Quipu

Part of the ProCredit Group

2016
Annual Report

1. Basis of the company

1.1 Business model

Quipu GmbH ("Quipu"), founded in 2004, is an IT consultancy and software development company based in Frankfurt, Germany which provides customised support services for banks and other financial institutions. Quipu specialises in the development and implementation of a full range of software for financial institutions covering the needs of full-fledged commercial banks especially focused on SME lending, including support for treasury operations, electronic banking, customer relationship management, data warehousing and data analytics as well as front and back office activities. Moreover, Quipu also provides Third Party Processor (TPP) services, supporting a wide range of card products within the VISA, MasterCard and UPI payment systems. The TPP services include a personalisation centre for credit and debit cards. Finally, Quipu also maintains a data centre in Frankfurt from where it provides data hosting and software as services for its clients. While the company's main clients are ProCredit Holding AG & Co. KGaA (hereinafter "ProCredit Holding") and its subsidiaries, the majority of which are banks, Quipu also serves customers outside of the ProCredit group, especially in Africa, Central America and Central Asia.

The company's main office is in Frankfurt am Main. In addition, to guarantee an optimal level of support for the customers, Quipu maintains regional offices located in South-Central America (San Salvador, El Salvador and Bogota, Colombia, as subsidiaries), Africa (Accra, Ghana) and Eastern Europe (Skopje, Macedonia, Kiev, Ukraine and Bucharest, Romania), as well as a development team in Moscow, Russia. In addition, a subsidiary in Pristina, Kosovo offers personalisation services for the bank cards and credit cards issued by the banks.

Quipu became a wholly owned subsidiary of ProCredit Holding in January 2011.

Besides its main activities, Quipu is also very active in providing training and consultancy services to its clients, mainly in the area of technology support for business development but as well in all other areas of Information and Communication Technology, including the ever more important aspect of risk management, IT security and data protection.

1.2 Research and development

Quipu currently develops its products with a strong focus on the development needs of the ProCredit banks. At the core of the Quipu Banking Software Suite package are the two modules CustomWare and BankWare. While CustomWare supports daily banking procedures on a decentralised basis at the branch level, capturing and/or processing data relating to all business transaction, BankWare is used to record all accounting transactions resulting from those operations on centralised basis and make the data available to the to the head office for further processing. The development of the BankWare.NET module was completed and piloted in 2016 and the first implementation in production has been initiated and is estimated to go live in Q2 2017. Money market transactions and treasury functions are implemented through the add-on module DealWare, while the InfoWare extension module covers business intelligence functions. CRM (Customer Relationship Management) module is customised for the group based on the Microsoft Dynamics® framework and is primarily a tool to help Business Client Advisers (BCAs) to manage their relatively complex business clients in an organised and systematic way. Finally, clients of the banks can access their account and perform transactions in our e-Banking and Mobile-Banking Application banking application.

Different features of the software are required for different countries, taking account of the technical infrastructure, the local requirements and the historical development of the bank's business. The focal points of the development work to be carried out on the individual products is determined by the Management of by ProCredit Holding, advised by the Group IT committee, defined in detail in the annual Group IT Strategy, who defines the priorities or the order in which new software and upgrades are implemented in group banks.

The research and development costs in the past financial year totalled EUR 1,749k (2015: EUR 1,766k), and can be broken down as follows: CustomWare EUR 158k (2015: EUR 180k), DealWare EUR 395k (2015: EUR 398k), InfoWare EUR 101k (2015: EUR 124k), BankWare EUR 208k (2015: EUR 233k), e-Banking/CRM EUR 744k (2015: EUR 759k) and BankWare.NET EUR 143k (2015 EUR 73k.) In the past financial year, EUR 354k (2015: EUR 252k) of this total was attributable to services provided by freelance experts.

2. Report on the Economic Position of the Group

2.1 Course of business

2.1.1 Implementation of new product versions

In 2016 Quipu software was constantly updated in numerous banks and expanded with new features so as to keep pace with market trends and local regulatory requirements in the areas of accounting, tax, and reporting or data protection. Still, in 2016 significant resources and effort went into the migration from our old core banking system *CustomWare* to our new platform (*CustomWare.NET*) in ProCredit Banks, Serbia and Colombia, while the migration project was completed successfully in the ProCredit Bank Romania. One area of focus continued to be further development of the Quipu Banking Suite (*CustomWare*, *BankWare*) in order to comply with the regulatory reporting requirements in line with the introduction of Basel III and the standardisation of reporting across the EU. A special focus was on eenhancing the use and security of the automatic channels for transactions, such as the 24/7 Zones, e-Banking and cards.

The key strategic project in the accounting area is to replace of the existing accounting software (BankWare) with the BankWare.NET software, aimed at better integration with the related systems of the Quipu Banking Suite; the new module will support automated and detailed IFRS accounting in parallel to local statutory accounting, include cost accounting functionality, as well as facilitate financial analyses. The project is being undertaken in parallel with the project to introduce changes in the core banking system required for the interface. By the end of 2016 both systems were under testing and we estimate both to go live in Q3 2017 (as of end of 2016).

BankWare,NET was piloted at ProCredit Bank Macedonia in 2016 (scheduled to finish in Q2 2017) and the goal is to adjust the developed functionalities to a real accounting environment, to check that the concept meets all requirements of the overall finance area and to identify areas where further fine tuning or new development may be needed

2016 Quipu continued focusing on expanding their client portfolio to external parties also in the Software Development area. Banco Mercantil, which bought Banco LosAndes Bolivia, decided to use Quipu's services for its lending operations and as its third party processor until end of 2017. Additionally, existing external clients started using new applications in 2016: Union S&L went live with CustomWare.NET, e-Banking, BankWare and LinkWare. ProCredit Bank Congo started the implementation of a new application developed by Quipu, Remote Banking extension, which is planned for go live in 2017.

2.1.2 Processing Centre

13 group banks and 12 external banks are currently connected to the Processing Centre. In order to leverage the group's proprietary processing centre, the business development team continues to seek external clients as well as to serve group bank needs. The main priority in terms of new clients remains the project with ProCredit Bank Ukraine to migrate their card processing to the Quipu which is envisaged for Q2 2017.
In 2016 five new clients were acquired, commissioning Quipu to process transactions using their local cards, VISA cards and ATMs and Quipu Personalisation Centre in Pristina to provide personalisation services: : ICB Albania, Fidelity Bank and CardPay Ltd. Cyprus are live, whereas Spitamen (Tajikistan) and Adehyeman Saving & Loans (Ghana) are in progress.

The Processing Centre is regularly assessed according to PCI DSS[1] as required by VISA and MasterCard. Since August 2010, the Processing Centre has been certified by the German management systems certification body (Deutsche Gesellschaft zur Zertifizierung von Managementsystemen - DQS) according to ISO 20000 for Service Management of the Processing Centre. Since 2013 the Processing Centre has additionally been certified according to ISO 9001. In 2017 Processing Center is also planning to obtain the ISO 27001 certification on Information Security Management Systems.

2.1.3 Central Data Centre

In 2015 the group launched a programme to gradually centralise the IT infrastructure once became evident that increasingly more synergies and economies of scale can be achieved at the level of the IT Infrastructure. The centralisation of the technical infrastructure in a hosted location in Frankfurt also made it possible to consolidate operational processes and, consequently, the human resources involved in them.

Late in 2015, ProCredit Colombia was the first bank to be fully migrated into the Central Data Centre and the Group Active Directory. In 2016 ProCredit Albania, Romania and Germany as well as ProCredit Holding and ProCredit Academy were also fully centralised and merged into the Group Active Directory Domain and the Central Data Centre. ProCredit Ecuador has already relocated its Disaster Recovery Site to the Central Data Centre as a first step towards full centralization. The project, which started with ProCredit Ecuador moving its Disaster Recovery Site into the Central Data Centre, will be extended to full centralisation during 2017. The other banks lined up for this year are Ukraine and Serbia, in close connection with the CustomWare.NET implementation project

2.1.4 Staff development

The growth of the company's business is reflected in the development of staffing levels as well. When it was founded, Quipu took over 27 employees from IPC. By the end of 2015, this figure had grown to 165 and has continued growing in 2016 to 183. In addition, numerous retainer contracts were concluded with freelancers working in the regional offices. Thus, by the end of 2016, Quipu had a combined total staff of 216 (previous year: 191) including both staff members and freelancers.

In the current financial year we intend to increase the number of combined staff with 19% mainly on development, maintence and software quality assurance area with clear goal to ensure data quality throughout additional assurance processes.

[1] **P**ayment **C**ard **I**ndustry **D**ata **S**ecurity **S**tandard

2.2 Situation

2.2.1 Earnings situation

Sales revenues increased significantly in 2016, although the increase was below the original projection of the Business Plan.

At the beginning 2015 it was decided to start centralizing the IT infrastructure, data and services of the ProCredit group with Quipu. For this purpose, a significant number of investments in both hardware and software were made in 2016, driving an increase in depreciation costs, as well in maintenance and support costs. Additionally, rent and utilities cost grew due to the expansion of the Data Centre in Frankfurt. Data line costs grew as well due to the connecting of additional ProCredit banks to the Data Centre. Thus in 2016 the operating profit was lower than initially planned.

The following financial performance indicators are used internally for management purposes:

- *Sales revenues*
- *Profit for the year after tax*
- *Return on equity*
- *Equity ratio*
- *Asset tangibility*

As is shown by the following table, the operating result achieved in the financial year 2016 represents a continuation of the company's positive economic development in terms of revenues:

Year	*Sales revenue* in EUR	*Profit for the year after taxes*, in EUR
2010	9,887,804	337,547
2011	10,882,942	404,223
2012	12,888,843	335,211
2013	14,847,658	405,910
2014	15,587,135	2,733
2015	16,962,458	161,398
2016	19,842,373	107,829

Sales revenues increased significantly in 2016, by 17% or EUR 2,880k (2015: 8.5%). Thus, the substantial increase in revenues forecast in the previous year's Management Report was within an acceptable range but did not reach the expected 20%. Some projects were delayed at the request of the group banks. For the current financial year, we expect a further increase in sales revenues, by 11.9% to EUR 22,189k, including hardware sales.

As in the past financial year, a significant portion of the sales, EUR 3,181k or 16% (EUR 3,433k in 2015) of the total revenue, was invoiced in USD. This significant amount invoiced in USD is due to the fact that the majority of the contracts with new clients in the African region were concluded in this currency.

Material and administrative expenses increased in comparison to the previous year by 15.6%, or EUR 1,292k. An increase of EUR 740k or 9.3% was recorded in the area of personnel expenses. This amount includes employer's contributions to the BVV pension insurance scheme, introduced in 2011, amounting to EUR 69k (2015: EUR 71k). Depreciation costs grew significantly compared to the previous year, registering a growth of EUR 596k or 64.6% (27.8% in 2015) due to the further investments necessary for the new ProCredit Central Data Center project. Other expense positions increased moderately. For the current financial year, we project a 9.6% increase in personnel expenses, from EUR 8,716k to EUR 9,552k.

The *profit for the year after tax* amounting to EUR 107,829 (2015: EUR 161,398) translates into a *return on equity* of 4.9% (previous year: 7.4%) and is transferred in accordance with the profit and loss transfer agreement concluded with ProCredit Holding. The *equity ratio* of 22.0% (previous year: 28.7%) thus remains comparable with the industry average.[2]

2.2.2 Financial situation

Subscribed capital remained unchanged at EUR 1,000k. Revenue reserves of EUR 1,191k further remained unused in the past financial year.

The EUR 250k credit line granted by Frankfurter Sparkasse was drawn partially in the past financial year.

An additional investment loan agreement in amount of EUR 3,200k (withdrawn in June 2016) was signed with ProCredit Bank AG, in order to finance the further planned investments for the ProCredit Central Data Center project in 2016. Additionally, the existing credit line contract for EUR 1,500k was renewed in December 2016.

The company's liquidity situation was at all times appropriate to meet its payment obligations.

2.2.3 Assets situation

Additional investments in the new ProCredit Central Data Centre project led to a significant increase in *fixed assets* to EUR 6,787k (2015: EUR 4,041k) translating into an *asset tangibility* of 68.0% (2015: 53.0%).

Under *current assets*, the company's receivables and other assets increased significantly, amounting EUR 756k (2015: EUR 402k).The increase is due mostly to the outstanding VAT receivables in Quipu Bucharest. The balance sheet position "Cash in hand, balances at German central bank, balances at banks and cheques" decreased significantly to EUR 1,091 (2015: EUR 2,142k) in correlation with decrease of liabilities.

The net assets, financial position and results of operations were in order at all times during the year under review.

In the course of business, the planned implementation of new product versions in the banks and the planned service offer were carried out as scheduled. Thanks to ongoing re-certifications according to various standards, the processes in the Processing Centre improved further, and again functioned smoothly in the past financial year. The growth in staff numbers exceeded the estimations from the last year's report – 13.1% (2015: 2.7%) This significant increase was necessary in order to assure capacity for the project ProCredit Central Data Centre. Overall, the situation of the company can still be assessed as favourable.

[2]Source: http://www.marktundmittelstand.de/nachrichten/finanzierung/eigenkapitalquote-im-mittelstand-steigt-weiter/

3. Report on Post Balance Sheet Events

No post balance sheet events occurred.

4. Report on expected developments and on opportunities and risks

4.1 Report on expected developments

For the 2017 financial year, the Management expects further growth in revenue and a simultaneous increase in the profit for the year. In 2017, we are aiming for a substantial increase in revenues by 12%, whereas according to the Business Plan the operating costs are projected to grow with 9%.

We expect an annual profit before profit transfer of EUR 452k (2.0% of annual revenue) for 2017, which will lead to a significant increase of the *return on equity*.

We expect the *equity ratio* for 2017 to decrease moderately due to a new loan disbursement planned in Q1 2017, whereas the *asset tangibility* will remain constant following to the new investments in the ProCredit Central Data Centre.

The group-wide standardisation of IT infrastructure on the basis of software products developed by Quipu, and the further outsourcing of IT services to Quipu, offer significant scope for the generation of additional revenue.

In the current year, implementation of the front office application *Customware.NET*, the treasury application *DealWare*, and the *CRM* application in the banks will continue. The company expects this to continue generating high demand for Quipu's services. In addition, as the software infrastructure is consolidated across the ProCredit group, further affiliated companies will be adopting the company's software products as from 2017. The company sees additional potential for generating revenues in consistently charging for the services requested, in particular for the on-site implementation of new software versions at the banks, and in the localisation of the standard products.
Quipu has developed a simple and adaptable document flow and electronic archiving application for files attached to the core banking CW.NET. It is now being used in four ProCredit banks: Georgia, Ukraine, Albania and Kosovo and plans plans to implement the solution to support the loan processes at PCB Moldova and PCB Ecuador

In the Processing Centre, following the implementation of 24/7 Zones in ProCredit Banks, that reached automation the target of almost 99% by the end of 2016 we expect additional revenues in this area of business in 2017. In addition, the company expects increased capacity utilisation of the Processing Centre's infrastructure both by ProCredit banks and by banks outside the ProCredit group and aim to achieve optimisation of the centralised management of the 24/7 terminal network.

The biggest challenge in the area of software development lies in the implementation of the *BankWare.NET* software in pilot phase in Macedonia, expected to go live Q2 2017. In addition, the parallel implementation of the newly developed branch customer service software (the ProCredit banks in Serbia, Colombia) and the implementation of the enhanced treasury software will require additional resources. In addition to the ongoing enhancement of the existing software products, the focus will be on the development of the new *CRM* module for business clients, the expansion of the e-Banking application, the implementation of extensive local requirements at ProCredit Bank Germany, and the provision of continued support to ProCredit Holding with regard to the implementation of uniform *Group IT Infrastructure Standards* at all of the ProCredit banks.

Given the sustainably favourable forecast for the ProCredit group for the current financial year, demand for Quipu's services can be expected to remain constant.

4.2. Report on opportunities and risks

Due to the company's connection to the ProCredit group, its business risks are closely linked to the development of the group. At the same time, the integration of Quipu within the ProCredit group also leads to substantial planning reliability.

At present Quipu is exposed to the following types of risks:

- foreign currency risk
- default risk
- liquidity risk
- market price risks
- operational risks
- sales revenue risks

In cases where these risks are also associated with opportunities, those opportunities are discussed in the respective section.

Quipu uses an *IT Risk Management System* for the Processing Centre. Starting from the 2014 financial year, the company applies ProCredit Holding's *Group Risk Policy* to Quipu.

4.2.1 Foreign currency risk

Foreign currency risks result from the need to purchase US dollars every month, at a total volume of about USD 4 million per year, which are used to cover the ongoing monthly operating costs of the Quipu offices in Latin America and Africa. Up to now, no active risk management for open currency positions in the form of hedging has been considered necessary. To limit foreign currency risks, a new pricing model was introduced in 2014 which offers the banks a choice of being invoiced in USD or in EUR for the annual fees due for the use of the software. Furthermore, new contracts with clients in the African market have been negotiated and signed directly in USD.

This created an opportunity insofar as Quipu only had to acquire limited additional US currency for its own use in 2016. This is expected to continue in 2017. At the same time, it reduces the foreign currency risk incurred by the ProCredit banks that switched to USD invoicing, as they will have to buy lower volumes of euros in order to settle their Quipu invoices.

Therefore, the occurrence of this risk is assessed to have low impact on the financial situation.

4.2.2 Default risk

Default risks in connection with the invoices issued for services rendered are very transparent and can be ruled out almost entirely, since the bulk of the company's clients come from within the ProCredit group. A moderate risk is still present given that Quipu continues to expand its client portfolio with external banks. Nonetheless, the amount of unpaid invoices to external clients amounted only EUR 115k or 0.6% of the total revenues in 2016, thus representing a minor risk.

The occurrence of this risk is assessed to have high impact on the financial situation.

4.2.3 Liquidity risk

Liquidity risk is managed through contracts for the performance of project-related work designed in such a way as to ensure that sufficient liquidity will be available in the form of interim payment instalments received when items of work are completed or at certain predefined intervals. Turnover through the Processing Centre is invoiced on a monthly basis for the previous month. This allows for reliable planning and ensures a regular flow of liquidity.

The changeover to the new pricing system made it possible for the contracts to be designed in such a way that the annual rental charge for the use of the software is payable in advance at the start of the year, unless the bank explicitly requests a different payment schedule.

To cover short-term liquidity bottlenecks during Q 4 2016, the company has agreed a credit line in the total amount of EUR 1,750k with its two house banks, Frankfurter Sparkasse and ProCredit Bank Germany.

The occurrence of this risk is assessed to have low impact on the financial situation.

4.2.4 Market price risks

Price risk is minimised by means of flexible contracts. The prices specified in the new contracts for the use of the software were set on the principle that, based on the current business planning assumptions, the prices can remain unchanged for the next year. In addition, the company can adjust the existing licence and maintenance agreements annually to reflect any possible cost increases.

This now makes it possible to plan for software development in the medium term, as the prospective income can already be calculated today. The occurrence of this risk is assessed to have low impact on the financial situation.

4.2.5 Operational risk

The ***operational risk*** incurred by the Processing Centre was reduced by ongoing ISO and PCI DSS certifications. The other areas are continuing with the documentation of their procedures and with standardising processes.

The move to a professional data centre further reduced the exposure of the IT infrastructure to operational risks. The ProCredit Central Data Centre project will require special attention on procedures and standardised processes in order to avoid operational risks. The company plans to obtain ISO 27001 for Cloud Services and to further extend ISO 20000 and 9001 in 2017.

The occurrence of this risk is assessed to have low impact on the financial situation.

4.2.6 Sales revenue risks

Sales revenue risks were included in the risk profile for the first time in 2013. The sales of implementation services increased moderately in 2016 to EUR 1,312k (2015: EUR 1,122k). In the current year, a 23.5% increase to approximately EUR 1,620k is planned, including projects originally scheduled to be completed in 2016. This is the scale on which the banks must be willing to conclude new contracts with Quipu for the implementation of projects during the current financial year. Also the possible risk that in the future the number of group banks may be reduced and that therefore planned revenues will not be forthcoming cannot be ruled out entirely.

The enlargement of the range of services offered has the advantage that Quipu's services will in future be significantly more transparent for the customers, as the implementation projects will be documented in detail.

The occurrence of this risk is assessed to have high impact on the financial situation. In conclusion it can be stated, however, that the introduction of the new pricing model and the accompanying contract design have further reduced the risks to which the company is exposed.

The Management assesses the outlook for the further development of the company's business as highly positive. When ProCredit Holding acquired Quipu, its role as the strategic IT partner of the ProCredit group was underscored and strengthened. This creates a high degree of planning reliability for Quipu, which will continue in the years to come.

Frankfurt am Main, March 17th, 2017
Quipu GmbH
The Management

BALANCE SHEET of Quipu GmbH, Frankfurt am Main, as of 31 December 2016

in EUR	(Note)	31.12.2016	31.12.2015
A. Fixed Assets			
I. Intangible assets			
1. Licences, commercial and intellectual property rights and similar rights	(3)	1,334,383.00	1,118,730.00
II. Property, plant and equipment			
1. Other equipment, furniture and fixtures	(4)	4,731,802.00	2,743,474.00
2. Prepayments, operating and office equipment		537,376.50	0.00
III. Financial assets			
1. Shares in subsidiaries	(5)	183,562.60	178,521.54
		6,787,124.10	4,040,725.54
B. Current assets			
I. Inventories			
1. Work in progress		27,100.00	0.00
II. Receivables and other assets			
1. Trade accounts receivable	(6)	294,478.17	195,668.33
(of which, with a remaining term of more than one year: 0.00)			
2. Receivables from affiliated companies	(7)	170,226.93	167,690.90
(of which, with a remaining term of more than one year: 0.00)			
3. Other assets	(8)	291,672.64	38,717.82
(of which, with a remaining term of more than one year: 27,225.12)			
		756,377.74	402,077.05
III. Cash in hand, balances at German central bank, banks and cheques		1,091,082.87	2,141,773.77
C. Prepaid expenses and deferred charges	(9)	1,296,656.62	1,054,114.55
Total assets		**9,958,341.33**	**7,638,690.91**
A. Equity			
I. Subscribed capital	(10)	1,000,000.00	1,000,000.00
II. Revenue reserves			
1. Other revenue reserves	(11)	1,190,763.60	1,190,763.60
III. Profit of the year	(12)	0.00	0.00
		2,190,763.60	2,190,763.60
B. Accruals			
1. Accruals for taxes		30,000.00	30,773.04
2. Other accruals	(13)	606,360.91	741,454.00
		636,360.91	772,227.04
C. Liabilities			
1. Liabilities to banks	(14)	6,200,000.00	2,700,000.00
(of which, with a remaining term of up to one year: 0.00; previous year: 0.00)			
2. Trade accounts payable	(15)	544,856.16	1,111,021.62
(of which, with a remaining term of up to one year: 544,856.16; previous year: 1,111,021.62)			
3. Liabilities to affiliated companies	(16)	263,741.11	749,765.34
4. Other liabilities (of which, for taxes: 88,610.96; previous year: 73,659.33) (of which, for social security: 0.00; previous year: 0.00)	(17)	98,935.52	83,278.31
		7,107,532.79	4,644,065.27
D. Deferred income		23,684.03	31,635.00
Total equity and liabilities		**9,958,341.33**	**7,638,690.91**

INCOME STATEMENT of Quipu GmbH, Frankfurt am Main, for the period 1 January 2016 – 31 December 2016

in EUR	(Note)	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
1. Sales revenue	(18)	19,842,373.35	16,962,458.28
3. Other operating income	(19)	248,137.19	608,757.76
(of which, income from currency translation EUR 93,633.66; previous year: EUR 518,194.40)			
4. Material expenses		2,342,477.17	2,264,858.20
a) Cost of raw materials, production inputs and goods	(20)	21,217.02	99,397.71
b) Cost of purchased services	(21)	2,321,260.15	2,165,460.49
5. Personnel expenses:	(22)	8,715,658.15	7,975,902.02
a) Wages and salaries		*7,160,530.08*	*6,600,963.79*
b) Social insurance contributions and expenses for retirement pensions		*1,555,128.07*	*1,374,938.23*
(of which, for retirement pensions: 68,848.26; previous year: 71,338.37)			
6. Depreciation on intangible and tangible fixed assets	(23)	1,519,850.77	923,389.28
7. Other operating expenses	(24)	7,251,710.57	6,037,546.41
(of which, expenses for currency translation EUR 155,282.14)			
8. Income from subsidiaries		250,000.00	0.00
(of which, from affiliated companies: 250,000.00; previous year: 0.00)			
9. Other interest and similar income		2,368.98	4,066.32
(of which, from affiliated companies: 2,368.98; previous year: 2,908.79)			
10. Interest and similar expenses		115,418.14	6,551.36
(of which, to affiliated companies: 115,418.14; previous year: 6,538.91)			
11. Taxes on income and profit	(25)	253,474.42	205,319.35
12. Net operating income (after taxes)		**144,290.30**	**161,715.74**
13. Other taxes		36,461.68	318.00
14. Net income for the year before transfer of profit		**107,828.62**	**161,397.74**
15. Profit transferred on the basis of a profit transfer agreement		107,828.62	161,397.74
16. Profit for the year		**0.00**	**0.00**

Quipu GmbH, Frankfurt am Main, as of 31 December 2016

Notes for the Financial Year 2016

Notes to the Annual Financial Statements 2016

I. BASIS OF FINANCIAL ACCOUNTING

1) Group membership

Quipu GmbH, a medium-sized limited liability company (GmbH), is a subsidiary of ProCredit Holding AG & Co. KGaA, Frankfurt am Main (ProCredit Holding), and is included in the latter's consolidated financial statements. The consolidated financial statements of ProCredit Holding are published in the Federal Gazette (Bundesanzeiger). ProCredit Holding is registered with the District Court, Frankfurt am Main, under entry no. HRB 91858.

The Profit and Loss Transfer Agreement between Quipu GmbH and ProCredit Holding AG & Co. KGaA has been converted into a Controlling and Profit and Loss Transfer Agreement. For this reason, the entire profit or loss for the year is transferred to the latter company. Thus an integrated inter-company relationship exists with ProCredit Holding.

2) Disclosures on recognition, measurement and presentation principles

The annual financial statements of Quipu GmbH, Frankfurt am Main, (Quipu GmbH) for the financial year 2016 were prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Law on Limited Liability Companies.

Intangible fixed assets and tangible fixed assets are valued at acquisition cost or production cost and, to the extent that they are depreciable, their value is reduced by regular depreciation amounts. The scheduled depreciation amounts are based on the expected useful life of the respective asset items and are calculated using the straight line method. The scheduled depreciation period for individual software is 5 years.

Financial assets are valued at historical cost. If impairment of a financial asset is expected to be permanent as of the balance sheet date, non-scheduled depreciation is reported on the impaired assets. If the reasons no longer apply, the value is written up.

Receivables and other assets are reported at the lower of acquisition cost or market price.

Accruals include all legal or constructive obligations to third parties discernible as of the balance sheet date and their amount is uncertain according to commercial judgement. Accruals are recognised at a settlement amount estimated on the basis of commercial judgement (section 253 (1) HGB). Accruals in the financial year under review have terms of less than one year and are not discounted (section 253 (2) HGB).

The amount reported for liabilities is the amount which is to be paid.

The option to capitalise software development costs pursuant to Section 248 (2) HGB is not exercised.

The income statement is prepared in accordance with the cost of production method (Section 275 (2) HGB).

All amounts are presented in euros (EUR). Foreign currency positions in the balance sheet of Quipu GmbH are recognised at the mean spot rate valid at the end of the reporting period (section 256a HGB). The exchange rate as of 31 December 2016 was EUR 1/USD 1.0541. Gains and losses from the currency translation of these positions are recognised in the income statement under other operating income or expenses. Expenditures and incomes in foreign currency are converted at the rate of exchange valid at the time of the transaction.

Quipu GmbH exercises the size-dependent right to exemption pursuant to section 293 HGB and does not prepare consolidated financial statements.

II. NOTES TO THE BALANCE SHEET

A. FIXED ASSETS

3) Intangible assets

The intangible assets consist mainly of software licences acquired. A detailed overview of the development of the intangible assets is provided by the Statement of Fixed Assets (Annex 1 to these Notes).

4) Property, plant and equipment

The continuation of the centralisation project (ProCredit Global Data Centre) with the ProCredit group led to an increase in fixed asset investments in 2016. Property, plant and equipment comprise technical equipment and servers, office furniture and fixtures, company cars and leasehold improvements. For a breakdown of the development of the tangible assets, we refer to the Statement of Fixed Assets (Annex 1 to the Notes to the Financial Statements).

5) Shares in subsidiaries

Quipu GmbH holds shares in the following subsidiaries:

Name of subsidiary	Address	Subscribed capital incl. capital reserve (EUR)	Revenue reserves and other reserves (EUR)	Profit (Loss) for the year (EUR)
		31.12.2016	**31.12.2016**	**2016**
Quipu Shpk, Prishtina, **Kosovo**	Rexhep Mala 16 Prishtina, Kosovo	5,000.00	498,328.00	108,277.00
Quipu S.A., San Salvador, **El Salvador**	Avenida La Revolución No. 178 Colonia San Benito, San Salvador, El Salvador	92,927.80	96,200.62	10,588.48
Quipu Ltda., Bogotá, **Colombia**	Calle 37, No. 16-25 Bogotá, D.C., Colombia	80,593.74	55,397.56	21,337.01
Quipu Dooel, Skopje, **Macedonia**	Ul. Chedomir Minderovikj No. 31 Skopje, Macedonia	5,041.06	0.00	4,567.77

Quipu Shpk, Prishtina, Kosovo, is active in the field of bank card personalisation for the Eastern European, Latin American and African markets. The two Latin American companies provide services to the ProCredit banks in Central and South America, respectively. Quipu Dooel in Skopje, Macedonia was established in 2016 and is also responsible for delivering services to the ProCredit banks in Europe.

The shareholdings during the reporting period were as follows:

in EUR				Net book value			
Subsidiary	Equity exposure as of **01.01.2016**	Acquisitions in **2016**	Disposals in **2016**	as of **31.12.2016**	Share in %	as of **31.12.2015**	Share in %
Quipu Shpk, Prishtina, **Kosovo**	5,000.00	0.00	0.00	5,000.00	100.0%	5,000.00	100.0%
Quipu S.A., San Salvador, **El Salvador**	92,927.80	0.00	0.00	92,927.80	99.4%	92,927.80	99.4%
Quipu Ltda., Bogotá, **Colombia**	80,593.74	0.00	0.00	80,593.74	98.5%	80,593.74	98.5%
Quipu Dooel, Skopje, **Macedonia**	0.00	5,041.06	0.00	5,041.06	100.0%	0.00	0.0%
Total	**178,521.54**	**5,041.06**	**0.00**	**183,562.60**		**178,521.54**	

B. CURRENT ASSETS

6) Trade accounts receivable

All trade accounts receivable were within the period allowed for payment as of the balance sheet date. Up until the date of preparation of the balance sheet, EUR 111,397.68 had been received.

The position includes trade accounts receivable from ProCredit group companies amounting to EUR 214,649.35 (previous year: EUR 74,743.96).

7) Receivables from affiliated companies.

These comprise receivables from subsidiaries and receivables from proprietors.

The receivables from proprietors concern VAT due from ProCredit Holding as a consequence of the integrated inter-company relationship (EUR 95,226.93; previous year: EUR 167,690.90). There is a dividend claim for EUR 75,000.00 vis à vis Quipu Shpk (previous year: EUR 0.00).

8) Other assets

in EUR	**31.12.2016**	**31.12.2015**
Tax refunds due	213,455.80	2,981.14
Deposits	27,225.12	23,126.06
Other	50,991.7	12,610.62
Total	**291,672.64**	**38,717.82**

The tax reimbursement claims consist mainly of VAT claims towards Romanian authorities (EUR 168,099.22).

C. PREPAID EXPENSES AND DEFERRED CHARGES

9) Prepaid expenses and deferred charges

in EUR	31.12.2016	31.12.2015
Maintenance	1,151,533.46	822,731.35
Rent	120,652.76	197,241.75
Insurance	21,387.03	19,437.96
Other	2,041.48	12,609.23
Training	1,041.89	2,094.26
Total	**1,296,656.62**	**1,054,114.55**

A. EQUITY

10) Subscribed capital

The subscribed capital as of 31 December 2016 was held by ProCredit Holding (100%).

11) Other revenue reserves

The other revenue reserves are attributable to the reinvestment of profits prior to the Profit and Loss Transfer Agreement from the years 2008 – 2010.

12) Profit for the year

Pursuant to a profit and loss transfer agreement concluded on 21 July 2011, the profit amounting to EUR 107,828.62 (previous year: EUR 161,397.74) is transferred to ProCredit Holding.

B. ACCRUALS

13) Other accruals

in EUR	31.12.2016	31.12.2015
Accruals for vacation	261,375.94	247,438.17
Rental expenses and decommissioning commitments	138,252.70	153,136.10
Other accruals	120,422.27	63,736.00
Employers' liability insurance contributions, charge for not employing disabled persons and international health insurance	39,060.00	38,820.34
Annual financial statements/ Tax advice	35,000.00	35,000.00
Accruals for taxes Ukraine	30,000.00	30,773.04
Outstanding invoices with employees	12,250.00	46,323.39
Legal costs	0.00	157,000.00
Total	**636,360.91**	**772,227.04**

C. LIABILITIES

14) Liabilities to banks

Liabilities to banks comprise liabilities toward ProCredit Bank AG, Frankfurt am Main, in the amount of EUR 6,200,000.00.

Total amount of credit liabilities	**6,200,000.00**
-out of which with a remaining period until 1 year	0.00
-out of which with a remaining period of 1-5 years	5,755,555.59
-out of which with a remaining period of more than 5 years	444,444.41

15) Trade accounts payable

The position includes trade accounts payable to ProCredit group companies amounting to EUR 41,581.23 (previous year: EUR 53,146.16).

16) Liabilities to affiliated companies

This position consists of liabilities relating to invoices for services provided by Quipu S.A. in El Salvador, Quipu Ltda, Colombia, and Quipu Shpk Kosovo, as well as liabilities to proprietors.

The liabilities to proprietors consisted of expenses arising from the transfer of profit to ProCredit Holding amounting to EUR 107,828.62 (previous year: EUR 161,397.74) and to trade accounts payable to ProCredit Holding amounting to EUR 172.22 (previous year: EUR 438,522.76).

17) Other liabilities

Tax liabilities consist exclusively of income tax and church tax liabilities as of 31 December 2016.

III. NOTES TO THE INCOME STATEMENT

18) Sales revenue

The sales revenues are generated mainly through the provision of IT services to ProCredit Holding and to its subsidiaries. IT services comprise the provision of banking software to the ProCredit banks and the resale of computer equipment and software to them.

19) Other operating income

in EUR	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Income from reversal of accruals	154,498.53	89,331.90
Income from currency translation	93,633.66	518,194.40
Other	5.00	1,231.46
Total	**248.137.19**	**608.757.76**

20) Cost of raw materials, production inputs and goods

The position Cost of raw materials, production inputs and goods mainly consists of expenses for hardware which was bought and for the most part directly resold to ProCredit Holding and its subsidiaries.

21) Cost of purchased services

The cost of purchased services relates to payments for services rendered by freelancers and for services purchased from subsidiaries.

22) Personnel expenses

During the 2016 financial year, the average number of employees of Quipu GmbH was 200 (2015: 165). As of 31 December 2016 the total number of employees of Quipu GmbH was 216 (2015: 165).

As of 31 December 2016, Quipu GmbH had two senior management employees and 214 other staff members.

23) Depreciation on intangible and tangible fixed assets

For a detailed overview of depreciation, see the Statement of Fixed Assets (Annex 1 to these Notes).

24) Other operating expenses

in EUR	1. Jan. - 31 Dec. 2016	1. Jan. - 31 Dec. 2015
Maintenance, esp. for software and hardware	2,068,452.77	1,151,101.35
Operating lease expenses	1,434,794.16	1,187,575.43
Travel expenses	1,216,967.21	835,486.66
Legal and advisory expenses	628,662.49	627,802.81
Services provided by foreign subsidiaries (Latin America)	558,427.62	799,801.91
Communication	314,675.71	228,464.28
Other administrative expenses	241,225.48	153,867.93
Other personnel expenses	230,643.36	225,915.88
Expenses for currency translation	155,282.14	214,309.06
Charges to be passed on for services received	144,821.95	240,686.66
Entertainment and hospitality expenses	127,630.49	154,202.33
Accounting expenses	57,166.07	77,518.93
IT materials	35,307.54	92,806.87
Insurance	34,308.58	28,427.31
Disposals of fixed assets	3,345.00	19,579.00
Total	**7,251,710.57**	**6,037,546.41**

The legal and advisory expenses relate to advice provided by Quipu Shpk. and ProCredit Holding AG & Co. KGaA (EUR 414,758.28; previous year: EUR 344,158.36), expenses for the audit of the company's annual financial statements (EUR 31,217.33; previous year: EUR 34,657.60) and other legal and advisory expenses (EUR 182,632.88; previous year: EUR 248,986.85).

25) Taxes on income and profit

The position Other taxes on income and profit contains foreign withholding taxes due on the profits of the Regional Office in Kiev, Ukraine (EUR 30,000.01; previous year: EUR 30,773.04) and on turnover in Congo (EUR 207,195.36; previous year: EUR 174,546.31) as well as taxes for the regional office in Accra, Ghana (EUR 16,279.05; previous year: EUR 0.00).

IV. ADDITIONAL NOTES

26) Other financial commitments

Quipu GmbH has incurred obligations arising from rental contracts concluded within the usual market parameters for the total amount of EUR 3,349,702.60.

Contracts concluded at at arms-length conditions resulted in interest obligations amounting to EUR 588,389.83.

27) Total fees for audit of financial statements

The cost of auditing the annual financial statements 2016 amounted to EUR 31,217.33. No other services from the auditing company were commissioned.

28) Management

During the reporting period Dr Gian Marco Felice, Frankfurt am Main, was the managing director of Quipu GmbH. Dr Gian Marco Felice has a PhD in astrophysics. Full commercial power of attorney is held by Andrei Georgescu, Frankfurt am Main (from 3 December 2015).

The total remuneration of the managing directors pursuant to section 285 (9a) HGB is not disclosed, as the individual managing director's remuneration would be revealed (section 286 (4) HGB).

The managing director and the holder of commercial power of attorney are each authorised to represent the company alone.

Frankfurt am Main, March 17th 2017

Quipu GmbH
The Management

Dr Gian Marco Felice

Annex 1: Statement of Fixed Assets

Annual Financial Statements 2016

Statement of fixed assets as of 31 December 2016

in EUR	Acquisition costs					Accumulated depreciation				Net book values	
	As of 01.01.2016	Additions	Disposals	Re-classifications	As of 31.12.2016	As of 01.01.2016	Additions	Disposals	As of 31.12.2016	As of 31.12.2016	As of 31.12.2015
I. Intangible assets											
1. Licences, commercial, intellectual property rights	1,824,550.13	671,143.22	8,952.00	-2,211.17	2,484,530.18	705,820.13	453,276.05	8,949.00	1,150,147.18	1,334,383.00	1,118,730.00
	1,824,550.13	671,143.22	8,952.00	-2,211.17	2,484,530.18	705,820.13	453,276.05	8,949.00	1,150,147.18	1,334,383.00	1,118,730.00
II. Property, plant and equipment											
1. Other equipment, operating and	5,773,903.39	726,279.59	80,311.46	2,331,965.13	8,751,836.65	3,030,429.39	1,066,574.72	76,969.46	4,020,034.65	4,731,802.00	2,743,474.00
2. Prepayments, operating and office equipment	0.00	3,215,037.77	0.00	-2,677,661.27	537,376.50	0.00	0.00	0.00	0.00	537,376.50	0.00
	5,773,903.39	3,941,317.36	80,311.46	-345,696.14	9,289,213.15	3,030,429.39	1,066,574.72	76,969.46	4,020,034.65	5,269,178.50	2,743,474.00
III. Financial assets											
1. Shares in subsidiaries	178,521.54	5,041.06	0.00	0.00	183,562.60	0.00	0.00	0.00	0.00	183,562.60	178,521.54
Total fixed assets	**7,776,975.06**	**4,617,501.64**	**89,263.46**	**-347,907.31**	**11,957,305.93**	**3,736,249.52**	**1,519,850.77**	**85,918.46**	**5,170,181.83**	**6,787,124.10**	**4,040,725.54**