

**Report pursuant to section 295 (1) sentence 2 in conjunction with section 293a AktG
on the amendment of the 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,
which is domiciled 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 on 12 April 2012 a Profit and Loss Transfer Agreement in accordance with section 291 (1) alternative 2 AktG (German Stock Corporation Act); that agreement was expanded through a supplementary agreement on 12 July 2019. The Agreement was amended on 6 November 2020 to enable ProCredit Bank to continue to meet the regulatory requirements for Common Equity Tier 1 (CET1) capital instruments within the meaning of the amended Capital Requirements Regulation pursuant to Article 28 of Regulation (EU) 2019/876 of the European Parliament and of the Council from 20 May 2019 (CRR II).

The Amendment Agreement shall not take effect until

- the shareholders of ProCredit Holding approve the Amendment Agreement at their Extraordinary General Meeting on 10 December 2020 and the shareholders of ProCredit Bank approve the Amendment Agreement at their General Meeting on 25 November 2020,
- the German law implementing Regulation (EU) 2019/878 and (EU) 2019/879, namely the German Act on Risk Reduction and Proportionality in the Banking Sector (Risk Reduction Act), has come into force, insofar as it pertains to excluding the application of extraordinary termination rights pursuant to section 297 (1) AktG, and
- the existence of the Amendment Agreement is recorded in the commercial register entry for 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 at the General Meeting, the Management Board 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 Amendment Agreement

The reasons for concluding an amendment agreement include the following legal and economic aspects:

As a result of changes to Article 28 (3) CRR II, it is, from a regulatory perspective, necessary to amend the Profit and Loss Transfer Agreement for ProCredit Bank. The necessity of the amendment arises from the fact that the German Federal Financial Supervisory Authority (“**BaFin**”), as the competent supervisory authority, with regard to the right of termination insists on a “one-to-one” transfer of the text from Art. 28 (3) f CRR II into the existing profit and loss transfer agreements, in order to ensure conformity with Art. 28 (3) f CRR II.

Art. 28 (3) CRR defines conditions for profit and loss transfer agreements between subsidiaries and parent companies, under which capital instruments of the subsidiary can be recognised as CET1 capital instruments. Only if the conditions are met can capital instruments of the subsidiary be deemed to comply with the requirements of Art. 28 (1) sub-paragraph 1 h item v CRR regarding the non-existence of distribution obligations.

For ProCredit Bank AG, fulfilment of the requirements is necessary in order for all capital instruments previously classified as CET1 capital instruments to be able to be classified henceforth as CET1 capital instruments.

In this regard, BaFin provides a grace period for implementation until the end of 2020.

The Amendment Agreement shall not apply until the General Meeting of ProCredit Holding and the General Meeting of ProCredit Bank have given approval, it has been recorded in the commercial register entry for ProCredit Bank, and the Risk Reduction Act has come into force, insofar as it pertains to excluding the application of extraordinary termination rights pursuant to section 297 (1) AktG. 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ of the share capital represented when the resolution is adopted.

II. Economic risks associated with the Amendment Agreement

For ProCredit Holding, the Amendment Agreement has the disadvantage that extraordinary termination rights for good cause within an annual period are excluded. However, this disadvantage is outweighed by the tax advantages of maintaining the profit and loss transfer agreement. Also, amending an existing profit and loss transfer agreement does not, from a tax point of view, constitute a new agreement but merely an adjustment. As a result, there is no start of a new minimum maturity.

III. Alternatives to concluding an amendment agreement

Without the amendment, ProCredit Bank would no longer be able to recognise the instruments affected by the Profit and Loss Transfer Agreement as CET1 capital instruments. This would mean that the equity capital of ProCredit Bank would have to be increased using capital components unaffected by the Profit and Loss Transfer Agreement, or that the Profit and Loss Transfer Agreement as a whole would have to be terminated. As both of these options would entail high costs for ProCredit Holding, there is no real alternative to the Amendment Agreement.

IV. Remarks on the Amendment Agreement

In order to meet the requirements set by BaFin, section 5.06 of the Profit and Loss Transfer Agreement, which established provisions for extraordinary termination rights, was replaced by the wording from Art. 28 (3) f CRR and now reads:

“the agreement is subject to a notice period according to which the agreement can be terminated only by the end of an accounting year, with such termination taking effect no earlier than the beginning of the following accounting year, leaving the PARENT UNDERTAKING’S obligation to fully compensate the SUBSIDIARY for all losses incurred during the current accounting year unchanged.”

According to the legal situation still in force at the time of the convening of the Extraordinary General Meeting, section 297 (1) AktG continues to apply; this mandatorily stipulates that an inter-company agreement may be terminated at any time (i.e. also during the course of the year) without notice provided there is good cause. However, the Risk Reduction Act is intended to exclude the applicability of this provision in the case of a transfer of own funds within the framework of the German Banking Act. The law is currently in the government draft stage and is expected to be adopted in the near future. After the Risk Reduction Act comes into force, the new contractual termination provision will take full effect, such that termination during the course of year will no longer be possible even if there is good cause.

This was taken into account accordingly in the Amendment Agreement by means of a provision on “taking effect”.

Furthermore, by virtue of the Amendment Agreement form, all provisions agreed in the Profit and Loss 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.

Frankfurt am Main, November 2020

The Management Board of the sole general partner of
ProCredit Holding AG & Co. KGaA

Dr Gabriel Schor

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