cash flow statement

Part of the financial statements that reconciles the movements of liquid assets by showing inflows and outflows of cash and cash equivalents generated by an institution's operations in a given period.

Reporting Package (RP)

Technical reporting format issued by PCH for financial reporting which all group companies – either individually or on a subgroup level – must complete and provide to PCH. PCH consolidates the data contained in the RPs of all group companies.

International Financial Reporting Standards (IFRS)

Standards developed and published by the International Accounting Standards Board (IASB). The IFRS as applied in the financial statements are endorsed by the European Union.

effective interest rate

According to IFRS, the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts though the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In the context of lending operations, the effective interest rate expresses the “real” cost of a loan, which may be disguised by the nominal interest rate, e.g. if it is expressed as a monthly rate.
The effective interest rate is calculated as if it were compounded annually, according to the following formula, where:
r - is the effective annual rate,
i - the nominal rate,
n - the number of compounding periods per year (for example, 12 for monthly compounding):

$$r = \left(1 + \frac{i}{n}\right)^n - 1$$

In addition, the effective interest rate also includes not only interest payments but also all other cash flows relevant payments connected to the loan, especially fees.

Financial instrument - any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments.

money laundering

The Financial Action Task Force describes money laundering simply as “the processing of criminal proceeds to disguise their illegal origin.”

More specifically, money laundering is the process by which criminals attempt to conceal the illicit origin and ownership of the money gained from their unlawful activities. By means of money laundering, criminals attempt to transform this money into funds of an apparently legal origin. If successful, this process gives legitimacy to the money, which the criminals continue to control.

Money laundering can be either a relatively simple process, or a highly sophisticated one that exploits the international financial system and involves numerous financial intermediaries in a variety of countries.

Money laundering is necessary (from the criminal’s point of view) for two reasons:

-first, the money launderer must avoid being connected with the crimes that gave rise to the criminal proceeds (such crimes are known as predicate offenses);

-and second, the money launderer must be able to use the proceeds as if they were of legal origin. In other words, money laundering disguises the criminal origin of financial assets so that they can be freely used.

exclusion List

A list of undesirable activities which defines negative eligibility criteria in order to ensure that the economic development we support is as environmentally and socially sustainable as possible. No business relationship shall be established or maintained with clients engaged in any of the activities on this list.

The standard client categories defined by ProCredit Holding,
which are used for ProCredit group-level reporting on clients, are:

Business Clients

Very Small

Small

Medium

- are private sector legal entities or
- entrepreneurs/sole proprietors that operate a business

that meets the minimum size criteria for business clients

Institutional Clients

financial institutions

non-financial institutions

Private Clients

- natural persons who do not own a business
- private commercial legal entities that do not meet the minimum size criteria set for business clients
- entrepreneurs that do not meet the minimum size criteria set for business clients

Categorisation of **Very Small**, **Small** and **Medium** Clients according to size criteria:

- monthly/annual sales
- credit exposure/credit limit
- number of employees

Criteria	Very Small	Small	Medium
Credit exposure	do not exceed 50,000 EUR	do not exceed 250,000 EUR	exceeding 250,000 EUR

exposure – any asset or off-balance sheet item held in connection to a natural person or a legal entity

Reciprocity

compares

funds deposited by business clients into their accounts (current, saving, term deposit) versus financing provided to these clients

Sector reciprocity ratio

deposits from all business clients

loan portfolio to business clients

total amount of deposits from all business clients expressed as a percentage of the total outstanding portfolio of loans to business clients

Direct reciprocity ratio

deposits from only loan business clients

loan portfolio to business clients

total deposits from only loan business clients as a percentage of the total outstanding portfolio of loans to business clients

Business continuity (BC)

The bank’s ability to strategically and tactically plan for and respond to business disruptions and therefore continue business operations at pre-defined level.

business committee

The business committee discusses and defines the strategy for acquiring and work with a client, e.g. the next steps regarding acquisition, or a proposal for a concrete service offering, including credit risk decisions and pricing.
Accordingly, the credit committee is a part of the business committee. Members of the business committee are the BCA and the Branch Manager or Head of Service Centre, respectively, plus a credit risk analyst if credit products for Small and Medium business clients are on the agenda of the committee.
In Very Small business, credit decisions up to EUR 50,000 are made by the BCA and Head of Service Centre without the involvement of the Credit Risk Department.

PCB Overview

Monthly report with operational statistics showing the main efficiency indicators of the bank’s work with business clients, broken down by business clients’ location.

inactive account

Any account without transactions, apart from system-generated automatic credits and debits, during a certain period (defined by the bank) is to be marked as “inactive” in the bank’s IT system. Inactive accounts require special attention
to prevent their use for money laundering or fraud and to avoid reporting distortions.

24/7 Zone

(= self-service area) The 24/7 Zone is a part of each Service Point where clients can perform transactions without assistance from a client adviser by using various types of equipment. It contains a self-service offering for cash-in and out transactions (ATM, Paybox, Drop box), the possibility to perform transfers and other transactions (e.g. utility payments, PIN changes etc.), to use e-Banking and to reach the contact centre. It is also accessible outside office hours. According to the ProCredit concept, the 24/7 Zones are spacious and attractive self-service areas. Clients should be encouraged to perform simple standard transactions like cash payments in the 24/7 Zone instead of at the cash desk.

ATM

ATM stands for Automated Teller Machine and is a self-service machine in the 24/7 Zone (and other locations) that enables clients to withdraw cash using a card. Besides simple cash-out ATMs there are also cash-in ATMs which allow cash to be paid into an account as well as withdrawn.

info terminal

Terminal in the 24/7 Zone that provides access to e-Banking, to the bank´s website and to the contact centre, etc.

drop box / deposit safe

Self-service machine in the 24/7 Zone allowing clients to pay in large amounts of cash. The client brings the banknotes in an envelope or bag and puts it into the drop box. (Cf. paybox)

paybox

Self-service machine allowing clients to pay in small amounts of cash. Typically the client has to feed the money into the machine note by note. Often the machine provides additional services, e.g. utility payments, information. (C.f. drop box)

net interest margin

The net interest margin is calculated by dividing net interest income by average total assets.

$$\text{net interest margin} = \frac{\text{net interest income}}{\text{average total assets}}$$

regulatory capital adequacy ratio

A regulatory capital adequacy ratio is a measure of a bank's or banking group's ability to absorb losses by calculating the ratio of capital to risk. The respective regulator of a bank or banking group tracks its capital adequacy ratios to ensure that its capital cover remains above the minimum required to absorb a reasonable amount of loss.

Under Basel III as set forth in the Capital Requirements Directive and Capital Requirements Regulation, primarily three regulatory capital ratios are used to assess the capital adequacy of banks and banking groups: Common Equity Tier 1 capital ratio, Tier 1 capital ratio and total capital ratio.

The ratios are calculated by dividing these capital components by the risk-weighted assets.

total capital

Total capital comprises Tier 1 (T1) capital (consisting of Common Equity Tier 1 (CET1) capital plus Additional Tier 1 (AT1) capital) and Tier 2 (T2) capital.

$$\text{total capital} = \text{Tier 1 (T1) capital} + \text{Tier 2 (T2) capital}$$

cost/income ratio

Measure of cost efficiency which sets operating expenses in relation to operating income before provisioning.

income on loans

The “income on loans” ratio is calculated as follows: The sum of interest income from loans to customers, disbursement fees and similar income from loans to customers over (divided by) the total outstanding principal of loans and advances to customers, expressed as a percentage.

return on average assets (RoAA)

Profit of the period divided by the average total assets, defined as the average of assets at the beginning of the period and at the end of the period.

$$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

return on average equity (RoAE)

Return on the average equity attributable to the shareholders of ProCredit excluding non-controlling interests. This is calculated by setting net income (profit), attributable to the equity holders of the parent company, in relation to the average balance sheet equity, defined as the average of shareholders’ equity at the beginning and at the end of the period.

$$\underbrace{ROE}_{\text{Return on Equity}} = \frac{\overbrace{NP}^{\text{Net Profit}}}{\underbrace{SE_{avg}}_{\text{average shareholders' equity}}}$$

deterioration of the client's economic situation

increase in the current or future credit default risk

default risk

The possibility that counterparties in a financial transactions will not be able to repay principal and interest on a timely basis or comply with other conditions of an obligation or an agreement, causing a financial loss to the creditor.

restructuring

Any modification of the terms and conditions of a credit exposure by agreement concluded between the bank and the client to modify the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client due to the deterioration of the client's economic situation.

delaying the payment of one or more future instalments

reducing the amount payable for one or more instalments

restructured credit exposure

Credit exposures where the bank and the client agreed to modify the terms and conditions of the credit exposure by modifying the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client.

refinancing

Disbursement of a new loan that serves fully or partially to repay one or more outstanding loans.

restructuring or refinancing?

the new credit exposure is classified as restructured

If the bank decides to refinance a credit exposure (i.e., to disburse a new loan that serves fully or partially to repay one or more outstanding loan(s) that would otherwise be restructured) the new credit exposure is classified as restructured as well

The refinancing of credit exposures for clients that are clearly not experiencing economic difficulties and are not expected to experience such difficulties does not constitute restructuring.

signs of impairment

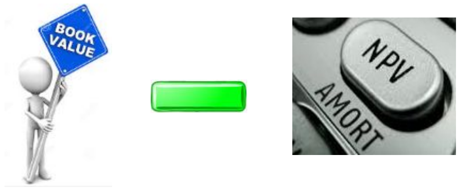
The bank obtains information indicating that the value of the credit exposure may have deteriorated.

as a consequence - **impairment test** (an assessment for specific individual impairment)

Based on the results of the impairment test the bank is able to determine the existence and size of an impairment loss.

Impairment loss

The difference between the book value and the net present value (NPV) of a credit exposure.



net present value (NPV)

The net present value (NPV) or net present worth (NPW) is defined as the sum of the present values (PVs) of incoming and outgoing cash flows over a period of time. NPV is a central tool in discounted cash flow (DCF) analysis and is a standard method for using the time value of money to appraise long-term projects. ProCredit uses this method for example to determine fair values for different asset and liability positions in its financial statements and to determine the need for specific provisions.

In the context of calculating impairment losses the NPV is given by the expected future cash flows of a credit exposure, discounted using the original effective interest rate of the credit exposure. If the NPV is smaller than the current gross book value of the credit exposure, the credit exposure is impaired and the level of provisioning is defined based on the calculated impairment loss.

Impaired credit exposures

Credit exposures are impaired if:

- they are classified as impaired restructured

or

- they display signs of impairment

and

- impairment losses are found either through an impairment test or through a collective assessment for impairment

Allowance for impairment losses on loans and advances to customers

Loan loss provisions set aside in order to absorb current losses from non-repayment of loans.

Depending on the size of the exposure, they are determined:

collectively for a grout of credit exposures

For collectively assessed credit exposures, the provisions set aside can be:

portfolio-based provisions

Allowance for unimpaired client exposures based on collective assessment

lump-sum specific provisions

Allowance for individually insignificant impaired client exposures based on collective assessment

individually

For individually assessed credit exposures specific allowance for impairment losses is set aside (specific provisions)

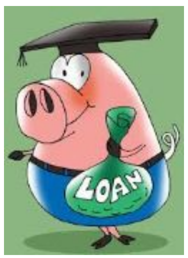
Allowance for individually significant impaired client exposures based on individual assessment

	individually insignificant credit exposures (do not exceed EUR/USD 30,000)	individually significant credit exposures (exceeds EUR/USD 30,000)
unimpaired client exposures	portfolio-based provisions	
impaired client exposures	lump-sum specific provisions	specific provisions

portfolio at risk (PAR 30 and PAR 90)

The portion of the loan portfolio for which payments (typically instalments composed of principal repayment and interest payment) have not been fully made on time and continue to be delayed for a period of more than 30 (90) days.

Even if only a fraction of one instalment is overdue (*in arrears*), the full amount of principal still outstanding under this loan contract, as well as all other loans disbursed to this customer, are considered to be *at risk*.



coverage ratio

total allowance for impairment / volume of PAR 30 (or PAR 90)/

write-offs

In general, credit exposures which have been written off the bank's books (recorded as a loss) because the bank does not expect to receive any further recoveries. Typically, the bank writes off credit exposures after 180/360 days in arrears depending on the amount of the exposure and collateralisation.

grace period

A period of time at the beginning of the repayment period during which the client is expected to make regular payments of the accumulated interest only.

instalment

Periodic payments, typically monthly, with which clients repay their loans. An instalment generally consists of two components: repayment of part of the principal and payment of interest.

Credit limit

the maximum overall credit exposure the bank decides to have towards a certain client during a specified period of time, provided that the client meets certain conditions, when indicated

Credit line

a short-term credit facility to finance working capital needs of business clients

The product allows the client to accumulate a negative balance in the account up to a specified amount for a limited period of time.

this account is usually not the client's principal current account, but is used only for the purpose of the credit line

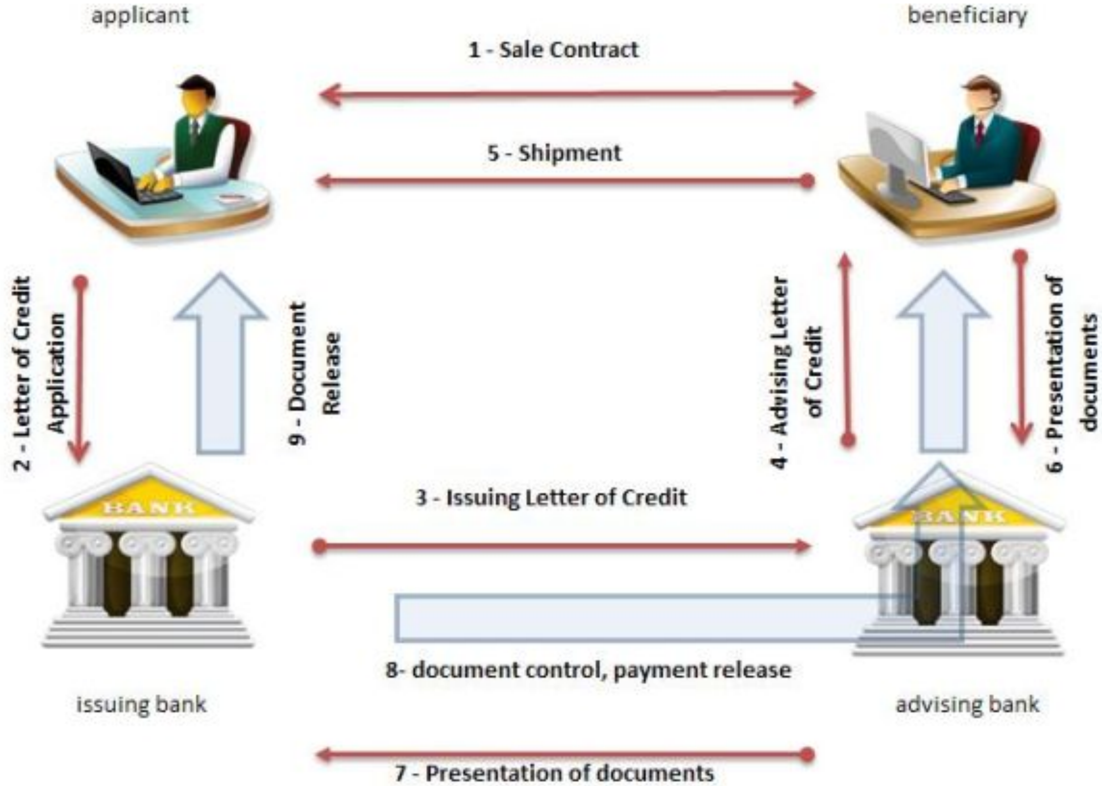
Overdraft

a limit approved for financing the liquidity need of a client for a limited period of time, which allows the client to accumulate a negative balance in the current account in order to cover short-term liquidity gaps

The client is not obliged to draw on the overdraft and typically pays interest only on the drawn amount.

Letter of credit

An irrevocable (cannot be cancelled) undertaking on the part of the issuing bank to effect payment to the beneficiary provider of exported goods upon presentation of the documents stipulated in the letter of credit within a prescribed period of time and upon the fulfillment of any other applicable terms and conditions.



Letters of credit are primarily used in international trade transactions involving substantial amounts for deals between a supplier in one country and a customer in another country.

This payment instrument protects both the interests of the buyer and the interests of the seller. Such a payment instrument gives the supplier reassurance that he/she will receive payment for the goods after presentation of documents in accordance with the letter of credit terms and conditions. In order for the payment to occur, the supplier must present to the bank the necessary shipping and commercial documents (commercial invoice, packing list, weight list, certificate of quality, certificate of quantity, health certificate, certificate of origin, etc.) within a given time frame. At the same time, this is a secure way for the client (the ordering party) to receive the ordered goods in accordance with the agreed time schedule, in the agreed quality and/or in accordance with other aspects previously agreed upon with the beneficiary.

Letter of guarantee / Bank guarantee

Security instrument issued by the bank, used primarily in trade finance, representing a commitment by the bank to pay the beneficiary of the guarantee a specified amount of money upon demand in writing within a period of time specified in the guarantee if the bank's client fails to fulfill his/her obligation towards the beneficiary.

The difference between letters of credit and letters of guarantee:

letter of credit is a payment instrument that ensures that a transaction will proceed as planned

letter of guarantee is a security instrument intended to reduce the loss amount if the transaction does not go as planned

Credit risk

Refers to the danger that the other party to a credit transaction (the counterparty) will be unable to meet its contractually agreed obligations towards the bank or will only be able to meet them in part.

Counterparty in the broadest sense is any entity with which one has an exposure that does not result from a financial service offered to clients. For the purpose of this policy counterparties (including issuers) are typically commercial and public banks, governments, central banks and international organisations.

The term credit risk applies to the following risks:

Counterparty risk and issuer risk

- Principal risk - the risk of losing the amount given to the counterparty or issuer because of the counterparty's or issuer's failure to repay the exposure in full amount or/and on time
- Replacement risk (for derivatives) - the risk that an outstanding deal has to be replaced with an equivalent one at a higher price on the market
- Settlement risk (for derivatives) – the risk that arises when one party pays without having confirmation of the counterparty's counter payment having been settled
- Market price risk - the risk that market values of securities will drop as interest rates increase

Risks associated with client credit exposures (classic credit risk)

Country risk

is defined as the risk that the group may not be able to enforce rights over certain assets in a foreign country or that a counterparty in a foreign country is unable to perform an obligation because of specific political, economic or social risks of that foreign country resulting in an adverse effect on credit exposures

In a broad sense country risk is driven by volatile macroeconomic conditions (e.g. volatile FX rates, credit and liquidity crunches), an unstable political situation (e.g. changing political and institutional set-up) and an unfavourable natural environment (e.g. earthquakes, floods, volcanic eruptions).

As a consequence, aspects that are not explicitly covered elsewhere constitute country risk in a specific sense, i.e. convertibility, transferability, expropriation, macroeconomic and security risk .

Risks arising from participating interests

Document Hierarchy & Organisation

group strategies

outline general principles and development plans that underpin the ProCredit approach to

- business development,
- risk management and
- T development

policies

define the principles underlying ProCredit's defined business activities

standards

define supplementary specifications (where appropriate) of the principles established in the strategies and policies

job descriptions

set forth the responsibilities associated with a given job

Green finance (Green credit products)

all financing activities for investments in:

Environmentally friendly investments

these investments have a direct positive effect in terms of environmental protection even though there may not always be measureable reductions in greenhouse gas (GHG) emissions

e.g. organic agriculture, water and soil protection, consulting and planning services to reduce environmental pollution, etc.

Renewable energy (RE) investments

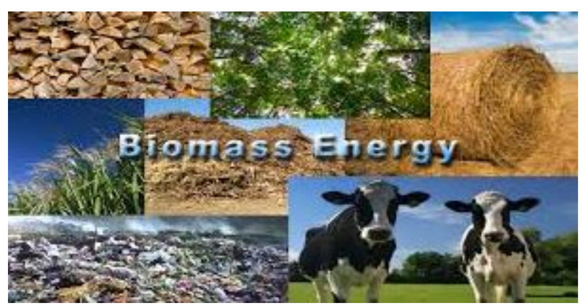
investments in the use of natural resources that are:

inexhaustible within human time scales

wind energy

solar energy

replenished much more quickly than they are depleted



biomass

Energy efficiency (EE) investments

measures to use less energy or resources to provide the same or an increased level of output

Environmental management system

A system of strategies, procedures, norms and organisational structures designed to manage and continuously improve the environmental impact (a negative effect on the natural environment that is caused, directly or indirectly, by a certain action or decision by the bank) of the bank (internal measures) and its clients (external measures).

market risk

The risk of losses in on- and off-balance sheet positions arising from movements in market prices. The ProCredit group defines market risk as interest rate risk and currency risk.

interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the bank's economic value and its interest earnings and eventually its capital.

currency risk

- foreign currency risk (FX risk) → FX risk specifies the risk of negative effects on an institution's financial results and capital adequacy caused by changes in exchange rates.
- currency risk of the bank's income statement → The currency risk of the bank's income statement arises from the OCPs of the bank. Exchange rate movements can impact the bank's income statement significantly if it has significant currency positions. Therefore, keeping closed currency positions minimises the risk of losses from exchange rate movements.
- currency risk of the capital adequacy ratio → The currency risk of the capital adequacy ratio arises when the capital of the bank is held in a different currency than many of the assets it supports. In this case, local currency depreciations can result in a significant deterioration of the capital adequacy because the foreign currency assets appreciate (from a local currency perspective) and the bank has higher risk-weighted assets against a stable local currency capital. Note that this risk exists even if the currency position is closed; however, a long open currency position can provide a hedge against this risk.
- foreign currency investment risk → The risk that the value of equity investments (by PCH in PCBs) will decrease due to changes in FX rates between the functional currency of the respective subsidiaries and the reporting currency of PCH (EUR).

Currency position

A currency position is determined by comparing all assets and liabilities in each currency, other than the functional currency, including all on- and off-balance sheet positions.

The functional currency is the currency of the primary economic environment in which the bank operates and typically represents the currency in which the bank's equity is held.

open currency position (OCP)

closed currency position

assets = liabilities

long (positive)

the assets in one currency are larger than the liabilities in the same currency

short (negative)

the liabilities in one currency are larger than the assets in the same currency

translation reserve

The translation reserve is the group-level currency exchange reserve on capital. It consists of net exchange differences from foreign currency translations deriving from the translation of financial statements of a ProCredit bank in the consolidation process. Translation adjustments are reported as a separate component of (group consolidated) equity.

The exchange differences arise because PCH carries the equity investment in EUR, while the banks convert the equity investment to their respective local currency. The EUR amounts of paid in equity are carried at historical values.
The difference between historical value and revaluation according to the current FX rate is booked in the translation reserve.
If the ProCredit bank is sold, the accumulated exchange difference is reclassified to profit or loss.

products

business processes

instruments

IT systems

organisational structures

new risk approval (NRA)

Process through which all new products, business processes, instruments, IT systems and organisational structures (of an institution) must pass before being implemented or used for the first time.

ProCredit Risk Event Database

Risk Event Database (RED)

incidents

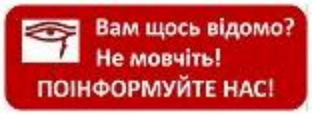
losses

near misses

A tool developed and maintained to ensure that all incidents, losses and near misses above EUR 100 are recorded and addressed in an appropriate manner. It provides all group institutions with a technical tool to document actual and potential risk events.

whistleblowing

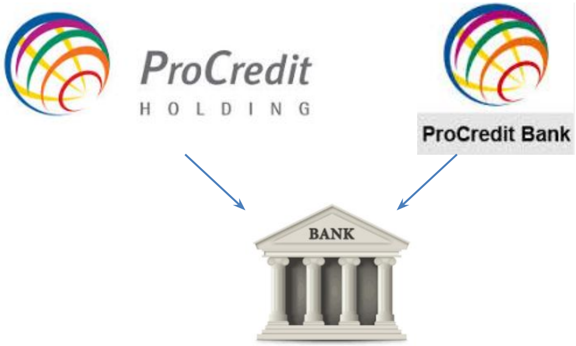
A mechanism to enable bank staff to voice concerns in a responsible and effective manner when an employee discovers information which he or she believes to show serious malpractice or wrongdoing within the organisation.



fraud

Any act punishable by law that may have a negative impact on ProCredit’s assets (i.e. cause a loss or has the potential to cause a loss), either directly or indirectly.

funding



Raising funds from institutional investors or from ProCredit Holding or ProCredit Bank Germany. Its purpose is to provide medium- and longer-term financing to support the business activity of the ProCredit group by securing sufficient levels of present and future liquidity in a manner that is timely, cost-effective and risk adequate.

Funding instruments are usually financial instruments with an initial maturity of one year or more, ranging from senior debt to financial instruments with equity characteristics (such as subordinated debt or hybrid equity). Financial instruments also include guarantee instruments, which enable banks or ProCredit Holding to attract funds or which cover (typically a part of) the default risk of a specifically defined loan portfolio or other assets. Customer deposits above EUR /USD 500,000 with a maturity of three months or more from non-business clients (“wholesale deposits”) are considered as funding as they typically come from institutional investors.

capital market

A market in which funds with maturities of typically more than one year are loaned and borrowed. Such funding may be tradable (securities) or not.

international financial institutions (IFIs)

Irrespective of whether they operate under a banking licence or not, IFIs are financial institutions that provide funding to financial intermediaries for special developmental purposes as established by their governing bodies. Internationally active institutions with similar/identical mandates created under national law are also regarded as IFIs.

Management Board the group of managers

- appointed by of the Supervisory Board
- acknowledged by the National Bank

Human Resources committee

- at least 5 members, who are nominated by the Management Board
- takes all HR-related decisions

annual staff conversation

- yearly two-way conversation with each employee
- conducted by an evaluator

an employee receives structured feedback on how he\she is perceived in the bank and the way ahead

Code of Conduct

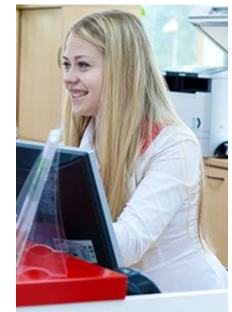
The Code of Conduct is a legally binding document and forms an integral part of ProCredit's employment contracts. It outlines the key principles of what constitutes the ProCredit res publica and translates them into the daily reality and environment in which our employees are constantly taking decisions. All employees should fully understand and adhere to the principles defined in this Code of Conduct, and are expected to engage in the ongoing dialogue about its application. A violation of any of the provisions of the Code of Conduct may lead to disciplinary action that can include dismissal from the group entity.

Young Bankers Programme (YBP)

The Young Bankers Programme is part of the recruitment process of all ProCredit banks. It is a six-month introductory course on banking and finance offered by ProCredit banks to university graduates and interested individuals with practical working experience, and can be organised jointly by several ProCredit banks The YBP is the main entry point to a ProCredit bank for new employees.

Young Bankers Graduate (or YBP Graduate)

An employee hired through the Young Bankers Programmes who is currently undergoing his/her 6-month probation period. The probation period includes a specialised theoretical and on-the-job training on front office positions.



business client adviser (BCA) trainee

A business client adviser during the 12-month theoretical and on-the-job training. For employees hired through the Young Bankers Programme, the BCA traineeship starts directly after the 6-month probation period of Young Bankers Graduates. After completing a final test, the BCA trainee obtains credit authorisation voting rights and can manage his/her own loan portfolio.

2 week focus session → YBP 6 month introductory course → YBP Graduate 6 month probation period (front-office) → BCA trainee 12-18 month training

salary structure

a set of salary ranges that are defined for all key positions in the bank and providing clear career development paths to all staff

ProCredit outlets

All ProCredit institutions have three types of outlets where customers can be served: Service Points, Service Centres and Branches.

	Branch	**Service Centre**	**Service Point**
specialises in	*Small and Medium business clients*  	*Very small business clients* 	*Private clients*  ** also allow business clients to perform transactions*
number of employees	*up to 10\12 BCA*	*up to 10\12 BCA*	*up to 5 CA*
managed by	*Branch manager + Deputy Branch manager (if more than 6-7 BCA)*	*Head of Service Centre + Deputy Head of Service Centre (if more than 6-7 BCA)*	*specialised department at HO*

Embedded service point is in the same building as a Service Centre or a Branch.

Current professional staff

Employees who are on the payroll of a given ProCredit institution and whose salary is being paid by the given ProCredit institution, excluding support staff. This includes staff on maternity leave or employees on leave whose salary is paid by the bank.
Note: Staff on maternity leave whose salary is not paid by the institution and employees on unpaid leave are not reported in the total number of current staff.

client adviser (CA)

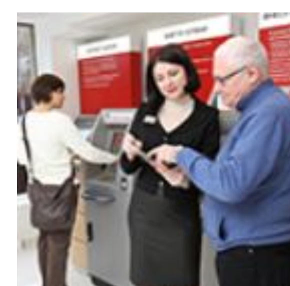
Employee in Service Points responsible for all services for private clients and for transactional services to business clients. The tasks and responsibilities of client advisers include advising clients about our services and conditions, actively encouraging clients to use e-Banking and 24/7 Zones, identifying the needs of private clients, opening accounts applying the KYC procedure, analysing and deciding on credit facilities for private clients and transferring business clients to BCAs.
CAs are the bank's "public face".

business client adviser (BCA)

Employee responsible for acquisition and customer care for a portfolio of business clients. They are usually located in Service Centres and Branches and there are three types of BCAs: BCA Very Small, BCA Small and BCA Medium.

floor manager

A client adviser who is on duty in each 24/7 Zone, ready to actively explain the benefits of the services available. The floor manager should welcome the clients and free up the other client advisers from routine operations. The floor manager identifies the client's needs and recommends the appropriate machine. For the first transaction, the floor manager personally accompanies the client and demonstrates the technical possibilities of the machines. This is a temporary position in the service points with a recently implemented 24/7 Zone.



Public information - information that is intended for disclosure and distribution to the public

↓

disclosure refers to information revealed
to third parties or the public

Confidential data - when an unauthorised disclosure, alteration or destruction of that data could cause a significant level of financial or/and reputational risk to the company or its clients.

Examples:

- security-related company data - disclosure may harm the business of PCH
- personal data - information defined by the local data protection law, or other laws governing the protection of personal information
- data protected under applicable law
- data protected by confidentiality agreements
- cardholder data - primary account number (PAN), cardholder name, expiry date, service code

e-Banking

e-Banking is an online or internet banking application which allows ProCredit bank clients to conduct banking transactions on a secure website operated by their bank. The range of functions available varies from country to country.

Audit report

a written report on the outcome of an audit, that contains all findings and their respective risk classification

Auditors identify a risk that is unknown or not managed properly

finding (observation)

in order to distinguish the importance of findings auditors assign a risk classification (severity level):

minor

moderate

major

severe

particularly severe

Risk assessments

annual

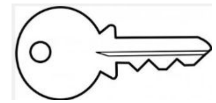
analysis

of

operational risks

fraud risks

inherent to



to all key processes

by

process owners

operational risk manager

an analysis on an annual basis of the operational and fraud risks inherent to all key processes of the institution performed by process owners with support from the operational risk manager

Liquidity risk

Liquidity risk is the danger that a bank within the ProCredit group will no longer be able to meet its current and future payment obligations in full, or in a timely manner.

Compliance and regulatory risk

The risk of improper identification, understanding or implementation of an external regulation or covenant stipulated by the national supervisory authority or a financing institution.

Operational risk

the risk of loss resulting from inadequate or failed:

internal processes

from people and systems

external events

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, from people and systems, or from external events.

The definition includes:

Legal risk

Reputational risk

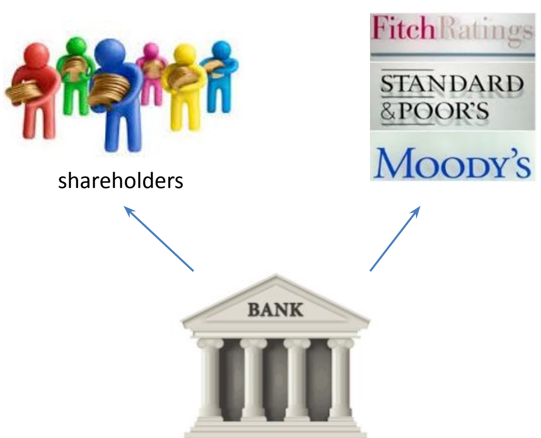
Exposure to fines or penalties resulting from inappropriate conduct of business, reduced capability to realise the group's rights due to inappropriate business or contractual set-up or inappropriate handling of legal threats like court cases.

The risk that an event or series of events may cause damage to a bank's or the group's reputation, thereby reducing its ability to conduct business.

Reporting

External reporting

reports to shareholders, rating agencies, banks or funding partners (usually (but not exclusively) defined by contractual or legal obligations)



<u>subset</u>: reports to supervisory authorities

information requirements set by supervisory authorities

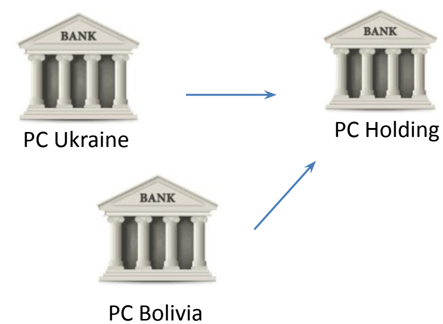
It does not refer to public disclosure obligations defined by supervisory authorities

Internal reporting

reports which are used within the individual PC entities

Intra-group reporting

information exchanged within the PC group



subset: central reporting

reporting requirements set by PCH for the PC entities

Key objective is to meet the reporting requirements set by the German regulator.

Information gathered through central reporting also forms the basis for additional internal and external group reporting.