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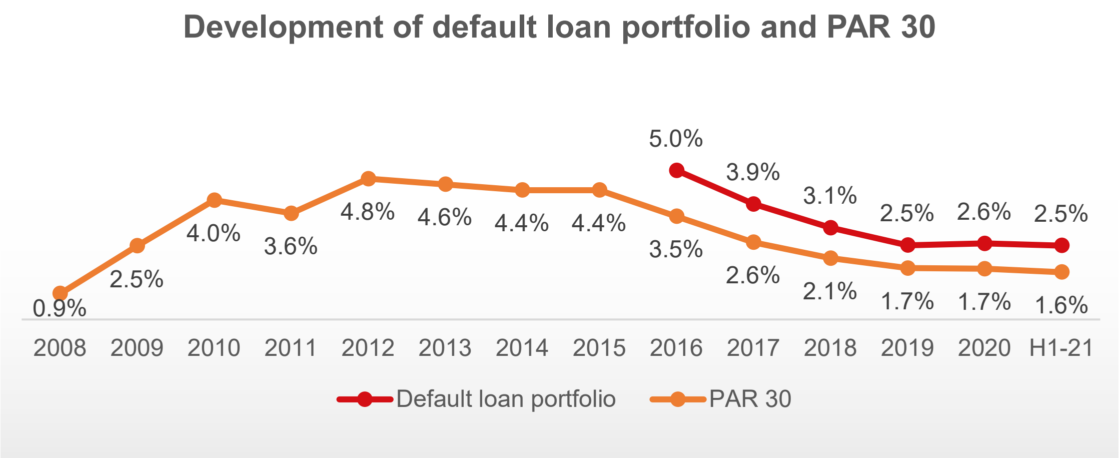
Sandrine Massiani, Management Board Member

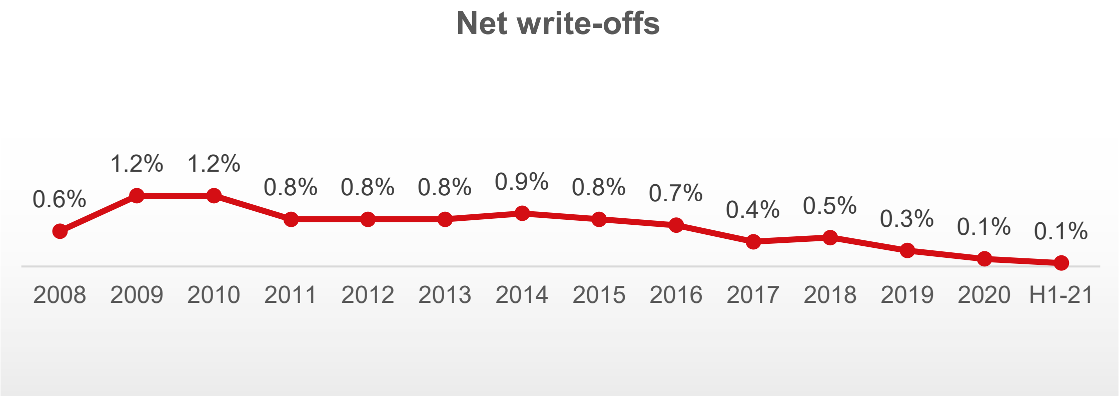
Key success factor: Credit risk management

Capital markets day, October 2021

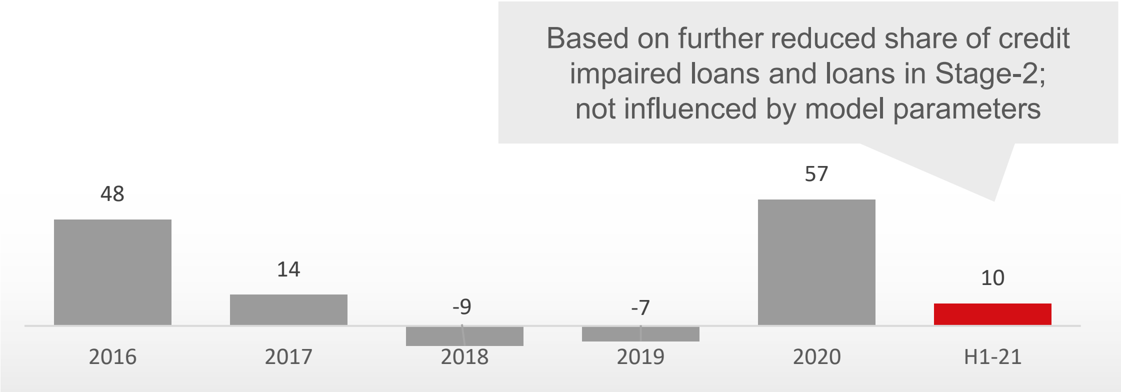
Track record of high-quality loan portfolio based on prudent risk management

ProCredit loan portfolio with strong risk indicators …





… leading to consistently low risk cost …



… and significantly leveraging the group's positive impact

Client level	▶ Formalization of clients ▶ Increase of banking sector transparency
Financial and impact level	▶ Active and early collaboration with clients to improve situation (e.g. Covid-19) ▶ Financing green investments (incl. energy efficiency) with superior risk parameters (1.0% credit-impaired loans)
Country level	▶ Financing innovative and forward-looking SMEs to create employment, preventing over-indebtedness and inadequate financing structures

Unique focus on SME clients and strong institutional setup as key success factors

ProCredit key success factors of credit risk management

Careful selection of clients	Holistic client assessment	Structured lending process	Qualified staff
Strict **client selection**	**360° integrated view** on client situation	Strict **assessment standards**	Comprehensive and **regular training**
Trusted, long-term client relationships	**No scoring or automized lending**, but strong technological support	Robust decision-making **processes and monitoring**	Agile and systematic **exchange of best practices**

Strong business focus on SME segment …

Target SME segment

… as clear differentiating factor

- Competitors in ProCredit markets continuing to either focus on high-margin consumer lending based on automated decision-making processes,
- and/or on large ticket corporate finance
- SME segment requiring a tailor-made assessment and approach to lending

Key success factor: Careful selection of clients

Strict client selection as basis for long-term client relationships

Client selection is key

- Willingness to enter into a trustful long-term relationship as key precondition (openness, transparency, partnership approach)
- Minimum requirements (exclusion list) as well as value-driven aspects to ensure joint vision
- Careful client selection followed by gradual engagement with new clients (e.g. credit limits)

Key metrics underlining group's approach to credit risk

1/2
of business clients are non-loan clients

~4x
physical client visits per year

~50
loan clients (#) per Business Client Advisor

~2/3
of loan portfolio is investment loans incl. green loans

Long-term client relationships beneficial for both our clients and ProCredit

- Building a deep and broad understanding the client over time
- Reliable banking partner also in challenging times due to good knowledge of client's business, underlying strengths and long-term payment capacity
- Potential for joint and diversified growth in business as SME clients grow and expand

Exclusion list (1/2)

No business relationship shall be established or maintained with clients engaged in any of the following activities:

Unethical practices and labour conditions:

1. Production or activities involving harmful or exploitative forms of forced labour/harmful child labour, discriminatory practices, or practices which prevent employees from lawfully exercising their rights of association and collective bargaining;
2. Production or trade of narcotics;
3. Production or trade in weapons (including hunting weapons) and munitions;
4. Gambling (including online gambling), casinos and equivalent enterprises;
5. Issuance of cryptocurrencies or operation of cryptocurrency exchange platforms;
6. Prostitution and any business for which the primary business activity is related to pornography;
7. Reproduction clinics and other medical institutions engaged directly or indirectly in surrogacy (e.g. through intermediation or other systematic facilitation) or other ethically questionable medical treatment, including genetic material modification and manipulation or mitochondrial replacement therapy and practices commodifying human organs

Activities detrimental to health, safety and the environment:

1. Production or trade in or use of un-bonded asbestos fibres or asbestos-containing products;
2. Production or trade in products containing polychlorinated biphenyls;
3. Production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans;
4. Production or trade in radioactive materials (including storage and treatment of radioactive wastes), business or activities relating to the nuclear industry or nuclear materials;
5. Unsustainable fishing;
6. Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements;
7. Activities involving the release of genetically modified organisms into the natural environment without approval being given by competent authorities or where the relevant authority has declared itself as GMO free;
8. Trade in wildlife or wildlife products regulated under CITES;
9. Operation of hunting activities;
10. Transboundary movements of waste prohibited under international law;
11. Any type of hydropower plants with a production capacity higher than 15 MW and storage hydropower plants with large dams;
12. Production or trade in ozone-depleting substances subject to international phase-out;
13. Unsustainable logging;
14. Exploitation of diamond mines and commercialization of diamonds, when the host country has not adhered to the Kimberley agreement (KPCS) or other similar international agreements on extractive resources;
15. Underground mining to extract metals, coal, oil shale and other minerals;
16. Charcoal making with other methods than the retort method (use of sealed metal containers)

Background info

Exclusion list (2/2)

No business relationship shall be established or maintained with clients engaged in any of the following activities:

Activities having a negative impact on the community:

1. The production or trade in any product or activity deemed illegal under host country (i.e. national) laws or regulations or international conventions and agreements, including without limitation, legislation or conventions relating to the protection of biodiversity resources or cultural heritage;
2. Activities within, adjacent to, or upstream of land occupied by indigenous peoples and/or vulnerable groups, such as lands and watercourses used for subsistence activities such as livestock grazing, hunting or fishing;
3. Activities which may affect adversely sites of cultural or archaeological significance;
4. Activities involving involuntary resettlement;

Legal entities engaged in any of the following activities shall not be financed:

1. Major production of or trade in alcoholic beverages (excluding beer and wine);
2. Major production of or trade in tobacco;
3. Activities within or adjacent to designated protected areas classified under IUCN Category I – IV ;
4. Producers of single-use plastic items or of plastic granulates used for the manufacture of products that are prohibited from placement on the market according to the Directive (EU) 2019/904 of the European Parliament and of the Council

Key success factor: Holistic assessment of clients

360° integrated view on client situation in all cases

Decision-making for a tailored-made financing structure

Business potential
Clients' overall needs apart of complementary to current request and potential future business with the client as part of the Hausbank concept and long-term client relationship

Client profile and business model
Ownership structure, management capabilities & experience, organization of the company (e.g. succession plan), Business model, markets trends and developments

Collateral quality and quantity
Degree of collateral coverage, based on available collateral and in accordance with the collateral requirements

Impact & E&S aspects
Client's approach to environmental, social, health, safety impact of business operations:

Financing request
Rationale, scope, size, "fit" to the overall business approach, quality of the plan/projections, capacity to manage

Financial situation / Credit worthiness
Financial strength and capacity to meet financial obligations in terms of levels of liquidity, profitability and solvency, potential risks to the financial strength and how those risks are managed

Strict standards for credit decisions – ESG criteria part of all decisions

Credit decisions based on 3 main principles …

Focusing on the client – not the product

- Client-centric approach with time invested in client relationship
- BCAs are able to ‘advise’ clients and are the first line of defense

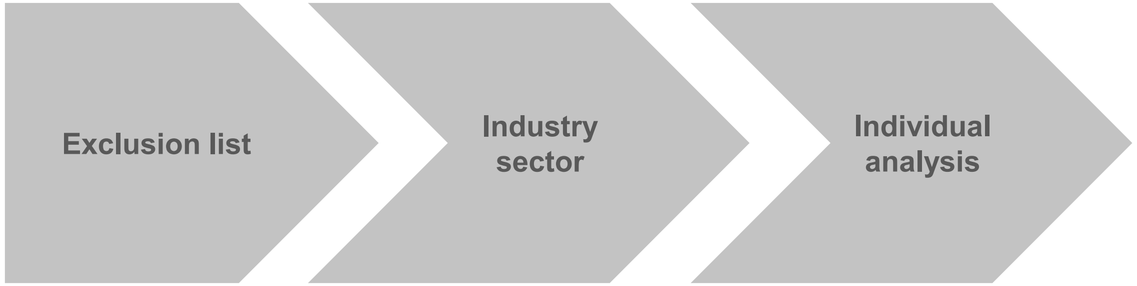
Good financials as condition sine qua non – but not sufficient

- Sustainable financials / ability to repay as basis for credit worthiness
- Risk classification system is 60% quantitative – 40% qualitative

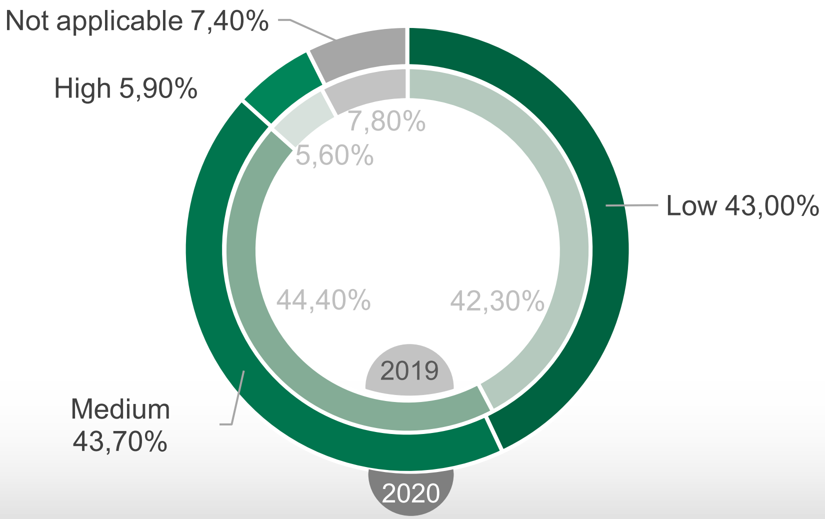
No collateral-based financing

- Collateral as second line of defence
- Conservative approach to collateral requirements and valuation, with all valuations done by selected contracted external companies

… with ESG criteria as integral part of decision-making process for all clients



Business loan portfolio by environmental risk category



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Key success factors: Structured lending processes and qualified staff

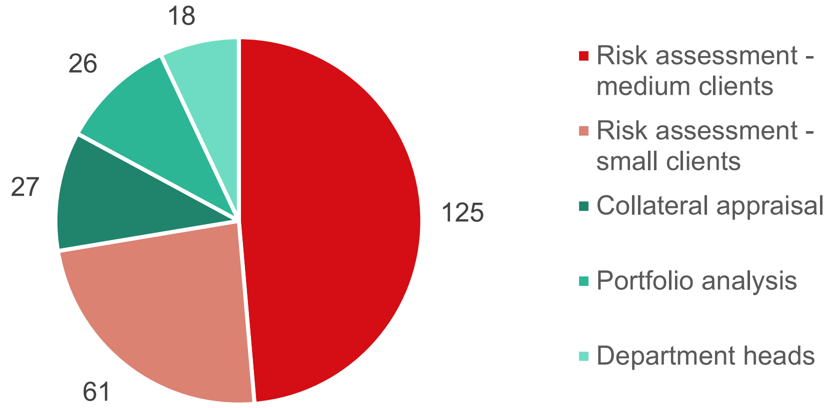
Robust credit risk set-up combined with highly qualified staff

Highly structured processes in line with German requirements

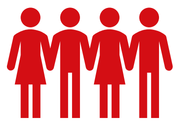
Key components of structured lending and monitoring process

- Segregation of front / back-office functions (up to management level)
- Complete documentation of risk assessment
- Credit decisions taken by credit committee members whose experience and expertise are regularly checked
- Systematic early identification of risks (EWI)
- Comprehensive and regular monitoring of exposures and repayments
- Strict standards for intensified management

Strong focus on risk assessment within credit risk staff …



Total number of credit risk staff (excl. BCAs): **257 (10% of group banks' staff)**



… supported by vast staff experience and continuous training

8.7 years
average experience at ProCredit

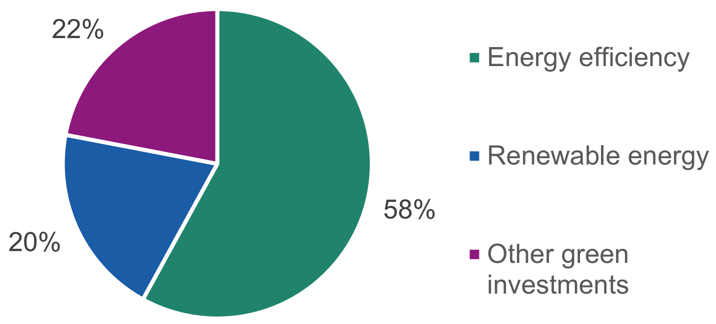
4.6 years
seniority at credit risk position

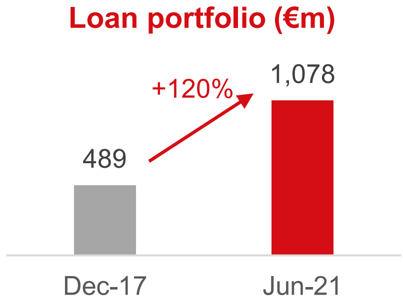
67 hours
of training per annum per credit risk staff (2020)

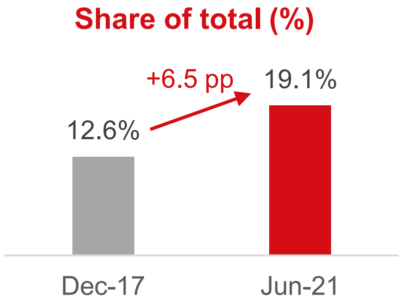
96%
of credit risk staff English proficiency (level B or higher)

Green loan portfolio with increasing contribution to strong loan growth and low risk cost

Three main categories of the ProCredit green loan portfolio with overall strong growth dynamics







>14k
number of green loans disbursed in total in last 10y

+€98m / +98%
growth of renewable energy portfolio in 2020

Superior risk metrics as a result of unique internal focus and expertise in green lending

1.0%
credit impaired loans, significantly lower than overall portfolio of 2.5%

3.4%
loans in Stage 2, considerably lower than overall portfolio of 4.4%

Key strengths in green lending translating into structural low risk cost

- Green loans NOT a separate product, but embedded in the regular credit analysis process as for all other loans
- Selection of clients, with forward looking, innovative SME clients in focus who fully embrace environmental issues
- Investment into lower risk areas (e.g. energy efficiency and cost reduction)
- Strong internal focus and expertise, with internal trainings of all BCAs, technical experts, limited required support from external consultants
- Strong use case of ‘Hausbank’ concept, with long-term and trusted client relationships at the core and BCAs and technical experts enabled to advise clients

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Stringent credit risk set-up allowing for fast and individual actions during pandemic

Extremely robust processes even during unprecedented pandemic driven mainly by

- Close customer relationship
- Structured and agile lending and monitoring processes

Swift actions taken already before end Mar-20…

- Fast communication with each single client
- Group approach to moratoria, structured identification of potential risks and intensified monitoring

… and from Apr-20 onwards

- (Conservative) implementation of moratoria
- Covid-19 (intensified) monitoring implemented and RC update
- Additional short-term working capital financing
- Timely restructuring when relevant

Case study: Restructuring during Covid-19

- **Client**: Spa and medical centre for physical health and therapy
- **Size**: 2,000 beds
- **Liabilities to banks**: EUR 2.4m, of which ProCredit exposure 90%
- **Covid-19 category**: sector high, financials low, final high considering impact on sector in general
- **Development**: Company was fully restricted to operate from Mar-20 to Oct-20. Restrictive measures were lifted partially in Oct-20 allowing the client to operate at 40% capacity
- **Restructuring activities**: Bank offered 9 month moratoria and decreased installments in the first 8 months of 2021, respective prolongation of initial maturity
- **Outlook**: Client is expected to continue recovery in rest of 2021 and 2022

Thank you for your attention

ProCredit Bank Romania

Notes and sources

Slide 2:

- "Development of default portfolio and PAR 30": No definition of default available before 2016; all numbers based on the scope of continuing operations as of today
- Cost of risk H1-21 annualized

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