

--- Non-binding translation of the German original ---

Report

pursuant to section 295 (1) sentence 2 in conjunction
with section 293a AktG on the amendment of the
Controlling and Profit and Loss Transfer Agreement

between

ProCredit Holding AG & Co. KGaA as the Controlling Company

and

ProCredit Bank AG as the Controlled Subsidiary Company

Submitted by

The Management Board of the sole General Partner
of ProCredit Holding AG & Co. KGaA
registered office in Frankfurt am Main

The Management Board of the sole General Partner of ProCredit Holding AG & Co KGaA (“ProCredit Holding”) and the Management Board of ProCredit Bank AG (“ProCredit Bank”) concluded a Profit and Loss Transfer Agreement on 12 April 2012, which was in accordance with section 291 (1) alternative 1 AktG (German Stock Corporation Act). This agreement was amended on 12 July 2019 to allow ProCredit Bank to continue to recognise the Agreement under the amended Capital Requirements Regulation (CRR II) as a Common Equity Tier 1 (CET 1) capital instrument.

The Supplementary Agreement shall not take effect until

- the shareholders of ProCredit Holding approve the Supplementary Agreement at their Extraordinary General Meeting on 15 November 2019 and the shareholders of ProCredit Bank approve the Supplementary Agreement at their General Meeting on 20 September 2019, and
- the existence of the Supplementary Agreement is entered in the Commercial Register of ProCredit Bank.

An examination of the Profit and Loss Transfer Agreement pursuant to section 295 (1) sentence 2 in conjunction with section 293b (1) AktG is not required, given that, in accordance with section 293b (1) second clause AktG, all ProCredit Bank shares are owned by the Controlling Company (ProCredit Holding).

In order to inform the shareholders (Kommanditaktionäre) of ProCredit Holding and provide a basis for the adoption of a resolution by them at the General Meeting, the Board of Management of the sole General Partner of ProCredit Holding submits the following report pursuant to section 295 (1) sentence 2 in conjunction with section 293a, AktG:

I. Grounds for concluding the Supplementary Agreement

The reasons for concluding a Supplementary Agreement include the following legal and economic aspects:

As a result of changes to the EU Capital Requirements Regulation (CRR), it is necessary for ProCredit Bank to amend the Profit and Loss Transfer Agreement from a regulatory perspective. The amendment is necessary due to the new requirements in Article 28 (3) (d) CRR governing profit and loss transfer agreements as instruments of Common Equity Tier 1 capital. It states that “when drawing up its annual accounts, the subsidiary (...) must have the discretion to reduce the amount of distributions by transferring all or part of its profits to its own reserves or to the fund for general banking risks before making a payment to its parent company”.

The Supplementary Agreement shall not apply until the General Meeting of ProCredit Holding and the General Meeting of ProCredit Bank have given approval

and the entry has been made in the Commercial Register of ProCredit Bank. Pursuant to section 295 (1) sentence 2 in conjunction with section 293 (2) AktG, the resolution of the General Meeting of ProCredit Holding requires a majority of at least 3/4 of the share capital represented when the resolution is adopted. Pursuant to section 295 (1) sentence 2 in conjunction with section 293 (1) sentence 2 AktG, the resolution of the General Meeting of ProCredit Bank also requires a majority of at least 3/4 of the share capital represented when the resolution is adopted.

II. Economic risks associated with the Supplementary Agreement

For ProCredit Holding, the Supplementary Agreement gives rise to the risk that profits that are to be transferred to it may be reduced because ProCredit Bank could potentially allocate higher amounts to retained earnings than in the past. However, since the retention of earnings must be economically justified in accordance with section 14 (1) sentence 1 no. 4 KStG (German Corporation Tax Act), based on a reasonable commercial assessment, this risk is manageable. Moreover, the only slightly increased risk is more than offset by the possibility of offsetting the Profit and Loss Transfer Agreement as an instrument of CET 1 capital at group level.

III. Alternatives to concluding a Supplementary Agreement

Without the amendment, ProCredit Bank would no longer be able to recognise the Profit and Loss Transfer Agreement as an instrument of CET 1 capital, which would mean that ProCredit Bank's equity capital would have to be increased by ProCredit Holding. As this would entail high costs for ProCredit Holding, there is no real alternative to the Supplementary Agreement.

IV. Remarks on the Supplementary Agreement

In order to grant ProCredit Bank the necessary discretionary scope, the passage in paragraph 1.02 sentence 1 of the Profit and Loss Transfer Agreement, which states that amounts from the profit for the year can only be transferred to other revenue reserves with the consent of the Controlling Company, was deleted. Paragraph 1.02 sentence 3 of the Profit and Loss Transfer Agreement, which provided that *other revenue reserves formed during the term of the Profit and Loss Transfer Agreement in accordance with section 272 (3) HGB be released at the request of ProCredit Holding and used to offset a net loss for the year or transferred as profit*, was also deleted.

Furthermore, by virtue of it being in the form of a Supplementary Agreement, all provisions agreed in the Profit Transfer Agreement shall continue to apply.

V. Compensation pursuant to section 304, AktG, and consideration pursuant to section 305, AktG

ProCredit Holding is the sole proprietor of the Controlled Subsidiary Company. There are no external shareholders within the meaning of sections 304 and 305 AktG with an interest in the Controlled Subsidiary Company who would require compensation and/or settlement. Thus, no disadvantages arise for the shareholders (Kommanditaktionäre) of ProCredit Holding in this connection. For the same reason, an examination of the Agreement by duly qualified auditors (section 295 (1) sentence 2 in conjunction with section 293b (1) AktG) was unnecessary.

The Management Board of the sole General Partner of
ProCredit Holding AG & Co. KGaA


Dr. Gabriel Schor
Dr. Gabriel Schor
Manager


Sandrine Massiani
Sandrine Massiani
Manager