



*ProCredit*  
H O L D I N G

„Weathering the storms. ProCredit`s experience of past and current crises“

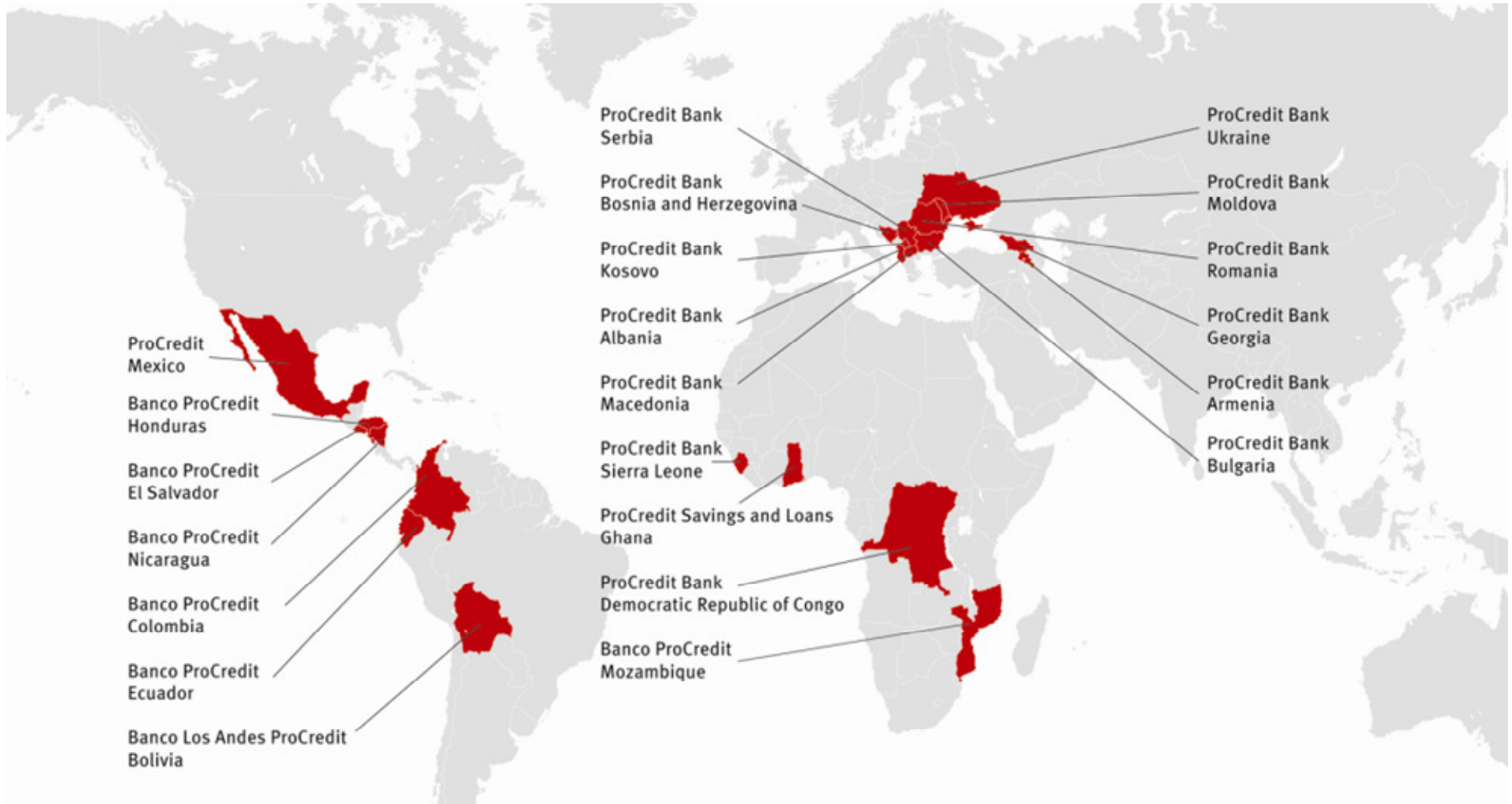
**EFSE 2009 Annual Meeting  
Novi Sad**

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**ProCredit**  
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## The ProCredit group worldwide



**Number of staff: 1981**  
**Number of Loan officers: 412**

**Number of branches: 86**  
**Credit branches: 51**  
**Retail branches: 35**

**Business loans: 37.654**  
**Agro loans: 35.716**

as of April 2009



## Key figures of the ProCredit group

	2006	2007	2008	Q1 2009
Loan portfolio				
<i>Volume (in EUR mln)*</i>	2,111	2,820	3,380	<b>3,358</b>
<i>Number (in '000)</i>	735	926	1,053	<b>994</b>
Total assets ( <i>in EUR mln</i> )	3,107	4,147	4,784	<b>4,783</b>
Deposits				
<i>Volume (in EUR mln)**</i>	1,814	2,489	2,756	<b>2,820</b>
<i>Number (in '000)</i>	1,924	2,822	3,509	<b>3,709</b>
Equity ( <i>in EUR mln</i> )	340	333	387	<b>387</b>
TIER 1 Capital Ratio	12.9%	9.3%	9.8%	<b>9.9%</b>
Total Capital Adequacy Ratio	15.3%	12.7%	13.1%	<b>13.1%</b>
Portfolio at Risk (> 30 days)	1.2%	1.4%	1.7%	<b>2.6%</b>
LLP/PAR	234%	191%	176%	<b>133%</b>
No. of staff	12,585	16,876	21,407	<b>21,071</b>
No. of branches	476	622	814	<b>834</b>

\* including accrued interest; net of deferred fees

\*\* including accrued interest and pending transfers

## Key figures of ProCredit Serbia

	2006	2007	2008	Q1 2009
<b>Loan Portfolio</b>				
<i>Volume (in EUR mln)*</i>	306	414	449	429
<i>Number (in '000)</i>	88	120	133	131
<b>Total assets (in EUR mln)</b>	495	779	749	674
<b>Deposits</b>				
<i>Volume (in EUR mln)**</i>	239	393	336	328
<i>Number (in '000)</i>	310	434	479	487
<b>Equity (in EUR mln)</b>	43	61	98	92
<b>TIER 1 Capital Ratio</b>	11,8%	10,9%	13,3%	14,3%
<b>Total Capital Adequacy Ratio</b>	15,5%	15,2%	16,9%	17,8%
<b>Portfolio at Risk (&gt;30 days)</b>	0,7%	1,5%	1,6%	2,2%
<b>LLP/PAR</b>	272%	157%	158%	120%
<b>No. of staff</b>	1.418	1.744	2.058	2.026
<b>No. of branches</b>	52	68	86	86

\*including accrued interest; net of deferred fees

\*\*including accrued interest and pending transfers

## This crisis versus crises we experienced in the past

### Examples of previous crises

### This crisis

Year	Country/Region	Event	Key Characteristics
2001/02	Bolivia:	Financial sector crisis	<ul style="list-style-type: none"> <li>• Unique crisis in terms of speed, scale and geographic reach</li> </ul>
2004	Ukraine:	“Orange revolution”	<ul style="list-style-type: none"> <li>• Financial sector key „transformation“ mechanism:               <ul style="list-style-type: none"> <li>– Distressed financial assets</li> <li>– Lack of transparency -&gt;lack of trust -&gt; lack of <b>liquidity</b></li> <li>– Breakdown / disfunctioning of several market segments</li> <li>– De- capitalization; re- <b>capitalization</b></li> </ul> </li> </ul>
2005	Central America:	Hurricane Mitch	
2005/06	Bulgaria:	Severe limits on loan portfolio growth	<ul style="list-style-type: none"> <li>– Exchange rate / interest rate volatilities</li> </ul>
2008	Georgia:	War	<ul style="list-style-type: none"> <li>• Financial crisis turns into real economy crisis:               <ul style="list-style-type: none"> <li>– GDP, order intake, consumer confidence etc. Etc . down</li> <li>– Unemployment rates up</li> <li>– .....</li> </ul> </li> </ul>
(1998	Russia:	<i>Devaluation shock)</i>	<ul style="list-style-type: none"> <li>• <b>Loan portfolio quality</b> deteriorating</li> </ul>



- Financial markets tightened across the globe abruptly
    - The more integrated the financial markets, the faster and steeper the reaction
    - Notable exceptions in the “ProCredit universe” with local factors still dominating
    - Interbank market starting point, followed by institutional, then retail depositors
  - ProCredit went into the crisis from a position of strength
    - Interbank exposures already reduces to a minimum in August / September
    - No major capital market instruments due / no concentration of maturities
    - Diversified funding basis centered around deposits (> 80% of loan portfolio)
    - High monthly cash inflow due to installment loans
  - Strategy
    - “Business as usual”
    - Higher liquidity reserve built
    - NOT: relevant volumes of liquidity moved across the group
- Now liquidity rather a cost (optimization) than a risk item
- Medium to long term funding back in focus in order to prepare for future growth
- Local currency funding more challenging than in the past

## “Weathering the storms” - PCB Serbia

Crisis felt for the first time in October 2008 following information in media

- 20% of retail deposits withdrawn during 2 months
- In PCB, all withdrawals were facilitated on time due to liquidity available and stable cash flow from loan repayments

Influence on loan clients felt since the end of 2008:

Lack of liquidity in the market due to decreased lending by banks

Lack of liquidity due to decreased demand

Depreciation increasing FX liabilities

Stop of investments



Harder for clients to service their credit liabilities

Low demand for new (investment) loans

Much lower creditworthiness of (potential) clients

**Arrears in the banking sector, business loans, over 15 days**

Dec-08	Mar-09	Apr-09
13.71%	19.71%	23.53%

**blocked accounts, in mio RSD**

31.10.2008		10.04.2009	
No	amount	No	amount
52,382	164,601	59,466	234,000

## “Weathering the storms” - Capital Adequacy

- Various equity increases (not to cover losses, but to) address higher demands from regulators and the “market” regarding Capital Adequacy Ratios
  - In the middle of the crisis (Dec 08 – April09), different types of equity were raised...
    - Tier 1 Core (ProCredit Holding)
    - Tier 1 Hybrid (“Trust Preferred Securities” at ProCredit Holding)
    - Lower Tier 2 (ProCredit Holding, PC banks)
  - ...from different investors:
    - (All) existing shareholders (Tier 1 Core, Tier 1 Hybrid, Lower Tier 2)
    - “old” investors, “new” investors (Tier 1 Hybrid)
  - Due to the environment capital raising was challenging both for ProCredit and for the investors themselves
  - With all new investors, a very intense dialogue and due diligence process preceded the respective equity investments
- Committed shareholders help a lot
- New partnerships in the making
- Future growth will be more expensive due to higher equity ratios

## Institutional challenges

### Different approach to arrears management

- Increased No of problems – need to bring fast and right decisions - need for specialized staff
- Early detection of the problem and quick reaction:  
restructuring / irregular repayment plan / grace period / refinancing of other loans / new financing
- Advising role of the bank to clients on how to overcome problems

### Different approach to new lending

- Credit decisions can not be based on past data – projections and scenario analysis
- Increased degree of uncertainty for future development: be more careful in collateral requirements, ratio of installment to monthly disposable funds, projects and activities to be supported
- More attention to (potential) devaluation impact on client’s payment capacity

### In general, 2 main challenges are:

- Much more efforts are required to maintain loan portfolio (quality and volume)
- institution must react and adjust to the situation quickly, implementing changed approach and shifting thinking of big number of staff but big number of clients, too.

### Goals in lending during the crisis:

#### To support clients in new circumstances and to maintain portfolio quality

- To make them aware of the changed environment and possible consequences
- To provide advise on how to deal with the situation
- To (quickly) find the best solution for the client and the bank in case of difficulties in loan repayment
- To keep and develop long term relationship

#### To maintain portfolio size

- Liquidity allows for new lending due to stable flow of repayments
- To facilitate needs of existing clients and new ones that their banks might not be able to serve
- To preserve the institution's capacities through the crisis time and provide sustainable financial performance

- Speed and decisiveness in implementing organisational adjustments as well as an active dialogue with clients are key to a successful loan portfolio management
- Our labor intense credit technology, which means working closely with the clients, helps a lot in this respect
- Our funding strategy, centered around our retail depositors, has to remain a diversified one
- Our dialogue with targeted existing and new, with equity and debt investors will become even more important

## The ProCredit group worldwide

