Quipu
Part of the ProCredit Group

2018
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, Bogota, Colombia and Quito, Ecuador 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.NET and BankWare. While CustomWare.NET 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 application, the new accounting software designed to support for IFRS accounting and reporting, the requirements for enhanced productivity, efficiency, reduced cost of maintenance, high security and scalability was completed and piloted in 2016 and the first implementation went live in Q4 2018, with a minor delay from the original plan due to lack of resources. Daily treasury operations and full chain information resulting from all treasury or funding transactions of any ProCredit bank are implemented through the add-on software 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. Clients of the banks can access their account and perform transactions in our e-Banking and new Mobile-Banking Application, which went live in Ukraine in 2018 and will continue to be rolled out in 2019. Finally, Quipu has developed a simple and adaptable document flow and archiving application for files attached in CustomWare.NET.

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, which defines the priorities or the order in which new software and upgrades are implemented in group banks. Furthermore, several IT working groups chaired by a member of Management Board of one of the ProCredit banks or process owner from ProCredit Holding are dedicated to a key application or service and define priorities for development and monitor the progress of development and roll-out plans. On quarterly basis the Group IT committee monitors the progress and sets priorities for each IT working group.

The research and development costs in the past financial year totalled EUR 1,755k (2017: EUR 1,569k), and can be broken down as follows: CustomWare.NET EUR 224k (2017: EUR 149k), DealWare EUR 395k (2017: EUR 339k), InfoWare EUR 106k (2017: EUR 63k), BankWare EUR 248k (2017: EUR 192k), e-Banking/CRM EUR 645k (2017: EUR 587k), BankWare.NET EUR 37k (2017: EUR 164k) and Mobile Banking Application EUR 101k (2017: EUR 76k).

2. Report on the Economic Position of the Group

2.1 Course of business

2.1.1 Implementation of new product versions

The main focus in 2018 was in line with broad strategic objectives of the group: supporting the direct banking strategy for private individual clients, development of electronic channels for transactions, strengthening credit risk management, consolidate IT infrastructure and secure IT processes and consolidate the Quipu technology within the group.

A key point in 2018 was the focus to enhance the use and security of electronic channels for transaction and communication with business and private clients, particularly through Mobile Banking Application and Electronic Banking Application. Direct Banking web application was deployed in all banks and serves as a connection point with potential clients of the bank, offering an overview of the range of services for private individuals and the possibility of applying online for opening of a current account.

In 2018 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. In 2018 significant resources and effort still went into the migration from our old core banking system *CustomWare* to our new platform (*CustomWare.NET*) in ProCredit Bank Serbia, project which is expected to be completed in Q4 2019. The delay from the original plan is due to lack of staff in the Bank, which means no counterpart was available for this project. One area of focus continued to be the further development of the Quipu Banking Suite in order to comply with the operational and financial reporting requirements (IFRS9) and the standardisation of reporting across the EU. A special focus was on the further strengthening of credit risk management, portfolio management and loan workout activities, in particular the asset quality indicators, risk classification, loan loss provision and collateral valuation process.

The key strategic project in the accounting area is to replace 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 application will support automated and detailed IFRS accounting in parallel to local statutory accounting, include cost accounting functionality, as well as facilitate financial analyses.

BankWare.NET was successfully implemented as pilot in ProCredit Bank Macedonia in Q4 2018 and the goal is to continue the roll out in all banks having in order 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.

2018 Quipu continued focusing on expanding their client portfolio to external parties also in the Software Development area. Banco Atlantida and Grupo Pellas, which bought ProCredit Bank El Salvador and Nicaragua, decided to use further Quipu's services for its lending operations and as its third-party processor in 2018. Additionally, Banrural Honduras and Fidelity Ghana renewed the contracts for Quipu applications for another 3 years. New external clients for processing of card transactions, were acquired during 2018: GHL Bank (Ghana), GN Bank (Ghana) and Prudential Bank (Ghana).

2.1.2 Processing Centre

11 group banks and 14 external banks are currently connected to the Processing Centre. In order to leverage the group's proprietary processing centre, the Processing Centre business development team continues to seek external clients as well as to serve group bank needs. The main priority in terms of new clients is continuing to be the project with ProCredit Bank Bulgaria, which began with delay end of 2018 due to resource planning and acquiring of external software needed. The Bank is planned to migrate their card processing to Quipu in Q3 2019.

In 2018 GHL Bank (Ghana) started commissioning Quipu to process transactions using their local cards, VISA cards and ATMs. The project with Adehyeman Saving & Loans (Ghana) was cancelled in 2018 because the bank reconsidered the implementation due to internal reasons.

The main project in 2018 was related to the implementation of the new FlexCard, supporting the Group Private Individual strategy and providing assistance on testing and delivery to the market of the first Group´s mobile banking installations, with integrated card controls.

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 obtained the ISO 27001 certification on Information Security Management Systems.

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

2.1.3 Quipu Cloud Services

In 2015 the group launched a programme to gradually centralise the IT infrastructure once it 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.

The centralisation of IT operations by consolidating components will lead to maximize the performance versus cost and will accelerate the product deployment and innovation diffusion by allowing fast replication of successful implementation between banks. Thus, services as identity management services, real time communication, SIEM solution, common information security solutions, back-up and monitoring are offered by Quipu using shared services model.

Until end of 2016 ProCredit Colombia, Albania, Romania and Germany as well as ProCredit Holding and ProCredit Academy were fully centralised and merged into the Group Active Directory Domain and the Central Data Centre. Furthermore, ProCredit Ecuador was fully centralised in 2017.

In addition, in 2018 a centralisation project was started at PCB Serbia in close connection with the core banking system implementation project and also at PCB Ukraine, where the former data centre of the bank is approaching the end of its useful life. Shared services were implemented in PCB Ukraine, Serbia and Moldova in 2018, the infrastructure and IT operations will be centralized in 2019. The banks lined up for centralisation in 2019 are Kosovo, Bosnia and Macedonia.

The centralization of the hardware proceeds together with the centralization of IT operations which were traditionally performed in the bank's IT departments and which will be incorporated in the Group global IT operations. Following the pilot project for the on-boarding of the staff of the IT department of Germany, in 2019 Quipu will continue with on-boarding the staff and the responsibilities (including First Level Support) of the IT departments of Ecuador, Albania, Moldova, Romania and Serbia, and start the process of on boarding also for Kosovo and Macedonia.

To ensure the quality and security of the Global IT operations Quipu obtained ISO 20000 certification in IT service Management, ISO 9001 for Quality Management and ISO 27001 for Information Security Management.

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 2016, this figure had grown to 183. In 2017 the representative office in Skopje was transformed in a limited company, causing the costs of staff to be booked under costs of purchased service. Thus, the staff of Quipu Skopje is no longer considered for the total staff number, which lead to a number of 170 employees at the end of 2017. 2018 this number increased to 178 employees. In addition, numerous retainer contracts were concluded with freelancers working in the regional offices. Thus, by the end of 2018, Quipu had a combined total staff of 211 (previous year: 199) including both staff members and freelancers.

In the current financial year we intend to increase the number of combined staff with 8.1% mainly in the IT infrastructure centralisation and the direct and electronic banking channels areas, where support is needed for the upcoming projects and implementations.

2.2 Situation

2.2.1 Earnings situation

Sales revenues increased moderately in 2018 compared to the previous year. The original estimations of the Management were not achieved, given that the increase was below the original projection of the Business Plan. The major triggers of this delta were: the postponing of the migration project in Serbia, delays in the implementation projects for major upgrades and roll-outs and delays in the Centralisation projects in Ukraine, Serbia and Moldova.

At the beginning of 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 also in 2018, driving an increase in maintenance, support and annual subscriptions costs. Depreciation expenses were impacted only partially in 2018, given that most of the new equipment was purchased towards the end of the year. Thus in 2018 the operating result was lower than initially planned.

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

- *Sales revenues*
- *Result 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 2018 represents a continuation of the company's positive economic development in terms of revenues:

Year	*Sales revenues* in EUR	*Result for the year after tax*, in EUR
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
2017	22,330,176	149,111
2018	23,489,260	-570,060

Sales revenues increased moderately in 2018, by 5.2% or EUR 1,159k (2017: 12.5%). Thus the "further growth in revenue" forecast in the previous year's Management Report was significantly smaller than expected. The main reason was the delay of several projects at the request of the group banks. For the current financial year, we expect a significant increase in sales revenues, by 22.9% to EUR 28,647k.

As in the past financial year, a lower portion of the sales, EUR 2,411k or 10.3% (EUR 2,350k in 2017) of the total revenue, was invoiced in USD. The slightly higher amount invoiced in USD compared to 2017 is due to the fact that new acquired clients were invoiced in USD.

Overall, the operating expenses increased only by 2%, significantly below the estimation made in last year's Management Report. Main driver was the decrease of material and administrative expenses in comparison to the previous year by 4.6%, or EUR 566k. This significant decrease is due to the invoicing of the services of Banco Atlántida locally in El Salvador, meaning the office can partially finance itself causing the costs of purchased services to decreased considerably to EUR 2,288k (2017: EUR 3,360k). An increase of EUR 734k or 8.1% 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 62k (2017: EUR 63k). Depreciation costs continued to grow compared to the previous years, registering a growth of EUR 272k or 14.3% (25.1% in 2017) due to the further investments necessary for the new ProCredit Central Data Centre project. Other expense positions increased within expected ranges. For the current financial year, we project a 13.3% increase in personnel expenses, from EUR 9,737k to EUR 10,933k.

The *result for the year after tax* amounting to -EUR 570,060 (2017: EUR 149,111) translates into a *return on equity* of -57.0% (previous year: 6.8%) and is covered in accordance with the profit and loss transfer agreement concluded with ProCredit Holding. The return on equity is also strongly impacted by the decrease of shareholder equity from EUR 2,290k in 2017 to EUR 1,000k in 2018. The decrease is due to the transfer of retained earnings to ProCredit Holding. The *equity ratio* decreased significantly to 6.7% (previous year: 19.0%) due to increase of liabilities towards banks on one side and decrease of equity on another.

2.2.2 Financial situation

Subscribed capital remained unchanged at EUR 1,000k. Revenue reserves of EUR 1,191k were transferred to ProCredit Holding as dividends in 2018.

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 4,300 (withdrawn in August, October and November 2018) was signed with ProCredit Bank AG, in order to finance the further planned investments for the ProCredit Central Data Center project in 2018. The outstanding loan amount was EUR 11,506k at the end of 2018. Additionally, the credit line contract signed with the bank for EUR 1,500k remained valid in 2018.

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

2.2.3 Assets situation

The value of *fixed assets* remained relatively stable at a value of EUR 6,584k (2017: EUR 6,760k). The figures translate into an *asset tangibility* of 44.4% (2016: 58.6%).

Under *current assets*, the company's receivables and other assets increased significantly, amounting EUR 3,057k (2017: EUR 1,370k). The increase is due mostly to the outstanding VAT receivables in Quipu Bucharest but also to withholding tax receivables from the Ecuador authorities. The balance sheet position "Cash in hand, balances at German central bank, balances at banks and cheques" increased significantly to EUR 1,327k (2017: EUR 600k).

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 were mostly carried out as scheduled, with minor exceptions for new roll-outs of DealWare and Mobile Banking. The person days worked for agreed projects with the banks were recognized as work in progress end of 2018.

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 was below the estimations from the last year's report – 6.0% (2017: 10.6%). This increase was necessary in order to assure the necessary staff for development, maintenance and software quality assurance area with clear goal to ensure data quality throughout additional assurance processes.

Overall, the situation of the company can still be assessed as favourable.

3. Report on expected developments and on opportunities and risks

3.1 Report on expected developments

For the 2019 financial year, the Management expects further growth in sales revenue due to planned implementation and centralisation projects whereas the costs are expected to grow with a slightly lower percentage, leading to an increase in the result for the year. However, the result is planned to further remain negative. In 2019, we are aiming for a substantial increase in sales revenues by 22.9%, whereas according to the Business Plan the operating costs are projected to grow with 21%.

We expect an annual result before profit/loss transfer of -EUR 276k for 2019, which will lead to a moderate increase of the *return on equity*.

We expect the *equity ratio* for 2019 to decrease moderately due to a new loan disbursement planned in Q2 2019, 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.

Starting January 2018, Quipu changed the way implementation fees are charged to its clients by switching from a fixed fee to a time and material (T&M) methodology. The first year of applying this methodology showed very positive results emphasizing the advantages of this charging model for both Quipu and its clients: transparency, flexibility and the opportunity to adjust requirements, shift directions, replace features, and involve users. In 2019 the methodology and processes will continue to be optimized.

In the current year, implementation of the front office application *Customware.NET*, the treasury application *DealWare*, the *CRM* application but also the recent developed *Mobile Banking 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 2019. 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 *CustomWare.NET*. It is now being used in four ProCredit banks: Georgia, Ukraine, Albania and Kosovo and plans are to implement the solution to support the loan processes in ProCredit Moldova, and Ecuador. The platform serves as a primary platform for channeling online and physical account opening applications from private clients.

In the Processing Centre we expect additional revenues from the implementation of NFC payment with biometric authentication but also of alternative payment systems such as Apple Pay, Samsung Pay and Alipay in 2019. A focus will also be on the compliance with PSD2 requirements entering in force in September 2019 for EU countries, the deployment of fraud monitoring services and 3DS dynamic authentication to all group banks. 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. ProCredit Bank Bulgaria signed the agreement with the Processing Centre in 2018 and the project started migration first for the branch of Greece (Q2-Q3 2019), and then PCB Bulgaria will follow later in 2019.

The biggest challenge in the area of software development lies in the implementation of the *BankWare.NET* software across the Procredit Group. The pilot in Macedonia was finished in Q4 2018. Additionally, implementation projects are planned for Albania, Kosovo and Moldova in 2019. In addition to the ongoing enhancement of the existing software products, the focus will be on rolling out the *Mobile Banking application* in all ProCredit Banks, implementing the new *CRM* versions, the expansion of the *e-Banking* application 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, as strategic IT software partner.

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 3 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 didn't have to acquire limited additional US currency for its own use in 2018. This is expected to be similar in 2019. 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 number of unpaid invoices to external clients amounted only EUR 467k or 2% of the total revenues in 2018, 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 possible short-term liquidity bottlenecks during 2018, 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 obtained ISO 27001, 20000 and 9001 for both QPC and Cloud Services.

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 2018 to EUR 2.090k (2017: EUR 1,416k). In the current year, a 11.6% increase to approximately EUR 2,333k is planned, including projects originally scheduled to be completed in 2018. 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 in 2014 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, May 31st, 2019
Quipu GmbH
The Management

Quipu GmbH – 2018 Annual Financial Statements

Registered office: Königsberger Str. 1, 60487 Frankfurt am Main
HRB 90104, Regional Court of Frankfurt am Main

consisting of the Balance Sheet, Income Statement and the Notes

BALANCE SHEET of Quipu GmbH, Frankfurt am Main, as of 31 December 2018

in EUR	(Note)	31.12.2018	31.12.2017
A. Fixed assets			
I. Intangible assets			
1. Licences, commercial and intellectual property rights and similar rights	(3)	1,552,640.56	1,185,247.08
II. Property, plant and equipment			
1. Other equipment, furniture and fixtures	(4)	4,231,151.00	4,845,931.63
2. Advance payments equipments		-	-
III. Financial assets			
1. Shares in subsidiaries	(5)	102,968.86	183,562.60
1. Loans to subsidiaries		616,538.89	544,793.41
		6,503,299.31	6,759,534.72
B. Current assets			
I. Inventories			
1. Work in progress	(6)	867,057.79	946,979.20
II. Receivables and other assets			
1. Trade accounts receivable	(7)	781,144.22	362,859.70
(of which, with a remaining term of more than one year: 0.00)			
2. Receivables from affiliated companies	(8)	753,913.26	147,508.52
(of which, with a remaining term of more than one year: 0.00)			
4. Other assets	(9)	1,602,883.89	860,113.28
(of which, with a remaining term of more than one year: EUR 38,211.90)			
		3,137,941.37	1,370,481.50
III. Cash in hand, balances at German central bank, balances at banks and cheques	(10)	1,326,632.60	599,699.49
C. Prepaid expenses and deferred charges	(11)	3,004,318.16	1,862,360.52
Total assets		**14,839,249.23**	**11,539,055.43**
A. Equity			
I. Subscribed capital	(12)	1,000,000.00	1,000,000.00
II. Revenue reserves			
1. Other revenue reserves	(13)	-	1,190,763.60
III. Net income for the year	(14)	-	-
		1,000,000.00	2,190,763.60
B. Accruals			
1. Accruals for taxes		15,000.00	36,000.00
2. Other accruals	(15)	551,804.09	707,241.92
		566,804.09	743,241.92
C. Liabilities			
1.Liabilities to banks	(16)	11,506,408.75	7,200,000.00
(of which, with a remaining term of up to one year: 0,00; Previous year 0,00)			
2. Trade accounts payable	(17)	373,312.96	980,498.41
(of which, with a remaining term of up to one year: EUR 373,312.96; Previous year: EUR 980,498.41)			
3. Liabilities to affiliated companies	(18)	1,252,329.65	316,644.87
(of which, with a remaining term of up to one year: EUR 1,252,329.65: Previous year: EUR 316,644.87)			
4. Other liabilities	(19)	113,753.78	107,906.63
(of which, for taxes EUR 92,995.25; previous year: EUR 86,500.51)			
(of which, for social security: EUR 19,636.91; previous year: EUR 16,671.45)			
		13,245,805.14	8,605,049.91
D. Deferred income		26,640.00	-
Total equity and liabilities		**14,839,249.23**	**11,539,055.43**

INCOME STATEMENT of Quipu GmbH, Frankfurt am Main, as of 31 December 2018

in EUR	(Note)	1. Jan - 31. Dec 2018	1. Jan - 31. Dec 2017
1. Sales revenue	(20)	23,489,260.00	22,330,176.00
2. Increase or decrease of inventory		-79,921.41	919,879.20
3. Other operating income	(21)	155,053.72	79,253.92
(of which, from currency translation; EUR 117,535.83; previous year: EUR 38,648.66)			
4. Material expenses		3,107,505.56	3,493,374.53
a) Cost of raw materials, production inputs and goods	(22)	*19,305.97*	*133,659.10*
b) Cost of purchased services	(23)	*3,088,199.59*	*3,359,715.43*
5. Personnel expenses:	(24)	9,737,356.48	9,003,809.11
a) Wages and salaries		*7,934,957.13*	*7,429,117.42*
b) Social insurance contributions and expenses for retirement pensions		*1,802,399.35*	*1,574,691.69*
(of which, for retirement pensions: EUR 62,202.29*; previous year: EUR 63,266.57)*			
6. Depreciation on intangible and tangible fixed assets	(25)	2,173,688.44	1,901,501.94
7. Other operating expenses	(26)	8,679,046.23	8,859,646.00
(of which, from currency translation: EUR 92,369.46; previous year: EUR 207,962.82)			
8. Income from equity holdings		108,210.67	500,000.00
(of which, from affiliated companies: EUR 108,210.67; previous year: EUR 500,000.00)			
9. Other interest and similar income		18,019.23	10,003.12
(of which, from affiliated companies: EUR 17,568.18; previous year: EUR 9,993.01)			
10. Depreciation of financial assets		80,593.74	0.00
(of which unplanned depreciation: EUR 80,593.74)			
11. Other interest and similar expenses		115,418.14	6,551.36
(of which, from affiliated companies: EUR 205,320.26; previous year: EUR 165,724.93)			
12. Taxes on income and profit	(27)	246,987.43	234,961.10
13. Profit (loss) on ordinary business operations		**-539,921.94**	**180,294.63**
14. Other taxes		**30,138.01**	**31,183.46**
15. Net income for the year before transfer of profit		**-570,059.95**	**149,111.17**
16. Profit transferred on the basis of a profit transfer agreement		**570,059.95**	**-149,111.17**
17. Profit for the year		**0.00**	**0.00**

Quipu GmbH, Frankfurt am Main, as at 31 December 2018

Notes for the 2018 financial year

Explanations regarding the 2018 annual financial statements

I. BASIC ACCOUNTING PRINCIPLES 15
1) Group affiliation 15
2) Information about accounting, measurement and disclosure methods 15
II. INFORMATION REGARDING THE BALANCE SHEET 16
3) Intangible assets 16
4) Tangible assets 16
5) Shares in affiliated companies 16
6) Work in progress 17
7) Trade receivables 17
8) Receivables from affiliated companies 17
9) Other assets 17
10) Cash in bank 17
11) Prepaid expenses and other current assets 18
12) Subscribed capital 18
13) Other profit reserves 18
14) Profit/Loss for the year 18
15) Other provisions 18
16) Liabilities to banks 19
17) Trade payables 19
18) Liabilities to affiliated companies 19
19) Other liabilities 19
III. NOTES TO THE INCOME STATEMENT 19
20) Sales revenues 19
21) Other operating income 19
22) Raw materials and consumables, and purchased goods 20
23) Expenses for purchased services 20
24) Personnel expenses 20
25) Amortisation and write-downs of intangible fixed assets and tangible assets 20
26) Other operating expenses 21
27) Income taxes 21
IV. ADDITIONAL INFORMATION 21
28) Other financial obligations 21
29) Total auditor fee 21
30) Supplementary report 22
31) Management 22

I. BASIC ACCOUNTING PRINCIPLES

1) Group affiliation

Quipu GmbH, a medium-sized incorporated company, is a company affiliated with ProCredit Holding AG & Co. KGaA Frankfurt am Main (ProCredit Holding) and is included in the consolidated financial statements. ProCredit Holding prepares the consolidated financial statements for the largest and smallest consolidation scope; they are published in the German Official Federal Gazette. ProCredit Holding is registered with the Regional Court of Frankfurt under HRB 91858.

The profit and loss transfer agreement with ProCredit Holding was changed to a control and profit/loss transfer agreement on 21 July 2011. As a result, the entire profit/loss for the year is transferred to ProCredit Holding. The control and profit/loss transfer agreement form the prerequisite for the VAT and income tax affiliation with ProCredit Holding.

2) Information about accounting, measurement and disclosure methods

The annual financial statements of Quipu GmbH, Frankfurt am Main, (Quipu GmbH) for the 2018 financial year are prepared according to the provisions of the German Commercial Code and the Limited Liability Companies Ac.

Intangible and tangible assets are entered at acquisition or production costs and reduced by regular amortisation/depreciation where possible. Regular depreciation is applied on a straight-line basis over the expected useful life of the assets. The regular depreciation period for individual software is five years.

Financial assets are entered at acquisition cost. If on the balance sheet date a reduction in value is expected to be permanent, extraordinary write-downs will be applied to the corresponding assets. Write-ups are applied if the reasons for the reduction no longer apply.

Stocks consist of work in progress. Contractually agreed performance that had not been billed by the balance sheet date was measured on the basis of completed person days times the daily rate. Regarding the services of the Processing Centre, which must be calculated every month after the fact, an estimate is determined on the basis of the projected budget.

Receivables and other assets are entered at acquisition cost in compliance with the lower of cost or market value principle.

The cash reserves are entered at the nominal value.

Prepaid expenses consist of expenditures before the balance sheet date that represent expenses for a certain period after this date.

The equity capital was entered at the nominal value.

The provisions take into account all legal or factual obligations vis-à-vis third parties that can be identified on the balance sheet date, and the amounts of which are deemed uncertain based on a business assessment. Provisions are entered at the amount of the amount payable that will be required based on a reasonable business assessment (sec. 253 (1) German Commercial Code (HGB)). In the financial year, the provisions have a term of less than one year and are not discounted (sec. 253 (2) HGB).

Liabilities are entered at the amount to be paid.

The option to enter software development costs on the assets side pursuant to sec. 248 (2) HGB is not utilised.

The income statement is prepared according to the total cost method (sec. 275 (2) HGB).

All amounts are shown in euros. In the balance sheet for Quipu GmbH, currency items are measured at the average rate of exchange at the end of the reporting period (sec. 256a HGB). The exchange rate on 31 December 2018 was EUR 1 / USD 1.1450. Income and expenses from the conversion of these currency items are added under other operating income / other operating expenses. Expenses and income in foreign currency are converted at the transaction rate.

Quipu GmbH utilises the size-dependent exemption of sec. 293 HGB and does not prepare consolidated financial statements.

II. INFORMATION REGARDING THE BALANCE SHEET

A. FIXED ASSETS

3) Intangible assets

Intangible assets consist mainly of software licenses that have been purchased. A detailed overview of the development of intangible assets is shown in the asset schedule (Annex 1 to the Notes).

4) Tangible assets

The continuation of the centralisation project with the ProCredit Group (ProCredit Global Data Center) once again led to increased investments in fixed assets in 2018. Tangible assets are comprised of technical equipment and servers, office furniture and equipment, company vehicles and tenant installations. Regarding the development of tangible assets, we refer to the asset schedule (Annex 1 to the Notes).

5) Shares in affiliated companies

Quipu GmbH maintains the following shareholdings in affiliated companies:

Name of subsidiary	Address	Subscribed capital incl. capital reserve (EUR) 31/12/2018	Revenue reserves and other reserves (EUR) 31/12/2018	Profit (Loss) for the year (EUR) 2018
Quipu Shpk, Prishtina, **Kosovo**	Rexhep Mala 16 Prishtina, Kosovo	5,000.00	41,586.00	14,685.00
Quipu S.A., San Salvador, **El Salvador**	Avenida La Revolución No. 178 Colonia San Benito, San Salvador, El Salvador.	92,927.80	17,086.41	56,351.02
Quipu Ltda., Bogotá, **Kolumbien**	Calle 37, No. 16-25 Bogotá, D.C. ,Kolumbien	80,593.74	97,625.67	-196,351.21
Quipu Dooel, Skopje, **Mazedonien**	Ui. Chedomir Minderovikj No. 31 Sjopje, Mazedonien	5,041.06	32,919.44	34,065.08

Quipu Shpk, Prishtina (Kosovo), is involved in the personalisation of bank cards for the Eastern European, Latin American and African markets. The company in El Salvador provides services for ProCredit banks in Central and South America. Quipu Dooel, Skopje (Macedonia), is responsible for providing ProCredit bank services in the European region. Quipu Ltda. in Colombia is in the process of being liquidated. This resulted in an extraordinary write-down of EUR 80,593.74 to the lower fair value with the expectation that the reduction in value will be permanent.

in EUR				Net book value			
Subsidiary	Equity exposure as of **01.01.2018**	Acquisitions in **2018**	Disposals in **2018**	as of **31.12.2018**	Share in %	as of **31.12.2017**	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	80,593.74	0.00	98.5%	80,593.74	98.5%
Quipu Dooel Skopje, **Macedonia**	5,041.06	0.00	0.00	5,041.06	100.0%	5,041.06	100.0%
Total	**183,562.60**	**0.00**	**80,593.74**	**102,968.86**		**183,562.60**	

B. CURRENT ASSETS

6) Work in progress

Services provided by the Processing Center are always calculated at the beginning of the following month. This resulted in a figure of EUR 433,528 for work in progress for December 2018. The remaining amounts relate to already rendered but not yet calculated services for on-going projects, which are only calculated after completion as per the contract.

7) Trade receivables

Of the outstanding trade receivables, EUR 39,083.12 were not due, and EUR 742,061.10 were due on the balance sheet date. Of the outstanding receivables, EUR 343,539.64 were received by the time the balance sheet was prepared.

8) Receivables from affiliated companies

These consist of receivables from subsidiaries and shareholders.

Receivables from shareholders consist of VAT receivables from the VAT group relationship (EUR 117,059.10; previous year: EUR 111,415.91) and the receivable from the assumption of the 2018 loss (EUR 570,059.79; previous year: 0.00) vis-a-vis ProCredit Holding.

Receivables from subsidiaries (EUR 66,794.21); previous year: EUR 36,092.61) consist mainly of cost transfers for hardware and software, as well as expired loan interest and loan receivables.

9) Other assets

in EUR	**31 Dec. 2018**	**31 Dec. 2017**
Tax refunds due	1,514,157.91	818,940.67
Deposits	38,211.90	32,212.16
Other	50,514.08	8,960.45
Total	**1,602,883.89**	**860,113.28**

Tax reclaims mainly consist of receivables from tax authorities in Romania (EUR 575,219.56) for VAT, and in Ecuador (EUR 937,384.94) for withholding taxes.

10) Cash in bank

Of the cash in bank, EUR 892,455.27 relates to receivables from affiliated companies.

C. DEFFERALS AND ACCRUALS

11) Prepaid expenses and other current assets

in EUR	31 Dec. 2018	31 Dec. 2017
Rent	103,267.04	139,949.72
Insurance	30,706.83	32,195.26
Consulting services	139,005.08	0.00
Maintenance	1,605,126.30	1,231,269.00
Subscription fees	1,082,678.43	436,088.43
Other	43,534.48	22,858.11
Total	**3,004,318.16**	**1,862,360.52**

A. SHAREHOLDERS' EQUITY

12) Subscribed capital

As at 31 December 2018, the subscribed capital was held by ProCredit Holding (100%).

13) Other profit reserves

With regard to the other profit reserves from the retention of annual profits before the control and profit/loss transfer agreement from the years 2008 - 2010 (EUR 1,190,763.00), a distribution was approved for 29 March 2019 as per the shareholders' resolution from 18 December 2018.

14) Profit/Loss for the year

Based on a control and profit/loss transfer agreement concluded on 21 July 2011, the loss of EUR 570,059.79 (previous year: transferred profit of EUR 149,111.17) is assumed by ProCredit Holding.

B. PROVISIONS

15) Other provisions

in EUR	31 Dec. 2018	31 Dec. 2017
Accruals for holiday	199,809.32	286,770.74
Rental expenses and decommissioning commitments	108,485.90	123,369.30
Other invoices	155,967.87	190,371.83
Outstanding invoices with employees	18,921.00	28,810.05
Employers' liability insurance contributions, charge for not employing disabled persons and international health insurance	43,620.00	42,920.00
Annual financial statements	25,000.00	35,000.00
	551,804.09	**707,241.92**

C. LIABILITIES

16) Liabilities to banks

Liabilities to banks consist mainly of liabilities to ProCredit Bank AG, Frankfurt am Main (EUR 11,500,000.00). There is also a short-term liability of EUR 6,408.75 for Frankfurter Sparkasse.

Total loan liabilities	**11,506,408.75**
- of which with a residual term of up to 1 year	6,408.75
- of which with a residual term of 1-5 years	10,833,333.52
- of which with a residual term of more than 5 years	666,666.48

17) Trade payables

This item includes EUR 44,079.34 in trade payables to affiliated companies of the ProCredit Group (previous year: EUR 229,552.65).

18) Liabilities to affiliated companies

This item includes liabilities related to invoices for services rendered by Quipu S.A. in El Salvador, Quipu Ltda, Colombia, and Quipu S.h.p.k. Kosovo, as well as liabilities to shareholders.

Liabilities to shareholder included the dividend distribution to ProCredit Holding in the amount of EUR 1,190,763.60 (previous year: EUR 149,111.17 from the profit/loss transfer).

19) Other liabilities

Liabilities from taxes consisted solely of the liability from wage and church taxes as at 31 December 2018.

Liabilities related to social security amounted to EUR 19,636.91.

III. NOTES TO THE INCOME STATEMENT

20) Sales revenues

The majority of sales revenues is generated from the provision of IT services to the ProCredit Group. The IT services comprise the provision of the banking software for ProCredit banks, and the resale of IT hardware and software.

21) Other operating income

in EUR	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Income from rental charges passed on	6,704.72	6,689.40
Income from reversal of accruals	0.00	31,073.97
Income from other reporting periods	17,555.41	0.00
Income from currency translation	117,535.83	38,648.66
Income from insurance compensation	521.52	2,841.89
Other	12,736.24	0.00
	155,053.72	**79,253.92**

22) Raw materials and consumables, and purchased goods

The item raw materials and consumables, and purchased goods mainly consists of expenses for purchased hardware, most of which was directly resold to the ProCredit Group.

23) Expenses for purchased services

Expenses for purchased services consist of payments for services to independent professionals and for services purchased from subsidiaries.

24) Personnel expenses

During the 2018 financial year, Quipu GmbH had on average 172 employees (2017: 167). As at 31 December 2018, the total number of employees at Quipu GmbH was 178 (2017: 170).

As at 31 December 2018, Quipu GmbH had two managing employees and 176 salaried employees.

25) Amortisation and write-downs of intangible fixed assets and tangible assets

A detailed overview of the write-downs can be found in the asset schedule (Annex 1 to the Notes).

26) Other operating expenses

in EUR	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Operating lease expenses	1,587,067.11	1,500,964.32
Maintenance, exp. for software and hardware	3,194,727.26	2,537,918.24
Travel expenses	1,077,003.44	1,130,123.27
Services provided by foreign subsidiaries (Latin America, Macedonia)	190,043.75	1,138,663.50
Legal and advisory expenses	1,030,078.02	1,099,088.38
Charges to be passed on for services received	148,439.53	144,246.98
Communication	349,706.82	315,773.95
Other personnel expenses	363,023.59	259,083.25
Expenses from currency translation	92,369.46	207,962.82
Other administrative expenses	188,975.45	199,052.45
Entertainment and hospitality expenses	203,680.94	162,918.39
IT materials	60,431.44	55,868.35
Accounting expenses	109,408.55	37,603.49
Insurance	50,885.80	47,711.07
Disposal of fixed assets	749.00	4,770.00
Lost receivables	32,456.07	17,897.54
Total	**8,679,046.23**	**8,859,646.00**

Legal and consulting costs consist of consulting services from Quipu Shpk and ProCredit Holding AG & Co. KGaA (EUR 649,557.32; previous year: EUR 551,881.68), expenses for the company's audit (EUR 20,689.00; previous year: EUR 31,327.09) and other legal and consulting costs (EUR 359,831.70; previous year: EUR 515,879.61).

27) Income taxes

Taxes on income include foreign withholding taxes, which relate to the result of the Regional Office in Kiev (Ukraine) (EUR 67,318.44; previous year EUR 42,100.31), sales revenues generated in the Congo (EUR 179,311.29; previous year EUR 192,326.26) and income taxes for the Regional Office in Accra (Ghana) (EUR 357.70; previous year EUR 398.36).

IV. ADDITIONAL INFORMATION

28) Other financial obligations

Quipu GmbH has assumed obligations of EUR 1,274,228.72 from rental contracts that were concluded at arm's length conditions.

Interest obligations from loan agreements concluded at arm's length conditions amount to EUR 768,601.93.

29) Total auditor fee

The costs for the audit totalled EUR 20,689.00 in 2018. The company did not utilise any other auditor services.

30) Supplementary report

Events of particular importance did not occur after the closing date.

31) Management

Dr. Gian Marco Felice, Frankfurt am Main, was the Managing Director of Quipu GmbH during the reporting period. Dr. Gian Marco Felice holds a doctorate in astrophysics. Single power of attorney is held by Andrei Georgescu, Frankfurt am Main.

Information about the receipts of the directors pursuant to sec. 285 (9a) HGB was omitted since this would have the effect of disclosing the amount of the payment (sec. 286 (4) HGB).

The Managing Director and authorized representative each possess the sole right of representation on behalf of the company.

Frankfurt am Main, 31 May 2019

Quipu GmbH
Management

Dr. Gian Marco Felice

Annex 1: Asset Schedule

Quipu GmbH

Statement of fixed assets as of December 31st, 2018

in EUR	Acquisition cost					Accumulated depreciation				Net book values	
	As of: 01/01/2018	Additions	Disposals/ Write-downs	Reclassifications	As of: 31/12/2018	As of: 01/01/2018	Additions	Disposals/ Write-downs	As of: 31/12/2018	As of: 31/12/2018	As of: 31/12/2017
I. Intangible assets											
1. Licences, commercial and intellectual property rights and similar rights	2,468,540.35	923,914.60	0.00	0.00	3,392,454.95	1,283,293.27	556,521.12	0.00	1,839,814.39	1,552,640.56	1,185,247.08
	2,468,540.35	923,914.60	0.00	0.00	3,392,454.95	1,283,293.27	556,521.12	0.00	1,839,814.39	1,552,640.56	1,185,247.08
II. Property, plant and equipment											
1. Other equipment, furniture and fixtures	9,805,115.76	1,003,135.69	37,223.87	0.00	10,771,027.58	4,959,184.13	1,617,167.32	36,474.87	6,539,876.58	4,231,151.00	4,845,931.63
	9,805,115.76	1,003,135.69	37,223.87	0.00	10,771,027.58	4,959,184.13	1,617,167.32	36,474.87	6,539,876.58	4,231,151.00	4,845,931.63
III. Financial assets											
1. Shares in subsidiaries	183,562.60	0.00	0.00	0.00	183,562.60	0.00	80,593.74	0.00	80,593.74	102,968.86	183,562.60
2. Loans to subsidiaries	544,793.41	200,000.00	128,254.52	0.00	616,538.89	0.00	0.00	0.00	0.00	616,538.89	544,793.41
	728,356.01	200,000.00	128,254.52	0.00	800,101.49	0.00	80,593.74	0.00	80,593.74	719,507.75	728,356.01
Total fixed assets	**13,002,012.12**	**2,127,050.29**	**165,478.39**	**0.00**	**14,963,584.02**	**6,242,477.40**	**2,254,282.18**	**36,474.87**	**8,460,284.71**	**6,503,299.31**	**6,759,534.72**