



ProCredit
H O L D I N G

2016

Annual Report

Key Figures of the Group

Consolidated Statement of Financial Position (in '000 EUR)	Dec 2016	Dec 2015	% Change
Total assets	5,667,776	6,009,469	-5.7%
Loans and advances to customers	3,628,700	4,104,939	-11.6%
Allowance for losses on loans and advances to customers	-150,651	-176,608	-14.7%
Net Loan Portfolio	3,478,049	3,928,332	-11.5%
Liabilities to customers	3,475,099	3,792,994	-8.4%
Total equity	654,272	603,998	8.3%

Consolidated Statement of Profit or Loss (in '000 EUR)			
Operating income*	259,345	264,994	-2.1%
Operating expenses*	198,220	211,449	-6.3%
Profit of the period from continuing operations*	47,031	38,360	22.6%
Profit of the period	61,009	61,335	-0.5%

Key Performance Indicators			
Change in loan portfolio over EUR 30,000*	13.0%	18.3%	-5.4%
Return on equity (ROE)	9.6%	10.5%	-0.9%
Tier I Capital Ratio	12.5%	10.2%	2.3%

Additional indicators			
Ratio of customer deposits to loan portfolio	95.8%	92.4%	3.4%
Net interest margin*	4.6%	5.5%	-0.9%
Cost-income ratio*	71.3%	68.9%	2.5%
% of loans in arrears (PAR30)*	3.9%	4.9%	-0.9%
Ratio of allowances to loans in arrears (PAR30)*	105.6%	95.0%	10.6%

Operational Statistics			
Number of Financial Institutions*	14	14	0.0%
Number of Staff*	4,078	4,659	-12.5%
Number of Outlets*	291	329	-11.6%

* The presentation contains only continuing operations for 2016, 2015, as well as for 2014, i.e. without Bolivia, El Salvador, Mexico and Nicaragua

Contents

1	Letter from the Chairman of the Supervisory Board	4
	Letter from Management	6
	ProCredit on the capital market	10
	Combined Management Report for ProCredit Holding AG & Co. KGaA, Frankfurt am Main for the 2016 Financial Year	14
	Fundamental Information about the Group	15
	Our Strategy	15
	Organisation of the ProCredit group	18
	Our shareholders	19
	Management system	21
	Human Resources Report	22
	Staff recruitment and integration of new employees	22
	Training	22
	Our remuneration approach	23
	Report on the Economic Position of the Group	24
	Course of business operations	24
	Financial development	26
	Segment overview	30
	Ratings	37
	Management Report of ProCredit Holding AG & Co. KGaA	38
	Business activities of ProCredit Holding AG & Co. KGaA	38
	Development of financial position	38
	Result of operations	40
	Report on Expected Developments, including Business Opportunities and Risks	41
	Macroeconomic environment and competitive situation	41
	Expected development of the ProCredit group	41
	Assessment of business opportunities and risks	43
	Risk Report	44
	Organisation of the risk management function	45
	Management of individual risks	49
	Capital Management	71
	Remuneration Report for the Management and Supervisory Board	78
	Management	78
	Supervisory Board	79
	Corporate Governance Statement (Erklärung zur Unternehmensführung) (sec. 289a HGB)	80
	Corporate Governance Report	80
	Statement from ProCredit Holding AG & Co. KGaA on the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to section 161 of the German Stock Corporation Act	85
	Disclosures Required by Takeover Law pursuant to sec. 315 para. 4 German Commercial Code (Handelsgesetzbuch)	88
2	ProCredit Holding AG & Co. KGaA Supervisory Board Report 2016	90
	Working relationship between Supervisory Board and the General Partner (Komplementärin)	90
	Supervisory Board meetings in the year 2016	90
	Committee Work	92
	Personnel changes on the Supervisory Board and the Management Board	93
3	Consolidated Financial Statements of the ProCredit Group	94

Letter from the Chairman of the Supervisory Board

2016 was a good year for the ProCredit group as it progressed towards becoming a leading bank for businesses, especially more formal small and medium-sized businesses. The restructuring of our client base, which entails a shift from mostly informal micro and very small businesses to larger businesses, has indeed already been under way for a number of years, but it is only since 2015–2016 that the growth in lending to SMEs has clearly exceeded the decline in lending to very small businesses. This transition will continue and be largely completed in 2017, as we would like to fully disengage from our previous target group of very small businesses by the end of this year. Our complete withdrawal from Africa and our far-reaching exit from Latin America can be understood in this context. Over the years we have come to the conclusion that there is insufficient demand from SMEs in several countries in this region for a bank with this focus. After many years of experience, I am convinced that we can only have a significant development impact if we foster SMEs that have critical mass and the potential for growth and meaningful job creation.

We see the situation in Eastern Europe quite differently, especially in the 10 countries in which we have been operating for 15 years. In this region we are growing in step with our target group. More and more businesses are adopting us as their reliable, professional "Hausbank" and are discovering the improved access to Western European – and especially German – companies through their dealings with the ProCredit bank in Germany.

Two years ago the ProCredit banks began cutting back on cash payments and convincing our clients to switch to cashless transactions. It is a significant achievement to see that the average number of bank payments in our 10 banks in this region has decreased from 20,000 over-the-counter transactions per day in 2014 to fewer than 1,000 transactions per day in 2016. During the same period, the share of our business clients using electronic banking increased from 50% to 75%. We trust that by the end of 2017, nearly all of our business clients and most of our private clients will be using electronic banking channels. In this way we are increasingly becoming a direct bank for private individuals, as well as a transaction bank for companies which will enable us to further reduce our branch network.

Thanks to our 100% owned IT service provider Quipu, with its more than 300 employees, we are able to react to numerous IT challenges quickly, offer uniform solutions to our banks, and centralise many operations. Here as in many other areas, the strength of our group is apparent: our highly qualified and motivated staff. Indeed, due to our careful selection processes, the training opportunities we offer, our requirement for all staff to speak English, and a centralised Bank and Management Academy in Germany, we possess the most important thing a bank can have (aside from equity capital), i.e. good but also critical and loyal staff.

For that reason, I would first like to thank all the women and men of the group who strive to increase the visibility of our brand in their markets and make it shine. We would also like to extend our thanks to the management team at the holding company – not only because they were instrumental in listing the company on the stock exchange, but also for their tireless efforts in the individual banks to drive and promote change. Ms Helen Alexander's term as a member of the Management ends as planned on 31 March 2017 on the best of terms and under mutual agreement, but Ms Alexander will continue to be a company employee. Ms Sandrine Massiani, who has been with the group for over 10 years, will join the Management Board of our company

on 1 March 2017. We wish Ms Massiani every success in her new role and would like to thank Ms Alexander for her many years of dedicated service to the company.

I would also like to thank my colleagues on the Supervisory Board, some of whom also have additional Supervisory Board duties in individual banks in Eastern Europe. Here I would like to single out Mr Rochus Mommartz, who has stepped down from our Supervisory Board to become the CEO of responsAbility, for his many years of loyalty, constructive debates, and good professional recommendations.

I am pleased to welcome as his successor Mr Rainer Peter Ottenstein, who, with more than 30 years of banking experience and tenure on five ProCredit bank Supervisory Boards, brings a particularly high level of expertise and passion to our business.

Frankfurt, March 2017



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

Members of the Board as
of December 31, 2016:

Dr Claus-Peter Zeiting
Chairperson of the Supervisory Board

Mr Christian Krämer
Deputy Chairman

Mr Petar Slavov

Mr Jasper Snoek

Mr Wolfgang Bertelsmeier

Mr Rainer Peter Ottenstein



Letter from Management

2016 was a rewarding and eventful year for the ProCredit group.

A key focus was to strengthen our positioning in our core segments as the “Hausbank” for small and medium-sized enterprises (SMEs). To this end we were pleased with results. We strongly expanded the services we provide to our target SME clients. We believe that strong growth rates suggest not only that our efforts to attract good clients are working, but moreover that we are responding to a real need for growing SMEs in the emerging markets we work in and thereby making a positive development impact.

Last year the gross loan portfolios of our banks in Eastern and South Eastern Europe grew by 4.0% and 3.2%, respectively; the growth in target loan sizes above EUR 30,000 in these two segments was even higher at 17.7 % and 12.5%. We view our strengthening role in Eastern Europe as particularly satisfying given the value of positive developments in the otherwise difficult context of countries like Ukraine. At the same time our SME clients increased the volume of sight deposits and payment transactions with us.

We steadily reduced the portfolio of loans with a volume of less than EUR 30,000 in order to focus on larger SMEs with the greatest potential for growth and development impact. We strive to be a reliable partner providing financial stability for enterprises as they make the transition from informality to professional, thriving companies. This is an important role in growing – but still relatively volatile – economies that are themselves in transition.

We achieved good growth whilst at the same time improving credit quality and increasing efficiency: measures necessary to compensate for the prevailing low interest environment. We made good progress on both fronts. We increased the loan portfolio volume per staff member in 2016 by 16.9%. A milestone was the dedicated rollout of modern 24/7 Zones and the increase in e-Banking and card usage, which saw cash transactions reduced to a very low level group-wide by the end of 2016. We see this as a significant success, which brings meaningful benefits for our clients and for the modernisation of the otherwise largely cash-based economies in which we work. Secondly, loan portfolio quality saw a marked improvement in 2016: a testimony to the responsible way in which our staff select and work with SME clients.

Reduced administrative and credit risk costs helped improve the profitability of our continued operations, which despite tightening margins grew by EUR 8.7 million or 22.6% in 2016. Based on the operational improvements made and the encouraging development of earnings, we see clear confirmation of the effectiveness and potential of our “Hausbank for SMEs” strategy. We also trust that our success reflects the success of our SME clients.

In these terms a highlight in 2016 was certainly the B2B event we hosted for about a thousand of our SME clients from across the region in Thessaloniki in May this year. With the event we celebrated the beginning of our operations in Greece, a branch of our Bulgarian bank. We see excellent opportunities to provide expert support to SMEs in the region, particularly those trading across the countries in which we operate. The need for a solid specialist SME bank on and around the EU's south eastern periphery seems to us greater than ever given the clear problems being created by the entrenched unemployment in the region.

We should also note that our portfolio of “green” loans expanded by 24.9% over the year, highlighting that forward-looking clients who see the value of investing in innovation and energy efficiency are choosing to work with us. We also assess this to be a good indicator that we are working with an emerging “Mittelstand”, which provides the backbone of social and economic progress in our countries of operation.

Looking forward we will build further on the lessons learned this year. We will complete the exit from non-core "Very Small" loans (with sizes below EUR 30,000). We will become more focused in our private client strategy and expand e-Banking penetration. We will work with our exceptional staff, strong IT platform and streamlined branch network to expand the services used by our loyal clients whilst tightly managing costs.

For our responsible, development- and long-term-oriented business model to succeed, we rely above all on the quality of the services we provide and the relationships we build. This means competent, well-trained employees with strong ethical values. As such, institution-building is just as important for ProCredit as it is for our SME clients. In this regard, the ProCredit group attaches great importance to thorough and continuous internal training and professional development. We are therefore very pleased to announce the opening of another training hub for the employees of our banks in December 2016 in Prevala, Kosovo. Investing in the training and development of our staff will continue to play a vital strategic role for the ProCredit group.

The potential we see for our operations in our Eastern European segments also encouraged us to reassess certain markets with more limited SME sectors in Latin America. We successfully sold our operations in Bolivia and Mexico in 2016. The operating conditions in these countries have become increasingly difficult in recent years. Although a difficult decision, we were reassured that we found excellent buyers with respect to our clients, employees and business partners.

A further strategic priority achieved in 2016 was strengthening the capital base of the group. Our shareholders showed confidence in our performance and prospects by participating in a capital increase of EUR 31.9 million. The sale of our Bolivia and Mexico operations further improved our CET 1 ratio, which reached a comfortable 12.5% by the end of the year. When we complete the sale of our discontinued operations planned for 2017, the CET1 capital ratio will rise to above 13%.

Successful implementation of all these measures put us in a confident position to list our shares. As of 22 December 2016, ProCredit Holding AG & Co. KGaA shares have been listed on the Frankfurt Stock Exchange's Prime Standard. We would like to acknowledge the excellent support we had from our advisers and shareholders in achieving this listing efficiently and promptly. We are now able to offer an opportunity for investors who can identify with our banking philosophy and strategy. We would like to maintain an open and regular dialogue with the players on the capital market and thereby introduce our business model to all interested parties.

We also believe that our successful strategy could make our stock attractive to investors. Despite the challenging interest rate situation, which took its toll on our interest income, we nevertheless achieved a profit of EUR 61.0 million, including the discontinued operations, and thus nearly reached the group's previous profit of EUR 61.3 million. This represents a return on equity of 9.6%. So you, our shareholders, will also share in the profit: At the Shareholders' Meeting to be held on 17 May 2017 in Frankfurt am Main, we will propose a dividend distribution of EUR 0.38 per share.

We intend to continue to forge a successful path during 2017: The management team of the ProCredit group expects the loan portfolio to grow more strongly than in 2016. Due to the changes in the company structure, the return on equity is anticipated to be somewhere between 7% and 9%; however, this should return to a level of around 10% in the medium term.

The numerous projects aimed at implementing our strategic focus and further developing the ProCredit group could not succeed without the dedicated commitment of all our employees. We therefore wish to take a moment to express our sincere thanks for your motivation and dedication in 2016. We are looking forward to working together with you as we continue along our successful path as the "Hausbank" for small and medium-sized businesses in the coming year.

All in all 2016 was a good year. And we believe that there is a firm foundation for ambitious years ahead. As always, we would like to thank you – our clients, shareholders and business partners – for the trust that you have placed in us, and we hope you will continue to accompany us as we travel along the ProCredit group's path of success!

Frankfurt, March 2017

Management Board, ProCredit General Partner AG



Helen Alexander



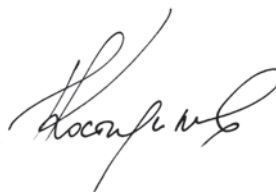
Dr. Anja Lepp



Sandrine Massiani



Dr. Gabriel Schor



Borislav Kostadinov



ProCredit on the capital market

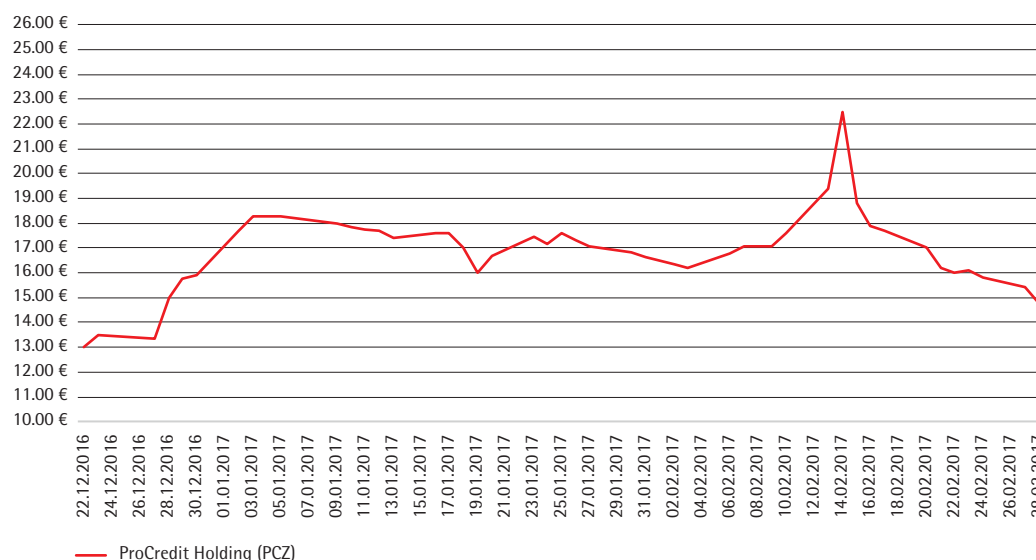
ProCredit Holding AG & Co. KGaA shares ('PCZ') have been listed on the regulated market segment (Prime Standard) of the Frankfurt Stock Exchange since 22 December 2016. The initial share price was EUR 12.29. At the end of the first day of trading, the Xetra closing price stood at EUR 13.01.

The year-end Xetra share price as of 30 December 2016 was EUR 15.90. With 53,544,084 shares outstanding, this represents a market capitalisation of EUR 851.4 million.

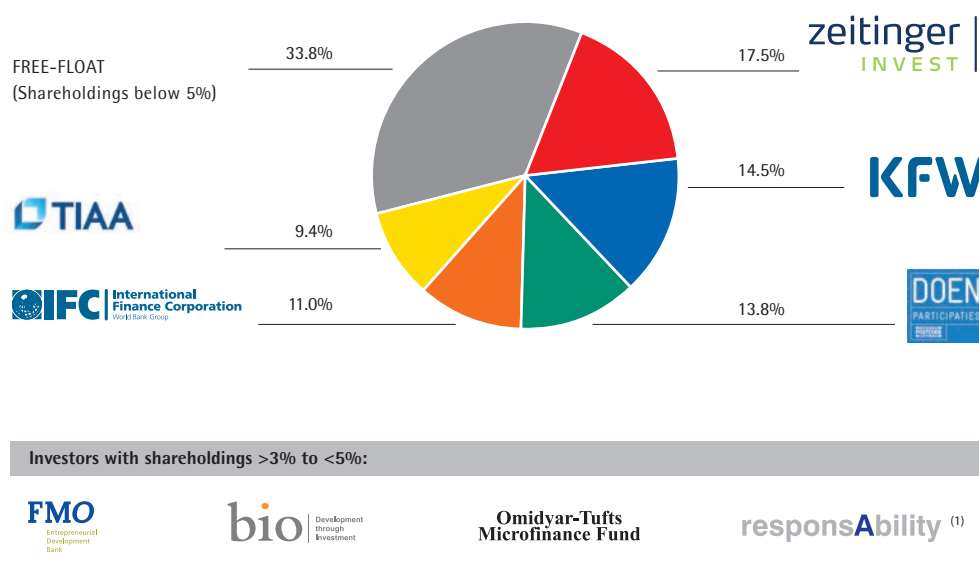
Key share data

ISIN	DE0006223407
Security ID no. (WKN)	622340
Stock exchange code	PCZ
Sector	Banks
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurter Wertpapierbörse
Designated Sponsors	equinet Bank AG ODDO SEYDLER BANK AG
First listing	22 December 2016
Initial share price	EUR 12.29
Xetra closing price on 30 December 2016	EUR 15.90
No. of shares	53,544,084 registered ordinary shares with no par value (Namensaktien)

Share price performance (Xetra; as at 28 February 2017)



Shareholder structure date as of 21 December 2016



(1) Aggregate of different investment entities, each with a shareholding below 3%

ProCredit Holding has a reputable, development-oriented shareholder base which includes national and international institutions. As of 21 December 2016, the following shareholders held shareholdings above 5%.

Zeitinger Invest GmbH is a limited liability company based in Frankfurt. The company emerged from Internationale Projekt Consult GmbH (IPC) in 2016 and is the largest shareholder and strategic investor in the ProCredit group. Zeitinger Invest, which is the single shareholder of IPC, is owned by members of the Zeitinger family, who believe strongly in the idea of Europe and its humanistic values.

KfW is one of the world's leading and most experienced promotional banks. Established in 1948 as a public law institution, KfW is owned 80% by the Federal Republic of Germany and 20 per cent by the federal states ("Länder"). KfW Development Bank is Germany's leading development bank and an integral part of KfW. It carries out Germany's Financial Cooperation (FC) with developing countries on behalf of the Federal Government. The 600 personnel at headquarters and 370 specialists in its 68 local offices cooperate with partners all over the world. Its goal is to combat poverty, secure the peace, protect the environment and the climate and make globalisation fair. KfW is a competent and strategic advisor on current development issues.

DOEN Participaties BV is an impact investment company that was established more than 20 years ago. To achieve its goal of a green, social and creative world, DOEN Participaties BV invests in innovative early stage social enterprises, investment companies and funds with a clear social or green mission around the world. The investments are characterised by high targeted social and environmental impact, strong entrepreneurship, innovation and scalability. DOEN Participaties BV is fully owned and managed by the Dutch DOEN Foundation (DOEN). DOEN is an independent foundation that has been set-up by the three Dutch Charity Lotteries (Nationale Postcode Loterij, VriendenLoterij and BankGiro Lottery) and receives annual financial contributions under long-term contracts.

IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. Working with 2,000 businesses worldwide, IFC uses its six decades of experience to create opportunity where it's needed most. In FY16, their long-term investments in developing countries rose to nearly \$19 billion, leveraging their capital, expertise and influence to help the private sector end extreme poverty and boost shared prosperity.

Teachers Insurance and Annuity Association of America (TIAA), directly or acting through its wholly owned subsidiary TIAA Global Asset Management (TGAM), manages over \$889 billion in assets on behalf of over 5 million individual investors, 16,000 institutional clients and over 120,000 advisors and consultants.

The free-float defined as all shareholdings below 5%, amounted to 33.8% as of 21 December 2016. As of 21 December 2016, it included shareholdings above 3% from institutions such as FMO (the Netherlands Development Finance Company), BIO (the Belgian Investment Company for Developing Countries), or responsAbility.

Analyst coverage

On 3 March 2017, ProCredit Holding has received its initial research coverage by equinet Bank AG.

Institute	Analyst	Date	Recommendation	Target price (EUR)
equinet Bank	Dr. Philipp Häbeler	3 March 2017	Accumulate	15.60

Investor Relations

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

The Management of ProCredit Holding intends to participate in capital market conferences and roadshows on a regular basis. Currently, attendance at the following events is confirmed, with further activities being planned:

- 8th DVFA Spring Conference, 9 May 2017 in Frankfurt
- 33rd ESN Conference, 19 May 2017 in Frankfurt
- Berenberg Pan-European Discovery Conference, 22 and 23 June 2017 in Venice

A wealth of up-to-date information and facts is available to investors, analysts and the interested public in the Investor Relations section of the company's website, www.procredit-holding.com. As well as the usual financial reports, mandatory notices and corporate news, visitors to the website may also access financial results and investor presentations.

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



Photo: ProCredit Holding AG & Co. KGaA

Telephone conferences and webcasts will take place to coincide with the publication of annual and quarterly reports.

IR Contact:
Nadine Frerot
Tel.: +49 69 951 437 285
E-mail: PCH.ir@procredit-group.com



Combined Management Report for ProCredit Holding AG & Co. KGaA, Frankfurt am Main for the 2016 Financial Year

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

The Combined Management Report is divided into the following sections:

- **Fundamental Information about the Group** describes the key aspects of the business model and the objectives of the group
 - Our Strategy
 - Organisation of the ProCredit group
 - Our shareholders
 - Internal management system
- **Human Resources Report** describes the approach to recruitment, training and remuneration.
- **Report on the Economic Position of the Group** provides an overview of the business and financial results and covers the following subjects:

- Macroeconomic and sector-specific environment
- Course of business operations
- Financial development, with a description of the group's financial position and financial performance
- In the **Report on Expected Developments**, we also assess and describe the projected development of business in the ProCredit group, including all significant opportunities and risks.
- **Risk Report** provides an overview of the group's risk profile and describes risk-mitigating measures.
- The **Remuneration Report** presents information concerning the remuneration for the Management and for the Supervisory Board.
- The **Corporate Governance Statement** (section 289a HGB) includes the Corporate Governance Report (3.10 German Corporate Governance Code – GCGC), the Statement of Compliance with GCGC (section 161 AktG) and the disclosures pursuant to section 315 (4) HGB.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

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

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

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

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

Our special corporate culture and our clear business model put us in a position to react in a timely and comprehensive manner to the changes in our markets. This allows us to claim a leading role in terms of efficiency and quality of banking services for SMEs. One of the key competitive advantages of the ProCredit banks is our competent and loyal staff. The high-quality, individual advice provided by our client advisers is the foundation

for successfully establishing and maintaining long-term business relationships with our customers. Our business client advisers make regular visits to customers in order to analyse the clients' business situation and risk profile and to support them with comprehensive advice.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Organisation of the ProCredit group

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

The Management¹, members of the Supervisory Board and selected management-level staff of ProCredit Holding are members of the supervisory boards of the ProCredit banks, and are thus involved in all strategic business decisions. ProCredit Holding sets binding policy guidelines and standards for risk management and other material areas of banking operations in order to ensure that appropriate organisational structures and processes are in place in the ProCredit banks. These guidelines and standards are supplemented by the exchange and dissemination of best practices at seminars that ProCredit Holding holds on a regular basis. ProCredit Holding also plays an important role in determining the group's human resources policies and in the development and delivery of curricula in the ProCredit academies.

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

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

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

- *South Eastern Europe*, accounting for 50.0% of the group's total assets, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, Macedonia, Romania and Serbia
- *Eastern Europe*, accounting for 15.3% of the group's total assets, with three banks located the following countries: Georgia, Moldova and Ukraine
- *South America*, accounting for 6.8% of the group's total assets, consisting of two banks in: Ecuador and Colombia³
- *Germany*, accounting for 21.5% of the group's total assets, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

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

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

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

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

Our shareholders

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

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

The following shareholders held more than 10% of the shares in ProCredit Holding as of 31 December 2016, thus representing the main shareholders: The largest single shareholder is Zeitinger Invest GmbH (originally, IPC GmbH), which holds 17.5% of the shares. Zeitinger Invest was a key initiator behind the founding of the ProCredit group and continues to have a significant influence on its development. KfW (14.5%), acting on behalf of the German Federal Government and other entities, finances investments and accompanying advisory services in developing countries and emerging economies with the aim of creating sustainable, integrative financial systems. The Dutch DOEN Foundation holds 13.8% of the shares via its wholly owned subsidiary, DOEN Participaties. This entity is financed by the Dutch Postcode, BankGiro and Vrienden lotteries, which aim to promote an ecological, socially integrative and creative society. IFC, the International Finance Corporation (11%) is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector.

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



Photo: ProCredit Academy, Fürth (Germany)

Management system

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

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

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

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

HUMAN RESOURCES REPORT

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

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

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

Staff recruitment and integration of new employees

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

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

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

Training

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

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

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

Our remuneration approach

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

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

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

REPORT ON THE ECONOMIC POSITION OF THE GROUP

Course of business operations

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

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

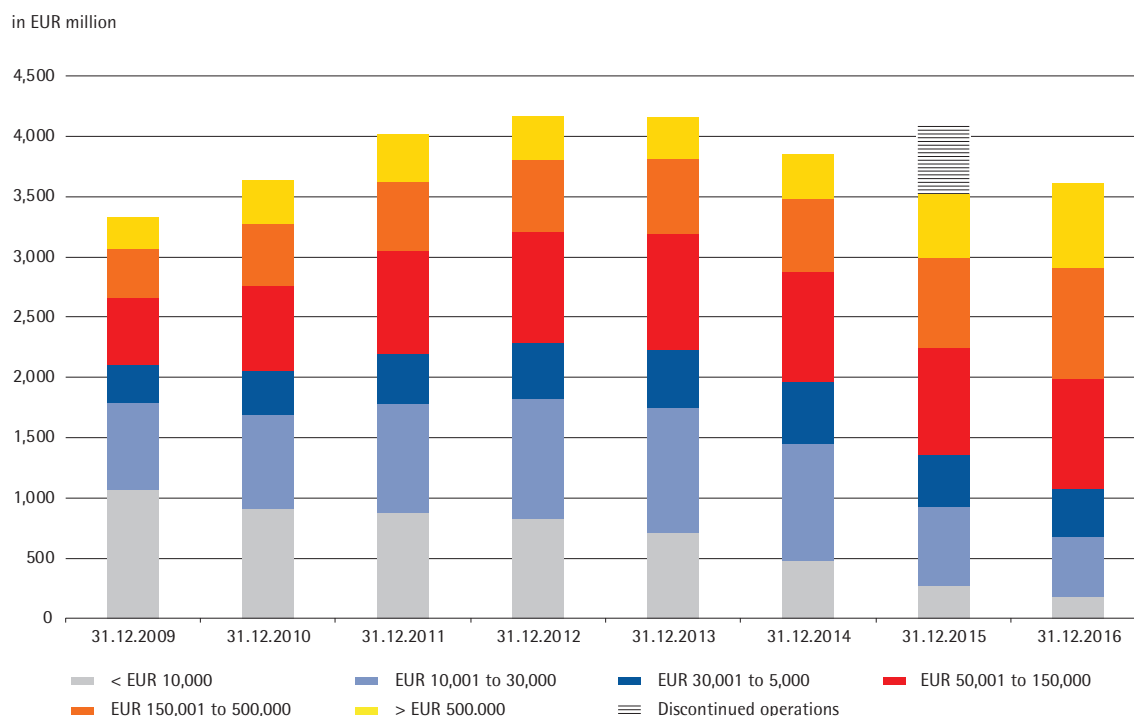
Our measures to modernise and optimise our network of outlets and implement modern self-service areas had largely been completed by the end of 2016. The banking services which do not involve advisory support from our staff are provided almost exclusively through our online banking platform and self-service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

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

Lending

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

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



Loan portfolio development, by loan volume

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

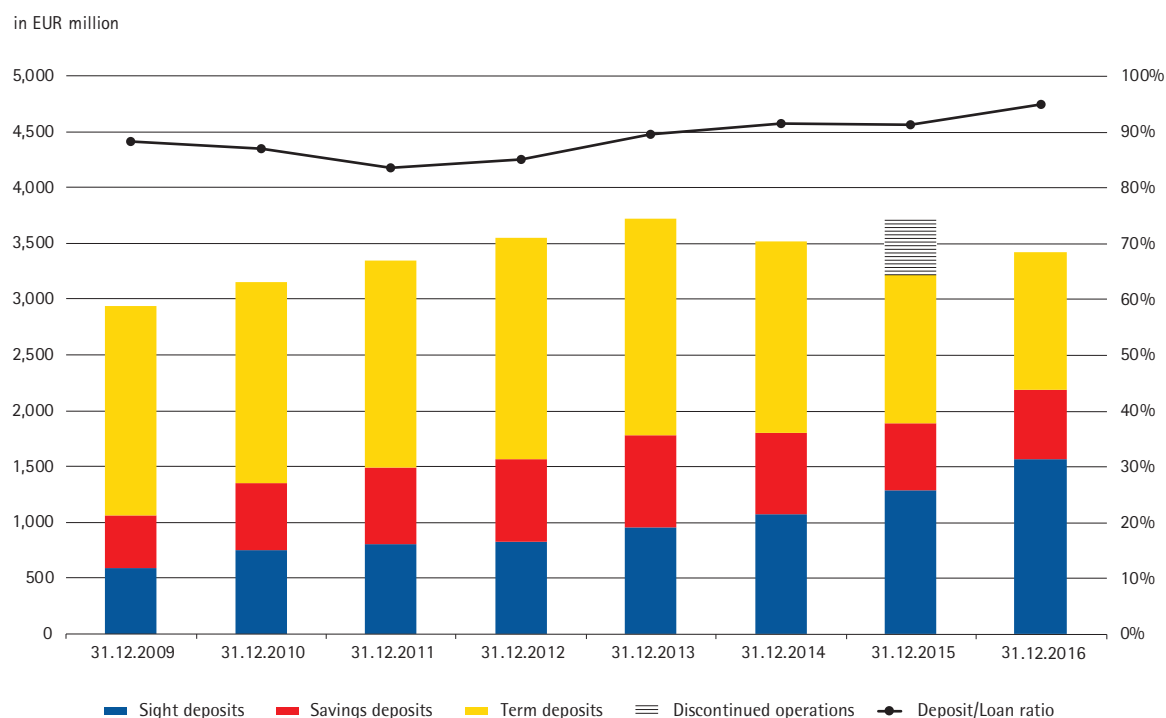
As in previous years, the loan portfolio of the ProCredit group remained highly diversified in 2016 as well. The largest ten exposures represented 1.7% of the group's total portfolio volume at the end of 2016.

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

Deposits and other banking services

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

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



Customer deposits

Financial development

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

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2016	31.12.2015	Change in %
Statement of Financial Position			
Gross loan portfolio	3,628.7	4,104.9	-11.6%
Customer deposits	3,475.1	3,793.0	-8.4%
Statement of Profit or Loss			
Net interest income after allowances*	212.2	218.6	-2.9%
Net fee and commission income*	43.0	47.7	-10.0%
Operating expenses*	198.2	211.4	-6.3%
Profit after tax	61.0	61.3	-0.5%
Key performance indicators⁴			
Change in loan portfolio over EUR 30,000*	13.0%	8.0%	5.0 pp
Return on equity (ROE)	9.6%	10.5%	-0.9 pp
Tier 1 capital ratio	12.5%	10.2%	2.3 pp
Additional indicators⁴			
Ratio of customer deposits to loan portfolio	95.8%	92.4%	3.4 pp
Net interest margin*	4.6%	5.5%	-0.9 pp
Cost-income ratio*	71.3%	68.9%	2.5 pp
% of loans in arrears (PAR30)*	3.9%	4.9%	-0.9 pp
Ratio of allowances to loans in arrears (PAR30)*	105.6%	95.0%	10.6 pp

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

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

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

Assets

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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

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

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

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

Capital ratios of the ProCredit group

Earnings

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

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

Net interest income decreased by EUR 29.9 million compared to the previous year; it stood at EUR 230.8 million at year-end. Lower global interest rates and our strategic withdrawal from the segment of loans below EUR 30,000 contributed to this trend. It was possible to partially offset the lower interest income with reduced interest expenses, mainly by increasing the share of sight deposits. Although the withdrawal from lending activities involving smaller amounts reduces the share of loans with higher interest rates, those loans were also accompanied by higher default rates and elevated operating costs. The net interest margin decreased by 0.9 p.p. Further improvement in portfolio quality was achieved in line with our strategic focus. Despite the higher level of risk coverage, better quality led to a significant reduction in net provisioning expenses, which at year-end stood at EUR 18.6 million (previous year: EUR 42.1 million). We were thus able to largely offset the drop in net interest income with lower provisioning costs for credit risk. The group's net interest income after risk provisioning was EUR 212.2 million, which is 2.9% below the level recorded for the previous year.

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

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

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

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

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

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

Segment overview

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

South Eastern Europe

Macroeconomic and sector-specific environment

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

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

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

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

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

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

Development of financial position and financial performance

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

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2016	31.12.2015	Change in %
Statement of Financial Position			
Gross loan portfolio	2,534.9	2,455.8	3.2%
Customer deposits	2,457.3	2,393.1	2.7%
Statement of Profit or Loss			
Net interest income after allowances	142.4	155.5	-8.4%
Net fee and commission income	28.7	33.8	-15.0%
Operating expenses	111.1	121.9	-8.9%
Profit after tax	54.4	53.2	2.1%
Key performance indicators			
Change in loan portfolio over EUR 30,000	12.5%	16.6%	-4.2 pp
Return on equity (ROE)	12.3%	12.8%	-0.5 pp
Additional indicators			
Ratio of customer deposits to loan portfolio	96.9%	97.4%	-0.5 pp
Net interest margin	4.3%	5.3%	-0.9 pp
Cost-income ratio	61.5%	60.3%	1.2 pp
% of loans in arrears (PAR30)	3.8%	4.4%	-0.6 pp
Ratio of allowances to loans in arrears (PAR30)	105.6%	100.3%	5.3 pp

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

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

institutions recorded a decrease in the gross loan portfolio. At 12.5% or EUR 222.4 million, the growth recorded for the region in the target segment above EUR 30,000 was substantially greater than the figure for net growth.

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

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

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

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

Eastern Europe

Macroeconomic and sector-specific environment

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

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

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

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

Development of financial position and financial performance

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

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2016	31.12.2015	Change in %
Statement of Financial Position			
Gross loan portfolio	708.7	681.5	4.0%
Customer deposits	698.2	604.5	15.5%
Statement of Profit or Loss			
Net interest income after allowances	47.0	40.9	14.9%
Net fee and commission income	8.8	9.4	-6.4%
Operating expenses	34.3	37.2	-7.9%
Profit after tax	21.4	17.1	25.5%
Key performance indicators			
Change in loan portfolio over EUR 30.000	17.7%	20.3%	-2.6 pp
Return on equity (ROE)	17.5%	16.1%	1.4 pp
Additional indicators			
Ratio of customer deposits to loan portfolio	98.5%	88.7%	9.8 pp
Net interest margin	5.9%	6.6%	-0.7 pp
Cost-income ratio	47.0%	48.9%	-1.9 pp
% of loans in arrears (PAR30)	3.3%	5.3%	-2.0 pp
Ratio of allowances to loans in arrears (PAR30)	140.0%	96.9%	43.0 pp

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

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

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

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

A significant improvement of 2 p.p. was achieved in the share of loans past due more than 30 days (PAR30), ending the year at 3.3%. An improvement in loan portfolio quality was achieved in all banks in the region, with particular mention given to the banks in Ukraine (-3.1 p.p.) and Georgia (-1.5 p.p.).

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

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

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

South America

Macroeconomic and sector-specific environment

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

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

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

Development of financial position and financial performance

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

Statement of Financial Position and of Profit or Loss			
in million EUR	31.12.2016	31.12.2015	Change in %
Statement of Financial Position			
Gross loan portfolio	306.9	885.7	-65.4%
Customer deposits	205.4	684.5	-70.0%
in million EUR	1.1. – 31.12.2016	1.1. – 31.12.2015	Change in %
Statement of Profit or Loss			
Net interest income after allowances*	25.8	28.3	-8.7%
Net fee and commission income*	-0.2	0.5	-131.4%
Operating expenses*	28.8	31.7	-9.1%
Profit after tax*	-2.3	-0.3	597.3%
Key performance indicators			
	31.12.2016	31.12.2015	Change in pp
Change in loan portfolio over EUR 30.000*	13.2%	17.9%	-4.7 pp
Return on equity (ROE)*	-3.5%	-0.5%	-3.0 pp
Additional indicators			
	31.12.2016	31.12.2015	Change in pp
Ratio of customer deposits to loan portfolio	66.9%	77.3%	-10.3 pp
Net interest margin*	5.0%	6.9%	-1.9 pp
Cost-income ratio*	112.2%	85.9%	26.3 pp
% of loans in arrears (PAR30)*	7.5%	8.4%	-0.9 pp
Ratio of allowances to loans in arrears (PAR30)*	67.8%	68.7%	-0.9 pp

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

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

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

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

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

Germany

Macroeconomic and sector-specific environment

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

Development of financial position and financial performance

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

Statement of Financial Position and of Profit or Loss in million EUR	31.12.2016	31.12.2015	Change in %
Statement of Financial Position			
Gross loan portfolio	78.3	82.0	-4.5%
Customer deposits	114.2	110.9	3.0%

in million EUR	1.1. – 31.12.2016	1.1. – 31.12.2015	Change in %
Statement of Profit or Loss			
Net interest income after allowances	-1.3	-2.8	54.2%
Operating income	96.4	95.8	0.6%
Operating expenses	51.2	49.0	4.5%
Profit after tax	44.0	44.2	-0.4%
Profit after taxes and consolidation effects	-26.4	-31.6	-16.4%

Balance sheet and income statement positions for the Germany segment

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

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

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

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

Ratings

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

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

* by Bankwatch Ratings S.A.

Ratings for ProCredit Holding and the individual ProCredit institutions

MANAGEMENT REPORT OF PROCREDIT HOLDING AG & CO. KGaA

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

Business activities of ProCredit Holding AG & Co. KGaA

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

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

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

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

Development of financial position

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



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

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

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

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

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

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

Result of operations

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

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

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

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

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

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

REPORT ON EXPECTED DEVELOPMENTS, INCLUDING BUSINESS OPPORTUNITIES AND RISKS

Macroeconomic environment and competitive situation

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

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

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

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

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

Expected development of the ProCredit group

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

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

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



Photo above: ProCredit Bank Ukraine, Photo below: ProCredit Bank Kosovo

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

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

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

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

Assessment of business opportunities and risks

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

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

RISK REPORT

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

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

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

- **Focus on core business**

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

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

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

- **Careful staff selection and intensive training**

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

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

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

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

Organisation of the risk management function

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

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



Photo: ProCredit Bank Bosnia and Herzegovina

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

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

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

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

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

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

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

Group Audit is an independent functional area within ProCredit Holding. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the group. Additionally, each ProCredit bank has an internal audit department which carries out the auditing procedures established by Group Audit. Once per year, the internal audit departments of the ProCredit banks carry out risk

assessments of all of their bank's activities in order to arrive at a risk-based annual audit plan. Each internal audit department reports to an audit committee, which generally meets on a quarterly basis. The Group Audit team monitors the quality of the audits conducted in each ProCredit bank and provides technical guidance.

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

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

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

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

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

Management of individual risks

Credit risk

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

Maximum credit risk

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

Customer credit risk

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

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

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

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

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

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

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

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

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

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



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

Loan collateral

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

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

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

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

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

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

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

Restructured loans

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

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

Reposessed property

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

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

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

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

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

in '000 EUR As at December 31, 2015	Loan portfolio	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio	Coverage ratio	Net write-offs	Net write-off as % of loan portfolio
Germany	81,958	-788	0	-	-	0	0.1%
South Eastern Europe	2,455,817	-108,925	108,636	4.4%	100.3%	20,785	0.8%
Eastern Europe	681,475	-34,994	36,104	5.3%	96.9%	7,539	1.1%
South America	885,690	-31,901	37,385	4.2%	85.3%	2,995	0.3%
Total	4,104,939	-176,608	182,125	4.4%	97.0%	31,319	0.8%

Risk provisions in lending

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

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

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

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

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

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

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

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

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

in '000 EUR At December 31, 2016	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business	2,359,743	83,230	31	0	0	0	0	2,443,003
Agricultural	622,789	16,287	0	0	0	0	0	639,076
Housing improvement	218,025	8,757	0	0	0	0	0	226,782
Consumer	61,659	4,957	0	0	0	0	0	66,616
Finance leases	1,528	123	0	0	0	0	0	1,651
Other	21,531	453	0	0	0	0	0	21,985
Impaired								
Business	55,236	20,489	9,835	3,985	12,612	23,734	65,157	191,049
Agricultural	5,763	1,738	3,306	1,777	4,410	3,854	5,289	26,137
Housing improvement	1,485	1,168	683	322	764	948	1,683	7,053
Consumer	480	90	558	234	448	505	1,278	3,593
Finance leases	533	12	4	0	18	12	92	672
Other	197	7	40	21	28	60	731	1,084
Total	3,348,967	137,313	14,456	6,340	18,280	29,113	74,231	3,628,700

in '000 EUR At December 31, 2015	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	> 360 days	Total
Loans and advances to customers								
Non-impaired								
Business	2,765,956	85,030	659	0	158	0	0	2,851,802
Agricultural	627,169	20,420	62	0	0	0	0	647,651
Housing improvement	204,231	8,537	146	0	0	0	0	212,914
Consumer	59,359	5,407	1	0	20	0	0	64,787
Finance leases	4,952	320	0	0	0	0	0	5,272
Other	16,891	512	1	0	0	0	0	17,403
Impaired								
Business	78,526	25,378	16,740	6,779	25,577	33,130	61,174	247,304
Agricultural	11,860	1,943	5,037	2,994	6,039	4,332	8,815	41,021
Housing improvement	2,094	1,234	1,261	532	1,208	1,288	1,566	9,184
Consumer	1,395	123	692	320	721	805	1,560	5,615
Finance leases	0	42	26	0	28	40	423	559
Other	303	24	53	21	135	92	799	1,428
Total	3,772,735	148,969	24,678	10,647	33,886	39,687	74,338	4,104,939

Loan portfolio, by days in arrears

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

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

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

Portfolio diversification: Loan size, by region

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

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

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

Portfolio diversification: Business areas, by loan size

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

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

Counterparty risk (including issuer risk)

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

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

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

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

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

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

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

Exposures to counterparties and issuers

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

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

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

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

Country risk

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

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

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

Market risks

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



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

Foreign currency risk

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

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

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

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

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

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

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

Open currency position

Interest rate risk in the banking book

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

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

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

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

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

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

in '000 EUR Currency	31.12.2016			31.12.2015	
	Cash effect revised approach	12-month interest earnings (old method)	Interest rate shock basis points	12-month interest earnings (old method)	Interest rate shock basis points
EUR	-4,216	-11,530	-200	-6,026	-200
USD	-50,318	-146	-200	-3,401	-200
Other*	3,259	-16,014	-230	-13,279	-176
Total	-51,275	-27,691		-22,706	

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

Calculation of risk-bearing capacity

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

Liquidity and funding risk

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

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

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

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

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

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

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

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

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

Maturity structure, by contractual maturity

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

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

Maturity structure, by expected maturity

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

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

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits, supplemented by long-term credit lines from international financial institutions. We make little use of interbank and capital markets. The funding of the ProCredit group has proven to be resilient even in times of stress. As of end-December 2016 the larg-

est funding source was customer deposits, with EUR 3,475.1 million (2015: EUR 3,793.0 million). International Financial Institutions (IFIs) are the second largest source of funding, accounting for EUR 499.3 million (2015: EUR 509.4 million).

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

Operational risk and fraud risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Photo: ProCredit Bank Georgia

Other material risk

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

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

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

Capital Management

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

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

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

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

Internal capital adequacy

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

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our internal capital adequacy assessment is that the group is able to withstand strong shock scenarios

without endangering depositors and other providers of funding. In our view, the crisis years 2009 and 2010 underscored, firstly, the necessity for a conservative approach towards capital management, and secondly, the developments during that time proved the strength of the group in dealing with a difficult economic environment. Throughout this period, the group showed strong levels of capital, leaving ample headroom for additional loss absorption had the economic conditions further deteriorated.

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

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

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

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

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

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

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

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

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

Risk-bearing capacity, gone concern approach

Stress tests

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

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

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

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

Regulatory capital adequacy

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

Methods for the calculation of capital adequacy vary between countries, but an increasing number of jurisdic-

tions where the ProCredit banks operate base their calculation methods on the recommendations of the Basel Committee on Banking Supervision. Compliance with local supervisory requirements is monitored for each ProCredit institution on the basis of the respective local requirements, and all group banks have to ensure that they satisfy their respective regulatory requirements regarding capitalisation.

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

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

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

in '000 EUR	31.12.16	31.12.15
Common equity Tier 1 capital ratio	12.5%	10.2%
Tier 1 capital ratio	12.5%	10.2%
Total capital ratio	15.7%	12.1%

Capital ratios of the ProCredit group

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

The transitional provisions of CRR for some equity positions only had a minor impact on the capital ratios of the ProCredit group. Without applying these provisions, the fully loaded CET1 ratio and Tier 1 ratio would both have stood at 12.4%, whereas the total capital ratio would have been 15.4%.

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

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

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

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

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

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

Risk-weighted assets and capital requirements, by risk category

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

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

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

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

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

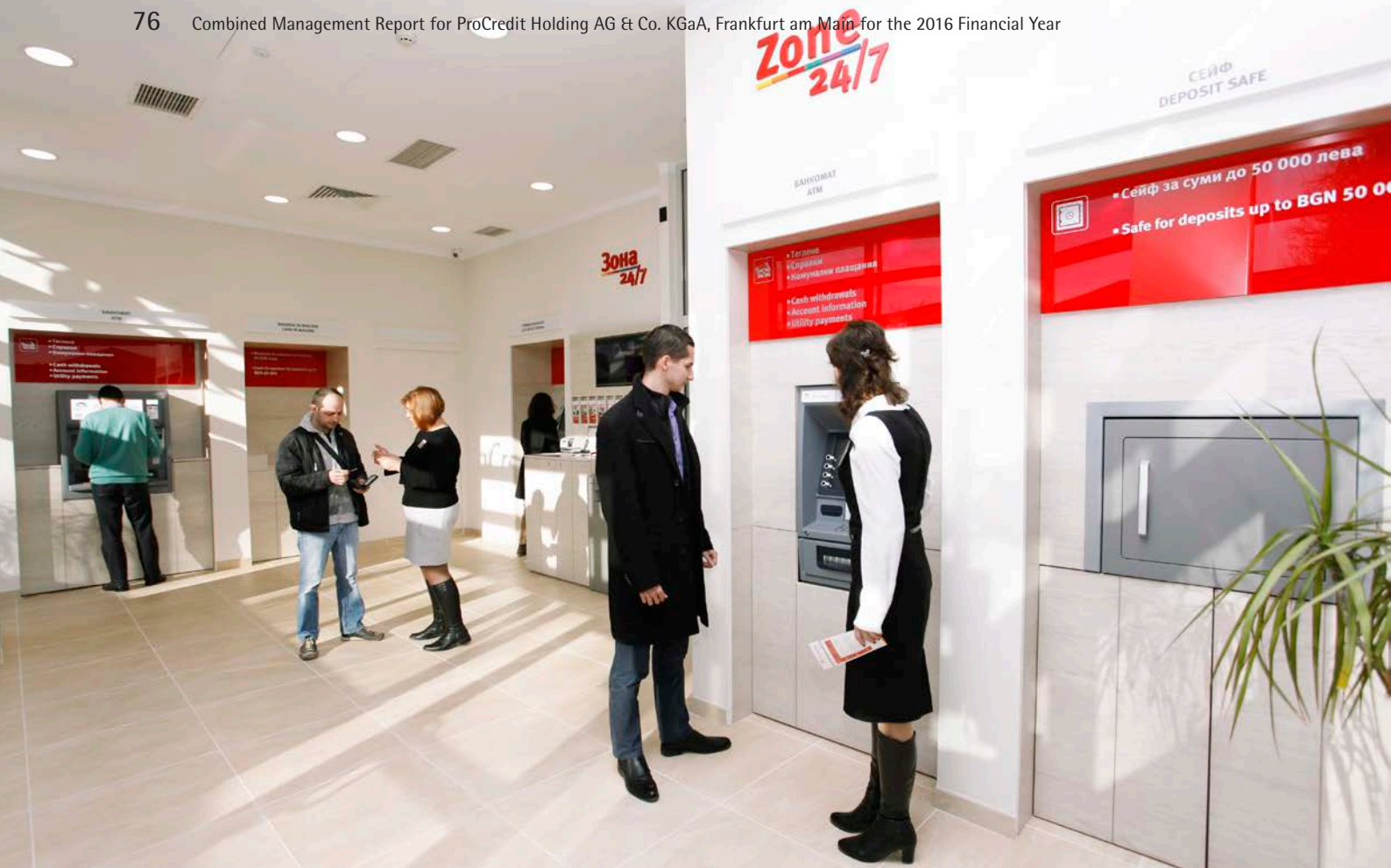


Photo above: ProCredit Bank Bulgaria, Photo below: ProCredit Bank Serbia

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

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

Leverage ratio

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

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

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

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

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

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

REMUNERATION REPORT FOR THE MANAGEMENT AND SUPERVISORY BOARD

Management

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board

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

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

Remuneration of the Supervisory Board

CORPORATE GOVERNANCE STATEMENT (ERKLÄRUNG ZUR UNTERNEHMENSFÜHRUNG) (sec. 289a HGB)

Contents

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

Corporate Governance Report

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

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

Management Board and Supervisory Board

Working Relationship between Management Board and Supervisory Board

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

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

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

Management Board of ProCredit General Partner AG

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

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

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

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

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

Supervisory Board of ProCredit Holding AG & Co. KGaA

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

Supervisory Board member	First elected	Date term expires*	Supervisory and Management Board positions held outside the Group
Dr Claus-Peter Zeiting (Chairman)	2004	2017	None
Christian Krämer (Deputy Chairman)	2014	2017	Berliner Energieagentur GmbH, Germany, member of the supervisory board
Wolfgang Bertelsmeier	2011	2017	Vietnam Enterprise Investments Limited, Vietnam, member of the supervisory board ProCredit Bank Congo S.A.R.L., Democratic Republic of the Congo, member of the supervisory board Zalar S.A., Morocco, member of the supervisory board
Rainer Ottenstein	2016	2021	None
Petar Slavov	2014	2017	None
Jasper Snoek	2008	2017	Stichting DOEN, The Netherlands, executive director

* Board mandates are likely to be renewed at the date the current term expires

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration and share ownership of the Management and Supervisory Boards' members

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

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

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

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

Managers' Transactions

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

Other Key Aspects of our Approach to Corporate Governance

Working Relationship between ProCredit Holding and its subsidiaries

Central to the effective governance of the ProCredit group is the relationship between the Company as the holding entity and its subsidiaries. A strength of the ProCredit group is its ability, despite having operations across 17

countries, to implement its business and risk strategies with a very high degree of efficiency and uniformity. All ProCredit banks are independent, licensed and regulated banks. The Company holds a controlling stake (typically 100%) of its subsidiaries and is in a position to appoint the majority of supervisory board members of its subsidiaries. The management board at each ProCredit bank bears responsibility for the operations in its respective institution. They operate within the tight business and risk management framework set by ProCredit Holding.

Transparency

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

Risk Management

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

Compliance

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

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

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

Deviations based on the legal form of the Company

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

Deviations from the recommendations of the Code

3.8 (3)

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

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

4.2.1 sentence 1

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

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

The Management Board has neither a chairperson nor a spokesperson, as all Management Board members work on an equal footing in their respective, clearly defined areas of competence; they therefore jointly bear the

overall responsibility for the Company. The Supervisory Board and the Management Board are of the opinion that this joint approach with regard to the Management Board continues to be appropriate practice.

4.2.3 (2) sentences 2 et seq.

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

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

5.3.2

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

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

5.3.3

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

As the Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole, does not require the formation of committees, there is no nominations committee within the Company's Supervisory Board. The relatively small size of the Supervisory Board, which is in any case made up solely of members appointed by the General Meeting, and the shareholder structure of the Company do not warrant

setting up a dedicated committee for shareholders to propose new members. Moreover, the Supervisory Board deems it important that all of its members are familiar with the areas of responsibility that normally fall within the remit of a nominations committee.

5.4.1 (2) sentence 1

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

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

5.4.6 (1)

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

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

Frankfurt am Main, 13 February 2017

Management Board of
ProCredit General Partner AG

Supervisory Board of
ProCredit Holding AG & Co. KGaA

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

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

In principle, all shares can be freely traded.

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

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

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

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

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

- Zeiting Invest GmbH 17.48%
- Federal Republic of Germany (indirectly via KfW) 14.52%
- Stichting DOEN (indirectly via DOEN Participaties B.V.) 13.76%
- The International Finance Corporation 10.97%

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

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

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

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

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

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

PROCREDIT HOLDING AG & CO. KGaA SUPERVISORY BOARD REPORT 2016

Dear Shareholders,

In the following, I would like to inform you on the work of the supervisory board ("**Supervisory Board**") of ProCredit Holding AG & Co. KGaA (also "**ProCredit Holding**" or "**Company**") in the fiscal year 2016.

In the year 2016, the Supervisory Board performed its tasks as defined by the law, the Articles of Association and the Internal Rules of Procedure, in particular:

- It continually advised and supervised the ProCredit General Partner AG (also "**General Partner**") (*Komplementärin*).
- It approved decisions for which its consent was required following careful reviews and consultations.
- It examined whether the annual financial statements of ProCredit Holding AG & Co. KGaA and the ProCredit Group and the other financial reporting are in compliance with the applicable requirements.

Working relationship between Supervisory Board and the General Partner (*Komplementärin*)

In the fiscal year 2016 the Supervisory Board again regularly advised the General Partner (*Komplementärin*) on the management of ProCredit Holding and continuously supervised its conduct of business. The Supervisory Board concluded that the management of the Company was lawful, proper and appropriate.

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

The Supervisory Board was kept fully informed on specific topics also between its meetings. In addition, as the Chairman of the Supervisory Board, I am kept regularly informed by the General Partner (*Komplementärin*) about important developments and discussions occurred, as needed. I report to other Board members on important findings in the following Supervisory Board meeting, respectively.

The Supervisory Board was informed by the General Partner of all decisions of major significance.

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

Supervisory Board meetings in the year 2016

The Supervisory Board of the ProCredit Holding AG & Co. KGaA held five routine meetings and two written votes in the 2016 fiscal year.

The Supervisory Board meetings were attended by all of its members on four occasions, while Mr Mommartz could not attend one meeting. The members of the Management Board of the General Partner (*Komplementärin*) took part in the Supervisory Board meetings, unless otherwise determined by the Chairman of the Supervisory Board.

At each meeting, the Supervisory Board received timely and detailed reports from the General Partner (*Komplementärin*) on the current business and financial performance of the ProCredit group, including analysis in relation to plan, as well as analysis of the group risk position and risk management, internal audit findings and significant personnel and organizational issues. Particular attention has always been given to indicators and initiatives which relate to credit risk and to human resources management. Furthermore, the Supervisory Board

always has always given due consideration to ethical and impact aspects and not just the financial results of our operations. In 2016, at each meeting the Supervisory Board also received a progress report with regard to measures taken in response to our first Bundesbank Inspection.

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

In the first meeting in the reporting year, on **19 February 2016**, the General Partner (*Komplementärin*) updated the Supervisory Board on all topics discussed and approved in the supervisory board of the ProCredit General Partner AG: In addition to routine agenda items, these topics included discussions of the Group Business Strategy (covering also the Business Plan and the Capital Plan 2016–2020), the Group Risk Strategy and Group IT Strategy which set the tone and expectations for a year focused on strengthening the core business operations, the positioning of the ProCredit Banks as relationship banks for SMEs, efficiency and capital strength of the Group. Further discussed were the preliminary auditor's report (Part 1) (*Teilprüfungsbericht 1*) for the ProCredit group prepared by the statutory auditors from KPMG, the annual Internal Audit Reports for 2015 for the ProCredit Group and ProCredit Holding, as well as the annual Group Compliance Report. The Chairman reported on the discussions amongst the Supervisory Board regarding the efficiency and effectiveness of the Supervisory Board; its members were reported to regard themselves as well-informed and capable of fulfilling their duties.

The second Supervisory Board meeting held on **20 April 2016** focused on the reporting, auditing and approval of the Annual Financial Statements of ProCredit Holding AG & Co. KGaA. The statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, joined the meeting and presented the audited Annual Financial Statements for ProCredit Holding AG & Co. KGaA and the Consolidated Annual Financial Statements for the ProCredit group. The findings were discussed. The Supervisory Board approved (*billigen*) the Annual Financial Statements of ProCredit Holding AG & Co. KGaA and the Consolidated Annual Financial Statements for the ProCredit group as well as the combined Management Report for the 2015 financial year and decided to submit the Annual Financial Statements of ProCredit Holding AG & Co. KGaA for adoption (*Feststellung*) to the Shareholders' Meeting, together with the formal approval of actions of ProCredit General Partner AG and the Supervisory Board members.

By means of a **written vote on 8 June 2016** the Supervisory Board resolved, in each case unanimously, a number of decisions including: (1) to approve the proposal of ProCredit General Partner AG concerning the appropriation of profits; (2) to propose to the Shareholders' meeting the appointment of KPMG AG Wirtschaftsprüfungsgesellschaft as external auditors for the financial year 2016 for the ProCredit Holding AG & Co. KGaA and the ProCredit Group, and (3) to propose to the Shareholders' Meeting the creation of an authorized capital of a total amount of EUR 25,412,282 until 31 May 2021 and to amend the Articles of Associations of ProCredit Holding AG & Co. KGaA accordingly.

In the third meeting held on **22 July 2016** the General Partner (*Komplementärin*) updated the Supervisory Board on all topics discussed and approved in the supervisory board of the ProCredit General Partner AG. In addition to routine agenda items, these topics included detailed discussions of the General Partner's decision to have the shares of ProCredit Holding listed on the Frankfurt Stock Exchange as well as the mid-term capital plan and scenarios, taking account of the business growth scenarios, sale of certain banks in Latin America, the planned capital increase by existing shareholders, as well as the risk weighted asset efficiency measures and the implications of revised ICAAP models.

By means of a circular procedure by email on **22 September 2016** the Supervisory Board approved the General Partner's approval of the resolution of the general meeting of the Company to increase the share capital of the Company by up to EUR 17 million and to amend the Articles of Associations accordingly was unanimously confirmed.

In a meeting on **26 September 2016** the General Partner (*Komplementärin*) updated the Supervisory Board on all topics discussed and approved in the supervisory board of the ProCredit General Partner AG. In addition to routine agenda items, these topics included the decision to approve the sale of Banco PYME Los Andes ProCredit, Bolivia given developments in the country and the value of focusing on operations in (South) Eastern Europe. There was a particular focus on the development of revised Group ICAAP models and methodology which were presented by the General Partner and assessed.

In the last meeting on **11 November 2016**, the General Partner (*Komplementärin*) updated the Supervisory Board on all topics discussed and approved in the supervisory board of the ProCredit General Partner AG. In addition to routine agenda items, these topics included discussions on preliminary business plan of the ProCredit group for 2017-2020 based on performance in 2016, which was characterized by a healthy development in the core client segments and a successful automation of cash transactions through the deployment of 24//7 service zones, as well as developments in the Group Environmental Management System. Final aspects of the planned listing of the Company's shares were discussed with a focus on investor relations, compliance and the proposed features of the shares and their administration.

In order to document compliance with the German Corporate Governance Code unanimous resolutions were adopted concerning amendments of the Internal Rules of Procedures of the Supervisory Board. The Supervisory Board discussed the strategy of the composition of the Supervisory Board. Objectives for its members were defined in terms of competences, knowledge and availability, gender composition, age limit, independence, disclosure of potential conflicts of interests and personal and business relationships. The Supervisory Board agreed to propose to the General Assembly of Shareholders the appointment of Mr Rainer Peter Ottenstein to replace Mr Rochus Mommartz as member of the Supervisory Board.

The Supervisory Board discussed and resolved unanimously to propose to the General Assembly of Shareholders to amend the Articles of Association of the Company regarding a number of issues required for a publically listed company. Finally, the Supervisory Board gave its unanimous formal approval to the listing of the entire share capital of ProCredit Holding AG & Co. KGaA on the regulated market (Prime Standard) of the Frankfurt Stock Exchange before the end of February 2017.

Committee Work

There were no committees of the Supervisory Board in the fiscal year 2016. The relatively small size of the Supervisory Board and the fact that all Board members are sufficiently qualified and devote enough time makes the formation of committees superfluous.

Audit of ProCredit Holding AG & Co. KGaA

The annual financial statements for ProCredit Holding and the consolidated annual financial statements for the financial year 2016 and the combined management report for ProCredit Holding and the ProCredit group have been audited by the external auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Germany. The external audit has not led to any objections; the external auditors have granted an unqualified audit opinion (*uneingeschränkter Bestätigungsvermerk*) in each case. The Supervisory Board has also carefully examined

the annual financial statements for ProCredit Holding AG & Co. KGaA and the consolidated annual financial statements and the combined management report for ProCredit Holding and the ProCredit group. The external auditors have participated in the meeting of the Supervisory Board in which the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report have been reviewed. The Supervisory Board acknowledged the results of the auditor's reports and stated that it also had no objections. The Supervisory Board approved (*billigen*) the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group and recommended to the shareholders' meeting to adopt (*feststellen*) the annual financial statements for ProCredit Holding AG & Co. KGaA.

The Supervisory Board also examined the proposal of the ProCredit General Partner AG concerning the appropriation of profits from the financial year 2016. It assented to the management proposal and recommends to propose to distribute to the shareholders out of the profits (*Bilanzgewinn*) for the financial year 2016 in the amount of EUR 61,008,592.50, a dividend of EUR 0.38 per share, amounting to total dividends of EUR 20,346,751.92, on the subscribed capital entitled to receive dividends in the amount of EUR 267,720,420, (53,544,084 shares) and to carry the remaining profit (*Bilanzgewinn*) from the financial year 2016 of EUR 40,661,840.58, forward to new account in accordance with Articles 278 paragraph 3, 58 paragraph 3 German Stock Corporation Act (*Aktiengesetz*).

Personnel changes on the Supervisory Board and the Management Board

After Mr Rochus Mommartz had declared to resign as a member of the Supervisory Board as of the end of the shareholders' meeting held in November 2016 in a letter dated 14 October 2016 to the Management Board, the Supervisory Board resolved in its meeting on 11 November 2016 to propose Mr Rainer Peter Ottenstein to the Shareholders' Meeting to be elected as a new member of the Supervisory Board. During the Extraordinary Shareholders' Meeting on 30 November 2016 Mr Rainer Peter Ottenstein was elected as a new member of the Supervisory Board as from the end of that Extraordinary Shareholders' Meeting.

The General Partner reported that Dr Antje Gerhold resigned as a member of the Management Board of ProCredit General Partner AG as of 21 April 2016. Furthermore, the General Partner reported that in its meeting on 22 July 2016, the Supervisory Board re-appointed the following members of the Management Board: Ms Helen Alexander until 31 March 2017, Dr Anja Lepp until 31 December 2017 and Dr Gabriel Schor until 31 December 2018, each with her/his term beginning on 14 September 2016.

Frankfurt am Main, 27 March 2017

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

Consolidated Financial Statements of the ProCredit Group

Auditor's Report

We have audited the consolidated financial statements prepared by ProCredit Holding AG & Co. KGaA, Frankfurt/Main, comprising the Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, together with the joint management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the joint management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] are the responsibility of the General Partner's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the joint management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, 17 March 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German Version signed by:]

Bernhard
Wirtschaftsprüfer
[German Public Auditor]

Dr. Faßhauer
Wirtschaftsprüfer
[German Public Auditor]

Consolidated Statement of Profit or Loss

in '000 EUR	Note	1.1.–31.12.2016	1.1.–31.12.2015*
Interest and similar income		327,597	369,160
Interest and similar expenses		96,771	108,434
Net interest income	(16)	230,825	260,726
Allowance for losses on loans and advances to customers	(10, 17)	18,632	42,089
Net interest income after allowances		212,193	218,637
Fee and commission income		58,220	61,891
Fee and commission expenses		15,249	14,146
Net fee and commission income	(18)	42,971	47,745
Result from foreign exchange transactions	(19)	8,869	10,992
Net result from financial instruments at fair value through profit or loss	(20)	-975	827
Net result from available-for-sale financial assets	(21)	4,585	166
Net other operating income	(22)	-8,298	-13,373
Operating income		259,345	264,994
Personnel expenses	(23)	88,163	98,627
Administrative expenses	(24)	110,057	112,822
Operating expenses		198,220	211,449
Profit before tax		61,125	53,545
Income tax expenses	(25)	14,093	15,185
Profit of the period from continuing operations		47,031	38,360
Profit of the period from discontinued operations	(50)	13,977	22,975
Profit of the period		61,009	61,335
Profit attributable to ProCredit shareholders		59,422	59,575
Profit attributable to non-controlling interests		1,586	1,760
Earnings per share (continuing operations)** in EUR		0.89	0.74

* Previous years figures were restated. Please also see note (6)

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

Consolidated Statement of Other Comprehensive Income

in '000 EUR	Note	1.1.–31.12.2016	1.1.–31.12.2015
Profit of the period		61,009	61,335
Items that will not be reclassified to profit or loss (net of tax)			
Change in revaluation reserve from remeasurements of post employment benefits		-583	180
Change in deferred tax from remeasurements of post employment benefits		103	-36
Items that are or may be reclassified to profit or loss (net of tax)			
Change in revaluation reserve from available-for-sale financial assets	(29)	-4,274	4,029
Change in deferred tax on revaluation reserve from available-for-sale financial assets	(29)	546	-433
Change in translation reserve	(9)	-731	-4,966
Other comprehensive income of the period, net of tax continuing operations		-4,939	-1,225
Other comprehensive income of the period, net of tax discontinued operations		-14,222	14,291
Total comprehensive income of the period		41,848	74,401
Comprehensive income attributable to ProCredit shareholders		36,407	68,405
Comprehensive income attributable to non-controlling interests		5,440	5,996

Consolidated Statement of Financial Position

in '000 EUR	Note	31.12.2016	31.12. 2015
Assets			
Cash and cash equivalents	(26)	937,307	834,191
Loans and advances to banks	(7, 27)	286,673	339,395
Financial assets at fair value through profit or loss	(7, 28)	243	891
Available-for-sale financial assets	(7, 10, 29)	249,757	206,970
Loans and advances to customers	(7, 30)	3,628,700	4,104,939
Allowance for losses on loans and advances to customers	(10, 17, 31)	-150,651	-176,608
Property, plant and equipment	(11, 32)	157,336	172,211
Investment properties	(11, 32)	1,918	2,176
Intangible assets	(12, 33)	21,446	23,758
Current tax assets	(14, 35)	4,101	3,262
Deferred tax assets	(14, 35)	6,411	6,001
Other assets	(36)	63,136	63,363
Assets held for sale	(50)	461,398	428,919
Total assets		5,667,776	6,009,469
Liabilities			
Liabilities to banks	(7, 37)	317,592	394,244
Financial liabilities at fair value through profit or loss	(7, 28)	1,367	2,350
Liabilities to customers	(7, 38)	3,475,099	3,792,994
Liabilities to international financial institutions	(7, 39)	499,263	509,443
Debt securities	(7, 40)	143,745	205,188
Other liabilities	(41)	18,735	27,035
Provisions	(15, 42)	15,775	17,923
Current tax liabilities	(14, 35)	1,452	1,980
Deferred tax liabilities	(14, 35)	1,900	4,251
Subordinated debt	(7, 43)	171,024	131,353
Liabilities related to assets held for sale	(50)	367,551	318,709
Total liabilities		5,013,504	5,405,471
Equity			
Subscribed capital	(44)	267,720	254,123
Capital reserve		115,253	97,178
Legal reserve		136	136
Retained earnings		325,019	283,908
Translation reserve	(9)	-62,112	-43,688
Revaluation reserve		20	4,610
Equity attributable to ProCredit shareholders		646,035	596,267
Non-controlling interests		8,237	7,731
Total equity		654,272	603,998
Total equity and liabilities		5,667,776	6,009,469

Consolidated Statement of Changes in Equity

in '000 EUR	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non-controlling interests	Total equity
Balance at January 1, 2016	254,123	97,178	136	283,908	-43,688	4,610	596,267	7,731	603,998
Change in translation reserve					-18,424		-18,424	3,879	-14,545
Revaluation of afs securities						-3,729	-3,729	0	-3,729
Revaluation of actuarial gains and losses						-862	-862	-25	-887
Other comprehensive income of the period, net of tax					-18,424	-4,591	-23,015	3,854	-19,161
Profit of the period				59,422			59,422	1,586	61,009
Total comprehensive income of the period				59,422	-18,424	-4,591	36,407	5,440	41,848
Distributed dividends				-20,330			-20,330		-20,330
Capital increase	13,598	18,074					31,672		31,672
Change of ownership interests				2,019			2,019	-41,935	-2,916
Balance at December 31, 2016	267,720	115,253	136	325,019	-62,112	20	646,035	8,237	654,272

in '000 EUR	Subscribed capital	Capital reserve	Legal reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholder	Non-controlling interests	Total equity
Balance at January 1, 2015	254,123	96,529	136	235,237	-48,721	813	538,117	17,264	555,380
Change in translation reserve					5,033		5,033	4,231	9,264
Revaluation of afs securities						3,597	3,597	2	3,599
Revaluation of actuarial gains and losses						200	200	3	203
Other comprehensive income of the period, net of tax					5,033	3,797	8,830	4,236	13,066
Profit of the period				59,575			59,575	1,760	61,335
Total comprehensive income of the period				59,575	5,033	3,797	68,405	5,996	74,401
Distributed dividends				-10,165			-10,165	-1	-10,166
Change in capital reserve		649					649	0	649
Change of ownership interests*				-739			-739	-15,528	-16,266
Balance at December 31, 2015	254,123	97,178	136	283,908	-43,688	4,610	596,267	7,731	603,998

* The breakdown of the previous year's figures has been adapted to the current disclosure structure

Consolidated Statement of Cash Flows

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Profit of the period	61,009	61,335
Income tax expenses (continuing operations)	14,093	15,185
Income tax expenses (discontinued operations)	4,248	5,780
Profit before tax (including discontinued operations)	79,350	82,300
Noncash items included in the profit of the period and transition to the cash flow from operating activities		
Allowance for losses on loans and advances to customers	18,632	42,089
Measurement gains/losses from financial assets/liabilities designated at fair value through profit or loss	0	-1,504
Depreciation	28,497	25,607
Unrealised gains/losses from currency revaluation	4,422	3,255
Addition to/release of provisions	8,826	7,594
Gains/losses from disposal of property, plant and equipment	2,014	2,176
Interest and dividends	-230,825	-260,726
Other noncash items	-6,464	-13,665
Cash flow from discontinued operations	2,836	-44,538
Subtotal	-92,712	-157,412
Increase/decrease of assets and liabilities from operating activities after noncash items		
Loans and advances to banks	33,246	-24,033
Financial assets at fair value through profit or loss	648	5,659
Financial assets available for sale	-46,409	24,040
Loans and advances to customers	-138,346	-232,308
Other assets	-2,498	-7,089
Liabilities to banks	9,049	44,209
Financial liabilities at fair value through profit or loss	-984	-216
Liabilities to customers	207,371	173,157
Other liabilities	-5,696	6,745
Interest received	331,593	366,279
Interest paid	-97,326	-115,820
Income tax paid	-13,970	-17,426
Operating cash flow from discontinued operations after noncash items	-8,606	51,354
Cash flow from operating activities*	175,361	117,137
Purchase of/proceeds from:		
Property, plant and equipment	-31,564	-44,876
Subsidiaries	-4,662	-15,079
Securities	-298	-36
Investing cash flow from discontinued operations	-10,523	-7,583
Cash flow from investing activities	-47,048	-67,574
Purchase of/proceeds from:		
Dividends paid	-20,330	-10,165
Issued shares	31,672	0
Acquisition of interest in subsidiaries from non-controlling interest	-1,255	-6,855
Long-term borrowings	-21,263	-62,055
Financing cash flow from discontinued operations	15,492	2,337
Cash flow from financing activities	4,316	-76,738
Cash and cash equivalents at end of previous year	849,124	874,166
Cash flow from operating activities	175,361	117,137
Cash flow from investing activities	-47,048	-67,574
Cash flow from financing activities	4,316	-76,738
Effects of exchange rate changes	-2,685	2,134
Cash and cash equivalents at end of period (26)	979,068	849,124

* Operating cash flow from discontinued operations amounts to EUR 27.5 million (previous year: EUR 45.4 million)

Notes to the Consolidated Financial Statements

A. Significant accounting principles

(1) Basis of Accounting.....	102
(2) Principles of Consolidation	102
(3) Accounting developments	102
(4) Segment reporting.....	103
(5) Use of assumptions and estimates	103
(6) Accounting policies, changes in accounting estimates and errors	104
(7) Financial instruments	104
(8) Measurement basis.....	105
(9) Foreign currency translation	106
(10) Allowance for losses on loans and advances and impairment of available-for-sale financial assets	106
(11) Property, plant and equipment and Investment property	108
(12) Intangible assets.....	108
(13) Leases	109
(14) Income tax	109
(15) Provisions.....	109

B. Notes to the Statement of Profit or Loss

(16) Net interest income.....	110
(17) Allowance for impairment losses on loans and advances.....	111
(18) Net fee and commission income.....	111
(19) Result from foreign exchange transactions	111
(20) Net result from financial instruments at fair value through profit or loss.....	112
(21) Net results from available-for-sale financial assets	112
(22) Net other operating income.....	112
(23) Personnel expenses.....	113
(24) Administrative expenses	113
(25) Income tax expenses.....	113

C. Notes to the Statement of Financial Position

(26) Cash and cash equivalents.....	114
(27) Loans and advances to banks.....	114
(28) Financial assets and liabilities at fair value through profit or loss	114
(29) Available-for-sale financial assets	115
(30) Loans and advances to customers	115
(31) Allowance for losses on loans and advances	116
(32) Property, plant and equipment and Investment property	117
(33) Intangible assets.....	118
(34) Leasing.....	119
(35) Income taxes.....	119
(36) Other assets.....	121
(37) Liabilities to banks.....	121
(38) Liabilities to customers.....	122
(39) Liabilities to international financial institutions	122
(40) Debt securities	122
(41) Other liabilities	123
(42) Provisions.....	123
(43) Subordinated debt.....	123
(44) Subscribed capital.....	124

D. Additional Notes

(45) Segment reporting.....	124
(46) Earnings per share	126
(47) Fair value of financial instruments	127
(48) Pledged and transferred assets.....	128
(49) Contingent liabilities.....	128
(50) Principal subsidiaries.....	129
(51) Related party transactions.....	131
(52) Management compensation.....	132
(53) Number of employees.....	132
(54) Events after the reporting period	133
Address and general information	133

Notes to the Consolidated Financial Statements

A. Significant accounting principles

(1) Basis of Accounting

ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt am Main, is the financial holding company of the ProCredit Group ("Group"). The Group prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and endorsed by the European Union. The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. The information required by IFRS 7 on the nature and extent of risks arising from financial instruments and their management is presented in the Risk Report section of the Management Report.

All amounts are presented in thousands of euros and all accounting policies have been consistently applied, unless otherwise stated. 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 is the calendar year. Reporting and valuation are made on a going concern assumption.

(2) Principles of Consolidation

The Consolidated Financial Statements comprise the financial statements of ProCredit Holding together with its subsidiaries. Subsidiaries are all companies which are controlled by the group. For the ProCredit group, control over a subsidiary is achieved when ProCredit Holding is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date on which control ceases. An overview of the principal subsidiaries is given in note (50). The group has no interest in joint ventures or associates.

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

(3) Accounting developments

(a) Standards, amendments and interpretations effective on or after 1 January 2016

- Annual Improvements to IFRSs 2010-2012 Cycle had a minor impact on the financial statements of the group. The improvements are applicable retrospectively for annual periods beginning on or after 1 February 2015.
- Amendments to IAS 1 "Disclosure Initiative" had a minor impact on the financial statements. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2016.
- Annual Improvements to IFRSs 2012-2014 Cycle had a minor impact on the financial statements of the group. The improvements are effective retrospectively for annual periods beginning on or after 1 January 2016.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the group's financial statements:

Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions", Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception", Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations", IFRS 14 "Regulatory Deferral Accounts", Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation", Amendments to IAS 16 and IAS 41 "Bearer plants", Amendments to IAS 27 "Equity Method in Separate Financial Statements".

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

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

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

- IFRS 9 "Financial Instruments" will have an impact on the recognition and measurement, the impairment as well as on the disclosure requirements of financial instruments. The group does not expect that the new classification requirements will have a material impact. Based on the preliminary assessment, the application of IFRS 9 impairment requirements is expected to result in an increase in loss allowance at the moment of transition and moderate increases for expenses for allowance for losses on loans and advances. The new hedge accounting requirements will not affect the financial statements as the group does not apply hedge accounting. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Clarifications to IFRS 15" will have a minor impact on the financial statements. Both are effective for annual periods beginning on or after 1 January 2018.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" will have a minor impact on the financial statements. The consideration is effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 40 "Transfers of Investment Property" will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2018.
- IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of leases. The overall impact of the standard is currently being assessed. The standard is applicable for annual periods beginning on or after 1 January 2019.

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the group's financial statements:

Annual Improvements to IFRS Standards 2014-2016 Cycle, Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", Amendments to IFRS 4: "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts", Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture".

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

(4) Segment reporting

The group aggregates its operations into reporting segments according to geographical regions. Each of these segments exhibits individual risk and return characteristics, as described in the management report. Based on the location of the principal operations of the entities, the segments are: Germany, Eastern Europe, South Eastern Europe and South America. The institutions in the former segment Central America have already been sold or are planned to be sold in the coming months. The respective assets, liabilities and profit of the period are shown as held for sale or discontinued operations.

(5) Use of assumptions and estimates

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

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

(a) Impairment of credit exposures

The estimation of impairments of credit exposures requires management judgement to determine whether there is objective evidence of impairment and to make assumptions about the financial conditions of the borrower and expected future cash flows. This is done on an individual basis and on a collective basis. To determine the rates to be applied for portfolio-based loan loss provisioning, the group performed an evaluation of the quality of the loan portfolio, taking into account historical loss experiences for each institution. This analysis reflects the average losses during a period which contains economic growth and favourable economic environments as well as the economic downturn during the financial crisis in many of our countries of operation. Therefore management considers this methodology to be appropriate for the assessment of expected losses. Further information on the group's accounting policy on loan loss provisioning can be found in note (10).

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

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

(c) Goodwill impairment testing

Goodwill on the acquisition of subsidiaries is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. In performing goodwill impairment testing, a discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Significant management judgement is involved in estimating future cash flows and in determining the discount rate assigned to each cash-generating unit. The cash flow projection is based on the latest five-year business planning as approved by the Supervisory Board of the respective entity and therefore necessarily and appropriately reflects management's view of future business prospects. Estimated future cash flows are extrapolated in perpetuity due to the long-term perspective of the equity investments, using management's best estimate for determining future net growth rates based on currently observable data and economic projections. The estimated future cash flows are discounted at specific equity discount rates which reflect the risk profile of the individual entity. The pre-tax discount factors are derived from a group pricing model and are between 10.1% and 13.5% (2015: between 10.0% and 15.2%). Goodwill is tested by comparing the respective net present value of future cash flows from a subsidiary (value in use) with the carrying value of its net assets plus goodwill. The group's accounting policy for goodwill is described in note (12).

(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 (14)). The profit projection is based on the latest business planning as of December 2016 approved by the Supervisory Board of the respective entity and therefore reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see notes (25) and (35).

(6) Accounting policies, changes in accounting estimates and errors

In prior periods measurement effects and gains or losses from the sale of institutions that were classified as discontinued operations were presented within the positions "Net other operating income" and "Income tax expenses" as recognised for ProCredit Holding and therefore as continuing operations. These effects were corrected in accordance with IAS 8.41 ff. (restatement) in order to show the gains and losses within the position "Profit of the period from discontinued operations". Profit of the period was unaffected by this restatement. The following tables show the retrospective application of the respective items:

in '000 EUR	1.1.-31.12.2015*			1.1.-31.12.2014*		
	former	change	restated	former	change	restated
Net other operating income	-11,637	-3,786	-15,423	-13,699	4,665	-9,034
Operating income	317,104	-3,786	313,318	328,234	4,665	332,899
Profit before tax	70,994	-3,786	67,209	58,297	4,665	62,961
Income tax expenses	17,731	0	17,731	19,468	-768	18,700
Profit of the period from continuing operations	53,264	-3,786	49,478	38,829	5,433	44,262
Profit of the period from discontinued operations	8,071	3,786	11,857	11,388	-5,433	5,955
Profit of the period	61,335	0	61,335	50,217	0	50,217

* Restatement before the first-time reclassification of Banco Pyme Los Andes ProCredit Bolivia as discontinued operations as of September 30, 2016 (see also note (50))

Furthermore, notes (45) and (50) contain enhanced disclosures relevant for previous financial statements.

(7) Financial instruments

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

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

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

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

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

(b) Loans and receivables

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

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the Consolidated Statement of Profit or Loss under "net interest income". At each balance sheet date and whenever there is evidence of potential impairment, the group assesses the value of its loans and receivables. As a consequence, their carrying amount may be reduced through the use of an allowance account (see note (10) for the accounting policy for impairment of credit exposures, as well as (17), and (31)). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

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

(c) Available-for-sale financial assets

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

At initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. In exceptional cases, in which fair value information cannot otherwise be measured reliably, they are measured at cost. The fair values reported are either observable market prices in active markets or values calculated with a valuation technique based on currently observable market data. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the position "Revaluation reserve from available-for-sale financial assets", until the financial asset is derecognised or impaired (for details on impairment, see note (10)). At this time, the cumulative gain or loss previously recognised in equity in other comprehensive income is recognised in profit or loss as "Net result from available-for-sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the Consolidated Statement of Profit or Loss. Dividend payments on available-for-sale equity instruments are recognised in the Consolidated Statement of Profit or Loss.

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

(d) Other financial liabilities at amortised cost

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

(8) Measurement basis

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

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

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

Level 1 Inputs

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

Level 2 Inputs

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

Level 3 Inputs

Unobservable inputs for the asset or liability. If observable market rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates are determined taking into consideration the cost of funds depending on currencies and maturities plus a risk margin, f.e. ProCredit Group funding rates. Internal rates are regularly compared to those applied for third party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

(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 general, the functional currency corresponds with the local currency.

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

- Impairment of loans and advances

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

- Specific provisions for loan impairment

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

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

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

- Collectively assessed loans and advances

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

The collective assessment of impairment for individually insignificant credit exposures (allowance for individually insignificant impaired loans) and for unimpaired individual significant credit exposures (allowance for collectively assessed loans) is based on a quantitative analysis of default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis). As a result of this qualitative analysis, the holding company's management prescribed appropriate rates to the banks of the ProCredit group as the basis for their portfolio-based impairment allowances. Once a year, these rates are subject to backtesting.

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

Reversal of impairment

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

Writing off loans and advances

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

Restructured credit exposures

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

Assets acquired in exchange for loans (repossessed property)

Repossessed properties are non-financial assets acquired in exchange for loans as part of an orderly realisation and are reported as "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for the respective assets. Any subsequent write-down as well as an increase to the extent that does not exceed the cumulative write-down are recognised in the Consolidated Statement of Profit or Loss in "Net other operating income".

(b) Assets classified as available-for-sale

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

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

(11) Property, plant and equipment and Investment property

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

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

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

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

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

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

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

(12) Intangible assets*(a) Goodwill*

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

(b) Software

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

(13) Leases*(a) ProCredit is the lessee**Operating lease*

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

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

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

Operating leases

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

(14) Income tax*(a) Current income tax*

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

(b) Deferred income tax

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

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

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

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

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

B. Notes to the Statement of Profit or Loss

(16) Net interest income

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Interest and similar income from		
Cash and cash equivalents	10,174	7,314
Loans and advances to banks	3,069	2,096
Available-for-sale assets	805	2,142
Loans and advances to customers	306,873	349,589
Unwinding	5,984	6,931
Early closure of Term Deposit Accounts	692	1,087
Interest and similar income	327,597	369,160
Interest and similar expenses on		
Liabilities to banks	10,575	10,414
Liabilities to customers	52,958	59,835
Liabilities to international financial institutions	17,304	16,984
Debt securities*	7,183	8,645
Subordinated debt and hybrid capital*	8,633	12,400
Option agreements	120	157
Interest and similar expenses	96,771	108,434
Net interest income	230,825	260,726

* The breakdown of the previous year's figures has been adapted to the current disclosure structure

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

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

(17) Allowance for impairment losses on loans and advances

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Increase of impairment charge	150,780	196,513
Release of impairment charge	-114,855	-139,302
Recovery of written-off loans	-18,608	-19,686
Direct write-offs	1,315	4,564
Allowance for losses on loans and advances to customers	18,632	42,089

The total increase of impairment charge comprises the following entries:

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Specific impairment	47,111	70,964
Allowance for individually insignificant impaired loans	48,264	75,528
Allowance for collectively assessed loans	55,405	50,021
Increase of impairment charge	150,780	196,513

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

(18) Net fee and commission income

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Fee and commission income from		
Payment services	24,902	28,074
Debit/credit cards	11,853	11,459
Account maintenance fee	11,864	11,071
Letters of credit and guarantees	4,545	5,146
Other fee and commission income	5,056	6,141
Fee and commission income	58,220	61,891
Fee and commission expenses on		
Payment services	4,178	4,253
Debit/credit cards	7,790	7,033
Account maintenance fee	2,011	1,644
Letters of credit and guarantees	716	739
Other fee and commission expenses	554	477
Fee and commission expenses	15,249	14,146
Net fee and commission income	42,971	47,745

(19) Result from foreign exchange transactions

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Currency exchange	13,114	14,535
Net gains and losses from FX revaluation	-4,245	-3,544
Result from foreign exchange transactions	8,869	10,992

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

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

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Net result from fair value changes of financial instruments at fair value through profit or loss:		
Derivative financial instruments	314	333
Financial instruments designated at fair value through profit or loss	0	1,500
Net interest income from financial instruments at fair value through profit or loss:		
Derivative financial instruments	-1,288	-1,130
Financial instruments designated at fair value through profit or loss	0	124
Net result from financial instruments at fair value through profit or loss	-975	827

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

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Net result from disposal (reclassified)	4,211	-32
Dividend income	375	210
Impairment	0	-12
Net result from available-for-sale financial assets	4,585	166

(22) Net other operating income

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015**
Decrease of liabilities from put option agreements	561	402
Income from previous years	534	356
Reversal of provisions	1,911	1,431
Income from reimbursement of expenses	686	775
Reversal of impairment of repossessed property	648	333
Surplus from sale of repossessed property	1,120	1,097
Surplus from sale of property, plant and equipment	969	2,344
Income from IT-services*	4,903	0
Income from litigation settlements	440	416
Others	2,886	5,281
Other operating income	14,658	12,435

* The previous year's "Income from IT services" was not collected separately and is shown as "Others"

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Expenses for deposit insurance	10,411	10,771
Increase of liabilities from put option agreements	0	203
Expenses to be reimbursed	168	444
Loss from disposal of property, plant and equipment	2,685	4,489
Impairment of repossessed properties	3,221	3,687
Administration of repossessed properties	1,174	474
Impairment of goodwill	0	226
Expenses from litigation settlements	1,355	1,348
Expenses for provisions for off-balance sheet items	634	823
Tax expenses from previous years	547	119
Others	2,762	3,224
Other operating expenses	22,956	25,808
Net other operating income	-8,298	-13,373

** Previous years figures were restated. Please also see note (6).

(23) Personnel expenses

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Salary expenses	71,926	79,187
Social security expenses	8,676	9,459
Post-employment benefits plans (Defined contribution plans)	3,755	4,036
Post-employment benefits plans (Defined benefit plans)	211	292
Other employee benefits	3,595	5,653
Personnel expenses	88,163	98,627

(24) Administrative expenses

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Depreciation fixed and intangible assets incl. impairment	25,008	23,868
Operating lease expenses	15,808	18,556
Non-profit tax	11,698	10,469
IT expenses	7,906	7,662
Communication	4,729	4,924
Transport	6,013	6,681
Repairs and maintenance	3,861	3,878
Office supplies	2,357	2,575
Security services	4,360	4,578
Marketing, advertising and representation	3,763	5,009
Utility and electricity expenses	3,869	4,470
Legal and audit fees	6,829	4,983
Consulting services	4,583	5,158
Insurances	3,264	3,376
Recruitment and other personnel-related expenses	1,866	1,634
Other administrative expenses	4,143	5,002
Administrative expenses	110,057	112,822

Of the total administrative expenses, EUR 8,744 thousand (2015: EUR 9,445 thousand) were incurred for staff training.

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

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Audit fees	453	426
Tax advice	0	0
Other confirmatory services	397	102
Other services	0	4
Group auditor expenses	851	531

(25) Income tax expenses

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Current tax	13,859	15,705
Deferred tax	234	-520
Income tax expenses	14,093	15,185

In calculating both the current taxes on income and earnings and the deferred income tax, the respective country-specific tax rates are applied. The average income tax rate for the reporting period was 16.4% (2015: 12.6%), calculated by dividing the total tax burden by the unconsolidated profits.

C. Notes to the Statement of Financial Position

(26) Cash and cash equivalents

in '000 EUR	31.12.2016	31.12.2015
Cash in hand	179,406	217,920
Balances at central banks	611,900	478,337
Money market instruments	146,002	137,934
Cash and cash equivalents	937,307	834,191
Cash from discontinuing operations	77,889	68,450
Loans and advances to banks with a maturity up to 3 months	279,707	332,305
Minimum reserve, which does not qualify as cash for the statement of cash flows	-315,835	-385,822
Cash and cash equivalents for the statement of cash flows	979,068	849,124

(27) Loans and advances to banks

in '000 EUR	31.12.2016	31.12.2015
up to three months	279,707	332,305
up to one year	2,315	201
more than one year	4,651	6,889
Loans and advances to banks	286,673	339,395

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

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

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

in '000 EUR	Contractual amount	Fair value	
As at December 31, 2015		Assets	Liabilities
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	151,909	861	2,279
Forwards	2,995	0	0
b) Interest rate derivatives			
Interest rate swaps	7,977	31	72
Total derivatives with third parties	162,881	891	2,350

(29) Available-for-sale financial assets

in '000 EUR	31.12.2016	31.12.2015
Fixed interest rate securities	173,628	136,045
Variable interest rate securities	73,983	65,487
Equity instruments	2,146	5,437
Available-for-sale financial assets	249,757	206,970

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

in '000 EUR	2016	2015
Revaluation reserve from available-for-sale financial assets		
As at January 1	3,749	153
Changes in fair value	-64	4,070
Amount recognised in income statement	-4,211	-32
Impairment	0	-12
Deferred taxes	546	-428
From discontinued operations	0	-3
As at December 31	20	3,749

(30) Loans and advances to customers

in '000 EUR As at December 31, 2016	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	2,634,052	-114,798	2,519,254	72.4%	64,146	37.4%
loan size up to 50.000 EUR/USD	568,687	-38,571	530,116	15.2%	47,217	27.5%
loan size 50.000 to 250.000 EUR/USD	1,042,877	-40,518	1,002,359	28.8%	14,446	8.4%
loan size more than 250.000 EUR/USD	1,022,488	-35,709	986,778	28.4%	2,483	1.4%
Agricultural loans	665,213	-23,790	641,423	18.4%	32,116	18.7%
loan size up to 50.000 EUR/USD	244,043	-12,494	231,550	6.7%	28,096	16.4%
loan size 50.000 to 250.000 EUR/USD	257,028	-7,595	249,433	7.2%	3,599	2.1%
loan size more than 250.000 EUR/USD	164,142	-3,702	160,440	4.6%	421	0.2%
Housing improvement loans	233,835	-7,532	226,303	6.5%	26,017	15.2%
loan size up to 50.000 EUR/USD	194,302	-6,661	187,641	5.4%	25,388	14.8%
loan size 50.000 to 250.000 EUR/USD	38,772	-864	37,908	1.1%	626	0.4%
loan size more than 250.000 EUR/USD	761	-7	754	0.0%	3	0.0%
Consumer loans*	70,209	-3,390	66,819	1.9%	42,630	24.9%
loan size up to 50.000 EUR/USD	68,540	-3,342	65,199	1.9%	42,565	24.8%
loan size 50.000 to 250.000 EUR/USD	1,669	-49	1,620	0.0%	65	0.0%
loan size more than 250.000 EUR/USD	0	0	0	0.0%	0	0.0%
Finance leases	2,323	-177	2,146	0.1%	208	0.1%
loan size up to 50.000 EUR/USD	590	-65	524	0.0%	193	0.1%
loan size 50.000 to 250.000 EUR/USD	178	-70	108	0.0%	11	0.0%
loan size more than 250.000 EUR/USD	1,556	-42	1,514	0.0%	4	0.0%
Other loans	12,349	-963	11,387	0.3%	6,416	3.7%
loan size up to 50.000 EUR/USD	8,869	-906	7,963	0.2%	6,354	3.7%
loan size 50.000 to 250.000 EUR/USD	2,640	-47	2,592	0.1%	61	0.0%
loan size more than 250.000 EUR/USD	841	-9	832	0.0%	1	0.0%
Other advances to customers**	10,719	0	10,719	0.3%	0	0.0%
Total	3,628,700	-150,651	3,478,049	100.0%	171,533	100.0%

* "Consumer loans" also include overdrafts to private individuals

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

in '000 EUR As at December 31, 2015	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	3,099,106	-135,495	2,963,612	75.4%	123,402	44.9%
loan size up to 50.000 EUR/USD	1,147,685	-58,027	1,089,657	27.7%	104,675	38.1%
loan size 50.000 to 250.000 EUR/USD	1,116,188	-43,958	1,072,230	27.3%	16,628	6.1%
loan size more than 250.000 EUR/USD	835,233	-33,510	801,724	20.4%	2,099	0.8%
Agricultural loans	688,672	-27,275	661,397	16.8%	45,787	16.7%
loan size up to 50.000 EUR/USD	334,331	-16,108	318,223	8.1%	42,061	15.3%
loan size 50.000 to 250.000 EUR/USD	234,598	-7,703	226,895	5.8%	3,408	1.2%
loan size more than 250.000 EUR/USD	119,743	-3,464	116,278	3.0%	318	0.1%
Housing improvement loans	222,098	-8,117	213,981	5.4%	30,684	11.2%
loan size up to 50.000 EUR/USD	193,090	-7,263	185,826	4.7%	30,198	11.0%
loan size 50.000 to 250.000 EUR/USD	28,361	-819	27,542	0.7%	483	0.2%
loan size more than 250.000 EUR/USD	647	-35	612	0.0%	3	0.0%
Consumer loans*	70,402	-4,115	66,287	1.7%	65,674	23.9%
loan size up to 50.000 EUR/USD	67,368	-3,980	63,389	1.6%	65,594	23.9%
loan size 50.000 to 250.000 EUR/USD	3,034	-136	2,898	0.1%	80	0.0%
loan size more than 250.000 EUR/USD	0	0	0	0.0%	0	0.0%
Finance leases	5,830	-432	5,398	0.1%	771	0.3%
loan size up to 50.000 EUR/USD	3,425	-190	3,234	0.1%	698	0.3%
loan size 50.000 to 250.000 EUR/USD	1,547	-137	1,410	0.0%	69	0.0%
loan size more than 250.000 EUR/USD	859	-104	754	0.0%	4	0.0%
Other loans	15,018	-1,173	13,845	0.4%	8,471	3.1%
loan size up to 50.000 EUR/USD	11,674	-1,123	10,551	0.3%	8,401	3.1%
loan size 50.000 to 250.000 EUR/USD	3,344	-50	3,294	0.1%	70	0.0%
loan size more than 250.000 EUR/USD	0	0	0	0.0%	0	0.0%
Other advances to customers**	3,813	0	3,813	0.1%	0	0.0%
Total	4,104,939	-176,608	3,928,332	100.0%	274,789	100.0%

* "Consumer loans" also include overdrafts to private individuals

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

The size categories refer to the initial loan amount.

(31) Allowance for losses on loans and advances

in '000 EUR	31.12.2016	31.12.2015
Specific impairment	61,875	70,249
Allowance for individually insignificant impaired loans	36,700	50,226
Allowance for collectively assessed loans	52,076	56,132
Allowance for losses on loans and advances to customers	150,651	176,608

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

in '000 EUR	2016	2015
As at January 1	176,608	188,471
Increase of impairment charge	150,780	213,724
Usage of allowance	-42,054	-48,876
Release of impairment charge	-114,855	-155,863
Unwinding effects	-5,976	-7,215
Exchange rate adjustments	-885	-259
From discontinued operations	-12,967	-13,375
As at December 31	150,651	176,608

In 2016 no allowances for impairment losses for loans and advances to banks were set aside, as there was no objective evidence of impairment.

(32) Property, plant and equipment and Investment property

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

in '000 EUR	Land and buildings	Leasehold improvements	Assets under construction	Furnitures and fixtures	IT and other equipment	Total PPE	Investment properties (at cost)
Total acquisition costs at January 1, 2015	144,437	40,704	4,814	32,746	146,878	369,578	4,743
Additions	3,165	7,409	7,892	4,719	24,291	47,477	509
Disposals	-2,286	-7,723	-39	-4,571	-12,558	-27,177	-391
Sale of subsidiaries/Discontinued operations	-26,144	-12,505	-1,543	-7,065	-27,082	-74,339	-2,359
Transfers	1,770	555	-2,498	-473	308	-339	339
Exchange rate adjustments	-1,937	377	-100	-1,062	1,919	-804	-335
Total acquisition costs at December 31, 2015	119,005	28,816	8,526	24,294	133,755	314,396	2,508
Accumulated depreciation January 1, 2015	-19,130	-28,441	0	-22,817	-105,859	-176,301	-821
Depreciation	-3,124	-3,443	0	-2,512	-14,029	-23,108	-65
Disposals	538	6,013	0	3,630	9,741	19,922	7
Sale of subsidiaries/Discontinued operations	3,948	8,618	0	6,416	18,744	37,726	525
Appreciation	0	0	0	0	0	0	0
Transfers	32	-26	0	26	0	32	-32
Exchange rate adjustments	193	-104	0	699	-1,244	-457	56
Accumulated depreciation at December 31, 2015	-17,542	-17,383	0	-14,612	-92,648	-142,185	-332
Net book value at December 31, 2015	101,463	11,433	8,526	9,682	41,107	172,211	2,176

(33) Intangible asset

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

(a) Goodwill

in '000 EUR	31.12.2016	31.12.2015
Goodwill		
Eastern Europe	2,167	2,332
South Eastern Europe	6,979	7,008
South America	1,147	2,211
Total	10,294	11,550

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

in '000 EUR	2016	2015
Goodwill		
Net book value at January 1	11,550	14,688
Impairment	0	-2,263
Exchange rate adjustments	-157	-875
From discontinued operations	-1,100	0
Net book value at December 31	10,294	11,550

In 2016, an impairment loss resulted from ProCredit Bank in Bolivia (EUR 1,100 thousand).

The largest share of goodwill is concentrated in the segment South Eastern Europe ProCredit Bank Romania (EUR 3.6 million) in particular. The following key assumptions were applied when testing goodwill impairment for ProCredit Bank Romania: A five year management planning period and related assumptions were extrapolated based on an equity growth rate of 9.0% and a terminal growth rate of 2.0%. The estimated future cash flows are discounted by 10.1%.

(b) Software

in '000 EUR	2016	2015
Software		
Total acquisition costs at January 1	53,194	56,197
Additions	5,784	6,946
Disposals	-1,696	-1,208
Sale of subsidiaries/Discontinued operations	-9,222	-9,018
Exchange rate adjustments	95	276
Total acquisition costs at December 31	48,156	53,194
Accumulated depreciation January 1	-40,988	-40,862
Depreciation	-5,979	-7,738
Disposals	1,640	706
Sale of subsidiaries/Discontinued operations	8,486	7,031
Exchange rate adjustments	-163	-124
Accumulated amortisation at December 31	-37,004	-40,988
Net book value at December 31	11,151	12,206

(34) Leasing

Finance lease receivables

in '000 EUR	31.12.2016			31.12.2015		
	Gross investment	Unearned finance income	Net investment	Gross investment	Unearned finance income	Net investment
Finance lease receivables						
no later than one year	936	100	836	3,739	86	3,653
later than one year and no later than five years	926	149	778	2,289	111	2,178
later than five years	859	150	709	0	0	0
Total	2,722	399	2,323	6,027	197	5,830

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

in '000 EUR	31.12.2016	31.12.2015
Allowance for uncollectable leasing receivables	-177	-432
Total	-177	-432

Operating lease commitments

in '000 EUR	31.12.2016	31.12.2015
Operating lease commitments		
no later than one year	8,791	10,677
later than one year and no later than five years	21,528	25,497
later than five years	13,729	14,985
Total	44,048	51,159

Operating lease commitments result primarily from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements. The total amount of expenses recognised in connection with such leases in 2016 is EUR 15,808 thousand (2015: EUR 18,556 thousand).

Operating lease receivables

in '000 EUR	31.12.2016	31.12.2015
Operating lease receivables		
no later than one year	64	107
later than one year and no later than five years	60	57
later than five years	0	0
Total	124	164

All operating lease receivables result from investment properties.

(35) Income taxes

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

in '000 EUR	31.12.2016	31.12.2015
Accelerated tax depreciation	265	212
Allowance for losses on loans and advances to customers	1,274	820
Revaluation reserve	1	-441
Tax loss carried forward	4,316	4,434
Other provisions	205	174
Other temporary differences	350	803
Deferred tax assets	6,411	6,001

in '000 EUR	31.12.2016	31.12.2015
Accelerated tax depreciation	591	635
Allowance for losses on loans and advances to customers	2,266	5,367
Derivatives	0	18
Revaluation reserve	-139	41
Other provisions	-655	-738
Other temporary differences	-163	-1,071
Deferred tax liabilities	1,900	4,251

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

in '000 EUR	2016	2015
As at 1 January	2,986	4,646
Available-for-sale financial assets:		
fair value remeasurement	108	-388
transfer to net profit	541	-71
Charges to income statement	-234	18
Exchange rate adjustments	-983	612
Sale of subsidiaries	2,098	-1,831
As at 31 December	4,515	2,986

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

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Accelerated tax depreciation	94	133
Allowance for losses on loans and advances to customers	1,002	1,417
Derivatives	0	142
Tax loss carried forward	371	1,235
Other provisions	-31	268
Other temporary differences	545	845
Deferred tax expenses	1,982	4,039

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Accelerated tax depreciation	90	25
Allowance for losses on loans and advances to customers	1,541	2,315
Derivatives	0	420
Tax loss carried forward	0	652
Other provisions	-38	102
Other temporary differences	155	1,047
Deferred tax income	1,748	4,559

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

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Profit before tax	61,125	70,994
Tax expected	10,347	13,520
Tax effects of items which are not deductible:		
non-taxable income	-26,326	-15,862
non-tax deductible expenses	10,661	4,221
no tax asset built on tax loss carry forwards	5,829	1,566
tax effect on consolidation	13,583	14,286
changes in discontinued operations	0	-2,546
Income tax expenses	14,093	15,185
Exchange rate differences	-935	621
Changes in deferred tax assets	-1,001	-1,831
Changes in deferred tax liabilities	2,351	769
Changes in comprehensive income	-648	459
Changes in discontinued operations	0	502
Current income tax expenses	13,859	15,705

Unused loss carry-forwards contain an amount of EUR 4.9 million for ProCredit Holding. ProCredit Holding does not establish deferred tax assets for losses carried forward, as it will not be possible to make use of these assets within the five-year tax planning period.

(36) Other assets

in '000 EUR	31.12.2016	31.12.2015
Reposessed properties	26,842	25,902
Accounts receivable	11,429	11,999
Prepayments	13,107	13,059
Guarantees	481	1,874
Other inventory items	914	1,570
Others	10,363	8,960
Other assets	63,136	63,363

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

in '000 EUR	31.12.2016	31.12.2015
Eastern Europe	2,929	3,938
South Eastern Europe	19,910	19,817
South America	4,003	2,146
Reposessed properties	26,842	25,902

(37) Liabilities to banks

in '000 EUR	31.12.2016	31.12.2015
up to three months	94,055	90,921
up to one year	53,471	50,535
more than one year	170,066	252,788
Liabilities to banks	317,592	394,244

(38) Liabilities to customers

in '000 EUR	31.12.2016	31.12.2015
Current accounts	1,606,443	1,343,675
<i>private individuals</i>	721,615	619,196
<i>legal entities</i>	884,828	724,479
Savings accounts	722,004	611,609
<i>private individuals</i>	607,898	564,739
<i>legal entities</i>	114,107	46,870
Term deposit accounts	1,146,651	1,837,709
<i>private individuals</i>	905,999	1,206,374
<i>legal entities</i>	240,653	631,335
Liabilities to customers	3,475,099	3,792,994

(39) Liabilities to international financial institutions

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2021	noncash-relevant	31.12.16
Liabilities with fixed interest rates	67,223	42,481	27,308	19,923	38,980	-898	195,017
Liabilities with variable interest rates	73,204	73,484	54,988	38,022	60,978	-181	300,495
Liabilities from put/call options	3,750	0	0	0	0	0	3,750
Liabilities to international financial institutions	144,177	115,966	82,296	57,946	99,957	-1,079	499,263

in '000 EUR	due in 2016	in 2017	in 2018	in 2019	after 2020	noncash-relevant	31.12.15
Liabilities with fixed interest rates	61,449	42,411	32,137	24,587	39,351	-1,139	198,796
Liabilities with variable interest rates	78,023	63,425	67,123	38,797	59,655	-479	306,543
Liabilities from put/call options	878	3,226	0	0	0	0	4,104
Liabilities to international financial institutions	140,351	109,062	99,259	63,383	99,006	-1,618	509,443

(40) Debt securities

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2021	noncash-relevant	31.12.16
Debt securities with fixed interest rates	11,423	7,000	0	10,000	60,000	-2,522	85,901
Debt securities with variable interest rates	18,572	9,810	0	30,000	0	-538	57,844
Debt securities	29,995	16,810	0	40,000	60,000	-3,060	143,745

in '000 EUR	due in 2016	in 2017	in 2018	in 2019	after 2020	noncash-relevant	31.12.15
Debt securities with fixed interest rates	41,909	21,032	7,000	0	70,000	-2,745	137,196
Debt securities with variable interest rates	11,348	17,828	9,498	0	30,000	-682	67,992
Debt securities	53,257	38,859	16,498	0	100,000	-3,427	205,188

In 2016, debt securities totalling EUR 44,183 thousand were repaid. New securities were not issued.

(41) Other liabilities

in '000 EUR	31.12.2016	31.12.2015
Deferred income	2,248	2,351
Liabilities for goods and services	8,762	10,080
Liabilities to employees	455	1,542
Liabilities from social insurance contributions	687	954
Donations, grants for investments	679	1,195
Non-income tax liabilities	2,152	3,018
Others	3,752	7,894
Other liabilities	18,735	27,035

(42) Provisions

in '000 EUR	31.12.2016	31.12.2015
Provisions for		
Post-employment benefits	2,289	4,624
Imminent losses from off-balance sheet items	1,258	1,172
Imminent losses from pending transactions	1,954	1,749
Untaken vacation	2,275	2,268
Unbilled services	6,167	5,590
Other provisions	1,832	2,520
Total	15,775	17,923

The development of the provisions is as follows:

in '000 EUR	2016	2015
As at January 1	17,923	17,490
Additions	11,385	10,903
Releases	-2,552	-1,649
Used	-7,209	-8,534
Exchange rate adjustments	207	812
Unwinding	-7	70
Sale of subsidiaries	-3,971	-1,170
As at December 31	15,775	17,923

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

Provisions for imminent losses from pending transactions are mainly composed of provisions established for legal cases with former employees. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The majority of the legal cases are expected to be settled within a one-year period and the maximum expected settlement time is three years. For the settlements expected to be made after one year, an average interest rate of 4.25% (2015: 8.9%) was used for discounting expected cash flows.

Provisions for post-employment benefits are fully considered. The disclosure requirements of IAS 19 are not presented any more due to insignificance.

(43) Subordinated debt

in '000 EUR	due in 2017	in 2018	in 2019	in 2020	after 2021	noncash-relevant	31.12.16
Liabilities with fixed interest rates	1,688	0	23,717	0	38,000	-1,893	61,512
Liabilities with variable interest rates	734	0	14,190	0	94,588	0	109,512
Subordinated Debt	2,422	0	37,907	0	132,588	-1,893	171,024

in '000 EUR	due in 2016	in 2017	in 2018	in 2019	after 2020	noncash-relevant	31.12.15
Liabilities with fixed interest rates	979	0	0	22,963	20,000	-1,171	42,771
Liabilities with variable interest rates	464	0	0	13,722	74,396	0	88,583
Subordinated Debt	1,443	0	0	36,685	94,396	-1,171	131,353

(44) Subscribed capital

	Subscribed capital		Number of ordinary shares	
	2016	2015	2016	2015
As at January 1	254,122,820	254,122,820	50,824,564	50,824,564
Capital increase	13,597,600	-	2,719,520	-
As at December 31	267,720,420	254,122,820	53,544,084	50,824,564

All issued shares are non-par value shares and fully paid. The holder of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share. At the Shareholders Meeting, the management intends to propose the distribution of a dividend of EUR 0.38 per share, equating to EUR 20.3 million.

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

D. Additional Notes**(45) Segment reporting**

in '000 EUR 31 December 2016	Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities and commitments
Germany	1,528,715	922,221	7,970
Eastern Europe	1,090,794	952,977	100,672
South Eastern Europe	3,563,062	3,112,139	487,564
South America	481,153	415,321	13,418
Discontinued Operations*	461,784	414,466	0
Consolidation	-1,468,245	-806,974	0
Total	5,657,264	5,010,151	609,625

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

in '000 EUR 31 December 2015	Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities and commitments
Germany	1,294,642	737,760	21,393
Eastern Europe	937,606	828,574	81,009
South Eastern Europe	3,358,108	2,932,087	426,028
South America	1,168,784	1,015,307	31,033
Discontinued Operations*	740,894	652,354	0
Consolidation	-1,500,012	-767,036	0
Total	6,000,022	5,399,047	559,464

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

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

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

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

in '000 EUR 1.1.-31.12.2015	Germany*	Eastern Europe	South Eastern Europe	South America	Consolidation	Group*
Interest and similar income	26,542	101,139	216,329	48,187	-23,037	369,160
of which inter-segment	22,841	27	151	19		
Interest and similar expenses	29,189	41,512	41,733	15,740	-19,740	108,434
of which inter-segment	5,843	3,911	7,268	2,718		
Net interest income	-2,646	59,627	174,596	32,446	-3,297	260,726
Allowance for losses on loans and advances to customers	141	18,704	19,095	4,148	0	42,089
Net interest income after allowances	-2,788	40,923	155,501	28,298	-3,297	218,637
Fee and commission income	6,710	12,633	47,436	2,173	-7,060	61,891
of which inter-segment	5,852	0	1,208	0		
Fee and commission expenses	1,240	3,273	13,668	1,640	-5,675	14,146
of which inter-segment	64	776	4,395	440		
Net fee and commission income	5,470	9,360	33,768	532	-1,385	47,745
Result from foreign exchange transactions	-795	6,025	6,061	-23	-277	10,992
Net result from financial instruments at fair value through profit or loss	-870	1,772	-76	0	0	827
Net result from available-for-sale financial assets	-5,458	173	-1	7	5,446	166
of which inter-segment	-5,446					
Net other operating income	100,272	-884	-12,101	3,940	-104,600	-13,373
of which inter-segment	97,391	40	1,388	5,780		
Operating income	95,832	57,369	183,152	32,755	-104,114	264,994
Personnel expenses	21,756	14,473	51,998	10,400	0	98,627
Administrative expenses	27,260	22,733	69,862	21,301	-28,334	112,822
of which inter-segment	5,522	4,811	10,515	7,487		
Operating expenses	49,016	37,206	121,860	31,701	-28,334	211,449
Profit before tax	46,816	20,163	61,291	1,054	-75,780	53,545
Income tax expenses	2,657	3,088	8,052	1,388		15,185
Profit of the period from continuing operations	44,159	17,075	53,239	-334	-75,780	38,360
Profit of the period from discontinued operations**						22,975
Profit of the period	44,159	17,075	53,239	-334	-75,780	61,335
Profit attributable to ProCredit shareholders						59,575
Profit attributable to non-controlling interests						1,760

* Previous years figures were restated. Please also see note (5)

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

(46) Earnings per share

in '000 EUR	Continuing Operations		Discontinued Operations		Total	
	2016	2015	2016	2015	2016	2015
Profit of the period	47,031	38,360	13,977	22,975	61,009	61,335
Profit attributable to ProCredit shareholders	45,491	37,407	13,931	22,168	59,422	59,575
Profit attributable to non-controlling interests	1,541	953	46	807	1,586	1,760
Weighted average number of ordinary shares	51,051,191	50,824,564	51,051,191	50,824,564	51,051,191	50,824,564
Earnings per share* (in EUR)	0.89	0.74	0.27	0.44	1.16	1.17

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

(47) Fair value of financial instruments

in '000 EUR 31.12.2016	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash and cash equivalents	AFV/LaR/AfS	937,307	937,307	179,406	757,901	0
Loans and advances to banks	LaR	286,673	286,673	0	286,673	0
Financial assets at fair value through profit or loss	AFV	243	243	0	243	0
Available-for-sale financial assets	AfS	249,757	249,757	165,935	83,033	789
Loans and advances to customers	LaR	3,478,049	3,487,405	0	0	3,487,405
Investment properties	n/a	1,918	1,918	0	0	1,918
Repossessed properties	n/a	26,842	26,842	0	97	26,745
Total		4,952,030	4,961,385	345,341	1,127,850	3,488,194
Financial liabilities						
Liabilities to banks	AC	317,592	330,889	0	93,222	237,667
Financial liabilities at fair value through profit or loss	AFV	1,367	1,367	0	1,367	0
Liabilities to customers	AC	3,475,099	3,473,586	0	2,370,019	1,103,567
Liabilities to international financial institutions	AC	499,263	492,757	0	12,849	479,908
Debt securities	AC	143,745	161,610	21,278	0	140,332
Subordinated debt	AC	171,024	162,572	0	0	162,572
Total		4,608,090	4,622,780	21,278	2,477,456	2,124,046
Contingent liabilities						
Contingent liabilities and commitments	n/a	-	1,258	0	0	1,258

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

in '000 EUR 31.12.2015	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash and cash equivalents	AFV/LaR/AfS	834,191	834,191	217,920	616,271	0
Loans and advances to banks	LaR	339,395	339,412	0	339,412	0
Financial assets at fair value through profit or loss	AFV	891	891	0	891	0
Available-for-sale financial assets	AfS	206,970	206,970	134,823	71,282	864
Loans and advances to customers	LaR	3,928,332	3,980,859	0	0	3,980,859
Total		5,309,778	5,362,322	352,743	1,027,857	3,981,722
Financial liabilities						
Liabilities to banks	AC	394,244	405,672	0	88,539	317,132
Financial liabilities at fair value through profit or loss	AFV	2,350	2,350	0	2,350	0
Liabilities to customers	AC	3,792,994	3,793,195	0	2,188,680	1,604,515
Liabilities to international financial institutions	AC	509,443	506,221	0	10,653	495,568
Debt securities	AC	205,188	220,878	50,144	0	170,733
Subordinated debt	AC	131,353	125,685	0	0	125,685
Total		5,035,573	5,054,001	50,144	2,290,222	2,713,634
Contingent liabilities						
Contingent liabilities and commitments	n/a	-	1,172	0	0	1,172

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

ProCredit's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value determination is carried out as described in note (8). For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value. The ProCredit group has no fair value financial instruments with Level 3 inputs, with the exception of an insignificant amount of available-for-sale shares.

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

(48) Pledged and transferred assets

in '000 EUR	31.12.2016		31.12.2015	
	Pledged assets that can be repledged or sold	related liability	Pledged assets that can be repledged or sold	related liability
Loans and advances to banks	4,759	1,136	5,685	1,264
Available-for-sale financial assets	995	4,035	1,001	1,001
Loans and advances to customers	44,937	49,865	90,265	89,949
Total	50,691	55,036	96,950	92,213

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

(49) Contingent liabilities

in '000 EUR	31.12.2016	31.12.2015
Credit commitments (revocable)	431,832	384,591
Guarantees	162,787	158,437
Credit commitments (irrevocable)	8,781	10,084
Letters of credit	6,224	6,353
Contingent liabilities and commitments*	609,625	559,464

* The breakdown of the previous year's figures has been adapted to the current disclosure structure

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

(50) Principal subsidiaries

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

#	Name of institution	Company purpose	Principal place of business	Turnover in '000 EUR	Profit before tax in '000 EUR	Income tax expenses in '000 EUR	Staff No.	Proportion of ownership interest	
								31.12.2016	31.12.2015
EU member states									
1	ProCredit Bank (Bulgaria) E.A.D.	Credit institution with banking licence	Bulgaria	46,117	21,627	2,325	441	100.0	100.0
2	ProCredit Bank AG	Credit institution with banking licence	Germany	7,273	787	0	59	100.0	100.0
3	ProCredit Academy GmbH*	Training academy	Germany	3,961	0	0	32	100.0	100.0
4	Quipu GmbH	IT consulting and software company	Germany	21,615	524	271	307	100.0	100.0
5	PC Finance II B.V.	Special purpose vehicle	The Netherlands	304	0	0	0	n/a	n/a
6	ProCredit Bank S.A.	Credit institution with banking licence	Romania	18,232	1,262	209	259	100.0	100.0
Non-EU member states									
7	ProCredit Bank Sh.a	Credit institution with banking licence	Albania	10,800	214	151	235	100.0	100.0
8	Banco Pyme Los Andes ProCredit S.A.	Credit institution with banking licence	Bolivia	43,406	10,865	2,797	0	0.0	100.0
9	ProCredit Bank d.d.	Credit institution with banking licence	Bosnia and Herzegovina	8,651	149	111	195	100.0	100.0
10	Banco ProCredit Colombia S.A.	Credit institution with banking licence	Colombia	2,101	-2,030	0	124	94.3	93.0
11	Banco ProCredit S.A.	Credit institution with banking licence	Ecuador	21,274	1,300	1,064	363	100.0	100.0
12	Fideicomiso Primera Titularización de Cartera Comercial Pymes ProCredit	Special purpose vehicle	Ecuador	1,555	0	0	0	n/a	n/a
13	Banco ProCredit S.A.	Credit institution with banking licence	El Salvador	14,532	44	721	365	99.9	99.9
14	JSC ProCredit Bank	Credit institution with banking licence	Georgia	32,652	10,724	1,444	367	100.0	100.0
15	ProCredit Bank Sh.a	Credit institution with banking licence	Kosovo	40,918	17,837	1,778	444	100.0	100.0
16	ProCredit Bank A.D.	Credit institution with banking licence	Macedonia	15,601	5,031	311	226	100.0	100.0
17	ProCredit Regional Academy* Eastern Europe	Training academy	Macedonia	668	-24	7	19	100.0	100.0
18	ProConfianza S.A. de C.V., SOFOM, E.N.R.	Credit institution without banking licence	Mexico	153	44	0	0	0.0	99.2
19	Administración y Recuperación de Cartera Michoacán S. A. de C. V., SOFOM, E. N. R	Special purpose vehicle	Mexico	-517	-777	0	7	100.0	100.0
20	BC ProCredit Bank	Credit institution with banking licence	Moldova	10,482	1,819	303	133	82.1	82.1
21	Banco ProCredit S.A.	Credit institution with banking licence	Nicaragua	15,216	1,634	730	308	94.9	94.7
22	ProCredit Bank a.d. Beograd	Credit institution with banking licence	Serbia	37,713	15,403	2,347	485	100.0	100.0
23	JSC ProCredit Bank	Credit institution with banking licence	Ukraine	29,749	13,337	2,709	281	86.0	72.2

* not considered in the regulatory scope of consolidation

Turnover is defined as operating income before loan loss provisions and administrative expenses. The amounts shown are reported for each country without eliminating transactions between group companies, i.e. based on the respective annual financial statements for each subsidiary. The number of staff is presented as at year-end 2016. The group has no subsidiary with a material non-controlling interest according to voting shares.

In 2016, the ProCredit group received public funding in the amount of EUR 407 thousand (2015: 124 thousand).

(a) Acquisition of interest in a subsidiary

ProCredit Holding increased its stake by capital increases in Banco ProCredit Colombia by 1.3%, Banco ProCredit Nicaragua by 0.2%, and in ProCredit Bank Ukraine by a further 13.9%.

(b) Disposal of interest in a subsidiary

In 2016, ProCredit Holding sold all of its shares in ProConfianza Mexico and Banco Pyme Los Andes ProCredit Bolivia. Furthermore, ProCredit Holding intends to sell all of its shares in Banco ProCredit El Salvador and Banco ProCredit Nicaragua. The disposal group is classified as held for sale at the lower of its carrying amount and fair value less cost to sell. The fair value measurement for the assets and liabilities held for sale is based on currently negotiated selling prices. The net results on disposal are recognised as profit of the period from discontinued operations. The assets, liabilities, and profit of the period of the discontinued operations are presented as follows:

in '000 EUR Assets	sold		held for sale	
	Mexico	Bolivia	El Salvador	Nicaragua
Cash and cash equivalents	2	96,606	47,369	30,519
Loans and advances to banks	573	36,774	297	1,443
Financial assets at fair value through profit or loss	0	0	0	0
Available-for-sale financial assets	0	93	5,407	237
Loans and advances to customers	10,566	584,546	230,922	122,217
Allowance for losses on loans and advances to customers	-381	-16,367	-4,864	-2,662
Property, plant and equipment	95	15,957	8,232	9,362
Investment properties	0	0	0	1,944
Intangible assets	0	736	824	695
Current tax assets	85	0	0	280
Deferred tax assets	2,848	0	229	0
Other assets	71	2,497	5,426	3,521
Assets disposed/held for sale	13,860	720,843	293,842	167,556

in '000 EUR Liabilities	sold		held for sale	
	Mexico	Bolivia	El Salvador	Nicaragua
Liabilities to banks	9,374	76,366	0	13,262
Financial liabilities at fair value through profit or loss	0	0	0	0
Liabilities to customers	0	525,503	174,987	112,322
Liabilities to international financial institutions	35	0	29,491	11,489
Debt securities	0	11,269	16,176	0
Other liabilities	211	3,520	3,235	1,335
Provisions	44	3,927	127	370
Current tax liabilities	0	1,245	782	0
Deferred tax liabilities	0	1,685	0	1,183
Subordinated debt	0	0	2,790	0
Liabilities disposed/related to assets held for sale	9,664	623,516	227,589	139,962
Net assets disposed	4,196	97,326		

in '000 EUR	sold		held for sale	
	Mexico	Bolivia	El Salvador	Nicaragua
Proportion of non-controlling interests	0.8%	0.0%	0.1%	5.3%
Non-controlling interests	34	0		
Time of sale	Jan. 16	Dec. 16	pending	pending
Consideration received	3,646	88,300		
Net assets disposed without non-controlling interests	4,162	97,326		
Reclassification of translation reserve	-1,399	18,603		
Reclassification of capital reserves	-864	-126		
Tax on sale of institution	0	-2,808		
Result on disposal	-2,781	6,643		

The result of discontinued operations is as follows:

in '000 EUR	1.1.–31.12.2016	1.1.–31.12.2015*
Results of discontinued operations		
Income	108,069	139,440
Expenses	96,513	122,331
Result on disposal (exclusive taxes)	6,670	5,823
Profit before tax	18,226	22,932
Income tax expenses	7,056	5,780
Profit of the period	13,977	22,975
Profit attributable to ProCredit shareholders	13,931	22,168
Profit attributable to non-controlling interests	46	807
Earnings per share (discontinued operations) in EUR	0.27	0.44
Items that will not be reclassified to profit or loss		
Change in revaluation reserve from remeasurements of post employment benefits (incl deferred taxes)	-407	59
Items that are or may be reclassified to profit or loss		
Change in revaluation reserve from available-for-sale financial assets (incl deferred taxes)	0	3
Change in translation reserve	-13,814	14,229
Other comprehensive income of the period, net of tax discontinued operations	-14,222	14,291
Total comprehensive income of the period	-244	37,266

* For 2015, ProCredit Bank Armenia, Banco Pyme Los Andes ProCredit Bolivia, ProCredit Bank Congo, Banco ProCredit El Salvador, ProConfianza Mexico, and Banco ProCredit Nicaragua are shown as discontinued operations

(c) Significant restrictions

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

In some countries where the ProCredit group operates dividend payments might be subject to certain restrictions insofar as the regulatory authorities must approve of the dividend payout.

Since the end of 2014, the National Bank of Ukraine has introduced limits on foreign currency transactions with the aim of stabilising the Ukrainian currency. Among other restrictions, it is not permissible to purchase foreign currency for the payment of dividends to foreign investors.

(d) Option agreements

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

Option agreements	counterparty	share	starting point option period
ProCredit Bank S.A., Colombia	IDB	5.7%	effective
ProCredit Bank S.A., Moldova	KfW	14.1%	effective

The option agreements result in a total liability of EUR 3.8 million as of 31 December 2016 (previous year: EUR 4.1 million), that is largely offset by the reduction in the reserve for shares held by other shareholders of EUR 4.1 million (previous year: EUR 4.0 million).

(51) Related party transactions

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

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

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

Assets							31.12.2016
Loans and advances to customers	0	7	0	0	0	0	7
Other Assets	9	0	0	43	0	1	52

Liabilities							31.12.2016
Liabilities to customers	43	329	79	0	0	0	451
Other liabilities	1	0	0	0	17	0	17

in '000 EUR	Management Board	Supervisory board	Family members of key personnel	IPC GmbH	ProCredit General Partner AG	Zeitinger Invest GmbH	1.1.-31.12.2015
Income	0	0	0	4	0	0	4
Expenses	19	68	24	1,096	1,255	0	2,462
Net income	-19	-68	-24	-1,092	-1,255	0	-2,458

Assets							31.12.2015
Loans and advances to customers	0	3	0	0	0	0	3
Other Assets	9	0	0	71	0	0	80

Liabilities							31.12.2015
Liabilities to customers	53	342	79	100	0	0	575
Other liabilities	0	0	0	0	0	0	0

(52) 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.-31.12.2016	1.1.-31.12.2015
Short-term benefits	586	927
Post employment benefits	106	114
Total	692	1,041

A detailed description of the management compensation can be found in the remuneration report. Each member of the Supervisory Board receives a compensation of EUR 10 thousand (2015: EUR 10 thousand).

(53) Number of employees

	2016		2015	
	Average	At year end	Average	At year end
Germany	435	444	353	345
Eastern Europe	901	781	1,156	1,046
South Eastern Europe	2,523	2,352	3,051	2,691
South America*	1,241	1,174	2,056	1,926
Total	5,100	4,751	6,616	6,008

* includes discontinued operations

(54) Events after the reporting period

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

Address and general information

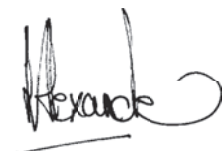
ProCredit Holding AG & Co. KGaA is a partnership limited by shares and is incorporated and domiciled in Germany (Handelsregister Frankfurt Section B No. 91858). The postal address of its registered office is as follows: Rohmerplatz 33 - 37, 60486 Frankfurt, Germany.

Frankfurt, 17 March 2017

ProCredit Holding AG & Co. KGaA

represented by:

ProCredit General Partner AG

Board of Management


Helen Alexander



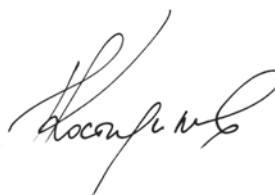
Dr. Anja Lepp



Sandrine Massiani



Dr. Gabriel Schor



Borislav Kostadinov





ProCredit Holding AG & Co. KGaA
Rohmerplatz 33-37
60486 Frankfurt am Main, Germany
Tel. +49-(0)69 - 95 14 37-0
Fax +49-(0)69 - 95 14 37-168
www.procredit-holding.com

© 03/2017 ProCredit Holding AG & Co. KGaA
All rights reserved