ProCredit
HOLDING

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ProCredit General Partner AG

Annual General Meeting

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Only the spoken German text is legally binding-

(Sandrine Massiani speaking)

Ladies and Gentlemen, we are delighted be able to bid you a very warm welcome to this year's Annual General Meeting of ProCredit Holding. On behalf of the Management Board of ProCredit General Partner, the personally liable general partner of ProCredit Holding, we would like to thank you for taking the time to attend this AGM today.

We had originally hoped to welcome you in person to our Academy in Fürth for this year's Annual General Meeting. Even though it does not feature prominently in our financial figures or our group balance sheet, we regard the Academy as the heart of our group, and instead of only talking about the important role it plays for our group, we would have clearly preferred to give you, our esteemed shareholders, the opportunity to experience the ProCredit Academy first-hand. Instead, we welcome you today from Fürth in this rather impersonal way, which admittedly still feels strange to us, even though we – like so many others – have naturally developed a certain "online routine" in terms of meetings, discussions and presentations over the past weeks and months. However, an Annual General Meeting is and always will be a special occasion for us, and we would have preferred to stand and speak directly before you today.

In the next half-hour we would like to give you some insight into what the special situation arising from COVID-19 means for us and how our banking group is dealing with it. We will then review 2019 once again and look at the financial as well as the non-financial results; we will also take a closer look at the realignment of our business model, which we have been implementing over the past few years and now consider to be complete. Finally, looking ahead, we would like to talk about the opportunities and risks for our group in the current turbulent market environment. We will show that, thanks to our business model, we are well prepared for the future, and that this business model provides for the stability and sustainability of our group in turbulent times such as those we are currently experiencing.

It is certainly regrettable that our AGM is taking place virtually today, but in the end it is a rather trivial inconvenience if we consider the broader context of the COVID-19 pandemic. In addition to the human impact, which is undoubtedly the focus of attention, we can already observe far-reaching consequences for the economies and societies in the countries in which we operate, and we expect them to continue in the future. Stringent, far-reaching measures to contain the pandemic were introduced early on in these countries, as a rapid spread of the virus, such as occurred in Western Europe, would have overburdened the structurally weaker healthcare systems of these countries. As a result, the infection and death rates there are lower than in Western Europe. State support programmes are currently being prepared or are already available in these countries, but in general they are less comprehensive than those here in Germany, for example, both in absolute terms and relative to the size of the economies.

We have therefore taken great care to ensure the safety of our clients and employees and thus the continuity of our business activities at all times. All our branches, self-service zones and ATMs have remained in operation at all times. In contrast to many banks, which had to lay off staff at short notice and/or furlough them, we did not implement any redundancies or introduce temporary work models. Instead, most of our banks are currently continuing to seek and find additional staff for their teams. Around two thirds of our colleagues have been working from home since the end of March. Only two ProCredit employees have fallen ill with the new virus, and we are extremely relieved that both of them have recovered.

Alongside the rapid introduction of remote working models, it was important to maintain business operations in our branches. Our very slim branch structure and our proven digital

platform for most client-facing and back office transactions have made it considerably easier for us to adjust. In essence, all of our clients already exclusively use electronic channels for all their transactions – in concrete terms, this means no queues of people wanting to withdraw or transfer money, and no crowded branches that would pose a health risk to employees and clients. As the business operations of our banks have not been seriously impacted, we have been able to focus directly on proactive client communication and acquisition.

Meetings and workshops are still taking place exclusively via digital channels. For our group, which thrives on regular, active and usually personal exchange between teams and working groups, this was certainly one of the biggest changes. Within the ProCredit group there is usually a lively exchange between the teams in Frankfurt and the banks. In addition, more than one hundred employees of our banks travel to Fürth in the Odenwald every month to participate in workshops or our Academy programmes. This personal, group-wide exchange has formed us into a solid unit over the years and we greatly miss this personal contact with our colleagues from the banks. At the same time, however, the fact that employees from the holding company and various banks know each other very well has greatly simplified the switch to the type of video communication now in common use.

These days, of course, our attention is focused even more than usual on the regular monitoring and assessment of risks arising from the current situation, and especially credit default risks, of course. To protect the credit markets, moratoria – that is to say, legally regulated deferments of repayment obligations – have been imposed in all our countries; they are configured differently, but essentially they allow borrowers to suspend repaying their loans for a certain period of time, usually 3-6 months. The moratoria give an important respite to our clients who are severely affected by the coronavirus pandemic, and we believe that many will recover after the moratoria expire. Nevertheless, it should be made clear that moratoria play only a subordinate role in managing credit risks during COVID times; far more important is our strong focus on close, long-term customer relationships, which has enabled us over the years to keep both loan defaults and loan write-offs well below the market average. This clear client focus is and will remain a central component of our business approach, as it helps us to proactively address and manage risk.

Our carefully selected client base allows us to take an individual, differentiated approach to addressing the position of each client. Our Business Client Advisers generally manage portfolios with an average of 40 to 50 borrowers and maintain a continuous dialogue with these clients. Our clients, in turn, clearly see us as equal partners whose support they can depend on. We believe that this approach of reaching out to clients personally and individually, and then staying in touch with them over the long term, is what clearly distinguishes us from other banks. We are not in the business of indiscriminately doling out loans to as many borrowers as possible. Default risks are assessed and managed by our experienced credit risk experts at individual customer level, not at portfolio level. In the current situation this is particularly important, both for us and for our clients.

The fact that we have been able to adapt relatively easily and flexibly to current conditions is a direct consequence of our business model, which we have realigned in recent years through intensive restructuring measures, thus making it more sustainable. In this context, 2019 represents an important milestone in our development. It is the year in which these measures, which we initiated many years ago, were successfully completed.

Let us take this as an opportunity to once again illuminate what these measures have entailed in detail and how they shape our business model today. **Many years ago, we began to realign our customer profile in the lending business.** Since 2013, we have shed over EUR 1 billion of very small loans from our portfolio. At that time, this category of loan, in amounts between EUR 10,000 and EUR 50,000, made up over 50% of our total portfolio; today the figure is just 10%, and the loans are either well-collateralised real estate loans to private clients or loans to small companies with a high degree of formalisation. In the same period, i.e. since 2013, our SME loan portfolio has grown by EUR 2.7 billion – a net increase of EUR 1.7 billion. We see a particularly solid risk profile in these small and medium-sized enterprises, characterised by economic robustness and transparency, as well as the ability to drive innovation and adapt to volatile market conditions. At the same time, by supporting those growing SMEs that operate regionally and internationally, thus creating jobs in our markets, we are making a significant contribution to development.

Secondly, with the help of our group's internal software company, Quipu, we have invested heavily in digitalisation, developing digital platforms for transactions and centralising our banks' IT infrastructure in Germany. Digitalisation is far from complete, however; in many of the markets in which we operate, we are pioneering the introduction of digital signatures and facial recognition technologies to enable non-financial transactions, such as opening an account, to be carried out completely digitally in the future. We are in contact with various local regulatory authorities and are awaiting corresponding changes in the law where they have not yet been enacted. As a direct consequence of our digitalisation projects, we have been able to downsize our network by hundreds of branches over the last 7 years, and reduce our headcount by 60% to the current figure of 3,000. Some people will argue that many banks have invested in digitalisation during this period. Providing clients with a modern online and mobile banking platform is one thing, but getting these clients to do their banking *exclusively* through these channels – especially in the context of the countries where we operate, where cash and informality are still commonplace – is quite another. We can claim to have achieved just that and to have completely eliminated cash and other over-the-counter transactions from our branches. In our markets, we do not see any banks that have achieved comparable results.

As expected, the far-reaching changes in our business model have had a negative impact on the business and financial figures of recent years. For example, the reduction of very small loans had a negative impact on our margins and clearly restricted our overall growth for years. At the same time, the streamlining of the branch network was reflected in the depreciation of fixed assets and the reduction of staff had an impact on short-term personnel expenses. The consistent digitalisation of front-office transactions has also led to the loss of deposit customers who did not want to conduct their banking business digitally. In the short term, this had a negative impact on funding costs and commission business. Despite all these effects, we have always been able to achieve solid results over the years. We now regard all of these measures as having been fully implemented, and today we have a sustainable business model consisting of a lean base of very solid business clients on the one hand and a scalable digital platform for private clients on the other. On this basis, we intend to further expand our portfolio in the future and generate additional income with stable operating expenses and risk costs.

In addition to the now complete realignment of the business model, we would like to highlight two further important successes in 2019. We placed a groundbreaking green bond with IFC, a member of the World Bank Group, to support the continued strong growth of our green lending. The quality of our green loan portfolio is excellent, with a level of credit-impaired loans of only 0.6%. This business area has always been important to us and we feel clearly

encouraged by the growing debate on climate change, especially in the wake of the pandemic. Secondly, with the EUR 800 million extension of our guarantee framework with the European Investment Fund last year, bringing it up to EUR 1.6 billion, we have become one of the most important partners of the InnovFin programme, which is aimed precisely at supporting the innovative SMEs that form our core client base. These programmes back around 12% of our total loan portfolio today, and bring valuable additional protection and capital relief to our group.

In addition, business performance in 2019 was positive overall. Our “Hausbank for SME” positioning grew stronger over 2019, with 10.3% or EUR 448 million growth in the loan portfolio and strong growth in deposit volumes from SME clients. At the same time, the consolidated result of EUR 54.3 million was at the same level recorded for the previous year. This is particularly important against the background of the restructuring measures that have now been completed, as the consolidated result for 2019 again reflects significant one-off restructuring expenses – not least from the sale of our Colombian bank.

We are particularly encouraged by the continued strong growth of our green portfolio. About 30% of our total growth came from our green loan portfolio, which now represents some 17% of our total loan portfolio. The continuation of this trend was confirmed in the first quarter of 2020. We saw particularly strong growth in the area of project finance for renewable energy projects, which are characterised by long-term, stable income streams. The long-term orientation of our business model is also clearly reflected in our other lending activities: longer-term investment loans account for 72% of our growth and 67% of our outstanding portfolio.

We were able to meet **the targets and forecasts we had set for the 2019 financial year** for **growth in our customer loan portfolio**, for our **consolidated result** and for our **capital base**.

In terms of **growth in the customer loan portfolio**, the 10.3% achieved was at the lower end of our forecast of 10-13%.

The **consolidated profit** of EUR 54.3 million, however, was at the upper end of the forecast of EUR 48-55 million. Although the 2019 financial year was characterised by extraordinarily low risk costs, which boosted the development of earnings, significant restructuring expenses are also reflected here, as already mentioned. The development of net interest income should also be highlighted, which rose – by EUR 8.3 million – for the first time since we started to reduce our stock of very small loans many years ago. The stabilisation of net interest income thus reflects the completion of the strategic withdrawal from lending to very small enterprises.

The **group’s capital base** was stable in the financial year. The Common Equity Tier 1 capital, CET1, stood at 14.1% at year-end, which is comfortably above our forecast of over 13%.

Our **cost-income ratio** for 2019 was 70.5%, slightly above our forecast of less than 70%, reflecting certain exceptional charges related to the completion of restructuring measures.

Gabriel will now summarise the Q1 results that we published and presented about 2 weeks ago. He will also share with you our assessment of the opportunities and risks in the current market environment.

(Gabriel Schor speaking)

Thank you very much, Sandrine. I think I can say that the first quarter was a good one – despite the immediate impact of the pandemic.

We were able to continue the positive trends of 2019: the completion of the restructuring measures was directly reflected in a solid increase in operating profitability. Operating income before loss allowances increased by almost 30% while the cost base remained stable, which resulted – among other effects – in a reduction in the cost-income ratio of over 5 percentage points to below 65%. In view of the significantly higher cost of risk of 57 basis points, which essentially reflects the deteriorated macroeconomic environment in COVID times, we consider the consolidated profit of EUR 13.7 million, which corresponds to a return on equity of 7%, to be a positive result. Compared to the same quarter of the previous year, the result improved by EUR 3 million – despite an increase in loss allowances of over EUR 4.8 million.

The overall very conservative and robust positioning of the ProCredit group can be clearly expressed by various key figures. The share of credit-impaired loans is currently 2.4%, which is well below the level of our markets. The ratio of allowances to these credit-impaired loans increased to 96% at the end of the quarter – and this figure does not take collateral into account. Our conservative risk approach is also reflected in the fact that a large part of our portfolio is secured by real estate, financial guarantees or cash. As far as our liquidity situation is concerned, the main thing to report is that there is not much to report. Since the outbreak of the pandemic, we have not seen any discernible pressure on our deposits. The liquidity coverage ratio (LCR) was a very comfortable 181%.

Our Common Equity Tier 1 capital (CET 1) stood at 14.0% at the end of March – we expect this to remain largely stable over the medium term, with portfolio growth always being the decisive driver. The group's stable capital position and its ability to absorb unexpected losses is best underlined by its very strong leverage ratio, which as of March 2020 stood at 10.5%.

It is worth noting that rating adjustments have been made at many European banks in recent weeks, reflecting the deteriorating business outlook and increased risks due to the economic downturn. We feel encouraged, and interpret it as an endorsement of our conservative risk approach, that Fitch re-affirmed the ratings of ProCredit Holding along with the ratings of most ProCredit banks in April 2020, maintaining the rating outlook of "stable".

This raises the question of what these positive results of the first few months might mean for the rest of the year, and what can be expected for the year as a whole, especially in view of the great challenges that COVID-19 poses to us.

The forecasts for global economic development in 2020 have undoubtedly become gloomier and the countries where we do business will be severely affected. The governments across Eastern and South Eastern Europe promptly imposed stringent lockdown measures to slow the spread of the virus. For our countries a significant decline in GDP in 2020 is projected, followed by a marked recovery in 2021, based on the assumption that the control measures will be relaxed in the second half of 2020.

We are acutely aware of the risks arising from the current market environment. With due caution, we are taking note of the talk of a "V-shaped" recovery in the second half of this year – this may be the most likely scenario at the moment, but the risks of prolonged containment measures, travel and transport restrictions, or even a second wave of the epidemic should not be ignored. In this context, we continue to focus on our strengths, our teams and our clients, and we sense a certain level of confidence from conversations with the managers of our banks. We welcome their confident and focused way of running the institutions during this

period. It is this attitude that will enable us to manage risks efficiently without losing sight of opportunities.

And indeed – as always in turbulent times – opportunities will arise in the current market environment too: We believe that, this year in particular, existing and potential clients will see the value of ProCredit, also in comparison with our competitors. In the midst of this crisis, where social justice and a sustainable economy will move more sharply into focus, we are convinced that our ethical business approach, which is aimed at bringing positive impact to our societies, will now be clearly convincing, also from an economic standpoint.

We have a focused and long-term-oriented business model designed to support our clients through difficult times. The ProCredit banks were founded explicitly to promote the sustainable development of small and medium-sized enterprises with the ultimate aim of creating jobs and prosperity. And a central part of this mission is to support our clients' growth in good times and not to abandon them in more difficult times, but rather to help them safeguard their livelihood.

We will continue to place a strong focus on prudent risk management, while acting selectively on business opportunities when they present themselves. We are already seeing potential clients approach us, attracted by our steady service quality, our intensive client communication as well as continued access to lending, all of which are now especially visible.

The quality and experience of our staff will be of central importance to our group in navigating risks and opportunities. Furthermore, as everyone adjusts to the "new normal" of high uncertainty and communication from a distance, we are increasingly seeing that what characterises the ProCredit group's way of working – flat hierarchies, a straightforward and direct way of addressing problems and jointly finding solutions, as well as our shared values – helps individual staff members and teams to stay connected and demonstrate engagement. We can also draw on our many years' experience in our markets and in navigating a volatile environment. Most of our managers went through the financial crisis of 2008/09 with us. Therefore, overall confidence among our staff and managers remains strong, despite the great challenges they face. This helps us to move forward in a coordinated and determined manner.

Basically, we see a certain degree of growth potential for the group even under these difficult conditions, especially as clients will increasingly be seeking short-term bridge financing. Further, there will be some clients that expand under the new market conditions, particularly in the agricultural and renewable energy sectors, where we already occupy a strong position. Especially in these sectors, we see good opportunities to win new clients. In recent years, we have invested a lot in resources and built up expertise in our banks in order to be able to strongly promote the growth of our renewable energy portfolio. Here we plan to be able to show good results this year. The COVID-19 pandemic has revealed the limitations of our society. In a certain sense, the events of recent weeks and months illustrate how exposed and vulnerable our economies are, if their impact on health, the environment and society in general is neglected. A lesson to be learned from the crisis is that it is now all the more important to focus on sustainability in order to work for structural change. We hope that our ethical business approach and our clear focus on sustainability will become more visible and resonant in the post-COVID-19 world.

We anticipate a positive return on equity for this year, taking into account a significant credit risk cost buffer in order to accommodate for the subdued economic outlook, anticipated restructuring measures and some increase in the default portfolio. We also expect stable operating costs, which will remain largely unaffected by the current downturn.

We aim to build on our strengths during these times in order to ensure that our clients and our banks emerge stronger from this crisis. We remain confident in the mid-term prospects for our markets and for the group's performance. In this context we explicitly confirm our medium-term targets and our commitment to our dividend policy. Our recommendation of a **dividend payout** of 33% of consolidated profit, which we published in the 2019 Annual Report, was based on a careful analysis of our very solid capital position in the context of the then still-new corona pandemic. Against the background of the urgent recommendations issued by the European Central Bank and BaFin, we discussed this matter again intensively with the Supervisory Board of ProCredit Holding at the end of April and, after carefully weighing up all relevant aspects, decided to postpone the proposal to the shareholders regarding the appropriation of profit for the 2019 financial year and thus to follow the recommendation of the supervisory authorities. This recommendation is that no dividends should be paid out or shares bought back during the pandemic until at least 1 October 2020. Being reliable towards our shareholders is as important to us as being reliable towards our clients. We therefore see our dividend policy as a clear commitment to those who have placed their trust in us and invested in our group. At the same time, however, we must and we will very carefully weigh up the recommendations of the regulatory authorities, now and in the future.

To sum up, we can say:

In the past fiscal year, we made decisive progress in the alignment of our business model, which will benefit us in overcoming the current challenges. Our medium-term goals and ambitions are clear and unchanged: we aim to further consolidate our position as the leading SME bank in our countries of operation, and also – or especially – in the current climate further establish ourselves as a modern direct bank. We consider ourselves to be on track for this. The pandemic will present us with major challenges in the coming months and quarters and will undoubtedly dampen our financial and business results. Nevertheless, we confirm the forecasts we made in the Annual Report, and are convinced that our conservative risk approach, which thrives on staying close to our clients, will enable us to master this crisis relatively well and present you with a positive result at the end of the year.

Finally, we would like to express our deepest gratitude to our employees. They have shown tremendous commitment over many years, and especially in the present time, when many are going far beyond what could have been expected of them; the support we feel through their actions and work ethic is something we certainly do not take for granted. At this point we would like to offer a special vote of thanks to Mr Jasper Snoek, who has accompanied us for many years as a constructive and critical member of the Supervisory Board, and who has undoubtedly helped to shape everything that the group stands for. At the same time, we will be pleased to welcome Mr von Knapen to our next Supervisory Board meeting as a new member. And at the next AGM, we will be able to welcome you as a trio, as we will be joined on the Management Board by our long-standing and highly valued colleague, Dr Felice.

And we would like to thank you, our shareholders, for your trust over the past year. We look to the future with confidence, and we very much hope that you will continue to accompany us along this path.