Rainer Ottenstein

Chair of the Supervisory Board

ProCredit Holding AG & Co. KGaA and ProCredit General Partner AG

Sandrine Massiani

Member of the Management Board

ProCredit General Partner AG

Annual General Meeting

Frankfurt am Main, 31 May 2022

–The spoken word shall prevail–

Speeches delivered at the Annual General Meeting 2022

Speech by Rainer Ottenstein, Chair of the Supervisory Board, ProCredit Holding AG & Co. KGaA and ProCredit General Partner AG

–The spoken word shall prevail–

Ladies and Gentlemen,

I am delighted to be able to welcome you to this year's ProCredit Holding Annual General Meeting. On behalf of the entire Supervisory 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 Meeting.

The primary purpose of today's General Meeting is to present the annual and consolidated financial statements, including the combined management report and the report of the Supervisory Board for the 2021 financial year.

Decisions regarding the utilisation of profits are also among the items that will be put to the vote. Due to the geopolitical uncertainties arising from the war in Ukraine, not only for our banking group but in fact for the entire global economy, we are proposing to you today, in contradiction to our dividend policy, to not pay out a dividend.

A decision must also be made on the composition of our Supervisory Board. The terms of office of Ms Joleska Popovska, Ms Loner, Dr Witte, Dr Knapen and Dr Zeitinger will end at the close of today's General Meeting. It is the wish of the Supervisory Board that the terms of office of Ms Popovska, Ms Loner, Dr Knapen and Dr Witte be extended. Accordingly, there is a vacancy on the Supervisory Board, for which a new candidate will be presented to you today in the person of Helen Alexander. I am convinced that with this new constellation we are very well positioned to complete the tasks which may arise within an ever more complex regulatory environment for banks.

A further resolution to be voted on concerns the remuneration of the Supervisory Board. Here, the Administration's recommendation is to redesign the existing remuneration structure.

The AGM will also pass a resolution on the selection of the auditor for the annual financial statements and the auditor for the consolidated financial statements for financial year 2022. We recommend continuing collaboration with our current auditor, BDO Wirtschaftsprüfungsgesellschaft.

Furthermore, a resolution passed at the Annual General Meeting on 8 December 2021 is to be revisited today and made more specific. The General Meeting had authorised the Management Board of ProCredit Holding to issue profit participation rights of up to EUR 100 million, which may be recognised for regulatory purposes as additional Tier 1 capital instruments under the Capital Requirements Regulation. Based on today's resolution, that authorisation is to remain valid until 7 December 2026. Previously, no time limit had been set.

I will now turn the floor over to Sandrine Massiani, who will share with us the Management Board's view of the results for the 2021 financial year as well as for the first quarter of 2022 in the context of Russia's war of aggression against Ukraine. From my perspective, the results make one thing clear above all else: We are on the right track with our business model and are uniquely positioned to conduct profitable, impact-oriented, sustainable and innovative banking business within a part of Europe that, now more than ever, is at the centre of global political interest.

And now, Ms Massiani.

Sandrine Massiani, Member of the Management Board, ProCredit General Partner

–The spoken word shall prevail–

Thank you very much, Rainer Ottenstein, and welcome from me on behalf of the entire Management Board of ProCredit General Partner AG.

As you will very quickly notice, German is not my mother tongue. I therefore ask you in advance to excuse my possibly rather faltering pronunciation.

In order to put our positive results for the 2021 financial year in the right context, and also to explain to you how we are dealing with the challenges arising from the war of aggression against Ukraine, it is important to first talk about how we see ourselves.

We are an impact-oriented group of commercial banks, and we give at least as much weight to our impact focus as to our commercial orientation. The focus on impact and development is as old as the group itself and will continue to guide our strategy in the future.

It drives each of us, determines which customers we work with and how we work with them. In our markets, we want to be the “Hausbank” for small and medium-sized enterprises, i.e. the bank SMEs talk to about their vision for the future, where they seek funding for the short and long term, where they have their accounts, where they save and invest, and where they make their payments. In other words, one bank for everything, one that supports them in good times and difficult ones.

In a way, we offer SMEs what is otherwise reserved for large corporate clients: to be taken seriously by a bank, giving them a true discussion partner. Why do we focus particularly on SMEs, you might ask? In our markets, it is the SMEs that create jobs, train, innovate and invest, thus driving local economies forward.

Why Eastern Europe? The answer to this question arises from the staggering aggression against Ukraine.

To secure long-term peace in Europe, there is no stronger means than the integration of Eastern European states into the existing agreements and alliances of Western countries.

The development of these economies, to which we have been committed for 20 years already, paves the way for this integration and is therefore in the interest of all who value peace in Europe.

We look into the specifics of each of our SME clients, regardless of whether EUR 50,000 or EUR 5 million is to be financed. This means regular meetings with owners and managers, on-site visits, in-depth discussion of the investment plan, and an intensive risk analysis, including an assessment of social and environmental risks.

This individualised service is probably the key factor where we differ from other banks in our markets and which also provides significant added value for our customers.

Thanks to the long-term orientation of the business relationship, we grow with our customers and support them through the entire life cycle, in good times as well as in bad, or even very bad times.

Our lending business focuses on financing green projects. As early as 2006, we developed a green loan classification system and issued the first green loans one year before the very first green bond was issued worldwide and LONG before the EU Taxonomy was announced.

The relevance of financing energy efficiency projects and renewable energy as a response to the disastrous effects of decades of inaction has increased significantly in recent years. While climate change is rapidly accelerating and causing irreparable damage, especially in developing countries, anti-democratic governments are profiting from our economic dependence on fossil fuels.

We hope that the recent events in Ukraine will lead to a genuine rethink. For many years now, we have been investing in the resources and capacities needed to evaluate and finance renewable energy projects in particular. As a result, we have specialists dedicated exclusively to this topic, both at the level of ProCredit Holding and in each of our banks. In brief: We feel very well positioned to meet the rapidly growing demand for renewable energy projects in our markets.

Another important aspect of our self-image is our clear positioning against the aggressive marketing of consumer loans. There is nothing fundamentally wrong with financing consumption; there is a legitimate demand for it, which, incidentally, we also serve, albeit to a very small extent.

What we categorically oppose is the way consumer credit is advertised: colourful and loud advertising that encourages people to take on debt quickly and easily; apparently favourable conditions whose true design only comes to light upon closer analysis of the fine print; and often inhumane practices in the collection of loans that are in arrears. Consumer loans are marketed specifically to low-income households. The often horrendous interest rates, fees and penalties make it impossible for many of these households to escape the vicious cycle of over-indebtedness. Consumer lending business is always lucrative for banks, and increasing digitisation and artificial intelligence only make it more attractive. In our markets, we are one of the very few banks not engaging in such practices; and please note, we will not be doing so in the future either.

The facets of our business approach – what we do and what we don't do – are based on the notion of "responsibility". Responsible banking often means saying "No". "No" to potential customers if we have concerns about the company owners. "No" to business practices that might increase our earnings but cannot be reconciled with our ethical principles. And also "No" to the financing of various industrial sectors that are of course "legal" in the narrow sense of the word, but where we have a critical view of their contribution to the environment and society. Ever since the founding of our banking group, we have wanted to set new standards in banking in our countries of operation, thus setting a good example with this fundamental approach.

In early 2021, we added producers of non-essential plastics to our extensive exclusion list. And most recently, we decided not to finance photovoltaic projects involving solar panels from the Chinese region of Xinjiang, where it has been proven that they are manufactured under forced labour conditions. We thus take a clear position: we want to advance the economies in which we operate, but we do not want to do so at the expense of our ethical principles.

The foundation of our impact orientation is the careful selection of and approach to colleagues. It isn't possible for a responsible bank to operate across 12 different country borders without knowing your employees well. Our process for selecting new staff is rigorous. In this process, we pay just as much attention to the qualities of teamwork, adaptability and moral judgment as we do to performance.

Most new colleagues go through a six-month trainee programme, where they do one thing above all: learn. And after this trainee programme, we continuously invest in the further training of our colleagues – ongoing workshops, exchange programmes within the group and, of course, our multi-year Academy programmes here in Germany. We attract employees not by offering them high salaries, but by offering them meaningful tasks and responsibilities. We deliberately do not pay performance-based bonuses, but instead focus on open and respectful interaction with each other and on shaping a long-term and fulfilling career path within the group.

The results speak for themselves: all members of our banks' management boards – more than 30 people in all – have been with us for more than 15 years on average. All of them have gone through our Academy programmes and many are also guest lecturers at the Academy today, thus passing on their wealth of experience, expertise and the "ProCredit spirit" to the younger generation. Behind the management boards are a total of more than 250 middle managers, who have also been through all the Academy programmes and know our group very well. They have built up their own store of experience over the years and understand perfectly how respect and solidarity strengthen us as a bank, especially in turbulent times. It is worth mentioning that 50% of our senior and middle management positions are filled by women.

Last but not least, we would like to touch upon the central role that digitalisation plays in our business approach. For us, digitalisation means much more than developing and providing modern banking apps. It represents a true transformation of our business approach. We have been operating in our markets as a fully-fledged direct bank for retail customers for over three years now. That means no over-the-counter transactions, no cash, no queues in our branches. Everything from transactions to credit applications and questions and complaints takes place on our digital platforms. In recent years, this transformation has reduced the size of our branch network from several hundred to only 37 branches.

This represents a reduction of over 90% in less than ten years. Compared with other banks in our markets, we have a very lean profile – with generally fewer than five branches and an average of fewer than 250 employees per bank. This reflects the efficiency and scalability potential of our approach.

This business approach, in which we combine aspirations for good profitability and high efficiency with positive impact and responsible behaviour, has delivered steady and solid returns for more than 20 years now. In this way our group has reported a profit in every year since its inception – even during the last major financial crisis, the military conflicts in Georgia and Ukraine in 2008 and 2014, or more recently the COVID-19 pandemic. In particular, our approach to credit risk allows us to keep default rates well below the level of the banking sectors.

Within this 20-year history, the year 2021 has undoubtedly been an important one in which we have been able to achieve decisive milestones. After successfully weathering 2020, which was dominated by the COVID-19 pandemic, we managed to almost double our financial result in 2021. As in previous years, we again succeeded in expanding our business by 10% and were able to finance all new business with local deposits. Net interest and net fee and commission income increased significantly, while administrative costs remained largely stable. Our cost-income ratio subsequently improved significantly, from 68% in 2020 to 64.2%, enabling us to take an important step towards our medium-term target of below 60%.

Credit risk costs were at an overall low level of 0.12%, not least because the share of non-performing loans, at 2.3%, is actually slightly lower today than before the COVID-19 pandemic. We were thus able to generate a return on equity of 9.7%, which corresponds to the medium-term target we set ourselves 5 years ago when we went public.

Building on these steadily positive developments, we would have liked to talk about even more ambitious medium-term targets today. Up until 24 February, that was indeed the plan.

However, the senseless war of aggression against Ukraine has presented us with new challenges and dictated new priorities, at least in the short term.

At the forefront of these priorities was, and continues to be, the safety of our employees. Around 330 employees work for our Ukrainian bank and just over 60 in the Kyiv office of our software company Quipu. Our banks in neighbouring countries, such as Romania, Moldova, Georgia, and also Bulgaria, have also provided important humanitarian aid and accommodated Ukrainian colleagues in company apartments and hotels.

Already in March, we repurposed our Academy in the Odenwald to accommodate our colleagues from Ukraine and their families. Although some of them have already returned to Ukraine in the meantime, even today 110 Ukrainians are still living in our Academy, half of them children.

The second priority was to maintain the business operations of our Ukrainian bank. We, and especially our Ukrainian colleagues, have managed this very well – the bank's operations have not been significantly limited at any time since the first day of the invasion: Transaction orders have been executed without delays, ATMs have been stocked, and reports to the central bank and other stakeholders have been prepared and submitted in a timely manner, and all this under extremely difficult circumstances. The commitment of our Ukrainian colleagues to maintain all these standard processes is an inspiration to us all.

By March, we were already supporting our Ukrainian clients by issuing mostly small loans to cover essentials, for example to pay salaries. It was even possible to process applications to open accounts. More than 70% of our colleagues were working from decentralised locations in and outside Ukraine in March – this figure is now almost 90%. In the meantime, we have reopened four of our five branches, and more and more of our colleagues are working from the office.

Our software company Quipu also reacted quickly to the new circumstances and set up a back-up data centre in Germany to protect client data from the possible destruction of servers in Ukraine. Also, Quipu took over processes for processing card transactions from our Ukrainian service provider. This is only one of the many key projects for which Quipu has provided immediate support.

Also of crucial importance was the relocation of our contact centre to Germany, which enabled us to maintain contact with our Ukrainian clients without interruption. It makes an immense difference, especially in times of crisis, if a bank can continue to address the questions of anxious and concerned clients in a professional manner. From the beginning of the invasion until yesterday, our bank recorded an increase in deposits of EUR 18 million or just under 3% and was able to attract several hundred new clients. Under the current conditions, this is a particularly clear vote of confidence.

We also used our contact centre to proactively contact our clients. By March, we had already launched a survey with all our business clients to get an overall impression of the impact of the war on their companies.

After only a few days we had received feedback from more than 99% of them, which reflects the close relationship we have built up with them over many years. About two thirds of our clients reported still comparatively high levels of operationality, despite the undeniable challenges posed by the invasion. Only a very limited number of business closures were reported.

Since April, we have also resumed our lending business, focusing in particular on financing our existing clients in the all-important agricultural sector operating outside immediate conflict zones.

We are doing this with the support of the National Bank of Ukraine, which has issued comprehensive guarantees for this financing. Similarly structured guarantees are being provided to us by the European Bank for Reconstruction and Development. It is particularly important in the current situation to provide short-term financing to agricultural businesses that are finding it difficult to sell their produce due to the blockades in the Black Sea, so that they can continue to cultivate their fields and pay salaries. Of course, as long as the war continues, we will proceed with caution. In the long term, however, we want to play an important role in the reconstruction of the country, which is sacrificing a great deal to defend democracy, peace and prosperity in Europe.

Q1 results

Given the events in Ukraine, it is evident that our Q1 results paint a mixed picture. On the one hand, they were of course impacted by a significant increase in credit risk costs at our Ukrainian bank. On the other hand, however, we see that the group's positive trends in terms of scaling potential and cost efficiency continued and manifested themselves in all of our other banks.

We have set aside more than EUR 35 million for expected loan losses in our Ukraine business in the first quarter – for comparison, this is equivalent to the cumulative cost of risk for the entire group in 2020 and 2021, including the significant provisions also booked in 2020 primarily as a result of the COVID-19 pandemic. The annualised cost of risk amounted to 2.4% of our group loan portfolio and almost 18% of our Ukraine portfolio.

Despite this significant effect, which is without question unique in our history, the consolidated result was only slightly negative at EUR -1.7 million. The reason for this is the strong performance of our other 11 banks. The cost of risk outside Ukraine was virtually 0, partly because the share of non-performing loans remained at a very good level of 2.3%. Almost all of our banks also improved their cost-income ratio and return on equity, in some cases significantly. These positive developments are also apparent at group level, despite the negative financial result: Net interest income improved by more than 20% and net fee and commission income by 6% compared with the first quarter of 2021. In the end, the increase in staff and administrative expenses of EUR 5.2 million was offset by a significant increase in operating income of EUR 14.8 million. As a result, we achieved a marked improvement in the cost-income ratio of more than 5 percentage points to 59.1%.

Outlook

And now to the outlook: Without question, we will see increased loan defaults in Ukraine over the course of the next few quarters. Certainly, the return on equity at the end of the year will be significantly below that of the previous year. Nevertheless, we believe that our other banks will continue to make progress in their cost efficiency and profitability, as already indicated in the first quarter. We also see the general conditions for banking business in South Eastern and Eastern Europe as thoroughly positive, especially with rising key interest rates, despite the risks posed by the pandemic, accelerating inflation and disruptions to global supply chains. We will certainly be able to report in more detail on the situation in Ukraine and the opportunities and risks facing the group in our half-year report, which will be published in mid-August. However, the stress scenarios we updated in March in light of this situation prove one thing: The group's capital position is solid and can withstand even the most extreme stress in Ukraine.

In meeting the challenges ahead, we feel well prepared for all eventualities thanks to our business approach, which has proven itself over 20 years in the volatile environment of South Eastern and Eastern Europe. The quality of our clients and the close business relationship we maintain with them will play a decisive role in the coming months and quarters. Our experience shows that our clients are innovative, resilient and genuine. As in COVID times, it will be an essential advantage for us, as compared to other banks, to have consciously and carefully selected each and every one of these clients and to have established deep business relationships of several years with the majority of them. We will continue to invest in the expansion of robust digital channels to further improve the user experience of our clients and also to keep our IT systems up to the latest security standards in the future.

Our employees will play no less important a role. The commitment of our colleagues in Ukraine and their determination to not allow themselves to be intimidated or demoralised by the aggressions reflects the defiance and resistance of a whole nation.

Today, more than ever, we – and we speak for all our employees in this regard – are convinced that an impact-oriented banking group can play an important role in Eastern Europe, on the border with Russia, in an accelerating climate crisis and in the face of rising nationalism.

With our future-oriented infrastructure, employees and clients, we are ready to play a role in the reconstruction of Ukraine and also to work to strengthen the economy, society and environment in South Eastern and Eastern Europe.

Today, we would like to thank our Ukrainian colleagues in particular for their tireless efforts and optimism, which will serve as an inspiration for the entire group today and in the future.

We would also like to thank all our employees across the group who supported our bank in Ukraine. This is especially true for our staff at the ProCredit Academy, but also at ProCredit Holding and for our Ukrainian colleagues living in Frankfurt, who have shown particularly strong commitment. All colleagues in the group have shown a great deal of solidarity and at the same time an unwavering commitment to their work and the group.

Finally, we would also like to thank you, our shareholders, for your support, your concern, and, in advance, for your understanding of our decision – taken at short notice and in opposition to our policy – not to pay a dividend this year. We are convinced that together we can continue to make a difference in the future.

Thank you very much!