



**ProCredit**  
H O L D I N G

# ANNUAL 2012 REPORT





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## Key Figures of the Group

Balance Sheet (consolidated; EUR '000)	2012	2011	% Change
Total Assets	5,768,544	5,493,803	5.0%
Gross Loan Portfolio	4,190,607	4,029,293	4.0%
Business Loan Portfolio	3,348,231	3,229,612	3.7%
< EUR 10,000	505,516	531,741	-4.9%
> EUR 10,000 < EUR 30,000	750,499	685,629	9.5%
> EUR 30,000 < EUR 150,000	1,195,025	1,078,775	10.8%
> EUR 150,000	897,191	933,467	-3.9%
Agricultural Loan Portfolio	524,274	469,231	11.7%
Housing Improvement Loan Portfolio	201,795	203,285	-0.7%
Other	116,307	127,165	-8.5%
Loan Loss Provisions	-175,451	-158,535	10.7%
Net Loan Portfolio	4,015,156	3,870,758	3.7%
Customer Deposits	3,627,194	3,418,542	6.1%
Borrowings from International Financial Institutions	796,432	753,869	5.6%
Bonds Issued	202,458	232,778	-13.0%
Total Equity	503,134	468,779	7.3%
<b>Income Statement (consolidated; EUR '000)</b>			
Operating Income	435,476	405,862	7.3%
Operating Expenses	376,397	348,598	8.0%
Operating Profit Before Tax	59,080	57,264	3.2%
Net Profit	46,280	46,793	-1.1%
<b>Key Ratios</b>			
Cost Income Ratio	75.73%	74.58%	
Return on Equity	10.28%	10.35%	
Capital Ratio	15.11%	15.03%	
<b>Operational Statistics</b>			
Number of Financial Institutions	22	21	
Number of Clients	2,797,177	2,922,508	-4.3%
<i>of which</i> Business Clients	1,045,628	1,077,635	-3.0%
Number of Staff	14,675	16,183	-9.3%
Number of Branches and Outlets	735	775	-5.2%

## The ProCredit Group in 2012: A Year in Summary

- 2012 was a steady year for the group against a backdrop of still very difficult macroeconomic conditions in most of our countries of operation.
- The gross loan portfolio volume grew by 4%, with growth focused above all in the core very small and small business client categories. The deposit base grew by 6.1% to support loan portfolio growth and to maintain comfortable liquidity levels throughout the year.
- Loan portfolio quality remained steady in 2012. Portfolio at risk over 30 days (PAR >30 days) at the end of December 2012 was 4.3%, only a modest increase on the 2011 figure of 3.8%. The PAR >90 days stood at 3.4%.
- The group recorded a profit of EUR 46.3 million, representing a return on average equity (RoAE) of 10.3%.
- The group maintained strong capital ratios. The total Basel II capital ratio (Tier 1 and Tier 2 capital divided by total risk-weighted assets) stood at 15.1% at year-end.
- The group significantly strengthened its approach to environmental management and green finance in 2012. Over the year the volume of outstanding green loans increased by 35% to EUR 78.2 million.
- The new Regional Academy facilities for our Latin American banks were completed. The building is located in Colombia, about one hour's journey from Bogota.
- In January 2012, ProCredit Holding AG & Co. KGaA received a licence to act as the "superordinated company" of the group, which is responsible for maintaining an adequate level of equity for the group and ensuring that all reporting, risk management and compliance obligations required under German banking regulations – specifically as defined in section 25a of the German Banking Act (*Kreditwesengesetz*, or KWG) – are met.
- Since early 2012, the group has been regularly reporting to the German supervisory authorities (Bundesbank and BaFin).
- In September 2012, ProCredit Bank AG began operations in Germany.
- Over the year, the group invested strongly in staff recruitment and development initiatives. All potential new recruits now go through a standardised recruitment process and participate in an intensive six-month stipend programme: the ProCredit Young Bankers Programme.



## Letter from the Chairperson of the Supervisory Board

*2012 has been another steady year for the ProCredit group. The group is achieving stable profitability and growth despite the difficult macroeconomic environment in most of the countries in which we operate. This is a reflection of the strength of our staff and their relationships with our clients. Our consistently pursued transformation from "microfinance" institutions to highly professional banks specialised in meeting the particular needs of very small and small businesses continues.*

*The real economy is not expanding in most Eastern European countries. Businesses are vulnerable and reluctant to make investments. There is modest GDP expansion in Central America. Growth is stronger in South America and Africa. Across the board, competition remains strong from banks providing consumer and SME loans using simple and aggressive asset-backed lending technologies. The responsible business and development response can only be to become more focused and provide better quality service.*

*As a result we have tightened the selection criteria for the very small business clients we work with to reduce the risk of overindebtedness. We see good potential to further develop the role and skills of business client advisers, service centre heads and branch managers in order to grow our operations with our core very small and small business clients. At the heart of our renewed training focus is managing relationships which bring client benefits and client loyalty.*

*With regard to private clients and the savings business, whilst we remain committed to a wide target group, we no longer just celebrate the number of accounts opened. We want to spend more time with clients, helping them to increase the average volumes saved in order to help create a meaningful buffer for uncertain times.*

*The benefits of many of our recent institution building initiatives became visible in 2012: all potential new recruits now participate in the six-month Young Bankers Programme; a comprehensive approach to staff appraisal was developed in 2012 and implemented by early 2013. The group salary structure was overhauled in 2012 and will be introduced during 2013. Personally, I feel a growing sense of self-confidence and motivation amongst our staff and middle managers. Staff numbers will decline again in 2013. Staff stability and productivity will improve.*

2012 was the first year of full consolidated supervision by the German Federal supervisory authorities (Bundesbank and BaFin, the Bundesanstalt für Finanzdienstleistungsaufsicht) for the group. The group has been routinely delivering its supervisory reports.

The ProCredit Bank in Germany began operations in September 2012, and 2013 will see its official public launch. This marks a significant new development for the group. The bank will not only help strengthen the group balance sheet, liquidity management and international payment and trade finance system, but it will also bring the particular success and positioning of the ProCredit group to public attention in Germany. It is an interesting time to launch a bank with a strong ethical and international positioning. We look forward to exploring the opportunities in the German market to work with clients interested in our countries of operation.

The shareholders of ProCredit Holding continued their strong support for the group during the year. The parent company purchased the minority shares of Commerzbank in five ProCredit banks in Eastern Europe. A capital increase was completed to enable this transaction. This was also an opportunity to welcome a new shareholder, MicroVest, to the group of owners.

Looking ahead, our staff should feel proud of what is being accomplished and confident about the future. The Board would like to thank our staff and managers for their dedication and the results that they have achieved.



Dr Claus-Peter Zeitinger, Chairperson

Members of the Board as  
of December 31, 2012:

Dr Claus-Peter Zeitinger  
Chairperson of the Supervisory Board

Ms Doris Köhn  
Deputy Chairperson  
(Director General,  
Africa and the Middle East,  
KfW Bankengruppe, Germany)

Mr Ralf Niepel  
(Economist)

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

Mr Wolfgang Bertelsmeier  
(Financial Adviser)

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





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Photo: Banco ProCredit Ecuador



## The ProCredit Group – Responsible Banks for Very Small and Small Businesses

### Who we are

ProCredit is a global group of banks specialised in serving very small and small businesses and in promoting savings among ordinary people in developing countries and transition economies.

The ProCredit group is committed to a set of corporate values which guide its operations. Social responsibility, transparency, client service orientation and high professional standards lie at the heart of our approach. These values determine where, how and with whom we work. **Social responsibility** reflects our commitment to achieving a development impact: we work in countries with relatively underdeveloped banking sectors and we focus on working with businesses which drive economic growth. **Transparency** and **client service orientation** reflect our commitment to putting our clients first. Particularly where levels of financial literacy are low, we place a premium on relationships which serve clients in a clear and comprehensive manner. **High professional standards** reflect our commitment to operating well-managed and sustainable institutions which contribute to deepening the financial sector. Our business model is rooted in our ability to attract and develop strong staff.

We work in developing countries and transition economies, providing loans and other services to **very small and small businesses** and offering straightforward banking services to **ordinary people**. Widespread participation in the formal financial sector is important in building a stable economy, and access to responsible credit helps the small businesses which drive economic growth and employment to expand. In most developing countries and transition economies, these target groups are still usually poorly served by financial institutions.

**For our business clients**, ProCredit provides loans and other banking services. ProCredit employs a credit technology which is based on a careful but efficient analysis of the ability and willingness of a customer to service a loan. The goal is to ensure that a client does not become overindebted and can put his or her loan to productive use. In addition to loans, we serve other banking needs, including payments, Internet banking, payroll support, liquidity management and documentary business. These services help clients to modernise, formalise and expand their businesses. We aim to be the one-stop “house bank” for small businesses. Over time, we have developed solid, long-term relationships with our customers and their loyalty is a reflection of our unique understanding of their business needs.

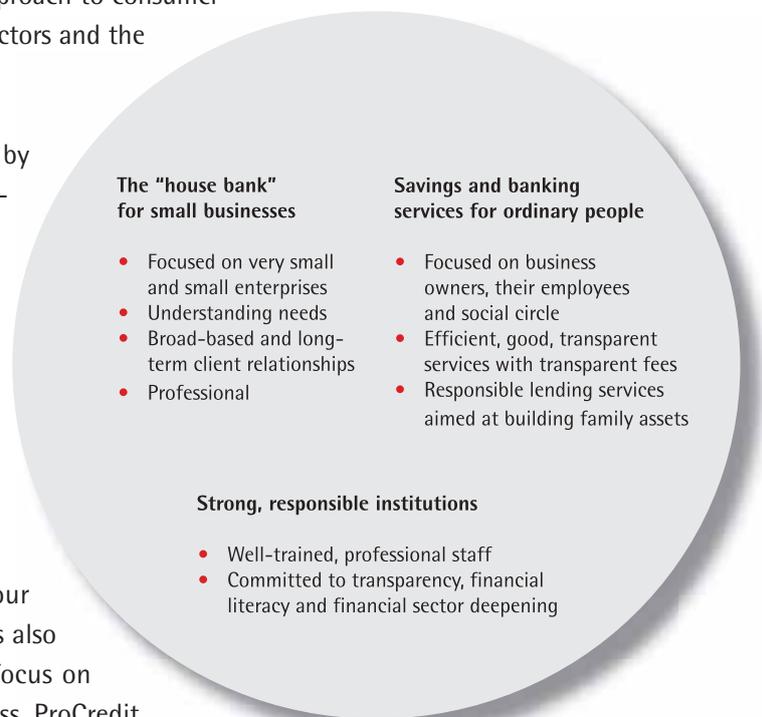
This is in contrast to many other commercial banks, which mostly focus on consumer loans for wage and salary earners. Commercial banks are still not well equipped to deal with the specific needs and volatility of small businesses, nor with the strong relationships that therefore need to be built to serve these clients well. Consumer lending is relatively easy to organise and fits well with their asset-based approach to credit analysis. However, it can lead to irresponsible lending if pursued with “no questions asked”, particularly when supported by aggressive, frequently misleading advertising. The social and economic impact of the globally permissive approach to consumer lending, as well as the consequences for many banking sectors and the microfinance industry, has been all too apparent.

ProCredit serves a broad range of businesses, as illustrated by the client profiles on pages 54-65 of this report: a Bolivian tailor who owns a small clothing company with four employees took out a Very Small loan to buy a more efficient sewing machine, while a Romanian client employing 119 people to produce garage doors now has an exposure of EUR 350,000. ProCredit’s target clients are businesses which have the potential to create stable employment and benefit the most from the specialist service that ProCredit can provide.

**For the ordinary people** who live and work around our branches, we focus on creating a “savings culture”. This is also in contrast to more commercial banks, which tend to focus on deposits from large enterprises and the upper middle class. ProCredit banks offer simple and attractive savings products, alongside a basic range of standard banking services, including debit cards, e-banking, overdraft facilities and payment services. This approach serves our clients and the group well. Our enterprise lending activities are largely funded by locally mobilised deposits.

Our approach towards clients is underpinned by our commitment to building strong, responsible institutions. We invest in training for our staff not just to drive business, but also to support effective internal control and risk management systems. We aim to set high standards of transparency in the banking sectors in which we work. The group seeks to play a leading role in the adoption of best practice risk management standards and in the dialogue with authorities about responsible banking.

Our approach is based on long-term trust and partnership. We invest in initiatives to promote financial literacy with the aim of building an understanding amongst the public and our customers of how much financial services cost and how they are best used. We do little marketing in the traditional sense of above-the-line advertising, focusing instead on developing direct relationships with clients and communities in the areas served by our service points, service centres and branches.



An important strength of ProCredit is that it operates as a tightly knit global group with a strong international management team. The group is led by ProCredit Holding, the parent company, which owns the majority stake in almost all ProCredit institutions. ProCredit Holding exercises a strong influence over its subsidiaries and supports the implementation of best banking practices group-wide. The group systematically implements risk management and anti-money laundering standards in line with German banking regulations.

The group has been supervised by the German regulatory authorities (BaFin and Bundesbank) since 2012. German supervision brings additional impetus for high levels of discipline in all areas of financial transparency and risk management. We see this as an opportunity to endorse our role in financial sector deepening.

The ProCredit group is owned by shareholders who take a long-term view. They have established banks which achieve both development and profitability goals. The shareholders aim to earn an adequate, stable profit over the long term and are committed to development, which does not give priority just to maximising short-term profits.

### Where we came from

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

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

Early years of learning in Latin America	Large-scale "downscaling" projects	"Greenfield" microfinance	ProCredit banks are established	The ProCredit group takes shape
1980–1991	1992–1995	1997	1998–2002	2003–2005
<p>Foundation of IPC</p>  <p>1985 Launch of Municipal Savings Banks, Peru</p> <p>1988 Launch of NGO Servicio Crediticio AMPES (today Banco ProCredit), El Salvador</p> <p>1991 Launch of NGO ProCrédito (today Banco Los Andes ProCredit), Bolivia</p>	<p>Various advisory projects in government-owned development banks and credit-granting NGOs</p> <p>First downscaling projects in Latin America Costa Rica Paraguay Guatemala</p> <p>Various downscaling projects in Eastern Europe and CIS countries Russia Kazakhstan Kyrgyzstan Romania Bulgaria Armenia</p>	<p>First microfinance bank in Bosnia and Herzegovina</p> 	<p>Foundation of most of the banks</p> <p>Foundation of ProCredit Holding (as IMI)</p>  <p>(IPC, IPC Invest, KfW Group, DOEN)</p>  <p>Partnership agreement with IPC for management services</p> <p>New shareholders join (IFC, FMO, BIO, FUNDASAL, responsAbility)</p>	<p>ProCredit Holding enlarges its role and consolidates ownership</p> <p>Investment grade rating (BBB-)</p> <p>New corporate identity for the group</p>  

In its early years, this learning process focused largely on projects with public institutions and NGOs in Latin America: for example, the establishment of a network of municipal savings banks in Peru in 1985. Then IPC began to work with microcredit NGOs in El Salvador (1988), Bolivia (1991) and Colombia (1993). It soon became apparent that, above all because of their unclear ownership structures, it was difficult to achieve a high level of efficiency in NGOs.

A new type of project, now called "downscaling", was also tested in the early 1990s. This involved advising commercial banks on how to grant loans to very small businesses. This approach had been tested in Latin America and Eastern Europe; however, not all of the projects were equally successful in achieving scale. Furthermore, given the ownership structure and corporate culture of most of the commercial banks involved, results may be dependent on subsidised consultancy inputs.

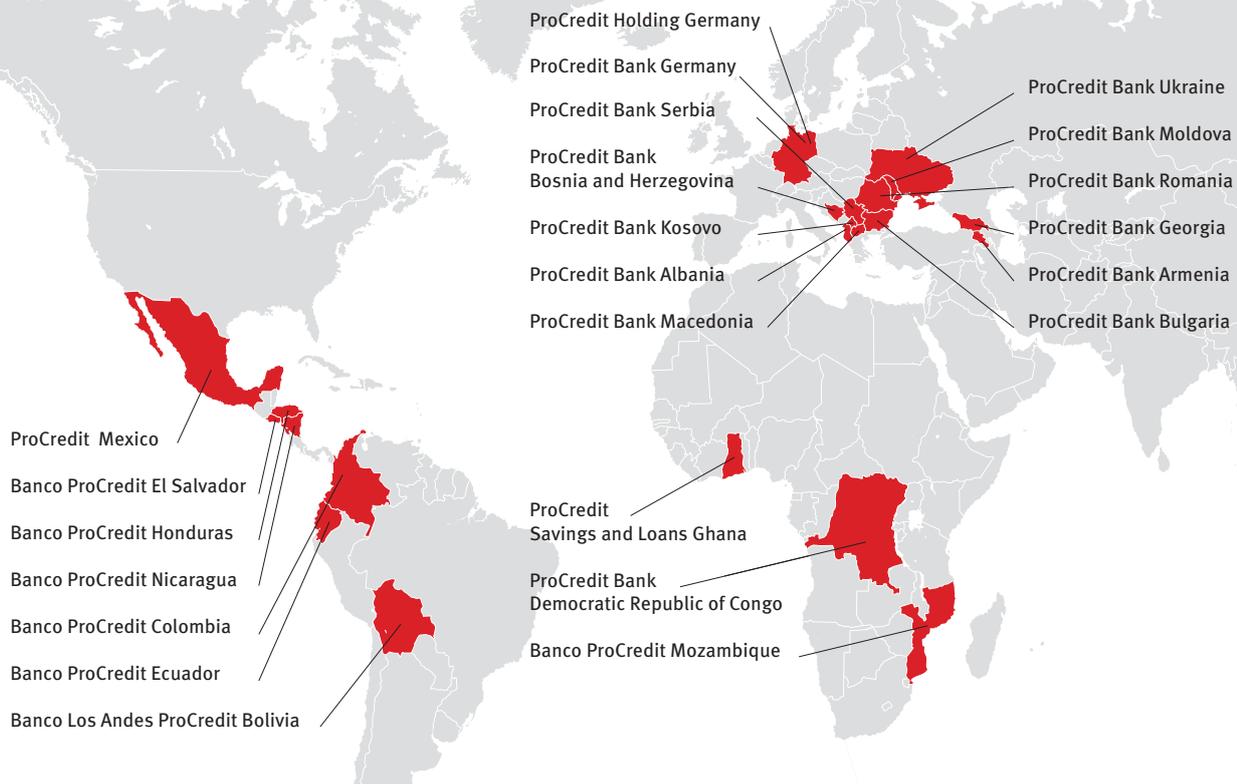
Working together with such a diverse range of projects enabled the ProCredit partners to acquire a wealth of experience. The most critical lesson learned was the importance of the ownership structure of institutions that seek to serve MSMEs: the clearer the ownership structure, the clearer the incentive for efficiency; and the longer the time horizon of the owners, the more target group-oriented the institution.

In 1997, IPC was challenged by the IFIs to build with them, as co-owner and as manager, a specialised microfinance bank in Bosnia. And so a new approach to microfinance was born: that of the "greenfield bank", which was quickly expanded. From the very beginning, the IFIs IFC, KfW, FMO and the EBRD held stakes in the newly founded microfinance banks, and IPC provided the management personnel.

The early success of these institutions created a need to raise capital, particularly for IPC, whose acquisition of equity stakes was an important part of the concept. In this context IMI was founded in 1998. The initial shareholders were IPC and IPC Invest, an investment company set up by IPC employees. Soon after the launch of IMI, further capital was provided by the DOEN Foundation and the KfW Group. IMI soon became an important vehicle for communication among shareholders of individual institutions, and so it was natural for other IFIs to take stakes in IMI as well.

#### The ProCredit group expands and group supervision takes shape

2006–2007	2008–2009	2010	2011	2012
<p>Strong expansion with new institutions in Colombia, Honduras, Mexico, Armenia, Sierra Leone, Angola</p> <p>Foundation of ProCredit Academies</p>  <p>Opening of ProCredit Academy Fürth, Germany</p> <p>IPC staff join ProCredit Holding</p> <p>TIAA-CREF and Omidyar-Tufts join as shareholders</p>	<p>Graduation of first generation of Academy students</p> <p>Opening of Regional Academy Eastern Europe in Veles, Macedonia</p> <p>Financial sector crisis</p> <p>Managing recession in countries of operation</p> <p>Full implementation of German regulatory standards in risk management and group reporting</p>	<p>Strengthening institutions to focus on quality and client relationships</p> <p>New group staff recruitment and training policy introduced</p>	<p>Quipu joins the group</p>  <p>Banking licence in Germany</p>   <p>Change of legal form to AG &amp; Co. KGaA</p>	<p>PCH recognised as "superordinated company" of the group</p> <p>Consolidated group supervision by BaFin and Bundesbank begins</p> <p>Full implementation of Young Bankers Programme</p>



By 2003, 17 microfinance banks had been established. The shareholders in the individual institutions invariably included IMI and its shareholders IFC, KfW and FMO. Questions about the long-term future of the banks became increasingly important. With the strength of the group and the co-ordinating role of IMI being recognised, all the banks were re-branded in 2003 with a common corporate identity: ProCredit. Shortly thereafter, IMI was renamed ProCredit Holding and ownership of the group was gradually consolidated under this institution. Since then ProCredit Holding has steadily raised the capital it needs from founding and new shareholders. Notable was the entry of TIAA-CREF and the Omidyar-Tufts Microfinance Fund to the shareholder group in 2006.

ProCredit Holding has also strengthened its role in supporting the ProCredit group in key areas such as business development, risk management, audit, IT, human resources and training. Furthermore, the holding company provides on-lending funds to the ProCredit institutions. Since 2004, ProCredit Holding has had an investment grade rating (BBB-) from Fitch Ratings. Since 2007, ProCredit Holding has been overseeing the implementation of risk management and reporting standards necessary for the group to be supervised by German regulatory authorities.

## Where to from here

Recent years, given the financial crisis and subsequent global recession, have been particularly rich in learning for the ProCredit group. After ten years of sustained growth and rapid expansion of banks, branches and staff numbers, the buoyant development of the developing countries and transition economies in which we work was reversed. Our immediate challenge was to help our clients adapt to the macroeconomic downturn. We are well positioned to do this because we have excellent staff who have long-standing relationships with clients and a thorough understanding of their businesses. Our proactive approach to addressing arrears problems has stood the group in good stead. The group has also proved resilient in terms of liquidity and capital management.

At the same time we realised the extent to which our original mission had evolved. We were founded to provide access to finance for microenterprises and ordinary people. Today there are plenty of microfinance and consumer finance institutions. Many mainstream banks celebrate "outreach" and the opportunities to "cross-sell" loans to low-income account holders. As a result, many microenterprises succumbed to the pressure to take multiple consumer loans, with the result that in several markets "excess" is more of a problem than "access". Our response has been to increase the minimum threshold for enterprise lending in many countries to about USD / EUR 5,000, with lower limits for loyal clients with potential to grow and agricultural loans. On the savings side too, whilst we remain committed to a wide target group, we no longer just celebrate the number of accounts opened, but instead focus on increasing the average volumes saved by ordinary householders in order to help create a meaningful buffer for uncertain times. We focus now more strongly than ever on the quality of the relationships we build with our clients, the convenience of services we offer, and the quality of our staff.

We have also recognised that our services not only have to be high quality, they also have to be efficient to be affordable for our clients. In recent years we have steadily reduced the number of staff while at the same time improving staff quality, focusing our branch infrastructure and embracing efficiency as an important theme. Meanwhile, we have invested heavily in staff training. A new group recruitment policy built around the six-month "Young Bankers Programme" has been introduced. Although many of these institution building developments have been demanding, they have ultimately been rewarding in terms of the high quality, convenient service that we provide to our clients and the job satisfaction of our staff.

Looking forward, our focus will continue to be on quality: quality of the loan portfolio, quality and efficiency of customer service, and quality of staff. We aim to expand not only in lending to our business clients but also in terms of other services. In particular, we will aim to strengthen our business with very small and small business clients (broadly defined as those clients who take loans of less than EUR / USD 150,000). In our view, this is where we can make the greatest contribution to job creation. Few other banks are able to effectively cater to the specific demands of these very small and small businesses. We are expanding in this segment thanks to the dedication and know-how of our well-trained staff. 2013 will see a particular emphasis on training our Business Client Advisers, service centre heads and branch managers: the front-office staff who have the prime responsibility for building relationships with our business clients. At the same time, we want to focus more on formal clients, on clients working in local production and agriculture, as well as on loans for green and energy-efficient technologies in businesses and in the home.

On the deposit side, we will strive to reach small savers efficiently. A key focus will be to build the deposit base and expand our services to ordinary people and families in a cost-effective manner. We aim to increase the number of "service points" – small, efficient banking services outlets – to improve the accessibility of our services whilst at the same time encouraging the use of convenient channels such as the Internet and mobile phone banking.

In 2013, ProCredit Bank Germany will also expand its operations and begin to play an important support function for the ProCredit group as a whole. ProCredit Bank Germany will help ProCredit banks provide a wider range of services to our business clients and will improve group treasury functions. It will also offer an interesting opportunity for the German public to participate in the success of the group by opening an account with us. For more details see pages 50-51 in this report.

Looking ahead, staff training and development will continue to be the main priority for the group. Now more than ever before, a committed team of highly competent staff will be the key to success both for our clients and for our banks. The group will therefore continue to invest strongly in training at the individual banks, and at the regional and international levels. Our three academies are having a very positive impact on local managers' skills and motivation, and this bodes well for the future of the group.

## ProCredit Holding Shareholders

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

In 2004, two new "socially responsible" shareholders joined ProCredit Holding: responsAbility and FUNDASAL. In 2006, two new U.S.-based investors joined the shareholder group: the pension group TIAA-CREF and the Omidyar-Tufts Microfinance Fund. Their substantial investment shows that ProCredit Holding is an attractive investment for those who are seeking a reasonable return on equity from a secure investment which at the same time has a significant development impact. Furthermore, in 2012, MicroVest and the GAWA Microfinance Fund became shareholders.

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

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

### Shareholder Structure of ProCredit Holding as of December 2012

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

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

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

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

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



**IPC – Internationale Projekt Consult GmbH**, a Frankfurt-based company, was founded in 1980. Since then, IPC has provided sound consulting and management services in the framework of international development co-operation projects which are characterised by a high level of sustainability and relevance to worthwhile societal and developmental goals. In particular, IPC has set new standards in the establishment of target group-oriented financial institutions. It founded ProCredit Holding, and remains its leading shareholder and strategic investor. From the very beginning, IPC has been the driving entrepreneurial force behind the ProCredit group. By providing advisory assistance to the ProCredit banks in the first years of their operations, it has helped the group to build sound and stable financial institutions in countries around the world. Today IPC's range of consultancy services includes: advising commercial banks on lending to micro, small and medium-sized enterprises; supporting financial institutions in the implementation of environmental projects and the introduction of energy efficiency/renewable energy lending products for private households and MSMEs; designing and implementing target group-specific education and skills development measures for financial institutions and commercial banks. Beyond the scope of our consultancy services we also carry out sector or feasibility studies in the fields of finance, education and environment.



**IPC Invest GmbH & Co KG** was founded in 1998 by a group of IPC employees who sought to complement their strong professional commitment to sound financial intermediation for very small, small and medium-sized businesses and ordinary people by becoming co-owners of the ProCredit banks, and thus assuming the responsibilities which this entails. Today, most of the employees of ProCredit Holding, including the members of the management teams at almost all of the ProCredit banks, as well as roughly 1,600 staff members from across the group are partners in IPC Invest. In carrying out their duties on a day-to-day basis, they all help to ensure that their investment in ProCredit Holding produces the desired results, in terms of both its developmental impact and the financial return it generates.



**KfW Development Bank:** On behalf of the German Federal Government, KfW Development Bank finances investments and accompanying advisory services in developing and transition countries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound and inclusive financial systems while protecting resources and ensuring a healthy environment. KfW Development Bank is a leader in supporting responsible and sustainable microfinance and is involved in target group-oriented financial institutions around the world. KfW Development Bank is Germany's leading development bank and an integral part of KfW, which has a balance sheet total of EUR 511.6 billion (as of December 31, 2012). KfW is AAA- rated by Moody's, Standard & Poor's and Fitch Ratings.



**Stichting DOEN**, or the **DOEN Foundation**, was set up in 1991 by the Dutch Postcode Lottery. The DOEN Foundation's ambition is to help build a sustainable world in which everyone can make a contribution. DOEN actively seeks enterprising people and organisations who can contribute to this mission. DOEN finds these pioneers within three new themes, Climate Change, Culture & Cohesion and The New Economy, and frequently supports them at the outset of inspiring initiatives. By issuing subsidies, providing a loan or equity investments, but also to an increasing extent by interconnecting the various parties in its network. The DOEN Foundation funds initiatives from annual contributions received under long term contracts from its founder, the Dutch Postcode Lottery, and the two other Dutch charity lotteries, the BankGiro lottery and the Friends Lottery. The DOEN Foundation has been financing entrepreneurial and sustainable initiatives that improve access to a responsible financial sector since 1994. The DOEN foundation considers access to finance an important tool for sustainable development and for building civil society.



**IFC**, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing

advisory services to businesses and governments. In FY12, IFC investments reached an all-time high of more than \$20 billion, leveraging the power of the private sector to create jobs, spark innovation, and tackle the world's most pressing development challenges. For more information, visit [www.ifc.org](http://www.ifc.org).



**TIAA-CREF** is a US national financial services organization with more than USD 501 billion (as of 12/31/2012) in combined assets under management. TIAA-CREF is the leading provider of retirement services in the academic, research, medical and cultural fields with approximately 4 million retirement participants contributing to over 27,000 retirement plans and working at over 15,000 institutions. The company is headquartered in New York City with major offices in Denver, Colorado and Charlotte, North Carolina and over 70 local offices around the USA. The TIAA-CREF group of companies includes both an SEC registered investment advisor, Teachers Advisors, Inc., and a New York State registered insurance company, TIAA, which is one of only three insurance groups in the United States to hold the highest ratings currently awarded from all four leading independent insurance industry ratings agencies\*. In addition to a wide range of retirement savings products, the organization offers life insurance, mutual funds, education savings accounts, trust services and annuities. TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. Insurance and annuity products issued by TIAA (Teachers Insurance and Annuity Association), New York, NY and TIAA-CREF Life Insurance Co., New York, NY. C3956

\* For its stability, claims-paying ability and overall financial strength, TIAA currently holds the following ratings: A.M. Best (A++ as of 4/12), Fitch (AAA as of 1/13), Moody's Investors Service (Aaa as of 12/12) and Standard & Poor's (AA+ as of 5/12). Per S&P criteria, the downgrade of US long-term government debt limits the highest rating of U.S. insurers to AA+ (the second highest rating available). There is no guarantee that current ratings will be maintained. Ratings represent a company's ability to meet policyholders' obligations and claims and do not apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA's claims-paying ability.

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



The **Belgian Investment Company for Developing Countries (BIO)** is a Development Finance Institution (DFI) established in 2001 in the framework of the Belgian Development Cooperation to support private sector growth in developing and emerging countries. BIO supports financial institutions, investment funds, enterprises and private infrastructure projects. Endowed with capital of EUR 581.5 million, BIO provides tailored long-term financial products (equity, quasi-equity, debt and guarantees) either directly or through intermediary structures. BIO is also able to fund technical assistance programmes for client companies and feasibility studies. BIO requires its business partners to implement environmental, social and governance standards. BIO operates as an additional partner to the traditional financial institutions and supports projects with a balance between return on investment and development impact. BIO is a member of EDFI (European Development Finance Institutions). Website: [www.bio-invest.be](http://www.bio-invest.be), E-mail: [info@bio-invest.be](mailto:info@bio-invest.be)



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

**responsAbility** **responsAbility Social Investments AG** is one of the world's leading independent asset managers specializing in the development-related sectors of emerging economies such as finance, agriculture, health, education and energy. responsAbility provides debt and equity financing to non-listed companies with business models that target the lower-income segment of the population and thus offer strong potential for combining economic growth with social progress. Serving both institutional and private investors, responsAbility offers professionally-managed investment solutions ranging from mutual funds to individual mandates. Founded in 2003, responsAbility currently has assets under management of USD 1.4 billion which are invested in 400 companies in 76 countries. responsAbility is headquartered in Zurich, with further offices in Lima, Mumbai and Nairobi. Its shareholders include a broad range of reputed institutions from the Swiss financial market as well as its own employees. responsAbility is registered with FINMA, the Swiss Financial Market Supervisory Authority. For further information visit [www.responsAbility.com](http://www.responsAbility.com)



**PROPARCO** is a development finance institution held by Agence Française de Développement (AFD) and private shareholders from the North and the South. PROPARCO's mission is to be a catalyst for private investment in developing countries which targets growth, sustainable development and reaching the Millennium Development Goals (MDGs). PROPARCO finances operations which are economically viable, socially equitable, environmentally sustainable and financially profitable. Its sectoral strategy is tailored to the level of a country's development and focuses on the productive sector, financial systems, infrastructures and equity investment. PROPARCO invests in a geographical area ranging from major emerging countries to the poorest countries, in particular in Africa, and has high-level requirements in terms of social and environmental responsibility. PROPARCO has a wide range of financial instruments to meet the specific needs of private investors in developing countries (loans, equity, guarantees and financial engineering). PROPARCO has a team of 171 people, 13 regional offices and is supported by 70 AFD Group agencies worldwide. In 2012 PROPARCO had a total portfolio of 3.1 billion EUR for almost 340 clients in more than 60 countries.



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



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



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



## Corporate Governance

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

All institutions in the group have a two-tier board regime consisting of a Supervisory Board and a Management Board. These boards are supported by an Internal Audit Department and an Audit Committee, the latter of which reports directly to the Supervisory Board and the shareholders. Appropriate controlling, risk management and compliance systems are in place across the group, in line with the principles and standards set forth in BaFin's policy document, "Minimum Requirements for Risk Management", commonly referred to as "MaRisk".

### The role of ProCredit Holding

The main functions of ProCredit Holding vis-à-vis its subsidiaries are the provision of equity and debt financing, strategic guidance and supervision. It sets the overall policy guidelines and standards regarding all key areas of banking operations. These policies and standards are in line with the standards required by German banking regulations. ProCredit Holding is responsible for ensuring that all ProCredit institutions have appropriate organisational structures and procedures in place that reflect these policies, and that they apply appropriate standards for risk management and the prevention of

money laundering, fraud and the financing of terrorism. It is also responsible for maintaining adequate capitalisation levels across the group. All economic transactions between the company and its subsidiaries are on an arm's length basis.

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

### Legal form of ProCredit Holding

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

### Management and supervision of ProCredit Holding

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

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

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

## Management and supervision of ProCredit institutions

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

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

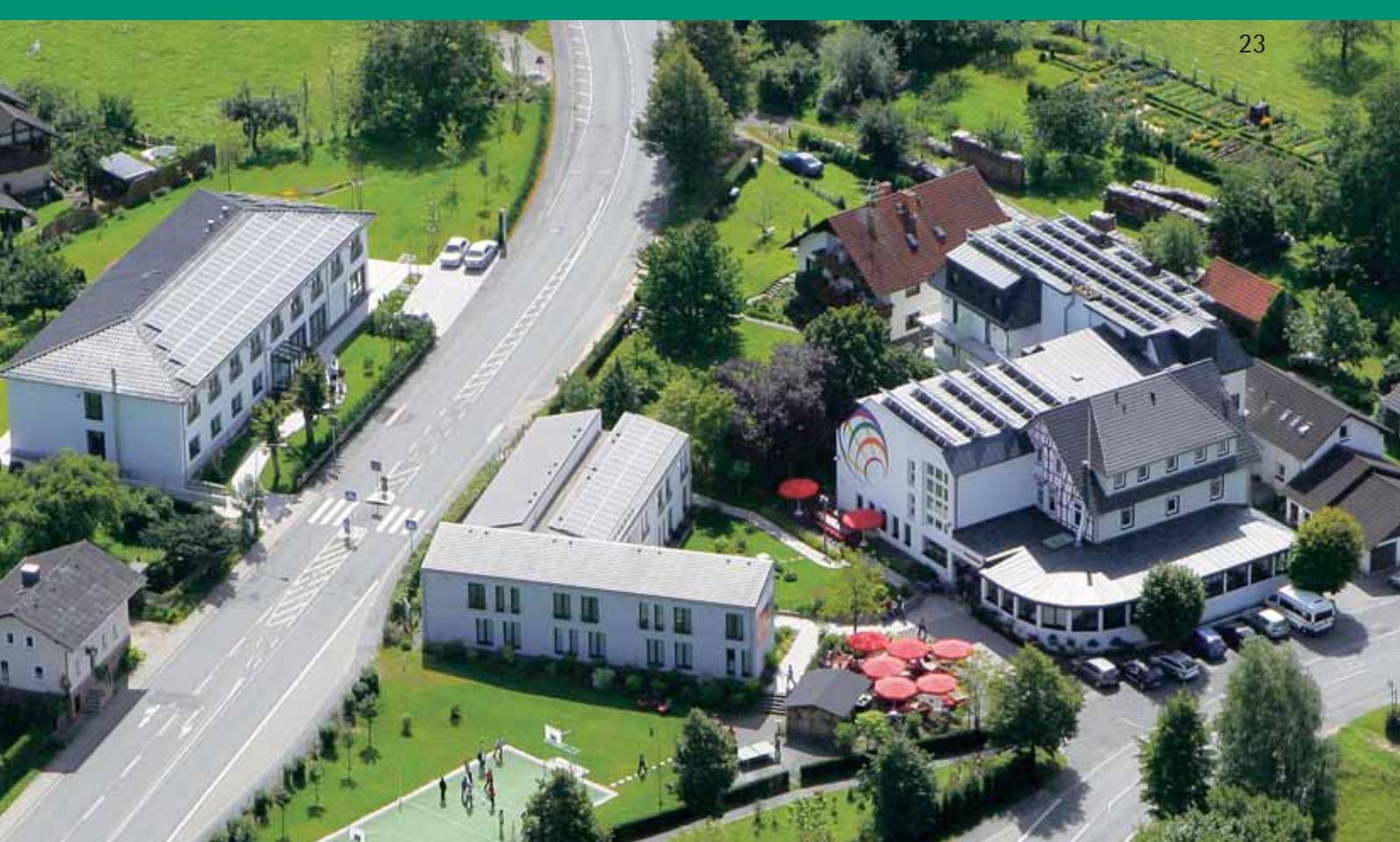
## Audit, control and risk management systems

All ProCredit institutions have an Audit Committee as required by local banking regulations. The Audit Committee is typically appointed by the institution's Shareholders' Meeting and reports to its Supervisory Board and shareholders. The Chairperson of the Audit Committee is usually a member of ProCredit Holding's Group Audit team. ProCredit Holding takes lead responsibility for the appointment and training of staff in the Internal Audit Department of each institution.

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

## Capital and shares

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



## Staff and Staff Development

The key to ProCredit's success is our employees, who are putting our "House Bank for Small Business" positioning and philosophy into practice in 22 countries. Responsible financial intermediation requires staff who are willing and able to establish long-term relationships with our customers and provide them with highly efficient service in a friendly and competent manner. We are proud to have a team that lives the values of transparency, open communication, social responsibility and excellent customer service. Adhering to these values is particularly important in times of crisis. Given that many of our customers suffered substantially from the deep recession in many of our countries of operation since 2009, the ability of our staff to understand their financial situation and communicate with them in an open and constructive manner was key when solving clients' repayment problems and identifying new customers for the bank.

How do we convey the group's philosophy to our 14 thousand employees, inculcate them with its spirit, and ensure that they develop into skilled and competent ProCredit bankers? By choosing our employees carefully, by systematically providing them with training, and, above all, by communicating with them in an open and friendly manner. We also ensure that their professional development is a priority for our local managers. Our managers play the most important role in the integration and professional development of our employees, and we therefore carefully prepare them for their personnel management role. In addition, ProCredit banks have strong HR departments and committee structures to ensure a structured, transparent and institutionalised approach to all staff matters. The open and attentive manner in which senior managers communicate with their employees on a day-to-day basis is the principal staff management tool within the ProCredit group. Managers give regular feedback to their employees at least every three months in a formal way. Combined with an annual feedback conversation with a representative of the senior management, this allows each employee to establish a professional development plan together within the institution. These staff appraisal and development measures are strongly supported by the HR departments and centrally documented to ensure a consistent and transparent career plan for each employee.



Photo above: ProCredit Academy Eastern Europe and Africa, Macedonia. Photo below: ProCredit Academy Latin America, Colombia

As the successful implementation of our "whole client" approach and our focus on being the house bank for small enterprises depends above all on the quality of our staff, we have not only intensified the training for our front office staff but have also introduced a new centralised and standardised staff selection process in all ProCredit banks. Since the summer of 2010, people wishing to apply for a position at a ProCredit bank have been requested to submit a CV and a motivation letter explaining clearly why they would be suitable candidates. After a telephone conversation with a member of the bank's HR department, promising applicants are then invited to participate in a written test in mathematics and logic. Applicants who show the required mathematical and logical skills are then invited to a one-day assessment at the head office of the respective bank, involving group discussions, role-plays and individual interviews. Successful candidates are then invited to a two-week focus session where they have the chance to demonstrate that they possess the required social, communication and analytical skills and where they learn more about the philosophy and business strategy of the ProCredit group through discussions and debates. This rigorous staff selection process is followed by a six-month trainee phase called the Young Bankers Programme, which is held four times a year. Each programme is attended by around 25 participants and combines classroom instruction with practical training, covering a broad range of technical, socio-economic and ethical topics.

In order to ensure that the principles on which staff compensation is based are uniform for all employees throughout the ProCredit group, we introduced a group-wide salary system. While the banks determine the amounts paid to staff in individual positions, the relationships between the salaries for various positions are defined by the group salary system. As part of this system, the training courses which are required for each specific position in the bank are predetermined. By implementing the new salary structure, which is available to all staff members, we have taken a significant step towards a salary system which is transparent, which is considered to be fair by our employees and which allows each of them to plan their professional life within the group. As was already the case prior to the introduction of these new arrangements, staff members do not receive systematic performance-related bonuses, and this applies in particular to employees whose duties inherently involve building risk positions on behalf of the bank. (However, all employees of ProCredit banks are entitled to private health insurance coverage.) This approach creates a balanced working environment and fosters a service-oriented relationship with clients, and it has proven successful in terms of both staff satisfaction and business results. Since 2006, our senior managers have been able to purchase shares in ProCredit Holding via the investment vehicle IPC Invest. These shares are sold at a favourable price, and must be held for at least five years.

We demand a great deal from our staff, but we offer much in return: a challenging, friendly working atmosphere and excellent career prospects. Our staff can take advantage of professional development opportunities not only at their own institutions, but also through international staff exchange and secondment programmes within the group.

## **Training and the ProCredit Academies**

The ProCredit group dedicates significant resources to training. In addition to the entry-level training described above, existing staff benefit from advanced training courses. We have especially invested in developing the skills of our business client advisers, service centre heads and branch managers, as they are key to the successful implementation of our client-oriented approach. In addition there has been a focus on advanced maths and accounting training. The training given to management staff includes personnel management and communication. Excellent communication skills are required on the part of managers to update staff on changes in processes and procedures as well as in bank services. Our major investment in training over the years and the resulting ability to respond quickly to changed circumstances has placed ProCredit in a strong position to adapt effectively to the more volatile operating environment which generally prevails in emerging markets, and particularly following the financial crisis.

All ProCredit bank employees receive ongoing training in customer service and communication skills. Furthermore, we offer many employees intensive English language classes. Given the demands we place on management staff, much attention is focused on their training. At our ProCredit Academy in Germany, we provide a three-year part-time course for our future high-level managers. The course covers all key areas of banking, financial analysis and business development. It also includes business ethics, development economics, history, anthropology and political theory, as well as a wide range of management and communication skills. The ProCredit Academy aims to train more than 600 managers over the next ten years. Since the group of participants includes staff from each ProCredit institution, students have the unique opportunity to undergo intensive training over three years with peers from very different cultural backgrounds.

The regional academies in Macedonia, where we train middle management staff from Africa and Eastern Europe, and in Colombia, where the middle management staff from our Latin American banks are enrolled, complement the role of the ProCredit Academy in Germany by providing intensive, shorter-term training for middle managers, typically over six two-week periods per year. Again, the focus is on developing not only technical skills, but above all analytical skills, communication skills and the ability to make sound decisions.

Throughout the ProCredit group, we make significant investments to ensure that staff acquire the skills needed to achieve a consistently high level of performance while maintaining their strong sense of identification with our objectives and corporate culture. ProCredit employees enjoy a unique opportunity to work in an open and transparent environment; they also have excellent career prospects across our global group.

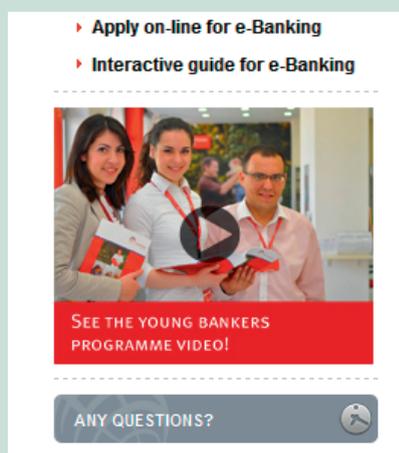
## THE YOUNG BANKERS PROGRAMME

### Finding ProCredit people

The Young Bankers Programme is an innovative approach to finding and integrating young people into ProCredit.

Investments in real training and challenging, independent thinking are unusual in the education system and in the private sector in most of our countries of operation. The ProCredit Young Bankers Programme stands out: it is an opportunity to learn and to understand how ProCredit is different. ProCredit offers a perspective of steady professional and personal development, and not the prospect of short-term incentives, bonuses or status symbols. The Young Bankers Programme helps young people to make the right choices about their career and helps ProCredit identify people who are likely to contribute over the long-term.

Videos presenting the Young Bankers Programme from a local perspective can be viewed at any ProCredit bank website.



## Programme structure

The six-month, full-time programme is carefully designed to assess and foster the attributes that we are looking for in potential new recruits. We are seeking people who are honest, down to earth and willing to learn. We are looking for people who like to work with others and who take an interest in the world; people who enjoy working with clients and who have a good instinct for business.

The Young Bankers Programme is therefore highly interactive and covers a broad range of issues. Courses are characterised by open discussions, projects and group work, followed by practical exercises during which the concepts learned in the classroom can be applied. The programme structure covers:

- Key concepts in banking, finance and economics
- Key concepts in economic development, environmental management and globalisation
- An introduction to customer care and banking services – participants meet clients and are exposed to all the key positions within a ProCredit bank
- Maths and accounting
- ProCredit business philosophy and ProCredit history, which allows candidates to learn about the bank's corporate culture and ethical principles, as reflected in the ProCredit Bank Code of Conduct and applied in our day-to-day operations.

## Critical, value-based thinking

The core values that our employees promote are social responsibility, transparency, client service orientation and high professional standards. New recruits need to share these values: the Young Bankers Programme is an opportunity to understand them. All participants are given the opportunity not only to acquire technical skills, but also to explore, for example, personal ethics, our rationale for not paying staff bonuses, or the role that a well-regulated banking sector can play in the steady economic development of their country.

Critical thinking and independent decision-making are fostered by the topics chosen and the way in which they are addressed. Participants are asked to assess different situations, to make judgments and propose actions. Many of the practical exercises and group work focus on current business challenges: whether the participants are asked to conduct client surveys on particular topics or critically assess a business process.



Photo: ProCredit Bank Ukraine



## Building relationships

Our business is built on respectful, mutually beneficial relationships between ProCredit staff and our clients. Social competence, respect for others and transparent communication are assessed and encouraged. Much of the course is conducted off-site so participants spend time together for longer periods. Social skills and behaviour are assessed throughout the programme, which is one reason why senior ProCredit bank managers regularly interact with the participants.

The selection process which ends with the completion of the Young Bankers Programme is arduous, but transparent. Over the last two years we received 80,000 applications, from which around 2,500 were selected to take part in the programme. Of the programmes that have been completed so far, with an initial intake of 1,900 participants, 1,200 have been hired. We hope that colleagues who have joined ProCredit in this way will have a firm foundation upon which to build a long and fruitful professional relationship with the company.

Rona Rushiti – Banking Service Officer in ProCredit Bank Kosovo, Young Bankers Programme graduate

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

José Manuel Cerrato – Business Client Adviser - Very Small in Banco ProCredit Honduras, Young Bankers Programme graduate

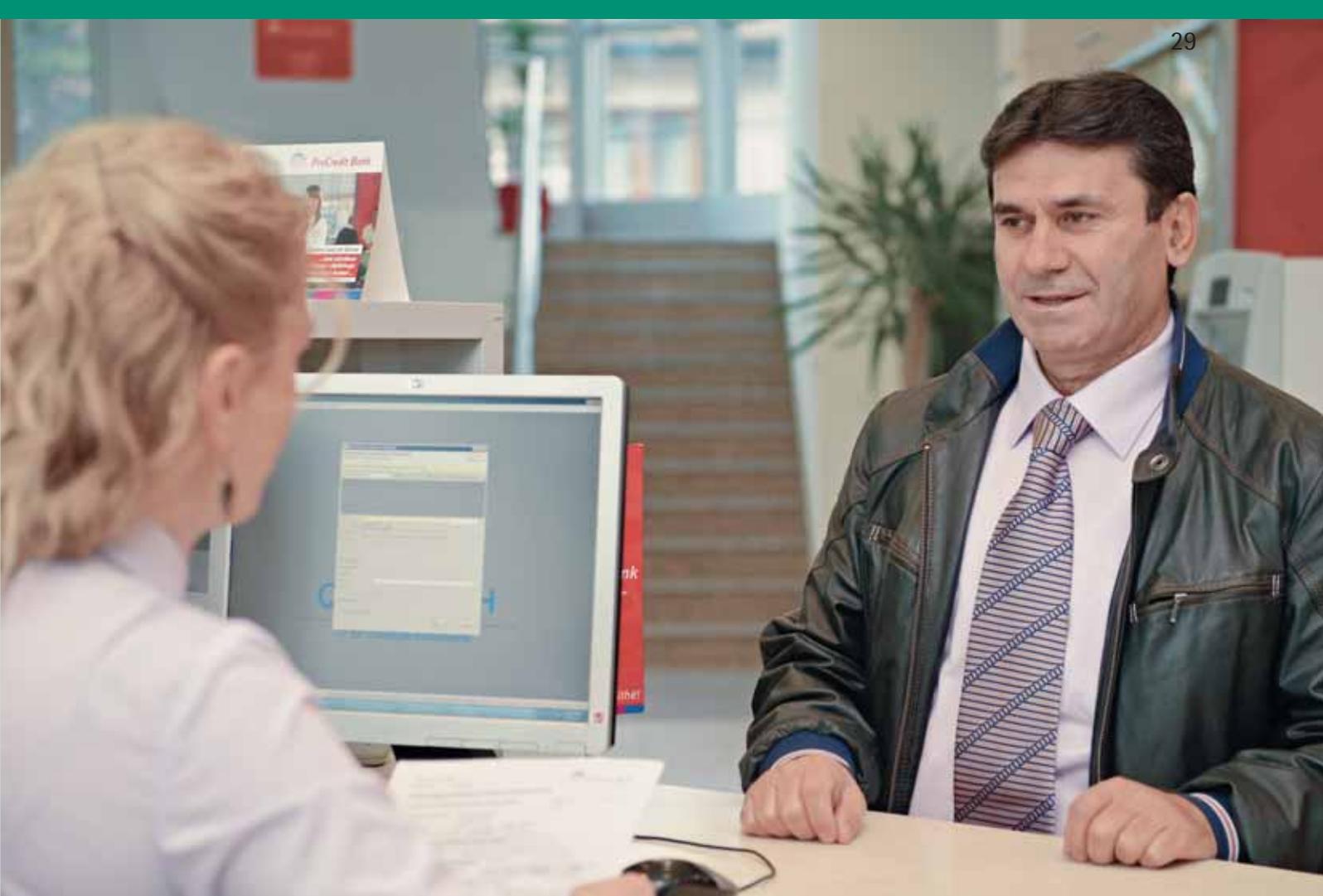
*"This programme helped me build confidence in my abilities, and now I can communicate more effectively and with greater ease. Most importantly, it made me think critically, both about social issues and about my own decisions."*

Victoria Asiedu – Credit Portfolio Analyst in ProCredit Savings and Loans Ghana, Young Bankers Programme graduate

*"I learned so much about the ProCredit way of banking and the difference the institution makes in society with its unique business model and philosophy. I have also grown to appreciate and understand the importance of responsible banking."*

Florin Virdaru – Business Client Adviser - Very Small in ProCredit Bank Romania, Young Bankers Programme graduate

*"The practical assignments in the branches throughout the country and the client visits were a unique opportunity to practise the daily activities and to understand how the relationship with the clients should be developed."*



## Business Ethics and Corporate Values

### ProCredit Bank Mission

Every ProCredit Bank has the following mission statement:

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

*In our operations with business clients, we focus on very small, small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing substantial resources in financial education we aim to promote a culture of savings and responsibility which can help to bring greater stability and security to ordinary households.*

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

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

## Business ethics

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

- **Transparency:** We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of intransparent financial offers.
- **A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.
- **Social responsibility and tolerance:** We offer our clients sound, well-founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity. On this basis we help them to choose appropriate loan options from which they can genuinely benefit, and to avoid becoming overindebted. Promoting a savings culture is another important part of our mission, as we believe that private savings play an especially crucial role in societies with relatively low levels of publicly funded social welfare provision. And we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious or political beliefs.
- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business.
- **High professional standards:** Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.
- **A high degree of personal integrity and commitment:** Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

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

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

## Standards for the prevention of money laundering and fraud

Another important aspect of ensuring that ProCredit institutions adhere to the highest ethical standards is the consistent application of international best-practice methods to protect ourselves from being used as a vehicle for money laundering or other illegal activities, such as the financing of terrorist activities. In order to prevent money laundering, fraud and

the financing of terrorist activities, all ProCredit institutions apply a uniform policy framework (the Group Anti-Money Laundering (AML) Policy and the Group Fraud Prevention Policy) which is in compliance with German and EU regulatory standards. In addition, all ProCredit institutions adhere to local regulations on AML and the prevention of terrorist activities and fraud. At the heart of our approach are the efforts made by our staff to know their customers personally, and the set of safeguards created by the rigorous operational and security procedures employed by the group. All ProCredit banks have an AML officer who oversees the implementation of group-level and local policies and training. ProCredit Holding co-ordinates these efforts on a group-wide level and carries out detailed reporting in line with the applicable local and international regulations. All ProCredit institutions use the same monitoring software solution for the prevention of money laundering (Siron® AML, Siron® PEP and Siron® Embargo) provided by the German company Tonbeller.

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

## Environmental Management System and Green Finance at ProCredit



Ensuring that we support economic development that is as environmentally and socially sustainable as possible is a central component of ProCredit's development mission. The environment and environmental awareness are integral to our identity. Since late 2011, we have therefore been in the process of developing and implementing a comprehensive environmental management concept to reduce the direct and indirect environmental impact of the ProCredit institutions.

The ProCredit group has issued its **"Group Guidelines for Environmental Management"** aimed at implementing an all-inclusive and sustainable system for managing environmentally-related activities. The main pillars of the concept are:

- *Pillar 1:* Internal Environmental Management System (IEMS)
- *Pillar 2:* Management of environmental risks in lending
- *Pillar 3:* Expansion of the green loan portfolio

These pillars require a significant contribution from key staff and participation across all institutional levels of the ProCredit group. Accordingly, during 2012 the group was engaged in establishing the necessary internal structures to embrace, institutionalise and uphold this concept in the long term. At ProCredit Holding, a Green Finance Department and a Group Environmental Steering Committee were established to oversee the group-wide implementation of the model and to provide strategic guidance. At our banks, Environmental Co-ordinators were selected from amongst experienced staff and were made responsible for setting up Environmental Management Units. Environmental Steering Committees at the bank level were also introduced with the participation of the banks' management and other key personnel.

*Pillar 1* relates to all **in-house measures** aimed at reducing the banks' internal environmental impact. During 2012, the focus was on starting to implement the IEMS in a sensible, systematic and farsighted manner. Beyond establishing the environmental units and committees, this involved developing policies, procedures and manuals. Furthermore, the banks themselves worked intensively on the adoption of a group-wide data collection tool. The resulting environmental documentation system will contain information about banks' premises and office equipment and will help to track overall energy, water and materials consumption, the use of different means of transport, and waste generation and



Photo above: ProCredit Bank Bulgaria. Photo below: Banco ProCredit El Salvador

recycling. This information will enable detailed analysis and will serve as the basis for defining goals, activities and concrete action plans to improve the banks' internal environmental performance. Additionally, a great deal of effort was invested in increasing internal awareness and changing staff behaviour. Steps were taken at most banks to either erect new "green" buildings or to retrofit existing branches and service points.

*Pillar 2* aims to **reduce the external impact** of the banks' lending activities. Here, improvements were made to the "Group Standards for Managing the Environmental and Social Impact of Lending", which was accompanied by many staff capacity building events. Consequently, our front office staff are now better equipped and more able to assess the environmental and social impacts of clients' activities, to make consistent assessments of cases, to draw informed conclusions and to suggest appropriate lending solutions.

*Pillar 3* is concerned with **expanding our green loan portfolio**. During 2012, this involved competent staff applying a carefully developed and credible approach to green lending.

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

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

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

The volume of outstanding *green loans* increased by 35% to EUR 78.2 million compared to 2011. The average outstanding amount of the green loans in the portfolio was slightly below EUR 8,000. In 2012, ProCredit banks in Bosnia and Herzegovina, Georgia and Ecuador launched green loans for business and private clients.

Significant progress was made during the second half of 2012 with regard to the development of group-wide definitions of EE/RE and green lending, as well as to the associated reporting framework. Centrally approved *short lists* and *long lists* of eligible standard and non-standard green investments were finalised and will be adapted to each institution's individual situation. These lists state the criteria an investment must meet in order to qualify as an energy efficient measure. Simple to understand and easy to use, these lists and guidelines aim to help staff present, identify and promote the investments in energy efficiency, renewable energy and environmentally friendly measures to our clients.

Good progress has been made with respect to developing functionalities to be incorporated into the group's existing banking software systems to support the flagging, categorisation and reporting of EE, RE and green loans in the banks' portfolios. A separate report providing more detailed results in all three pillars is available.

Internationale Projekt Consult (IPC) provides technical support and training at both group and bank level. Efforts at the group level were further strengthened in 2012 through generous support from the **DOEN Foundation** and the **Development Bank of Austria**.





Photo: Banco ProCredit Mozambique



## ProCredit Institutions Worldwide

### Our Regional Approach

Today the ProCredit group operates in 22 countries in four regions:

- Eastern Europe, accounting for around 72% of our total assets
- Latin America, accounting for around 24% of our assets and
- Africa, accounting for around 4% of our total assets
- Germany, with ProCredit Bank AG.

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

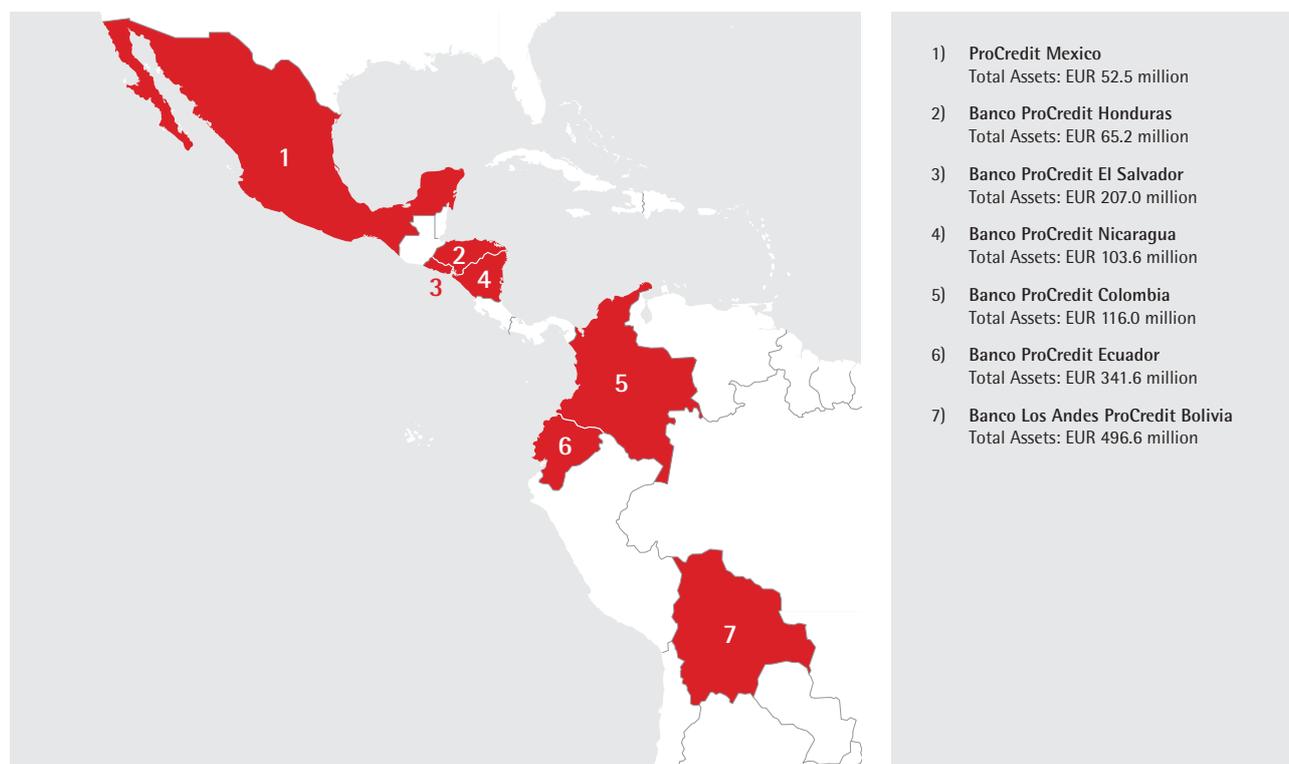
We established a ProCredit Bank in Germany to provide interesting specialist services in the German market, strengthen the balance sheet of the group and support the other ProCredit banks.

ProCredit has a focused regional approach which successfully allows us to make the most of the synergies between the different institutions in each region. For example, in each region we have regional IT service centres provided by Quipu. Furthermore, regional academies have been established to support the training of middle managers: one in Eastern Europe near Skopje, Macedonia for our Eastern European and African colleagues, and one for Latin America in Colombia. Training seminars and workshops are regularly organised at the regional level for all key business areas, and staff members participate in regular exchanges within each region to transfer technical skills and specialist knowledge.

The group strategy in the three main regions will be broadly similar. In each region we will continue to expand with our core services and core target customer groups, with a focus on well-trained staff and middle managers being effective and efficient in customer acquisition, in relationship building and in making a difference for our clients. Our current priority is to consolidate our position in the markets in which we operate and not to expand to new countries or regions. One of the strengths of ProCredit is a management style that is based on frequent, direct personal communication, in particular between the staff of ProCredit Holding and the management teams of each institution. The limit we have placed on our regional expansion is to a large extent the consequence of our desire not to compromise on our highly personalised, "hands-on" style of management.

In this section we provide a brief overview of ProCredit's involvement in Latin America, Eastern Europe and Africa and outline some of the most notable recent developments and prospects in each region. The results recorded by the individual ProCredit institutions in 2012 can be found in the Consolidated Financial Statements of the Group, starting from p. 106 of this report.

## ProCredit in Latin America



ProCredit banks operate in 7 countries across Latin America. Four banks have a history which stretches back more than 10 years. For example, Banco ProCredit El Salvador evolved from Financiera Calpia whose origins date from 1988. As such the roots of ProCredit are in Latin America. Three institutions were founded more recently to respond to market needs: Banco ProCredit Honduras (2007), ProCredit Mexico (2007), which operates as a finance company, and Banco ProCredit Colombia (2008).

Generally in Latin America, micro, small and medium enterprises (MSMEs) employ the bulk of the population; levels of income are low and inequality is high, and banking sectors are relatively underdeveloped. This context makes the role of a ProCredit bank a much needed one. Commercial banks are still not properly equipped to deal with MSMEs

or to build the strong relationships that are necessary to serve these businesses well. Ordinary people on modest incomes are still not widely encouraged to use banks for simple savings and account services.

In terms of recent macroeconomic developments, trends in the region were mixed in 2012. The Central American countries (Nicaragua, Honduras, El Salvador and Mexico) remain uncertain, with growing security difficulties. GDP growth in 2012 was between 2% and 4%. Banking sector growth is flat. The security situation continues to deteriorate, particularly in Honduras and Mexico. The South American countries (Bolivia, Colombia and Ecuador), however, are developing strongly. GDP growth rates of around 5% were recorded in 2012, and all three banking sectors continued to exhibit strong growth.

## Positioning

Against this background, the positioning of ProCredit banks in Latin America is a compelling one. ProCredit banks serve the needs of very small businesses and ordinary people in a manner based on long-term, loyal partnership. This is a positioning based on the quality and reliability of services, not just on access, which is unusual and makes us particularly strong in the region.

Although “inclusive banking” has long been a priority for the development community in Latin America, weaknesses remain in the financial sectors today. Commercial banks did expand strongly over the years, but all too often it was in the form of consumer lending with little regard for the risk of overindebtedness. Small business lending and universal access to efficient savings and transaction services have generally not been a priority.

The gap in the market for responsible banking only widened with the global financial sector crisis and the subsequent economic downturn, particularly in Central America. High levels of overindebtedness emerged, exacerbated by a decline in remittances and microenterprise sales. In many countries microfinance players suffered, and banks became even more tentative about working with micro and small enterprises.

ProCredit has responded to these developments by focusing more intently than ever on the quality and not just the quantity of outreach. ProCredit banks in Latin America, as in the rest of the group, are raising the minimum loan size to a level where the risk of overindebtedness from consumer finance is lower. Our commitment to fostering a savings culture and increasing the average volumes saved by ordinary people remains strong.

As part of ProCredit’s commitment to green finance, one area of investment we are fostering more intensively with our clients is efficiency, and energy efficiency in particular. In Latin America, awareness of the benefits of efficient technologies is typically low amongst our very small, small and even some medium enterprise clients. Awareness of energy savings is even lower, particularly in countries with subsidised fuel prices. ProCredit banks are beginning to build their capacity to increase clients’ understanding of improved and greener technologies, and their willingness and ability to invest in them.

Furthermore, ProCredit’s strong emphasis on transparency and training is notable in a Latin American context. With the group under BaFin/Bundesbank supervision, the operational and risk standards implemented by ProCredit are strict, and its relations with local supervising authorities are broad-based. ProCredit banks are particularly important as standard bearers of transparency in certain Central American countries which have recently seen a marked deterioration in the security situation and the rule of law.



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

## Business performance

ProCredit is a strong player in the region: the ProCredit group is present in seven countries in Latin America and has over 1 million clients. There are synergies between our banks in the region, and we offer a consistent range and quality of services to clients that operate across borders.

The performance of the ProCredit banks in Latin America, specifically in the South American countries, was relatively strong in 2012. The banks grew in 2012 in the core business client categories Very Small (by 5.6%) and Small (by 18.8%). Very Small loans, with a volume of below USD 30,000, represent 59% of the outstanding loan portfolio volume (and 94% of the number of loans) in the Latin American institutions, emphasising the strong positioning the banks have in this segment. Growth in the Medium category was limited due to loan portfolio quality problems, particularly in Central America. Overall the loan portfolio of the banks in the Latin American region grew by 5.7% in 2012, with loans to Medium business client categories declining in 2012 (by 10.9%).

Margins on the business loan portfolio are also relatively steady in Latin America. Average income on loans at year end was 16.9% (as compared to 13.6% in Eastern Europe), yielding a net interest income/average total assets ratio of 10.2% (as compared to 7.0% in Eastern Europe). The loan portfolio quality was good. At the end of the year PAR over 30 days stood at only 2.8%.

## Staff development

Our employees play a key role in our success. Investing in staff development and regional staff exchange programmes is a priority for ProCredit in Latin America. Levels of formal education are often relatively low in the region, making it particularly important that staff are provided with the opportunity to develop their skills within ProCredit. A target group-oriented bank requires devolved decision-making and good managers at every level. A high degree of internal and external transparency in terms of the way in which we communicate with one another and with our customers is central to our strategy. The demands this places on our employees and middle managers are high and necessitate a strong emphasis on continuous training. The ProCredit Regional Academy in Colombia plays an important role. It will place particular emphasis on the training of service centre heads in 2013.

## Strategy

Our strategy going forward in Latin America is to continue to expand in the region and to further strengthen the quality of the relationships we have with our clients. In 2013 the loan portfolio is projected to grow steadily. At the same time, given the large number of clients we serve, we will increase the efficiency of our operations with the use of technology in our front and back offices.

The macroeconomic expectations differ between Central and South American countries. The Central American countries (Nicaragua, Honduras, El Salvador and Mexico) remain fairly uncertain given the slow recovery in the US and growing security difficulties. GDP growth expectations are between 2% and 3% in 2013, which is similar to those in 2012. Growth rates in El Salvador are projected to be below 2% i.e. somewhat lower than in neighbouring countries. Banking sector growth is flat. The security situation continues to be extremely difficult, particularly in Honduras and Mexico. This is weakening public institutions and the rule of law more widely. Against this backdrop the Central

American ProCredit banks will be focused on steady improvements in efficiency to enhance profitability combined with careful growth in the very small and small business client segments.

The situation for South American countries (Bolivia, Colombia and Ecuador) will remain positive: GDP growth rates of about 5% are expected in 2013, combined with a relatively stable political and institutional setting and a growing banking sector. This is somewhat lower than in 2012. Some measures are being taken in these markets to constrain overly strong consumer credit growth. The Bolivian and Ecuadoran governments intervene in their banking sectors in a transparent manner to constrain profitability. Generally, small businesses are investing now and could benefit from a strong banking partner. In the South American ProCredit banks there will be an emphasis on increasing the efficiency of operations and creating a more focused branch network. These measures will be associated with significant reorganisation and further staff reductions. Given favourable market conditions, steady growth can nevertheless be achieved in the very small and small business client categories. There will also be emphasis on further developing the retail deposit base from business and private clients, with BCAs and other front office staff focusing strongly on this aspect.

Overall the prospects for the Latin American ProCredit banks are favourable. Our development positioning and market potential is clear. Over the next two years there will be a strong emphasis on institution building measures which will leave the banks well placed to take advantage of opportunities over the long term.

## ProCredit in Eastern Europe



- 1) ProCredit Bank  
Bosnia and Herzegovina  
Total Assets: EUR 169.3 million
- 2) ProCredit Bank Albania  
Total Assets: EUR 286.9 million
- 3) ProCredit Bank Serbia  
Total Assets: EUR 665.6 million
- 4) ProCredit Bank Kosovo  
Total Assets: EUR 805.1 million
- 5) ProCredit Bank Macedonia  
Total Assets: EUR 245.4 million
- 6) ProCredit Bank Romania  
Total Assets: EUR 271.0 million
- 7) ProCredit Bank Bulgaria  
Total Assets: EUR 735.7 million
- 8) ProCredit Bank Ukraine  
Total Assets: EUR 211.5 million
- 9) ProCredit Bank Moldova  
Total Assets: EUR 164.4 million
- 10) ProCredit Bank Georgia  
Total Assets: EUR 481.5 million
- 11) ProCredit Bank Armenia  
Total Assets: EUR 77.1 million

ProCredit banks operate in 11 countries across Eastern Europe. Most of them were founded between 1999 and 2002. Only the ProCredit banks in Armenia (2008) and Moldova (2007) were founded more recently as banks. Since the early 2000s the banking sectors in which ProCredit has a presence expanded extremely rapidly with the influx of aggressive Western banks. But then the 2008 financial sector crisis hit the region hard, and macroeconomic conditions have been challenging since then.



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

In 2012, the macroeconomic environment continued to be difficult for most of the South Eastern and Eastern European countries in which ProCredit works. Most of the Balkan countries of South Eastern Europe experienced sluggish GDP growth (typically around 1%). Banking sectors in the Balkan region are relatively well developed and dominated by Western banks. Competition is therefore also strong.

The more eastern countries (or CIS countries – Armenia, Georgia, Moldova and Ukraine) experienced more steady GDP growth ranging from 2–5%, although 2012 was generally more difficult than 2011. Banking sectors are weaker in these countries than in our Balkan countries of operation, and the operational and political environment is also more volatile.

Generally, the development of banking sectors in the region also continued to be flat (with the exception of Georgia, which is still growing strongly), as banks focus on managing non-performing loans (NPLs, i.e. loans more than 90 days overdue) that were originally disbursed in the pre-crisis boom years continue to work their way through the system only very slowly. In most markets, sector NPL ratios exceeded 10% throughout 2012.

Prospects for 2013 are similar since there is unlikely to be an economic turnaround in the euro zone which could drive growth in the region. The role of ProCredit banks against this still vulnerable economic backdrop is a valuable one as our clients and the financial markets in which we operate adjust to the new economic reality in the region.

## Positioning

As a leading provider of banking services to very small, small and medium-sized businesses, we position ourselves as the “house bank for small business” in the region. ProCredit banks provide a high standard of transparent, professional services to all their clients – the ordinary people who live and work in the vicinity of the 459 ProCredit branches across the region.

**For the financial sectors in which we work**, ProCredit banks have represented consistency, good risk management, steady loan portfolio quality, and a high degree of financial transparency throughout the recent unsettled years. ProCredit banks have been notable in continuing to lend steadily and responsibly to support small businesses while banking sectors as a whole have tended to be erratic.

**For our business clients**, ProCredit banks remain a reliable and responsible partner. In the current difficult climate, we support our business clients with prudent business development and efficient cash management. Given the overall weak investment climate in 2012, we put particular emphasis on efficient working capital facilities in the form of credit lines and overdrafts. We work with each client to identify their credit capacity based on their ability to repay their debt even in volatile times.

**For our private clients**, ProCredit banks have also been a symbol of stability and transparency in turbulent years. ProCredit has focused for many years on promoting a savings culture because setting money aside can help clients build a buffer against the vagaries of life. The ratio of deposits to GDP in Eastern European countries is still well below Western European levels.

We offer simple and reliable retail banking services. Our belief in transparent, direct communication is particularly important in fostering clients' trust. We understand that our clients want to know in simple language how to save safely; they also want to access their money when they need it and they want access to convenient and efficient transaction services. Our experience confirms that customers appreciate the transparent, responsible approach we take.

## Business performance

The outstanding loan portfolio of the 11 ProCredit banks in Eastern Europe stood at EUR 3.0 billion at the end of 2012 (an increase of 3.2% from the end of 2011). The loan portfolio of ProCredit banks in the Balkan countries grew by 2.3% and in the CIS countries by 6.2%. In most markets, it is assessed that the loan portfolio of ProCredit banks grew slightly ahead of average market growth rates. Growth was focused in our core "Small Business" client category (defined as business clients with a credit capacity of EUR 30,000–150,000) which grew by 9.1% in 2012. Loans in this size range account for about 35% of the total loan portfolio in ProCredit banks in Eastern Europe. Margins were maintained in Eastern Europe over the year (net interest income/average total assets at end-2012 was 7.0% as compared to 7.2% at end-2011).

Staff have been proactive in acquiring new clients and serving existing clients. Our lending activities aim to foster local production and service industries, and include the provision of agricultural loans. We are keen to support a sector that has been particularly neglected by other banks and that is vital for employment and social cohesion outside the main urban areas.

For clients facing difficulties we support businesses by restructuring their loans to avoid bankruptcy where appropriate. Given our thorough understanding of our clients' businesses, we are able, where necessary, to adapt loan repayment schedules if the sales pattern of a business has changed significantly. This has meant that arrears and write-off figures for the ProCredit banks in Eastern Europe are low relative to banking sectors as a whole. The combined portfolio at risk (PAR>30 days) for the Eastern European institutions as a percentage of their loan portfolio was 4.7% at the end of 2012 (PAR>90 days stood at 3.7%). Write-offs for the group in the region amounted to 1.4% of the loan portfolio. In these terms ProCredit continues to demonstrate that with a responsible approach to lending, based on an assessment of the real situation of an enterprise, a high degree of financial stability can be achieved for clients and in bank performance.

ProCredit banks have also had to strengthen their structures for the recovery of written-off and non-performing loans, however. The weaknesses of the legal system in many countries in the region in supporting banks to realise registered collateral have become very apparent since the financial crisis. The ultimate success and timeliness of recovery efforts will be an important factor in determining banks' willingness to expand SME finance in the future.

ProCredit banks fund most of their lending activities with local savings. The ratio of deposits to loans in the ProCredit banks in the region is 86%. Not only did we not have to rely on unpredictable capital markets for funds in 2012, but ProCredit banks in the region remained highly liquid throughout the year and our cost of funds declined.

Looking forward, in addition to the savings services they provide, ProCredit banks will continue to be conservative with consumer loans for their private clients, but will expand their provision of convenient banking services, such as e-banking and direct debit, and will continue to provide responsible housing improvement, energy efficiency and other loans which help build a family's assets.

## Staff development

ProCredit banks offer unique opportunities for professional development and job satisfaction given our strong client orientation, open communication culture and unusual commitment to staff training. Our staff is the key element in

our approach to being a stable, down-to-earth and personal banking partner. The ProCredit group invests heavily to achieve high standards in staff recruitment and development. The six-month “Young Bankers” stipend programme introduced by all ProCredit banks is fast becoming a well-known and innovative feature of bank recruitment in many countries in Eastern Europe.

To complement the international ProCredit Academy in Germany, we have an Eastern European academy, located near Skopje in Macedonia, which is dedicated to the training of ProCredit middle managers. The regional academy is an important channel for rapid and consistent communication region-wide and one that helps us adapt quickly to face new challenges. Investment in our staff is an ongoing commitment and will remain a central plank in the ProCredit Bank approach.

## Strategy

Macroeconomically, the Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR Macedonia, Romania and Serbia) are projected to experience low-level GDP growth of less than 1.5% in 2013, based on a poor outlook and a forecast GDP contraction in the euro zone of 0.2% in 2013. Such a development would be in line with developments in 2012. The confidence of small business clients to invest and expand is still low. The weak economic outlook may be exacerbated by uncertain political developments in several countries. From 2014 gradual improvement is anticipated. Against this background, the development of the banking sector is expected to be relatively flat in 2013, but competition for existing business will remain strong.

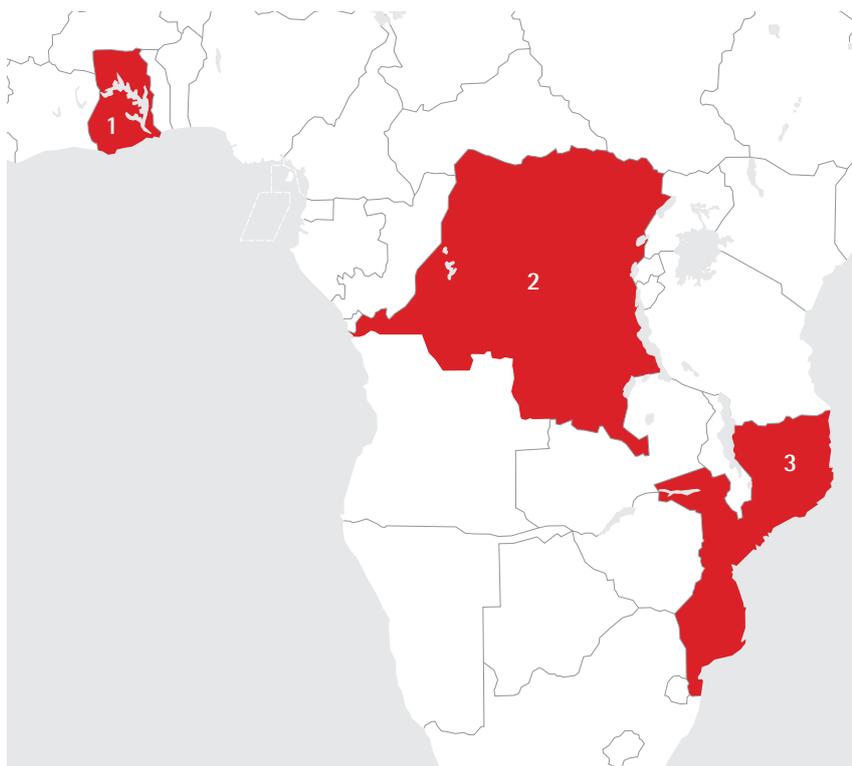
In the current or former CIS countries further to the east (Armenia, Georgia, Moldova and Ukraine) conditions in 2012 were somewhat more buoyant than in the Balkans, but less positive than in 2011. Limited GDP growth is expected in 2013: forecasts range from 2.1% in Ukraine (which had no growth in 2012) to as much as 5% in Georgia. Whilst the growth of the Georgian banking sector was especially strong in 2012 and is likely to continue in 2013, the political and economic situation in Ukraine remains particularly uncertain.

Slower growth is planned in the Balkan countries in 2013, given the more difficult macroeconomic and competitive environment. Here the focus will be more on loan portfolio quality, efficiency and maintaining profitability particularly in the larger institutions (Bulgaria, Kosovo and Serbia) than on growth. Somewhat stronger growth is projected for the more eastern CIS countries, with a strong focus on the Very Small category. In 2013 there will be a particular emphasis on enhancing the profitability of the mid-size ProCredit banks in Eastern Europe (for example Albania, Bosnia, Moldova, Ukraine).

Overall our Eastern European institutions have invested heavily in institution building since the beginning of the financial sector crisis. Efficiency and service quality has improved significantly, which stands the ProCredit banks in good stead to continue to develop ahead of market, to manage the tightening margins of our small business model and to develop a loyal client base which will grow with the banks as market conditions improve.

Priorities for 2013 include enhancing the role of Business Client Advisers in both credit risk assessment and client relationship management, as well as improving the speed and effectiveness with which we serve more formal small business clients.

## ProCredit in Africa



- 1) ProCredit Savings and Loans Ghana  
Total Assets: EUR 49.5 million
- 2) ProCredit Bank Democratic Republic of Congo  
Total Assets: EUR 128.0 million
- 3) Banco ProCredit Mozambique  
Total Assets: EUR 38.1 million

ProCredit serves about 352 thousand clients in Mozambique, Ghana and the Democratic Republic of Congo, providing transparent, responsible banking services to small and very small businesses as well as to ordinary people.

Banking sectors in Africa are weak compared to Eastern Europe and Latin America. The countries in which we operate in Africa were macroeconomically relatively stable, although high levels of non-performing loans remain a feature of banking sectors as a whole and the regulatory and operational environment continues to be difficult. The Ghanaian economy is growing strongly, driven by oil exports and relatively strong commodity prices.

### Positioning

ProCredit's positioning in Africa is interesting. We do not aspire to reach scale in terms of numbers of clients, but we do aspire to have a lasting development impact by meeting the needs of our clients for accessible and professional banking services in a way that other banks in the region do not.

**For our business clients**, ProCredit institutions in Africa accompany entrepreneurs as their businesses develop. Skilled ProCredit staff evaluate the debt capacity of each business, tailor a financial offer to that client's needs, and maintain a long-term relationship with that client. In our countries of operation, small businesses (particularly those involved in vital local production and agricultural activities) are still very poorly served by the banking sector as a whole.

ProCredit institutions focus on serving Very Small and Small businesses, in particular disbursing loans of below USD 50,000. There is tremendous value in supporting these businesses to develop and gradually increase their level of formality. This requires a "whole customer" approach, which embraces loans, account services and electronic banking. It requires staff committed and able to accompany clients in the formalisation process. These businesses are often



Photo above: ProCredit Bank Democratic Republic of Congo. Photo below: ProCredit Savings and Loans Ghana

not easy to serve: they tend to be informal with poor financial record-keeping, their collateral is unreliable, and their business and personal environment is volatile. Consequently, we have invested heavily in staff training, knowing that professional expertise and enhancing financial literacy among our clients is crucial for the continued expansion of our business and the business of the very small and small enterprises we serve.

**For the ordinary people who live and work around our branches,** ProCredit institutions in Africa focus on promoting savings and providing efficient modern payment services with transparent fee structures. In Africa, nine out of ten ProCredit clients are non-loan customers. We serve large numbers of account holders with small balances because we believe that providing people with somewhere safe to save is an essential service. Thus, the loan portfolios of the ProCredit institutions in Africa are financed with locally mobilised savings.

We aim to create strong institutions which make a real difference for growing and formalising very small and small businesses. We also aim to set new standards in terms of transparency, access and service quality for our clients and for the markets in which we operate. We do this in often challenging environments. The global phenomenon of aggressive consumer lending has been felt increasingly in Africa. In many areas, since credit bureaus function poorly and financial literacy is limited, the problem of overindebtedness has reached worrying levels. Levels of non-performing loans are typically high in banking sectors in Africa. The wider operating environment is also difficult since the legal and fiscal framework is weak and administrative costs are high.

## Business performance

Against this backdrop the performance of the African institutions was steady as they continued to adapt to a focus on the “upper” very small and small business client categories. Across the African institutions the loan portfolio grew by 11.3% in 2012.

Loan portfolio quality remains a challenge and strong client relationships will be central to improving this. The portfolio at risk (over 30 days) of the ProCredit institutions in Africa stood at 7.1% at the end of the year (as opposed to 6.6% at the end of 2011), reflecting the difficult economic climate and adjustments still being made to manage growth and loan portfolio quality in the “upper” very small and small business client categories. The transformation from a “microfinance” institution to a small business bank is particularly challenging, but potentially rewarding in the African context.

With our lower-income private and very small-scale self-employed clients, our focus is to provide savings and convenient transaction services more efficiently. Confronted with high maintenance costs due to weak communications and transport infrastructure, and often overcrowded banking halls, the need to optimise quality, costs and efficiency in Africa is pressing. We are making more use of technology to reduce transaction costs and increase convenience. For example, cards are being strongly promoted to allow customers to make simple withdrawals or balance enquiries at any time and at more locations. Mobile banking is now available in all three ProCredit institutions in Africa.

## Staff development

These changes have been accompanied by a stronger focus than ever on the recruitment, training, development and assessment of our staff. The ProCredit Academies continue to be a central aspect of our middle management training, and every year many of our African colleagues attend these training facilities. We gratefully acknowledge the support

of the Bill and Melinda Gates Foundation and the French Development Agency (AFD), which have helped to fund the training of local staff in order to build the necessary internal capacities to serve very small and small businesses and to expand further into new regions, especially those with high agricultural potential.

The new recruitment strategy in Africa reflects our focus on customer relations, financial literacy, staff quality and efficiency. A centralised and transparent process has been implemented, together with a system of supervision and coaching for newcomers. The six-month Young Bankers Programme introduced for graduates and new entrants to the banking sector is a ground-breaking approach to recruitment in Africa. The programme puts a very strong emphasis not just on core technical skills, but also on personal ethics and the banking sector's responsibilities towards the development of a country. Such an initiative is especially relevant in Africa, where too often banking relationships are intransparent, even exploitative, and recruitment is too often based on "who you know" rather than on "what you are capable of".

## Strategy

Economically, the African region is projected to be relatively stable, with GDP and banking sectors growing, albeit from a low base. The region is expected to achieve economic growth of 7.5% on average in 2013. In particular, the strong growth of the Ghanaian economy will continue, fuelled by oil exports coupled with high commodity prices. Due to falling international food prices, inflation is expected to decrease in all three countries where ProCredit works. Operationally, Africa will remain difficult. Despite peace negotiations, Eastern DR Congo is expected to continue experiencing instability, which will continue to unsettle the country as a whole.

Looking forward, ProCredit banks in Africa will continue to focus on creating a better understanding of, and work with, our very small and small business clients. This, combined with close attention to staff recruitment and development, will contribute towards robust and cohesive institutions. Improving the credit risk assessment and financial monitoring skills of our Business Client Advisers, and indeed our clients, will be a priority for 2013 in the volatile and informal African context. The loan portfolio is projected to grow strongly next year, by up to 30%. Our objective is also to increase the efficiency and service quality of our retail operations through the ongoing review of front office processes and of the appropriate use of technology.

As part of the ProCredit group's focus on environmental management and green finance initiatives, ProCredit banks will explore what this will mean in an African context. Investments in our staff – and their commitment – will continue to be central to achieving our ambitions in Africa.





## Introducing ProCredit Bank Germany

### ProCredit Bank AG ([www.procreditbank.de](http://www.procreditbank.de))

ProCredit Bank AG received a banking licence from the German Federal supervisory authorities (BaFin and Bundesbank) in December 2011. It began operations in September 2012, although the official bank launch to the public will take place in March 2013. At the end of the year the bank had total assets of EUR 78.2 million and a staff of 40. Christoph Freytag and Bernhard Reinfelder make up the bank's management team. ProCredit Bank Germany is an integrated part of the central support system for the ProCredit group. It is located in Frankfurt in the same building as ProCredit Holding and Quipu.

The German ProCredit Bank marks a new development for the ProCredit group. The bank brings the group under the consolidated supervision of the German regulator and brings a modern banking perspective to the group as a whole. It brings benefits to the group in terms of being able to make lower-cost funding and international payment options available to ProCredit banks. It also presents very interesting opportunities to explore the German market and to work with clients who take an interest in our countries of operation.

### Save meaningfully

Initially, the German ProCredit Bank will offer instant access savings accounts and term deposits for private and business clients. The bank will use a direct bank model. The target customers are people that want to know what is being done with their money and whether it is being used in a worthwhile way. ProCredit Bank offers clients the opportunity to save with a pioneering bank which believes in responsible banking and fosters international develop-

ment. "Ethical" banks are a fast-growing part of the German financial sector. In addition to the legal deposit protection of up to EUR 100,000, the bank has also been approved as a voluntary member of the private deposit insurance scheme in Germany, which currently guarantees a deposit volume of up to EUR 250,000 for each client of ProCredit Bank.

The e-Banking platform used by the bank has been developed in-house by the group's software provider Quipu. The lessons learned from our experience with direct banking in Germany will be brought to the group as whole.

### Bridge for businesses

The bank will form a bridge between Germany and the ProCredit group's countries of operation by supporting German small and medium-sized companies in their efforts to develop business relationships with those countries.

For German companies that have business relations with clients of the ProCredit banks in other countries, there will be opportunities to bank directly with ProCredit Bank in Germany. In the words of Mr Freytag: "We can open doors to 21 emerging economies. Our direct contacts to more than 1,000,000 small and medium-sized businesses through our roughly 735 branches are a major advantage for companies with business relationships in those countries, or which plan to build them in the future."

For the business clients of ProCredit banks in Bulgaria, Romania and Serbia, the launch of the bank in Germany will open up interesting opportunities for co-operation. The bank will be able to co-finance medium business clients and offer favourable international transfer and trade finance instruments. In the medium term we see this as an opportunity to expand the group's operations with larger, more formal business clients working within the EU.

### Group support

ProCredit banks will directly benefit from the support provided by ProCredit Bank Germany in the form of improved liquidity management and payment services. Lower-cost, reliable international money transfer and documentary services managed through the bank in Germany will enhance the service package we can offer our SME clients worldwide.

2013 will be the first year of full operations for the bank. The next step will be to start offering current accounts for private and business clients. Over time the bank will steadily expand the services it offers its clients and the other ProCredit banks. We look forward to the further development of ProCredit Bank Germany and its central role in the group as a whole.





## Quipu: The ProCredit Group's Software Provider

### Background

Quipu is an IT consultancy and software development company providing dedicated support services to the ProCredit group. Its software solutions are geared towards the particular needs of ProCredit clients and operations.

Quipu was originally established by IPC – Internationale Projekt Consult GmbH to support its consulting activities and provide technical support to microfinance institutions in developing countries and transition economies. Over time, Quipu became more specialised in advising the ProCredit banks and developing new tools and applications in response to the growth and expansion of ProCredit's range of services. This resulted in ProCredit Holding's decision to purchase the company in 2011, reflecting the central role that IT and information security play, not only for clients but also for efficient banking operations, for risk management and for the ProCredit group's ability to respond to the evolving demands of regulators and auditors.

### Organisation

As of end-2012, Quipu had 161 staff and five regional offices, located in Central America (El Salvador), South America (Colombia), Africa (Ghana) and Eastern Europe (Macedonia and Ukraine), as well as a development office in Moscow, Russia.

Quipu supports the group in three main areas:

- **Software development and maintenance:** Core banking software for 20 of the 22 banks in the ProCredit group.

Photos from left to right: ProCredit Bank Congo; ProCredit Bank Kosovo

- **Systems administration support.**
- **Card business and card processing:** Complete package of services related to card business, including transaction processing through the Quipu Processing Centre.

Security policies, procedures, standards and guidelines have been adopted which are in compliance with German security standards and with international standards, such as the Payment Card Industry Data Security Standards. Quipu had a turnover of EUR 12.9 million in 2012.

## Key initiatives

Quipu has prime responsibility to support ProCredit Holding in implementing the Group IT Strategy. Some key initiatives in this strategy, which prioritises strengthening client relations, efficiency, risk management and transparent reporting, are outlined below.

### E-Banking, m-Banking and smartphone channels

E-Banking and m-Banking are essential channels for both private and business clients, which is why their development has been a major focus for the ProCredit group since 2011. There is a clear trend for popular web-based applications to shift towards feature phones or smartphones. Thus, Quipu is developing feature phone (or smartphone) functionality for countries where Internet connectivity is good and affordable. Quipu also developed the new direct banking platform used by ProCredit Bank Germany.

### Customer Relationship Management (CRM)

In 2011 Quipu developed the first module of a CRM system for the group banks, using Microsoft's "Dynamics" software. The first module focuses on customer acquisition. Now the Quipu team is developing the second module, which supports Business Client Advisers in their efforts to build strong relationships with small businesses.

### Risk management and information security

The group's risk management tools are continually being improved. A current focus is the further development of the group's treasury software DealWare, developed by Quipu to enhance the management and real-time reporting of all on- and off-balance sheet items generated in the banks' treasury departments. In addition, Quipu is helping to strengthen the tools and the quality of data used to analyse historic default and loss given default information, and thus to support an improved understanding of credit risk.

Information security is also a primary concern. Quipu is supporting the group in the implementation of the Group IT Infrastructure Standards, which were revised and improved in 2012.

### Supervisory reporting

From the beginning of 2014, the group will be required to comply with the new Basel III reporting standards, as set forth in CRD IV/CRR (Capital Requirements Directive and Capital Requirements Regulation). This presents considerable challenges in terms of the amount of additional consolidated data that will have to be delivered within very short timeframes. The group has been working with Quipu since 2012 in preparing for the necessary changes, and the project is on schedule for their timely implementation.

These are just some of the projects that Quipu is supporting the group on. Quipu is therefore playing a central role in bringing the benefits of modern technology to clients in ProCredit's countries of operation.

## Clients



*Photo: Amalia Helena de Fátima Calle Velásquez  
Owner of "Helados Los Alpes"  
Client of Banco ProCredit Colombia*



“

*It all began 15 years ago when I was working with a partner, who then wanted to close the business. After receiving an offer, my husband and I decided to purchase the business. We restructured it and then it all took off.*

”

“**H**elados Los Alpes” was the idea of Amalia Helena Calle, a businesswoman from Antioquia, who began working with a partner in the hopes of establishing an ice cream production company in the city of Medellín.

Today, Ms Calle is the sole proprietor of the company. In her career as an independent entrepreneur, she has managed to transform her production company into a well-respected business that employs more than a dozen people.

The company currently has a staff of 16 and continues to create the most employment opportunities for families in the region. According to the businesswoman, creating jobs is what motivates her to continue her work. Aside from her permanent staff, she also creates indirect employment for a number of people who sell her products independently.

Five years ago she decided to look for a financial institution to leverage her business. After having discovered Banco ProCredit, she applied for a loan to purchase a packaging machine, which has made work much easier. A second loan was then used to purchase a mixer.

With the support of Banco ProCredit, Ms Calle has succeeded in overcoming difficult times caused by a lack of machinery and insufficient assets for advancing and improving the positioning of the company.

She plans on taking out further loans to purchase a processor for solids and an encoder. These projects are proof of this entrepreneur’s solid vision for strengthening her business. She considers Banco ProCredit as a strategic ally both for her own professional development and for that of her company.

Banco ProCredit Colombia:

## Amalia Helena de Fátima Calle Velásquez

Owner of “Helados Los Alpes”

First contact with Banco ProCredit

2009

Name/type of business

“Helados Los Alpes”, ice cream production

Number of employees

16

Services used

Private clients savings account

Why ProCredit?

“My relationship with the bank has been very good from the start; I have received excellent customer service and personalised attention. Banco ProCredit has helped me a lot.”



Banco Los Andes ProCredit Bolivia:

## Julio Gutiérrez Mamani

*Clothing manufacturer*

First contact with Banco Los Andes ProCredit  
2007

Name/type of business  
Clothing manufacture

Number of employees  
4

Services used  
Current account  
Deposit accounts in USD and BOB  
Owner's personal account

### Why ProCredit?

"Because of its excellent customer service and the support it offers small business owners like me, who need financial assistance to grow their businesses."



“

*From the very beginning, my Client Advisers have been excellent. Our relationship has always been based on mutual trust and they have been more than willing to provide support. Banco Los Andes ProCredit completely supports the growth of my business.*

”



In 2004, after an extensive career as a tailor, Julio Gutiérrez Mamani decided to start his own business out of his home producing clothes for children and young adults. Armed with only two sewing machines and his knowledge of the business, he set out to follow the family dream.

One morning, a manager from Banco Los Andes ProCredit visited Mr Gutiérrez's stand at the Barrio Lindo Fair in Santa Cruz, where he sells the apparel he produces with

his wife Adela Umanes Choque. The manager presented the bank's services and encouraged him to apply for a loan. Mr Gutiérrez was a bit hesitant at first, as he had never taken out a loan before, but the thought of being able to grow his business and provide a better life for his family motivated him to apply for a loan, which the bank approved.

Mr Gutiérrez later took out an energy efficiency loan, which he used to purchase an embroidery machine. The



new equipment not only consumes less energy, but is also very quiet and can embroider 12 items simultaneously. Using energy efficient machinery has enabled him to lower his energy costs.

In the future, Mr Gutiérrez plans on purchasing a silkscreen machine, which will increase productivity, as this work is currently done manually. Additionally, he plans on hiring a secretary, an accountant, developers and

designers. He is confident that Banco Los Andes ProCredit will continue to support his business.

*Photo: Julio Gutiérrez Mamani  
Clothing manufacturer  
Client of Banco Los Andes ProCredit Bolivia*



*Photo: David Fernando Bie  
Owner of a vegetable farm  
Client of Banco ProCredit Mozambique*



“

*I like working with Banco ProCredit because the staff really understand and support my business. It was the first financial institution to give me a loan and I have been a client of ProCredit ever since.*

”

**D**avid Fernando Bie, 54, is a married father of ten children who all attend school. His main business activity is vegetable production, in particular potatoes and tomatoes, which he started on a small 12-hectare plot in Moamba in 1980.

His relationship with Banco ProCredit began in 2008, when he met a team of agricultural Business Client Advisers who were conducting a promotional tour of the Moamba district. He felt that they really understood the farming business and decided to take advantage of various services, such as SMS banking, and he remains a loyal client to this day. He invested his first loan of USD 7,500 in tomatoes and other vegetable crops.

His crops sell very well and he has had no difficulties servicing his loans; in

fact, he has paid off four loans to date, all of which were invested in farmland. Last year Mr Bie took out a loan to buy a tractor, repaying this amount before the maturity date thanks to the profits he had earned from selling his potatoes.

Mr Bie is currently using a loan of USD 52,000 to produce tomatoes on his plot, which now consists of 45 hectares, and employs 34 workers. As a next step, he plans to purchase a centre pivot irrigation system that will utilise the river near his land and thereby reduce his water consumption and fuel costs. He is proud of the progress he has made and is grateful to Banco ProCredit for helping him to grow his small farm into a sizable agricultural business.

Banco ProCredit Mozambique:

## David Fernando Bie

*Owner of a vegetable farm*

First contact with Banco ProCredit  
2008

Name/type of business  
Agriculture, vegetable farming

Number of employees  
34

Services used  
Current account  
Debit card  
"Male ka fone" – SMS banking

### Why ProCredit?

"My Client Adviser has a background in agriculture, so he understands what my business is about, and whenever I describe my needs, he always looks for the services that are best suited to meeting them."



ProCredit Savings and Loans Ghana:  
**Innieze Gregorio Salami**

Owner of "Higher Heights Academy"

First contact with ProCredit Savings and Loans  
 2012

Name/type of business  
 "Higher Heights Academy", school

Number of employees  
 26

Services used  
 ProBiz current account  
 E-Banking  
 Payment cards

**Why ProCredit?**

"ProCredit's employees are very knowledgeable about the services. I contact my Client Adviser whenever I have an issue, and I know that he has my best interests at heart. I have been telling people that ProCredit is reliable."

**A**t 59 years of age, Innieze Gregorio Salami is not only running a school, but transforming it into an ultra-modern facility. The retired midwife opened the "Higher Heights Academy" as a pre-school in 2002 with the aim of giving the children in her neighbourhood access to basic education. By the end of the first year of operation, she had 56 pupils.

Last year, Mrs Salami was approached by a Client Relationship Manager from ProCredit Savings and Loans, who advised her to open a ProBiz account and take advantage of a banking package designed for small enterprises like hers. Initially, she was hesitant to open an account after having been refused a loan from her previous bank, even though she had been a good customer. After further

discussions with the Client Relationship Manager, however, she decided to give ProCredit a try.

She then applied for and received a loan of USD 36,500 to complete some of the classrooms at the school's new site.

Mrs Salami has been very pleased with ProCredit's support, and eleven years later, she has a staff of 26 as well as 439 pupils from nursery school up to junior secondary school. Construction will be finished in five years, at which point she plans to retire and hand the academy to one of her four sons. By then, Higher Heights should have a pre-school, science laboratory, senior secondary school and vocational institute.

“

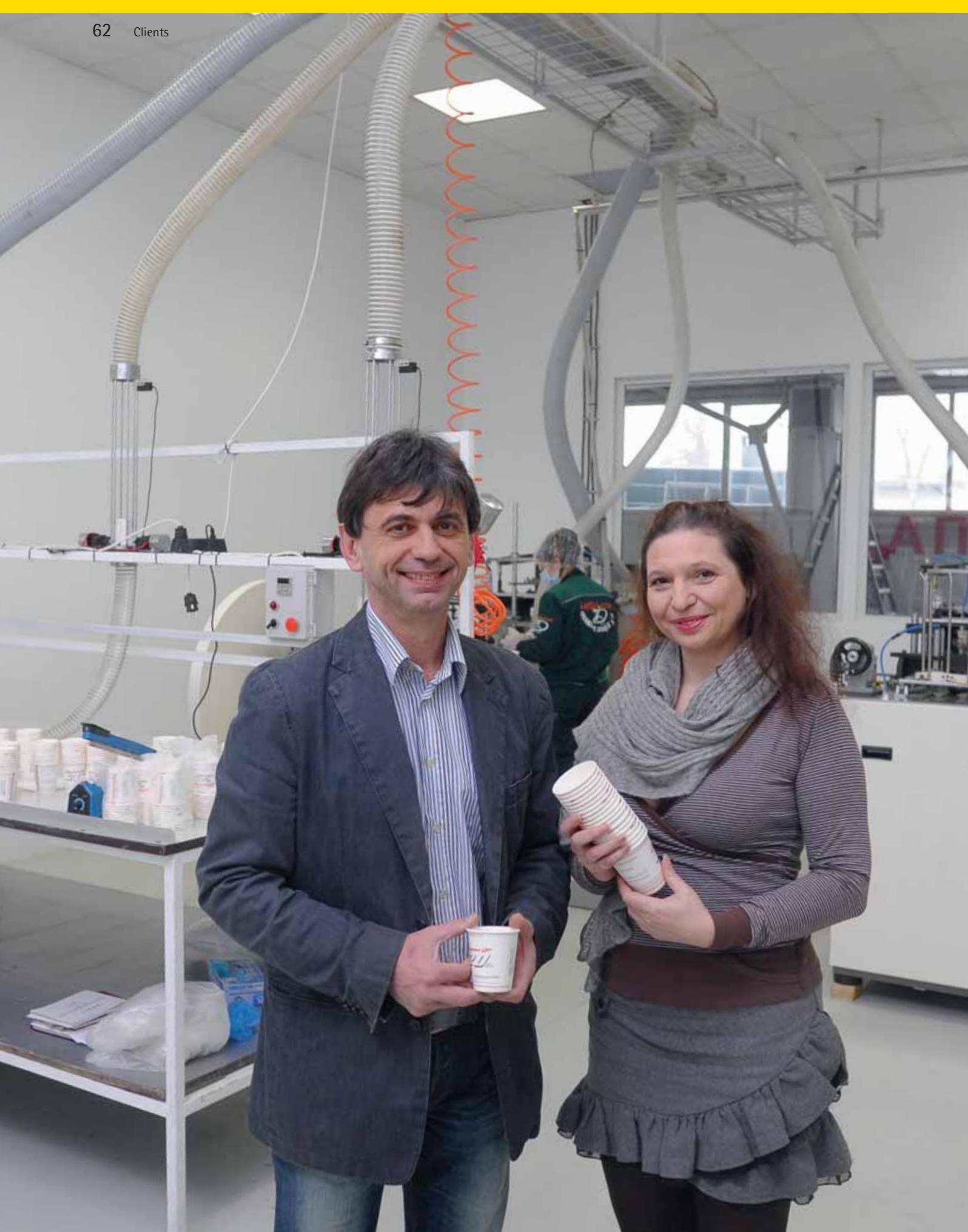
*I applied for a loan with another bank, but was told that it did not lend to churches or schools. Then ProCredit stepped in and has been helping me to expand my school ever since.*

”





*Photo: Innieze Gregorio Salami  
Owner of "Higher Heights Academy"  
Client of ProCredit Savings and Loans Ghana*



*Photo: Svetlozar Dyakov and Dimitrula Dyakova  
Owners of "Jusita Des"  
Clients of ProCredit Bank Bulgaria*

“

*We need to preserve nature for the sake of our children, so we cannot afford to use resources as though they will last forever. Our business brings benefits and contributes to economic development, which makes us even more obliged to protect the environment, because our lives – and livelihoods – depend on it.*

”

**S**vetlozar and Dimitrula Dyakovi started their business 20 years ago as printers of advertising materials, business cards, leaflets, catalogues and brochures. In 1998 they also began producing paper packaging materials and boxes, as well as illuminated signs. They built their first production facility in 1999, followed by a second site in 2003.

ProCredit has been serving this family enterprise since 2001, when representatives of the bank visited the business and were impressed by the Dyakovis' commitment to environmentally-friendly practices. Shortly thereafter, the couple applied for and obtained a loan for working capital. They have since received eight loans from ProCredit Bank, using the funds to purchase machinery and optimise their production sites.

Eventually, the business owners decided to add environmentally-friendly paper

cups to their product line. After spending a year researching the demand for the cups and the production technology, the Dyakovis chose to buy a new energy-efficient machine that would not only keep their energy costs low, but would also have a gentler impact on the environment.

The couple approached ProCredit Bank for a loan and bought the machine, which uses hot air rather than glue in the production process. To further reduce the environmental impact of their business, they use paper from a certified sustainable forest in Finland to make their cups. Like the bank, the pair is strongly committed to recycling: Every employee helps to sort the post-production waste materials, which are then taken to the respective facilities. In this way, the Dyakovis are showing that it is possible to run a successful business in a green way.

ProCredit Bank Bulgaria:

## Svetlozar Dyakov and Dimitrula Dyakova

Owners of "Jusita Des"

First contact with ProCredit Bank  
2001

Name/type of business  
"Jusita Des", advertising agency and printing house

Number of employees  
18

### Services used

Current account and deposit account  
Payroll for employees  
ProB@nking – online banking system  
Debit and credit card  
Private savings account  
Mobile banking – SMS notification  
Overdraft

### Why ProCredit?

"ProCredit Bank was the only bank that was willing to listen to our ideas and plans; we had had a disappointing experience with another bank that just didn't understand us and didn't see our potential. With ProCredit's support we have developed into a fully-fledged advertising agency and printing house."



ProCredit Bank Romania:

## Ciprian Oprea

Administrator of "Milca"

First contact with ProCredit Bank  
2005

Name/type of business  
"Milca", producer of garage doors and  
related equipment

Number of employees  
119

Services used  
Current accounts  
Payroll services  
E-Banking  
Business debit card

### Why ProCredit?

"I researched the market carefully. Several institutions made proposals, but the offer I got from ProCredit Bank was the one that suited me best, because it provides good solutions for my financial needs."



“

*When you're small, it is very hard to get anyone to pay attention to you. The great thing about ProCredit Bank is that it gives small and very small businesses a chance.*

”

Ciprian Oprea is the owner of Milca, a company which produces and distributes garage doors and related equipment. ProCredit Bank first came to his attention several years ago. His company had 30 employees at the time and a turnover of approximately EUR 1 million per year. He was already working with several banks, but decided to look into ProCredit based on the positive things he had heard.

His first goal was to obtain a credit line, which he received from ProCredit in 2006 in the amount of EUR 25,000. He continued to do business with the bank and, pleased with the service he received, eventually moved around 90% of his company's financial activities there. In 2008 he took out another loan of EUR 140,000 to further expand his growing business.

Mr Oprea has subsequently received other loans from ProCredit Bank. He currently has a loan of EUR 350,000, which he invested in his business, and a credit line. Mr Oprea says that the close relationship the bank has to his business and the continuous effort to provide good solutions for his financial needs has made him a loyal customer. He also appreciates the staff, who he feels always strive to fulfil his requests.

Today, Milca has 119 employees and operates on an area of 4,060 m<sup>2</sup> consisting of warehouses, offices and a showroom. Not content to stop there, Mr Oprea has big plans, including improving the quality of his company's services and products. Here again, he is counting on the full support of ProCredit Bank.





*Photo: Ciprian Oprea  
Administrator of "Milca"  
Client of ProCredit Bank Romania*



ProCredit Bank  
LEASING  
EKSPOZITIBA  
A ulaz



Photo: ProCredit Bank Serbia



## ProCredit Group Management Report 2012 Group Business Results

### Introduction

2012 was a steady year for the ProCredit group. The macroeconomic environment remained very difficult in most of the Eastern European and Central American countries in which ProCredit banks operate. It was relatively more buoyant in South America and Africa. ProCredit banks continued to focus on staff development and improving service quality for target clients, whilst enhancing efficiency and sound risk management. Financial results in line with performance in 2011 were achieved.

This Group Management Report is divided into three sections:

- **Group Business Results** provides an overview of our business and financial results. As in the previous years, the group's financial statements were produced in accordance with IFRS.
- **Risk Management** focuses on the measures taken in response to prevailing conditions and also highlights the underlying resilience of the ProCredit group.
- **Outlook** presents the prospects for 2013 and beyond.

Over the year, the liquidity and capital position of the group was strong. The total Basel II capital ratio (Tier 1 and Tier 2 capital divided by total risk-weighted assets) stood at 15.1% at year-end (2011: 15.0%). The group recorded a profit of EUR 46.3 million, a similar level to the prior year (2011: EUR 46.8 million), representing a return on average equity (RoAE) for the group of 10.3% (similar to that of 2011: 10.4%). The profit was moderately behind plan for the

year, largely because of lower than planned loan portfolio growth due to the weaker macroeconomic and stronger competitive environment as well as a strong institution building focus.

The gross loan portfolio volume grew in 2012 by 4.0%. This was less than 2011 when it grew by 10.3%. Growth in the Small business client category (by 12.1%) was in line with growth in 2011. There was a slight reduction in the Medium business client category (by -2.8%). The deposit base of the group grew by 6.1% to support loan portfolio growth and to maintain comfortable liquidity levels throughout the year.

Loan portfolio quality declined slightly in 2012 relative to 2011 and continued to be a major focus for the group. Portfolio at risk over 30 days (PAR >30 days) at the end of December 2012 was 4.3% (2011: 3.8%). The PAR >90 days stood at 3.4%. The group had net write-offs in the year of 0.8% (2011: 0.8%). The ratio of loan loss provisions to PAR >30 days stood at 98.4% at year-end (2011: 104%). Loan portfolio quality is still influenced by Small and Medium business loans disbursed prior to the beginning of the financial crisis and is significantly better than the loan portfolio quality of the markets in which we operate.

Most ProCredit banks recorded a profit in 2012. Profitability in the larger ProCredit institutions was strong. ProCredit Bank Germany began operations towards the end of the year and is still in an investment phase.

The ProCredit group comprises 22 financial institutions. Almost all of the individual ProCredit institutions are regulated and supervised by their respective local banking supervisory authorities, and most of them have full banking licences. The exceptions here are ProCredit Savings and Loans Company in Ghana, which does not have a full banking licence but is supervised by the banking supervisory authority, and our institution in Mexico.

The group was supervised on a consolidated level by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the Bundesbank throughout 2012. The parent company of the group, ProCredit Holding AG & Co. KGaA, is the "superordinated company" of the group, responsible for maintaining an adequate level of equity for the group and ensuring that all reporting, risk management and compliance obligations required under German banking regulations (specifically as defined in section 25a of the German Banking Act, KWG) are met.

ProCredit Holding further consolidated its ownership of the ProCredit banks with the purchase of Commerzbank's minority shares in most Eastern European institutions. The company increased its capital in 2012 by EUR 58.1 million. Two new shareholders joined the group of owners: MicroVest and The GAWA Microfinance Fund managed by Ambers & Co.

## The Political and Economic Operating Environment: Regional Segments in Context

ProCredit institutions are located in four regions:

- Eastern Europe, accounting for some 72% of group total assets
- Latin America, accounting for some 24% of group total assets and
- Africa, accounting for some 4% of group total assets
- Germany, accounting for a negligible percentage of group assets since ProCredit Bank AG only just began operations at the end of 2012

The positioning of ProCredit banks is similar in all of the developing countries and emerging markets in which they operate: we aim to be the leading provider of loans and other banking services – in other words the "house bank" – to very small and small businesses, setting high standards for customer service and transparency. At the same time

we aim to foster a savings culture amongst "ordinary people". We also aim to build solid institutions and to promote transparent banking practices and sound risk management. Given the resilience of our target groups and the way in which we work with our clients, the performance of ProCredit banks is typically steady in the face of economic turmoil.

For the **South Eastern and Eastern European** countries in which ProCredit works, 2012 proved to be another challenging year similar to 2011. Most of the Balkan countries of South Eastern Europe experienced sluggish GDP growth (typically below 2%). The more eastern countries (or CIS countries – Armenia, Georgia, Moldova and Ukraine) experienced more steady GDP growth ranging from 2–5%, although 2012 was generally more difficult than 2011. The development of banking sectors in the region also continued to be depressed, as non-performing loans (NPLs, i.e. loans more than 90 days overdue) that were originally disbursed in the pre-crisis boom years continue to work their way through the system only very slowly. In most markets, sector NPL ratios exceeded 10% throughout 2012.

Overall, the performance of the ProCredit banks in Eastern Europe was more stable than most competitor banks. The loan portfolio of ProCredit banks in the Balkan countries grew by 2.3% and in the CIS countries by 6.2%. In most markets, it is assessed that the loan portfolio of ProCredit banks grew slightly ahead of average market growth rates. At the same time, the banks continued to build institutional capacity to respond to client needs in these more challenging times.

2012 was generally more buoyant for **Latin America** than Eastern Europe. The Central American countries (Nicaragua, Honduras, El Salvador and Mexico) remain uncertain with growing security difficulties. GDP growth in 2012 was between 2-4%. Banking sector growth is flat. The security situation continues to deteriorate, particularly in Honduras and Mexico. The South American countries (Bolivia, Colombia and Ecuador) are developing strongly. GDP growth rates of around 5% were recorded in 2012, and all three banking sectors continued to exhibit strong growth.

The performance of the ProCredit banks in Latin America, specifically in the South American countries, was relatively strong in 2012. The banks grew more strongly in 2012 in the core Very Small (5.6%) and Small (18.8%) business client categories. Growth in the Medium category was restricted given loan portfolio quality problems experienced particularly in Central America. Overall the loan portfolio of the banks in the Latin American region grew by 5.7% in 2012, with loans to Medium business client categories declining in 2012 (by 10.9%).

The countries in which we operate in **Africa** were macroeconomically relatively stable, although high levels of non-performing loans remain a feature of banking sectors as a whole and the regulatory and operational environment continues to be difficult. The Ghanaian economy is growing strongly driven by oil exports and strong enough commodity prices. Against this backdrop the performance of the African institutions was steady as they continue to adapt to a focus on the "upper" Very Small and Small business client categories. Across the African institutions the loan portfolio grew by 11.3% in 2012 and an average RoAE of 3.5% was achieved.

**ProCredit Bank Germany** began modest operations in Q4 2012. It has a start-up staff of 23 people. Full-scale operations with the public will be launched in early 2013.

## The Business Operations of the Group

ProCredit aims to have a development impact by providing financial services to our target groups in developing countries and transition economies: the small businesses that provide livelihoods for many families and that drive economic growth and job creation; and the ordinary people who require savings and straightforward banking products delivered in a transparent and client-oriented manner. Our target customer categories are very small and small

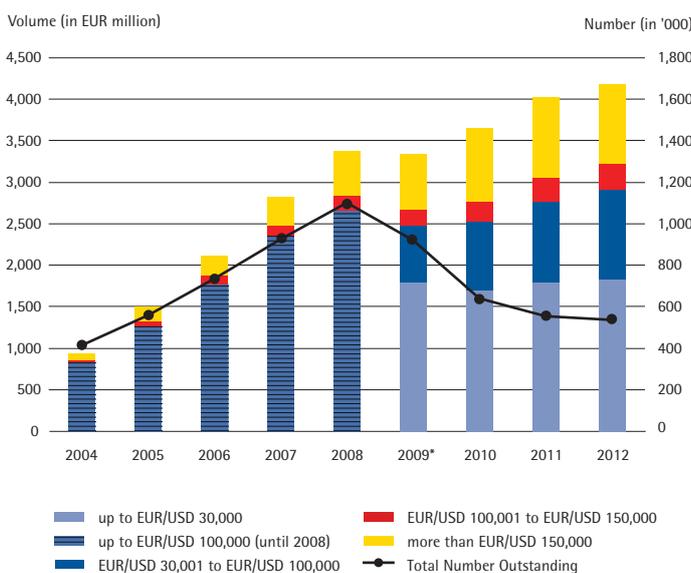
businesses in urban and rural areas, for whom our lead product is often an instalment loan, but for whom we aim to be the “house bank” offering the full range of banking services, including payment services, documentary products (letters of credit and guarantees), salary services for employees, and various savings products. At the same time we serve all the individuals associated with such businesses as well as all the other private individuals living in the neighbourhoods around our branches.

For all client categories we provide a good range of services including savings, current accounts, payment facilities, card services and e-banking. Organisationally, the group is set up to serve our target client categories with divisions and reporting lines based on whether the services are provided to “business” (sub-divided into Very Small, Small or Medium business categories) or to “private” clients, with “institution” clients being served by one of these departments depending on the local context. A client-oriented institutional set-up is designed to deepen our client relationships and improve the quality and efficiency of the services we provide. Group reporting is being developed in a manner which allows both a client-based and a product-based view on our operations.

In 2012 our focus was on growth in business (in lending and deposit services) with our core Very Small and Small business clients, as well as on improving the efficiency of working with our private clients. In summary:

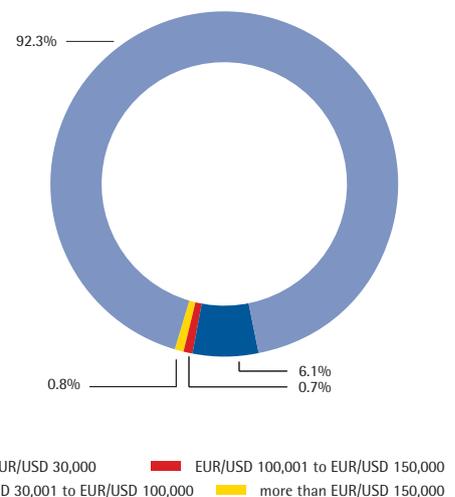
- With regard to our **lending services** we focused on disbursing loans in a conservative manner to our Very Small, Small and Medium-sized business clients. The group's loan portfolio grew by 4.0% over the year. The group also focused on proactively managing loan portfolio quality and restructuring loans on a needs basis to reflect the new sales environment facing clients.
- With regard to our **deposit services** 2012 was a year focused on growth as we reinforce the savings culture we aim to foster amongst our clients. Deposits grew by 6.1% during the year. The fact that the group does not rely on capital markets, but rather on locally mobilised savings, to finance its loan portfolio is the prime reason why we have been able to manage our liquidity position and successfully keep the cost of funds stable in 2012.
- With regard to our **other banking services** we continued to gradually increase the breadth and quality of services provided and fee income generated in 2012

Development of the Loan Portfolio



\* Starting from 2009, new volume splits applied

Breakdown of the Number of Outstanding Loans by Loan Size\*



\* including credit card receivables

### *Lending Services*

Over 2012, the loan portfolio of the ProCredit group grew by some EUR 161 million (compared to EUR 377 million in 2011). Growth was stronger in the first half of the year than in the second half, reflecting the more difficult macroeconomic environment, stronger competition and group focus on institution building in Q3/4 2012. At the end of the year the gross loan portfolio stood at EUR 4.2 billion (compared to EUR 4.0 billion at end-2011). In volume terms, our Eastern European banks account for roughly 72% and Latin American banks 26% of the overall portfolio. The number of outstanding loans declined from about 558 thousand to 537 thousand. This is in line with a wider strategy of reducing the group's exposure to the smallest end of our very small lending activities, the segment most impacted by consumer finance competitors.

The growth of the loan portfolio was largely driven by growth in our core products. Loans to enterprises (business loans, agricultural loans and financial leases) account for 92.3% of the volume of our outstanding loan portfolio and 73.0% of the number of loans. During the year the average volume of new disbursements per month was high at EUR 248.8 million (EUR 315.2 million in 2011). This reflects the fact that much of the demand from our business clients is currently for working capital instruments rather than longer-term financing, since the investment climate is depressed. The business client advisers and customer relationship managers working with our clients have improved their ability to advise on overdrafts, credit lines and credit framework facilities to ensure we respond appropriately to both the short-term and longer-term borrowing needs of our clients.

Enterprise loans with an outstanding amount of up to EUR/USD 30,000 ("Very Small" loans) comprise 40.8% of our outstanding loan volume and 89.8% of the number of loans. In 2012 the volume of loans in the Very Small category grew by EUR 57 million (2.5%), as compared to 8.6% in 2011. This has been the result of a strong focus on this client category.

Loans to enterprises with an outstanding amount of between EUR/USD 30,000 and EUR/USD 150,000 ("Small" loans) account for 34.7% of our outstanding loan volume and 9.1% of the number of loans. In 2012 the volume of loans in the Small category grew by EUR 143.8 million (12.1%).

"Medium-sized" loans (defined as loans above EUR 150,000) to enterprises account for 24.5% of our outstanding loan volume, a similar level to the end of 2011, and 1.1% of the number of loans outstanding. ProCredit banks' lending to clients in the "medium enterprise" category declined by some 5.9%, compared with a growth of 0.7% in 2011. A reduced focus on this category, and in particular loans larger than EUR 500,000, was planned for 2012 given the tight margins and loan portfolio quality problems associated with these larger loans in some markets. Our medium loan services are focused on selected customers that have grown with us and who bring to our banks a network of suppliers, customers and employees.

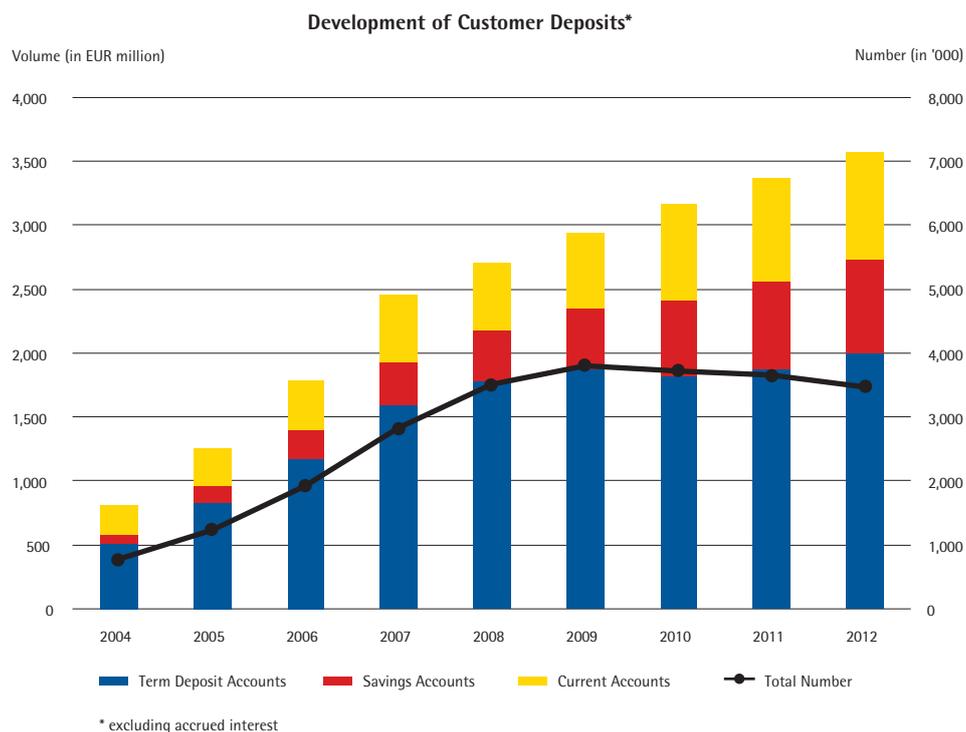
The share of agricultural loans in the total number of loans is 17.1%, representing 12.6% of the total outstanding loan portfolio. The group's agricultural loan portfolio grew strongly in 2012 (by 11.7%). Agricultural lending is a niche neglected by other banks, has an important role in providing employment and economic activity in rural areas and is a line of business in which ProCredit has developed specialist expertise. Strong expansion was planned for 2012 and continued growth is planned for 2013.

Housing improvement and energy efficiency or "green" loans represent 4.9% of our total outstanding loan portfolio. Energy efficiency loans for households are an area of growing focus for the group. ProCredit institutions do not actively promote consumer lending; consumer loans and other loans to private individuals, including overdrafts, account for only 2.7% of the group's outstanding loan portfolio. In total the volume of outstanding loans disbursed to private persons, including housing improvement loans, accounts for some 7.6% of the outstanding loan portfolio.

With generally depressed conditions and markets still adjusting to the consequences of the financial crisis and to uncertain global prospects, the quality of the loan portfolio continued to be an important challenge for the group in 2012 as it was in 2011. Due to the monthly payment schedules used for the majority of loans outstanding, the key indicator employed by ProCredit to assess the level of credit risk is the "portfolio at risk" (PAR). PAR >30 is defined as the outstanding balance of all loans with any payment overdue by more than 30 days expressed as a percentage of the gross loan portfolio. The group also monitors PAR >90 days as a comparative measure since it is often used by the banking sector as a whole. At the end of 2012, PAR >30 was at 4.3% (as compared to 3.8% at end-2011). PAR >90 went from 2.9% to 3.4%. At the same time the net write-offs in 2012 reached 0.8% of the gross loan portfolio (same level as 2011 (0.8%)). PAR >30 was provisioned at 98.4% at year-end. The details on credit risk management are reported in the Risk Management section below.

### Deposit Services

We aim to promote local financial intermediation, i.e. to mobilise local savings to support lending to local small businesses. ProCredit also recognises its role in bringing new customers into the formal banking system, building financial literacy and trust in financial institutions, and helping to build a savings culture in its countries of operation.



At year-end, customer deposits totalled EUR 3.63 billion, an increase relative to end-2011 (EUR 3.42 billion) of 6.1%. About 30% of our total deposit base volume is accounted for by enterprises and 70% by private clients. Over time the aim is to further increase the importance of business client deposits to reflect the "house bank" positioning. The ratio of deposits to loans and advances to customers was close to 87%, ensuring a good group liquidity position over the year. Three quarters of group deposits were held in term and savings deposits, the rest in sight deposits. There was a slight increase in the relative importance of savings deposits as compared to term deposits over the year, and

the aim is to encourage this tendency going forward. Accessible savings deposits are an account type which help build client trust and give clients flexibility in their volatile environments. The success in building the deposit base has been the result of the intensive efforts of our front-office staff to communicate with our clients in 2012. We focus on supporting people who want to build meaningful savings volumes, even if relatively small, to provide an important buffer against any difficulties in life.

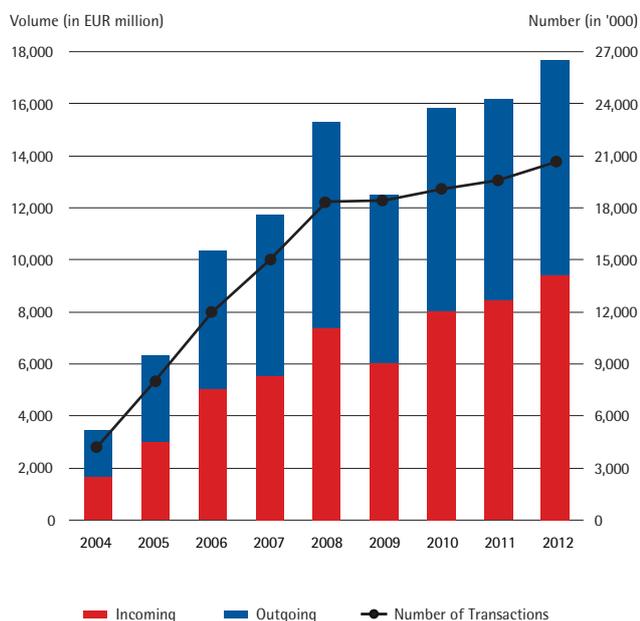
### Other Banking Services

In addition to our loan and deposit products, the ProCredit institutions offer a range of other basic banking services to our target groups including various payment services and debit/credit cards. These services are important for our clients, give them access to modern, convenient banking services and support their integration into the formal financial sector. At the same time these services are an important source of income for the group and build client loyalty. In all, 1.7 million international payments with a volume of EUR 6.1 billion were processed during 2012 – a similar level to 2011 (1.7 million international payments with a total volume of EUR 5.7 billion).

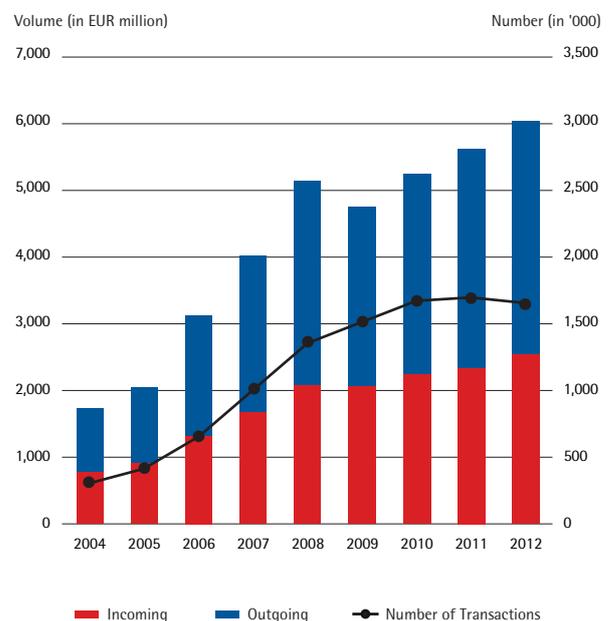
Generally it is the group strategy to emphasise non-cash payment systems, in the form of e-banking, cards and standing orders, in order to increase the efficiency of businesses and banking sectors, and generally to reduce costs and increase access for clients. Given their large number of transactions e-banking is particularly important for enterprise clients; these clients account for the majority of e-banking transactions. By the end of 2012, the group had around 238,000 e-banking clients with 10.3 million transactions being completed via the internet over the year. Quipu, the ProCredit group's IT and software support company, continues to work with the ProCredit banks to enhance the services provided by platforms such as e-banking, m-banking and cards.

With steadily expanding country-wide ATM networks providing customers with rapid access to their funds wherever they are, ProCredit banks offer clients a valuable service. By the end of 2012, the group operated 1,178 ATMs and had issued a total of 893 thousand cards, most of which were debit cards, supported by Visa and/or MasterCard. The card business of many ProCredit banks is supported by the processing centre in Frankfurt, operated by our IT provider Quipu GmbH.

Development of Domestic Money Transfers



Development of International Money Transfers



## Group Institutional Development

We believe that the ProCredit Bank positioning and success is built upon a disciplined attitude towards institutional development which is still a strong focus in 2012. We aim to build our core competency and key competitive advantage around the quality of our staff and a transparent, efficient institutional set-up which enables our staff to succeed. There is continual emphasis on strengthening client relations, improving service quality, increasing operational efficiency and enhancing risk management. The number of ProCredit staff continued to gradually decline in 2012 with the ongoing focus on staff quality and productivity.

The group-wide risk management systems also continued to be improved over 2012 in line with the German Banking Act (KWG) and with the circular "Minimum Requirements for Risk Management", commonly referred to as the "MaRisk". The specific measures taken are outlined in the Risk Management section of this report.

Key institutional development initiatives for the group are outlined below in more detail.

### *Staff Recruitment and Development*

At end-2012 the group had 14,675 staff (as compared to 16,183 at the end of 2011). There was a modest net decline in the number of staff in 2012 and some underlying turnover (an estimated 23%) as the focus on staff quality continued.

In 2012 the group continued to strengthen training and recruitment standards as well as to enhance its salary structure and staff appraisal systems. All ProCredit banks provide a 6-month stipend-based "Young Bankers Programme" (YBP) to all potential new recruits before a recruitment decision is made. The YBP offers participants a unique opportunity to participate in an intensive training course covering topics as varied as maths, accounting, ethics and banking as well as the opportunity to be exposed to all key positions and departments within a ProCredit bank. The quality and long-term loyalty of staff recruited via the YBP is anticipated to be higher than with staff recruited with less care in the past. Establishing the approach has required considerable senior management attention in 2012.

50% of total staff members worked in the front office. Good, experienced staff are essential to our efforts to help our clients to adapt to the changed economic conditions. Being close to our clients in more difficult times has been key to our success so far and will be essential in growing our loan portfolio, maintaining loan portfolio quality and continuing to build a stable deposit base. As we strengthen the quality and breadth of the services we provide to all our clients, proactive and analytically adept staff will be important.

The ProCredit Academy in Fürth, Germany, continues to deliver a high-quality three-year part-time training course for ProCredit middle and upper managers. The regional academy in Macedonia accommodates colleagues from Eastern European and African ProCredit banks. The new regional academy facilities in Colombia opened at the beginning of 2012. The curricula and staff of both regional academies were further strengthened over the year to enhance the quality of the training we offer our branch and middle managers.

### *Marketing and Financial Literacy*

Marketing-related spending remained tightly under control in 2012. We believe that ProCredit's strong market reputation as a reliable, transparent bank is a result of our good service and steady performance throughout the turmoil of the last four years. Our marketing activities were focused above all on working with existing clients and acquiring enterprises dissatisfied with their existing bank relationship.

Our marketing activities continue to be focused on financial literacy in the broadest sense. For our enterprise clients, ProCredit banks are encouraged to run seminars and information events on relevant financial issues. Public relations activities include co-operation with local journalists to inform them about the need for responsible, transparent banking in their respective countries and the role of ProCredit in this context. Activities also supported our positioning as a strong employer with good information being provided in universities and online about the opportunities of the ProCredit Young Bankers Programme.

### *Green Finance and Environmental Management*

A growing focus in 2012 for product development and positioning was energy efficiency and sustainable resource use for business and private clients. This focus was complemented by a strengthening of the environmental management framework within all ProCredit banks. An Environmental Management Policy and an Environmental Management Steering Committee is in place in all group institutions.

### *Reporting and Controlling*

Swift and reliable reporting and controlling is important in enabling institutions and the group as a whole to respond rapidly and appropriately to developments in a more volatile environment. Furthermore regulators are more demanding in the level of detail required on all key risk areas. The ProCredit group reports on a consolidated basis routinely to BaFin/Bundesbank and also needs to respond to the increasingly demanding EU reporting requirements following the implementation of Basel III. The group continually improves its reporting and MIS capacity in all areas of business, risk management and regulatory reporting. A major project was begun in 2012 to ensure the group is in a position to comply with the new "FinRep" and "CoRep" consolidated reporting standards and for the reporting of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), planned for 2013/2014. This is planned to result in a centralised "InfoWare data warehouse system" which will provide the group with significantly greater MIS capacity and greater visibility of business and risk management indicators.

### *IT and Software*

Good IT infrastructure and banking system software are central to our business and risk management strategy. Out of the 22 ProCredit institutions, 20 use the software system developed by Quipu GmbH, the dedicated provider of software solutions for the ProCredit group, a company which ProCredit Holding purchased at the beginning of 2011.

Quipu and the ProCredit group are working on a number of key IT-related initiatives which are outlined in the Group IT Strategy, as approved by the Group IT Steering Committee. Core banking programs (CustomWare and BankWare) were continually improved over the year. The next generation of CustomWare, known as CustomWare.NET, continues to be gradually rolled out to all ProCredit banks. In 2012, key projects included:

- Implementing the Quipu software suite at ProCredit Bank Germany.
- Strong development of the functionality and usage of e-banking for business and private clients.
- Further development of a new Customer Relationship Management tool to reinforce client relationships, which is gradually being introduced at most ProCredit banks.
- Improved credit risk assessment and monitoring tools.
- Development of a group Employee Database for storing staff records in a standardised format.
- Development and approval of improved Group IT Infrastructure Standards which will now be fully implemented in all group banks.

- Preparing for the new group supervisory reporting requirements of FinRep and CoRep, and for the reporting of Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), two liquidity ratios established in Basel III.
- Development of new help desk procedures and common project management software for all banks to further enhance the effectiveness of the collaboration between Quipu, the ProCredit banks and ProCredit Holding.

## Ratings

Institution	2012	2011	
	Rating	Rating	
ProCredit Holding	BBB-	BBB-	(international rating)
ProCredit Bank, Albania	B+	B+	(international rating)
ProCredit Bank, Bosnia	B	B	(international rating)
ProCredit Bank, Bulgaria	BB+	BB+	(international rating)
ProCredit Bank, Georgia	BB	BB	(international rating)
ProCredit Bank, Kosovo	B	B-	(international rating)
ProCredit Bank, Macedonia	BB+	BB+	(international rating)
ProCredit Bank, Romania	BB+	BB+	(international rating)
ProCredit Bank, Serbia	BB-	BB-	(international rating)
ProCredit Bank, Ukraine	B	B	(international rating)
Banco Los Andes ProCredit, Bolivia	AAA	AAA	(national rating)
Banco ProCredit, Colombia	AA+	AA+	(national rating)
Banco ProCredit, Ecuador*	AAA-	AAA-	(national rating)
Banco ProCredit, El Salvador	AA+	AA+	(national rating)
Banco ProCredit, Honduras	AA+	AA+	(national rating)
Banco ProCredit, Nicaragua	AA+	AA+	(national rating)

\* by Bankwatch Ratings S.A.

In 2012 most institutions in the group again received an international rating (ProCredit Holding and the banks in Eastern Europe) or a national rating (Latin America) from FitchRatings. Typically our banks are rated at the country ceiling. ProCredit Holding maintained its investment grade rating of BBB-.

## Financial Performance

Against a challenging economic background, the group was able to achieve a satisfactory financial performance. Group profit of EUR 46.3 million was comparable to the 2011 result of EUR 46.8 million with a group return on average equity of 10.3% (2011: 10.4%).

The environment remained particularly difficult in Eastern Europe. The continuation of the European debt crisis and the related economic slowdown had strong negative effects particularly on the Balkan countries. Unlike 2011, these negative tendencies were not compensated by a better performance of the CIS countries, as operating conditions worsened in Armenia, Moldova and Ukraine. Accordingly, loan demand in the region was fairly moderate and strongly

related to short-term working capital finance. Nevertheless, the financial performance of the Eastern European banks improved visibly, as the banks were able to increase their non-interest income while decreasing their administrative as well as their provisioning expenses.

The development of the Latin American banks was characterised by a strong increase in operating income (up 18.4%, despite moderate balance sheet growth of 5.9%), however accompanied by a similar growth of administrative expenses, the latter being partially driven by administrative intervention in individual countries. The performance of the African countries did not reach 2011 levels mainly due to higher provisioning expenses.

The balance sheet volume of the group increased by 5.0%, only slightly less than 2011 (5.9%). Growth in net loan portfolio reached 3.7%. Accordingly, the share of net loan portfolio in total assets decreased from 70.5% at the end of 2011 to 69.6% at the end of 2012. At the same time, the ratio of liquid assets to customer funds increased to 38.8% (2011: 37.9%) after a noticeable decrease in previous years. The effect of a lower share of high interest-earning loan portfolio in total assets was partially compensated for by a rising share of local currency loans in the portfolio, increasing to 34.5% at the end of 2012 (2011: 31.4%).

Balance sheet growth was mainly financed through an increase in customer deposits. Their share in total liabilities stayed broadly stable at 68.9% (2011: 68.0%). Growth was strongest in the volume of term deposits (6.9%) and savings accounts (7.7%), while the volume of current accounts did not show major change (up 2.6%). When attracting customer funds, focus was laid on the acquisition of local currency deposits. Their share increased from 35.5% at the end of 2011 to 38.6% at the end of 2012.

Other funding grew in line with overall balance sheet growth. New IFI funding partially compensated for a decline in the volume of issued debt securities. Part of the additional IFI loans was denominated in local currency. Together with the growing volume of local currency deposits, this supported the ProCredit banks in their efforts to make longer-term local currency loans available to their clients. Liabilities to banks remained a small share in the total liabilities of the group, which remains dominated by customer funds and medium- to long-term international finance.

The group raised additional outside capital of EUR 58.1 million during 2012. The proceeds of the capital increases were mainly used for the acquisition of minority shares in five of the Eastern European ProCredit banks. The net effect on group capitalisation was therefore limited. At the same time, minority interests now play only a very limited role in the group's capital structure. The equity of the group increased by EUR 34.4 million. This was a net effect of a negative development in the currency translation reserve mainly due to movements of the USD and RSD against the EUR, and the additional profit generated by the group.

The overall increase in equity exceeded balance sheet and related risk-weighted asset growth. Accordingly, the Tier 1 capital ratio of the group increased compared to the end of 2011. At the same time, the volume of Tier 2 capital decreased by EUR 8.6 million due to the decreasing recognition of subordinated debt according to residual maturity. The total capital ratio of the group therefore remained broadly stable.

<b>Calculation based on Basel II</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Tier 1 Capital / Risk Weighted Assets	11.6%	11.2%
Tier 1 + Tier 2 Capital / Risk Weighted Assets	15.1%	15.0%

The marginal increase of the total capital ratio is accompanied by the further improved capital structure of the group in respect to the share of Tier 1 in total capital.

A dividend of EUR 9.0 million was distributed in 2012.

The net interest income of the group increased by 7.2% to EUR 439.9 million and the net interest margin was broadly stable at 7.8% (2011: 7.7%). Several developments contributed to this fact. The average income on loans decreased to 15.0% (2011: 15.4%). Competitive pressure on lending rates was moderate in most countries and no major decline in market rates was observed. At the same time, trends in the structural composition of the loan portfolio contributed positively to the income of the group. The increasing share of higher interest-earning local currency loans was accompanied by stronger growth in the higher interest-earning USD countries, i.e. the ProCredit banks operating in Latin America and in CIS countries. Finally, the share of Very Small loans in the overall loan portfolio was kept fairly stable throughout the year. At the same time, the average earnings on other assets, namely assets kept for liquidity purposes, declined from 2.2% in 2011 to 2.1% in 2012. This trend reflected market conditions as well as the group's conservative investment policy.

The group's cost of funds was basically stable compared to 2011 at 3.8%. This was positively influenced by a slight increase in the share of customer funds in total liabilities. The average cost of customer funds continued to be low at 3.2% (2011: 3.1%) despite the increasing share of local currency deposits. The ProCredit banks were able to take advantage of their market positioning and reputation, thereby paying interest rates at or even slightly below average market rates. The average cost of non-customer funds was broadly unchanged at 5.4% (2011: 3.5%). This reflected unchanged market conditions and risk margins, while the share of (higher interest rate) local currency in total non-customer funding increased.

The moderate deterioration of the loan portfolio quality observed in 2012 had no major financial impact on the group. Provisioning expenses stayed at 2011 levels both in absolute and in relative terms. Total provisioning expenses reached EUR 61.5 million or 1.5% of gross loan portfolio (2011: EUR 61.6 million or 1.6%). This includes net recoveries from written-off loans, which increased to EUR 18.6 million (2011: EUR 18.5 million).

The ProCredit banks continued their efforts to strengthen client relationships and offer a competitive and meaningful range of banking services to their clients. Increased usage of these banking services resulted in a further increase in net fee income by 9.4% to EUR 58.9 million, accounting for 11.9% of total operating income (2011: 11.5%).

Other income positions for a combined total of EUR -1.9 million (2011: EUR 3.2 million), consisting of result from foreign exchange transactions, income from securities and other net operating income had some negative impact on the profitability of the group. Whereas the group's result from foreign exchange transactions increased by EUR 1.2 million to EUR 13.9 million (2011: EUR 12.7 million) mainly driven by growing volumes of currency operations with clients, the other positions showed a combined decline of EUR 6.3 million compared to 2011, including a write-off on repossessed properties of EUR 4.4 million (2011: EUR 1.7 million).

General and administrative expenses increased by 8.0% compared to 2011. Personnel expenses contributed comparatively less to this development, amounting to EUR 189.1 million (2011: EUR 178.2 million). While the average number of staff (15,293) declined compared to 2011 (16,149), the average personnel expenses per staff member increased by 12.0%. Stronger increases were recorded for administrative expenses, growing by EUR 17.0 million to EUR 187.3 million (2011: EUR 170.4 million). Main contributors were increased expenses for communications and transport (up EUR

3.0 million), depreciation (up EUR 3.5 million) and non-profit taxes (up EUR 4.9 million). As a result of the increases in the cost base, the cost-income ratio increased slightly to 75.7% (2011: 74.6%).

Overall, the group results for 2012 were satisfactory. While the development during the first half of 2012 resulted in profitability ahead of projections, limited business growth during the second half of the year made it difficult to achieve a significant improvement in the financial results compared to 2011. Therefore, the return on average equity stayed at 2011 levels (10.3% compared to 2011: 10.4%). However, a stable net interest margin and growing net fee income provided the group with a solid income base. And although general and administrative expenses exceeded the previous year's, no trend towards further increases was observed during the year following the rise in expenses at the end of 2011. It is therefore assumed that the group will be able to sustain current levels of profitability even in an environment characterised by limited growth opportunities due to a possible continuation of the recession in the Euro zone with its negative impact specifically on Eastern Europe.



Photo above: ProCredit Bank Bosnia and Herzegovina; Photo below: Banco ProCredit Honduras

## Risk Management

ProCredit's business strategy as a responsible bank for very small and small enterprises has far-reaching consequences not only for the various banks' day-to-day business operations, but also for the group's risk profile and thus for risk management. The following core business principles of the group determine our low risk profile and thus they form the framework for the group's risk management and the basis for understanding it.

- **Focus on core business**

ProCredit institutions focus in their operations on the provision of financial services to very small, small and medium-sized businesses as well as to private individuals. Income is generated primarily through interest income on customer loans and fee income from account operations and payments. All of the banks' other operations are performed primarily in support of the core business. Consequently the most important risks the group is exposed to are credit and, albeit to a lesser degree, operational risk. While credit and operational risk are actively taken and significant parts of our risk-bearing capacity are assigned to these risks, all other risks are limited in a much stricter way, even at the expense of forgone income opportunities.

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

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

- **Careful staff selection and intensive training**

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. To build such long-term relationships we select our staff very carefully and invest heavily in staff training. Besides high levels of technical professionalism, the result of our training efforts is above all 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, which is one focus of our risk management efforts. Therefore, intensive staff training is a precondition not only for our further business expansion but also for the successful implementation of our risk management framework, and it is a cornerstone of our approach to risk management in general.

All ProCredit institutions apply a single common risk management framework. This framework reflects the group's risk philosophy and defines group-wide minimum standards for risk management. The principles and standards comprising this framework are based on those formulated in the German Banking Act and the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk". The ProCredit group's risk management framework is in a process of continuous development in line with changes in the relevant legislation and international best practice in risk management. A core aspect of our risk

management system is the review of all processes and areas of operations (including branches) by the Internal Audit division on a regular basis, i.e. at least once every three years, subject to a risk assessment.

## Risk Bearing Capacity

The ProCredit group closely monitors its level of capitalisation to ensure that it holds sufficient capital in relation to its risk profile. The guiding principle is that the group is able to withstand even extreme shock scenarios without endangering depositors and other providers of funding. In our view, the crisis years 2009 and 2010 have demonstrated, on the one hand, the necessity for a conservative approach towards capital management, and on the other hand, the strength of the group under adverse conditions. Throughout this period, the group showed strong levels of capital, leaving ample headroom for additional loss absorption had the economic conditions further deteriorated.

ProCredit uses several indicators for its capital management. The group, and each bank individually, calculates its capital ratio in accordance with the Basel Capital Accord (Basel II) on a monthly basis. The group aims for capital ratios of >12% (total capital ratio) and >9% (Tier 1 ratio) and has been able to comply with this target at all times. The group also calculates its capital ratios in accordance with German regulatory requirements applying the same targets. In addition, the group showed a comfortable Tier 1 leverage ratio (according to Basel III), well above the limit of 5%. In summary, the group complied with the established limits at all times during 2012.

As the definitions used for the calculation of regulatory capital ratios give only limited room to reflect the individual risk profile of a bank or a banking group, Pillar II of Basel II introduced the internal capital adequacy assessment process (ICAAP). In Germany, the Minimum Requirements for Risk Management (MaRisk), which are administrative instructions developed by the German Federal Financial Supervisory Authority (BaFin), then implemented the concept of risk-bearing capacity. Therefore, risk-bearing capacity is an important additional element used to judge the adequacy of the group's level of incurred risk versus the amount of capital available according to its own assessment approaches.

Methodologies have been developed to calculate the amount of economic capital that arises from the different risks taken by the group. These methodologies rely on statistical models where available and applicable to reflect (historical) worst case situations. Extreme scenarios, some of them historically observed in individual countries of operation, are applied to the group in its entirety to test its ability to withstand such shocks, both in individual risk areas and in combination. Assessing the impact of a combined shock event across risk areas is important for the group, as political or economic events often affect the group, a specific region or an individual bank in numerous ways. A political crisis, for example, might not only have a strongly negative impact on overall business activity and therefore loan portfolio quality, it might also lead to the devaluation of the local currency and strong interest rate fluctuations. Particularly in our countries of operation there is typically limited room to contain the spread of negative events over the whole economy.

When applying the concept of risk-bearing capacity, the economic capital arising from risk positions is calculated monthly for each relevant risk category. The respective risk categories and the limits set in each category reflect the specific risk profile of the group:

- Credit risk: As ProCredit banks are lending institutions, loans to customers dominate their balance sheets. Consequently, credit risk is the most important risk the group is exposed to. In the course of the many years working

in our countries of operation we have become experts in assessing and managing credit risk related to lending to very small, small and medium-sized businesses and private clients in our markets. A major part of the group's risk-bearing capacity has been allocated to credit risk.

- **Counterparty risk:** ProCredit places its liquid funds with a limited range of carefully selected counterparties. Aside from the liquid funds held with local central banks in line with required minimum reserves, most of the funds are placed in OECD banks of high reputation or in a high quality sovereign bond portfolio. The allocated risk-bearing capacity mirrors this structure, with a very limited allocation for bank counterparty risk. The respective share allocated to central banks follows a conservative approach that treats such placements without consideration of their special nature or their currency structure.
- **Foreign currency risk:** As a matter of principle, the group does not enter any speculative positions on foreign exchange markets and it is the group's policy to avoid having open currency positions unless kept for strategic reasons. Accordingly, the allocated risk-bearing capacity share is low.
- **Interest rate risk:** Given the restricted availability of instruments for hedging interest rate risk, the group limits its risk position in this area by balancing the repricing maturity of assets and liabilities as much as possible. Applying conservative calculation methods results in a comparatively large share of the risk-bearing capacity being allocated to interest rate risk.
- **Operational risk:** Pending completion of the statistical analysis of the risk events that took place in the group in the last four years, the group will continue to calculate its economic capital requirements for operational risk within the risk-bearing capacity concept in line with the standardised approach according to Basel II. The data collected in the Risk Event Database (RED) indicates that the currently allocated share of the group's risk-bearing capacity overestimates the level of operational risk incurred by the group.

The economic capital requirements arising from the risk profile of the group are compared with the group's risk taking potential. According to our Policy on Risk-bearing Capacity, this is defined in the gone concern approach as the consolidated group equity (net of intangibles and deferred tax assets) plus subordinated debt, amounting to EUR 673.0 million as of the end of December 2012 (2011: EUR 643.2 million). The Resources Available to Cover Risk (RAtCR) are set at 60% of the risk-taking potential, i.e. EUR 403.8 million. This was an increase by 4.6% compared to the end of 2011, mainly related to accumulated year-to-date profit. Only the RAtCR are used to define the limits in each risk category. These restrictions were chosen to take into account the limitations and shortcomings of statistical models, but also adverse effects that might arise from risk areas not explicitly included in the risk-bearing capacity calculations. Thus, a sufficient buffer is set aside.

The table below shows the distribution of RATCR among the different risk categories as set by the Group Risk Management Committee, as well as the level of utilisation as of the end of December 2012.

Risk Factor	Risk Detail	Limit (in %)	Limit (in '000 EUR)	Actual (in '000 EUR)	Limit Used (in % of limit)
Credit Risk		33.0	222,090	82,963	37.4
Counterparty Risk	Commercial Banks	1.0	6,730	327	4.9
	Sovereigns	4.0	26,920	3,448	12.8
Interest Rate Risk		10.0	67,300	11,587	17.2
Foreign Currency Risk		2.0	13,460	993	7.4
Operational Risk		10.0	67,300	61,772	91.8
<b>Resources Available to Cover Risk</b>		<b>60.0</b>	<b>403,801</b>	<b>161,089</b>	<b>39.9</b>

The risk position of the group in respect to credit risk (measured by economic capital requirements) slightly decreased compared to 2011, although PAR >30, the lead key risk indicator for credit risk, increased in 2012. At the end of 2012 it stood at 4.3% compared to 3.8% at the end of 2011. As with an increase of the arrears rate, the likelihood of a loss for the ProCredit group rises, the policy for provisioning demands an automatic increase of provisions for exposures <30,000 USD/EUR (lump-sum specific provisions) or the review of the individual assessment for credit exposures >30,000 USD/EUR. Thus, the portfolio deterioration in 2012 led to an increase in the provisions. The analysis underlying the calculation of credit risk is updated regularly. Due to the inclusion of additional statistical credit default data in 2012 the economic capital requirements calculated for credit risk decreased. Although in the historical perspective of the group, 2011 was still a rather difficult year, the statistical parameters of the updated analysis improved compared to previously used data.

The group is in the process of reviewing its approach in the area of the measurement of credit risk, to take such statistical effects more into consideration, to better reflect the loss given credit defaults in the outcomes and to strengthen the overall reliability of the results.

The level of counterparty risk incurred reflects the nature and purpose of the assets held by the group aside from its loan portfolio and fixed assets. Such assets are almost entirely held to ensure an adequate level of group liquidity. While the group tries to generate some income from these assets, the overriding objective is to ensure their secure placement and a high level of availability; risk considerations predominate. This is particularly visible in the area of bank placements. Liquidity is mainly placed with centrally chosen core counterparties, reputable OECD banks, and with very short maturities of up to three months, but typically significantly shorter. Accordingly, the resulting risk position of the group is very limited. More problematic from the perspective of the group's risk-bearing capacity are the exposures towards central banks. Their development depends almost entirely on the level of liabilities subject to mandatory reserve requirements and on the reserve requirement ratio prescribed by the regulator. As a result, the group has only limited means to actively manage its sovereign counterparty risk. However, it should be noted that approximately 50% of counterparty exposure in this segment consists of local currency placements for which the default risk is considered to be very limited. In addition, the group has covered more than half of the mandatory reserve requirements with guarantee facilities, and in 2013 the group will continue to exercise this policy.

Interest rate risk is measured by determining the net present value of all interest rate-sensitive asset and liability positions and establishing the impact on the P&L. The economic capital required to cover interest rate risk has been calculated on the basis of scenario analysis assuming an interest rate shock of +/- 2% for EUR/USD positions (higher in the case of local currencies). The economic capital requirements represent the cumulative result over all curren-

cies. Overall, the group is exposed to interest rate risk driven by the predominance of long-term loans at fixed rates financed by relatively short-term customer deposits. The crisis brought about a further decline in the average maturity for customer funds, especially in Eastern European ProCredit banks. The group exposure to interest rate risk is currently exhibiting a decreasing trend. Attracting longer-term funding at fixed rates, prudently promoting variable-rate loan facilities and short-term loans were some of the risk mitigating measures implemented in the ProCredit banks with material exposures. The amount of economic capital required to cover interest rate risk is expected to decrease further, despite the anticipated business growth.

The calculation of currency risk is performed on the banks' and PCH's open currency positions and thus includes the direct impact of currency fluctuation on the profitability of the group. The exchange rate scenarios considered are highly conservative as the historical data used for the analysis includes recent periods of instability of exchange rates such as the period following the financial crisis. Given that open currency positions are managed very carefully by the group and kept as limited as possible, the group is exposed to a low level of currency risk. We plan to integrate the net investment risk arising from the banks' equity held in local currencies into the calculation of the group currency risk in the risk-bearing capacity concept in 2013.

The economic capital to cover operational risk is calculated in line with the standardised approach under Basel II. Due to our business model, which is characterised by a comparatively high cost-income ratio, the required amount of the RATCR set aside for operational risk is equally high. This result needs to be compared with the data collected in our Risk Event Database, which has been operational throughout the group since the end of 2008. The risk events detected throughout 2012 amounted to a current loss of EUR 1.5 million based on realised recoveries, or slightly above EUR 1 million based on expected recoveries. In parallel to these actual losses, risk assessments have been executed in all banks to evaluate additional potential operational risks described in various risk scenarios. These assessments indicate a potential operational risk position across the group which is significantly below the RATCR set aside. This potential risk is reduced further by action plans to address the risks identified. The group is in the process of reviewing its approach to the measurement of operational risk.

Stress tests have been performed on a group level to test the group's risk-bearing capacity under extreme conditions. In such scenarios we assume a significant deterioration of worldwide macroeconomic conditions. The stress scenario includes a sharp economic decline, a simultaneous depreciation of all local currencies, high interest rate volatility and, as a result, a significantly increased risk of sovereign and bank, i.e. counterparty and issuer, failure. The impact of this stress scenario on the RATCR as of December 31, 2012 is summarised in the following table:

Risk Factor	Risk Detail	Limit (in %)	Limit (in '000 EUR)	Actual (in '000 EUR)	Limit Used (in % of limit)
Credit Risk (Clients)		33.0	222,090	151,781	68.3
Counterparty Risk	Commercial Banks	1.0	6,730	966	14.3
	Sovereigns	4.0	26,920	8,657	32.2
Interest Rate Risk		10.0	67,300	48,358	71.9
Foreign Currency Risk		2.0	13,460	3,525	26.2
Operational Risk		10.0	67,300	61,772	91.8
<b>Resources Available to Cover Risk</b>			<b>403,801</b>	<b>275,059</b>	<b>68.1</b>

In total, the group would not exceed the RATCR under the stress test scenario. Our risk-bearing capacity analysis, which compares the potential losses arising from operations with the group's capacity to bear such losses, confirms that we have an adequate level of capitalisation for the group even under adverse conditions.

## Management of Individual Risks

### *Credit Risk*

We define credit risk as the danger that the party to a credit transaction (the counterparty) will be unable, or only partially able, to meet its contractually agreed obligations towards the bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. Credit risk is the single largest risk we face, and the credit risk from customer credit exposures (classical credit risk) accounts for the most significant share of the credit risk to which ProCredit is exposed. This section focuses on classic credit risk.

From a credit risk perspective, lending to businesses in transition economies and developing countries typically needs to address the high degree of informality that exists with regard to documentation of the enterprises' business activities. After more than two decades of successfully operating in these environments, ProCredit has developed robust processes in its lending operations under which it is able to manage the specific credit risks in these countries. The ProCredit institutions are recognised experts in lending to very small, small and medium-sized businesses. The banks operate based on a set of principles for the management of credit risk which prescribe, in particular, an intensive analysis of the debt capacity of the individual client; avoidance of over-indebtedness on the part of the client; strict monitoring of the repayment of all outstanding credit exposures, most of which are instalment loans; and rigorous problem credit exposure management. All of these activities are carried out in the framework of carefully designed processes that are based on the application of the "four-eyes principle" and implemented by well-trained and highly motivated staff.

The investments which ProCredit makes in its lending staff are significant. Credit analysts at ProCredit typically start their careers with the six-month "Young Bankers Programme" which includes both theoretical classroom training and organised on-the-job training. This is followed by training under the supervision of a senior credit analyst. After successfully completing the initial training period, a credit analyst will be able to analyse the operations of a typical very small or small business client to determine his/her ability and willingness to repay a credit exposure. After receiving further training, the credit analyst may also deal with medium-sized businesses. Training remains a priority throughout the career of a credit analyst.

Credit risk is managed by the group within an organisational structure that ensures segregation of duties for risk-relevant credit exposures along with proper specialisation, in particular for credit exposures that are placed under intensive management or are assigned problem credit exposure status. In general, we place emphasis on conducting our lending business based on organisational guidelines that provide for appropriate rules that govern organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

ProCredit applies different credit risk assessment processes, depending on the client group to which the respective credit exposure is assigned. The processes for lending to each of ProCredit's four distinguishable client categories – Very Small, Small and Medium-sized business clients as well as private clients – have specific features relating to the degree of segregation of duties, the type of information that provides the basis for the credit analysis, the criteria for credit decisions and the collateral requirements.

The decision-making process at ProCredit ensures that all credit decisions except those on the smallest credit exposures are taken by a credit committee and within approval limits that reflect the experience of decision-makers. All risk-relevant credit exposures are taken by credit committees at the head office of the banks and, in exceptional cases, by the supervisory boards. Defining appropriate credit limits, deciding on suitable services to provide for the financial needs of clients and establishing a proper structure of the credit exposure all form an integral part of the discussions within the credit committee before a final decision is taken. The experience we have gained in challenging operating environments has shown that an appropriate credit risk assessment constitutes the most effective form of credit risk management.

Nevertheless, the early detection of credit risk in our credit exposures is incorporated in all lending-related processes, resulting in a fast and efficient assessment of the degree of financial difficulty facing our clients. These processes are designed to detect increased credit risk in individual credit exposures. Once an increase in credit risks has been identified, processes are in place to ensure a swift review of the credit exposures in question. The loan portfolios of the ProCredit institutions are predominantly composed of instalment loans with regular, monthly payments. Accordingly, payment delays have proven to be a good indicator of increased default risk. Once placed under intensive management, various activities are undertaken to manage credit exposures with a higher risk of default. These centre around close communication with the client, identification of the source of higher credit default risk and closer monitoring of the client's business activities. At the individual banks, decisions on the most effective measures to reduce the credit default risk for individual credit exposures are taken with the requisite speed by the authorised decision-making bodies for the credit exposures in question. The outcome of this analysis may be a proactive alignment of the repayment plan with the client's actual and expected future payment capacity.

Credit exposures with overdue payments are reported daily to the branch manager, the bank's head office and to ProCredit Holding, and a set of predefined measures is initiated. In addition, specialised Recovery Officers may be involved to support the intensified management of the credit exposure. However, once a credit exposure reaches problem credit exposure status, Recovery Officers take over full responsibility for further actions concerning the case. If necessary, they are supported by Litigation Officers or specialists in the sale of assets or collateral.

ProCredit banks regularly monitor potential concentration risk. Although the loan portfolio displays a high degree of granularity, the status of the largest credit exposures is reviewed, as are groups of clients that are potentially exposed to adverse developments in, for example, their respective industry or geographical location. Furthermore, credit control units have been set up at the bank level to monitor compliance with lending procedures and to assure the quality of lending operations at the ProCredit banks, in particular once significant increases in the number and volume of arrears are detected.

Due to the monthly payment schedule used for the vast majority of credit exposures outstanding, the key indicator employed by ProCredit to assess the level of credit risk is the portfolio at risk (PAR > 30). As mentioned above, we define PAR > 30 as all credit exposures with one or more payment of interest or principal overdue by more than 30 days. The total outstanding exposure towards a client and related parties is considered for the indicator, and no deductions for available collateral nor any de minimis thresholds apply. The indicator is expressed as a percentage of the total gross loan portfolio.

At the end of 2012 this indicator stood at 4.3%, higher than the level reported for the end of 2011 (3.8%), and was consistently above 4% for the group throughout 2012. This increase was attributable to an overall increase in overdue payments at most institutions due to the prolonged economic crisis, with ProCredit institutions in Eastern European countries and in Central America being affected most significantly. The PAR > 30 for the Eastern European institutions stood at 4.7%

(2011: 4.2%), in Latin America it was 2.8% (2011: 2.5%) and in Africa the value was 7.1% (2011: 6.6%). All banks have allocated significant resources to managing loan portfolio quality and have strengthened both their organisational set-up and their training of staff to ensure this relatively high loan portfolio quality is maintained and to work out problematic credit exposures swiftly and solidly. In 2012, net write-offs stood at 0.8% of the gross loan portfolio (2011: 0.8%).

ProCredit institutions have been actively working with clients on an individual basis throughout the economic crisis and beyond. In 2012, however, the banks increasingly concluded for a number of credit exposures that all possible out-of-court measures for the client to recover from the effects of the significant macroeconomic downturn had been exhausted. Therefore, the banks initiated the legal recovery process on these credit exposures. In most countries of operation, however, the legal process is relatively inefficient and time consuming. Accordingly, a substantial share of the PAR > 30 in the group consists of credit exposures that are in this active but lengthy legal recovery process. In particular, the most affected ProCredit institutions have significantly increased their capacity to actively support this process.

Throughout the year, a decreasing volume and number of credit exposures which would otherwise be past due or impaired were renegotiated. As of year-end, the combined total volume of such credit exposures came to EUR 66.7 million, lower than recorded at the end of 2011 (EUR 76.6 million). ProCredit treats exposures as problem credit exposures if the bank has significant doubts about the ability of the client to comply with the contractual terms and conditions. Any measures to be taken are decided by the appropriate authority levels for the respective problem credit exposures with the aim of ensuring a high degree of recovery.

In terms of institution building, the strengthening of capacities in portfolio management departments and recovery units throughout the year ensured that all credit exposures are closely followed throughout their lifetime. The fact that the ProCredit institutions have emphasised this basic principle, especially when efforts to recover a particular credit exposure became more challenging, has left the overall loan portfolio quality relatively high, especially considering the severe effects of the crisis on the banking sector in the countries where we operate.

### *Counterparty and Issuer Risk*

All ProCredit banks need to keep highly liquid assets for the purpose of mitigating liquidity risk, i.e. as a reserve for times of potential stress. This liquidity is placed with the central bank, on the interbank market or invested in highly liquid securities, causing the bank to incur counterparty risk (which includes issuer risk). Counterparty risk is defined as the risk that a counterparty is unwilling or unable to fulfil its obligations. It can be split into different sub-risks:

- Principal risk: the risk of losing the principal amount due to the counterparty failing to repay it in full and/or on time
- Replacement risk: the risk of incurring extra costs when replacing an outstanding deal with an equivalent one on the market
- Settlement risk: the risk of loss due to the failure of a counterparty to deliver assets as contractually agreed
- Issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

The counterparty and issuer risks are managed according to the Group Counterparty Risk Management (incl. Issuer Risk) Policy and Group Treasury Policy, which describe the counterparty/issuer selection and the limit setting process and specify the set of permissible transactions and rules for their processing, respectively. For every counterparty exposure, a limit has to be set by the bank ALCO or Risk Management Committee based on a thorough analysis, generally conducted by the local risk management and treasury departments. The ProCredit banks set limits for exposures up to 10% of their capital for non-OECD banking groups and up to 25% for OECD banking groups. In addition, placements

are generally restricted to maturities of up to three months; eligible counterparties must be reliable banks with high credit quality and, for local currency business, local banks with a good reputation and financial standing. Higher limits and longer maturities are subject to approval by the Group Assets and Liabilities Committee (Group ALCO) or the Group Risk Management Committee.

As a result of the strategy to finance lending activities with deposits, significant exposure arises towards the country-specific central banks. These exposures are predominantly related to mandatory reserve requirements for customer deposits and are monitored closely. When these exposures are considered to be exceedingly large, they are insured against the risk of default and expropriation.

ProCredit banks are not allowed to conduct any speculative trading activities. However, for the purpose of investing surplus liquidity, the banks are allowed to buy and hold securities (T-bills, bonds or certificates). The inherent issuer risk is managed by the provisions established in conservative group policies. Among other requirements, the policies stipulate that prior to purchasing securities the ProCredit banks have to request an issuer limit or investment policy; these must be approved by the Group ALCO or the Group Risk Management Committee. For local currency, the investments should preferably be issued by the local central bank or government, for EUR/USD by governments or international / multinational institutions with very high credit ratings (international rating of AA- or better).

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

### *Foreign Currency Risk*

Due to the still developing financial markets, a history of high inflation, and exchange rate fluctuations, a considerable part of private savings in our countries of operation is held in EUR or USD. Also, loans in hard currencies available at (nominally) lower interest rates and with longer maturities still play an important role in the financing of many businesses in these countries. As a result, foreign currencies play a major role for the ProCredit group.

In cases where assets and liabilities in one foreign currency do not match, the bank has an open currency position (OCP) and is exposed to foreign currency (FX) risk if the exchange rates move unfavourably.

Currency risk management is guided by the Group Foreign Currency Risk Management Policy. Adherence to this policy is constantly monitored by group financial risk management, and amendments as well as exceptions to this policy are decided by the Group Risk Management Committee and by the Group ALCO, respectively.

The following general rules that mitigate FX risk apply at the level of the individual banks:

- The currency in which the bank obtains financing determines the currency in which loans are granted to customers and vice versa. Each bank is required to balance the currencies of assets and liabilities within the limits set in the policy in order to protect the bank against unforeseen currency fluctuations. If necessary, FX financial instruments shall be used to the extent possible to close the gaps.
- To protect equity that is denominated in local currency from a significant and lasting devaluation or if there are strong indications that the local currency will depreciate rapidly, a bank may request permission from the Group ALCO or Group Risk Management Committee to open a strategic long position in EUR/USD. In addition, the Group ALCO or the Group Risk Management Committee can recommend that a bank create a long position in EUR/USD.

- ProCredit banks which carry out operations in both local and other currencies monitor their foreign currency exposure on a daily basis (treasury department and the risk controlling function) with the aim of closing any open positions (except approved foreign currency positions).
- The establishment of foreign currency positions for speculative purposes is not permitted.

Furthermore, ProCredit treasury departments are responsible for continuously monitoring the developments of exchange rates and foreign currency markets. They are also in charge of managing the currency positions of the bank on a daily basis. The activities of the treasury department are monitored by the banks' risk controlling and risk management functions.

The banks aim to have closed foreign currency positions and stay within the conservatively set limits at all times. The Group Foreign Currency Risk Management Policy limits total open currency positions to 10% of the banks' regulatory capital. The early warning threshold is set at 5% per currency and 7.5% for the total OCP. Any exceptions to the group policy, e.g. strategic long EUR/USD positions for the purpose of hedging equity, are subject to approval by the Group ALCO or Group Risk Management Committee. Throughout 2012, all ProCredit banks had OCPs within approved limits.

Most banks keep their equity in the respective local currency. At the group level this leads to a currency risk between the EUR-denominated equity of ProCredit Holding and its equity investments in the banks. This foreign currency risk is reflected in fluctuations of the value of the group's equity captured roughly by the group translation reserve. Over the medium term this risk is reduced by the fact that we have a diversified basket of currencies and the depreciations are ultimately covered by profit expectations. Furthermore, the ProCredit banks Albania, Bosnia and Bulgaria keep long EUR and PCB Bolivia a long USD position as a hedge for their equity. The translation reserve in the equity position of the group increased from EUR -30.0 million at the end of 2011 to EUR -44.6 million as of December 2012. The most significant impact came from PCB Serbia, where the equity investment is one of the largest in the group and the Serbian dinar depreciated against the EUR.

### *Interest Rate Risk*

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

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

The approach used to measure and manage interest rate risk is guided by Group Interest Rate Risk Management Policy. The main indicator for measuring interest rate risk is the potential economic value impact on all our assets and liabilities resulting from a detrimental change in interest rates. Since September 2011 the savings accounts are distributed across maturities leading to a more realistic depiction of interest rate risk. The indicator analyses the potential loss the group would suffer in case of very unfavourable movements (shocks) of asset and liability interest rates. For EUR or USD we assume a parallel shift of the interest rate curve by +/- 200 bps. The size of the shocks for local currencies is derived from historic severe interest rate volatilities over the last five years. The potential economic impact on each bank's balance sheet when simulating a simultaneous detrimental (upward or downward) interest rate shock is not allowed to exceed 10% of its capital, unless approved by the Group Risk Management Committee. A reporting trigger is set at 5% for each currency, providing an early warning signal. In order to further analyse the bank's sensitivity to interest rate risk, an additional stress scenario is calculated by simulating the interest rate shock (up or down) per currency that is most detrimental to the bank. As of December 2012 the level of group interest rate risk, as calculated under the risk-bearing capacity model, amounted to EUR 11.6 million, which represents only 1.7% of the group's risk-taking potential compared to the 10% limit. Therefore, interest rate risk on the group level is low.

We also regularly monitor the potential impact of interest rate risk on the expected earnings of the next three months. This measure indicates how our profit and loss statement may be influenced by interest rate risk under a short-term perspective.

Deviations from the Group Interest Rate Risk Management Policy and higher interest rate limits are subject to approval by the Group Risk Management Committee. Throughout 2012, interest rate risk exposure was within approved limits at all ProCredit banks. The only two banks where higher limits than established by policy were approved by Group Risk Management Committee were ProCredit banks Bulgaria and Bolivia. The interest rate risk is discussed by the banks' Risk Management Committees and the Group Risk Management Committee at least quarterly.

### *Liquidity Risk*

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that a bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at significantly increased market interest rates.

The liquidity risk management (LRM) system of the ProCredit group is tailored to the specific characteristics of the banks. The banks were founded as lending institutions and financial intermediaries for businesses and ordinary people. The ProCredit group therefore has a loan portfolio that is the largest single component on the asset side, and is primarily funded with locally mobilised deposits. The loan portfolio is characterised by a large number of exposures to small businesses and therefore is highly diversified. The loans tend to be disbursed as annuity term loans, ensuring a steady inflow from repayments, and have a low default rate, thus providing a high degree of predictability of cash-flows. Since deposits are our primary source of financing loan portfolio growth, the dependency on financial market instruments is low. All of these factors ensure a relatively straightforward and reliable LRM system.

The Group ALCO is responsible for all key decisions regarding group liquidity management from a risk and business perspective to ensure an integrated risk-return approach to group liquidity management. The Group Risk Management Committee determines the liquidity risk management framework of the group and sets the liquidity risk limits. The treasury department is responsible for the execution of the Group ALCO's decisions on operational group liquidity management. Compliance with strategies, policies and limits is constantly monitored by our back office and the group financial risk management. This organisational structure is also replicated in each of the ProCredit banks.

The liquidity risk management system of the group is specified by the Group Liquidity Risk Management Policy and the Group Treasury Policy. These policies are in line with the Minimum Requirements for Risk Management (MaRisk) as stipulated by the German supervisory authorities, as well as with the principles for Sound Liquidity Risk Management defined by the Basel Committee on Banking Supervision.

The key tool for measuring liquidity risks is the standard liquidity gap analysis, which estimates future funding needs or the levels of excess liquidity. Using the contractual maturity structure of assets and liabilities as a basis, the gap analysis applies conservative maturity transformation assumptions to liabilities. These assumptions are similar to the ones given in the German Ordinance on Liquidity (*Liquiditätsverordnung*), but adjusted to reflect the more volatile client behaviour and financial markets in our countries of operation. Based on this gap analysis, three key liquidity risk indicators are calculated on at least a monthly basis and are closely monitored. The first key liquidity risk indicator of short-term liquidity is the sufficient liquidity indicator, which relates the available amount of assets and liabilities within the next 30 days, and must not fall below 1. This implies always having sufficient funds to be able to repay the liabilities expected to be due within the next 30 days, and is determined on the basis of a calculation in which a certain degree of stress is simulated. The other two key liquidity risk indicators restrict the level of funding from the interbank market to a low level in order to ensure a reliable funding base. The total amount of interbank liabilities may not exceed 40% of available interbank lines and overnight funding is limited to 4% of total liquidity-relevant liabilities. Violations of these limits need to be approved by Group ALCO. All banks were within limits as of December 2012.

In addition to the key risk indicators, early warning indicators are defined. These indicators are monitored through reporting triggers, which may be passed but must be explained, with mitigating measures being decided by the bank's ALCO and communicated to the Group ALCO.

The highly liquid assets indicator, which relates highly liquid assets to customer deposits, is monitored on a daily basis on a bank level and is reported weekly to the Group ALCO. A reporting trigger for the indicator is set at 20%, which implies that the bank holds enough funds that can quickly be converted into cash in order to repay 20% of all customer deposits. As of December 2012 this ratio was 40% on a group level, indicating a comfortable short-term liquidity situation.

Throughout the reporting period, all group companies had enough liquidity available at all times to meet all financial obligations in a timely manner. At year-end all banks had a sufficient liquidity indicator of at least 1. Except for two banks that are still in the phase of building a retail deposit base, and two banks, which have long-term funding from institutional depositors, significant concentrations do not exist. Those banks whose 10 largest depositors represent more than 20% of the deposit base are subject to closer monitoring and are implementing measures to reduce their concentrations.

One reason for the ProCredit banks' robust liquidity is that they finance their lending operations primarily through retail customer deposits and long-term credit lines provided by IFIs. The focus in our deposit-attracting operations is on our target group of small savers. The group's highly liquid assets increased considerably in 2012 driven by the inclusion of ProCredit Bank Germany and due to the fact that, as planned, deposit growth exceeded loan business, especially in Eastern European banks.

In order to assess the robustness of the liquidity situation in the ProCredit banks, the group financial risk management conducts group stress tests and develops emergency plans for stress scenarios. On the individual bank level stress tests based on the standard liquidity gap analysis are simulated, where external and internal parameters deteriorate beyond what was experienced even during the recent severe financial crisis. Each bank must be able to mobilise sufficient

liquid funds to meet its obligations even in these extraordinary circumstances. If unusual circumstances arose and an individual bank proved not to have sufficient liquid funds, ProCredit Holding would serve as a "lender of last resort". The ProCredit group keeps a liquidity reserve available for this purpose, consisting of ProCredit Holding's highly liquid assets, unutilised irrevocable credit lines to ProCredit Holding, and the ProCredit banks' EUR/USD surplus liquidity made available to the group through early repayments and intragroup lending. In 2011, in light of the ongoing euro zone sovereign debt crisis, the assumptions on which the stress tests are based were challenged and the calculation and targets of the group liquidity reserve were revised. At the end of the reporting period the group liquidity reserve amounted to approximately EUR 134.7 million, which lies comfortably above its target of EUR 100 million.

Funding risk has become a more prominent issue in the recent years due to the financial crisis. We consider our liquidity risk to be low due to our strong reliance on customer deposits as well as the fact that the banks also continue to have access to funding from various international sources. In 2012 the loan portfolio growth was predominantly financed with deposits and the remainder with long-term IFI funding (notably from the European Investment Bank) and other reliable sources.

### *Country Risk*

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

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

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

### *Operational and Fraud Risk*

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

The overall objectives of the ProCredit group's approach to the management of operational risks are:

- to understand the drivers of the group's operational and fraud risks;
- to identify critical issues as early as possible; and
- to avoid losses caused by operational and fraud risks.

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

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

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

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

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

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

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

The prevention of money laundering and terrorist financing is a key function of all ProCredit banks. The business ethics and strong corporate values of the ProCredit group play a key role in this regard. ProCredit banks consistently apply the Know Your Customer (KYC) principle to all customers. Furthermore, in addition to applying international standards and best practice in the area of AML, we comply with local rules and regulations in our countries of operation. Last but not least, all ProCredit banks adhere to the uniform policy framework of the Group Anti-Money Laundering Policy (Group AML Policy) and various AML standards, all of which are in compliance with German and EU regulatory standards.

The AML framework of the group ensures that:

- Every ProCredit bank appoints an AML Officer who regularly reports to the Management Board of the respective bank as well as to the Group Anti-Money Laundering Officer at ProCredit Holding.
- Every ProCredit bank applies a strict Know Your Customer and Know Your Correspondent approach in its customer due diligence and correspondent banking procedures.
- Group AML annually assess the risk of money laundering and terrorist financing throughout the ProCredit group on the basis of a distinct risk model developed during 2010 and 2011.
- ProCredit staff members receive AML training when they first join a ProCredit institution and thereafter on an ongoing basis within the framework of the respective ProCredit bank's training plan.
- Every ProCredit bank maintains a risk classification of its customers to prevent money laundering and terrorist financing and applies due diligence and monitoring procedures accordingly.
- Every ProCredit bank applies consistent standards for data and transaction monitoring and adheres to international sanctions and embargoes.
- The AML Officers of ProCredit banks report suspicious activities to their responsible Financial Intelligence Unit (FIU) and to the Group AML Officer.

To apply consistent standards of customer data and transaction monitoring that comply with German and EU regulatory AML requirements, and to consistently adhere to international financial sanctions and embargoes against certain persons, entities, and countries, PCH accomplished the implementation of a comprehensive and specialised software suite (SIRON) in all ProCredit banks during 2012. The system allows all ProCredit institutions to automatically adhere

to all relevant financial sanctions and embargoes against certain persons, entities, and countries. Furthermore, based on specifically developed indicators, SIRON also filters all transactions and account movements that could be suspected of involving money from dubious sources and brings them to the attention of the AML Officer of the bank, who then researches the background of the respective transaction. The achievement of a common monitoring system throughout the ProCredit group during 2012 is a cornerstone of the group's integrated global AML framework, which is assessed to be appropriate and contributes to a low risk for ProCredit banks in these areas.

## Organisation of the Risk Management Function

At the group level, ultimate responsibility for risk management lies with the Management Board of ProCredit Holding that reports on risk management issues to the Audit Committee of the holding company's Supervisory Board. Within each individual institution, responsibility for risk management lies with the respective institution's executive management.

At the group level, the risk management function comprises various organisational units, including the Credit Risk function, the Operational Risk function as well as the Financial Risk function. Responsibility for monitoring of the capital management lies with the ProCredit Holding's Finance division; responsibility for monitoring the risk-bearing capacity of the group and of each ProCredit institution lies with ProCredit Holding's Risk Control function. These five functions report to the Management Board of ProCredit Holding, and to the Group Risk Management Committee, which meet monthly. The individual banks' risk committees regularly monitor and manage the risk profile of their respective institutions. Specialised committees address individual risks such as market risks (ALCO), credit risks (Credit Risk Committee) and operational risks (Operational Risk Committee). Some banks have decided to combine these committees into one.

At each individual bank, risk management is implemented and developed, in operational terms, by a risk management department which is an autonomous department within the organisation and is not involved in any way with the bank's customer service operations (credit or deposit business) or treasury operations. The risk departments of all banks report regularly to the different risk departments at ProCredit Holding.

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

The respective risk positions of the individual banks are described in standard reports which are generated by all banks. These reports are analysed by the different risk management departments in ProCredit Holding and an aggregate risk report for the Group Risk Management Committee and the Audit Committee of ProCredit Holding is prepared on this basis. Monitoring of both the individual banks' risk situation and the group's overall risk profile is carried out through a review of these reports and of additional data drawn from other reports generated locally and on a group level.

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

## Internal Audit

An independent internal audit function is an integral part of our control environment across the group.

The internal audit function operates independently in fulfilling its tasks and is free to initiate audits and investigations at any time. Above all, we ensure that the internal audit department is not required to follow instructions given by the stakeholders in banking operations when preparing reports and assessing audit results.

To maintain objectivity, the internal audit department is not involved in day-to-day banking operations and control procedures. Instead, each business unit is responsible for its own internal control functions and for monitoring the efficiency of its operations. Persons employed in the internal audit team must never perform tasks which are not compatible with auditing. Provided that the independence of the internal audit department is safeguarded, it can play an advisory role vis-à-vis management or other organisational units within the bank, as part of its prescribed tasks.

In particular, internal audit staff audit and assess the following: the viability, effectiveness, efficiency and suitability of the internal control systems; the application, viability, effectiveness and suitability of the risk management systems, the reporting and information systems and the financial and accounting systems; compliance with existing legal and banking supervisory provisions as well as other regulations; compliance with operational guidelines, instructions and rules; the compliance of all operational and business procedures with legal requirements and generally accepted standards and principles; and the rules observed and the precautions taken to protect assets. In principle, the internal audit department looks at the entire range of processes, using a risk-based approach to identify review priorities. Ad hoc audits may be undertaken as and when deemed appropriate by the internal audit department.

In all cases, the internal audit function operates within the organisational structure in a position which makes it independent of the operational units of the bank. Within that structure, the internal audit department reports to the Supervisory Board of the bank – almost invariably via an audit committee which is subordinate to the Supervisory Board.

The work of the internal audit department is guided by the principles and standards established by the principal professional body for this field, the Institute of Internal Auditors. In addition, the Group Internal Audit Policy is guided by German banking regulations, in particular the Minimum Requirements for Risk Management (MaRisk). An emphasis in 2012 continued to be the achievement of efficiency gains through a stronger risk-oriented approach in auditing as well as the development of a software solution (audimex®) that facilitates the follow-up process of audit findings and facilitates the establishment of an audit findings database across the group. This software solution will be fully rolled out and used in all ProCredit banks in 2013.

Across the group there are 157 members of staff employed in internal audit departments. At the level of ProCredit Holding, the team which makes up the Group Audit department is comprised of 14 professionals. Members of this team sit on the Audit Committees of the group banks, they are responsible for the supervision of the internal audit departments of all banks and financial institutions within the group, and carry out audits of ProCredit Holding.



Photo above: ProCredit Bank Georgia; Photo below: Banco ProCredit Colombia

## Outlook

For the years 2013 and 2014 the outlook for the ProCredit group is steady: potential for sound business growth and development impact remains despite the difficult macroeconomic backdrop in many countries. In the transition economies and developing countries in which we operate, the levels of private sector lending to enterprises and the ratios of domestic savings to GDP are still below Western standards. The very small and small business community is still relatively poorly served by other providers of financial services, leaving opportunities for ProCredit as a group of banks highly specialised in providing quality services for these target clients. We believe that the steady provision of banking services is as important in difficult times as it is in more buoyant economic times. Building client relationships today will also be valuable when growth returns to our countries of operation. On the liability side, demand for our services will remain high. There is good potential to support our business and private clients to save more and to effect more transactions using bank account services, and in particular using e-banking and other automated channels, rather than using cash.

In our core business, we see no major international competitor pursuing a similar global strategy. Locally, competition remains strong, particularly in lending to larger small businesses in many markets. For example, in Eastern Europe many European banking groups (which dominate the banking sectors in which we work) which were deleveraging and distracted by loan portfolio quality problems in 2011 began again in 2012 to take a more defensive approach to lending to good quality SME clients and mobilising retail deposits. Nevertheless, ProCredit banks are successfully growing market share in their business with core client categories.

Group-wide, we therefore see opportunities in our core business: loans and other services to small businesses and simple savings and banking services for "ordinary people". The ProCredit institutions are firmly established in their markets as the trusted bank of choice for credit and savings services for small and very small entrepreneurs and lower-income families.

Our business and financial projections basically assume similar prudent results going forward to those achieved in 2012. In 2013 we project a growth rate of about 8% in the group loan portfolio, although achieving this level will depend on the trends in the real economy as well as the impact of the significant institution building measures planned. The macroeconomic conditions in the Balkans are expected to remain unsettled, particularly given the difficulties in the euro zone and Greece especially. Stronger growth will come from the CIS, South American and African countries. In subsequent years we anticipate rates of balance sheet growth of about 10% pa can be achieved without significant increase in staff and infrastructure costs since it is expected that the economies in which we work will gradually (although not strongly) expand again from 2014 onwards.

In 2013 the focus will continue to be on growing our business with Very Small and Small business clients. We plan to be more selective in terms of the type of clients we work with – focussing on the clients with whom we believe we can make most difference and where there is the greatest potential for client loyalty. This will mean further increasing our minimum loan size for business clients in most markets. There will still be a strong focus on the Very Small client category, so over the next five years the composition of loan portfolio volume by client category is not projected to shift significantly. This will require considerable investment in staff training. Some reorganisation and refocusing of our branch network will also occur. As regards private clients, increasing front-office efficiency should create more time to work with loyal clients to build the savings they hold with ProCredit banks.

ProCredit has a strong, defensible position in its core market segments, given its durable customer relationships and the calibre of ProCredit staff. Investment in institution building and staff-retention measures will continue in 2013. For example, we will introduce a group-wide approach to staff appraisal and feedback. ProCredit focuses on intensive staff

training, feedback and development in order to offer clients the best possible service, which in turn strengthens our competitive position and the quality of our credit risk decisions. There is always the risk that staff recruitment and retention becomes more difficult if competitors target our highly competent staff, but our personal approach, along with our commitment to transparency, fair remuneration and strong group identity, tends to build strong loyalty and satisfaction among effective employees.

A key initiative in 2013 will be the full public launch of the ProCredit bank in Germany. The bank's operations in Germany will be straightforward: attracting depositors, working with German-based enterprises operating in ProCredit countries, financing the banks of the group or their larger clients (in Bulgaria, Serbia and Romania only) as well as supporting the group treasury and payment functions.

The development of ProCredit's business and financial results will be influenced by the speed at which the economies in which we work expand again and the form that competition in and consolidation of banking sectors take as markets fully adjust to the consequences of the global recession. Our business projections assume from 2014 onwards a gradual recovery in our markets. Competition will continue to be strong, particularly in our more developed Eastern European markets. The ProCredit positioning as a proactive, responsible bank focused on the very small and small business community is deemed to be a distinctive and resilient one, delivering steady business results even if market conditions do not return to pre-crisis levels of buoyancy.

ProCredit will also need to continue to manage tight margins and longer maturities, although a strong focus on our higher-margin Very Small enterprise clients will remain. Over the next five years we plan to keep margins (net interest income/total average assets) as stable as possible above 7%. Some decline from the current level of 7.8% will occur given the higher minimum loan sizes planned to be introduced in 2013. Also, tight management of the cost of funds will continue.

Efficiency, without compromising on quality of service, will be an ongoing focus for the group. A range of measures to enhance front and back-office functions will continue to be introduced group wide: for example, "one-stop" banking service desks and the centralisation of back office credit operations are being implemented in all banks. Cash services for non-clients will be restricted whereas e-banking and card-based channels for routine transactions will continue to be promoted. At the same time, we aim to enhance the productivity of Business Client Advisers (Very Small and Small) with training, with process improvements and with a more focused branch infrastructure. This approach will result in a further decline in staff numbers in 2013 and 2014 and a stabilisation in staff numbers thereafter. A new group salary structure – which foresees higher salaries, and therefore higher retention rates, for employees and middle managers who achieve new skill and training standards – will be introduced gradually over the next two years in line with results.

We aim to gradually reduce our cost-income ratio to below 70% in 2016 with ongoing efficiency improvements, i.e. steadily growing the balance sheet of the group without increasing personnel and administration costs. Above all, this will be a function of staff skills, loyalty, focus and confidence, combined with the intelligent use of technology. Should markets allow higher growth rates in business volume, then the cost-income ratio will come down faster. At the same time, interest rate risk management will become more important in coming years as inflation is likely to become more of an issue than in recent periods. There will be expanded use of variable interest rate loans and short-term financing as well as greater incentives for longer-term deposits.

The importance of our stable customer deposits has become even more apparent as the international capital markets have tightened, banking regulations in relation to liquidity risk management strengthen, and cost of funds becomes a critical factor in securing sustainable margins. Given the successful pattern of development in our deposit base in 2012, we are confident that we will be able to continue to grow the deposits from business and private clients. With good training of our front officers and improved overall efficiency, we aim to put greater focus on increasing the average volume of sav-



Photo above: Banco ProCredit Nicaragua; Photo below: ProCredit Savings and Loans Ghana

ings and sight deposits amongst all our clients, rather than simply managing large numbers of clients and transactions, or attracting term deposit accounts at higher interest rates. Banking services are also important for integrating our clients into the formal financial sector, building customer loyalty and generating fee income. A key focus will be to build the deposit and banking services base in a cost-effective manner given the intensity of competition and costs of maintaining a good retail branch network. We aim to have some increase in the number of "service points" or small, efficient banking services outlets to improve the accessibility of our services to our client base. Complementary, convenient channels in the form of internet banking and mobile phone banking will also be further encouraged and enhanced. The purchase of Quipu by ProCredit Holding at the beginning of 2011 has strengthened our ability to respond to these demands for greater efficiency and customer convenience.

In terms of risk management, in 2013 we will continue to focus on loan portfolio quality. Arrears and loan loss provisioning levels are nevertheless likely to remain relatively high due to the entrenched problems in some larger loans which take time to solve given the weak legal system in our countries of operation. The group has budgeted for a modest increase in provisioning costs in 2013 to take account of any final write-downs on such loans. We do not expect an increase in arrears in 2013 unless there is an unexpected significant further downturn in several markets due to a more severe crisis than anticipated in the euro zone. Were there to be major disruption in the euro zone and significant foreign exchange fluctuations, an increase in arrears and reduced profitability would be a consequence. However, in comparison to any competitor banks, ProCredit institutions are assessed to be relatively resilient even to major disruption given the diversified base of assets and liabilities, close relationships with clients, limited exposure to capital markets and closed currency positions. Over a five-year period, arrears levels (PAR >30 days) are expected to gradually decline and stabilise at around 3%, again assuming no extreme macroeconomic developments. More widely in terms of risk management, the ProCredit group will continue to fully implement the improved reporting and risk management standards to ensure group-wide compliance with German regulatory standards.

In terms of profitability we anticipate a post-tax RoAE of about 9% in 2013 (compared to 10.3% in 2012). The somewhat lower level reflects anticipated investments in institution building measures which will be a priority in 2013. Thereafter, the RoAE will gradually increase to a level of 15%. This level of profitability is somewhat lower than the mid-term targets planned for in the past. This more conservative approach reflects the strong group focus on high quality client relationships against a backdrop of relatively muted prospects for our Balkan countries of operation. The planned profitability remains sustainable and attractive, particularly given the high development impact and responsible positioning of the group. Net interest income should steadily increase as the loan portfolio grows. At the same time the focus on operational efficiency should mean that personnel and administrative costs will not increase as strongly and the cost-income ratio will improve.

The introduction of new Basel III standards for liquidity risk management and regulatory capital management are not anticipated to have a major impact on our business operations or create a need for significant additional capital. The group already has good Tier 1 capital levels. In 2013, operational profit will provide most of the capital required to support growth in risk-weighted assets. A modest dividend distribution is planned for 2013 and subsequent years. Additional options for sourcing equity, such as a public listing, will be explored when market conditions are deemed appropriate. Based on many years' experience, we expect continued strong support from our core shareholders.

Our staff will of course continue to be the key factor in achieving our targets for loan portfolio growth and loan portfolio quality, and the focus will be on customer service quality as well as ongoing efficiency improvements. In 2013 and 2014, staff numbers are planned to continue to decrease slightly. Thereafter, staff numbers will remain largely stable. Our priority will be the training of existing staff in the coming year, enabling them to work as effectively and efficiently as possible with our clients as they adjust to changing economic conditions in our countries of operation. To this end the group will maintain a strong focus on staff development and training opportunities at the local, regional and international level.





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## Consolidated Financial Statements of the Group

### Auditor's Report

We have audited the consolidated financial statements prepared by the ProCredit Holding AG & Co. KGaA, Frankfurt am Main, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the Board of Managing Directors of ProCredit General Partner AG as the legal representative of the parent company.

Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, March 22, 2013

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Christoph Theobald  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. Muriel Atton  
Wirtschaftsprüfer  
(German Public Auditor)

## Consolidated Income Statement

in '000 EUR	Note	1.1.–31.12. 2012	1.1.–31.12. 2011
Interest and similar income		635,187	591,618
Interest and similar expenses		195,259	181,280
<b>Net interest income</b>	(24, 26)	<b>439,929</b>	<b>410,338</b>
Allowance for impairment losses on loans and advances	(12, 27)	61,531	61,584
<b>Net interest income after allowances</b>		<b>378,397</b>	<b>348,754</b>
Fee and commission income		74,442	67,663
Fee and commission expenses		15,508	13,789
<b>Net fee and commission income</b>	(25, 28)	<b>58,934</b>	<b>53,875</b>
Result from foreign exchange transactions	(29)	13,910	12,724
Net result from financial assets at fair value through profit or loss	(30)	857	921
Net result from available-for-sale financial assets	(31)	-1,378	-1,198
Net other operating income	(32)	-15,244	-9,214
<b>Operating income</b>		<b>435,476</b>	<b>405,862</b>
Personnel expenses	(33)	189,057	178,246
Administrative expenses	(33)	187,339	170,352
<b>Operating expenses</b>		<b>376,397</b>	<b>348,598</b>
<b>Profit before tax</b>		<b>59,080</b>	<b>57,264</b>
Income tax expenses	(34)	12,800	10,471
<b>Profit for the year</b>		<b>46,280</b>	<b>46,793</b>
Profit attributable to equity holders of the parent company		44,831	38,881
Profit attributable to non-controlling interests		1,449	7,913

## Consolidated Statement of Comprehensive Income

in '000 EUR	Note	1.1.–31.12. 2012	1.1.–31.12. 2011
<b>Profit for the year</b>		<b>46,280</b>	<b>46,793</b>
Change in revaluation reserve from available-for-sale financial assets	(39)	2,020	-1,487
Change in deferred tax on revaluation reserve from available-for-sale financial assets	(39)	-249	185
Change in translation reserve	(9)	-11,700	12,735
<b>Other comprehensive income for the year, net of tax</b>		<b>-9,929</b>	<b>11,432</b>
<b>Total comprehensive income for the year</b>		<b>36,351</b>	<b>58,225</b>
Total comprehensive income attributable to equity holders of parent company		31,773	49,865
Total comprehensive income attributable to non-controlling interests		4,578	8,360

## Consolidated Statement of Financial Position

in '000 EUR	Note	31.12.2012	31.12. 2011
<b>Assets</b>			
Cash and cash equivalents	(10, 36)	863,448	756,038
Loans and advances to banks	(11, 37)	335,108	320,499
<i>of which were pledged to creditors and can be sold or repledged</i>	(63)	742	0
Financial assets at fair value through profit or loss	(8, 38)	16,823	13,990
Available-for-sale financial assets	(8, 12, 39)	192,056	204,165
Loans and advances to customers	(11, 40)	4,190,607	4,029,293
<i>of which were pledged to creditors and can be sold or repledged</i>	(63)	13,016	6,880
Allowance for losses on loans and advances to customers	(12, 27, 41)	-175,451	-158,535
Property, plant and equipment	(15, 16, 43)	207,697	199,604
<i>of which were pledged to creditors and can be sold or repledged</i>	(63)	675	822
Investment properties	(15, 16, 43)	2,734	0
Intangible assets	(14, 42)	37,820	37,530
Current tax assets	(17, 45)	5,616	8,533
Deferred tax assets	(17, 45)	18,154	18,125
Other assets	(46)	73,930	64,561
<b>Total assets</b>		<b>5,768,544</b>	<b>5,493,803</b>
<b>Liabilities</b>			
Liabilities to banks	(18)	343,637	319,229
Financial liabilities at fair value through profit or loss	(13, 38)	272	1,256
Liabilities to customers	(18, 48)	3,627,194	3,418,542
Liabilities to international financial institutions	(18, 49)	796,432	753,869
Debt securities	(19, 50)	202,458	232,778
Other liabilities	(51)	29,996	31,247
Provisions	(20, 52)	14,608	12,411
Current tax liabilities	(17, 45)	5,026	4,716
Deferred tax liabilities	(17, 45)	4,179	4,133
Subordinated debt	(22, 53)	174,391	179,256
Hybrid capital	(54)	67,218	67,589
<b>Total liabilities</b>		<b>5,265,410</b>	<b>5,025,024</b>
Equity attributable to equity holders of the parent company	(55)		
Subscribed capital		254,123	225,225
Capital reserve		96,529	67,290
Legal reserve		136	136
Retained earnings		173,761	130,374
Translation reserve	(9)	-44,565	-29,997
Revaluation reserve from available-for-sale financial assets		449	-1,061
<b>Equity attributable to equity holders of the parent company</b>		<b>480,433</b>	<b>391,967</b>
Non-controlling interests		22,701	76,812
<b>Total equity</b>		<b>503,134</b>	<b>468,779</b>
<b>Total equity and liabilities</b>		<b>5,768,544</b>	<b>5,493,803</b>

## Consolidated Statement of Changes in Equity

in '000 EUR	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve from available-for-sale financial assets	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
<b>Balance at January 1, 2012</b>	<b>225,225</b>	<b>67,290</b>	<b>136</b>	<b>130,374</b>	<b>-29,997</b>	<b>-1,061</b>	<b>391,967</b>	<b>76,812</b>	<b>468,779</b>
Change in translation reserve					-14,568		-14,568	2,868	-11,700
Revaluation of afs securities						1,511	1,511	260	1,771
Other comprehensive income for the year, net of tax					-14,568	1,511	-13,058	3,129	-9,929
Profit for the year				44,831			44,831	1,449	46,280
Total comprehensive income for the year				44,831	-14,568	1,511	31,773	4,578	36,351
Change of profit attributable to non-controlling interests <sup>1</sup>								-16,210	-16,210
<b>Net total comprehensive income for the year</b>				<b>44,831</b>	<b>-14,568</b>	<b>1,511</b>	<b>31,773</b>	<b>-11,633</b>	<b>20,140</b>
Reserve derived from purchase of shares of subsidiaries				7,277			7,277		7,277
Currency translation differences on retained earnings				-66			-66		-66
Distributed dividends				-9,009			-9,009	-1,461	-10,470
Capital increase	28,898	29,239					58,137	330	58,467
Shares with put options held by non-controlling interests				355			355	-5,501	-5,146
Change of non-controlling interests <sup>2</sup>								-35,847	-35,847
<b>Balance at December 31, 2012</b>	<b>254,123</b>	<b>96,529</b>	<b>136</b>	<b>173,761</b>	<b>-44,565</b>	<b>449</b>	<b>480,433</b>	<b>22,701</b>	<b>503,134</b>
<b>Balance at January 1, 2011</b>	<b>225,225</b>	<b>67,290</b>	<b>136</b>	<b>108,628</b>	<b>-42,046</b>	<b>3</b>	<b>359,236</b>	<b>69,899</b>	<b>429,135</b>
Change in translation reserve					12,049		12,049	686	12,735
Revaluation of afs securities						-1,064	-1,064	-238	-1,302
Other comprehensive income for the year, net of tax					12,049	-1,064	10,985	448	11,432
Profit for the year				38,881			38,881	7,913	46,793
Total comprehensive income for the year				38,881	12,049	-1,064	49,865	8,360	58,225
Change of profit attributable to non-controlling interests <sup>1</sup>								897	897
<b>Net total comprehensive income for the year</b>				<b>38,881</b>	<b>12,049</b>	<b>-1,064</b>	<b>49,865</b>	<b>9,257</b>	<b>59,122</b>
Reserve derived from purchase of shares of subsidiaries				-6,722			-6,722		-6,722
Currency translation differences on retained earnings				-236			-236		-236
Distributed dividends				-8,660			-8,660	-3,491	-12,151
Shares with put options held by non-controlling interests				-1,517			-1,517	-655	-2,172
Change of non-controlling interests <sup>2</sup>								1,803	1,803
<b>Balance at December 31, 2011</b>	<b>225,225</b>	<b>67,290</b>	<b>136</b>	<b>130,374</b>	<b>-29,997</b>	<b>-1,061</b>	<b>391,967</b>	<b>76,813</b>	<b>468,779</b>

1) The change in the share of non-controlling interest in the profit results from the acquisition of additional shares in subsidiaries by ProCredit Holding and the concomitant dividend entitlements.

2) From the purchase of shares and the capital increase of the subsidiaries.

## Consolidated Statement of Cash Flows

in '000 EUR	Note	1.1.–31.12. 2012	1.1.–31.12. 2011
Net profit after tax		46,280	46,793
Income tax expenses		12,800	10,471
<b>Profit before tax</b>		<b>59,080</b>	<b>57,264</b>
Non-cash items included in the profit for the year and transition to the cash flow from operating activities			
Allowance for impairment losses on loans and advances		61,531	61,584
Measurement gains / losses from financial assets / liabilities designated at fair value through profit or loss		-138	-754
Depreciation		38,334	34,100
Unrealised gains / losses from currency revaluation		-724	909
Addition to/ release of provisions		2,747	3,535
Gains / losses from disposal of property, plant and equipment		1,796	2,183
Interest and dividends*		-439,929	-410,338
Other non-cash items		-364	-315
Subtotal		-277,666	-251,832
Increase / decrease of assets and liabilities from operating activities after non-cash items			
Loans and advances to banks		-22,739	-102,806
Financial assets at fair value through profit or loss		-2,583	23,751
Financial assets available for sale		13,578	-35,281
Loans and advances to customers		-246,381	-406,422
Other assets		-9,398	-13,612
Liabilities to banks		21,315	55,683
Financial liabilities at fair value through profit or loss		-984	70
Liabilities to customers		201,311	195,936
Other liabilities		-862	-4,748
Interest received*		632,875	589,436
Interest paid*		-190,906	-182,509
Income tax paid*		-9,833	-13,282
<b>Cash flow from operating activities</b>		<b>107,728</b>	<b>-145,617</b>
Purchase of / proceeds from sale of:			
Property, plant and equipment		-54,786	-45,190
Acquisition of shares in subsidiaries		0	-6,146
Securities		-1,613	-1,252
<b>Cash flow from investing activities</b>		<b>-56,399</b>	<b>-52,589</b>
Dividends paid		-10,470	-12,151
Shares issued		58,467	1,803
Acquisition of shares in subsidiaries from non-controlling interest		-40,320	0
Long-term borrowings		9,152	13,889
<b>Cash flow from financing activities</b>		<b>16,829</b>	<b>3,541</b>
<b>Cash and cash equivalents at end of previous year</b>		<b>784,207</b>	<b>970,494</b>
Cash flow from operating activities		107,728	-145,617
Cash flow from investing activities		-56,399	-52,589
Cash flow from financing activities		16,829	3,541
Effects of exchange rate changes		31,514	8,377
<b>Cash and cash equivalents at end of year</b>	(36)	<b>883,879</b>	<b>784,207</b>

\* The categories have been reclassified, also for 2011.

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## Notes to the Consolidated Financial Statements

### A. Basis of Preparation

#### (1) Compliance with International Financial Reporting Standards

The ProCredit group ("the group") prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted by the European Union.

The Consolidated Financial Statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Positions, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements.

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

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

Reporting and valuation are made on a going concern assumption.

#### (2) Compliance with German law

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

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

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

These Consolidated Financial Statements of the group for the fiscal year 2012 were approved for issue by the Management Board of the ProCredit General Partner AG, Frankfurt am Main, as the representative of ProCredit Holding on 20 March 2013.

#### (3) Consolidation

##### (a) Subsidiaries

The Consolidated Financial Statements comprise the financial statements of ProCredit Holding and its subsidiaries as of 31 December 2012. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. For the ProCredit group, the control over a subsidiary typically coincides with the parent company holding a share of more than 50% in the voting shares of the respective entity either directly or indirectly. All subsidiaries are fully consolidated. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date on which control ceases.

There was no change in the group composition during 2012 as compared to the Consolidated Financial Statements as of 31 December 2011.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (for impairment of goodwill see note (14)a). If the cost of acquisition is less than the fair value of the group's share in the net assets of the subsidiary acquired, the difference is recognised in the income statement.

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

*(b) Associates*

Associates are entities over which the group has significant influence but no control. In 2012 the group did not have any associates.

*(c) Joint ventures*

Joint ventures are entities under joint control. In 2012, the group did not have any joint ventures.

#### **(4) Accounting developments**

*(a) Standards, amendments and interpretations effective on or after 1 January 2012*

In October 2010, the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures – Transfer of Financial Assets", which were endorsed by the EU in November 2011. The amendments are applicable for periods beginning on or after 1 July 2011. The amendments do not have an impact on the financial statements of the group.

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

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

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

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

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

Amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities" as well as amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities" will have an impact on the disclosures in the financial statements. The amendments to IFRS 7 are applicable for annual periods beginning on or after 1 January 2013 and the amendments to IAS 32 are applicable for annual periods beginning on or after 1 January 2014.

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

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

Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance" will have an impact on the group's financial statements when applying the respective standards for the first time. The amendments are currently in the EU endorsement process and are prospectively applicable for annual periods beginning on or after 1 January 2013.

The revised version of IAS 27 "Separate Financial Statements" (rev. 2011) will be taken into consideration in the preparation of financial statements. The standard is applicable for annual periods beginning on or after 1 January 2014.

IFRS 9 "Financial Instruments" and subsequent amendments (amendments to IFRS 9 and IFRS 7) are prospectively applicable for periods beginning on or after 1 January 2015. The standard is currently in the EU endorsement process and will have an impact on the measurement and presentation of financial instruments.

Improvements to IFRS (2009-2011) will only have a minor impact on the financial statements. The improvements are currently in the EU endorsement process and are prospectively applicable for annual periods beginning on or after 1 January 2013.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the group's financial statements: IFRS 11 "Joint Arrangements", and IAS 28 "Investments in Associates and Joint Ventures" (rev. 2011), amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities", amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters", amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets", amendments to IFRS 1 "Government Loans", and IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine".

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

## B. Summary of Significant Accounting Policies

### (5) Segment reporting

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

The "Germany" segment comprises ProCredit Holding; ProCredit Bank AG, Frankfurt, Germany; ProCredit Academy GmbH, Fürth, Germany; Quipu GmbH, Frankfurt, Germany; ProCredit Capital Funding LLC, Wilmington, USA ("LLC"); and ProCredit Capital Funding Trust, Wilmington, USA ("Trust"). The LLC and the Trust form part of this segment because they serve the holding company in issuing hybrid capital.

### (6) Use of assumptions and estimates

The group's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the Consolidated Financial Statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

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

#### *(a) Impairment of credit exposures*

To determine the group-wide rates to be applied for portfolio-based loan loss provisioning, the group performed an evaluation of the quality of the loan portfolio, taking into account historical loss experiences of all our institutions. As this migration analysis is based on statistical data up to 2012, it reflects the average losses during a period which contains both economic growth and favourable economic environments as well as the sharp economic downturn during the financial crisis in our countries of operation. Therefore management considers it appropriate to use the results of the migration analysis with a confidence level of 60% (previous year: 60%) to cover expected (and partially unexpected) losses. Further information on the group's accounting policy on loan loss provisioning can be found in note (12) and note (59).

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

According to IAS 32, a contract that contains the obligation to purchase one's own equity instruments for cash gives rise to a financial liability for the present value of the redemption amount. For put options with a put price related to the subsidiary's equity at the time of exercise, the redemption amount is calculated based on the expected book value or fair value of the equity shares. As all risks and rewards connected with these transactions are considered as being already transferred to ProCredit Holding, the difference between the book value of the equity shares and the related liabilities was reflected as goodwill in accordance with IAS 27 (2008) for all transactions before 2008. Thereafter all transactions are recognised through the Consolidated Income Statement according to the amended IAS 27. For put options in which the put prices are defined as the fair value of the equity share at the time of exercising the put, the redemption amount is calculated as a discounted cash flow. The respective cash flows have been estimated on the basis of the latest business plans. Discounting rates have been determined to reflect the perceived risk profile of each individual investment.

#### *(c) Goodwill impairment testing*

Goodwill on the acquisition of subsidiaries is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. In performing goodwill impairment testing, a standard discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Significant management judgement is involved in estimating future cash flows and in determining the discount rate assigned to each cash-generating unit. The cash flow projection is based on the latest business planning as approved by the Supervisory Board of the respective entity and therefore necessarily and appropriately reflects management's view of future business prospects. Estimated future cash flows are extrapolated in perpetuity due to the long-term perspective of the equity investments, using management's best estimate for determining future net growth rates based on currently observable data and economic projections. The estimated future cash flows are discounted at specific equity discount rates which reflect the risk profile of the individual entity. The discount factors are derived from a pricing model based on observable market data and are between 10.8% and 16% (2011: between 12% and 17.1%). Goodwill is tested by comparing the net present value of future cash flows from a cash-generating unit with the carrying value of its net assets (including goodwill). The group's accounting policy for goodwill is described in note (14)a).

#### *(d) Measurement of deferred tax asset*

The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised (for the group's accounting policy for income taxes see note (17)). The profit projection is based on the latest business planning as of

December 2012 approved by the Supervisory Board of the respective entity and therefore necessarily and appropriately reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see notes (34) and (45).

### **(7) Measurement basis**

These Consolidated Financial Statements have been prepared under the historical cost convention, unless IFRS require recognition at fair value. Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques are part of the accounting policies listed below.

A fair value is defined as the amount at which a transaction could be concluded between two knowledgeable, willing parties in an arm's length transaction.

IFRS 7 defines a so-called hierarchy of fair value determination which reflects the relative reliability of different ways of obtaining a fair value:

#### *(a) Active market: Quoted price (Level 1)*

Quoted prices in an active market for identical financial instruments.

#### *(b) Valuation technique using observable inputs (Level 2)*

Observable quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use of valuation models where all significant inputs are observable.

#### *(c) Valuation technique with significant non-observable inputs (Level 3)*

The use of valuation models where one or more significant inputs are not observable.

Only if the first best way of determining the fair value is not available may the next best determination method be applied.

### **(8) Financial assets**

The group classifies its financial assets in the following categories (in accordance with IAS 39): financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The group holds no held-to-maturity instruments. Management determines the classification of financial assets at initial recognition.

#### *(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and financial assets designated at fair value through profit or loss.

Financial assets held for trading consists solely of positive fair values arising from derivative financial instruments used for hedging for risk management purposes, but not as hedging arrangements under the terms of hedge accounting as defined by IAS 39.

Financial assets designated at fair value through profit or loss primarily include government bonds and securities.

Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The monthly reporting on these portfolios to key management personnel is also done on a fair value basis. The fair values reported are usually observable market prices; as a guideline, the group prefers to invest in securities for which market prices in active markets can be observed. Only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the income statement of the period. Together with interest earned on financial instruments designated at fair value through profit and loss they are shown as "Net result from financial assets at fair value through profit or loss".

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the group assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note (12) for the accounting policy for impairment of credit exposures, and notes (27), (41), and (59) for details on impairment of credit exposures). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

*(c) Available-for-sale financial assets*

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

At initial recognition, available-for-sale financial assets are recorded at fair value including transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices in active markets or values calculated with a valuation technique based on currently observable market data. For very short-term financial assets it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly within equity in other comprehensive income in the position "Revaluation reserve from available-for-sale financial asset", until the financial asset is derecognised or impaired (for details on impairment, see note (12)). At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "Gains and losses from available-for-sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive the payment is established.

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

## **(9) Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency with which the entity operates in its primary economic environment ("the functional currency"). In 2012, Banco Los Andes ProCredit Bolivia changed its functional currency from USD to the local currency, BOB, to reflect the increase in business volume in local currency.

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

*(b) Transactions and balances*

Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the monthly average rate of exchange when these approximate actual rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement (result from foreign exchange transactions).

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

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

*(c) Group companies*

The results and financial positions of all the group entities (none of which use the currency of a hyper-inflationary economy) whose functional currency is not the euro are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial positions presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates of the period; and
- all resulting exchange differences of the group equity investments are recognised in equity as "translation reserve" and are reclassified from equity to profit or loss on disposal.

**(10) Cash and cash equivalents**

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

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

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

**(11) Loans and advances**

All loans and advances to banks as well as loans and advances to customers fall under the category "Loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under net interest income. Impairment of loans is recognised on separate allowance accounts (see note (12)).

For the purposes of the statement of cash flows, claims to banks with a remaining maturity of less than three months from the date of acquisition are recognised under cash and cash equivalents (see note (36)).

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

- Impairment of loans and advances

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. Collectively assessment is carried out if there is no objective evidence that impairment of credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s). The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The group does not recognise losses from expected future events.

- Individually assessed loans and advances

Credit exposures are considered individually significant if they have a certain size, partly depending on the individual bank. As a group-wide rule, all credit exposures over EUR 30,000 are individually assessed to determine whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the bank:

- delinquencies in contractual payments of interest or principal;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings or financial reorganisation;
- any specific information on the customer's business that is expected to have a negative impact on the future cash flow;
- changes in the customer's market environment that are expected to have a negative impact on the future cash flow.

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

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

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

- Collectively assessed loans and advances

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

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

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

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, the holding company's management prescribed appropriate rates to the banks of the ProCredit group as the basis for their portfolio-based impairment allowances. The migration analysis is performed twice per year. The migration analysis based on end-of-year data provides for a back-testing of the rates applicable for the previous year. It also forms the basis for the determination of appropriate rates for the current year. In addition, a migration analysis based on half-year statistics provides for a preliminary back-testing of applicable rates during the year.

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

#### **Reversal of impairment**

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

#### **Writing off loans and advances**

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Income Statement as part of the allowance for impairment losses on loans and advances.

#### **Restructured credit exposures**

Restructured credit exposures which would otherwise be past due or impaired and which are considered to be individually significant are assessed on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans which would otherwise be past due or impaired and which are individually insignificant are collectively assessed for impairment.

#### **Assets acquired in exchange for loans (repossessed property)**

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

#### *(b) Assets classified as available-for-sale*

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

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Income Statement.

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

**(13) Derivative financial instruments**

Derivative financial instruments are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivative financial instruments are measured at fair value. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Financial assets at fair value through profit or loss". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Financial liabilities at fair value through profit or loss".

The resulting fair value gain or loss is recognised immediately in the income statement for all derivatives under "Net result from financial assets at fair value through profit or loss". In the group, derivatives are used in order to hedge risks, i.e. interest rate risks and currency risks, but the group does not apply hedge accounting in accordance with IAS 39.

**(14) Intangible assets***(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Slight changes in ownership interest without changes of control are accounted for as equity transactions with owners and do not result in changes to goodwill.

Goodwill is carried at cost less accumulated impairment losses which are charged to the income statement. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold and are recognised in the income statement.

*(b) Computer software*

Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 to 10 years. Computer software is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses.

**(15) Property, plant and equipment and investment property**

All property, plant and equipment and investment property are stated at historical cost less scheduled depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are considered separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

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

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

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

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

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

Rental income from investment property is recognised in "Net other operating income" in the Consolidated Income Statement. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Net other operating income" in the Consolidated Income Statement.

**(16) Leases***(a) ProCredit is the lessee**Finance lease*

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

In general, ProCredit does not conclude finance lease agreements. In exceptional cases, however, some lease agreements for land are classified as finance leases (see also note (44)).

*Operating lease*

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

The total payments made under operating leases are charged to the income statement under "Administrative expenses" on a straight-line basis over the period of the lease. The leasing objects are recognised by the lessor.

*(b) ProCredit is the lessor**Finance leases*

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

*Operating leases*

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

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

**(17) Income tax***Current income tax*

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

*Deferred income tax*

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

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

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

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

Deferred tax related to fair value re-measurement of available-for-sale investments is stated in equity. The respective changes are charged to other comprehensive income and subsequently recognised in the Consolidated Income Statement together with the deferred gain or loss. The presentation in the Statement of Comprehensive Income is made on a gross basis.

**(18) Liabilities to banks, customers and international financial institutions**

Liabilities to banks, customers and international financial institutions are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

**(19) Debt securities**

The item "Debt securities" contains debt instruments issued, recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. They are subsequently stated at amortised cost and any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the debt instruments using the effective interest method. Debt securities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

**(20) Provisions**

Provisions are recognised if

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

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

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

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the financial statements but are disclosed in the notes to the financial statements (see note (64)).

**(21) Post-employment benefits**

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

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

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

**(22) Subordinated debt**

Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the income statement under "Net interest income".

**(23) Grants**

The positive social effects that the establishment of banks in transition economies and developing countries can have are widely recognised by the interested public and various large international donor institutions. Accordingly, ProCredit group receive grants from donor institutions in some instances. It is the group's policy to use such grants exclusively for the institutional development.

Grants are accounted for in accordance with IAS 20 "Accounting for Government grants and Disclosure of Government Assistance", as management judges this standard to be appropriate to address similar and related issues. Grants are accounted for following the gross approach, where the money received and the obligation to use the money for ongoing expenses is not offset. The liability to fulfil the obligation, recognised in the statement of financial positions, is amortised through the Net other operating income at the same time as funds are spent to cover expenditures. When donor contributions are used to purchase assets, the assets are recognised in the statement of financial positions. Another liability is recognised to reflect the obligation to use the funds for restricted purposes. The liability is amortised through the income statement at the same rate at which the respective assets are depreciated.

**(24) Interest income and expenses**

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. For loans where there is objective evidence that an impairment loss has been incurred, the accrual of interest income is terminated not later than 90 days after the last payment. Payments received in respect of written-off loans are not recognised in net interest income.

**(25) Fee and commission income and expenses**

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

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

## C. Notes to the Income Statement

### (26) Net interest income

Included within "Net interest income" are interest income and expenses and the amortisation of premiums and discounts on financial instruments at amortised cost. Interest income from financial instruments at fair value through profit or loss is shown under "Net result from financial assets at fair value through profit or loss" (note (30)).

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Interest income from cash and cash equivalents and loans and advances to banks	6,755	7,457
Interest income from available-for-sale assets	6,467	9,455
Interest income from loans and advances to customers	617,862	569,854
Other interest income	4,104	4,851
<b>Interest and similar income</b>	<b>635,187</b>	<b>591,618</b>
	<b>1.1.–31.12.2012</b>	<b>1.1.–31.12.2011</b>
Interest expenses on liabilities to banks	15,934	9,956
Interest expenses on liabilities to customers	112,163	102,826
Interest expenses on liabilities to international financial institutions*	39,449	35,679
Interest expenses on subordinated debt	10,864	10,997
Interest expenses on debt securities and hybrid capital	16,536	21,234
Other interest expenses*	1,300	1,463
Capitalised borrowing costs	-988	-874
<b>Interest and similar expenses</b>	<b>195,259</b>	<b>181,280</b>
<b>Net interest income</b>	<b>439,929</b>	<b>410,338</b>

\* The sub-item "Interest expenses on other borrowed funds" was reclassified from "Other interest expenses" to "Interest expenses on liabilities to international financial institutions" (also for 2011).

The interest income from loans and advances to customers includes interest income from impaired financial assets accrued in accordance with IAS 39.AG93 in the amount of EUR 6,884 thousand (2011: EUR 1,859 thousand).

### (27) Allowance for impairment losses on loans and advances

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

Risk provisioning on loans and advances to customers is reflected in the income statement as follows:

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Increase of impairment charge	220,591	201,450
Direct write-offs	1,286	3,225
Release of impairment charge	-141,694	-124,572
Recovery of written-off loans	-18,653	-18,520
<b>Allowance for impairment losses on loans and advances</b>	<b>61,531</b>	<b>61,584</b>

The total increase of impairment charge comprises the following entries:

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Specific impairment	72,222	58,709
Allowance for individually insignificant impaired loans	88,654	75,894
Allowance for collectively assessed loans	59,715	66,848
<b>Increase of impairment charge</b>	<b>220,591</b>	<b>201,450</b>

**(28) Net fee and commission income**

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Payment transfers and transactions*	34,277	32,550
Account maintenance fee	11,789	11,066
Letters of credit and guarantees	3,350	3,093
Debit/credit cards	16,179	14,036
Other fee and commission income*	8,848	6,917
<b>Fee and commission income</b>	<b>74,442</b>	<b>67,663</b>
Payment transfers and transactions	6,438	5,622
Account maintenance fee	1,716	1,498
Letters of credit and guarantees	456	265
Debit/credit cards	6,508	5,889
Other fee and commission expenses	390	515
<b>Fee and commission expenses</b>	<b>15,508</b>	<b>13,789</b>
<b>Net fee and commission income</b>	<b>58,934</b>	<b>53,875</b>

\* The sub-item "E-banking fee" was reclassified from "Other fee and commission income" to "Payment transfers and transactions" (also for 2011).

**(29) Result from foreign exchange transactions**

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

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Currency transactions	13,314	13,559
Net gains and losses from revaluation	595	-835
<b>Result from foreign exchange transactions</b>	<b>13,910</b>	<b>12,724</b>

**(30) Net result from financial assets at fair value through profit or loss**

In addition to the revaluation changes for financial assets at fair value through profit or loss this item also includes the net interest income from the financial instruments at fair value through profit or loss.

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Net result from fair value changes of financial assets at fair value through profit or loss	27	714
Net interest income from financial assets at fair value through profit or loss	830	208
<b>Total</b>	<b>857</b>	<b>921</b>

Of this total, a net result of EUR - 27 thousand (2011: EUR 558 thousand) was generated by those financial assets and financial liabilities which are held for trading (exclusively derivatives for risk management purposes), while a net result of EUR 884 thousand (2011: EUR 364 thousand) is attributable to financial assets designated as at fair value through profit or loss upon initial recognition.

**(31) Net results from available-for-sale financial assets**

This item includes the gains or losses from disposal of available-for-sale financial assets as well as impairment losses and gains from reversal of impairment.

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Net result from disposal of available-for-sale financial assets	-1,501	-1,202
Dividend income from available-for-sale financial assets	123	102
Impairment of available-for-sale financial assets	0	-98
<b>Net result from available-for-sale financial assets</b>	<b>-1,378</b>	<b>-1,198</b>

**(32) Net other operating income**

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Decrease of liabilities from put option agreements	1,422	3,742
Income from previous years	1,049	2,307
Reversal of Provisions	3,899	1,553
Income from reimbursement of expenses	3,524	2,834
Surplus from sale/reversal of impairment of repossessed property*	1,598	2,227
Surplus from sale of property, plant and equipment	1,035	797
Income from litigation settlements	1,022	489
Others	3,981	3,878
<b>Other operating income</b>	<b>17,531</b>	<b>17,826</b>

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Deposit insurance	9,904	8,817
Increase of liabilities from put option agreements	413	2,661
Expenses to be reimbursed	2,477	1,950
Loss from sale of property, plant and equipment	1,330	1,779
Impairment of repossessed property*	4,376	1,735
Expenses from litigation settlements	1,298	1,197
Expenses for Provisions	3,447	1,123
Income from previous years	1,838	1,308
Charges for registration	1,381	1,239
Others	6,310	5,231
<b>Other operating expenses</b>	<b>32,775</b>	<b>27,040</b>
<b>Net other operating income</b>	<b>-15,244</b>	<b>-9,214</b>

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

The income from reimbursement of expenses includes grant income of EUR 2,596 thousand (2011: EUR 1,689 thousand) out of which EUR 1,622 thousand (2011: EUR 1,319 thousand) were used to cover training-related expenses.

**(33) Personnel and other administrative expenses**

Personnel expenses can be broken down as follows:

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Salary expenses	145,980	134,881
Social security expenses	24,562	28,528
Post-employment benefits plans (Defined contribution plans)	3,859	714
Post-employment benefits plans (Defined benefit plans)*	1,925	1,774
Short-term employee benefits*	12,731	12,349
<b>Personnel expenses</b>	<b>189,057</b>	<b>178,246</b>

\* The sub-item "Voluntary compensations for dismissed staff" was reclassified from "Post-employment benefits plans (Defined benefit plans)" to "Short-term employee benefits" (also for 2011).

Administrative expenses include the following items:

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Operating lease expenses	32,434	32,123
Utility and electricity expenses	8,042	7,725
Communication and royalties on software	11,883	11,051
Transport	14,025	11,887
Office supplies	7,257	6,755
Security services	9,489	9,429
Marketing, advertising and representation	12,861	12,999
Repairs and maintenance	10,389	8,830
Depreciation fixed and intangible assets incl. impairment	38,902	35,438
Legal and audit fees	5,608	4,436
Non-profit tax	17,465	12,550
Consulting services	4,572	4,379
Recruitment and other personnel-related expenses*	6,015	4,555
Other administrative expenses*	8,397	8,196
<b>Administrative expenses</b>	<b>187,339</b>	<b>170,352</b>

\* The sub-item "External training expenses" was reclassified from "Other administrative expenses" to "Recruitment and other personnel-related expenses" (also for 2011).

Of the total administrative expenses, expenses of EUR 17,473 thousand (2011: EUR 13,254 thousand) were incurred for staff training.

The total audit fee expenses incurred by the holding company for the services provided by the group auditor in 2012 were EUR 381 thousand (2011: EUR 353 thousand).

### (34) Income tax expenses

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

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Current tax	13,060	10,933
Deferred tax	-260	-462
<b>Income tax expenses</b>	<b>12,800</b>	<b>10,471</b>

Of the expenses from deferred taxes, EUR 192 thousand is attributable to changes in tax rates.

In calculating both the current taxes on income and earnings and the deferred income tax the respective country-specific tax rates are applied. The average income tax rate for the reporting period was 11.6% (2011: 11.6%).

### (35) Segment reporting

The segment reporting in accordance with IFRS 8 is given below.

in '000 EUR	Total assets excl. taxes	Total liabilities excl. taxes	Credit commitments	Operating income
<b>As at December 31, 2012</b>				
Germany	1,109,689	663,697	1,300	72,285
Eastern Europe	4,109,123	3,615,118	340,340	283,206
Latin America	1,372,888	1,193,840	168,750	126,778
Africa	212,250	183,042	4,676	35,859
Consolidation	-1,059,177	-399,492	0	-82,652
<b>Total</b>	<b>5,744,774</b>	<b>5,256,205</b>	<b>515,066</b>	<b>435,476</b>
<b>As at December 31, 2011</b>				
Germany	1,003,572	638,569	3,864	48,993
Eastern Europe	3,907,016	3,455,602	312,595	274,772
Latin America	1,296,066	1,119,583	152,794	107,042
Africa	203,194	175,318	3,520	34,513
Consolidation	-942,703	-372,896	0	-59,457
<b>Total</b>	<b>5,467,145</b>	<b>5,016,176</b>	<b>472,774</b>	<b>405,862</b>

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

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

With the exception of the relationship between the German segment and the individual subsidiaries, there are no significant income or expense items arising from business dealings between segments. All income and expense items between the segments are disclosed separately in the following table. These are primarily interest income and expenses derived from loans extended by the parent company to the subsidiaries. The interest rates are related to the actual market rates according to the risk assessment of the individual country. Additionally, inter-segment transactions include the provision of centralised services from ProCredit Holding, IT services, staff training and dividends transferred from the subsidiaries to ProCredit Holding. In some countries in which the group operates, local banking authorities temporarily restricted the transfer of cash dividends, requiring a direct reinvestment in the respective subsidiary.

in '000 EUR		Eastern	Latin			
01.01.–31.12. 2012	Germany	Europe	America	Africa	Consolidation	Group
Interest and similar income	29,864	419,759	179,166	36,980	-30,581	635,187
<i>of which: inter-segment interest income</i>	29,641	927	14	0		
Interest and similar expenses	39,022	138,411	42,219	5,158	-29,551	195,259
<i>of which: inter-segment interest expenses</i>	10,367	14,144	4,762	279		
<b>Net interest income</b>	<b>-9,158</b>	<b>281,348</b>	<b>136,947</b>	<b>31,821</b>	<b>-1,029</b>	<b>439,929</b>
Allowance for impairment losses on loans and advances	0	48,337	9,867	3,326	0	61,531
<i>of which: inter-segment allowance for impairment losses</i>	0	0	0	0		
<b>Net interest income after allowances</b>	<b>-9,158</b>	<b>233,011</b>	<b>127,079</b>	<b>28,495</b>	<b>-1,029</b>	<b>378,397</b>
Fee and commission income	5,565	60,505	7,416	8,743	-7,787	74,442
<i>of which: inter-segment fee income</i>	5,565	2,221	1	0		
Fee and commission expenses	664	15,061	3,070	3,066	-6,353	15,508
<i>of which: inter-segment fee expenses</i>	0	4,881	759	712		
<b>Net fee and commission income</b>	<b>4,901</b>	<b>45,443</b>	<b>4,346</b>	<b>5,677</b>	<b>-1,434</b>	<b>58,934</b>
Result from foreign exchange transactions	-1,596	12,448	1,896	1,339	-177	13,910
Net result from financial assets at fair value through profit or loss	-697	1,573	-18	0	-1	857
Net result from available-for-sale financial assets	0	-1,396	-31	49	0	-1,378
Net other operating income	78,834	-7,873	-6,495	299	-80,010	-15,244
<i>of which: inter-segment other operating income</i>	77,200	1,426	1,384	0		
<b>Operating income</b>	<b>72,285</b>	<b>283,206</b>	<b>126,778</b>	<b>35,859</b>	<b>-82,652</b>	<b>435,476</b>
Personnel expenses	19,544	105,823	49,823	13,868	0	189,057
Administrative expenses	21,625	110,350	65,687	20,596	-30,918	187,339
<i>of which: inter-segment administrative expenses</i>	7,034	12,537	8,114	3,232		
<b>Operating expenses</b>	<b>41,168</b>	<b>216,173</b>	<b>115,510</b>	<b>34,464</b>	<b>-30,918</b>	<b>376,397</b>
<b>Operating result</b>	<b>31,116</b>	<b>67,033</b>	<b>11,269</b>	<b>1,396</b>	<b>-51,734</b>	<b>59,080</b>
Income tax expenses	2,052	7,677	2,793	278	0	12,800
<b>Profit for the year</b>	<b>29,065</b>	<b>59,356</b>	<b>8,476</b>	<b>1,118</b>	<b>-51,734</b>	<b>46,280</b>
Profit attributable to equity holders of the parent company						44,831
Profit attributable to non-controlling interests						1,449

in '000 EUR		Eastern	Latin			
01.01.–31.12. 2011	Germany	Europe	America	Africa	Consolidation	Group
Interest and similar income	30,688	409,068	149,427	33,406	-30,971	591,618
<i>of which: inter-segment interest income</i>	29,879	1,092	0	0		
Interest and similar expenses	38,394	133,594	35,158	3,695	-29,561	181,280
<i>of which: inter-segment interest expenses</i>	10,372	14,374	4,813	2		
<b>Net interest income</b>	<b>-7,706</b>	<b>275,474</b>	<b>114,270</b>	<b>29,710</b>	<b>-1,410</b>	<b>410,338</b>
Allowance for impairment losses on loans and advances	0	48,448	10,765	2,370	0	61,584
<i>of which: inter-segment allowance for impairment losses</i>	0	0	0	0		
<b>Net interest income after allowances</b>	<b>-7,706</b>	<b>227,026</b>	<b>103,504</b>	<b>27,340</b>	<b>-1,410</b>	<b>348,754</b>
Fee and commission income	4,251	57,234	5,836	7,901	-7,559	67,663
<i>of which: inter-segment fee income</i>	4,251	3,308	0	0		
Fee and commission expenses	371	14,789	2,395	2,751	-6,517	13,789
<i>of which: inter-segment fee expenses</i>	0	5,416	462	638		
<b>Net fee and commission income</b>	<b>3,880</b>	<b>42,445</b>	<b>3,441</b>	<b>5,151</b>	<b>-1,042</b>	<b>53,875</b>
Result from foreign exchange transactions	-1,133	10,740	1,691	1,337	90	12,724
Net result from financial assets at fair value through profit or loss	4	1,025	-114	8	-2	921
Net result from available-for-sale financial assets	-48	-318	2	-26	-808	-1,198
<i>of which: inter-segment gains and losses from investment securities</i>	808	0	0	0		
Net other operating income	53,995	-6,145	-1,482	702	-56,284	-9,214
<i>of which: inter-segment other operating income</i>	54,500	1,784	0	0		
<b>Operating income</b>	<b>48,993</b>	<b>274,772</b>	<b>107,042</b>	<b>34,513</b>	<b>-59,457</b>	<b>405,862</b>
Personnel expenses	17,004	105,153	43,418	12,671	0	178,246
Administrative expenses	14,917	110,123	52,283	19,227	-26,197	170,352
<i>of which: inter-segment administrative expenses</i>	4,015	14,165	5,280	2,737		
<b>Operating expenses</b>	<b>31,921</b>	<b>215,276</b>	<b>95,700</b>	<b>31,898</b>	<b>-26,197</b>	<b>348,598</b>
<b>Operating result</b>	<b>17,072</b>	<b>59,496</b>	<b>11,342</b>	<b>2,614</b>	<b>-33,259</b>	<b>57,264</b>
Income tax expenses	1,415	6,300	2,440	316	0	10,471
<b>Profit for the year</b>	<b>15,657</b>	<b>53,196</b>	<b>8,902</b>	<b>2,298</b>	<b>-33,259</b>	<b>46,793</b>
Profit attributable to equity holders of the parent company						38,881
Profit attributable to non-controlling interests						7,913

## D. Notes to the Statement of Financial Positions

### (36) Cash and cash equivalents

Cash and cash equivalents comprise the following items:

in '000 EUR	31.12.2012	31.12.2011
Cash in hand	201,305	186,481
Balances at central banks excluding mandatory reserves	230,320	116,329
Government bonds	21,338	25,271
Other money market instruments	50,569	36,184
Mandatory reserve deposits	359,916	391,775
<b>Cash and cash equivalents</b>	<b>863,448</b>	<b>756,038</b>
Loans and advances to banks with a maturity up to 3 months	330,025	314,673
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	-309,595	-286,505
<b>Total cash equivalents for the statement of cash flows</b>	<b>20,430</b>	<b>28,168</b>
<b>Cash and cash equivalents for the statement of cash flows</b>	<b>883,879</b>	<b>784,207</b>

**(37) Loans and advances to banks**

Loans and advances to banks are as follows:

in '000 EUR	31.12.2012	31.12.2011
up to three month	330,025	314,673
up to one year	5,043	5,175
more than one year	40	652
<b>Loans and advances to banks</b>	<b>335,108</b>	<b>320,499</b>

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

The financial assets at fair value through profit or loss are divided into two subcategories: financial instruments held for trading and financial instruments designated at fair value through profit or loss.

in '000 EUR	31.12.2012	31.12.2011
Financial assets held for trading	629	1,287
Financial assets designated at fair value through profit or loss	16,195	12,703
<b>Financial assets at fair value through profit or loss</b>	<b>16,823</b>	<b>13,990</b>
Financial liabilities	272	1,256
<b>Financial liabilities at fair value through profit or loss</b>	<b>272</b>	<b>1,256</b>

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

in '000 EUR	Contractual amount	Fair value	
As at December 31, 2011		Assets	Liabilities
<b>Fair value from derivatives with third parties</b>			
a) Foreign exchange derivatives			
Swaps	7,892	1,287	977
Forwards	28,514	0	1
b) Interest rate derivatives			
Interest rate swaps	18,511	0	279
OTC interest rate options	65,000	0	0
<b>Total derivatives with third parties</b>	<b>119,917</b>	<b>1,287</b>	<b>1,256</b>

Negative market values of derivatives fall under the position "Financial liabilities at fair value through profit or loss". This item consists solely of the negative fair values of derivative hedging instruments, primarily currency swaps.

**(39) Available-for-sale financial assets**

All securities which are not designated as financial assets at fair value through profit or loss are categorised as available-for-sale financial assets. This financial position primarily includes securities with fixed interest rates, most of which are government bonds.

in '000 EUR	31.12.2012	31.12.2011
Fixed interest rate securities	180,853	190,247
Variable interest rate securities	9,661	12,658
Shares in companies situated in OECD countries	524	267
Shares in companies situated in non-OECD countries	1,018	993
<b>Available-for-sale financial assets</b>	<b>192,056</b>	<b>204,165</b>

The revaluation reserve for available-for-sale financial assets in equity is reflected in other comprehensive income as follows:

in '000 EUR	2012	2011
<b>Revaluation reserve from available-for-sale financial assets*</b>		
As at January 1	-1,306	-4
Changes in Fair value	3,521	-384
Amount recognised in Consolidated Income Statement	-1,501	-1,202
Impairment	0	98
Deferred taxes	-249	185
<b>As at December 31</b>	<b>465</b>	<b>-1,306</b>

\* Previous year table presented the revaluation reserve from AfS without non-controlling interests

**(40) Loans and advances to customers**

Loans and advances to customers are as follows:

in '000 EUR						
As at December 31, 2012	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
<b>Business loans</b>	<b>3,318,524</b>	<b>-141,909</b>	<b>3,176,615</b>	<b>79.1%</b>	<b>297,828</b>	<b>55.4%</b>
loan size up to 10.000 EUR/USD	501,654	-25,409	476,245	11.9%	190,338	35.4%
loan size 10.000 to 30.000 EUR/USD	744,037	-30,483	713,555	17.8%	72,071	13.4%
loan size 30.000 to 150.000 EUR/USD	1,182,286	-43,053	1,139,233	28.4%	31,357	5.8%
loan size more than 150.000 EUR/USD	890,547	-42,964	847,583	21.1%	4,062	0.8%
<b>Agricultural loans</b>	<b>524,274</b>	<b>-19,619</b>	<b>504,655</b>	<b>12.5%</b>	<b>91,606</b>	<b>17.1%</b>
loan size up to 10.000 EUR/USD	180,992	-7,338	173,654	4.3%	73,472	13.7%
loan size 10.000 to 30.000 EUR/USD	143,900	-5,230	138,671	3.5%	14,107	2.6%
loan size 30.000 to 150.000 EUR/USD	137,972	-3,990	133,982	3.3%	3,690	0.7%
loan size more than 150.000 EUR/USD	61,410	-3,061	58,349	1.5%	337	0.1%
<b>Housing improvement loans</b>	<b>201,795</b>	<b>-5,645</b>	<b>196,150</b>	<b>4.9%</b>	<b>49,747</b>	<b>9.3%</b>
loan size up to 10.000 EUR/USD	99,602	-3,100	96,503	2.4%	42,969	8.0%
loan size 10.000 to 30.000 EUR/USD	65,850	-1,614	64,236	1.6%	5,828	1.1%
loan size 30.000 to 150.000 EUR/USD	33,812	-905	32,907	0.8%	934	0.2%
loan size more than 150.000 EUR/USD	2,531	-27	2,504	0.1%	16	0.0%
<b>Consumer loans*</b>	<b>70,114</b>	<b>-2,695</b>	<b>67,420</b>	<b>1.7%</b>	<b>77,821</b>	<b>14.5%</b>
loan size up to 10.000 EUR/USD	54,409	-2,169	52,240	1.3%	76,704	14.3%
loan size 10.000 to 30.000 EUR/USD	9,946	-348	9,598	0.2%	966	0.2%
loan size 30.000 to 150.000 EUR/USD	5,136	-160	4,976	0.1%	146	0.0%
loan size more than 150.000 EUR/USD	624	-18	605	0.0%	5	0.0%
<b>Finance leases</b>	<b>29,706</b>	<b>-3,386</b>	<b>26,320</b>	<b>0.7%</b>	<b>2,531</b>	<b>0.5%</b>
loan size up to 10.000 EUR/USD	3,862	-735	3,127	0.1%	986	0.2%
loan size 10.000 to 30.000 EUR/USD	6,461	-1,185	5,277	0.1%	974	0.2%
loan size 30.000 to 150.000 EUR/USD	12,739	-943	11,795	0.3%	532	0.1%
loan size more than 150.000 EUR/USD	6,644	-524	6,121	0.2%	39	0.0%
<b>Other loans</b>	<b>43,012</b>	<b>-2,196</b>	<b>40,815</b>	<b>1.0%</b>	<b>17,693</b>	<b>3.3%</b>
loan size up to 10.000 EUR/USD	15,235	-1,747	13,488	0.3%	16,386	3.1%
loan size 10.000 to 30.000 EUR/USD	8,926	-161	8,765	0.2%	830	0.2%
loan size 30.000 to 150.000 EUR/USD	18,582	-286	18,297	0.5%	475	0.1%
loan size more than 150.000 EUR/USD	268	-3	265	0.0%	2	0.0%
<b>Other advances to customers**</b>	<b>3,181</b>	<b>0</b>	<b>3,181</b>	<b>0.1%</b>	<b>0</b>	<b>0.0%</b>
<b>Total</b>	<b>4,190,607</b>	<b>-175,451</b>	<b>4,015,156</b>	<b>100.0%</b>	<b>537,226</b>	<b>100.0%</b>

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

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

in '000 EUR As at December 31, 2011	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
<b>Business loans</b>	<b>3,196,116</b>	<b>-130,330</b>	<b>3,065,786</b>	<b>79.2%</b>	<b>304,656</b>	<b>54.6%</b>
loan size up to 10.000 EUR/USD	527,960	-26,046	501,914	13.0%	210,046	37.6%
loan size 10.000 to 30.000 EUR/USD	676,578	-27,494	649,084	16.8%	62,572	11.2%
loan size 30.000 to 150.000 EUR/USD	1,061,982	-34,802	1,027,180	26.5%	27,650	5.0%
loan size more than 150.000 EUR/USD	929,596	-41,987	887,610	22.9%	4,388	0.8%
<b>Agricultural loans</b>	<b>469,231</b>	<b>-15,246</b>	<b>453,984</b>	<b>11.7%</b>	<b>93,163</b>	<b>16.7%</b>
loan size up to 10.000 EUR/USD	184,976	-6,912	178,062	4.6%	78,558	14.1%
loan size 10.000 to 30.000 EUR/USD	121,288	-4,312	118,765	3.1%	11,503	2.1%
loan size 30.000 to 150.000 EUR/USD	110,424	-2,523	106,112	2.7%	2,812	0.5%
loan size more than 150.000 EUR/USD	52,544	-1,498	51,045	1.3%	290	0.1%
<b>Housing improvement loans</b>	<b>203,285</b>	<b>-5,323</b>	<b>197,962</b>	<b>5.1%</b>	<b>58,128</b>	<b>10.4%</b>
loan size up to 10.000 EUR/USD	116,352	-3,335	113,018	2.9%	52,456	9.4%
loan size 10.000 to 30.000 EUR/USD	56,487	-1,207	55,732	1.4%	4,911	0.9%
loan size 30.000 to 150.000 EUR/USD	28,089	-754	26,883	0.7%	745	0.1%
loan size more than 150.000 EUR/USD	2,357	-27	2,330	0.1%	16	0.0%
<b>Consumer loans*</b>	<b>69,065</b>	<b>-2,174</b>	<b>66,891</b>	<b>1.7%</b>	<b>75,648</b>	<b>13.6%</b>
loan size up to 10.000 EUR/USD	54,731	-1,786	52,945	1.4%	74,533	13.4%
loan size 10.000 to 30.000 EUR/USD	8,190	-242	8,065	0.2%	972	0.2%
loan size 30.000 to 150.000 EUR/USD	5,049	-126	4,808	0.1%	137	0.0%
loan size more than 150.000 EUR/USD	1,094	-20	1,074	0.0%	6	0.0%
<b>Finance leases</b>	<b>33,496</b>	<b>-2,824</b>	<b>30,672</b>	<b>0.8%</b>	<b>3,275</b>	<b>0.6%</b>
loan size up to 10.000 EUR/USD	3,781	-501	3,280	0.1%	1,416	0.3%
loan size 10.000 to 30.000 EUR/USD	9,051	-1,013	7,990	0.2%	1,249	0.2%
loan size 30.000 to 150.000 EUR/USD	16,793	-1,061	15,781	0.4%	573	0.1%
loan size more than 150.000 EUR/USD	3,871	-250	3,621	0.1%	37	0.0%
<b>Other loans</b>	<b>55,198</b>	<b>-2,639</b>	<b>52,559</b>	<b>1.4%</b>	<b>23,398</b>	<b>4.2%</b>
loan size up to 10.000 EUR/USD	19,474	-2,063	17,412	0.4%	21,625	3.9%
loan size 10.000 to 30.000 EUR/USD	12,887	-224	12,539	0.3%	1,168	0.2%
loan size 30.000 to 150.000 EUR/USD	22,489	-348	22,265	0.6%	602	0.1%
loan size more than 150.000 EUR/USD	347	-4	343	0.0%	3	0.0%
<b>Other advances to customers**</b>	<b>2,902</b>	<b>0</b>	<b>2,902</b>	<b>0.1%</b>		
<b>Total</b>	<b>4,029,293</b>	<b>-158,535</b>	<b>3,870,758</b>	<b>100.0%</b>	<b>558,268</b>	<b>100.0%</b>

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

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

The size categories refer to the originally disbursed amount.

#### (41) Allowances for losses on loans and advances

Allowance for impairment losses on loans and advances cover the risks which arise from the category "Loans and advances to customers" (see also note (12) and note (59)). In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, lump-sum specific provisions and a general allowance were formed to cover impairment loss relating to the customer loan portfolio as a whole:

in '000 EUR	31.12.2012	31.12.2011
<b>Allowance for impairment on loans and advances to customers</b>		
Specific impairment	61,435	55,497
Allowance for individually insignificant impaired loans	56,854	47,755
Allowance for collectively assessed loans	57,163	55,284
<b>Allowance for losses on loans and advances to customers</b>	<b>175,451</b>	<b>158,535</b>

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

in '000 EUR	2012	2011
As at January 1	158,535	127,934
Increase of impairment charge	220,591	201,450
Usage of allowance	51,868	49,239
Release of impairment charge	141,694	124,572
Unwinding effects	-6,884	-1,859
Exchange rate adjustments	-3,230	4,821
<b>As at December 31</b>	<b>175,451</b>	<b>158,535</b>

Allowances for losses on loans and advances to banks are considered on an individual basis. In 2012 no allowances for impairment losses for loans and advances to banks were set aside, as there was no objective evidence of impairment (see note (60) for detailed information on the management of counterparty risk).

#### (42) Intangible assets

In 2012 impairment testing indicated goodwill impairment in the amount of EUR 1,717 thousand (2011: EUR 1,129 thousand) which was recognised in "Other administrative expenses". Impairment losses resulted mainly from the segment Latin America.

The development of the intangible assets is shown in the following tables:

in '000 EUR		
<b>Goodwill</b>	<b>2012</b>	<b>2011</b>
Net book value at January 1	22,368	23,364
Additions	0	0
Disposal	0	0
Impairment	-1,717	-1,129
Exchange rate adjustments	-413	132
<b>Net book value at December 31</b>	<b>20,239</b>	<b>22,368</b>

#### Put agreements

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

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

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

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

ProCredit Holding signed put option agreements which give the International Finance Corporation, Washington D.C., USA, and KfW the right to sell all of their shares in ProCredit Bank Romania to ProCredit Holding. The option can be exercised during a determined strike period. The purchase price of the shares is fixed at their initial subscription prices.

ProCredit Holding signed a put option agreement which gives Commerzbank AG, Frankfurt, Germany the right to sell all of its shares in ProCredit Bank Romania to ProCredit Holding. The option can be exercised during a determined strike period at a fixed purchase price.

The following table provides an overview of the existing options:

<b>Option agreements</b>	<b>counterparty</b>	<b>share</b>	<b>starting point option period</b>
ProCredit Bank CJSC, Armenia	EBRD	16.7%	effective
ProCredit Bank CJSC, Armenia	KfW	14.9%	effective
ProCredit Bank S.A., Colombia	IDB	7.8%	11.02.2013
Banco ProCredit S.A., Honduras	IDB	11.6%	effective
ProCredit Bank A.D., Macedonia	EBRD	12.5%	31.12.2014
ProConfianza S.A. de C.V., SOFOM, E.N.R., Mexico	IDB	8.5%	09.06.2013
ProCredit Bank S.A., Romania	Commerzbank	19.3%	effective
ProCredit Bank S.A., Romania	EBRD	17.1%	effective
ProCredit Bank S.A., Romania	IFC	12.6%	effective
ProCredit Bank S.A., Romania	KfW	13.8%	effective
ProCredit Bank JSC, Ukraine	EBRD	15.2%	01.01.2014

The calculation of the anticipated strike price is based on the original amount paid, the future equity and/or the future fair value, depending on the respective put agreement. The present value of the future obligation is discounted at an interest rate of 5% (2011: 5.9%), which is appropriate to the level of risk involved. The recognised financial liability replaced the non-controlling interest of the respective counterparties. The difference between the liability and the replaced non-controlling interests was recognised as goodwill under IAS 27 (2008).

Summing up, the put agreements result in a total liability of EUR 40.3 million as of 31 December 2012 (2011: EUR 36.4 million). This liability is largely offset by the reduction in the reserve for shares held by other shareholders, which amounted to EUR 31.8 million (2011: EUR 27.1 million), and by goodwill in the amount of EUR 9.8 million (2011: EUR 10.1 million).

in '000 EUR	2012	2011
<b>Software</b>		
Net book value at January 1	13,303	13,879
Total acquisition costs at January 1	48,615	43,786
Additions	9,474	5,888
Disposals	241	1,145
Transfers*	1,509	86
<b>Total acquisition costs at December 31</b>	<b>59,357</b>	<b>48,615</b>
Accumulated amortization January 1	30,762	25,244
Amortization	6,651	5,518
<b>Accumulated amortization at December 31</b>	<b>37,413</b>	<b>30,762</b>
Total exchange rate adjustments January 1	-4,550	-4,663
Exchange rate adjustments current year	-180	113
<b>Total exchange rate adjustments at December 31</b>	<b>-4,730</b>	<b>-4,550</b>
<b>Net book value at December 31</b>	<b>17,213</b>	<b>13,303</b>

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

in '000 EUR	2012	2011
<b>Other intangible assets</b>		
Net book value at January 1	1,859	1,657
Total acquisition costs at January 1	5,428	4,686
Additions	258	790
Disposals	23	236
Transfers*	-1,509	125
Effects through business combinations	0	63
<b>Total acquisition costs at December 31</b>	<b>4,154</b>	<b>5,428</b>
Accumulated amortization January 1	2,890	2,354
Amortization	211	537
<b>Accumulated amortization at December 31</b>	<b>3,101</b>	<b>2,890</b>
Total exchange rate adjustments January 1	-679	-675
Exchange rate adjustments current year	-5	-3
<b>Total exchange rate adjustments at December 31</b>	<b>-684</b>	<b>-679</b>
<b>Net book value at December 31</b>	<b>368</b>	<b>1,859</b>

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

Other intangible assets mainly consist of trademarks.

**(43) Property, plant and equipment and Investment property**

The development of property, plant and equipment (PPE) and investment property was as follows:

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

in '000 EUR	Land & buildings	Leasehold improvements	Assets under construction	Furnitures and fixtures	IT and other equipment	Total PPE
Net book value at January 1, 2011	95,635	20,945	12,097	12,563	43,338	184,577
Acquisition costs at January 1, 2011	107,511	50,152	14,937	40,745	150,191	363,535
Transfers	1,503	1,157	-3,229	-24	382	-211
Additions	6,870	3,809	15,412	3,259	18,023	47,373
Acquisition through business combination	0	0	0	168	856	1,024
Disposals	422	860	5,797	466	1,856	9,401
<b>Total acquisition costs at December 31, 2011</b>	<b>115,463</b>	<b>54,257</b>	<b>21,323</b>	<b>43,681</b>	<b>167,596</b>	<b>402,320</b>
Accumulated depreciation January 1, 2011	8,376	28,359	366	27,398	104,191	168,689
Depreciation	2,715	5,543	0	3,886	15,929	28,074
Impairment	0	1	0	0	0	1
<b>Accumulated depreciation at December 31, 2011</b>	<b>11,091</b>	<b>33,903</b>	<b>366</b>	<b>31,285</b>	<b>120,120</b>	<b>196,765</b>
Exchange rate adjustments January 1, 2011	-3,501	-848	-2,475	-784	-2,662	-10,269
Exchange rate adjustments current year	2,495	226	964	301	331	4,317
<b>Total exchange rate adjustments at December 31, 2011</b>	<b>-1,006</b>	<b>-621</b>	<b>-1,510</b>	<b>-482</b>	<b>-2,331</b>	<b>-5,952</b>
<b>Net book value at December 31, 2011</b>	<b>103,365</b>	<b>19,733</b>	<b>19,447</b>	<b>11,914</b>	<b>45,144</b>	<b>199,604</b>

Borrowing costs of EUR 988 thousand were capitalised during 2012 (2011: EUR 874 thousand); the amount was calculated at an average rate of 9.5%.

The fair value of the investment property was EUR 3,294 thousand at the end of 2012.

**(44) Leasing****Finance lease receivables**

in '000 EUR	31.12.2012			31.12.2011		
	Gross investment	Unearned finance income	Net investment	Gross investment	Unearned finance income	Net investment
<b>Finance lease receivables</b>						
no later than one year	12,624	1,773	10,851	6,113	841	5,271
later than one year and no later than five years	13,944	1,602	12,342	6,365	693	5,673
for termination of contracts	1,184	10	1,174	845	12	833
<b>Total</b>	<b>27,752</b>	<b>3,385</b>	<b>24,367</b>	<b>13,323</b>	<b>1,546</b>	<b>11,777</b>

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

in '000 EUR	31.12.2012	31.12.2011
Allowance for uncollectable leasing receivables	3,234	1,595

**Finance lease commitments**

ProCredit group has long-term leases of land which are classified as finance lease commitments. The full leasing amounts were paid in advance. The net carrying amount at the end of the reporting period was EUR 887 thousand (2011: EUR 826 thousand).

**Operating lease**

in '000 EUR	31.12.2012	31.12.2011
<b>Operating lease commitments</b>		
no later than one year	19,470	18,449
later than one year and no later than five years	53,584	52,907
later than five years	26,806	33,835
<b>Total</b>	<b>99,859</b>	<b>105,192</b>

Operating lease commitments result from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements. The total amount of expenses recognised in connection with such leases in 2012 is EUR 32,434 thousand (2011: EUR 32,123 thousand).

The group has operating lease receivables from investment properties in the amount of EUR 144 thousand (2011: EUR 0).

**(45) Income taxes**

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

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

in '000 EUR	2012	2011
At January 1	13,993	13,469
Available-for-sale securities:		
fair value remeasurement	-130	343
transfer to net profit	-119	-124
Charges to income statement	260	462
Exchange rate adjustments	-28	-158
<b>As at 31 December</b>	<b>13,975</b>	<b>13,993</b>

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

in '000 EUR	31.12.2012	31.12.2011
Accelerated tax depreciation	1,822	2,033
Provisions for loan impairments	2,519	1,785
Derivatives	401	-145
Temporary differences, Equity reserve available for sale	0	234
Tax loss carried forward	12,132	11,313
Other provisions	-44	534
Other temporary differences	1,323	2,372
<b>Deferred tax assets</b>	<b>18,154</b>	<b>18,125</b>

in '000 EUR	31.12.2012	31.12.2011
Accelerated tax depreciation	562	248
Provisions for loan impairments	5,136	4,411
Derivatives	-12	-83
Temporary differences, Equity reserve available for sale	-27	0
Other provisions	-191	74
Other temporary differences	-1,289	-517
<b>Deferred tax liabilities</b>	<b>4,179</b>	<b>4,133</b>

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

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Accelerated tax depreciation	765	191
Provisions	2,173	85
Derivatives	41	-5
Tax loss carried forward	903	3,159
Other temporary differences	1,486	2,659
<b>Deferred tax charges</b>	<b>5,368</b>	<b>6,089</b>

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Accelerated tax depreciation	283	268
Provisions	2,349	2,038
Derivatives	0	9
Tax loss carried forward	1,475	2,575
Other temporary differences	1,521	1,661
<b>Deferred tax income</b>	<b>5,628</b>	<b>6,551</b>

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

in '000 EUR	1.1.–31.12.2012	1.1.–31.12.2011
Profit/(loss) before tax	59,080	57,264
Tax expected	10,741	9,339
Tax effects of items which are not deductible:		
non-taxable income	-15,075	-11,426
non-tax deductible expenses	7,416	7,325
tax effect on consolidation	9,526	5,485
Tax effects from changes in tax rate	192	-251
<b>Income tax expense for the year according to IFRS</b>	<b>12,800</b>	<b>10,471</b>
Exchange rate differences	278	-61
Changes in deferred tax assets	-29	-2,003
Changes in deferred tax liabilities	46	2,527
<b>Current income tax expenses</b>	<b>13,095</b>	<b>10,933</b>

For a total of EUR 1,459 thousand (2011: EUR 1,340 thousand) of unused tax losses of the current period a deferred tax asset was not recognised.

**(46) Other assets**

Other assets are as follows:

in '000 EUR	31.12.2012	31.12.2011
Accounts receivable	17,712	16,751
Prepayments	14,614	13,062
Repossessed properties	31,879	25,885
Deferred income	1,719	1,636
Guarantees	583	538
Other inventory items	1,678	1,351
Others	5,744	5,337
<b>Other assets</b>	<b>73,930</b>	<b>64,561</b>

Repossessed properties as shown in the above table are carried at fair value less cost to sell. There were expenses for impairment of EUR 4,376 thousand (2011: EUR 1,735 thousand), reversals of impairment on repossessed properties amounting to EUR 821 thousand (2011: EUR 826 thousand) and gains from the sale of repossessed property amounting to EUR 777 thousand (2011: EUR 1,401 thousand). The total amount for repossessed property in the group can be subdivided into segments for Eastern Europe EUR 21,254 thousand (2011: EUR 14,669 thousand); Latin America EUR 10,020 thousand (2011: EUR 10,768 thousand); and Africa EUR 605 thousand (2011: EUR 447 thousand).

**(47) Liabilities to banks**

Liabilities to banks are as follows:

in '000 EUR	31.12.2012	31.12.2011
up to three month	72,059	77,761
up to one year	54,454	79,940
more than one year	217,124	161,528
<b>Liabilities to banks</b>	<b>343,637</b>	<b>319,229</b>

**(48) Liabilities to customers**

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in '000 EUR	31.12.2012	31.12.2011
<b>Current accounts</b>	<b>835,838</b>	<b>814,692</b>
private individuals	393,334	372,843
legal entities	442,503	441,849
<b>Savings accounts</b>	<b>743,349</b>	<b>690,084</b>
private individuals	689,840	638,622
legal entities	53,509	51,462
<b>Term deposit accounts</b>	<b>2,022,608</b>	<b>1,892,536</b>
private individuals	1,429,712	1,376,026
legal entities	592,895	516,510
<b>Other liabilities to customers</b>	<b>25,400</b>	<b>21,229</b>
<b>Liabilities to customers</b>	<b>3,627,194</b>	<b>3,418,542</b>

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

**(49) Liabilities to international financial institutions**

Liabilities to international financial institutions are an important source of financing for the group. Medium- to long-term loans from international financial institutions are reported under this item.

in '000 EUR	Due	31.12.2012	31.12.2011
<b>Liabilities with fixed interest rates</b>			
	up to 1 year	42,293	43,378
	up to 2 years	47,904	19,376
	up to 3 years	26,861	60,046
	up to 4 years	28,409	48,535
	more than 4 years	82,275	65,330
	<b>Total liabilities with fixed interest rates</b>	<b>227,742</b>	<b>236,665</b>
<b>Liabilities with variable interest rates</b>			
	up to 1 year	38,765	65,175
	up to 2 years	50,474	66,661
	up to 3 years	98,169	43,671
	up to 4 years	47,360	75,272
	later than 4 years	297,627	230,069
	<b>Total liabilities with variable interest rates</b>	<b>532,395</b>	<b>480,848</b>
<b>Liabilities from put/call options</b>			
	up to 1 year	25,023	22,313
	up to 2 years	11,272	3,279
	up to 3 years	0	10,764
	up to 4 years	0	0
	later than 4 years	0	0
	<b>Total liabilities from puttable non-controlling</b>	<b>36,295</b>	<b>36,356</b>
<b>Liabilities to international financial institutions</b>		<b>796,432</b>	<b>753,869</b>

As of the balance sheet date, ProConfianza Mexico was in breach of financial covenants regarding liabilities to international financial institutions of EUR 3.2 million, which formally made the loan repayable on demand. At the time these financial statements were prepared, ProConfianza Mexico had not obtained a formal waiver for these breaches of covenant. Early repayment is not expected.

**(50) Debt securities**

in '000 EUR	Institution	Currency	Average interest rate		Book value	
			31.12.2012	31.12. 2011	31.12. 2012	31.12. 2011
	ProCredit Holding AG & Co. KGaA	EUR	4.44%	4.72%	144,576	140,457
	Banco Los Andes ProCredit S.A., Bolivia	USD	2.67%	2.67%	26,372	27,524
	Banco ProCredit S.A., El Salvador	USD	4.57%	3.92%	16,931	21,130
	Banco ProCredit S.A., Honduras	USD	5.00%	-	765	0
	Banco ProCredit S.A., Honduras	HNL	12.08%	8.50%	3,067	2,979
	Banco ProCredit S.A., Mozambique	MZM	5.13%	15.50%	1,194	2,178
	ProCredit Bank A.D., Serbia	RSD	-	6.00%	0	28,612
	ProCredit Bank JSC, Ukraine	UAH	13.50%	13.30%	9,553	9,898
<b>Debt securities</b>					<b>202,458</b>	<b>232,778</b>

All issued securities are traded on the unregulated market ("Freiverkehr"), which is not subject to EU guidelines. Thus, the company is not capital market-oriented as defined by the German Commercial Code (HGB).

**(51) Other liabilities**

in '000 EUR	31.12.2012	31.12.2011
Deferred income	5,201	4,810
Liabilities for goods and services	9,837	10,849
Liabilities to employees	3,157	3,174
Liabilities from social insurance contributions	1,391	1,350
Donations, grants for investments	1,387	2,373
Non-income tax liabilities	4,084	3,936
Others	4,939	4,756
<b>Other liabilities</b>	<b>29,996</b>	<b>31,247</b>

**(52) Provisions**

in '000 EUR	2012	2011
As at January 1	12,411	8,762
Exchange rate adjustments	-455	416
Additions	13,241	8,872
Used	4,114	2,211
Releases	6,529	3,514
Unwinding	53	87
<b>As at December 31</b>	<b>14,608</b>	<b>12,411</b>

Aside from provisions for post-employment (see explanation below) the breakdown of the provisions is as follows:

in '000 EUR	31.12.2012	31.12.2011
Provisions for imminent losses from off-balance sheet items	858	898
Provisions for imminent losses from pending transactions	1,345	1,232
Provisions for untaken vacation	3,605	3,675
Other provisions	4,468	2,676
<b>Total</b>	<b>10,276</b>	<b>8,482</b>

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

The provision for imminent losses from pending transactions is mainly composed of provisions established for legal cases with former employees (2012: EUR 675 thousand, 2011: EUR 702 thousand) and with clients (2012: EUR 508 thousand, 2011: EUR 491 thousand). They represent best estimates of the amounts with which the legal cases will be settled in future periods. The majority of the legal cases are expected to be settled within a one-year period and the maximum expected settlement time is three years. For the settlement expected to occur after one year, an average interest rate of 11.2% (2011: 12.6%) was used for the discounting of expected cash flows.

In Bolivia, Bosnia and Herzegovina, Bulgaria, Ecuador, Georgia, Honduras, Macedonia, Mexico, Nicaragua and Serbia, local regulations require benefits to be paid when employment relationships come to an end (defined benefit plans). The reasons for ending employment relationships can be termination by contract, retirement or death. Their value is determined in accordance with IAS 19, and is calculated using actuarial mathematical methods (see note (20)). The obligation to make these payments exists solely because of local requirements; apart from these obligations, there are no retirement plans nor any other benefits after the termination of contracts, and therefore no pension provisions had to be set aside and no plan assets had to be taken into account (see note (21)).

The provisions are calculated using the following rates and actuarial assumptions as determined by the local actuary:

	Discount rate	Rate of salary increase	Mortality rate	Fluctuation rate
Bolivia	4.00%	5.12%	0.01%	25.72%
Bosnia and Herzegovina	5.00%	3.00%	0.71%	2.39%
Bulgaria	5.00%	5.00%	0.12%	5.00%
Ecuador	7.00%	3.00%	0.50%	8.90%
Georgia	6.03%	6.00%	1.10%	1.50%
Honduras	14.00%	5.00%	0.01%	3.00%
Macedonia	10.00%	5.30%	0.15%	12.00%
Mexico	7.25%	4.50%	0.13%	3.50%
Nicaragua	4.12%	5.00%	0.21%	5.00%
Serbia	10.00%	3.00%	1.00%	5.00%

The discount rates used are derived from the interest rates on government bonds in the respective countries.

Included in the amount of provisions are provisions for post-employment benefits. The following tables provide information about the development of these provisions:

in '000 EUR	1.1.2012	Additions	Benefits paid	Amounts released	Transfer	Exchange rate differences	31.12.2012
Defined benefit obligation							
for termination of contracts	3,363	1,869	-1,341	0	0	-118	3,773
for pensions/retirement	1,007	238	-9	-60	0	-45	1,132
Actuarial gains	-488	-132	-10	0	0	-1	-631
Actuarial losses	47	10	0	0	0	0	57
<b>Total</b>	<b>3,930</b>	<b>1,985</b>	<b>-1,359</b>	<b>-60</b>	<b>0</b>	<b>-164</b>	<b>4,332</b>

in '000 EUR	1.1.2011	Additions	Benefits paid	Amounts released	Transfer	Exchange rate differences	31.12.2011
Defined benefit obligation							
for termination of contracts	1,871	1,699	-1,100	-24	748	169	3,363
for pensions/retirement	1,361	242	-1	-115	-471	-9	1,007
Actuarial gains	-104	-29	10	0	-365	1	-488
Actuarial losses	-41	1	0	0	88	-1	47
<b>Total</b>	<b>3,088</b>	<b>1,913</b>	<b>-1,091</b>	<b>-139</b>	<b>0</b>	<b>160</b>	<b>3,930</b>

The cost account in the income statement for post-employment benefit provisions comprises the following individual items:

in '000 EUR	1.1.-31.12.2012	1.1.-31.12.2011
Current service cost	2,054	1,770
Interest cost	53	64
Amounts released	-60	-139
Actuarial gains and losses	-122	-28
Past service cost	0	107
<b>Total</b>	<b>1,925</b>	<b>1,774</b>

The total benefits paid in 2012 with regard to defined contribution obligations were EUR 3,859 thousand (2011: EUR 714 thousand).

**(53) Subordinated debt**

The subordinated debt can be broken down as follows:

in '000 EUR

<b>Institution</b>	<b>Received from</b>	<b>Due</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
ProCredit Bank sh.a., Albania	DWM Asset Management, Darien, USA	2017	4,178	4,175
ProCredit Bank sh.a., Albania	resposAbility GMF, Luxembourg, Luxembourg	2019	3,605	3,613
ProCredit Bank sh.a., Albania	resposAbility SICAV, Luxembourg, Luxembourg	2019	1,545	1,549
ProCredit Bank CJSC, Armenia	Central bank of Armenia, Yerevan, Armenia	2015	754	801
ProCredit Bank CJSC, Armenia	Central bank of Armenia, Yerevan, Armenia		0	3
ProCredit Bank A.D., Bulgaria	SNS Institutional, 's-Hertogenbosch, The Netherlands	2017	4,151	4,148
Banco ProCredit S.A., Ecuador	SNS Institutional, 's-Hertogenbosch, The Netherlands	2015	3,222	3,286
Banco ProCredit S.A., El Salvador	IFC, Washington D.C., USA	2018	3,897	4,944
ProCredit Bank JSC, Georgia	KfW, Frankfurt, Germany		0	1,877
ProCredit Bank JSC, Georgia	FMO, The Hague, The Netherlands	2018	7,696	7,840
ProCredit Bank JSC, Georgia	OPIC, Washington D.C., USA	2019	11,379	11,612
ProCredit Holding AG, Germany	KfW, Frankfurt, Germany	2016	18,000	18,000
ProCredit Holding AG, Germany	BIO, Bruxelles, Belgium	2016	4,976	4,970
ProCredit Holding AG, Germany	FMO, The Hague, The Netherlands	2017	10,190	10,223
ProCredit Holding AG, Germany	OPIC, Washington D.C., USA	2019	18,935	19,300
ProCredit Holding AG, Germany	Bill & Melinda Gates Foundation, Seattle, USA	2016	11,369	11,651
ProCredit Holding AG, Germany	IMIF, Wilrijk, Belgium	2016	4,055	4,049
ProCredit Holding AG, Germany	SNS Institutional, 's-Hertogenbosch, The Netherlands	2017	7,497	7,500
ProCredit Bank JSC, Kosovo	EFSE, Luxembourg, Luxembourg	2019	7,155	7,179
ProCredit Bank JSC, Kosovo	EFSE, Luxembourg, Luxembourg	2019	10,135	10,167
ProCredit Bank JSC, Kosovo	resposAbility SICAV, Luxembourg, Luxembourg	2019	2,314	2,314
ProCredit Bank JSC, Kosovo	resposAbility GMF, Luxembourg, Luxembourg	2019	5,401	5,399
ProCredit Bank A.D., Macedonia	SNS Institutional, 's-Hertogenbosch, The Netherlands	2017	4,153	4,152
Banco ProCredit S.A., Mozambique	several investors	2017	2,275	2,572
ProCredit Bank A.D., Serbia	EFSE, Luxembourg, Luxembourg	2015	15,216	15,525
ProCredit Bank A.D., Serbia	EFSE, Luxembourg, Luxembourg	2013	12,294	12,407
<b>Subordinated Debt</b>			<b>174,391</b>	<b>179,256</b>

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

**(54) Hybrid capital**

The holding company issued hybrid capital in the form of Trust Preferred Securities (TPS). The balance sheet value as of year-end 2012 consists of a principal amount of EUR 65 million plus accrued interest outstanding to third parties.

**(55) Equity capital**

As at 31 December 2012, the shareholder structure was as follows:

Shareholder	31.12.2012			31.12.2011		
	Size of stake	Number of shares	Amount EUR	Size of stake	Number of shares	Amount EUR
IPC - Internationale Projekt Consult GmbH, Frankfurt am Main, Germany	17.72%	9,007,725	45,038,625	18.25%	8,221,718	41,108,590
KfW, Frankfurt am Main, Germany	13.62%	6,921,734	34,608,670	14.03%	6,317,749	31,588,745
DOEN Foundation, Amsterdam, The Netherlands	13.32%	6,770,602	33,853,010	13.72%	6,179,805	30,899,025
IFC - International Finance Corporation, Washington D.C., USA	10.30%	5,234,996	26,174,980	10.61%	4,778,194	23,890,970
TIAA-CREF - Teachers Insurance and Annuity Association, New York, USA	9.95%	5,056,468	25,282,340	10.25%	4,615,245	23,076,225
BIO - Belgian Investment Company for Developing Countries, Brussels, Belgium	5.66%	2,877,980	14,389,900	5.83%	2,626,850	13,134,250
FMO - Netherlands Development Finance Company, The Hague, The Netherlands	5.29%	2,691,115	13,455,575	5.45%	2,456,290	12,281,450
Omidyar-Tufts Microfinance Fund, Boston, USA	5.19%	2,635,827	13,179,135	5.85%	2,635,827	13,179,135
IPC Invest GmbH & Co. KG, Frankfurt am Main, Germany	3.86%	1,962,880	9,814,400	4.36%	1,962,880	9,814,400
IPC Invest 2 GmbH & Co. KG, Frankfurt am Main, Germany	2.98%	1,514,000	7,570,000	3.36%	1,514,000	7,570,000
Proparco - Groupe Agence Française de Développement, Paris, France	2.60%	1,321,190	6,605,950	2.02%	909,090	4,545,450
responsAbility Global Microfinance Fund (GMF), Luxembourg, Luxembourg	2.32%	1,179,805	5,899,025	2.31%	1,039,413	5,197,065
FUNDASAL - Fundación Salvadoreña de Desarrollo y Vivienda Mínima, San Salvador, El Salvador	1.92%	975,576	4,877,880	1.98%	890,448	4,452,240
Micro Vest II-A, LP, Grand Cayman, Cayman Islands	1.44%	733,816	3,669,080	0.00%	0	0
responsAbility Participations AG, Zurich, Switzerland	1.16%	588,344	2,941,720	0.00%	0	0
responsAbility Microfinance Leaders (SICAV), Luxembourg, Luxembourg	1.11%	564,854	2,824,270	1.91%	858,198	4,290,990
Gawa Microfinance Fund (SICAR), Luxembourg, Luxembourg	0.53%	268,200	1,341,000	0.00%	0	0
Ohana Holdings LLC, Santa Barbara, USA	0.50%	251,989	1,259,945	0.00%	0	0
Micro Vest +Plus, LP, Delaware, USA	0.36%	183,454	917,270	0.00%	0	0
responsAbility BOP Investments (SICAR), Luxembourg, Luxembourg	0.17%	84,009	420,045	0.09%	39,236	196,180
<b>Total</b>	<b>100.0%</b>	<b>50,824,564</b>	<b>254,122,820</b>	<b>100.0%</b>	<b>45,044,943</b>	<b>225,224,715</b>

All issued shares are voting shares. The par value per share is EUR 5.00.

In May 2012, a capital increase of EUR 17,663,690 was carried out through the issuance of 3,532,738 new ordinary shares with a par value of EUR 5 each, raising ProCredit Holding's capital from EUR 225,224,715 to EUR 242,888,405. In connection with this capital increase, an amount of EUR 13,071,131 was allocated to the capital reserve. The shares issued in connection with this capital increase are entitled to dividends from 1 January 2012.

In June 2012, a capital increase of EUR 9,028,300 was carried out through the issuance of 1,805,660 new ordinary shares with a par value of EUR 5 each. In connection with this capital increase, an amount of EUR 14,535,536 was allocated to the capital reserve. The shares issued in connection with this capital increase are entitled to dividends from 30 June 2012.

In October 2012, a further capital increase of EUR 2,206,115 was carried out through the issuance of 441,223 new ordinary shares with a par value of EUR 5 each. In connection with this capital increase, an amount of EUR 1,632,525 was allocated to the capital reserve. The shares issued in connection with this capital increase are entitled to dividends from 30 June 2012.

The management intends to propose to the Shareholders' Meeting the distribution of a dividend of EUR 0.20 per share.

	31.12.2012	31.12.2011
Dividend per share* (in EUR)	0.20	0.20
Total dividend payment* (in '000 EUR)	9,940	9,009

\* proposed (2012)

Of this amount, EUR 2,337 thousand (2011: EUR 2,243 thousand) in withholding taxes will have to be paid by the holding company to the German tax authorities.

**(56) Non-controlling interests**

In May 2012, ProCredit Holding signed several purchase agreements to acquire the non-controlling interests of Commerzbank AG, Frankfurt, Germany in ProCredit Bank Albania, ProCredit Bank Bosnia and Herzegovina, ProCredit Bank Bulgaria, ProCredit Bank Kosovo and ProCredit Bank Serbia. As a result, the total volume of non-controlling interest decreased by EUR 49.7 million. In addition, ProCredit Holding signed a put option agreement regarding the non-controlling interests of Commerzbank AG in ProCredit Bank Romania (see also note 42)).

**E. Risk Management****(57) Management of the overall group risk profile – capital management****1. Capital management – objectives**

Overall, neither an individual ProCredit bank, nor the ProCredit group as a whole, is allowed to take on more risk than it is capable of bearing. This rule is implemented using different indicators for which reporting triggers and limit ratios have been established. The indicators for each individual ProCredit bank and the group as a whole include, in addition to local regulatory standards, a Basel II capital adequacy calculation, a Tier 1 leverage ratio and a risk-bearing capacity model. Results for the different indicators are presented below.

The capital management of the group has the following objectives:

- Full compliance with external capital requirements set by the banking sector regulators in the jurisdictions where the group entities operate.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the group to implement its plans for continued growth while following its business strategy as a “house bank” for very small and small businesses in its countries of operation.

**2. Capital management – processes and procedures**

The capital management of the ProCredit banks and the group as a whole is governed by the Group Policy on Capital Management and the Group Policy on Risk-Bearing Capacity. Regulatory and Basel II capital ratios, the Tier 1 leverage ratio and the risk-bearing capacity are monitored on a monthly basis by the Group Risk Management Committee.

**3. Capital management – compliance with external and internal capital requirements**

External minimum capital requirements for the ProCredit group are imposed and monitored by the German Federal Financial Supervisory Authority and the individual ProCredit banks are subject to the minimum capital requirements imposed and monitored by the local banking supervisory authorities. For the ProCredit institution in Mexico, which is not yet a bank, there is no external capital requirement.

Methods for the calculation of capital adequacy vary between countries, but an increasing number of jurisdictions have introduced Basel II calculation methods. Local supervision is based on stand-alone financial statements according to local accounting rules, and all group banks have to ensure that they comply with their respective regulatory requirements regarding capitalisation.

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

Due to the diversity of standards in the various countries of operation, capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the group in accordance with the guidelines of the Basel Committee (Basel II).

The following table shows the Basel II capital adequacy ratios of the group:

Calculation based on Basel II	31.12.2012	31.12.2011
Tier 1 Capital / Risk Weighted Assets (RWA)	11.6%	11.2%
Tier 1 + Tier 2 Capital / Risk Weighted Assets (RWA)	15.1%	15.0%

in '000 EUR	31.12.2012	31.12.2011
Ordinary share capital	254,123	225,225
Capital + legal reserves	96,665	67,426
Retained earnings*	163,821	121,365
Minority interests	22,701	76,812
Hybrid capital	65,000	65,000
Less goodwill	-20,239	-22,368
Less other intangibles	-17,582	-15,162
<b>Tier I capital</b>	<b>564,490</b>	<b>518,299</b>
Subordinated loans	121,806	132,755
Other inherent loss allowance	47,299	44,919
<b>Tier II capital</b>	<b>169,105</b>	<b>177,673</b>
<b>Total regulatory capital</b>	<b>733,595</b>	<b>695,972</b>

\* less (proposed) distributed dividend

in '000 EUR	31.12.2012	31.12.2011
RWA on balance	3,657,885	3,456,435
RWA off balance	126,067	137,067
RWA from open currency position	299,008	300,147
RWA from operational risk	772,156	736,541
<b>Total RWA</b>	<b>4,855,115</b>	<b>4,630,190</b>

While for the individual banks a combination of straight equity and subordinated debt issued by ProCredit Holding is used for capital management, on a group level a range of capital instruments, including hybrid capital in the form of Trust Preferred Securities, are used for capital management purposes.

The following table presents the group's regulatory Tier 1 and total capital ratio according to the German Banking Act and Solvency Regulation:

in '000 EUR	31.12.2012*	31.12.2011*
RWA credit risk	4,200,400	4,012,304
RWA market risk	505,303	497,161
RWA operational risk	772,156	736,541
<b>Total RWA</b>	<b>5,477,859</b>	<b>5,246,006</b>

in '000 EUR	31.12.2012	31.12.2011
Tier 1 capital	568,113	529,742
Tier 2 capital	137,032	136,834
<b>Total regulatory capital</b>	<b>705,145</b>	<b>666,576</b>

in '000 EUR	31.12.2012	31.12.2011
Tier 1 capital ratio	10.4%	10.1%
Total capital ratio	12.9%	12.7%

\* 2011 figures approved by Shareholders' Meeting; 2012 figures to be approved by Shareholders' Meeting

The group's capital ratios according to German regulations are lower than the Basel II ratios, mainly due to the exclusion of collateral in the calculation of risk-weighted assets and to the consideration of non-financial assets in the calculation of the currency risk position according to German regulations. Furthermore, general loan loss allowances are not considered as Tier 2 capital when applying the standard approach to determining exposure to credit risk according to German regulations.

With respect to the leverage of the group, a lower limit for the ratio of Tier 1 capital (based on the group's Basel II calculation method) to on- and adjusted off-balance sheet exposures is being applied, according to which the Tier 1 leverage ratio of the group should not fall below 5%. At the end of 2012 it was 9.5% (2011: 9.1%), well above this minimum.

#### 4. Risk-bearing capacity

In addition to regulatory capital ratios, the group assesses its capital adequacy by using the concept of risk-bearing capacity to reflect the specific risk profile of the group, i.e. comparing the potential losses arising from its operation with the group's capacity to bear such losses.

The risk taking potential of the group according to the gone concern approach is defined as the consolidated group equity (net of intangibles and deferred tax assets) plus subordinated debt, which amounted to EUR 673.0 million as of the end of December 2012 (2011: EUR 643.2 million). The Resources Available to Cover Risk (RAtCR), i.e. the share of the risk-taking potential used to cover the main quantifiable risks of the group, were set at 60%, which is EUR 403.8 million.

The table below shows the distribution of the RAtCR among the different risk categories as determined by the Group Risk Management Committee and the level of utilisation as of the end of December 2012.

<b>Risk Factor</b>	<b>Risk Detail</b>	<b>Limit (in %)</b>	<b>Limit (in '000 EUR)</b>	<b>Actual (in '000 EUR)</b>	<b>Limit Used (in % of limit)</b>
Credit Risk		33.0	222,090	82,963	37.4
Counterparty Risk	Commercial Banks	1.0	6,730	327	4.9
	Sovereigns	4.0	26,920	3,448	12.8
Interest Rate Risk		10.0	67,300	11,587	17.2
Foreign Currency Risk		2.0	13,460	993	7.4
Operational Risk		10.0	67,300	61,772	91.8
<b>Resources Available to Cover Risk</b>		<b>60.0</b>	<b>403,801</b>	<b>161,089</b>	<b>39.9</b>

As the above table indicates, the ProCredit group showed a modest level of utilisation of its RAtCR as of 31 December 2012. The size of the risk position of the group with respect to credit risk is comparable to 2011. In 2012 the underlying portfolio quality deteriorated, while provisioning increased. Counterparty, interest rate and foreign currency risk limit utilisation remained low, reflecting the conservative risk management approach which guides the group's operations. The economic capital required to cover operational risk is calculated according to the Basel II standardised approach, and thus does not reflect the individual risk profile of the group in this area. Data collected during the last four years in the Risk Event Database, which captures risk event data on a group-wide scale, indicates a significantly lower level of operational risk. All risks combined, as quantified by the methods established in the Group Standards for Risk-bearing Capacity Calculations, are considerably below 60% of the group's total risk-taking potential as defined.

#### **(58) Management of individual risks**

The ProCredit group uses uniform limits for individual risks within which the individual banks position their own risk strategies. Limit deviations are only allowed for stricter limits (e.g. in cases where such limits are stipulated by local law) or if approved by the Group Risk Management Committee.

The ProCredit group places special emphasis on a general understanding of the factors driving risk and on an ongoing analysis and company-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood fully, and described appropriately.

#### **(59) Credit risk**

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk we face.

The following table shows the maximum exposure to credit risk:

in '000 EUR	31.12.2012	31.12.2011
<b>Loans and advances to banks</b>	<b>335,108</b>	<b>320,499</b>
<b>Financial assets at fair value through profit or loss</b>	<b>16,823</b>	<b>13,990</b>
Trading assets	629	1,287
Fixed interest rate securities	16,195	12,703
<b>Available-for-sale financial assets</b>	<b>192,056</b>	<b>204,165</b>
Fixed interest rate securities	180,853	190,246
Variable interest rate securities	9,661	12,658
Shares in companies situated in OECD countries	524	267
Shares in companies situated in non-OECD countries	1,018	993
<b>Loans and advances to customers</b>	<b>4,015,156</b>	<b>3,870,758</b>
Loans and advances to customers	4,190,607	4,029,293
Allowance for losses on loans and advances to customers	-175,451	-158,535
<b>Contingent liabilities and commitments</b>	<b>185,398</b>	<b>246,794</b>
Guarantees and stand-by letters of credit	100,676	105,439
Documentary and commercial letters of credit	2,249	3,096
Credit commitments (irrevocable loan commitments)	52,508	116,191
Performance bonds	26,091	19,639
Others	3,875	2,429

Loans and advances to banks contain repurchase agreements in the amount of EUR 6.4 million, for which securities with a fair value of EUR 6.4 million were obtained. None of them have the right by contract to be repledged or sold.

### 1. Credit default risk from customer credit exposures

We define credit default risk from customer credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the bank's lending principles:

- intensive analysis of the debt capacity of the banks' clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of overindebting our clients
- building a personal and long-term relationship with the client and maintaining regular contact
- close monitoring of loan repayments and early warning indicators
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- rigorous application of the "dual control principle".

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for individually significant credit exposures that are risk-relevant and a specialisation for individually significant non-risk-relevant credit exposures. For individually significant credit exposures, the starting point of the analysis is the information collected from the client, ranging from audited financial statements to self-declarations. The key criteria for credit exposure decisions are based on the financial situation of the client; in particular for individually insignificant credit exposures, supplemented by a review of liquid funds and the assessment of the creditworthiness of the client. Finally, the collateral requirements are generally higher for individually significant credit exposures. As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the turnover of the client with the bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures are taken by a credit committee. As a general principle, we consider it very important to ensure that our lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the above lending principles, the results of follow up on early warning indicators and appropriate monitoring, in particular of our individually significant credit exposures. This is a crucial element of our strategy for managing arrears in the current difficult economic environment that is affecting our clients. We rigorously follow up on the non-repayment of our credit exposures, which typically allows for swift identification of any increased potential for default on a credit exposure. We apply strict rules (see Note (12)) regarding credit exposures for which, in our view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. Our recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate that our loan portfolio exhibits.

#### Breakdown of loan portfolio by days in arrears

As at December 31, 2012 in '000 EUR	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	other signs of impairment	Total
<b>Loans and advances to customers</b>								
<b>Collectively assessed</b>								
Business	2,930,036	130,070	8,602	4,957	9,565	22,923	23,011	3,129,164
Agricultural	477,550	19,233	1,985	1,089	2,388	4,646	2,169	509,060
Housing improvement	192,162	4,347	776	277	761	1,543	594	200,460
Consumer	63,927	3,469	552	183	374	876	478	69,859
Finance leases	24,529	1,573	161	31	164	1,227	0	27,686
Other	40,320	290	105	63	131	1,514	550	42,972
Other advances to customers	3,181	0	0	0	0	0	0	3,181
<b>Individually assessed</b>								
Business	2,305	115	9,841	4,504	16,337	69,612	86,645	189,360
Agricultural	203	69	1,062	640	924	8,468	3,847	15,214
Housing improvement	53	0	100	0	133	466	583	1,335
Consumer	0	0	5	0	0	35	216	256
Finance leases	0	0	0	0	7	1,348	666	2,020
Other	0	0	0	0	0	4	36	40
<b>Total</b>	<b>3,734,267</b>	<b>159,166</b>	<b>23,189</b>	<b>11,745</b>	<b>30,783</b>	<b>112,662</b>	<b>118,795</b>	<b>4,190,607</b>
<b>As at December 31, 2011</b>								
in '000 EUR	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	other signs of impairment	Total
<b>Loans and advances to customers</b>								
<b>Collectively assessed</b>								
Business	2,761,985	111,256	7,001	4,272	8,758	20,655	118	2,914,044
Agricultural	429,627	15,927	1,663	945	1,996	3,679	0	453,836
Housing improvement	191,794	3,798	647	405	617	1,378	0	198,639
Consumer	64,027	1,959	374	214	297	642	0	67,513
Finance leases	26,556	3,352	389	93	249	1,641	0	32,281
Other	49,864	1,847	170	44	161	1,739	0	53,825
Other advances to customers	2,902	0	0	0	0	0	0	2,902
<b>Individually assessed</b>								
Business	100,920	736	10,599	7,839	13,442	55,957	92,580	282,073
Agricultural	5,141	14	275	1,178	1,331	2,465	4,991	15,394
Housing improvement	3,095	0	411	28	80	421	612	4,647
Consumer	745	0	14	5	17	13	758	1,552
Finance leases	0	0	66	49	107	710	283	1,215
Other	0	0	2	30	8	1	1,331	1,373
<b>Total</b>	<b>3,636,656</b>	<b>138,889</b>	<b>21,611</b>	<b>15,103</b>	<b>27,064</b>	<b>89,298</b>	<b>100,673</b>	<b>4,029,293</b>

According to group policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. The threshold varies between countries, depending on the level of stability of the overall economic environment. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. As the majority of credit exposures are fixed instalment loans of rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount, and therefore we do not monitor it. The total amount of collateral held as security is EUR 3,624 million. For an insignificant number of financial assets we hold cash collateral. The collateral can be classified into the following categories:

	31.12.2012	31.12.2011
Mortgage	59.5%	60.8%
Inventories	23.6%	19.3%
Guarantees	10.3%	12.2%
Other	6.5%	7.7%

The quality of the loan portfolio is monitored on an ongoing basis. Generally, all exposures in the category "1 to 30 days" are past due but not impaired. The main indicator for loan portfolio quality is the portfolio at risk (PAR > 30), which is defined as all credit exposures with one or more payment of interest and/or principal in delay by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no other exposure-reducing measures are applied in the determining of our PAR > 30.

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

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

in '000 EUR As at December 31, 2011	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
Eastern Europe	2,925,292	-126,040	121,632	4.2%	103.6%	24,156	0.8%
Latin America	1,017,347	-27,401	25,694	2.5%	106.6%	7,443	0.7%
Africa	86,653	-5,094	5,750	6.6%	88.6%	2,345	2.7%
<b>Total</b>	<b>4,029,293</b>	<b>-158,535</b>	<b>153,076</b>	<b>3.8%</b>	<b>103.6%</b>	<b>33,944</b>	<b>0.8%</b>

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

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

in '000 EUR As at December 31, 2011	Loan portfolio	Restructured loans	Restructured loans as % of loan portfolio
Eastern Europe	2,925,292	67,134	2.3%
Latin America	1,017,347	8,762	0.9%
Africa	86,653	679	0.8%
<b>Total</b>	<b>4,029,293</b>	<b>76,575</b>	<b>1.9%</b>

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

Individually significant credit exposures are reviewed for impairment on an individual basis (= specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates (see note (12) for further explanation); 30 or more days in arrears is considered as objective evidence of impairment. For all unimpaired credit exposures, portfolio-based allowances for impairment are made, again based on historical loss experience.

Group policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price, typically via public auction. Most repossessed property consists of land and buildings. A smaller part is composed of inventory and of vehicles and consumer durables (TVs, fridges, etc.); see also note (46). The following table presents the value of repossessed property:

in '000 EUR	31.12.2012	31.12.2011
Real estate	30,953	24,718
Inventory	558	370
Others	367	797
<b>Repossessed property</b>	<b>31,879</b>	<b>25,885</b>

## 2. Credit portfolio risk from customer lending

The granularity of the loan portfolios our banks hold is a highly effective credit risk mitigating factor. The core business of the banks, lending to very small and small enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR/USD 150,000, constitutes a supplementary area of our business in terms of our overall strategic focus. Most of these clients are enterprises that have been working with our banks for years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of both the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

in '000 EUR	EUR/USD	EUR/USD	EUR/USD	EUR/USD
As at December 31, 2012	< 10,000	10,000–30,000	30,000–150,000	> 150,000
Eastern Europe	537,890	617,476	1,060,849	802,374
Latin America	294,594	337,555	298,984	144,403
Africa	26,450	24,090	30,694	15,247
<b>Total</b>	<b>858,935</b>	<b>979,121</b>	<b>1,390,527</b>	<b>962,024</b>

in '000 EUR	EUR/USD	EUR/USD	EUR/USD	EUR/USD
As at December 31, 2011	< 10,000	10,000–30,000	30,000–150,000	> 150,000
Eastern Europe	572,177	567,485	971,941	813,690
Latin America	306,840	295,782	252,763	161,962
Africa	31,160	21,214	20,123	14,157
<b>Total</b>	<b>910,176</b>	<b>884,481</b>	<b>1,244,827</b>	<b>989,809</b>

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

in '000 EUR	Business		Housing	Consumer	Finance	Other advances	
As at December 31, 2012	Business	Agricultural	improvement	Consumer	leases	Other	to customers
< 10,000 EUR/USD	501,654	180,992	99,602	54,409	3,862	15,235	3,181
10,000 to 30,000 EUR/USD	744,037	143,900	65,850	9,946	6,461	8,926	0
30,000 to 150,000 EUR/USD	1,182,286	137,972	33,812	5,136	12,739	18,582	0
>150,000 EUR/USD	890,547	61,410	2,531	624	6,644	268	0
<b>Total</b>	<b>3,318,524</b>	<b>524,274</b>	<b>201,795</b>	<b>70,114</b>	<b>29,706</b>	<b>43,012</b>	<b>3,181</b>

in '000 EUR							
As at December 31, 2011	Business	Agricultural	Housing improvement	Consumer	Finance leases	Other	Other advances to customers
< 10,000 EUR/USD	527,960	184,975	116,352	54,731	3,781	19,474	2,902
10,000 to 30,000 EUR/USD	676,578	121,288	56,487	8,190	9,051	12,887	0
30,000 to 150,000 EUR/USD	1,061,982	110,424	28,089	5,049	16,793	22,489	0
>150,000 EUR/USD	929,596	52,544	2,357	1,094	3,871	347	0
<b>Total</b>	<b>3,196,116</b>	<b>469,231</b>	<b>203,285</b>	<b>69,065</b>	<b>33,496</b>	<b>55,198</b>	<b>2,902</b>

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

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Management Committee of the bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

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

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

The impairment test also takes into consideration the realisable net value of collateral held.

For the calculation of the individual impairment a discounted cash flow approach is applied. The individual impairment of credit exposures to customers is as follows:

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

in '000 EUR			
As at December 31, 2011	Gross outstanding amount	Allowance for specific impairment	Net outstanding amount
Business	282,073	-51,860	230,213
Agricultural	15,394	-2,238	13,156
Housing improvement	4,647	-497	4,149
Consumer	1,552	-110	1,443
Finance Lease	1,215	-715	500
Other	1,373	-77	1,296
<b>Total</b>	<b>306,253</b>	<b>-55,497</b>	<b>250,756</b>

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by portfolio-based impairment allowances.

For individually insignificant credit exposures which are impaired, i.e. which are in arrears for more than 30 days, we apply a lump-sum approach; the impairment loss is determined depending on the number of days in arrears. In addition, credit exposures towards clusters of clients may be classified as

impaired because of deterioration in the quality due to external influences and/or extraordinary events. For all unimpaired credit exposures we calculate a portfolio-based impairment (see also note (12)).

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

in '000 EUR	Gross outstanding amount	Allowance for lump-sum specific & portfolio based impairment	Net outstanding amount
<b>As at December 31, 2011</b>			
Business	2,914,044	-78,470	2,835,574
Agricultural	453,836	-13,008	440,828
Housing improvement	198,639	-4,826	193,813
Consumer	67,513	-2,065	65,448
Finance Lease	32,281	-2,109	30,172
Other	53,825	-2,561	51,264
Other advances to customers	2,902	0	2,902
<b>Total</b>	<b>3,723,040</b>	<b>-103,039</b>	<b>3,620,002</b>

### 3. Other credit risk – Counterparty and issuer risk

The counterparty and issuer risk of the ProCredit group arises from keeping highly liquid assets for the purpose of mitigating liquidity risk, i.e. as a reserve for times of potential stress. These funds are held on commercial bank or central bank accounts, as short-term interbank placements, and as highly liquid securities.

In addition, a substantial part of the group's counterparty exposure must be held with central banks in the form of mandatory reserves as a consequence of funding loan portfolio growth through customer deposits. The total size of the mandatory reserve depends on rules determined by the central banks of our countries of operation. When mandatory reserves are deemed to be exceedingly high, insurance is obtained against the risk of default and the risk of expropriation.

Finally, financial markets provide instruments to manage different types of risks such as foreign exchange, interest rate and liquidity risk. These instruments are only used for hedging purposes, but still create exposures towards external entities. ProCredit banks are not allowed to use these instruments for speculative purposes.

The following table provides an overview of the maximum credit exposure of the group towards counterparties and issuers:

in '000 EUR	31.12.2012	in %	31.12.2011	in %
Banking groups	335,108	33.5	320,499	35.6
OECD banks	234,770	23.5	213,790	23.7
Non-OECD banks	100,339	10.0	106,709	11.8
Central banks	405,049	40.5	326,236	36.2
Mandatory reserve	359,916	15.3	391,775	20.5
<i>thereof covered by insurance</i>	-206,525		-207,138	
Other exposures	251,659	25.2	141,600	15.7
Securities	259,449	26.0	254,339	28.2
<b>Total</b>	<b>999,606</b>	<b>100.0</b>	<b>901,074</b>	<b>100.0</b>

The total exposure to banks increased in 2012 by approximately EUR 15 million and amounted to 33.5% of the total counterparty and issuer risk exposure. The exposure is distributed across 43 OECD and 93 non-OECD banking groups. The average exposure with OECD banking groups is EUR 5 million while the exposure to non-OECD groups is roughly EUR 1 million.

The gross exposure to central banks primarily comprises mandatory reserve requirements. The other exposure to central banks is represented by cash accounts and securities/deposits issued by the central banks in our countries of operation. The net exposure towards central banks is significantly lower, as a considerable share is insured, i.e. EUR 206.5 million as of end-2012.

## **(60) Market risk**

### **1. Foreign currency risk**

The assets and liabilities of most ProCredit banks are denominated in more than one currency. If the assets and liabilities in one foreign currency do not match, the bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Additionally, most of the banks hold their equity in the respective local currency, which means that a significant portion of the group's consolidated equity is subject to currency risk driven by the fluctuations in the local currencies in which the banks' equity is held. This currency risk has an impact on the group's capital, which changes with the developments of the underlying local currency exchange rates.

The Group Foreign Currency Risk Management Policy limits currency risk by setting limits and reporting triggers for OCPs of each bank in relation to its regulatory capital in the respective local currency. The total OCP is limited to 10% of the bank's capital. A reporting trigger for the total OCP is set at 7.5% of the bank's regulatory capital, with a trigger of 5% for each currency. Changes to the limits and reporting triggers in the policy can only be made by the Group ALCO or Group Risk Management Committee with the purpose of protecting group capital against potential depreciation of local currencies or in the event that local regulatory policies force the banks to take on OCPs.

From a group perspective, the largest single currency position is generated by the USD since this is the local or functional currency for a number of ProCredit banks; all other currency positions are much smaller on a group level. This can be seen in the following table. It shows the distribution of the balance sheet items (excluding non-financial items) across the group's material operating currencies, which are USD and EUR. Indexed loans and deposits are treated as foreign currency items for this purpose.

in '000 EUR			
As at December 31, 2012	EUR	USD	Other currencies
<b>Assets</b>			
Cash and cash equivalents	336,924	182,088	344,436
Loans and advances to banks	142,902	133,209	58,998
Financial assets at fair value through profit or loss	5,884	8,627	2,313
Available-for-sale financial assets	99,235	52,681	40,141
Loans and advances to customers	1,621,309	1,032,364	1,389,170
<i>of which: indexed to EUR / USD</i>	497,674	30,356	0
Tax assets	1,234	0	2,092
Other assets	12,823	11,479	25,660
<b>Total assets</b>	<b>2,220,311</b>	<b>1,420,448</b>	<b>1,862,809</b>
<b>Open forward position (assets)</b>	<b>57,757</b>	<b>10,607</b>	<b>2,186</b>
<b>Liabilities</b>			
Liabilities to banks	221,074	58,821	66,046
Financial liabilities at fair value through profit or loss	213	51	8
Liabilities to customers	1,327,398	881,146	1,419,487
<i>of which: indexed to EUR / USD</i>	7,906	8,028	0
Liabilities to international financial institutions	428,683	288,033	82,427
Debt securities	148,732	43,816	13,796
Tax liabilities	321	1,519	2,883
Provisions	1,961	2,478	6,861
Other liabilities	3,985	8,807	13,192
Subordinated debt	115,072	56,619	3,064
Hybrid capital	67,218	0	0
<b>Total liabilities</b>	<b>2,314,658</b>	<b>1,341,288</b>	<b>1,607,764</b>
<b>Open forward position (liabilities)</b>	<b>6,851</b>	<b>43,659</b>	<b>32,250</b>
<b>Net position</b>	<b>-43,441</b>	<b>46,109</b>	<b>224,980</b>
<b>Credit commitments</b>	<b>127,817</b>	<b>137,642</b>	<b>247,498</b>

in '000 EUR			
As at December 31, 2011	EUR	USD	Other currencies
<b>Assets</b>			
Cash and cash equivalents	260,411	164,149	331,478
Loans and advances to banks	149,577	126,177	44,744
Financial assets at fair value through profit or loss	6,845	4,479	2,666
Available-for-sale financial assets	92,298	57,340	54,527
Loans and advances to customers	1,620,316	1,054,235	1,225,218
<i>of which: indexed to EUR / USD</i>	477,598	31,899	0
Tax assets	1,743	0	5,625
Other assets	9,504	14,116	20,441
<b>Total assets</b>	<b>2,140,694</b>	<b>1,420,497</b>	<b>1,684,699</b>
<b>Open forward position (assets)</b>	<b>92,851</b>	<b>20,500</b>	<b>1,440</b>
<b>Liabilities</b>			
Liabilities to banks	197,678	75,442	47,107
Financial liabilities at fair value through profit or loss	1,073	183	0
Liabilities to customers	1,286,654	901,364	1,231,650
<i>of which: indexed to EUR / USD</i>	7,458	10,973	0
Liabilities to international financial institutions	410,229	265,615	80,680
Debt securities	172,575	49,110	14,195
Tax liabilities	629	1,715	2,372
Provisions	2,307	1,249	5,378
Other liabilities	4,295	8,596	14,308
Subordinated debt	115,624	60,654	3,424
Hybrid capital	67,589	0	0
<b>Total liabilities</b>	<b>2,258,650</b>	<b>1,363,929</b>	<b>1,399,115</b>
<b>Open forward position (liabilities)</b>	<b>21,091</b>	<b>36,314</b>	<b>57,352</b>
<b>Net position</b>	<b>-46,196</b>	<b>40,753</b>	<b>229,673</b>
<b>Credit commitments</b>	<b>204,186</b>	<b>-6,928</b>	<b>216,765</b>

For the measurement of the group foreign currency risk in the risk-bearing capacity concept, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period was determined to be one year and the look-back period was 5 years. The results are shown in the following table:

in '000 EUR		99% confidence
As of December 31, 2012		
Maximum loss (VaR)		-993
Average loss in case confidence interval is exceeded		-1,033

Overall in 2012 currency risk was limited as the banks managed their currency positions very carefully and kept them as closed as possible. ProCredit Bank Albania, Banco Los Andes ProCredit Bolivia, ProCredit Bank Bosnia and Herzegovina and ProCredit Bank Bulgaria kept long positions in EUR or USD, thus reducing the currency positions in local currency from a group perspective that arise from the banks' equity being held in local currency.

## 2. Interest rate risk

The ProCredit group's main interest rate risk indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items. The indicator quantifies the loss in value of the bank that would result from a sudden shift of interest rates. The calculation of the indicator is based on different parallel shifts (shocks) of the interest rate curves. For EUR or USD, a parallel shift of the interest rate curve is assumed by +/- 200 bps. The size of the shocks for other currencies is derived from historic interest rate volatilities over the last five years. The resulting impact is limited to 10% of the respective bank's Basel capital; a temporarily higher limit can be approved by the Group Risk Management Committee subject to the condition that the bank will take mitigating action to reduce the risk. At the end of 2012, all banks were within approved limits.

in '000 EUR Currency	Standard scenario		Worst case scenario	
	31.12.2012 Economic value Impact	31.12. 2011 Economic value Impact	31.12. 2012 Economic value Impact	31.12. 2011 Economic value Impact
EUR	1,698	8,921	1,710	8,951
USD	2,385	2,615	2,403	2,624
Local	7,504	6,098	21,310	18,034
<b>Total amount</b>	<b>11,587</b>	<b>17,634</b>	<b>25,424</b>	<b>29,609</b>
<b>Total in relation to group capital</b>	<b>1.6%</b>	<b>2.5%</b>	<b>3.6%</b>	<b>4.3%</b>

The average interest rate shock for local currencies is average of shocks used weighted by the interest rate risk exposure in the respective currency.

On a group level, the impact from a simultaneous interest rate shock in all banks amounts to EUR 11,587 million, or 1.6% of the group's Basel capital. The risk at the group level is therefore considered to be low.

### (61) Liquidity risk

Liquidity risk is measured, monitored and limited based on a standard liquidity gap analysis. In order to manage liquidity on a daily level, the banks work with cash flow analyses, which are designed to provide a more realistic picture of the future short-term liquidity situation. The analysis includes assumptions about deposit and loan developments and helps to forecast highly liquid assets (as described below) in the future.

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

\* all financial liabilities at fair value through profit or loss are derivative financial liabilities

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

in '000 EUR As at December 31, 2011	Up to 1 month	1–3 months	3–6 months	7–12 months	1–5 years	More than 5 years	Total
<b>Assets</b>							
<b>Financial instruments</b>							
Cash and cash equivalents	741,970	3,099	0	0	0	11,083	756,153
Loans and advances to banks	316,305	10,257	13,791	1,456	27	624	342,460
Financial assets at fair value through profit or loss	14,094	20	35	649	1,466	131	16,395
Available-for-sale financial assets	30,123	42,940	17,828	86,842	30,946	381	209,060
Loans and advances to customers	265,205	359,270	500,585	921,670	2,448,986	548,898	5,044,614
<b>Non-financial instruments</b>							
Current tax assets	455	1,855	3,460	2,582	0	0	8,352
Other assets	23,667	371	1,455	7,056	10,165	1,034	43,748
<b>Total assets</b>	<b>1,391,820</b>	<b>417,812</b>	<b>537,154</b>	<b>1,020,254</b>	<b>2,491,591</b>	<b>562,152</b>	<b>6,420,782</b>
<b>Liabilities</b>							
<b>Financial instruments</b>							
Liabilities to banks	56,329	26,907	30,279	60,145	147,403	70,045	391,108
Financial liabilities at fair value through profit or loss*	87	46	715	361	47	0	1,256
Liabilities to customers	1,783,045	428,728	410,627	550,279	281,187	48,852	3,502,718
Liabilities to international financial institutions**	34,288	33,890	69,384	128,648	438,851	166,615	871,676
Debt securities	1,338	31,109	2,788	27,442	117,870	84,389	264,935
Subordinated debt	1,812	3,829	4,680	7,216	134,168	99,018	250,722
Hybrid capital	0	0	0	2,589	0	65,000	67,589
<b>Non-financial instruments</b>							
Other liabilities	19,409	1,914	1,284	1,752	1,814	69	26,243
Provisions	2,987	2,147	466	1,639	1,551	457	9,248
Current Tax liabilities	29	129	3,452	1,106	0	0	4,716
<b>Total liabilities</b>	<b>1,899,323</b>	<b>528,700</b>	<b>523,674</b>	<b>781,178</b>	<b>1,122,890</b>	<b>534,444</b>	<b>5,390,210</b>
<b>Contingent liabilities</b>							
Financial guarantees	130,602	0	0	0	0	0	130,602
Credit commitments (irrevocable loan commitments)	116,191	0	0	0	0	0	116,191
<b>Open position</b>	<b>-754,297</b>	<b>-110,888</b>	<b>13,480</b>	<b>239,076</b>	<b>1,368,700</b>	<b>27,707</b>	

\* all financial liabilities at fair value through profit or loss are derivative financial liabilities

\*\* due to the violation of covenants by PCB Albania, PCB Mexico, PCB Mozambique and PCB Serbia liability to international financial institutions in the amount of EUR 19.6 mio were formally repayable on demand and are included in the column "Up to 1 month"

Each bank is required to keep sufficient liquidity to enable it to remain liquid in the month following the reporting date in a scenario based on very conservative assumptions, especially regarding deposit withdrawals.

The core assumptions used for the purpose of calculating the sufficient liquidity indicator are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month, another 50% will be withdrawn within the following two months
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later
- 5% of exposures guaranteed by the bank will require a payment within the next month
- 20% of credit lines which the bank has committed to its customers, but which are currently undrawn, will be drawn within the next month

As of end December, all banks met this requirement.

The following table is based on the financial instruments and further cash-relevant non-financial instruments according to their contractual maturities as shown in the previous table but with the application of the above mentioned assumptions and in a form which illustrates the liquidity management of the group in a more detailed manner. The result shows the expected maturities which are used to measure liquidity risk on a group level and to show the distribution of liquidity relevant positions across certain time buckets.

in '000 EUR As at December 31, 2012	Up to 1 month	1–3 months	3–6 months	7–12 months	More than 1 year	Total
<b>Assets</b>						
Cash	201,305	0	0	0	0	201,305
Mandatory reserves with central bank	359,916	0	0	0	0	359,916
Other central bank balances (excl. minimum reserve)	200,657	0	0	0	0	200,657
Credit commitments	69,086	0	0	0	0	69,086
Government bonds & marketable securities	274,565	13,559	5,487	4,618	6,473	304,701
Placements with external banks	321,554	5,746	4,669	324	0	332,293
Loans and advances to customers	201,729	313,511	462,240	867,594	2,264,258	4,109,332
Currency derivatives (asset side)	55,034	7,579	10,945	9,190	3,772	86,521
<b>Total Assets</b>	<b>1,683,846</b>	<b>340,395</b>	<b>483,341</b>	<b>881,726</b>	<b>2,274,503</b>	<b>5,663,811</b>
<b>Liabilities</b>						
Current liabilities to banks (due daily)	28,380	28,380	0	0	0	56,760
Current liabilities to customers (due daily)	293,309	73,327	73,327	73,327	953,255	1,466,547
Contingent liabilities from guarantees	6,103	0	0	0	0	6,103
Credit commitments	76,257	0	0	0	0	76,257
Liabilities to external banks	12,803	27,388	20,671	33,043	198,760	292,664
Liabilities to international financial institutions	32,770	28,129	50,490	67,428	575,614	754,430
Liabilities to customers (term deposits)	258,246	326,687	390,556	545,696	369,596	1,890,781
Debt securities / Bonds	0	20,839	9,596	479	171,902	202,816
Subordinated debt	0	0	0	12,140	326,753	338,892
Currency derivatives (liability side)	65,472	9,373	10,924	9,190	3,772	98,732
<b>Total Liabilities</b>	<b>773,341</b>	<b>514,124</b>	<b>555,563</b>	<b>741,302</b>	<b>2,599,653</b>	<b>5,183,983</b>
Excess from previous band	n/a	910,505	736,776	664,553	804,977	
<b>Expected liquidity gap</b>	<b>910,505</b>	<b>-173,730</b>	<b>-72,223</b>	<b>140,424</b>	<b>-325,150</b>	
<b>Sufficient Liquidity Indicator</b>	<b>2.2</b>					
<b>Highly liquid assets</b>	<b>40%</b>					

The expected liquidity gap quantifies the potential liquidity needs within a certain time period in case it has a negative value, and it shows a potential excess of liquidity in case it has a positive one. This calculation includes excess liquidity from the previous time buckets.

The funding structure of the banks is subject to limits on short-term interbank funding. The banks must not rely on overnight funding exceeding 4% of their total liquidity-relevant liabilities and must not draw on more than 40% of their interbank lines at once. Temporarily higher limits can be granted by the Group Risk Management Committee or Group ALCO in exceptional cases. All banks were within approved short-term interbank funding limits as of end-December.

In addition to these limits, the banks monitor two early warning indicators and report if these indicators are exceeded. The first indicator is the relation of highly liquid assets to customer deposits. As a general rule the bank must hold enough highly liquid assets to pay out at least 20% of all customer deposits. The total ratio of highly liquid assets to customer deposits on a group level was 40% as of end-December. The second early warning indicator measures the deposit concentration; if the bank's ten largest depositors account for more than 20% of its total deposit base, the bank must report and explain this.

Stress test calculations are performed in order to safeguard the liquidity of the group even in an extreme case. The liquidity reserve of the group is composed of the banks' available liquidity and the core reserve held by ProCredit Holding. The banks' available liquidity reserve is calculated in a stress scenario, which simulates exceptionally high deposit withdrawals and a limited availability of the mandatory reserve. At end-December 2012 the group liquidity reserve amounted to roughly 135 million, of which EUR 70 million was contributed by the Holding. The group liquidity reserve was thereby comfortably above the current target of EUR 100 million, approved by the Group Risk Management Committee. In addition to the core group liquidity reserve, around EUR 2 million of liquidity was potentially available from ProCredit Holding and roughly EUR 43 million from the ProCredit bank in Germany. Simultaneous worst-case funding needs for all banks amounting to around EUR 50 million could have been comfortably covered by the group liquidity reserve. The results of the stress tests are also used as a basis to determine the liquidity standby lines provided by ProCredit Holding to the ProCredit banks.

The starting points for addressing funding risk (structural liquidity risk) are the banks' business plans, which are reviewed annually by ProCredit Holding and the banks' supervisory boards. The funding plans, derived from the business plans, serve as a basis for determining medium-term funding needs in regard to both equity and debt financing for the banks and the group as a whole.

ProCredit Holding supports the banks in meeting their funding needs not only through equity investments but also with longer-term debt financing and subordinated debt. The funding needs of the banks are monitored and regularly reviewed and discussed with ProCredit Holding. The Group ALCO reviews the progress of all significant funding projects and offers bridge financing in case a funding project does not move ahead or is delayed.

The aim, though, is to rely on customer deposits, supplemented by longer-term funding from international financial institutions (IFIs), local/regional development banks, microfinance funds and, to a certain extent, banks and financial market financing. This strategy is reflected in the current funding structure; the largest funding source is customer deposits with EUR 3,627.2 million (2011: EUR 3,418.5 million). The second largest source of funding stems from IFIs with EUR 796.4 million (2011: EUR 753.9 million). In addition, ProCredit Holding provides short- and long-term funding to the ProCredit banks.

In total the ProCredit group considers its funding sources to be diversified sufficiently, especially as the largest part of the banks' funds is provided by a large number of customer' deposits.

## F. Additional Notes

### (62) Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the group.

in '000 EUR		31.12.2012		31.12.2011	
Financial assets	Category	Carrying value	Fair value	Carrying value	Fair value
Cash and balances at central banks	AFV	791,541	791,541	694,584	694,584
Loans and advances to banks	LaR	335,108	337,645	320,499	325,434
Financial assets at fair value through profit or loss	AFV	16,823	16,823	13,990	13,990
Available-for-sale financial assets including cash equivalents	AFS	263,963	263,963	265,619	265,619
Loans and advances to customers	LaR	4,190,607	4,184,819	4,029,293	3,995,501
<b>Total</b>		<b>5,598,043</b>	<b>5,594,792</b>	<b>5,323,986</b>	<b>5,295,129</b>
<b>Financial liabilities</b>					
Liabilities to banks	AC	343,637	346,741	319,229	319,776
Financial liabilities at fair value through profit or loss	AFV	272	272	1,256	1,256
Liabilities to customers	AC	3,627,194	3,614,245	3,418,542	3,409,552
Liabilities to international financial institutions	AC	796,432	793,367	753,869	748,241
Debt securities	AC	202,458	204,825	232,778	231,076
Subordinated debt	AC	174,391	179,772	179,256	180,490
Hybrid capital	AC	67,218	67,218	67,589	67,589
<b>Total</b>		<b>5,211,601</b>	<b>5,206,438</b>	<b>4,972,517</b>	<b>4,957,978</b>

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

The item "cash and balances at central banks" includes cash at hand and balances at central banks including mandatory reserve disclosed under "cash and cash equivalents" (see note 36). The item "Available-for-sale financial assets including cash equivalents" includes the position "Available-for-sale financial assets" and short-term government bonds and other money market instruments disclosed under "Cash and cash equivalents".

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

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

For the fair value measurement of financial instruments which are carried at fair value only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique. The valuation techniques applied are references to the current fair value of other instru-

ments that are substantially the same, and discounted cash flow analysis using observable market parameters, e.g. interest rates and foreign exchange rates (see also notes (7) and (13)). The following table shows the distribution of fair values over the different fair value levels:

in '000 EUR	Total fair value	of which		
		Level 1	Level 2	Level 3
<b>Financial assets</b>				
Cash and balances at central banks	791,541	791,541	0	0
Financial assets at fair value through profit or loss	16,823	12,166	4,657	0
Available-for-sale financial assets including cash equivalents	263,963	141,798	122,165	0
<b>Total</b>	<b>1,072,328</b>	<b>945,506</b>	<b>126,822</b>	<b>0</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	272	0	272	0
<b>Total</b>	<b>272</b>	<b>0</b>	<b>272</b>	<b>0</b>

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

### (63) Pledged assets

in '000 EUR	31.12.2012		31.12.2011	
	Pledged asset	Related liability	Pledged asset	Related liability
Loans and advances to banks	5,363	7,482	0	0
Financial assets at fair value through profit or loss	842	842	0	0
Loans and advances to customers	63,415	61,398	83,172	92,125
Others	675	806	822	1,005
<b>Total</b>	<b>70,295</b>	<b>70,528</b>	<b>83,994</b>	<b>93,130</b>

The major part of this item consists of assets which were pledged on a portfolio basis against funds which ProCredit banks in Armenia, El Salvador and Macedonia obtained at market rates from international financial institutions. Another part of it relates to finance lease receivables which ProLease Bulgaria, a 100% subsidiary of ProCredit Bank Bulgaria, pledged for the related financing received from Bulgarian commercial banks. The pledges would be exercised in case of default of interest or principal payment on the respective loans; the maturities of the pledges are the same as the maturities of the respective related liabilities. Out of this amount, EUR 14.4 million were pledged to creditors and can be sold or repledged.

### (64) Contingent liabilities and commitments

in '000 EUR	31.12.2012	31.12.2011
Guarantees and stand-by letters of credit	100,676	105,439
Documentary and commercial letters of credit	2,249	3,096
Credit commitments with immediate right of cancellation	329,668	225,981
Credit commitments (irrevocable loan commitments)	52,508	116,191
Performance bonds	26,091	19,639
Others	3,875	2,429
<b>Contingent liabilities and commitments</b>	<b>515,066</b>	<b>472,774</b>

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

In addition ProCredit Holding has signed a guarantee framework to secure the liabilities of ProCredit Holding subsidiaries to a third party, the European Investment Bank. The guarantee covers a maximum of EUR 175,000 thousand (2011: EUR 175,000 thousand) in obligations from loans for its subsidiaries. Of this sum, EUR 101,013 thousand (2011: EUR 14,036 thousand) had been drawn by its subsidiaries at the time these financial statements were prepared and these were reported as contingent liabilities.

### (65) Grants

ProCredit Holding has arranged several grants totalling EUR 2,799 thousand, of which EUR 1,275 thousand have already been utilised. The majority of these grants are related to energy efficiency.

**(66) Investments in subsidiaries**

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

	<b>Name of institution</b>	<b>Address</b>	<b>Share capital incl. capital reserves (‘000 EUR)</b>	<b>Retained earnings and other reserves (‘000 EUR)</b>	<b>Profit/ loss for the year (‘000 EUR)</b>	<b>Share in %</b>
1	ProCredit Bank sh.a., <b>Albania</b>	Rruga Sami Frashëri, Tirana	22,698	8,619	430	100.0
2	ProCredit Bank CJSC, <b>Armenia</b>	31, Moskovyan Street, Building 99, Yerevan 0002	16,633	-4,539	-542	72.7
3	Banco Los Andes ProCredit S.A., <b>Bolivia</b>	Av. 16 de Julio N° 1486 A, La Paz	36,150	13,562	8,759	100.0
4	ProCredit Bank d.d., <b>Bosnia and Herzegovina</b>	Emerika Bluma 8, 71 000 Sarajevo	24,925	-5,642	322	100.0
5	ProCredit Bank A.D., <b>Bulgaria</b>	131, Hristo Botev Blvd., Sofia 1233	59,636	10,792	9,670	100.0
6	ProCredit Bank S.A., <b>Colombia</b>	Av. Calle 39 N. 13 A-16, Bogotá	26,460	-4,265	742	92.1
7	ProCredit Bank S.A.R.L., <b>DR Congo</b>	Av. des Aviateurs 4B, Kinshasa/Gombe	12,297	2,106	2,019	61.0
8	Banco ProCredit S.A., <b>Ecuador</b>	Av. Amazonas y Atahualpa, esquina, Quito	30,557	7,504	4,164	100.0
9	Banco ProCredit S.A., <b>El Salvador</b>	Boulevard Constitución y 1a Calle Poniente No. 3538 (Colonia Escalón), San Salvador	16,679	3,947	-256	99.9
10	ProCredit Bank JSC, <b>Georgia</b>	154 D. Agmashenebeli Ave., 112 Tbilisi	47,189	9,104	10,165	100.0
11	ProCredit Bank AG, <b>Germany</b>	Rohmerplatz 33-37, 60486 Frankfurt am Main	27,500	0	0	100.0
12	ProCredit Academy GmbH, <b>Germany</b>	Hammelbacher Str. 2, 64658 Fürth/Weschnitz	500	108	0	100.0
13	Quipu GmbH, <b>Germany</b>	Grosse Seestrasse 43, 60486 Frankfurt am Main	1,000	5,390	656	100.0
14	ProCredit Savings and Loans Company Ltd, <b>Ghana</b>	Property No. B28A, Airport City P.O. Box NT 328, New Town, Accra	7,930	958	1,377	95.3
15	Banco ProCredit S.A., <b>Honduras</b>	Colonia Florencia, Blvd. Suyapa 3730, Edificio ProCredit, Tegucigalpa M.D.C.	25,435	-13,241	-1,277	85.7
16	ProCredit Bank JSC, <b>Kosovo</b>	"Mother Tereze" Boulevard No. 16, 10 000 Prishtina	56,061	25,642	18,514	100.0
17	ProCredit Bank A.D., <b>Macedonia</b>	Bul. Jane Sandanski 109a, 1000 Skopje	13,000	7,791	2,055	87.5
18	ProCredit Regional Academy Eastern Europe, <b>Macedonia</b>	ul. Dimitar Nevec bb - Ezero Mladost 1400 Veles	1,202	969	-352	100.0
19	ProConfianza S.A. de C.V., SOFOM, E.N.R., <b>Mexico</b>	Av. Niños Héroes No. 1816, Col. Moderna, Guadalajara, Jalisco	25,938	-10,389	-1,174	90.8
20	ProCredit S.A., <b>Moldova</b>	65, Stefan cel Mare Ave., Office 900; Chisinau	762	-102	19	84.9
21	ProCredit Bank S.A., <b>Moldova</b>	65, Stefan cel Mare Ave., Office 901; Chisinau	22,640	-3,770	168	100.0
22	Banco ProCredit S.A., <b>Mozambique</b>	Av. Zedequias Manganhela No 267, Jat IV, 6th floor right, Maputo	5,896	1,880	-2,279	90.0
23	ProCredit Company B.V., <b>The Netherlands</b>	Fred. Roeskestraat 123, 1076 EE Amsterdam	0	-7	0	n/a
24	ProCredit Finance II B.V., <b>The Netherlands</b>	Fred. Roeskestraat 123, 1076 EE Amsterdam	18	0	0	n/a
25	Banco ProCredit S.A., <b>Nicaragua</b>	Rotonda Güegüense, 75 vrs. al sur, Managua	27,851	-10,791	-2,515	94.3
26	ProCredit Bank S.A., <b>Romania</b>	62-64 Buzesti Strada, Sector 1, 011017 Bucharest	38,784	-13,333	498	32.2
27	ProCredit Bank A.D., <b>Serbia</b>	Milutina Milankovica 17, Belgrade	80,786	-2,157	16,050	100.0
28	ProCredit Bank JSC, <b>Ukraine</b>	107a Peremogy Ave., Kyiv 03115	35,199	-12,720	2,461	45.7
29	ProCredit Capital Funding LLC, <b>USA</b>	c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200 Wilmington, Delaware 19805	2	0	0	100.0
30	ProCredit Capital Funding Trust, <b>USA</b>	c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200 Wilmington, Delaware 19805	1	0	0	100.0

On 27 February 2012 ProCredit Holding bought 100% of the shares of Frontier Finance International Inc., Washington D.C., USA. As a result, Frontier Finance International Inc. became a subsidiary of ProCredit Holding. The total purchase price paid was EUR 137 thousand. Frontier Finance International Inc. will support the ProCredit group's activities in Green Finance, provide support for the Latin American ProCredit institutions and operate as a base in the United States in order to support funding and business partnerships with US-based partners. For reasons of materiality the company is not consolidated in the Financial Statements.

### (67) Related party transactions

The control company of the group is ProCredit Holding. The group's related parties include the ultimate parent company, fellow subsidiaries, key management personnel (also from ProCredit General Partner AG), close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

#### *Transactions of ProCredit Holding with its subsidiaries*

According to the group's strategy, the holding company acts as an additional provider of funds (including subordinated debt) and credit lines for its subsidiaries. Additionally, ProCredit Holding issues guarantees to third parties on behalf of its subsidiaries. The issued guarantees serve to secure the main liability outstanding to the institutions in question against default on interest payments, and all related costs.

All transactions with subsidiaries are performed substantially on the same terms, including interest rates and security, as for transactions of a similar nature with third party counterparts.

#### Net income of the holding company from transactions with its subsidiaries

in '000 EUR	1.1.–31.12. 2012	1.1.–31.12. 2011
Income	34,621	33,692
Expenses	6,094	5,971
<b>Net income</b>	<b>28,528</b>	<b>27,721</b>

#### Outstanding balances of the holding company with its subsidiaries

in '000 EUR	31.12.2012	31.12.2011
<b>Assets</b>		
Loans and advances to banks	221,097	240,595
Financial assets at fair value through profit or loss	0	70
Other Assets	3,985	5,399
<b>Liabilities</b>		
Liabilities to banks	0	3,873
Financial liabilities at fair value through profit or loss	15	26
Subordinated loans	67,218	67,589
Other liabilities	2,897	321
<b>Off-balance sheet positions</b>		
Credit lines	127,260	140,796

*Transactions with key management personnel, their close family members and entities which are controlled by them*

#### Net income derived from transactions with key management personnel, their close family members and entities which are controlled by them

in '000 EUR	1.1.–31.12. 2012	1.1.–31.12. 2011
Income	43	16
Expenses	32	784
<b>Net income</b>	<b>11</b>	<b>-768</b>

### Outstanding balances of the group to key management personnel, their close family members and entities which are controlled by them

in '000 EUR		
Assets	31.12.2012	31.12.2011
Other assets	1,365	1,006
<b>Liabilities</b>		
Liabilities to customers	200	78
Other liabilities	0	55

Outstanding balances under the position "Other assets" consist only of loans to members of the Management Board.

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

### (68) Management compensation

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

in '000 EUR		
	1.1.–31.12. 2012	1.1.–31.12. 2011
Short-term benefits	415	501
Post employment benefits	76	97
<b>Total</b>	<b>491</b>	<b>598</b>

The members of the Supervisory Board do not receive any compensation from ProCredit Holding.

### (69) Number of employees

	2012		2011	
	Average	At year end	Average	At year end
in Germany	308	314	273	281
in Eastern Europe	9,143	8,742	9,886	9,807
in Latin America	4,478	4,292	4,543	4,667
in Africa	1,364	1,327	1,447	1,428
<b>Total</b>	<b>15,293</b>	<b>14,675</b>	<b>16,149</b>	<b>16,183</b>

**Address and general information**

ProCredit Holding AG & Co. KGaA is a partnership limited by shares and is incorporated and domiciled in Germany. The postal address of its registered office is as follows:

Rohmerplatz 33 - 37, 60486 Frankfurt, Germany.

Frankfurt, 20 March 2013

ProCredit Holding AG & Co. KGaA

represented by:

ProCredit General Partner AG

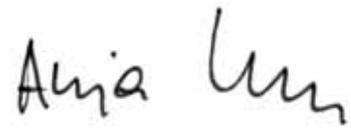
**Board of Management**



Helen Alexander



Dr. Gabriel Schor



Dr. Anja Lepp



## Glossary

### A

#### → **Allowance for impairment losses on loans and advances to customers:**

Loan loss provisions set aside in order to absorb current losses from non-repayment of loans. Provisioning is calculated on the basis of a classification of the loan portfolio into three categories: 1) Specific impairment, 2) Allowance for individually insignificant impaired loans and 3) Allowance for collectively assessed loans (provisions for all unimpaired loans).

### C

#### → **Capital adequacy ratio:**

Calculated as the ratio of a bank's equity components ( → **Tier 1** and → **Tier 2**) to its risk-weighted assets. This ratio is used as a measurement of a bank's capital position with respect to its exposures to credit risk and operational risk. National regulators track a bank's capital adequacy ratio to ensure that its capital cover remains above the minimum required to absorb a reasonable amount of loss.

#### → **Cash flow:**

Inflows and outflows of cash and cash equivalents generated by ProCredit's operations in a given period.

#### → **Cost/income ratio:**

Measure of cost efficiency which sets operating expenses in relation to operating income before provisioning.

### D

#### → **Default risk:**

The possibility that counterparties in a financial transaction will not be able to repay principal and interest on a timely basis or comply with other conditions of an obligation or an agreement, causing a financial loss to the creditor.

### E

#### → **Effective interest method:**

A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is defined as the rate that exactly discounts the expected stream of future cash flows through the expected life of the financial instrument to the current net carrying amount of the financial asset or liability.

#### → **Economic value impact:**

The economic value impact is the change in present value of the bank's future cash flows which would result in the case of an interest rate shock. It aims to quantify how sensitive the bank is towards changes in interest rates, with a long-term perspective. The size of the economic value impact depends on the size and maturity of the re-pricing gaps.

### F

#### → **Fair value:**

Amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

### G

#### → **Goodwill:**

Goodwill within the ProCredit group generally represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets".

### I

#### → **Impairment of non-financial assets:**

Non-financial assets not carried at fair value are tested annually for impairment.

#### → **Interest rate risk:**

The risk that movements in market interest rates will adversely affect the bank's interest earnings and capital. The movements may generally result in changes in the fair value of already contracted interest rate-sensitive assets and liabilities of the bank, and in changes in the bank's net interest margin, affecting the bank's future interest earnings. Interest rate risk is managed using maturity gap and duration analysis.

#### → **Interest margin:**

The difference between the interest income over average interest-earning assets minus interest expenses over average financial liabilities.

#### → **International Financial Reporting Standards (IFRS):**

Standards published by the International Accounting Standards Board (IASB). The IFRS as applied in the financial statements are endorsed by the European Union.

**L****→ Liquidity risk:**

Liquidity risk is the risk that a bank within the ProCredit group will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in times of stress.

**M****→ Market risk:**

The risk that the value of an investment will decrease due to moves in diverse market factors. The ProCredit group defines market risk as interest rate risk and currency risk.

**O****→ Open currency position:**

Difference, expressed in euros, between all assets held and all liabilities incurred in a foreign (non-euro) currency.

**→ Operational risk:**

Operational risk comprises process risks (e.g. risk of internal fraud or money laundering) or compliance risks. The ProCredit group seeks to control operational risk by consistent application of the dual control principle and "know-your-customer" policies. Operational risk also refers to IT security issues and business continuity plans, including staff turnover impact.

**P****→ Portfolio at risk (PAR):**

The portion of the loan portfolio for which payments (typically instalments composed of principal repayment and interest payment) have not been fully made on time and continue to be delayed for a period of more than 30 days. Even if only a fraction of one instalment is overdue ("in arrears"), the full amount of principal still outstanding under this loan contract, as well as all other loans disbursed to this customer, are considered to be "at risk".

**R****→ Return on equity (ROE):**

Return on the average equity attributable to the shareholders of ProCredit excluding non-controlling interests. This is calculated by setting net income (profit), attributable to the equity holders of the parent company, in relation to the average balance sheet equity, defined as

the average of equity at the beginning and at the end of the period.

**S****→ Securitisation:**

An off-balance sheet refinancing technique which consists of selecting assets (such as loans, mortgages, credit card debt, etc.) based on the quality of their collateral or level of risk, converting those assets into negotiable securities and redistributing them to investors.

**→ Special purpose vehicle (SPV):**

The SPV is a separate legal entity specifically created to handle a venture on behalf of a company. The SPV is consolidated by ProCredit Holding AG & Co. KGaA because ProCredit Holding AG & Co. KGaA primarily bears the risks and the rewards for this company.

**T****→ Tier 1 (core capital):**

Tier 1 includes ordinary share capital, capital reserve, legal reserve, retained earnings, non-controlling interests and hybrid capital, less goodwill and other intangibles.

**→ Tier 2 (supplementary capital):**

Tier 2 includes subordinated loans and other inherent loss allowance.

**V****→ Value-at-risk (VaR):**

Value-at-risk is a method of quantifying risk. The VaR expresses the maximum expected loss, i.e. the level of loss that will not be exceeded with a probability defined as the confidence level within a given time period. For instance: a portfolio's market value today is known, but its value tomorrow is not. A 1-day VaR of EUR 1 million at a confidence level of 95% means that with a likelihood of 95% the value of the portfolio will not decrease by more than EUR 1 million during 1 day.

**Y****→ Yield curve:**

A graph depicting the relationship between interest rates (cost of borrowing) and time to maturity of a debt for a given risk category in a given currency.

Name of Institution	Highlights*	Head Office Address
<b>Africa</b>		
ProCredit Bank Democratic Republic of Congo	Founded in 2004 17 branches 5,771 loans / USD 58 million in loans 209,820 deposit accounts / USD 143 million 477 employees	4b Avenue des Aviateurs Gombe, Kinshasa Tel.: +243 81 830 25 00 Fax: +49 69 255 770 42 mail@procreditbank.cd www.procreditbank.cd
ProCredit Savings and Loans Company Ghana	Founded in July 2002 26 branches 5,643 loans / USD 42 million in loans 110,906 deposit accounts / USD 50 million 504 employees	Plot No. B28A, Airport City Airport Residential Area, Airport Opposite Silver Star Tower P.O. Box NT 328, New Town, Accra Tel.: +233 302 775 830/46 Fax: +233 302 775 809 info@procredit.com.gh www.procredit.com.gh
Banco ProCredit Mozambique	Founded in December 2000 15 branches 4,686 loans / USD 27 million in loans 75,015 deposit accounts / USD 33 million 346 employees	210 Av. Vladimir Lenine Maputo Tel.: +258 21 313 344 Fax: +258 21 313 345 info@bancoprocredit.co.mz www.bancoprocredit.co.mz
<b>Eastern Europe</b>		
ProCredit Bank Albania	Founded in October 1998 37 branches 22,919 loans / EUR 172 million in loans 171,580 deposit accounts / EUR 228 million 569 employees	Legal address: Rr. "Dritan Hoxha". Nd. 92, H.15, Njësia Bashkiake Nr. 11 P.O. Box 1026, Tirana Tel./Fax: +355 4 23 89 300 / 22 33 918 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Armenia	Founded in December 2007 15 branches 7,143 loans / EUR 63 million in loans 26,824 deposit accounts / EUR 30 million 347 employees	105/1 Teryan St., area 11 0009 Yerevan Tel./Fax: + 374 10 514 860 / 853 info@procreditbank.am www.procreditbank.am
ProCredit Bank Bosnia and Herzegovina	Founded in October 1997 24 branches 15,429 loans / EUR 133 million in loans 80,188 deposit accounts / EUR 126 million 343 employees	Emerika Bluma 8 71000 Sarajevo Tel./Fax: +387 33 250 950 / 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001 70 branches 30,633 loans / EUR 587 million in loans 229,238 deposit accounts / EUR 463 million 1,209 employees	26 Todor Aleksandrov Blvd. 1303 Sofia Tel./Fax: +359 2 813 5100 / 5110 contact@procreditbank.bg www.procreditbank.bg
ProCredit Bank Georgia	Founded in May 1999 61 branches 39,808 loans / EUR 334 million in loans 361,339 deposit accounts / EUR 245 million 1,251 employees	21 Al. Kazbegi Ave. 0160 Tbilisi Tel./Fax: +995 32 2202222 / 2202223 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank Kosovo	Founded in January 2000 68 branches 81,589 loans / EUR 509 million in loans 422,773 deposit accounts / EUR 674 million 1,100 employees	16 "Mother Tereze" Boulevard 10000 Prishtina Tel./Fax: +381 38 555 777 / 248 777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 35 branches 22,151 loans / EUR 185 million in loans 113,615 deposit accounts / EUR 152 million 424 employees	109a Jane Sandanski Blvd. 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
ProCredit Bank Moldova**	Founded in December 2007 27 branches 14,061 loans / EUR 118 million in loans 52,178 deposit accounts / EUR 68 million 563 employees	65 Stefan cel Mare Ave. office 901, Chisinau, MD-2001 Tel./Fax: +373 22 836404 / 273488 office@procreditbank.md www.procreditbank.md

Name of Institution	Highlights*	Head Office Address
ProCredit Bank Romania	Founded in May 2002 25 branches 23,640 loans / EUR 216 million in loans 104,372 deposit accounts / EUR 171 million 699 employees	62-64 Buzesti St., Sector 1 011017 Bucharest Tel./Fax: +40 21 201 6000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001 64 branches 78,035 loans / EUR 546 million in loans 243,510 deposit accounts / EUR 296 million 1,296 employees	17 Milutina Milankovica 11070 Belgrade Tel./Fax: +381 11 20 77 906 / 905 info@procreditbank.rs www.procreditbank.rs
ProCredit Bank Ukraine	Founded in January 2001 33 branches 13,760 loans / EUR 155 million in loans 138,129 deposit accounts / EUR 148 million 896 employees	107a Peremohy Ave. 03115 Kyiv Tel./Fax: +380 44 590 10 00 / 01 info@procreditbank.com.ua www.procreditbank.com.ua
<b>Latin America</b>		
Banco Los Andes ProCredit Bolivia	Founded in July 1995 (bank since January 2005) 64 branches 63,969 loans / USD 509 million in loans 433,321 deposit accounts / USD 505 million 1,357 employees	Av. Cristo Redentor N° 3730 Entre 4to. y 5to. anillo Santa Cruz Tel./Fax: +591 3 341 2901 / 3457 contactanos@losandesprocredit.com.bo www.losandesprocredit.com.bo
Banco ProCredit Colombia	Founded in December 2006 (bank since May 2008) 20 branches 7,575 loans / USD 121 million in loans 37,827 deposit accounts / USD 86 million 349 employees	Av. Calle 39 N° 13 A-16 Bogotá Tel./Fax: +57 1 5954040 / 2857139 info@bancoprocredit.com.co www.bancoprocredit.com.co
Banco ProCredit Ecuador	Founded in October 2001 (bank since September 2004) 40 branches 46,972 loans / USD 370 million in loans 262,469 deposit accounts / USD 205 million 858 employees	Av. Atahualpa y Amazonas, esquina Quito Tel./Fax: +593 2 600 38 20 / 19 servicioalcliente@bancoprocredit.com.ec www.bancoprocredit.com.ec
Banco ProCredit El Salvador	Founded in March 1995 (bank since June 2004) 41 branches 22,324 loans / USD 197 million in loans 238,614 deposit accounts / USD 179 million 658 employees	Boulevard Constitución y 1a. Calle Poniente N° 3538, Col. Escalón, San Salvador Tel./Fax: +503 2267 4400 / 4500 info@bancoprocredit.com.sv www.bancoprocredit.com.sv
Banco ProCredit Honduras	Founded in June 2007 (bank since June 2007) 15 branches 5,327 loans / USD 70 million in loans 47,772 deposit accounts / USD 48 million 329 employees	Colonia Florencia, Blvd. Suyapa 3730, Edificio ProCredit, Tegucigalpa M.D.C. Tel./Fax: +504 2290 10 10 / 2239 58 28 info@procredit.com.hn www.procredit.com.hn
ProCredit Mexico	Founded in November 2006 12 branches 1,980 loans / USD 61 million in loans 188 employees	Av. Niños Héroe 1816, Col. Moderna C.P. 44190 Guadalajara, Jalisco Tel./Fax: +52 33 3040 2000 / ext. 10099 procredit@procredit.com.mx www.procredit.com.mx
Banco ProCredit Nicaragua	Founded in August 2000 (bank since October 2005) 25 branches 12,955 loans / USD 91 million in loans 114,891 deposit accounts / USD 104 million 553 employees	Edificio Banco ProCredit Avenida Jean Paul Genie Managua Tel./Fax: +505 2255 76 76 / 76 70 procredit@procredit.com.ni www.procredit.com.ni

\* The figures in this section have been compiled on the basis of the individual bank's IFRS statements; they may differ from the figures reported in the bank's local statements.

\*\* Not including finance company ProCredit Moldova.

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H O L D I N G



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