one year and up to five years	58,000,000	83,750,000
more than five years	85,500,000	93,500,000
Trade payables		
up to three months	406,411	133,059
Liabilities to affiliated companies		
up to three months	789,543	1,475,582
Other liabilities		
up to three months	15,312,488	2,389,074
more than three months and up to one year	58,304	6,034,401
more than one year and up to five years	23,716,915	22,963,167
Total	**481,412,857**	**476,159,968**

13. Contingent liabilities

The contingent liabilities consist of guarantees issued to third parties amounting to EUR 158,324,428 (previous year-end: EUR 178,783,209); these guarantees are to secure liabilities of companies affiliated to ProCredit Holding. A claim relating to guarantees issued is not expected as they are related to subsidiaries. Furthermore, ProCredit Holding issued credit lines totalling EUR 69,601,840 (previous year-end: EUR 110,363,277) to affiliated companies.

C. INCOME STATEMENT DISCLOSURES

14. Sales revenue

Almost all revenues previously shown as “Other operating income” are now disclosed as “Sales revenue”.

in EUR	01.01.- 31.12.2016	01.01.- 31.12.2015
Income from management service agreements	5,275,477	6,885,731
Income from reimbursed expenses	3,148,953	5,432,699
Income from guarantees to subsidiaries	1,380,199	1,249,066
Other sales revenue	105,602	92,982
Total	**9,910,230**	**13,660,479**

According to geographical markets:

in EUR	01.01.- 31.12.2016	01.01.- 31.12.2015
Germany	405,584	924,214
Other EU-Countries	1,444,552	2,194,346
Remaining Europe	4,831,185	5,733,811
Africa	0	763,091
South America	3,228,909	4,045,018
Total	**9,910,230**	**13,660,479**

15. Other operating income

The amount includes as extraordinary item an amount of 40,287,935 EUR from the sale of the subsidiary in Bolivia (previous year 17,225,994 from the sale of the subsidiary in DR Congo).

in EUR	01.01.- 31.12.2016	01.01.- 31.12.2015
Income from the sale of subsidiaries	40,287,935	17,225,994
Other income	190,518	131,008
Income from previous periods	91,080	4,244
Total	**40,569,533**	**17,361,246**

16. Personnel expenses

The average number of staff members employed by ProCredit Holding during the reporting period was 112 (including 26 staff members of the Regional Academy Latin America). The total number of staff members employed by ProCredit Holding at the end of the reporting period was 94.

17. Other operating expenses

in EUR	01.01.- 31.12.2016	01.01.- 31.12.2015
Administration expenses	5,450,199	6,663,104
Expenses to be reimbursed by affiliated companies	4,264,708	4,956,480
Expenses due to exchange rate differences and hedging transactions	2,995,378	1,616,902
Legal and advisory services	2,670,430	1,093,137
Other personnel expenses	1,750,741	1,297,532
Other expenses	1,580,312	1,414,502
Total	**18,711,767**	**17,041,657**

The other operating expenses consist mainly of administration expenses and advances for affiliated companies and other investors. The income from the invoicing of advances for affiliated companies and other investors is included in the position “Sales revenue”.

As a general rule, open currency positions are closed at portfolio level by ProCredit Holding. If necessary, hedging transactions are concluded. The net expenses due to exchange rate differences and hedging transactions primarily resulted from the ongoing valuation of hedging instruments.

The expenses for the external audit of ProCredit Holding are reported in the group financial statements.

18. Income from long-term equity investments

in EUR	01.01.-31.12.2016	01.01.-31.12.2015
ProCredit Bank sh.a. Tirana, **Albania**	1,160,000	0
Banco Pyme Los Andes ProCredit S.A. La Paz, **Bolivia**	5,991,744	8,738,951
ProCredit Bank A.D. Sofia, **Bulgaria**	14,610,480	4,347,109
Banco ProCredit S.A. Quito, **Ecuador**	2,007,965	3,095,995
ProCredit Bank JSC Tbilisi, **Georgia**	0	8,192,881
ProCredit Regional Academy Eastern Europe Veles, **Macedonia**	0	600,000
ProCredit Bank A.D. Skopje, **Macedonia**	2,158,192	2,842,613
ProCredit Bank Sh.a Pristina, **Kosovo**	20,000,000	20,000,000
ProCredit Bank A.D. Belgrade, **Serbia**	0	7,721,092
Total	**45,928,382**	**55,538,642**

19. Profit and loss transfer agreements

ProCredit Holding assumed the following profit and loss:

in EUR	01.01.-31.12.2016	01.01.-31.12.2015
ProCredit Bank AG Frankfurt, **Germany**	0	-1,214,800
ProCredit Academy GmbH Fürth, **Germany**	316,560	106,947
Quipu GmbH, Frankfurt, **Germany**	107,829	161,398
Total	**424,389**	**-946,455**

ProCredit Bank AG, Frankfurt, Germany will transfer all of their profit to their retained earnings.

20. Taxes on Income

Taxes on income consist mainly of foreign withholding taxes on dividend income in the amount of EUR 915 thousand (2015: EUR 2,452 thousand), on the income from the sale of shares EUR 2,808 thousand and on interest income in the amount of EUR 487 thousand (2015: EUR 502 thousand).

D. ADDITIONAL DISCLOSURES

21. Other financial obligations

Rental commitments
ProCredit Holding has incurred obligations totalling EUR 2,443 thousand arising from several rental contracts; this is within the usual market parameters.

Guarantee framework agreement
ProCredit Holding has signed a guarantee framework agreement to secure the liabilities of ProCredit Holding affiliated companies to a third party, the European Investment Bank. The guarantee covers a maximum of EUR 195,000 thousand in obligations from loans for its affiliated companies. Of this amount, EUR 141,807 thousand had been drawn by its affiliated companies as of the balance sheet date, with that amount being reported as contingent liabilities.

Option agreements
ProCredit Holding signed put/call or put option agreements on the purchase of shares of affiliated companies. The existing option agreements are as follows:

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

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 exercising.

We have executed our declaration of compliance with the German Corporate Governance Codex according to § 161 of the German stock corporation law (*Aktiengesetz).* It is part of the combined management report.

22. Supervisory Board and Board of Management

The following individuals served as members of the Supervisory Board:

Supervisory Board	
Dr. Claus-Peter Zeitinger Frankfurt am Main	Entrepreneur (Chairperson since 2 April 2004) Member of the supervisory board of: ProCredit Bank A.D., Sofia, Bulgaria ProCredit Bank JSC, Tbilisi, Georgia CJSC ProCredit Bank, Kiev, Ukraine Banco ProCredit S.A., Managua, Nicaragua Banco ProCredit S.A., Quito, Ecuador Banco ProCredit S.A., San Salvador, El Salvador.
Mr. Jasper Snoek Amsterdam	Executive director, Stichting DOEN, Amsterdam, The Netherlands (Member since 11 July 2007)

Mr. Wolfgang Bertelsmeier Bangkok	Diplom-Kaufmann (Member since 27 July 2011) Member of the supervisory board of: Vietnam Enterprise Investment Ltd., Vietnam ProCredit Bank S.A.R.L., Kinshasa, DR Congo Zalar S.A. Morocco ProCredit Bank SH.A. Tirana, Albania ProCredit Bank JSC, Tbilisi, Georgia
Mr. Rochus Mommartz Bern	Manager responsAbility Social Investment Services AG, Zurich, Switzerland (Member between 27 July 2011 and 30 November 2016)
Mr. Petar Slavchev Slavov Sofia	Economist (Member since 28 January 2014) Member of the supervisory board of: ProCredit Bank A.D., Sofia, Bulgaria
Mr. Christian Krämer Frankfurt am Main	Fully qualified lawyer (Member since 28 January 2014) Member of the supervisory board of: Berliner Energieagentur GmbH, Germany ProCredit Bank A.D., Sofia, Bulgaria CJSC ProCredit Bank, Kiev, Ukraine
Mr. Rainer Peter Ottenstein Frankfurt am Main	Diplom-Kaufmann (Member since 30 November 2016) Member of the supervisory board of: ProCredit Bank, Pristina, Kosovo CJSC ProCredit Bank, Kiev, Ukraine ProCredit Bank S.A., Bucharest, Romania ProCredit Bank A.D., Belgrade, Serbia Banco ProCredit S.A., Bogotá, Colombia

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

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

Board of Management of ProCredit General Partner AG	
Helen Alexander Frankfurt am Main	Dr. Anja Lepp Frankfurt am Main
Dr. Gabriel Schor Frankfurt am Main	Borislav Kostadinov Frankfurt am Main
Dr. Antje Gerhold (till 21.04.2016) Frankfurt am Main	Sandrine Massiani (since 01.03.2017) Frankfurt am Main

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

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

Helen Alexander EUR 118,797.60 (of which payments to a pension fund EUR 30,328.20),

Dr. Anja Lepp EUR 163,837.60 (of which payments to a pension fund EUR 32,248.36),

Dr. Gabriel Schor EUR 178,549.99 (of which payments to a pension fund EUR 35,057.47),

Borislav Kostadinov EUR 172,687.08 (of which payments to a pension fund EUR 4,200.00). ProCredit Holding has a loan receivable to Mr. Kostadinov in the amount of EUR 9,174. Interest on this loan is charged as customary in the market on the basis of the effective interest rate that banks charge on new business to households, as published by the Deutsche Bundesbank.

Dr. Antje Gerhold EUR 57,952.36 (of which payments to a pension fund EUR 4,000.00). Dr. Antje Gerhold withdrew from the management board as at 21.04.2016 to take on a position in the management board of ProCredit Bank Romania.

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

Ms. Helen Alexander	Member of the Supervisory Board: ProCredit Bank, Pristina, Kosovo ProCredit Bank S.A., Bucharest, Romania Banco ProCredit S.A., Quito, Ecuador Banco ProCredit S.A., Managua, Nicaragua
Dr. Gabriel Schor	Member of the Supervisory Board: Banco ProCredit S.A., Quito, Ecuador (Chairperson) Banco ProCredit S.A., San Salvador, El Salvador (Chairperson) ProCredit Bank AG, Frankfurt, Germany (Chairperson) Pro Confianza, S.A. de C.V., SOFOM, E.N.R., Guadelajara, Mexico (Chairperson) Banco ProCredit S.A., Managua, Nicaragua (Chairperson)
Dr. Anja Lepp	Member of the Supervisory Board: Banco ProCredit S.A., Quito, Ecuador Banco ProCredit S.A., Managua, Nicaragua ProCredit Bank AG, Frankfurt, Germany
Mr. Borislav Kostadinov	Member of the Supervisory Board: ProCredit Bank SH.A., Tirana, Albania (Chairperson) ProCredit Bank D.D., Sarajevo, Bosnia and Herzegovina (Chairperson) ProCredit Bank JSC, Pristina, Kosovo (Chairperson) ProCredit Bank A.D., Skopje, Macedonia (Chairperson) ProCredit Bank A.D., Sofia, Bulgaria ProCredit Bank A.D., Belgrade, Serbia (Chairperson) ProCredit Bank AG, Frankfurt, Germany CJSC ProCredit Bank, Kiev, Ukraine
Dr. Antje Gerhold	Member of the Supervisory Board: ProCredit Bank S.A., Bucharest, Romania Banco ProCredit S.A., Bogotá, Colombia
Ms. Sandrine Massiani	Member of the Supervisory Board: ProCredit Bank D.D., Sarajevo, Bosnia and Herzegovina ProCredit Bank JSC, Tbilisi, Georgia ProCredit Bank A.D., Skopje, Macedonia ProCredit Bank A.D., Belgrade, Serbia

23. Additional disclosures

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

ProCredit Holding prepares IFRS consolidated financial statements in accordance with the provisions of § 315a HGB, which is published in the “Bundesanzeiger”.

24. Events after the reporting period

As of 1st March 2017, Sandrine Massiani became a member of the Management Board. Her mandate is for four years.

Frankfurt/Main, 17 March 2017

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

Board of Management

Helen Alexander | Dr Anja Lepp | Sandrine Massiani

Dr Gabriel Schor | Borislav Kostadinov

Annex 1: Statement of changes in fixed assets

Statement of Fixed Assets as at December 31, 2016

in EUR	Acquisition cost					Accumulated depreciation				Net book values	
	as at 01.01.2016	Additions	Disposals	Reclassifi-cations	as at 31.12.2016	as at 01.01.2016	Additions	Disposals	as at 31.12.2016	as at 31.12.2016	as at 31.12.2015
I. Intangible fixed assets											
1. Trademarks and software	1,270,043	8,400	0		1,278,443	1,214,690	29,124	0	1,243,814	34,629	55,353
II. Tangible fixed assets											
1. Land and buildings	5,319,063	0			5,319,063	1,497,358	391,943		1,889,301	3,429,762	3,821,705
2. Motor vehicles	163,353	34,979	-17,643		180,689	112,336	18,652	-17,642	113,346	67,343	51,017
3. Other equipment, operating and office equipment	1,666,739	39,422	-7,787		1,698,374	1,064,528	195,829	-7,645	1,252,712	445,663	602,211
4. Assets Regional Academy Latinamerica	572,503	34,023	-18,701		587,825	358,939	78,306	-6,195	431,050	156,775	213,565
	8,991,702	116,824	-44,130	0	9,064,395	4,247,852	713,854	-31,482	4,930,224	4,134,171	4,743,851
III. Long-term financial assets											
1. Shares in affiliated companies	693,009,093	35,781,815	-68,668,094	0	660,122,813	55,181,048	10,383,095	-20,363,601	45,200,541	614,922,272	637,828,045
2. Loans to affiliated companies	182,449,507	42,801,343	-11,256,992	-9,444,206	204,549,652	0	0		0	204,549,652	182,449,507
3. Long-term securities	0		0		0	0	0		0	0	0
4. Other loans	22,545,715	301,499	-12,601,578	9,444,206	19,689,843	0	2,296,538		2,296,538	17,393,304	22,545,715
	898,004,315	78,884,656	-92,526,664	0	884,362,308	55,181,048	12,679,633	-20,363,601	47,497,080	836,865,228	842,823,267
Total fixed assets	906,996,017	79,001,480	-92,570,794	0	893,426,703	59,428,899	13,393,488	-20,395,083	52,427,304	840,999,400	847,567,118

Annex 2: Share ownership

	Name of institution	Legal residence	Share capital incl. Capital reserve ('000 EUR)	Retained earnings and other reserves ('000 EUR)	Profit/-loss for the year ('000 EUR)	Share in %
1	ProCredit Bank sh.a. **Albania**	Tirana, Albania	25,698	9,991	64	100.0
2	ProCredit Bank d.d. **Bosnia and Herzegovina**	Sarajevo, Bosnia und Herzegovina	32,515	-7,994	37	100.0
3	ProCredit Bank EAD **Bulgaria**	Sofia, Bulgaria	85,747	14,903	21,120	100.0
4	Banco ProCredit S.A. **Colombia**	Bogotá, Colombia	16,122	-2,726	-2,030	94.3
5	Banco ProCredit S.A. **Ecuador**	Quito, Ecuador	37,204	18,299	236	100.0
6	Fideicomiso Primera Titularización de Catera Comercial Pymes ProCredit **Ecuador**	Quito, Ecuador	0	0	0	n/a
7	Banco ProCredit S.A. **El Salvador**	San Salvador, El Salvador	16,679	7,471	-677	99.9
8	ProCredit Bank JSC **Georgia**	Tbilisi, Georgia	54,197	6,625	9,280	100.0
9	ProCredit Bank AG **Germany**	Frankfurt am Main, Germany	50,000	212	787	100.0
10	ProCredit Academy GmbH **Germany**	Fürth/Weschnitz, Germany	500	109	0	100.0
11	Quipu GmbH **Germany**	Frankfurt am Main, Germany	1,000	5,697	138	100.0
12	ProCredit Bank Sh.a **Kosovo**	Prishtina, Kosovo	66,061	8,603	16,059	100.0
13	Quipu Sh.p.k. **Kosovo**	Prishtina, Kosovo	5	455	115	100.0
14	ProCredit Bank A.D. **Macedonia**	Skopje, Macedonia	13,000	14,890	4,720	100.0
15	ProCredit Regional Academy Eastern Europe **Macedonia**	Veles, Macedonia	1,202	1,071	-31	100.0
16	Administración y Recuperación de Cartera Michoacán S. A. DE C. V., SOFOM, E. N. R. **Mexico**	Morelia, Mexico	1,342	-552	-777	100.0
17	ProCredit Bank S.A. **Moldova**	Chisinau, Moldova	25,099	-3,905	1,516	82.1
18	ProCredit Finance II B.V. **The Netherlands**	Amsterdam, The Netherlands	18	0	0	n/a
19	Banco ProCredit S.A. **Nicaragua**	Managua, Nicaragua	30,261	-8,775	904	94.9
20	ProCredit Bank S.A. **Romania**	Bucharest, Romania	40,784	-7,538	1,053	100.0
21	ProCredit Bank A.D. **Serbia**	Belgrade, Serbia	80,786	21,620	13,056	100.0
22	ProCredit Bank JSC **Ukraine**	Kiev, Ukraine	55,402	-21,653	10,628	86.1

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the joint management report of ProCredit Holding AG & Co. KGaA for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and joint management report in accordance with German commercial law are the responsibility of the General Partner's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the joint management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 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 annual financial statements in accordance with German principles of proper accounting and in the joint management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual 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 accounting principles used and significant estimates made by the General Partner's Board of Management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The joint management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 17 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German Version signed by:]

Bernhard	Dr. Faßhauer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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