ProCredit
HOLDING

Dr Gabriel Schor

Member of the Management Board

ProCredit General Partner AG

Annual General Meeting

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Ladies and Gentlemen,

we are delighted be able to bid you a very warm welcome to this year's ProCredit Holding Annual General Meeting. 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 today's General Meeting.

Mr Stahl has presented today's agenda and will kindly guide us through it.

The primary purpose of today's General Meeting and these introductory words is, of course, to present the annual and consolidated financial statements, including the combined management report and the report of the Supervisory Board for the 2020 financial year, all of which have been approved by the Supervisory Board. We will also use this opportunity to look back on the events of the past year and share with you not only our assessment of the group's business and financial performance, but also an explanation of our contribution to sustainable development. We would also like to touch on the results of the first quarter of 2021 as well as outline our projections for this year.

Furthermore, we would like to present our proposal for the appropriation of retained earnings, which includes a dividend of 18 cents per share, in line with current regulatory recommendations. Provided that these recommendations are not extended beyond 30 September, it is our plan to propose to a subsequent General Meeting that an additional distribution be made, which will reflect our usual dividend policy and also take into account the absence of a dividend payout last year and the reduced dividend proposal on the agenda today.

Decisions regarding the composition of our Supervisory Board are also on the agenda today. Mr Rainer Ottenstein's term of office is expiring as scheduled and the Board would very much like it to be extended. In addition, Mr Christian Krämer and Mr Petar Slavov will be leaving the Supervisory Board. Therefore, two new candidates, Ms Jovanka Joleska Popovska and Dr Jan Martin Witte will be presented to you today, who will enrich our Supervisory Board with their considerable experience, expertise and diversity. But we would not like to progress without expressing our heartfelt thanks to Petar Slavov and Christian Krämer for a very fruitful collaboration over the years. You have been with us and helped steer us through years of considerable change and we believe success. And for this we thank you.

Let me now start with our assessment of the group's performance in 2020.

1. ProCredit Performance in 2020

2020, as a year dominated by the pandemic, was a most unusual and in many ways seminal year for the group, presenting us, our clients and our countries of operation with significant challenges. It was also a year in which the ProCredit business model proved itself and from which is emerging strengthened.

Our countries of operation have been impacted by significant social disruption and a substantial decline in real economic output since March last year. Governments in emerging Eastern European markets may have more limited resources than those in Western Europe, but generally they have reacted relatively consequently to the pandemic. In early 2020 imposing strict state of emergency and lockdown measures to calm the situation before maintaining more measured restrictions in the latter half of the year. Moratoria on debt repayments were introduced in most countries and fiscal measures such as significant base rate cuts were taken. As a result, the social and economic impact there has also been profound, although on balance we believe that worse could have been expected.

In this challenging global environment we believe our banks played a particularly valuable role for many SMEs during the pandemic. We are all aware how important SMEs are, particularly in emerging markets, in cushioning all of the conceivable impacts of the pandemic and how important they will be in a sustainable economic recovery phase. And we mean sustainable in the truest sense of the word: long-lasting, socially inclusive and environmentally sound.

In this context, it is important to stress that in 2020, we were able to strongly expand our lending business and further consolidate our market position. Our customer loan portfolio grew by 9.5% – primarily through loans to sound, innovative small and medium-sized companies, which account for 94% of our total portfolio. And, if I may also point out, we achieved this growth in a market environment in which lending to businesses was more or less stagnant. Our approach of acting, so to speak, anti-cyclically, i.e. supporting clients even in difficult times but not losing sight of credit risks in good times, has made a significant contribution to our positioning as a reliable partner for SMEs over the past 12 months.

We were able to report good growth figures in all our markets, even if the exchange rate movements that affected our banks in Ukraine and Georgia mean that this is not apparent at first glance. It is also important to emphasise that our growth comes almost exclusively from financing long-term investments for our clients, and this includes many green loans, a topic I will come back to. This indicates that we are continuing to meet a real need in our markets, in contrast to other banks, which clearly prefer only to provide SMEs with short-term financing in order to be able to quickly withdraw from exposures when times get tough economically. Or they focus on easy to provide, lucrative, but often morally questionable consumer finance.

It became very clear this year that even in difficult times there are SMEs that are still investing and expanding and hence need a solid bank that supports them in this and which also shares their long-term visions. So, we stood true to our impact-oriented approach by supporting the key growth sectors in local economies during an economic downturn. Our 'Hausbank' for SMEs concept has proven its worth and allowed us to significantly strengthen our market presence.

In addition to good portfolio growth, we saw even stronger growth in customer deposits, which increased by more than 13%. We achieved this growth from both

business and private customers. Our already well-established direct banking approach gives us clear advantages in these pandemic times, as our interaction with private clients is almost exclusively through Online channels. Our positioning in the markets is based on price transparency and fairness – we offer all customers a uniform, flat fee for our integrated suite of online services. In markets where banks are pushing for higher commission income, often through non-transparent pricing structures, we are convinced that our approach is not only ethically correct, but also supports client acquisition and long-term client retention.

In addition to expanding our business, there was of course a clear focus this year on credit risk – how to identify it, measure it adequately and contain it efficiently. For many years now, we have been distinguished by having a significantly better portfolio structure and quality than the overall banking markets. We were even able to maintain this good portfolio quality throughout 2020. Our role as an SME specialist with many years of experience in our markets as well as an approach based on well-trained staff and carefully selected customers came into its own this year. We know each of our clients well and pursue a personalised, individual approach, which has proven especially effective in a year like 2020. When the pandemic broke out, we were quickly able to intensify credit monitoring so that all of our exposures were critically re-evaluated by our credit risk specialists at least once during the year – regardless of whether they were in moratorium or not. Exposures identified as potentially impacted by the Covid-19 crisis are monitored every 3 to 6 months.

As a result, the level of non-performing loans remained constant at 2.6% until the end of 2020. As in previous years, net write-offs also remained very low at 0.1%.

Despite our good growth and consistently low default rates, we of course also have clients who are feeling the effects of the pandemic more strongly. Whose business activities have been directly affected, such as by cases of illness among their workforce or being hit by travel and transport restrictions. We provide intensive support to many of these clients – i.e. we stay in proactive and regular contact with them, we analyse their monthly business performance together with them, and we restructure exposures where we consider there is a realistic prospect of the overall situation improving in the near future. The rise in cases requiring such intensive care is reflected in an increase in underperforming loans.

This increase, alongside the deterioration in the macroeconomic indicators used in our risk provisioning model, drove up the cost of credit risk in the financial year compared with previous years. Nevertheless, we were able to end the year with a cost of risk of 57 basis points, well below our original estimate of 75 basis points.

The group's consolidated profit was EUR 41.4 million, which corresponds to a return on equity of 5.3%. The increased credit risk costs, which were more than EUR 30 million up on the previous year, are the main reason behind the EUR 12 million year-on-year decline in results. Earnings before taxes and credit risk costs increased by some 10% compared to the previous year. Our financial result was therefore marked

by an increase in net interest income and a decrease in operating expenses. Both of these factors helped us to improve the cost-income ratio by more than 2.5 percentage points to 68%.

Overall, we were able to meet our forecasts for 2020 in terms of business development, as well as capital position and financial performance. At the beginning of the year, we were still assuming low growth – no more than 3%. So in those terms, at 9.5%, we have clearly exceeded expectations. The cost-income ratio of 68% was visibly below the target value of around 70% and the return on average equity was also in line with expectations.

ProCredit's business approach and mindset does not separate business development and financial performance from sustainable development and ESG performance. In other words – we believe that we can only be successful in the long term if we continue to work on our sustainability objectives and regularly set ourselves new, ambitious goals in this area. Integrating success along both commercial and ESG axes offers opportunities, but also means taking complexity and conflicting goals into account and mastering them. Addressing sustainability seriously in our countries of operation is particularly challenging in our countries of operation, because the awareness of this issue is still relatively undeveloped.

This fundamental approach of ours also has its price, it comes with costs attached. Direct costs, for example from investing in staff training and awareness for ESG topics, building capacities for green lending and investing in the energy efficiency of ProCredit premises and vehicles. There are also opportunity costs, such as from not engaging in lucrative consumer lending activities and of categorically refusing to work with clients that do not meet our criteria for transparency or for social and environmental awareness. However, we also view these costs as long-term investments that have played a key role in ensuring that we have always achieved positive returns since our founding some 20 years ago – even in times of financial crisis.

In addition to our consolidated financial statements, we also publish an Impact Report; the current issue is the fourth consecutive edition and is entitled "*Why Responsible Banking Matters to Us*". We encourage anyone who wants to delve deeper into ProCredit to take a quiet moment to read this report and perhaps gain a better understanding of the interplay between sustainability and long-term returns. The report outlines our comprehensive commitment to ESG issues and what we consider to be ProCredit's strengths in this area. It also covers a number of important non-financial performance indicators. There is a lot of hype and discussion about ESG. With our report we are trying to provoke more profound discussion of how to assess sustainability and ethics in banking, which goes beyond simple check-what-box indicators.

We would like to highlight our strong commitment to having a positive impact on the environment and climate. A long-term commitment that is easy to lose sight of when faced with an immediate crisis.

Therefore, **green loans** will remain the focus of attention for the group. Our green portfolio grew by more than 24% during the year – almost reaching one billion euros – bringing us a big step closer to achieving our medium-term goal of green loans accounting for 20% of the total portfolio. It is quite possible that we will achieve this goal sometime during the course of this year. More than 40% of our total growth in 2020 came from green loans. With a plus of almost EUR 100m, the financing of renewable energies played a particularly important role, especially in the area of photovoltaics. Here too, having invested a great deal in know-how and resources in recent years, we feel that we are now in a good position to further strengthen our presence in the renewables niche market. Our focus is on small and medium-sized projects, including communal projects, which are not served by most major banks. In these terms we are addressing an interesting niche: one that may be not be the largest in volume terms, but one that has great potential and a broad impact. The expansion of our green loan portfolio also makes sense from a financial perspective. At 0.6%, the default rate for green loans was significantly below the average for our loan portfolio as a whole.

Our Impact Report outlines other key aspects of our environmental management system as well, such as the comprehensive environmental and social risk assessment that all of our borrowers are required to undergo. We are encouraged by the fact that we were able to increase our market share while maintaining our strict criteria for client selection and credit risk. For example this year we are putting renewed emphasis on sustainable agriculture and sustainable plastic manufacturing standards of our SME clients. In this respect, we are pioneers in our markets and we are convinced that this will underpin good risk management in the longer term.

Our efforts to reduce our own climate footprint should also be mentioned. During the year we were able to take another important step towards our medium-term goal of becoming effectively climate-neutral: we succeeded in reducing our CO_2 emissions by around 46% during the financial year. Above all, we want to achieve climate neutrality through our own efforts, not just by buying carbon offset credits – this means we are constructing energy-efficient office buildings, switching our vehicle fleets to electrically powered engines and making more investments in renewable energies.

The cornerstone of our good results this year, and what ProCredit is all about, is without doubt the quality of our people and our approach to staff development and remuneration. We have deliberately given a detailed explanation of this in our Impact Report.

It describes why we do not incentivise our employees with short-term goals and bonuses. We motivate our staff by giving them real responsibility and investing heavily in their education and training. In talking to our colleagues, we find that they feel strongly motivated by being able to make a difference, both in business terms and in terms of sustainability. This is the kind of intrinsic motivation that forms the basis of our good results.

We were very impressed by the way our colleagues adapted to the challenges of working under lockdown conditions and how independently and proactively they participated and contributed to dealing with the increased risks arising from the pandemic. It is precisely these qualities in our teams and management that have helped us to manage the crisis in a relatively effective way so far, which is why we can look forward to the future with confidence.

2. Outlook and Q1 results

Let us therefore take a look at this future and at the prospects that lie ahead. Our overall strategy remains unchanged: We aim to grow our business with strong, transparent and innovative SMEs and private clients, while limiting credit risk and keeping our operating cost base broadly stable. Our confidence in this approach underpins our medium-term forecast of further improvements in profitability and cost efficiency.

For this year, 2021, we already starting to see signs of an improvement in our markets compared to last year. Of course, the pandemic continues to dominate everyday life, but on the whole it is possible to say that the overall economic situation is gradually recovering. The IMF's latest World Economic Outlook projects robust economic growth for our countries averaging around 4.5% in 2021 and 4.2% in 2022. However, there is no question that credit risks will continue to be a major concern for us this year, despite the more optimistic outlook.

All in all, we see potential for our customer loan portfolio to grow by about 10% this year. Assuming that credit risk costs will continue to be elevated due to the ongoing difficult market environment – although perhaps somewhat lower than last year – we expect robust and improved earnings, with return on equity expected to be between 6–7.5%. As in the previous year, we believe that our steady growth will lead to further scaling effects, which should improve the cost-income ratio to between 65% and 68%. Under these circumstances, our core capital ratio should be somewhere around 13% by the end of the year. We will continue to set aside ⅓ of the eligible consolidated profits from our Tier 1 capital to cover dividend payments.

It is certainly premature to draw firm conclusions from the first quarter results, and even more so in the midst of an ongoing pandemic, but we are certainly encouraged by the results so far this year. We were already able to take an important step towards achieving our goals for the year. Our customer loan portfolio expanded by a strong 3%, as did the customer deposit base, which is the main source of funding for our growth. The earnings situation as of 31 March 2021 is already better than in Q1 2020 – we have recorded a return on average equity of 7.9% and a cost-income ratio of 64.9%. There are two main drivers behind these positive results: Firstly, as in previous years, we are continuing to manage credit risks successfully. The incidence of non-performing loans has increased only slightly since the beginning of the year, which is why our credit risk costs were also low – or at least lower than expected under the

circumstances. Secondly, despite the strong growth, operating expenses have remained stable over the last 12 months. This has been achieved primarily through our lean business structure, where digital channels for customer interaction play the key role. This is precisely where we see strong potential for scaling effects in the future.

In summary, we were able to close what was a highly turbulent year for the economy and society with sound business and financial results and, building on this, we can now look forward with cautious optimism to what lies ahead of us in the rest of 2021 and beyond.

This positive outlook certainly gives us confidence with regard to our proposal regarding dividends today.

So let me turn now to the dividend proposal.

3. Dividend, regulatory remedies, management proposal

We made our position on the regulatory recommendations regarding profit distributions clear in our speech to the Extraordinary General Meeting in December 2020. The supervisory authorities' recommendations to limit profit distributions are based, among other things, on the regulatory relief granted to banks after the Covid-19 pandemic hit. These remedies assume that, in return, financial institutions will not unnecessarily weaken their liquidity and capital position by distributing profits, but will direct their focus and resources to providing uninterrupted support to the weakening real economy. We understand and respect this rationale – even though it is clear that ProCredit has, in comparison to many other banking groups, benefited to a much lesser extent from such remedies.

It is to be welcomed that conditions have allowed these recommendations to be relaxed since last year, which means that we are able to put a dividend of 18 cents per share to the vote today. This represents 20 basis points of the ProCredit group's Common Equity Tier 1 capital ratio and is thus to the maximum level under current Supervisory recommendations for dividend payments.

However we regard our dividend policy of distributing ⅓ of consolidated profits to shareholders as being an important commitment to all those who place their trust in us by investing in our group for what it is and what it represents.

Therefore, provided that no further restrictive recommendations are issued by the supervisory authorities after 30 September, we plan to submit to you an additional proposal for the appropriation of profits at a possible second General Meeting, which will take into account the absence of a dividend in 2020 and which will be in line with our regular dividend policy. Such a proposal would increase the total payout this year to 53 cents per share, which would be equivalent to one-third of aggregate group earnings in 2019 and 2020. Until that time and beyond, we will continue to deduct ⅓ of all eligible consolidated profits from our Tier 1 capital.

4. Concluding comments

This brings us to the end of our introductory remarks. We hope to have given you an impression that our consistent pursuit of what we see as interlinked goals of economic success and meaningful social and environmental impact, has led to very stable results in a very unstable environment.

Let us conclude by acknowledging the tremendous commitment of our staff, especially in these troubled times. We would like to thank our colleagues for their often extraordinary dedication and the personal sacrifices they have had to make over the past year. We also appreciate the unwavering energy they exude to take on the challenges of these times and seize the opportunities that come our way.

And to you, esteemed shareholders, we thank you for your continued confidence in what we do and wish us all happier times ahead.