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ProCredit General Partner AG

Extraordinary General Meeting

Frankfurt am Main, 10 December 2020

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Only the spoken German text is legally binding-

Ladies and Gentlemen, we are delighted be able to bid you a very warm welcome to this Extraordinary 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 today's General Meeting.

The purpose of today's Extraordinary General Meeting is of course primarily to decide on the appropriation of the profit for 2019. After that, we would like to update you on the business and financial development of our banking group in what has undoubtedly been a challenging social and economic environment. Let me preface this by noting that, based on our Q3 results and in view of this year's events, we feel very reassured that our particular approach to banking is the right one.

But allow me first to provide a brief explanation about the other item on the agenda, which is of a formal nature: the amendment to the Profit and Loss Transfer Agreement between ProCredit Holding and its subsidiary, ProCredit Bank AG. As a consequence of the amendment to the Capital Requirements Regulation (CRR), it is necessary, from a supervisory perspective, for ProCredit Bank AG to amend the Profit and Loss Transfer Agreement in order to be able to continue to categorise it as a core capital instrument. In this regard, the competent supervisory authority requires the termination provision laid down in Art. 28 (3) f CRR to be incorporated verbatim into the Profit and Loss Transfer Agreement. It must be made clear that the agreement can only be terminated at the end of the financial year – with effect from the beginning of the following financial year at the earliest – and that this does not change the obligation of the parent company to provide the subsidiary with full compensation for all losses incurred during the current financial year.

Let's move on to the main topic of our General Meeting: the dividend.

Without question, 2020 was dominated by Covid-19. In addition to the health consequences for millions of people, the Covid-19 pandemic has also had severe economic and social impacts on our societies. Unlike the recent global economic crisis, which spread from the financial sector to the real economy, this time banks are, or at least should be, part of the solution, not the problem. By continuing to perform their basic functions despite the significantly more difficult conditions, they can ensure that the real economy keeps on functioning properly. In order to be able to play this important role, banks were relieved of regulatory obligations in many respects and have been supported by central banks with liquidity. Due to the ongoing situation, there was a general political/regulatory recommendation for all banks to suspend dividend payments, as these negatively affect their liquidity and capital positions.

The ProCredit group also benefited from regulatory relief, albeit to a more limited extent. Given the changes under CRR 2, the planned lower risk-weighting for SME exposures was brought forward, helping us keep our CET 1 ratio stable in spite of the good loan portfolio growth. We have not received the liquidity remedies that many major banks have made use of. Instead, we were able to strengthen our liquidity through strong growth in our deposit base and the support of strategic partners.

Although the ProCredit group has benefited to a much lesser extent from regulatory remedies than many other banking groups, we can understand the efforts of the supervisory authorities to strengthen the financial sector from a macroeconomic perspective, including dividend restrictions. Therefore, we propose today, in co-ordination with our supervisory board and

following the recommendations of the supervisory authorities, to not pay out any dividends in 2020. At the same time we would like to reaffirm our fundamental position on this issue: which is that we see our dividend policy as a clear commitment to those who have placed their trust in us and invested in our group. And we take this obligation very seriously. Therefore we reiterate that it is our intention to submit to the Annual General Meeting in 2021 a proposal for the appropriation of profit which takes into account the absence of a dividend this year and is also in line with our dividend policy. Of course, we will consider any existing recommendations from the supervisory authorities in our proposal.

Until then, we will deduct EUR 17.7 million, i.e. ⅓ of the consolidated profit for the 2019 financial year, as well as ⅓ of the eligible profits for the 2020 financial year from our regulatory capital, in line with our dividend policy. This intention is based upon our confidence in the solid capitalisation of the group, as well as our expectation of continued earnings stability in the coming months and years. The solidity of the group's capital base and its ability to cover unexpected losses is further underlined the leverage ratio of 9.8%, which puts our group on a higher level than the banking sector overall.

Let us now turn to the development of the ProCredit group in our markets: Most of the Lock-down measures that had been implemented relatively early in our countries were lifted again during the course of the summer. Industrial production increased significantly in the third quarter compared with the second quarter, but it remains visibly below the previous year's level. At the beginning of the pandemic, the countries in which we operate had distinguished themselves by the fact that the strict containment measures that had been put in place initially prevented the virus from spreading out of control. In the meantime, however, the number of infections has risen significantly and has reached the level of Western European countries. Nevertheless, we are seeing a quite responsible and disciplined response from the general public in our countries, while governments continue to closely monitor the situation as best as they can. Unsurprisingly, it remains difficult to foresee how severe the macroeconomic impact of the pandemic will be in our countries. The latest IMF forecasts for 2020 are somewhat more pessimistic than previous ones; however, expectations for 2021 remain relatively optimistic.

Our banking group has so far done well in its handling of the challenges posed by this situation. For example, already at an early stage of the pandemic we introduced group-wide remote working models for our staff and shifted the exchange of information within the group to digital channels. We have been able to maintain business operations in our branches with relative ease, as our clients were already exclusively using electronic channels for their transactions. The fact that we were 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. As a result of this almost seamless transition, we were quickly able to focus on proactive customer communication and acquisition, which has enabled us to achieve strong growth in our customer loan portfolio and to assess credit risks on a client level and reflect them in our financial figures.

In this context, we owe great respect and many thanks to our employees who, despite the serious impact of the pandemic on their lives, performed an enormous and invaluable feat of strength this year and were able to drive the solid business figures we are able to present today. Our culture of open communication, the dedication of our employees and the expertise in which we have invested over many years – all of these factors have enabled us to effectively manage the risks to our group in this difficult year. This is one of the reasons why we were

able, at a very early stage, to return our focus to the further expansion of our banking business. As at 30 September 2020, we were able to report growth in our customer loan portfolio amounting to more than EUR 400 million, an increase of 8.5% since the beginning of the year.

This growth has two important consequences:

Firstly, our focus on SMEs is naturally making a very valuable contribution to the recovery of the respective national economies, especially in the current phase. This contribution is particularly significant in countries where the resources available for government assistance to support the real economy may be more limited, especially for SMEs. Thanks to our proximity to our clients, we have been able to efficiently accompany and support numerous SMEs through these turbulent months. Many of our clients have so far weathered the pandemic well. With some of the others we have worked closely over the past few months to jointly develop solutions to their short-term liquidity shortages. And for others, the pandemic has opened up new lines of business and opportunities – we have also been working intensively with these clients to provide rapid support for their investment projects.

A second consequence is that the portfolio growth indicates encouraging prospects for our banking group. We still see great potential for further scaling effects, which we can now achieve year by year through steady growth. And at the same time, we do not want to and will not lose sight of the impact of this growth on the environment and society.

In this crisis year, we feel even more confirmed in our responsible business approach, in which sustainability is deeply embedded. Sustainability is reflected in our approach to our clients, which is based on long-term relationships. It is reflected in our approach to our employees: we not only support their professional development with intensive, long-term training programmes, we also encourage them to think rationally, take responsibility and show solidarity. It is also reflected in our approach to investors, to whom we have always promised long-term, stable profitability combined with making a positive social and environmental impact – no more and no less.

In our lending activities we take into account the social and environmental implications of our financing decisions. Growing by over EUR 150 million, the green loan portfolio has expanded by almost 20% since the beginning of the year – which is more than twice as much as our overall portfolio – and with this, it has contributed 40% to our overall portfolio growth. At 18.3%, the share of the green portfolio in the group's total loan portfolio is now close to our medium-term target of 20% and is distinguished not only by a high growth dynamic but also by an outstanding portfolio quality: just 0.3% of green loans are currently classed as credit-impaired. This shows that thinking and acting sustainably makes sense from a social and ecological point of view as well as from a financial point of view.

An encouraging example for our group this year was financing so-called "Energy Communities" for the first time – these are small agricultural businesses and private individuals who join forces to construct solar power plants on their property. Financing such Energy Communities not only makes economic sense for the ProCredit group, it also reflects a clear development idea that is deeply rooted in our business thinking, as the project provides an additional, long-term and sustainable income for the many community members.

It is to be hoped that the expected economic recovery in the coming years will be stimulated by a structural shift towards climate-friendly investments, which are socially and ecologically

sustainable. We as a banking group are ideally positioned and equipped to support and actively promote such change in our countries.

In addition to the strong expansion of our loan portfolio, especially the green loan portfolio, growth in customer deposits was also very encouraging this year – here we have enjoyed an increase of EUR 384 million, or 8.9%, since the beginning of the year. Most of this growth came from low- or non-interest-bearing demand deposits and overnight money, where we have grown by over 16% since January. We feel particularly encouraged by the fact that so many companies and private individuals have put their trust in the ProCredit group – especially in these uncertain times.

Since the introduction of ProCredit Direct two years ago, we have seen our positioning as a smart direct bank for medium-income clients strengthen steadily. In markets where many banks generate revenues from the “small print” in their terms and conditions, we stand out with a transparent and easy-to-understand range of products and services for our clients, with no hidden costs and a fully digital approach, which is not only convenient but also potentially life-saving under the current circumstances.

The healthy business development has also had a positive effect on our financials. We are currently in a position to generate business growth without incurring additional costs – this will allow us to achieve economies of scale and improve cost efficiency. This is best reflected in the improved cost-income ratio, which, compared to last year, is now based on higher revenues before provisioning as well as slightly lower operating costs. This is made possible not least by our fully digitised direct banking approach, which we have strongly promoted in recent years, as well as by the highly efficient branch network that resulted from this approach.

Our consolidated result as at 30 September was EUR 33.4 million, corresponding to a return on equity of 5.6%. Although this is approximately EUR 10 million lower than last year, we view this result as solid considering the prevailing macroeconomic circumstances. We see these results as the logical consequence of our sustainable business approach, which enables stable results, even in more difficult years.

Of course, the result for 2020 will be mainly determined by a pandemic-driven increase in credit risk costs – which since the beginning of the year are overall about EUR 18.7 million more than last year – and thus clearly the driving force behind the deterioration in the result compared to 2019. A large part of the risk costs, approximately 40%, comes from updating the macroeconomic assumptions in our risk model. This year, the quantification of expected credit losses takes place under the premise of a sharp deterioration in macroeconomic conditions, leading to higher provisioning costs.

Another part comes from an increase in our portfolio in Stage 2, i.e. loans for which we have identified a relative deterioration in the risk profile due to the pandemic. It should be emphasised that to date we have seen no increase in loan defaults. Since the beginning of the second quarter, we have focused resources on re-running the credit analyses for most of our exposures in order to assess and reflect the risk profile of our clients in the context of this pandemic. This approach, in which our direct relationship with customers plays a central role in managing credit risk, helps us to anticipate potential difficulties and provide timely support to our clients. Paired with strict client selection criteria, this approach has helped us over the years to achieve structurally lower default rates, write-downs and credit risk costs vis-à-vis the banking sectors in which we operate. For our customers, this means that with ProCredit they

have a partner at their side who supports them even in times of crisis, thereby securing jobs and safeguarding livelihoods.

In addition to the increase in credit risk costs, the pandemic also affected our financial figures in other respects. For example, many central banks reacted to the economic crisis in their countries by cutting key interest rates, which reduced our net interest margin from 3.1% to 2.9% in the second quarter. Despite this decline, net interest income rose by around EUR 7 million year-on-year due to strong portfolio growth. Since the second quarter, the net interest margin has stabilised at 2.9%.

Our income from fees and commissions has also suffered from the pandemic. In the second quarter in particular, which was hit by trading and travel restrictions, the volume of transactions fell significantly, whereas we saw an increase in the third quarter. Compared with the previous year, our net fee and commission income fell by EUR 4 million. As with net interest income, we are also seeing an improvement in earnings in the third quarter.

Now let us look ahead: We expect continued solid results for the fourth quarter of 2020. Our loan portfolio is likely to be at the upper end of our guidance of 8-10% at year-end. Based on the new IMF growth forecasts, we will establish additional macroeconomic provisions for our customer loan portfolio. Nevertheless, the cost of risk in the fourth quarter will not be materially higher than in previous quarters. Overall, we believe there is a good possibility that our year-end cost of risk will be below our original forecast of 75 basis points. We do not expect to see a noticeable increase in the credit-impaired portfolio by the end of the year.

We also expect our cost-income ratio to be better than the 70% we forecast at the beginning of the year. Our operating income before credit risk costs has already improved visibly in the third quarter. We are therefore confident that, given the circumstances, we will close 2020 with a convincing result. We are already looking ahead to 2021, both with confidence and a healthy dose of caution.

This confidence is largely attributable to everything that we can observe today and which is reflected in this year's results: This year we were able to further strengthen our market position as a partner for SMEs in our countries of operation by continuing to support and finance these enterprises despite the difficult circumstances. We also see clear opportunities for further expanding our portfolio in the coming years, and thus also for further improving the cost efficiency of our banks.

Caution is still particularly necessary in many areas which, given the current uncertainty, we cannot yet fully assess. Of course, the news of the availability of vaccines against the corona virus in the near future offers hope for 2021, but at this stage, we are still in the middle of this pandemic and its full implications are still working their way through the system. This limits our ability to make predictions about the future and it demands continued vigilance and prudence. We will continue to build on our solid, long-term business approach. In addition, we must continue, first and foremost, to protect our staff and invest in their development. We feel that our approach has been validated more than ever through the impact of Covid-19.

In summary, we hope to close a particularly turbulent year for the society and economy with relatively robust business and financial results, and are well prepared for the new challenges that 2021 will certainly bring. Once again we would like to thank you, our esteemed shareholders, for your confidence and wish you and your loved ones good health.