ProCredit
HOLDING

ANNUAL REPORT AS OF 31 DECEMBER

2020

OUR MISSION

Be the leading "Hausbank" for SMEs in our markets of operation – with a sustainable approach

Financial year in brief

STRENGTHENED MARKET POSITION

- "Hausbank" concept as catalyst to support SMEs in a challenging market environment
- Strong portfolio growth of 9.5%
- More than 40% of the growth driven by green loans
- Deposit growth of 13.0% supported by effective direct bank
- Solid capitalisation with CET 1 ratio at 13.3% and leverage ratio at 9.3%

ROBUST FINANCIAL PERFORMANCE

- RoE of 5.3% highlighting solidity of the business model also during macroeconomic stress
- Net interest income up 4%
- Increased cost of risk of 57 basis points reflects pandemic effects
- Cost-income ratio improved by 2.5 percentage points; result before provisions increased broadly in line with the growth in the loan portfolio

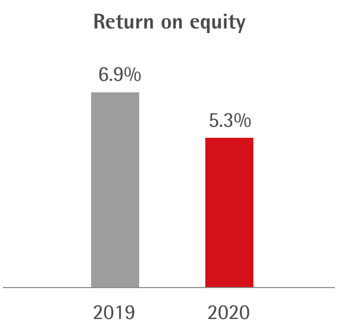
STRONG FOCUS ON SUSTAINABILITY

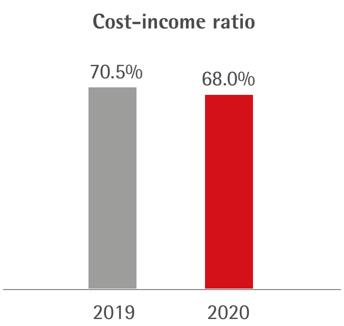
- Green Loan portfolio growth of 24%; share in total loan portfolio increased to 18.7%
- Steady portfolio quality supported by close client relationships; share of credit-impaired loans at 2.6%
- New plastic strategy, reduced CO_2 and environmental footprint
- 4th ProCredit Impact Report published

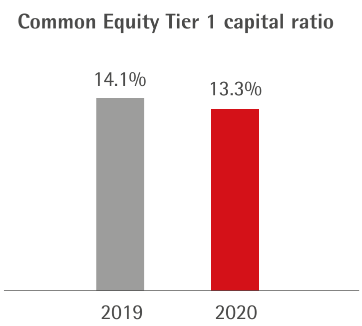
GUIDANCE FOR 2021

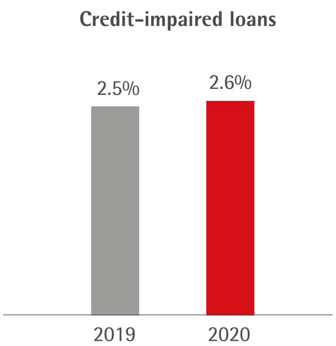
- Loan portfolio growth approx. 10%
- Improved RoE between 6% and 7.5%, assuming still elevated, but slightly lower cost of risk than in 2020
- Improved cost-income ratio between 65% and 68%
- CET 1 ratio at approx. 13%, leverage ratio at approx. 9%
- Continued dividend policy of distributing 1/3 of group profits

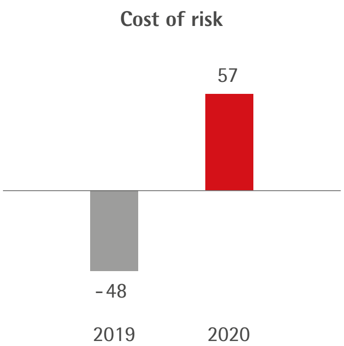
Key financial figures

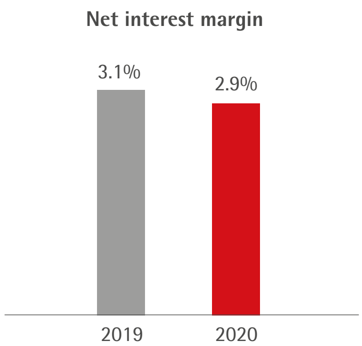


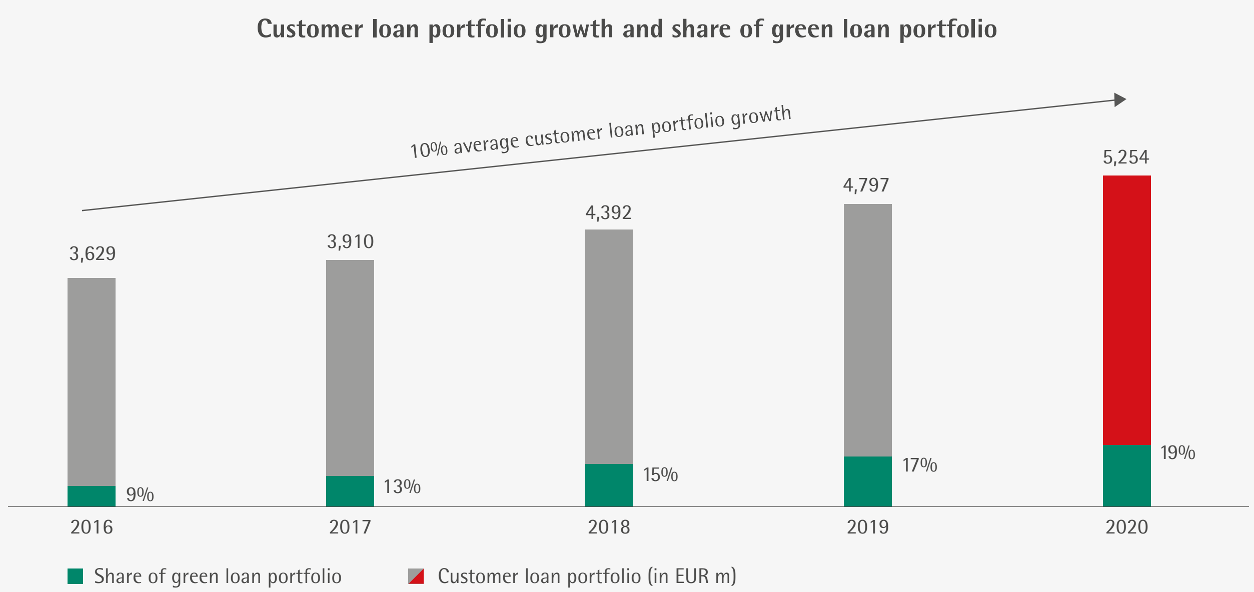








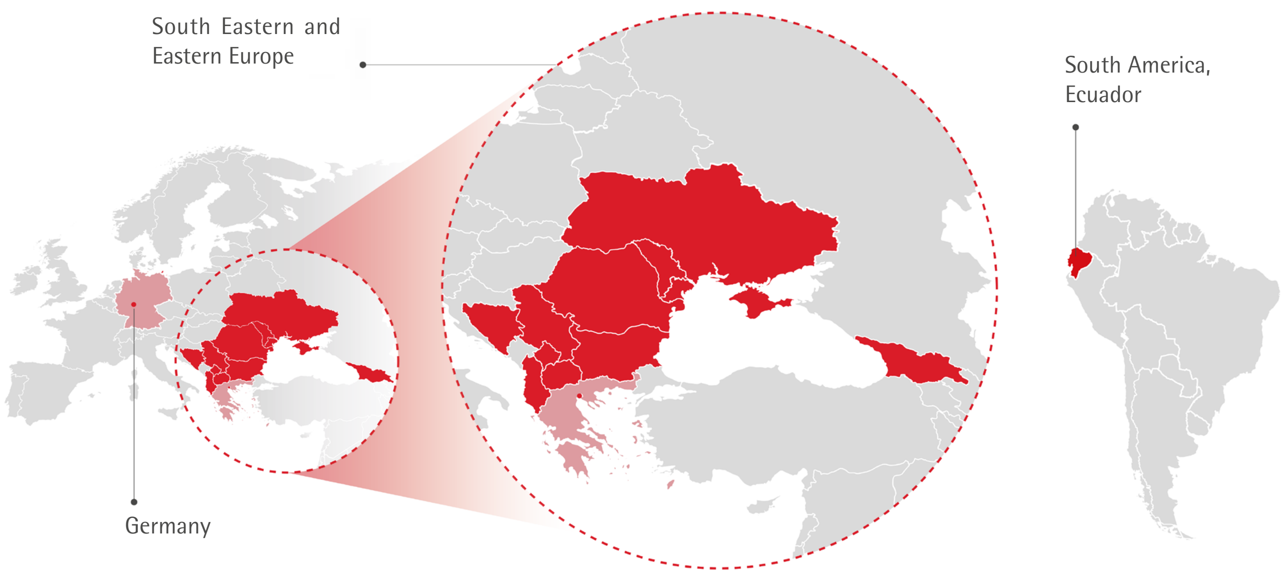




Fitch **BBB** (stable)	MSCI ESG: **AA**	ISS ESG: **Prime B-**

Key data per bank

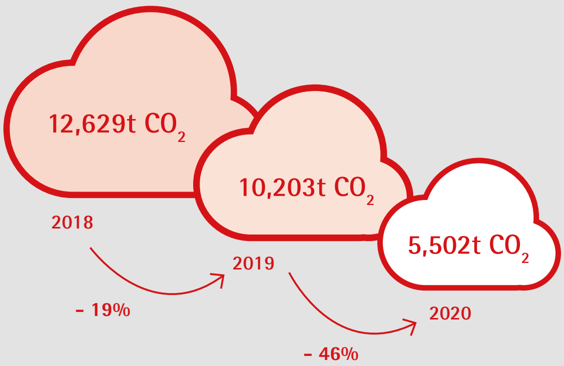
	Customer loan portfolio (EUR m)	Change in customer loan portfolio	Credit-impaired loans (Stage 3)	Number of staff
Albania	215	12.0%	5.7%	112
Bosnia & Herzegovina	238	13.9%	2.1%	138
Bulgaria	1,099	16.5%	2.5%	402
Ecuador	322	11.3%	6.1%	249
Georgia	345	1.5%	3.1%	294
Germany	53	-4.7%	0.0%	64
Kosovo	535	2.3%	3.4%	275
Moldova	154	19.0%	3.4%	114
North Macedonia	424	12.4%	1.4%	175
Romania	344	17.6%	1.7%	194
Serbia	945	14.5%	1.2%	375
Ukraine	580	-6.6%	2.3%	320



Medium-term sustainability goals and specific achievements as of end-2020

CARBON NEUTRALITY

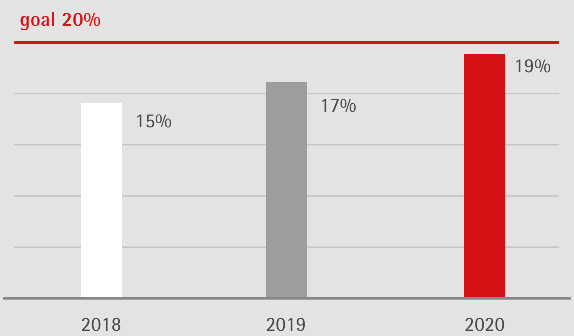
Goal: Become carbon neutral with regard to the group's own CO_2 emissions



- 4 banks, ProCredit Holding, ProCredit Academy and Quipu's head office in Frankfurt are using electricity from renewable energy suppliers
- 7 banks and ProCredit Academy are equipped with their own rooftop Photovoltaic systems (installed peak capacity of about 400 kWp as of Dec 2020)
- 3 bank headquarters are EDGE-certified buildings
- 26% of vehicle fleet electric and 39% (plug-in) hybrid
- 14% reduction of energy consumption in office buildings between 2018 and 2020

20% GREEN LOANS

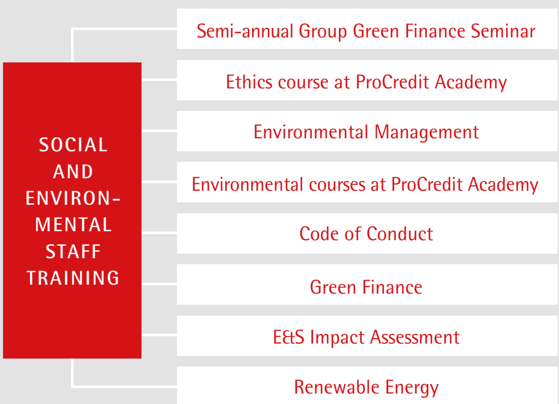
Goal: Increase the relative size of the group's green loan portfolio to 20% of the total loan portfolio, while at the same time maintaining the high quality of our green lending activities



- Size of green loan portfolio: EUR 985m
- Growth of green loan portfolio in 2020: 24%
- Green investment loans as a share of total investment loans: 24%
- Main focus: Energy efficiency and renewable energy, especially photovoltaics

STAFF COMPETENCE

Goal: Maintain and further increase the high level of social and environmental competence among our staff



- Total hours devoted to environmental training: 13,353 hours
- Total hours devoted to Code of Conduct training: 14,132 hours
- New remote training methods introduced in the following areas: ProCredit Onboarding Programme, language courses, seminars, Academy

ProCredit impact

Green finance
Technology and innovation
Prudent credit risk management
Environmental management
Plastic strategy
Socially responsible approach
Fair recruiter and employer
Gender diversity
Ethical values

For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the ProCredit Group Impact Report.

Contents

LETTER OF THE CHAIRPERSON OF THE SUPERVISORY BOARD

A year ago, when I was writing the letter for the 2019 Annual Report, the scale of the COVID-19 pandemic was becoming more apparent with each passing day. The significant impact the pandemic would have on our societies was already obvious and expectations for the year's macroeconomic development were bleak. Thus, it was difficult at the time to write a letter that adequately acknowledged the strong performance in 2019, without losing sight of what would no doubt be a very challenging year.

Before the news of the pandemic had spread, I looked forward to 2020 with a certain sense of anticipation. In the years prior, we had achieved what many banking groups still have before them today: a comprehensive transformation of the business model with all the meaningful consequences that can be drawn from digitalisation, a significant reduction of branches and front-office functions, and the ultimate minimisation of cash transactions. This transformation has required strength and time and has had a significant negative impact on our financial results in recent years. Nevertheless, we were proud to have successfully advanced this transformation while still generating a reasonable return for our shareholders each year.

2020 should have been the year in which we would begin harvesting the fruits of our labour. With all major restructuring measures completed, we aimed to achieve significant scaling effects based on steady growth and a cost-efficient business structure and to increase profitability in the subsequent years. Without a doubt, the pandemic has thrown a spanner in the works.

Despite the precarious health situation and the looming catastrophic implications for the global economy, we still had reason to be cautiously optimistic about 2020. Of course, we knew it would be a difficult year. Nonetheless, we felt confident that our already highly digitised business model would not require the introduction of contact restrictions in branches. The fact that we have a comparatively manageable base of sound, carefully selected business clients with whom we maintain close and long-term relationships gave us good reason to believe that we would manage credit risk more efficiently than many other institutions in the impending economic downturn. First and foremost, however, we were relieved to have no significant volumes of unsecured consumer loans in our banks. Today, looking back on that year, I have to conclude that, despite the cautious optimism at the time, my expectations were exceeded. The fact that we were able to grow our loan portfolio by almost 10% in a year of economic downturn, when economies contracted sharply and banking sectors stagnated, is extraordinary. It is particularly meaningful to me that our banks are among the few institutions in our markets that have actively supported SMEs during this difficult period, thus making an important contribution to the economic recovery of local economies. Many other banks reacted as you would expect - with rigorous restrictions on lending at a time when their help is most needed. The fact that our growth was achieved primarily in the area of long-term investment loans underlines the fact that our banks not only supported clients in liquidity bottlenecks, but above all financed long-term expansion plans. It is particularly rewarding that many of these investments meet our strict requirements for "green loans" and that new business with green loans has developed into the most significant growth driver of our loan portfolio. It gives us great confidence that an increasing number of our SME clients understand the importance of sustainable investments and invest in climate-friendly projects.

Our strong growth this year, especially in green loans, reflects so much of what ProCredit is really about. As a "Hausbank" for SMEs, we are always at our clients' side - not only when the economy is booming and the market is flooded with liquidity. Our conservative approach to risk means that we deliberately do not pursue certain opportunities to maximise profits. This includes, above all, the consumer credit business, where many banks achieve margins that do not seem justifiable to us, both from a risk perspective and from an ethical point of view. We also steer clear of funding many industries that we believe will not make a positive contribution to society and the *environment in the short or long term. By striving to make a positive contribution to economies and societies through our business activities, we structurally take less risk. It is therefore no coincidence that our banks systematically report significantly lower default rates than the banking sectors in which they operate.*

Of course, with this business approach, which is based on sustainable actions and economic activities, long-term client relationships and a conservative risk approach, no excessive returns can be achieved. At the same time, however, this approach protects our investors from unexpected losses, which in many cases are a direct consequence of profit-maximising thinking. Since its founding, ProCredit has always achieved positive returns – 9% on average – even in the years of the last financial crisis between 2008 and 2010. The year of the pandemic is a seamless continuation of this. Of course, our earnings have suffered from the deteriorating economic conditions. Nevertheless, given the circumstances, we consider a return on equity of more than 5% to be more than reasonable. In addition, we are extremely optimistic that the underlying profitability excluding risk costs, which were understandably higher this year, has improved and the cost/income ratio has visibly reduced.

This year, more than ever, it is important to us that people read this annual report along with our Impact Report, which we are now publishing for the fourth year in succession. In addition to a comprehensive set of key sustainability indicators presented in the context of the UN Sustainable Development Goals, our colleagues have presented in a compelling way how our approach to responsible banking differs from other banks in the market.

Even though 2021 will certainly not be an easy year, the forecasts of our banks give us confidence. We are convinced that we can further expand our market position as a reliable partner for SMEs, especially after being particularly present and active throughout this difficult year. We would like to thank the Management Board and the management teams of the respective banks for their tireless commitment and an extraordinary effort in a challenging year. Finally, we would also like to thank Jasper Snoek, who has resigned from the Supervisory Board of ProCredit Holding after many years of service. His commitment has been instrumental in shaping our group into what it is today. At the same time, we are very pleased to have found a more than suitable replacement in Ben Knapen, who brings a wealth of experience and know-how to the group from his long career at various international financial institutions.

Frankfurt am Main, March 2021

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board, ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA

Supervisory Board
As of 31 December 2020:

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board

Mr Rainer Peter Ottenstein
Deputy Chairman of the Supervisory Board

Dr H.P.M. Ben Knapen

Mr Christian Krämer

Ms Marianne Loner

Mr Petar Slavov

LETTER OF THE MANAGEMENT BOARD

ProCredit aims to combine development impact with commercial success. This was more important than ever in the face of the pandemic. Over the years we have refined our business model to what it is today: a unique group of banks operating in challenging but resilient emerging markets, specialised in relationship banking for SMEs with a digital direct banking offer for our core retail clients. We do not just pay lip service to "ESG" (Environmental, Social and Governance) priorities, they are central to everything we do and the partnerships we build. In times of social, economic and indeed environmental disruption we consider this is a great strength of ours.

In this exacting year, one dominated by the COVID-19 pandemic and the challenges it created, we believe that ProCredit has proven itself to be a strong partner for clients and shareholders alike. 2020 was a year in which banks worldwide were tested: operationally, financially and particularly with regard to their ability to adequately stand by clients facing very unsteady income. In these terms, we believe that the ProCredit group's long-term, client-oriented approach and ability as a group to react coherently in a crisis situation have been truly validated.

We strengthened our market position over the year with good growth in loans and deposits whilst managing credit risk tightly in close co-operation with our clients. As a result, our financial results were robust and we believe that we made a meaningful contribution to stabilising local economies. We would certainly recommend that this Annual Report be read in combination with our Impact Report which is published simultaneously, since it would be inappropriate to speak only of financial results independently of the implications for our clients, the environment and our societies and of the engagement of our staff more widely.

Conditions in all our countries of operation were challenging in 2020. Lockdown arrangements were stringent, particularly in Q2. There was a certain steadying of the health, social and economic context towards the end of the year, however uncertainty remains high even today. GDP declined sharply in all our regions, from -11% in Ecuador, our smallest regional segment, to -5.5% in our largest segment, South Eastern Europe.

In this context our priorities lay with ensuring the health and safety of our staff and clients, and playing a proactive and responsible role in best supporting them under pandemic conditions. We feel that we have been as successful as possible in this effort thanks to our particular approach to banking and thanks to the tremendous efforts of our staff, who did an excellent job in managing both the professional and the often significant personal challenges they faced this year. The loyalty and motivation of our staff was undoubtedly grounded in their commitment to our SME clients, who play such a central role in the economic stability and recovery of the countries in which they work.

Since already prior to the crisis we had made the transition to a fully digital bank for routine transactions with well-trained staff in our call centres, the move to minimum physical contact banking was a relatively smooth one for our banks. We were able rather to focus on the all-important client relations and credit risk management. The trust our banks enjoy and the strength of our direct bank model were certainly factors in supporting the continued good growth of 13.0% in deposits we achieved over the year. Additional deposits came largely in sight deposits and savings accounts, which will have a positive medium-term impact on our net interest margin development. Our net interest margin declined only slightly over 2020 by 0.2 percentage points despite base rate cuts in many countries.

The ability of our banks to finance clients still making investments in this challenging year is an achievement that is particularly worth highlighting. Whilst banking sectors as a whole acted procyclically, significantly reducing their business lending in 2020, our loan portfolio grew by a strong 9.5% and that largely in investment and green loans. At the end of the year our loan portfolio comfortably exceeded the EUR 5 billion mark at EUR 5.3 billion. All our banks achieved good growth, mostly above 10%, though in some cases this growth was reduced considerably by substantial currency devaluation, particularly in our Eastern European segment. At the same time, we maintained our rigorous approach to client selection and credit risk management. This means not only did we strengthen our market position and improve our net interest income, but we also remained true to our impact orientation by supporting vital growth sectors in an economic downturn.

Our green loan portfolio contributed some 40% to our growth in 2020. It now accounts for 18.7% of total loans and we will likely reach and exceed the mid-term target of 20% already in 2021. Most of this year's EUR 190m growth in green loans came from renewable energy projects, an area in which we have built considerable resources and expertise over the past few years. The quality of the green portfolio remains strong with a default level of only 0.6%. Green finance is a very interesting market opportunity, for which we have developed extensive capacities and unique skills over the years. It also reflects a deep commitment to environmental sustainability. This year, for instance, we began the implementation of a comprehensive plastic strategy which is explained in detail in our parallel Impact Report.

Credit risk management was a clear focus over the year. Our long experience with our markets and our careful selection of clients strongly supported us in this effort. We were able to promptly intensify client monitoring and risk analysis, with a focus on those most impacted by the pandemic, whether or not they were in moratorium. Moratoria were a valuable tool in response to the peak of the pandemic uncertainty, but we were also proactive in explaining to clients the costs and disadvantages of unnecessarily prolonging periods of non-payment. By the end of 2020 less than 2% of our portfolio was still in moratorium.

Many of our SME clients demonstrated surprising resilience during such a difficult year. So, whilst some reassessment of credit risk and restructuring of exposures needed to be performed, overall portfolio quality was stable, with the default portfolio increasing only by 10 basis points over the year, to 2.6%, and only because of the implementation of a new regulatory definition of default. Our levels of default remain well below the banking sectors in which we work. Consequently, although we reported a notable increase in credit risk costs, to EUR 28.6 million compared to negligible levels in recent years, this was mainly due to the decline in macroeconomic indicators as well as to an increase in Stage 2 credit exposures. At 57 basis points, the cost of risk was lower than we expected and below the level reported by most banks in our markets.

In these terms we experienced again this year the value of working with innovative, well managed SMEs, which place a premium on digitalisation. Our approach to credit risk management is individual, not portfolio-based, and relies on our well-trained staff. We feel that our clients too have experienced the true value of working with a ProCredit bank, one that is able to respond promptly to their particular situation and needs, whether by providing investment or liquidity financing or by restructuring debt. Overall, we sense that we were particularly visible in our markets by virtue of our continued stable operations, despite the surrounding disruptions. Normal banking, lending, client acquisition and intensive client communication activities were notable in their presence this year.

Over the year we were again able to benefit from our partnership with a range of international institutions. Of particular note is the agreement with the EIF (European Investment Fund) for the InnovFin guarantee programme, which facilitates lending to innovative SMEs in Eastern and South Eastern Europe through the provision of guarantees. We expanded our use of the programme in 2020, bringing the total available volume to EUR 1.6 billion.

Our financial results are robust. The group's underlying financial fundamentals strengthened as our result before tax and provisions improved by 9.7% in 2020 relative to 2019, based on higher net interest income, up by 4%, and a lower cost-income ratio which at 68% by year end was below our guidance. Understandably though, the higher cost of credit risk depressed results. Nevertheless, we see our profit of EUR 41.4 million, which represents a return on equity of 5.3% (compared to 6.9% in 2019) as a resilient result for such a difficult year. Our capital base remains solid with a CET1 ratio of 13.3% and a leverage ratio of 9.3%, which is well above the banking sector average.

Our steady performance and capital levels reinforce our commitment to deliver on the group dividend policy for shareholders. We have followed regulators' recommendations to postpone our planned dividend distributions of the 2019 profit. Similar recommendations have been made for the first nine months of 2021. Nevertheless, we continue to deduct one-third of the cumulative eligible profit for 2019 and 2020 from our capital ratios for dividend purposes. Firstly we will propose to the ProCredit Holding Annual General Meeting on 27 May 2021 that a dividend of EUR 0.18 per share be paid out; this corresponds to 20 basis points of the ProCredit group's Common Equity Tier 1 capital ratio, which is the maximum level under the regulatory recommendations valid until 30 September 2021. Secondly we intend to propose a further dividend distribution of EUR 0.35 per share before the end of 2021, provided that the regulatory authorities issue no communications that would preclude such a payment. Thus, the planned total distribution would correspond to one third of the cumulative consolidated results for the financial years 2019 and 2020.

Based on our experience in 2020, we look forward to the future with determination and confidence, despite the continued uncertainty surrounding the course of the pandemic and its long-term economic implications. The lessons learned in 2020 have reinforced our faith in our way of banking – one that puts the long-term value we create for clients and society on an equal footing with the long-term financial value we create for shareholders. ProCredit's approach to banking is very different from that of most institutions operating in our markets. We avoid aggressive consumer lending and focus instead on SMEs. We do not incentivise our staff with short-term targets and bonuses, but rather vest in them true responsibility and invest strongly in their training. We make a long-term commitment to our staff. Particularly in difficult years their judgement is central, be it for example in adjusting risk management procedures or taking the right decisions on disbursements or restructuring. As a result, relationship banking with a focus on SMEs combined with highly transparent digital banking constitute a sustainable and valuable business model – both in good and in difficult years.

In concrete terms, assuming the projected steady economic recovery materialises in the course of 2021, we continue to see good opportunities for further growth of the loan portfolio by about 10% and expect that we will be able to finance this growth mostly through locally sourced deposits. We expect our cost-income ratio to further improve, as we foresee meaningful scaling effects based on growing the loan portfolio with broadly stable margins, recovering fee income and broadly stable operating expenses. We expect the cost of risk to continue to be elevated in 2021 with respect to the pre-pandemic years, but to be slightly below the level of 2020. Naturally, the cost of risk is a factor of greater uncertainty since the further development of the pandemic and its economic impact is still unclear, and this will influence the level of further restructurings and any potential default. Depending in particular on the cost of risk, we anticipate a return on equity of between 6% and 7.5% in 2021. As we continue to expand our business operations and market strength, and as credit risk costs normalise, we remain confident about our mid-term targets.

In closing, we feel it is important to thank our staff for their exceptional efforts and the personal sacrifices they often had to make this year. And we welcome their continued energy in taking on the opportunities and challenges we face. We also thank our clients, business associates and shareholders for their partnership this past year and we look forward to working together in what we hope will be a steadily easier year ahead.

Frankfurt am Main, March 2021

Management Board, ProCredit General Partner AG

Sandrine Massiani | Dr. Gabriel Schor | Dr. Gian Marco Felice

Above: ProCredit Bank Bosnia and Herzegovina
Below: Koeleman, food producer, client of ProCredit Bank Serbia

PROCREDIT ON THE CAPITAL MARKET

The shares of ProCredit Holding AG & Co. KGaA have been listed on the Prime Standard of the Frankfurt Stock Exchange since 22 December 2016.

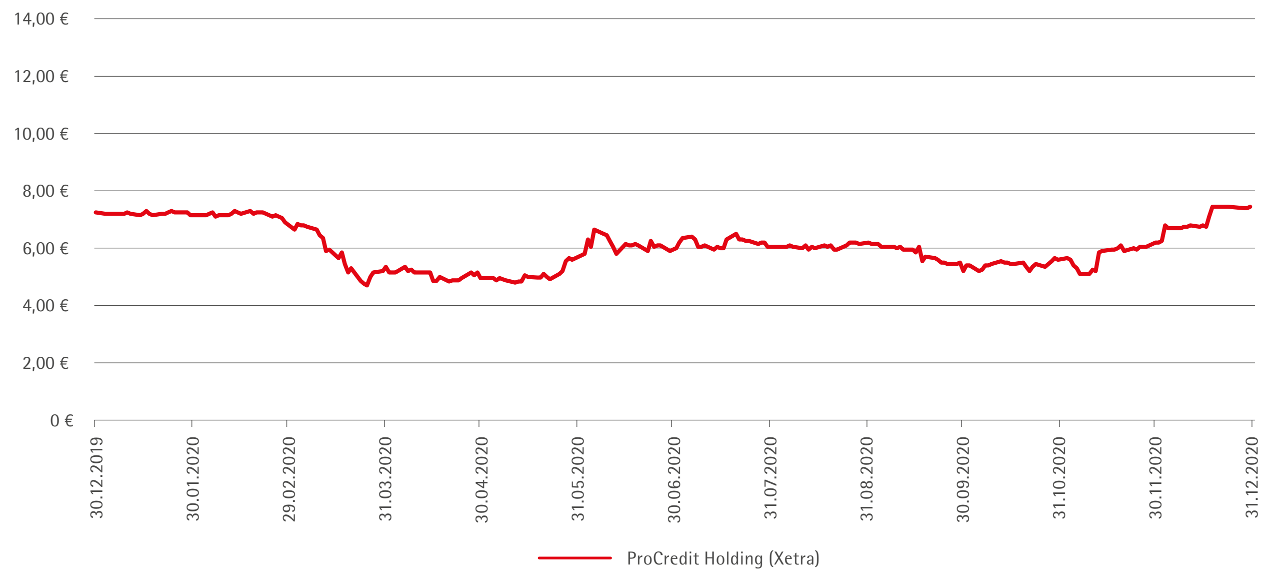
Key share data

ISIN	DE0006223407
Security ID no. (WKN)	622340
Stock exchange code	PCZ
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurter Wertpapierbörse
Xetra closing price on 30 December 2020	EUR 7.45
No. of shares	58,898,492 registered ordinary shares with no par value (Namensaktien)

On 30 December 2020 the shares were being traded on Xetra at a year-end closing price of EUR 7.45. Based on the 58,898,492 shares outstanding as of year-end, the market capitalisation of ProCredit Holding at that time was approximately EUR 439 million.

Over the last calendar year, an average of around 7,300 ProCredit Holding shares were traded through the Xetra system per day (2019: around 3,700 shares per day).

Price trend, calendar year 2020 (closing price Xetra trading system)

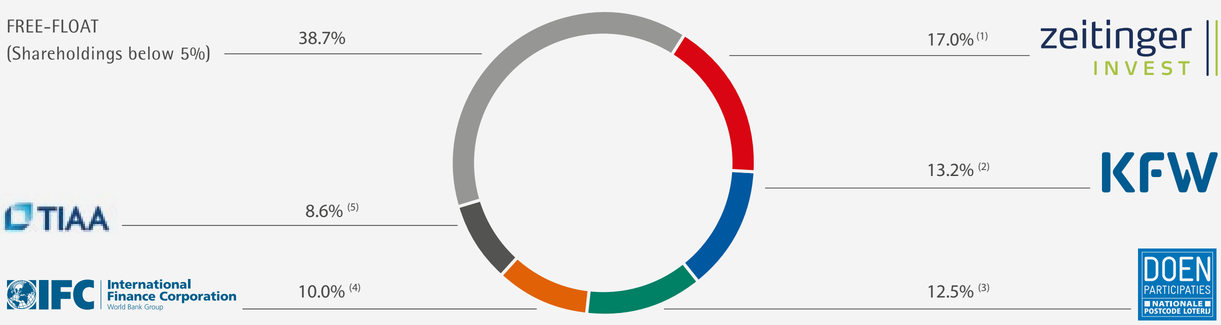


ProCredit Holding AG & Co. KGaA, 2020 Annual General Meeting

Shareholder structure

According to voting rights notifications, as of year-end approximately 55% of the shares in ProCredit Holding were held by the core shareholders[1]: Zeitinger Invest GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Participaties BV, and the International Finance Corporation (part of the World Bank Group). ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with close to 3% of the shares.

The Teachers Insurance and Annuity Association of America holds between 5% and 10% of the shares. The free float, defined as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2020 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG & Co. KGaA by FMO (Netherlands Development Finance Company), BIO (Belgian Investment Company for Developing Countries), Omidyar-Tufts Microfinance Fund, MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.



(1) Voluntary information disclosed by Zeitinger Invest on 8 October 2018 (see "Other information" in the Investor Relations section of the ProCredit Holding website); (2) As per voting rights notification dated 28 December 2016; (3) As per voting rights notification dated 29 December 2016; (4) As per voting rights notification dated 27 February 2018; (5) As per voting rights notification dated 29 December 2016

The shareholder structure presented above is based on public voting rights notifications by the respective shareholders and, in the case of Zeitinger Invest GmbH, on the voluntary disclosure of voting rights (see "Voting rights notifications" and "Other information" in the Investor Relations section of the ProCredit Holding website). This breakdown was calculated by comparing the number of voting rights reported by the shareholders on the above-mentioned dates against the total number of voting rights (currently 58,898,492). ProCredit Holding AG & Co KGaA has made reasonable efforts to provide a realistic overview of the shareholder structure. However, due to limitations on the availability and verifiability of the underlying data, ProCredit Holding AG & Co KGaA does not assume any responsibility that the information presented here is accurate, complete and up to date.

[1] The term "core shareholder" refers to the shareholders who also hold a stake in ProCredit General Partner AG. For a description of the legal form of ProCredit Holding AG & Co. KGaA, see page 94 of this report.

Analysts

In 2020, four analysts reported regularly on ProCredit Holding. At year-end 2020, Bankhaus Lampe discontinued its financial research on the ProCredit group. On 12 February 2021 Warburg Research started its financial research on the shares of ProCredit Holding.

At the end of the 2020 financial year there were two buy recommendations and one neutral recommendation. The share price targets were between EUR 6.00 and EUR 8.50. Current information on the analyst ratings can be found on the ProCredit Holding website under Investor Relations.

Current Fitch Ratings of ProCredit Holding AG & Co. KGaA

In 2020, the BBB rating of ProCredit Holding was confirmed.

Current ESG ratings of ProCredit Holding AG & Co. KGaA

The company's MSCI ESG Research rating of "AA" was confirmed in November 2020. Likewise, the "Prime" status of ProCredit Holding AG & Co. KGaA was confirmed by ISS ESG in June 2020.

Our business strategy has always been based on sustainability and long-term thinking. The ProCredit Group has thus been able to generate profits for its shareholders every year since its foundation, even during the last financial crisis. We believe that this stability is reflected in our business approach and that maintaining solid financial results over time must go hand in hand with equally good results in the area of sustainability. We are now publishing a comprehensive Impact Report for the fourth consecutive year, outlining our contributions and impact in environmental, social and corporate governance (ESG) in the context of the UN Sustainable Development Goals.

Investor Relations

The Management[2] of ProCredit Holding AG & Co. KGaA aims to maintain an intensive dialogue with the capital market, and strongly believes that regular, transparent communication with share- and stakeholders is crucial in order to keep them continually informed about the development of ProCredit Holding. In this respect, it is especially important to ensure the regular publication of company news and to provide detailed financial reports, as well as to cultivate ongoing, personal contacts with investors, analysts and the interested public.

In 2020, the Management of ProCredit Holding made several presentations on the ProCredit group at roadshows and investor conferences, among others in Frankfurt am Main, Stockholm and Helsinki. In the context of the COVID-19 pandemic, activities this year took place primarily in a virtual setting. In 2021, ProCredit Holding will again strive to maintain and further expand its contact with investors. An overview of upcoming events is regularly updated in the financial calendar on the ProCredit Holding website.

Up-to-date information about the company is available to investors, analysts and the interested public in the Investor Relations section of the ProCredit Holding website, www.procredit-holding.com. As well as the usual financial reports, mandatory notices and corporate news, visitors to the website also have access to information on results and investor presentations.

Telephone conferences and webcasts regularly take place to coincide with the publication of annual and quarterly reports. Replays of these webcasts are also freely available at www.procredit-holding.com in the Investor Relations section.

[2] ProCredit Holding has the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien - KGaA). As the general partner, ProCredit General Partner AG is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner AG appoints and monitors the Management Board of ProCredit General Partner AG. We refer here to the "Management" of ProCredit Holding, which basically corresponds to the Management Board of ProCredit General Partner AG.

Shareholders' meetings

The 2020 Annual General Meeting of ProCredit Holding AG & Co. KGaA was held on 26 May 2020. In light of the COVID-19 pandemic, the 2020 Annual General Meeting was held virtually for the first time. At the meeting, 54.68% of the voting capital was represented.

No proposal was presented to the shareholders for a resolution on the appropriation of profit from the 2019 financial year. This decision followed the recommendation of the European Central Bank and the German Federal Financial Supervisory Authority (BaFin) that no dividends should be paid out or shares bought back until at least 1 October 2020. All of the proposed resolutions were approved by a large majority of the shareholders of ProCredit Holding AG & Co. KGaA.

An Extraordinary General Meeting of ProCredit Holding AG & Co. KGaA was held on 10 December 2020. In view of the COVID-19 pandemic, this meeting was also held virtually. At the meeting, 82.70% of the voting capital was represented.

The profit from the 2019 financial year was carried forward in full to new account. This decision is in line with the updated recommendations of the European Central Bank and BaFin that banks should not pay any dividends before 1 January 2021. In addition, due to changes in the law, an adjustment was necessary in the profit and loss transfer agreement between the Company and ProCredit Bank AG. Both of the proposed resolutions were approved by a large majority of the shareholders of ProCredit Holding AG & Co. KGaA.

Detailed information on the 2020 general meetings can be found on the ProCredit Holding website under Investor Relations.

Financial calendar 2021

12 May 2021	Quarterly Financial Report as of 31 March 2021
27 May 2021	Annual General Meeting
12 August 2021	Interim Report as of 30 June 2021
11 November 2021	Quarterly Financial Report as of 30 September 2021

IR Contact
Investor Relations Team
Tel.: +49 69 951 437 300
E-mail: PCH.ir@procredit-group.com
Web: https://procredit-holding.com/investor-relations/

Combined Management Report

The Management Report for ProCredit Holding AG & Co. KGaA (ProCredit Holding) and the Group Management Report for the ProCredit group (ProCredit) are presented as a Combined Management Report. It was prepared in accordance with sections 289ff and 315ff of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Accounting Standard 20 (Deutscher Rechnungslegungsstandard 20 – DRS 20). The Risk Report also contains the notes pursuant to IFRS 7.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

The ProCredit group focuses on banking services for Small and Medium Enterprises (SMEs) in transition economies and on direct banking activities for private clients. We operate in South Eastern Europe, Eastern Europe, South America and Germany. The superordinated company of the group is ProCredit Holding, based in Frankfurt am Main.

Through our business activities we aim to sustainably provide a return on investment for our shareholders while making a contribution to economic, social and ecological development. In this respect, we see very good potential in the countries where we operate. Our business strategy is based on long-term relationships with our clients and staff as well as a conservative approach to risk. The group does not engage in speculative lines of business.

Sustainability is a key component of our business strategy and we want our activities to make a positive, sustainable contribution to the environment and to society. We coordinate our activities using a comprehensive environmental management system. Accordingly, we analyse the environmental impact of both our own activities and those of our clients. During this process, we encourage green investment projects, especially in energy efficiency and renewable energies. We present our activities in line with the United Nations Sustainable Development Goals in our Impact Report. In the face of the current economic recession, which also highlights the fragility of national economies, we feel more confirmed than ever in our sustainable business approach.

We want to fulfil the “Hausbank” role for our customers. As such, we aim to always be their first point of contact for financing and deposits as well as for account and payment services. Our SME clients typically require financing in amounts ranging between EUR 50,000 and EUR 3 million. As specialists in financing SMEs, we cater to the particular needs of these clients and want to support them in the special challenges they face. This means much more than just disbursing loans. We offer the full range of banking services in terms of financing, account operations, payments and deposit business, and we also support our clients in their long-term investment projects. In addition, we offer efficient solutions for trade finance business and international payments through our network of banks.

Our target group comprises innovative companies showing dynamic growth and stable, formalised structures. Through our work, we want to make a contribution to creating jobs, enhancing capacity for innovation, and encouraging investments in ecological projects. We place particular emphasis on issuing green loans and promoting local production, especially in agriculture. Our approach is based on a careful and critical selection of clients, with solvency, transparency and social responsibility at the heart of the lending process. In this way, we want to ensure that our customers can adequately service their loans from their current income and also build up reserves for potentially more difficult times. We attach great importance to transparent business relationships. This requires regular communication with us as a banking institution, as well as transparent interaction of our customers with society. We believe that our clients also make an important contribution to the formal sector, and thus to social and economic development, through their tax burden and by maintaining fair working conditions. At the same time, we make clear demands on our customers with regard to ethical business practices and the responsible treatment of their environment. Consideration of our clients’ social and environmental risks is firmly integrated into our credit decision processes.

We maintain long-term relationships with our customers and are convinced that this is highly beneficial for both sides: Our customers have us as a reliable partner who stands by their side even when times become difficult. On the other hand, we create a portfolio of loans to reliable business partners which is growing steadily and which, due to our strict selection criteria and conservative approach to credit risk, is of very good quality in the context of our markets.

In addition to serving SMEs, we also pursue a direct banking strategy for private clients, particularly the growing middle class. Our comprehensive range of online services creates the foundation for long-term client relationships. Our clients conduct their banking transactions directly via our digital channels and customer enquiries are processed in a focused way through our call centres. In general, we do not offer counter and cash transactions, which meant that the contact and distance rules introduced in the time of the pandemic were relatively easy for us to implement and had virtually no impact on business operations. Through our online platform, customers have access to additional savings and financing options. With our direct services, we aim to stand out from other providers in our markets in terms of convenience, security and transparency.

Consumer loans play no role in our business strategy. The share of overdraft and consumer loans in our total portfolio is far below 1%. Consumer loans can be a lucrative bulk business through which banks can achieve high margins with little administrative effort. Intensive marketing of consumer loans, however, can lead to further over-indebtedness problems. At the same time, poorly collateralised consumer loan portfolios represent a higher risk for banks, especially in times of economic uncertainty. Consumer lending activities are thus not compatible with our strategic objectives of maintaining long-term customer relationships and generating profits sustainably.

Our risk strategy is based on a clearly defined business model, a high degree of diversification and the careful selection and ongoing training of our staff. We also place great emphasis on the prevention of money laundering, terrorist financing and other illegal activities. To ensure compliance with our standards, we apply uniform policies which comply with German, European and local regulations.

The quality and motivation of staff is a key factor in achieving our business objectives. We select our staff carefully and offer long-term career prospects based on a transparent, standardised group-wide salary and promotion structure. In order to provide continued staff training and promote ongoing exchange within the group, we run a group-wide training programme in our own training centres. Our group-wide Code of Conduct emphasises a commitment to mutual respect and responsible behaviour in daily life, and annual workshops are held so all staff can discuss and contribute to its further development. Across the entire group, there is a diverse range of employees from various academic backgrounds and a balanced gender distribution at all business levels. We believe that this diversity promotes innovation and makes a significant contribution to the long-term success of our business.

Organisation of the ProCredit group

The ProCredit group is largely comprised of 12 banks and it employed 3,261 members of staff at year-end. ProCredit Holding is the parent company and, from a regulatory perspective, the superordinated company of the group as well. ProCredit Holding has 100% of the shares of all subsidiaries. It is responsible for the strategic guidance of the group, for maintaining an adequate level of equity for the group and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations, and particularly the requirements defined in section 25a of the German Banking Act ("KWG"), are met. At a consolidated level, the ProCredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank).

As the personally liable general partner, ProCredit General Partner AG is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner appoints and monitors the Management of ProCredit General Partner AG. We thus refer to the "Management" of ProCredit Holding, which is fundamentally equivalent to the Management Board of ProCredit General Partner AG.

The Management, members of the Supervisory Board and selected management-level staff of the ProCredit group sit on the supervisory boards of the ProCredit banks, alongside independent board members. ProCredit Holding sets binding policy guidelines and standards for risk management and other important areas of banking operations in order to ensure that appropriate uniform organisational structures and processes are in place in all ProCredit banks. These guidelines are complemented by the regular exchange of best practices within the ProCredit group. ProCredit Holding also plays an important role in determining human resources policies and in the development and delivery of curricula in the ProCredit academies.

Our IT and software development priorities are set in the Group IT Strategy. Optimal IT solutions are a central part of implementing our business and risk strategies. Quipu GmbH, a 100% owned subsidiary of ProCredit Holding, develops tailored software solutions for the ProCredit group. In close collaboration, the systems used in connection with client operations, treasury functions, reporting and accounting are developed and implemented by Quipu.

The ProCredit group divides its business operations into regional segments:

- *South Eastern Europe*, consisting of seven banks in the following countries: Albania, Bosnia and Herzegovina, Bulgaria (including branch operations in Greece), Kosovo, North Macedonia, Romania and Serbia
- *Eastern Europe*, with three banks located in the following countries: Georgia, Moldova and Ukraine
- *South America*, consisting of one bank in Ecuador
- *Germany*, consisting of the ProCredit Bank in Germany, ProCredit Holding, Quipu and the ProCredit Academy in Fürth

Our shareholders

ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN Participaties B.V., International Finance Corporation (IFC) and ProCredit Staff Invest 1 GmbH & Co. KG). Together they hold roughly 55%[1] of the shares in ProCredit Holding. The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

The largest single shareholder is Zeitinger Invest GmbH, Frankfurt am Main. Zeitinger Invest was a key initiator behind the founding of the ProCredit group. KfW is one of the world's leading development banks and is committed to improving economic, social and ecological living conditions all around the world on behalf of the Federal Republic of Germany and the federal states. The main objective of DOEN Participaties is to make a positive impact on society by supporting sustainable or socially inclusive entrepreneurs. IFC is a member of the World Bank Group and is the world's largest development institution focused exclusively on the private sector. ProCredit Staff Invest 1 GmbH & Co. KG is the employee investment company for the group.

[1] Based on the published voting rights notifications or voluntary disclosures of the shareholders named. This breakdown was calculated by comparing the number of voting rights most recently reported by the shareholders against the total number of voting rights (currently 58,898,492).

Internal management system

The Management of ProCredit Holding and the management boards of the ProCredit banks establish the strategic goals together in the course of the annual planning process. Discussions are held concerning the assessment of market potential, priorities, expectations and indicators, which are then recorded in the business plan. Staff, risk and sustainability considerations are an integrated part of these discussions and explicitly underpin each business plan. The business plan for each ProCredit bank is approved by the respective supervisory board, the members of which are appointed by ProCredit Holding. The Group Business Strategy developed by the Management incorporates a group business plan which is based on the consolidated business plans of each ProCredit bank. The Group Business Strategy is discussed with the Supervisory Board of ProCredit Holding. The Management of ProCredit Holding regularly reviews the established goals through plan vs. actual analyses at bank, segment and group level.

An important component of our management system is the exchange between ProCredit Holding and the management boards at the respective ProCredit banks. Meetings with all of the banks on a regular basis promote the active exchange of information within the group. In this pandemic year, these meetings continued intensively using video conferencing facilities.

The ProCredit group uses an integrated system of indicators to monitor and manage the implementation and further development of the group's business and risk strategy. In the 2020 financial year we applied the following key performance indicators:

- The growth of the customer loan portfolio[2] is a key indicator of the success of new business and also provides reference points for our future earning capacity.
- The cost-income ratio[3] is a relative indicator that provides insight into our efficient use of resources.
- Return on equity (RoE)[4] is the most important indicator in terms of profitability. We place a strong emphasis on maintaining a sustainable RoE in conjunction with an appropriate risk profile.
- We regard the Common Equity Tier 1 capital ratio (CET 1)[5] as a key indicator for compliance with regulatory and internal capital requirements. It also serves as a benchmark for our solvency and as a basis for strategy decisions.

[2] Our customer loan portfolio as of the balance sheet date of the current period relative to our customer loan portfolio as of 31 December of the previous year. Our customer loan portfolio corresponds to loans and advances to customers before loss allowances.
[3] Our operating expenses (personnel and administrative expenses) relative to operating income less expenses for loss allowances.
[4] Profit attributable to ProCredit shareholders, divided by the average equity held by the ProCredit shareholders.
[5] Ratio of our CET1 capital to risk-weighted assets.

We also consider the following additional indicators:

- The ratio of customer deposits to the customer loan portfolio[6] reflects our ability to fund our lending business through customer deposits.
- The net interest margin[7] is an important indicator of our profitability and measures the average interest earnings.
- The share of credit-impaired loans[8] is our most significant indicator to assess portfolio quality.
- The ratio of loss allowances to credit-impaired loans[9] gives insight into loss allowances in lending relative to the total volume of credit-impaired loans.
- The green customer loan portfolio includes financing for investments in energy efficiency, renewable energies or other environmentally friendly technologies. By expanding our green loan portfolio, we are making an important contribution to our sustainability goals, as presented in our Impact Report.

[6] Our customer loan portfolio relative to customer deposits as of the balance sheet date.
[7] Our net interest income relative to the average total assets in the reporting period.
[8] Credit-impaired loans relative to the customer loan portfolio as of the respective balance sheet date.
[9] Loss allowances in lending relative to credit-impaired loans as of the balance sheet date.

HUMAN RESOURCES REPORT

The key to long-term success is our staff. We rely on a company culture that is based on our ethical principles and encourages proactive participation and professionalism. The implementation of our strategy requires staff who establish long-term relationships with customers and provide them with innovative and efficient service in a friendly manner. We provide our staff with long-term prospects and opportunities for further professional development.

The management teams in the individual ProCredit banks are a key part of our sustainable approach to staff. Our management staff are, as a rule, from the regions where they work, comprise equal shares of men and women, and have been with ProCredit for more than 12 years on average; all have graduated from the three-year ProCredit Management Academy. They have thus been well integrated into the group, have developed a comprehensive understanding of our business model and share the same strategic vision.

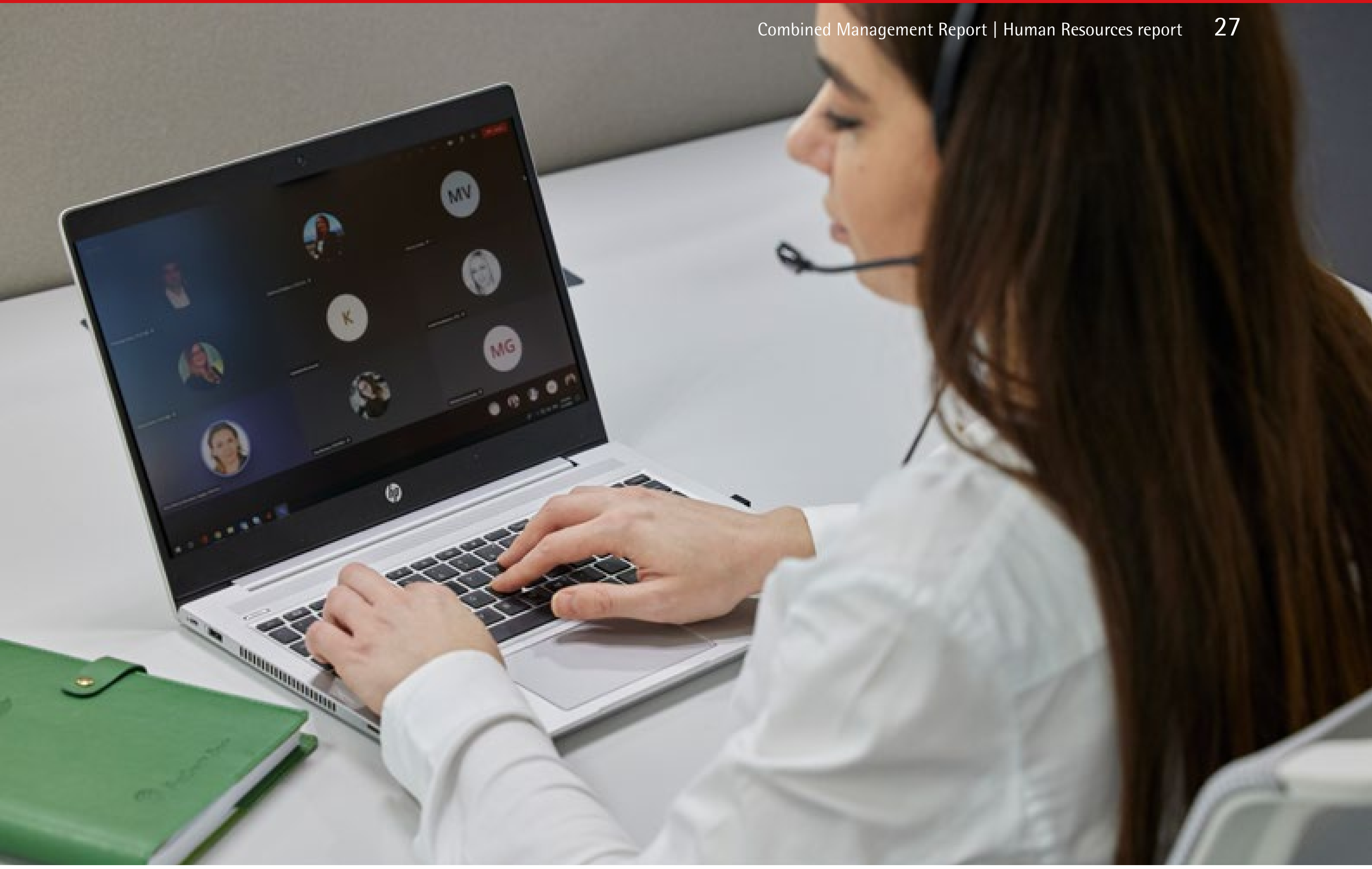
A structured approach to staff recruitment, training and remuneration is a central component of the ProCredit group's human resources strategy. We have developed group-wide standards for these areas in order to ensure a consistent, transparent and long-term approach in all banks.

Staff recruitment and integration of new employees

Our approach to recruitment focuses on individuals who are open, willing to learn and committed to our common values. Beyond technical and analytical skills, our staff must demonstrate personal integrity, openness and a willingness to work together with clients and colleagues.

The ProCredit recruitment process is very rigorous compared to the norm in the countries in which we work, where sometimes personal connections count more than competence. After passing through the steps of a standard selection procedure, such as a written application, mathematics and logic tests and interviews, successful candidates are invited to attend a two-week "Focus Session". These sessions give us an impression of the social, communication and analytical skills of the applicant. Candidates also have the opportunity to get to know both the business strategy of the ProCredit group and our ethical principles. After these two weeks, candidates have a good foundation for making the career decisions that are right for them, and this period also allows ProCredit to identify members of staff with potential.

After concluding the selection process, new staff become part of the group's international onboarding programme. This comprises two modules over a total period of six months: a theoretical block that is carried out at our regional training centre, and a practical block that takes place at the respective banks. In 2020, in the context of the pandemic, the theoretical module was conducted online. These training stages cover all aspects that we believe are a part of responsible banking, and they give new staff an opportunity to learn directly from management and experienced colleagues about how ProCredit contributes to transparent and sustainable financial sector development.



Above: Online courses from the ProCredit Academy
Below: ProCredit Academy

Training

As the first step in professional development within the ProCredit group, the ProCredit onboarding process provides new members of staff with optimal preparation for their first roles. We also offer part-time continuing professional development to all staff. The necessary knowledge and skills are transferred through standardised seminars for various positions. For our Business Client Advisers (BCAs), for instance, we focus on developing client advisory competence, which means correctly evaluating the needs of our clients for banking services, assessing credit risk and building long-term customer relationships. For our Client Advisers, training is concentrated not only on advising clients and acquiring new customers, but also on communicating the advantages of our direct banking options. Regular, group-wide seminars are held in each area to present current developments, best practices and strategic vision.

We place great importance on training our middle management. In order to ensure high-quality training, the group has developed training programmes with tailored curricula. These include the one-year ProCredit Banker Academy as well as the three-year ProCredit Management Academy. Alongside training on the principles of banking and courses on communication and leadership skills, there are units dedicated to philosophy, anthropology, history and political economics. To date, around 550 employees have graduated from or are currently attending the academies; this includes all management staff from the banks.

Regular ethics courses are a key component of the training we offer. We likewise impart the philosophical and ethical principles which have developed since Antiquity. Against the backdrop of our sustainable and responsible approach to banking, we deem this link between past and present to be highly important. In addition, we carry out annual workshops for all our staff; these focus on our binding Code of Conduct and on environmental topics. As the shared working language of the ProCredit group, English is used for all training measures. Therefore, staff must have a good command of the English language in order to communicate and contribute in our international environment.

Our remuneration approach

We place great value on a transparent salary structure with fixed salaries and consciously refrain from contractually agreed bonuses as a means of incentivising our staff. We believe that such bonus payments can have a negative impact on the quality of advice provided to our clients and can even result in a degradation of relationships between colleagues. The remuneration of employees mainly consists of a fixed salary. Variable remuneration elements are not contractually granted. These can be granted when a member of staff has performed exceptionally well during the course of a financial year or has made a key contribution to the team or group. Salaries reflect market averages and are adjusted regularly on the basis of individual performance evaluations. Our remuneration approach has been established with a long-term perspective, which helps our staff to securely plan their lives. In contrast, the remuneration of our senior managers is not always comparable with our competitors, particularly with respect to the bonus payments which are common in the banking industry.

ProCredit has a standardised salary system which is applied throughout the group and includes: salary levels for certain positions, the maximum allowed ratio between the lowest and highest salary levels, and the training requirements for each position. In individual cases, an institution may provide non-monetary remuneration elements, such as visits to other ProCredit banks or participation in additional training. The management boards of the ProCredit banks report annually to their respective supervisory board about the remuneration structure.

Open and responsible communication is a central part of staff management in the ProCredit group. The remuneration structure is presented to all members of staff in a transparent manner. Remuneration and promotion are primarily linked to individual performance appraisals. Managers conduct annual staff talks and give regular feedback to their employees. In addition, every employee has an annual staff conversation with a member of the management team. In these conversations, every employee has the opportunity to discuss possibilities for further career development.

REPORT ON THE ECONOMIC POSITION OF THE GROUP

Course of business operations

Our overall business performance was positive in the past financial year, although results were of course negatively impacted by the economic downturn related to the COVID-19 pandemic. The loan portfolio increased by more than EUR 450 million, despite negative currency effects which were significant in some cases. More than 40% of this growth came from “green” loans, particularly financing related to renewable energies. Customer deposits also developed positively, rising by more than EUR 560 million. The consolidated result was EUR 41.4 million and our return on average equity stood at 5.3%. Taking account for the macroeconomic impacts of the COVID-19 pandemic, the financial position and financial performance of the group remain solid and are in line with expectations.

in EUR m

Statement of Financial Position	31.12.2020	31.12.2019	Change
Customer loan portfolio	5,254.3	4,797.3	457.0
Customer deposits	4,898.9	4,333.4	565.5
Statement of Profit or Loss	**1.1.-31.12.2020**	**1.1.-31.12.2019**	**Change**
Net interest income	201.6	194.5	7.1
Loss allowance	28.6	-3.3	31.9
Net fee and commission income	47.4	52.0	-4.6
Operating expenses	171.4	175.7	-4.3
Profit of the period from continuing operations	41.4	61.5	-20.1
Profit of the period	41.4	54.3	-12.9
Key performance indicators	**31.12.2020**	**31.12.2019**	**Change**
Change in customer loan portfolio	9.5%	10.3%	-0.8 pp
Cost-income ratio	68.0%	70.5%	-2.5 pp
Return on equity (annualised)	5.3%	6.9%	-1.6 pp
Common Equity Tier 1 capital ratio	13.3%	14.1%	-0.8 pp
Additional indicators	**31.12.2020**	**31.12.2019**	**Change**
Customer deposits to customer loan portfolio	93.2%	90.3%	2.9 pp
Net interest margin (annualised)	2.9%	3.1%	-0.2 pp
Share of credit-impaired loans	2.6%	2.5%	0.1 pp
Ratio of allowances to credit-impaired loans	91.4%	89.1%	2.3 pp
Green customer loan portfolio	984.9	795.4	189.5

We were able to increase the customer loan portfolio by a total amount of EUR 457.0 million. Although our consolidated result of EUR 41.4 million is lower than in the previous year, it also reflects the COVID-19 pandemic conditions and thus, as expected, higher loss allowances. Generally, our focus for the 2020 financial year was on providing our customers with the best possible support and effectively controlling credit risks. At the same time, we also saw opportunities for sustainable and profitable growth under these conditions and had forecast low single-digit growth in the customer loan portfolio for the past financial year. Following the strong growth in the first half of the year, we raised this forecast to 8-10%. At the end of the year, portfolio growth stood at 9.5%, on the upper end of our expectations. This development is in line with our medium-term forecast for an annual increase in the loan portfolio of around 10%. Furthermore, we had aimed for our green loan portfolio to account for 20% of our overall portfolio in the medium term; due to continued strong growth in this area, we have nearly met this goal already. Our green loan portfolio represented 18.7% of the total portfolio at year-end 2020.

In addition to strong loan portfolio expansion, we also achieved deposit portfolio growth of EUR 565.5 million or 13.0%. This development is primarily attributable to larger deposits by our business clients, though deposits from our private clients also developed positively overall. As planned, the increase in customer deposits was achieved primarily through additional sight deposits and savings accounts, which will have a positive impact on our net interest margin in the future.

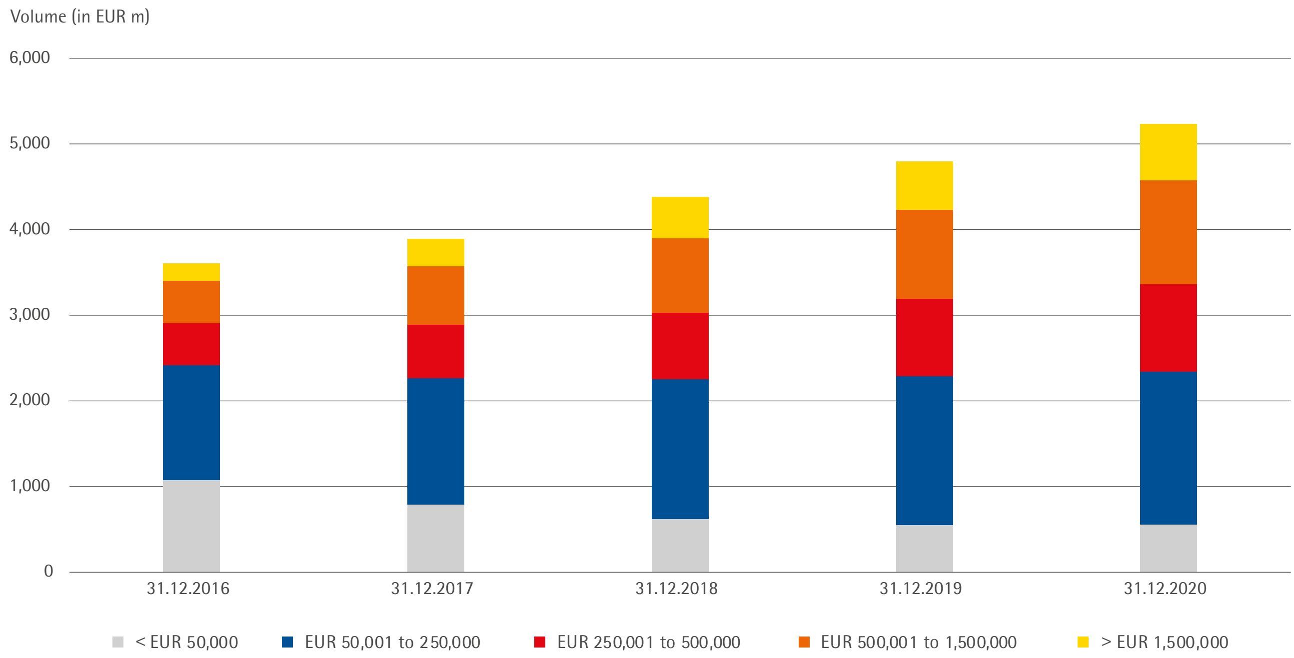
The group's capital base was stable in the financial year. The fully loaded CET 1 capital ratio declined by 0.8 percentage points to 13.3%, in large part due to the growth of our loan portfolio. This development is in line with our forecast for the year of above 13.0%. The leverage ratio of 9.3% (2019: 10.8%) is well above the banking-sector level. The LCR was 153% (2019: 198%) and thus comfortably above the regulatory requirement of 100%.

The financial year was marked by the COVID-19 pandemic and the associated expected increase in credit risk. In order to adequately reflect this expectation, we recorded a significant increase in loss allowances. The share of credit-impaired loans increased only slightly, by 0.1 percentage points; at 2.6% it is well below the average for the banking sectors in which we operate. The ratio of loss allowances to credit-impaired loans increased by 2.3 percentage points to a total of 91.4%. In the area of operating expenses, we had expected a slight increase; however, these declined by EUR 4.3 million overall, also in part due to the pandemic. Our cost-income ratio stands at 68.0%, slightly below our forecast of approximately 70%. In summary, we expected a positive albeit with respect to 2019 declining return on equity, which we achieved to our satisfaction given the circumstances at 5.3%.

Assets

Total assets increased by EUR 631.7 million during the 2020 financial year, due in particular to the strong growth of the customer loan portfolio. The positive developments in deposit business also led to strong growth in liquid funds. However, the overall structure of the assets remained stable compared to the previous year. The asset situation in the group was impacted during the year by significant currency effects: in particular, local currency depreciation in Ukraine and Georgia was above 25% and the US dollar declined by around 10% during the period.

The customer loan portfolio increased by EUR 457.0 million compared to the previous year; it stood at EUR 5.3 billion at year-end. The 9.5% growth was in line with our expectations and was spread across nearly all ProCredit banks, with particularly good performance by our banks in Bulgaria, Serbia, Romania and North Macedonia. More than 40% of this growth was achieved through the granting of green loans. Excluding exchange rate effects, growth of the customer loan portfolio was over EUR 600 million. Committed, revocable credit lines to customers increased by EUR 137.6 million to EUR 656.3 million.



Loan portfolio development, by loan volume

At year-end, the customer loan portfolio consisted of 94% loans to businesses and 6% loans to private clients. The total loan portfolio contains 19% loans to agricultural enterprises. Our green loan portfolio accounted for 19% of the total portfolio at year-end. The majority of our customer loan portfolio of investment loans have maturities of more than three years, which underlines the long-term nature of our customer relationships. Regarding the loans to private clients, most are mortgage loans to purchase, renovate or improve the energy efficiency of real estate.

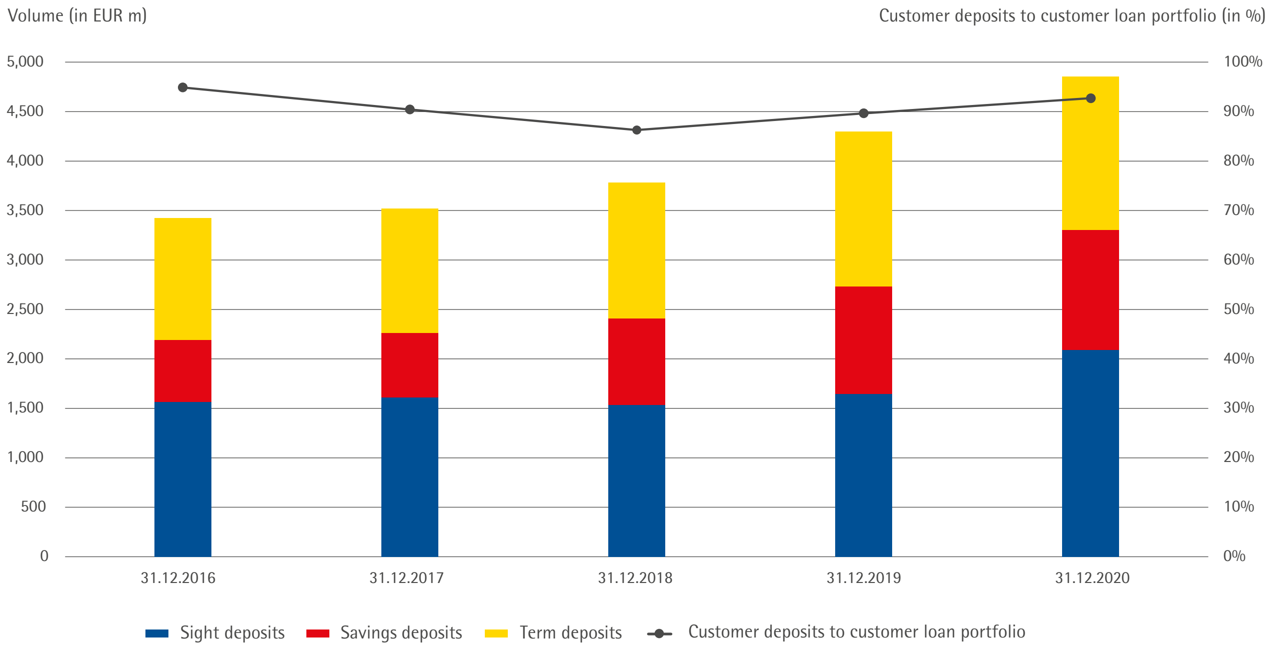
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented not more than 2.0% of the group's total portfolio volume at the end of 2020.

In its lending business with SMEs, the ProCredit group cooperates closely with European institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF). Of particular note is the agreement with the EIF for the InnovFin guarantee programme, which facilitates lending to innovative SMEs and small MidCaps in Eastern and South Eastern Europe through the provision of guarantees. In order to provide companies with simplified access to financing during the pandemic, in April 2020 the conditions for granting working capital loans were made substantially more flexible. The guarantee programme provides proportional coverage for SME loans (generally 50%; during the pandemic, even 80% to finance working capital). Overall, the volume of guaranteed loans, depending on the coverage share, is up to EUR 1.6 billion.

Liabilities and equity

Liabilities comprise mostly customer deposits. Further sources of funding include liabilities to international financial institutions and banks as well as debt securities.

At year-end customer deposits stood at EUR 4.9 billion, up by EUR 566 million from the previous period. The growth of deposits was primarily due to business clients, though deposits from private clients increased also, by EUR 112 million. Excluding exchange rate effects, deposits grew by more than EUR 700 million. The ratio of customer deposits to the customer loan portfolio increased by 2.9 percentage points to more than 93%.



Customer deposits

Longer-term liabilities, such as financing from financial institutions or debt securities, increased by approximately EUR 80 million.

Despite the positive financial results, our equity base decreased by EUR 24 million compared to the previous period and stood at EUR 780 million at year-end. This decline is mainly due to a drop in the currency translation reserve and the buyout of non-controlling interests.

Result of operations

Our profit of the period stood at EUR 41.4 million, which represents a return on equity of 5.3%. Net interest income increased by EUR 7.1 million year on year; it stood at EUR 201.6 million at year-end. The net interest margin narrowed slightly, declining by 0.2 percentage points compared to the previous period. This decrease was due in particular to the base rate cuts that were adopted in response to the economic consequences of the Corona pandemic.

The consolidated result was burdened by comparatively high expenses for loss allowances, which at EUR 31.9 million were significantly higher than in previous years. The increase in loss allowances is mainly attributable to deterioration in the macroeconomic indicators used for our quantification of expected credit losses. As a result of our intensified credit monitoring and restructuring of loan exposures, the share of the loan portfolio in Stage 2 increased. The share of credit-impaired loans grew by 0.1 percentage points to 2.6%, primarily due to the implementation of new EBA guidelines regarding the disclosure of defaulted exposures (EBA/GL/2016/07).

At roughly EUR 47 million, net fee and commission income decreased by EUR 4.6 million compared with the previous year. Transaction business suffered from the far-reaching trade and travel restrictions. We also recorded a decline in income from account maintenance fees. The result from currency transactions remained largely stable at around EUR 16 million. Net other operating income was nearly unchanged.

Operating expenses decreased by around EUR 4 million compared to the previous year. The decline was mainly due to lower expenses for marketing and business travel. Expenses from property, plant and equipment decreased as well. Personnel expenses increased by EUR 4.1 million, primarily due to salary reviews and a higher number of employees.

At EUR 10.7 million, tax expenses were lower than in the previous year.

The financial position and financial performance of the group are solid and the business development is positive. The group as a whole and each individual institution in the group remained at all times in full compliance with all financial commitments.

Segment overview

The performance of the ProCredit group is influenced by macroeconomic development and by the economic and financial market conditions. These have an impact on the real economies of the respective countries and therefore on the investment behaviour of our business clients and competitor financial institutions. The following segment overview describes the specific conditions and the development of the financial market situation in the individual regions. The brief analysis of the macroeconomic trend and recent competition trends in the different regions is based on data from the IMF (World Economic Outlook database, October 2020) and the EBRD (Transition Report 2020-2021), unless otherwise stated.

In addition, the following table provides an overview of the international ratings of our banks (from FitchRatings). The assessments made take into account the respective country ratings.

Institution	2020 Rating	2019 Rating
ProCredit Holding	BBB	BBB
ProCredit Bank, Albania	BB-	BB-
ProCredit Bank, Bosnia and Herzegovina	B+	B+
ProCredit Bank, Bulgaria	BBB-	BBB-
ProCredit Bank, Ecuador*	B-	AAA-
ProCredit Bank, Georgia	BB+	BB+
ProCredit Bank, Germany	BBB	BBB
ProCredit Bank, Kosovo	BB	BB
ProCredit Bank, North Macedonia	BBB-	BBB-
ProCredit Bank, Romania	BBB-	BBB-
ProCredit Bank, Serbia	BBB-	BBB-
ProCredit Bank, Ukraine	B	B

** 2019 by Bankwatch Ratings S.A.*

South Eastern Europe

Macroeconomic and sector-specific environment

South Eastern Europe, comprising the banks in Albania, Bosnia and Herzegovina, Bulgaria (including a branch operation in Greece), Kosovo, North Macedonia, Romania and Serbia, is the segment with the greatest share of group assets. Compared to the previous year, the region showed negative economic growth of around -5.5%. The impact of the Corona pandemic and the slowdown in world trade led to generally subdued economic activity and lower export volumes from the countries in South Eastern Europe.

These countries reported slightly lower inflation rates in 2020, on average below the 2% target level set by the European Central Bank (ECB). The reasons for this decline are the slower circulation of money and a recessionary economy. Both factors can be explained primarily by the economic and social constraints resulting from the COVID-19 pandemic. With the exception of Bulgaria, the balance of activities for the countries in this segment remained negative due to lower exports. The exchange rates for domestic currencies showed little movement (with the exception of the Romanian leu), particularly as several countries in the region have pegged their currencies to the euro. Unemployment in the segment's countries increased by an average of 2.4 percentage points.

Compared to the previous year, economic development was significantly more negative throughout the region. Albania and Kosovo in particular recorded a decline in economic output of 7.5% each. While the Albanian economy was severely affected by the lack of tourism, counter-cyclical efforts in Kosovo were almost absent compared to the scale of other countries. In Serbia, GDP declined by a comparatively small 2.5%, with government support measures playing an important role. In Bulgaria and Romania, the gross domestic product decreased by 4.0% and 4.8%, respectively. Both countries benefited from rescue packages, although these were smaller than in other countries in the region. GDP fell by 5.4% in North Macedonia, and by 6.5% in Bosnia and Herzegovina.

Competition in South Eastern Europe is mostly driven by European banking groups. The banking sector was still characterised by low interest rates as well as a significantly higher level of non-performing loans compared to the previous period. In most countries, regulators created the possibility for loan moratoria due to the pandemic. The deferral of payments varied from country to country and in some cases was extended beyond 2020.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve almost EUR 440 million in loan portfolio growth. The profit of the period declined by around EUR 7 million to EUR 31.6 million. This represents a return on equity of 6.0%.

in EUR m

Statement of Financial Position	**31.12.2020**	**31.12.2019**	**Change**
Customer loan portfolio	3,800.2	3,362.2	438.0
Customer deposits	3,556.2	3,066.6	489.6

Statement of Profit or Loss	**1.1.-31.12.2020**	**1.1.-31.12.2019**	**Change**
Net interest income	117.3	110.5	6.8
Loss allowances	13.7	-4.9	18.6
Net fee and commission income	31.4	35.9	-4.5
Operating expenses	99.8	102.8	-3.0
Profit of the period	31.6	38.4	-6.8

Key performance indicators	**31.12.2020**	**31.12.2019**	**Change**
Change in customer loan portfolio	13.0%	9.9%	3.1 pp
Cost-income ratio	66.7%	72.0%	-5.3 pp
Return on equity (annualised)	6.0%	7.7%	-1.7 pp

Additional indicators	**31.12.2020**	**31.12.2019**	**Change**
Customer deposits to customer loan portfolio	93.6%	91.2%	2.4 pp
Net interest margin (annualised)	2.4%	2.5%	-0.1 pp
Share of credit-impaired loans	2.2%	2.3%	-0.1 pp
Ratio of allowances to credit-impaired loans	92.5%	93.3%	-0.8 pp
Green customer loan portfolio	739.8	575.3	164.5

The customer loan portfolio for this segment increased by EUR 438.0 million or 13.0% in 2020, ending the year at EUR 3.8 billion. All ProCredit banks in this region recorded good loan portfolio growth figures for the year, generally above 10%. The green loan portfolio grew by 29%, thereby accounting for almost 40% of total growth.

Customer deposits grew by EUR 489.6 million or 16.0%, totalling EUR 3.6 billion at the end of the financial year. All banks in this segment achieved strong growth figures. The ratio of customer deposits to the customer loan portfolio increased by 2.4 percentage points to 93.6%.

Net interest income increased by EUR 6.8 million, partly because the net interest margin had largely stabilised compared with previous years. The 0.1 percentage points decline was mainly due to key interest rate cuts made in response to the economic impact of the pandemic.

The share of credit-impaired loans fell slightly by 0.1 percentage points and stood at 2.2% at year-end. The share of credit-impaired loans in the ProCredit banks continues to be well below the average for the banking sector. The ratio of allowances to credit-impaired loans declined by 0.8 percentage points to 92.5%.

The profit of the period decreased by EUR 6.8 million, representing a return on equity of 6.0%. This decrease is mainly attributable to the pandemic-related rise in loss allowances by EUR 18.6 million. Nevertheless, the segment's structural result of operations improved significantly, as reflected in the increased net interest income, cost savings of over EUR 3 million and a decline in the cost-income ratio by 5.3 percentage points.

Eastern Europe

Macroeconomic and sector-specific environment

In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. The 2020 period was heavily impacted by the COVID-19 pandemic, and this was reflected in negative growth in all three countries. Economic output fell by -7.2% in Ukraine, -5.0% in Georgia and -4.5% in Moldova. The currencies of all three countries depreciated sharply against the euro.

Despite the pandemic, financial markets in Eastern European countries remained largely stable. In all three countries, the central banks issued regulations that allowed for moratoria on loan payments. The share of non-performing loans increased only slightly. Banking sector profitability declined significantly due to credit risk provisioning.

In contrast to South Eastern Europe, the competitive situation in Eastern Europe is dominated by local banks; only in Ukraine are several large European banking groups represented. In Moldova, the market share of foreign banks, especially Romanian banks, has increased in recent years. In Georgia, around 70% of the market is served by the two largest Georgian banks. Overall, the level of competition in all three countries is lower than in South Eastern Europe, and the local markets are dominated by high interest rates on loans in foreign and domestic currency.

Development of financial position and financial performance

The Eastern Europe segment recorded a decline of EUR 11 million in the loan portfolio, generally due to significant currency effects. The profit of the period decreased, falling EUR 10.4 million to EUR 27.3 million. This represents a return on equity of 12.3%.

in EUR m

Statement of Financial Position	**31.12.2020**	**31.12.2019**	**Change**
Customer loan portfolio	1,079.1	1,090.2	-11.1
Customer deposits	896.7	894.6	2.1

Statement of Profit or Loss	**1.1.-31.12.2020**	**1.1.-31.12.2019**	**Change**
Net interest income	62.8	66.9	-4.1
Loss allowances	11.2	2.1	9.1
Net fee and commission income	8.3	9.7	-1.4
Operating expenses	33.2	34.6	-1.4
Profit of the period	27.3	37.7	-10.4

Key performance indicators	**31.12.2020**	**31.12.2019**	**Change**
Change in customer loan portfolio	-1.0%	10.5%	-11.5 pp
Cost-income ratio	43.3%	42.3%	1.0 pp
Return on equity (annualised)	12.3%	17.5%	-5.2 pp

Additional indicators	**31.12.2020**	**31.12.2019**	**Change**
Customer deposits to customer loan portfolio	83.1%	82.1%	1.0 pp
Net interest margin (annualised)	4.1%	4.6%	-0.5 pp
Share of credit-impaired loans	2.7%	3.3%	-0.6 pp
Ratio of allowances to credit-impaired loans	115.9%	77.6%	38.3 pp
Green customer loan portfolio	190.1	188.9	1.2

The customer loan portfolio of the segment contracted by EUR 11.1 million during the period. This development is attributable to the depreciation of local currencies during the financial year; excluding these effects, our banks would have achieved total growth of well over 10%.

Customer deposits grew by EUR 2.1 million and were also influenced by strong currency effects. The ratio of customer deposits to the customer loan portfolio increased by 1.0 percentage points to 83.1%.

The net interest margin narrowed by 0.5 percentage points and ended the period at 4.1%. This development is due to the fact that the structurally higher key interest rates in this segment were sharply reduced during this pandemic year. As a result, net interest income fell by EUR 4.1 million. In connection with the pandemic, expenses for loss allowances rose by EUR 9.1 million. The share of credit-impaired loans fell by 0.6 percentage points to 2.7% and the ratio of allowances to credit-impaired loans rose sharply to 115.9%.

Compared to the previous year, operating expenses decreased by EUR 1.4 million. The profit of the period decreased by EUR 10.4 million, in particular due to the increased loss allowances; this represents a return on equity of 12.3%. The cost-income ratio increased only slightly, rising 1.0 percentage points to 43.3%.

South America

Macroeconomic and sector-specific environment

The South America segment, comprising the ProCredit Bank in Ecuador, accounts for roughly 6% of the group's customer loan portfolio. In 2020, Ecuador's GDP decreased by 11% as a result of the Corona pandemic and low oil prices. Inflation was below the zero percent mark. Exports decreased compared to the previous year, which had a negative impact on the trade balance. The overall balance of trade is further impacted by dollarisation and by restrictions on the transfer of goods and capital. The investment rate declined only slightly, while unemployment doubled to 8.1%.

Lending stagnated in the banking sector. Competition in Ecuador is mainly defined by local banks. In comparison to South Eastern Europe, the market interest rates and margins are higher. At the same time, prospects for growth are good for SMEs.

Development of financial position and financial performance

The loan portfolio and the customer deposit portfolio of ProCredit Bank Ecuador each grew by over EUR 30 million. Overall we see positive development in the bank, although the result after tax remained negative mainly due to effects related to the pandemic.

in EUR m

Statement of Financial Position	31.12.2020	31.12.2019	Change
Customer loan portfolio	321.5	288.9	32.6
Customer deposits	173.0	138.9	34.1

Statement of Profit or Loss	1.1.–31.12.2020	1.1.–31.12.2019	Change
Net interest income	18.6	16.8	1.8
Loss allowances	3.6	-0.4	4.0
Net fee and commission income	-0.3	-0.5	0.2
Operating expenses	16.3	16.0	0.3
Profit of the period	-2.2	-1.3	-0.9

Key performance indicators	31.12.2020	31.12.2019	Change
Change in customer loan portfolio	11.3%	26.7%	-15.4 pp
Cost-income ratio	93.2%	102.5%	-9.3 pp
Return on equity (annualised)	-4.7%	-2.5%	-2.2 pp

Additional indicators	31.12.2020	31.12.2019	Change
Customer deposits to customer loan portfolio	53.8%	48.1%	5.7 pp
Net interest margin (annualised)	5.0%	5.3%	-0.3 pp
Share of credit-impaired loans	6.1%	2.3%	3.8 pp
Ratio of allowances to credit-impaired loans	47.9%	100%	-52.1 pp
Green customer loan portfolio	52.6	28.0	24.6

The bank's customer loan portfolio developed positively during the financial year, growing by EUR 32.6 million up to EUR 321.5 million. Excluding the effects of US dollar depreciation during the period, the customer loan portfolio grew by more than 20%. This growth came primarily from "green" loans, which increased by a total of EUR 24.6 million.

Customer deposits grew by EUR 34.1 million or 25%, leading to a 5.7 percentage points improvement in the ratio of customer deposits to the customer loan portfolio.

Net interest margin development was slightly negative. Net interest income increased by EUR 1.8 million. Expenses for loss allowances rose by EUR 4.0 million, primarily due to the impact of the pandemic on the local economy. The share of credit-impaired loans increased sharply, primarily due to the implementation of new EBA guidelines regarding the disclosure of defaulted exposures (EBA/GL/2016/07). Operating expenses remained at the previous year's level.

Overall, the result after tax declined by EUR 0.9 million, particularly due to the EUR 4.0 million rise in loss allowances. Nevertheless, the Bank's cost-income ratio improved significantly, by 9.3 percentage points. The increase in the customer loan portfolio and customer deposits, combined with stable operating expenses, provide a generally positive outlook for the coming years.

Germany

Macroeconomic and sector-specific environment

As in many other economies in Europe, Germany showed negative development during the period, reporting -5% GDP growth. Based on European Central Bank policy, the interest margin remained at a low level, which, together with growing non-performing loans, poses a large challenge for the banking sector.

Development of financial position and financial performance

The development of the Germany segment essentially consists of the operations of ProCredit Holding, ProCredit Bank Germany and Quipu.

in EUR m

Statement of Financial Position	**31.12.2020**	**31.12.2019**	**Change**
Customer loan portfolio	53.4	56.1	-2.7
Customer deposits	273.0	233.3	39.7

Statement of Profit or Loss	**1.1.-31.12.2020**	**1.1.-31.12.2019**	**Change**
Net interest income	0.8	-0.9	1.7
Loss allowances	0.2	-0.1	0.3
Operating income	73.6	47.2	26.4
Operating expenses	61.2	57.8	3.4
Profit of the period	11.1	-10.7	21.8
Profit of the period and consolidation effects	-15.3	-13.2	-2.1

The loan portfolio and customer deposits in the segment are attributed to the ProCredit Bank in Germany. The customer loan portfolio is almost unchanged from the previous year. Customer deposits grew by EUR 39.7 million. The activities of ProCredit Bank Germany generally focus on its central role for the group in international payment transactions, trade finance, group treasury, co-financing and funding for the ProCredit banks. As a result, it is less heavily impacted by the macroeconomic and financial market trends in Germany.

Operating income was dominated by IT services performed by Quipu GmbH and dividend payments from subsidiary banks to ProCredit Holding. Further income came from commission and brokerage services by the ProCredit Bank in Germany and from consultancy services provided to the ProCredit banks by ProCredit Holding. Operating expenses include the personnel and administrative expenditures of the companies.

Events after the reporting period

No significant events arose after the reporting date.

MANAGEMENT REPORT OF PROCREDIT HOLDING

The activities of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, (hereinafter "ProCredit Holding") are deeply intertwined with the development of the group. Therefore, we have integrated the management report of ProCredit Holding into the group report. Pursuant to section 10a (1) KWG, ProCredit Holding is the "superordinated company" of the ProCredit group for financial supervision purposes. The annual financial statements for ProCredit Holding have been prepared according to the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG). The branch office ProCredit Holding AG & Co. KGaA Sucursal Colombiana, Bogota, Colombia (regional academy), is included in the scope of the financial statements for ProCredit Holding.

Business activities of ProCredit Holding

ProCredit Holding exclusively conducts activities that are associated with the ProCredit group. Its main duties include:

- steering the strategy of the group
- providing support for the subsidiaries in implementing group-wide strategies for the various business areas and in the area of risk management
- implementation of the requirements specified under section 25a of the German Banking Act (Kreditwesengesetz – KWG) and under the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk", as well as ensuring the group's compliance with the German Money Laundering Act (Geldwäschegesetz – GWG)
- monitoring and supervising the subsidiaries, especially in the areas of risk management, finance & controlling, HR management, marketing, internal audit and anti-money laundering activities; ProCredit Holding has developed group policies for this purpose
- providing equity for the subsidiaries and ensuring sufficient capital adequacy at group level
- providing financing to the subsidiaries
- developing training programmes for the staff of the ProCredit group
- reporting to shareholders and third parties, including supervisory reporting

As of year-end 2020, ProCredit Holding had 112 staff members (2019: 111). This includes two employees who are based abroad. The financial position and financial performance of ProCredit Holding are affected by its own operating activities as well as by the operating activities of its subsidiaries through their dividend payments. The economic situation of ProCredit Holding is thus essentially the same as that of the group as a whole. Also with regard to ProCredit Holding's risk report (including system for early detection of risks), the report on expected developments and the report on significant post-balance-sheet events, we would like to refer to the corresponding sections.

Development of financial position

ProCredit Holding's close involvement in the activities of the group is reflected in the structure of the balance sheet and income statement. Short- and long-term exposures to, as well as shares in, affiliated companies make up roughly 90% of its assets. ProCredit Holding finances its own activities primarily by issuing bonds, through liabilities to banks and international financial institutions and through shareholders' equity.

ProCredit Holding's total assets decreased by EUR 40.7 million in 2020 (2019: EUR +50.2 million). The shares in affiliated companies increased slightly through the purchase of the remaining minority interests in ProCredit bank

Above: K-AKS, producer and trader of metal parts, client of ProCredit Bank Albania
Below: Irricult, biodynamic vineyard and hotel, client of ProCredit Bank Georgia

Ukraine, although this item decreased overall due to write-downs by EUR 38.2 million (2019: EUR -11.0 million). At the same time, loans to/receivables from affiliated companies increased by EUR 38.6 million (2019: EUR +41.2 million).

ProCredit Holding's financial liabilities increased slightly, by EUR 2.9 million (2019: EUR +86.2 million). Equity decreased by a total of EUR 43.6 million (2019: EUR -36.2 million). This decline is largely due to the current result after tax.

Result of operations

The financial results of ProCredit Holding are primarily determined by transactions with its affiliated companies; the main income factors are the dividend payments received, interest payments, and fees for consultancy services. The expense positions primarily consist of operating expenses, impairment on shares in affiliated companies, and interest expenses.

ProCredit Holding's profit of the year was EUR -43.6 million (2019: EUR -18.5 million). At EUR 21.3 million, dividend income was lower than in the previous year (2019: EUR 46.8 million), mainly due to general regulatory restrictions on dividend payments by banks. Impairments on financial assets stood at EUR 52.1 million (2019: EUR 50.8 million). ProCredit Holding's operating expenses remained largely constant during the period.

For 2021, we expect a positive profit of the year. We consider the current overall situation regarding the COVID-19 pandemic to be a significant risk factor. An uncertain health situation, a prolonged subdued economic environment and legal restrictions on dividend distributions could continue to have a negative impact on earnings.

REPORT ON EXPECTED DEVELOPMENTS

Macroeconomic environment and competitive situation

In 2020, there was a collapse in the global economy due to the COVID-19 pandemic. Global supply chains were significantly constrained and consumption stagnated at a low level for much of the year. In addition, manufacturing and service sectors were affected by far-reaching travel and movement restrictions.

For 2021, the IMF forecasts global economic growth of more than 5%. This assumption is based, among other things, on substantial containment of the pandemic, with timely distribution of vaccines playing an important role. Despite this hopeful development, the pandemic continues to represent a major factor of uncertainty for economic forecasts. Assuming a rapid recovery of the global economy, we expect economic growth of around 5% for the countries in which we operate.

In the countries of Eastern and South Eastern Europe in which we are represented, we generally expect higher growth rates than in Western Europe. This assumption is based on continued geopolitical stability in the region. For Ecuador, low oil prices could have a critical impact on economic performance. In the short and medium term, we expect interest rates to remain low.

Following a lending slowdown in 2020 for the banking markets where we operate, we expect competitive pressure to increase again in 2021. In South Eastern Europe our main competitors are international banking groups, while in Eastern Europe and Ecuador we mostly compete with local or regional banks and financial institutions.

Expected development of the ProCredit group

In 2020, we continued to expand our position in the markets where we operate, despite the global recession. All our banks achieved solid growth figures, mostly above the 10% mark, and most were well above the average for the respective banking sector[10]. For 2021, we continue to see good potential for sustainable and profitable long-term growth with our business strategy.

In addition to expanding our market position, our focus is naturally also on strengthening the business relationships with our existing customers. It gives us hope that the vast majority of our existing customers have so far been able to weather the economic consequences of the pandemic – a good result under the given circumstances. Nevertheless, the 2021 financial year will also present many SMEs with challenges.

For 2021 and in the medium term[11], we plan to achieve customer loan portfolio growth of around 10% per year. The expansion of our green loan portfolio will continue to play a central role in our efforts. We plan to reach our medium-term target from 2018 of achieving 20% green loans in the total portfolio by the end of the 2021 financial year. We expect this share to increase further as we continue to see good growth potential in energy efficiency and renewable energy in our markets.

We are planning solid growth in customer deposits, which should keep the ratio of customer deposits to the customer loan portfolio largely stable. Growth in customer deposits is still largely to be achieved through sight deposits and instant access savings accounts, which will have a positive impact on the net interest margin in the medium term.

[10] Excluding currency effects.
[11] We define "medium-term" to be between three and five years.

We expect the cost of risk to remain elevated in 2021, albeit slightly below the 2020 level of 57 basis points. This forecast is based on an assumption of additional restructuring of credit exposures. We also believe that a slight increase in credit-impaired loans is possible, although there are no specific indications as yet.

For 2021, we expect a largely stable net interest margin and a slight increase in operating expenses. Taking these assumptions into account, we expect an improved return on equity of between 6.0% and 7.5%. We expect the cost-income ratio to improve to a level of 65-68%.

In the medium term, we assume only a slight, constant increase in operating expenses and we anticipate further economies of scale from our growth. We aim for the cost-income ratio to improve and drop below 60%, with a return on equity of around 10%, based in particular on a normalisation of credit risk costs.

We expect our Common Equity Tier 1 ratio to be approximately 13% and our leverage ratio to be around 9% at the end of the financial year. We do not expect any changes in capital requirements in the short term.

Assessment of business opportunities and risks

In principle, the COVID-19 pandemic continues to be the greatest uncertainty factor in our planning. The economic impact of possible delays in vaccine distribution or the spread of new forms of the virus can only be taken into account to a limited extent in our forecast. Moreover, major disruptions in the Eurozone, a significant change in foreign trade or monetary policy, a worsening of the interest rate margin or pronounced exchange rate fluctuations could be manifested in lower loan portfolio growth and an increase in past-due loans, thus resulting in lower profitability.

We are of the opinion that the capital base and the sustainability of our business model are not jeopardised in these scenarios. The ProCredit group has always generated a positive return on equity since its foundation, even in the years of the global financial crisis from 2007 onwards. Our business strategy relies on the clearly focused business model, close client relationships and a conservative risk strategy, which are particularly important in times of crisis.

In principle, we see opportunities in this still-uncertain macroeconomic environment to position ourselves as a solid, reliable partner for SMEs and to further expand our customer relationships. In the medium term, we believe that the opportunities for profitable growth in our markets remain positive.

Above: Dazzle Light Europe, developer and manufacturer of robotic-based industrial solutions, client of ProCredit Bank Bulgaria
Below: SP Force, window producer, client of ProCredit Bank Ukraine
(photos were taken prior to COVID-19 protective measures)

RISK REPORT

An informed and transparent approach to risk management is a central component of our socially responsible business model. This is also reflected in our risk culture and our risk appetite, resulting in decision-making processes that are well-balanced from a risk point of view. By following a consistent group-wide approach to managing risks, we aim to ensure that the liquidity and capital adequacy of the group and each individual bank continue to be sustainable and appropriate at all times, as well as to achieve steady results.

The principles of risk management and the risk strategy of the ProCredit group have not changed compared to the previous year. On the contrary, during the COVID-19 pandemic our conservative risk approach has proven to be highly appropriate. Nevertheless, the pandemic is impacting the ProCredit group. Like the rest of the world, our countries of operation have been severely affected by COVID-19. Working groups, in particular on staff organisation and operational risk, credit risk, liquidity and funding risk, and supervision & regulation, were thus established early on at the level of ProCredit Holding. These groups have been tasked with monitoring and assessing the impact of the pandemic on the group as well as ensuring that appropriate measures are taken in good time. At the same time, the working groups maintain close contact with all the ProCredit banks, each of which has likewise set up COVID-19 working groups.

The governments in the countries where we do business responded quickly to the COVID-19 outbreak in March. Responses included lockdown measures, dividend restrictions, relaxed capital and liquidity requirements, fiscal and budgetary stimulus packages, and moratoria on loan repayments. The moratoria do not typically have a direct effect on the risk classification of exposures and therefore do not lead to any need for additional loss allowances.

As some of the restrictions were lifted, economic activity returned to broadly normal levels during the summer months, with the exception of some business areas such as cross-border tourism. However, in the third and fourth quarters, and still at the time of writing, the spread of the pandemic accelerated again. As a result, the governments in the countries where we operate have imposed new lockdown measures, albeit not in a uniform manner. In December 2020, the EBA also reactivated the guidelines on moratoria to further facilitate financial support to the real economy.

We have implemented comprehensive preventive safety measures in our branches and offices to protect the health of our employees and our customers. Even when the number of COVID-19 cases within the group peaked in Q4, business continuity was always ensured in both front and back-office areas. The IT infrastructure was fully functional, without any loss of performance. Our SME "Hausbank" concept and the advanced level of digitalisation in retail banking provided a solid basis for continuing our business operations without major limitations.

The developments of 2020 will affect the focus of our risk management activities in 2021. The health and economic crisis continues and, despite the positive outlook, uncertainty remains high about the degree of economic recovery in 2021. Developments in the risk situation are closely monitored. The group complied with internal limits as well as all applicable regulatory requirements at all times during the 2020 financial year. Even in light of the uncertainties resulting from the COVID-19 pandemic, the group's overall risk profile remains appropriate and stable. This is based on an overall assessment of the individual risks, as presented in the following risk report.

The principles of our business activity, as listed below, provide the foundation for our risk management. The consistent application of these principles reduces the risks to which the group is exposed.

Focus on core business

Our business model is clear and straightforward: the ProCredit institutions focus on the provision of financial services to small and medium-sized businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the banks' other operations are performed mainly in support of the core business. ProCredit banks therefore assume mainly credit risk, interest rate risk, operational risk and liquidity risk in the course of their day-to-day operations. At group level, foreign currency risk is furthermore relevant due to the investments made by ProCredit Holding in the equity capital of its subsidiaries. At the same time, ProCredit avoids or largely limits all other risks involved in banking operations.

Diversification and transparent services

ProCredit's focus as a "Hausbank" for small and medium-sized businesses and private clients entails a very high degree of diversification in both customer loans and customer deposits. This applies, among other things, to countries (urban and rural areas), customer groups (small and medium-sized enterprises, private customers) and economic sectors. A further characteristic of our approach is that we seek to provide our clients with straightforward, transparent services. The high degree of diversification in our operations and profit generation, combined with our straightforward, transparent services and processes, results in a significant reduction of the group's risk profile.

Careful staff selection and intensive training

Responsible banking can only succeed with employees who identify with our values and goals, and who actively work to implement them. Therefore, we have set strict standards for staff selection and training; these are based on mutual respect, personal responsibility and long-term commitment and loyalty to the ProCredit group. We have invested heavily in staff training over many years. Our intensive training efforts not only produce professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to thinking critically and voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Risk Management System

Key elements of risk management

The risk appetite provides the framework for risk management. This is a conscious decision about the extent to which we are prepared to take risks in order to achieve the strategic objectives of the ProCredit group. The risk appetite is defined for all material risks and is presented in the risk strategy. In managing risks, the ProCredit group takes account of the "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of our knowledge of our markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their appropriateness and effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in the ProCredit group are presented below:

- The risk strategy addresses all of the material risks in the group arising from the implementation of the business strategy and defines the objectives and measures of risk management. The strategies are approved annually by the Management, following thorough review and discussion with the Supervisory Board.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.
- All risks assumed are managed to always ensure an adequate level of capital of the group and all ProCredit institutions, in both the normative and economic perspective, as well as adequate liquidity levels at all times.
- All ProCredit companies apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Holding and are updated at least annually. These specify the responsibilities at bank and group level, and establish minimum requirements for managing, monitoring and reporting.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks. Early warning indicators (reporting triggers) and limits are set and monitored for all material risks. The effectiveness of the chosen measures, limits and methods is continuously supervised.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- Suitable processes and procedures for an effective internal control system have been established. This is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.
- All new or significantly changed products/services, processes, financial instruments, IT systems or organisational structures undergo a thorough analysis (New Risk Approval process) before being implemented or used for the first time. This also applies to activities in new markets and via new distribution channels. This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

Organisation of risk management and risk reporting

The Management of ProCredit Holding bears overall responsibility for the risk management of the ProCredit group. It sets the guidelines for risk management, regularly analyses the group's risk profile and decides on measures to be taken. The risk controlling function required by MaRisk is headed by a member of the Management of ProCredit Holding. The Compliance function and Internal Audit report directly to the Management.

Risk management at group level is supported conceptually and implemented operationally by various risk management and finance teams. The following committees in particular advise and support the Management in the performance of the risk management function.

- The Group Risk Management Committee develops the group-wide framework for risk management and monitors the risk profile of the group. This includes the monitoring of individual risk positions, limit compliance, and capitalisation at the level of individual institutions and the group.
- The Group Asset and Liability Committee (Group ALCO) is responsible for monitoring the liquidity reserve and liquidity management of the group, coordinating measures aimed at securing funding for the ProCredit banks and ProCredit Holding, and reporting on material developments in financial markets.
- The Group and PCH Model Committee focuses on significant changes to, and validation of, the models used to quantify risks.
- The Group Compliance Committee serves as the central platform for exchanging information about compliance risks, thus ensuring implementation of legal requirements. The committee is a forum for evaluating compliance risks, discussing the impact of changes in legal regulations and prioritising identified compliance risks.
- The Group Internal Audit and Ethics Committee focuses on annual internal audit plans at the level of individual banks and ProCredit Holding, and on monitoring the timely implementation of measures to resolve the findings of internal and external auditors. It also monitors compliance with the ProCredit group's Code of Conduct and advises the Management on ethics issues.

The group has an effective compliance management system that is rooted in our development mission and our unique approach to staff recruitment and development. Our methodical and responsible approach to all operations is underpinned by our Code of Conduct. Compliance with the Code of Conduct is compulsory for all staff members, and regular training is provided in this area. The Group Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements. Both the Group Compliance Committee and the corresponding committees at bank level enable coordination of all compliance-relevant issues. Each ProCredit bank has a compliance function which bears responsibility for adhering to national banking regulations and reports regularly and on an ad hoc basis to the Management of the bank and to the Group Compliance Officer. Any conduct which is inconsistent with the established rules, whether at ProCredit Holding or in a subsidiary, can be reported anonymously to an e-mail address established for the group.

Group Audit is an independent functional area within ProCredit Holding. It provides support in determining what constitutes appropriate risk management, an appropriate internal control system and suitable IT infrastructure within the group. Additionally, each ProCredit bank (with the exception of ProCredit Bank Germany) has an internal audit department. The internal audit function of ProCredit Bank Germany has been outsourced to ProCredit Holding since 1 May 2020. Once per year, the respective audit department carries out risk assessments of all of the bank's activities in order to arrive at a risk-based annual audit plan. Each internal audit department reports to an audit committee, which generally meets quarterly. The Group Audit team monitors the quality of the audits conducted in each ProCredit bank and provides technical guidance. Group Audit reviewed and revised the annual audit plan in light of the COVID-19 pandemic. In addition to minor corrections, this resulted in the introduction of new focal points for all banks based on changes in risk caused by the COVID-19 situation.

The Management at each ProCredit bank bears responsibility for risk management within their institution. All ProCredit banks have, as a minimum, risk management departments, a risk management committee an ALCO and a compliance committee, as well as specialised committees that address individual risks. These committees monitor and manage the risk profile of the individual ProCredit banks.

At the individual bank level, risk positions are analysed regularly, discussed and documented in standardised reports. The risk management departments of each bank reports regularly to ProCredit Holding, and the respective supervisory board is informed on at least a quarterly basis about all risk-relevant developments.

Each month ProCredit Holding prepares an aggregate risk report, with the group's Supervisory Board also receiving reports on a quarterly basis. A quarterly report on stress testing is also prepared. Monitoring of both the individual banks' risk situation and the group's overall risk profile is carried out through a review of these reports and of additional information generated by individual banks and at group level. The Management of ProCredit Holding has also defined risk events that require ad hoc reporting. If necessary, additional topic-specific ad hoc reporting occurs. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

On the basis of regulatory requirements, the group-wide recovery plan was prepared during the 2020 financial year. Among other things, it outlines the recovery options and the potential for restructuring that the group has at its disposal in the event of a crisis, thus enabling the group to overcome a crisis through its own efforts.

Regular group-wide meetings and training events support the exchange of best practices and the development and enhancement of risk management.

The management of material risks in the ProCredit group is described in greater detail in the following section. This includes: credit risk, market risks (foreign currency risk and interest rate risk), liquidity and funding risk, operational risk, business risk and model risk, and risks arising from money laundering, terrorist financing and other acts punishable by law.

An integral part of the business strategy is our aim to have the smallest possible impact on the environment and to pro-actively bring about a shift in thinking, with greater focus on sustainability. A separate risk type "Sustainability / Environmental, Social and Corporate Governance (ESG) risks" has deliberately not been taken into account, as it would hardly be possible to isolate such a risk. ESG risks can have a significant impact on the identified risk types, contributing as a factor in their materiality.

Management of Individual Risks

Credit risk

The ProCredit group defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations, not in full or not on time. Within overall credit risk we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is our most significant risk, and customer credit exposures account for the largest share of that risk.

in '000 EUR	**31.12.2020**	**31.12.2019**
Central bank balances	1,270,491	938,741
Loans and advances to banks	236,519	320,737
Derivative financial assets	509	306
Investment securities	336,511	378,281
Loss allowance for investment securities	*-94*	*-46*
Loans and advances to customers	5,131,582	4,690,961
Other assets (financial instruments)	36,869	41,182
Contingent liabilities	917,102	745,360
Loss allowance	*-2,733*	*-1,683*
Total	**7,926,755**	**7,113,840**

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. The diversification of operations across four regions and 12 countries, and the experience that the ProCredit banks have gained in operating in these markets over the past decades form the basis for the group's ability to limit customer credit risk effectively.

The ProCredit banks serve a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. For our lending operations, we apply the following principles, among others:

- Intensive analysis of the debt capacity and repayment capacity of borrowers, taking account for expected future cash flows
- Carefully documenting the risk assessments and the processes conducted during lending operations, such that the analyses performed can also be understood by expert third parties
- Strictly avoiding over-indebtedness among credit clients
- Building a long-term relationship with the client, maintaining regular contact, and documenting the development of the exposure in regular monitoring reports
- Strictly monitoring the repayment of credit exposures
- Customer-oriented, intensified loan management in the event of arrears
- Collateral collection in the event of insolvency

The group's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the group and at the level of each individual bank, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the group's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, loss allowances and write-offs.

Above: ProCredit Bank Georgia Contact Centre
Below: Online account opening campaign, ProCredit Bank Georgia

Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The ProCredit group divides its credit exposures mainly into small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back-office functions up to the management level is applied for risk-relevant operations.

The experience of the ProCredit group has shown that a careful creditworthiness assessment is a necessary form of credit risk management. Our credit decisions are therefore based predominantly on an analysis of the client's financial situation and on an assessment of creditworthiness. Regular on-site visits are performed for clients to ensure an adequate consideration of their specific features and needs. Customer contact was intensified in the course of 2020 due to the pandemic and increasingly shifted to virtual channels.

All credit decisions in the ProCredit banks are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on medium credit exposures are taken by credit committees at the banks' head offices.

The most important factor for credit committee decisions is a funding and collateral structure that is based on the client's needs and conditional on the respective risk profile. In this context, the following general principles apply: the lower the loan amount, the more detailed the documentation provided by the client, the shorter the loan period, the longer the client's history with the bank, and the higher the client's account turnover with the bank, then the lower the collateral requirements will be.

The group credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile and a longer maturity period are covered with solid collateral, mostly through mortgages.

As a rule, the valuation of collateral is based on assessments conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, annual plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialised ProCredit bank staff. The total amount of collateral held by the group as security is EUR 3.9 billion.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions, countries and economic sectors, similar to the distribution of the loan portfolio of the ProCredit group. In this context, the concentration risk via collateral is considered to be low.

	31.12.2020	31.12.2019
Mortgages	65.0%	66.4%
Financial guarantees	14.0%	11.9%
Other	21.0%	21.7%

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients. The ProCredit group has developed indicators for the early identification of risks based on quantitative and qualitative risk features; these indicators are implemented by the banks. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to ProCredit Holding.

Exceptional events which could have an impact on large areas of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

The most significant new factor influencing credit risk in 2020 was the outbreak of the COVID-19 pandemic. Our activities have therefore also focused on assessing the effects of the pandemic on the credit portfolio and on a corresponding risk-mitigation strategy.

Within the framework of the international and national aid measures which have been enacted, we have adopted a conservative approach. Thus, we have always envisaged moratoria only as a temporary measure for short-term liquidity problems. Moratoria were typically issued for a period of three months (for all economic sectors) to six months (for the most affected sectors). The share of the loan portfolio in moratorium peaked at 37% in May 2020. The share declined steadily thereafter, falling to below 2% at the end of the year. In line with EBA's interpretations, applying these moratoria did not automatically lead to forbearance measures.

In parallel with these deferral measures, we intensified the annual monitoring of our customer loans during this financial year. In the second half of the year, we updated the risk analyses for all business customers and we assessed and mapped the credit risks to which our clients were exposed due to the pandemic. In this process, consideration was given to the impact of the pandemic on the economic sector as well as the liquidity and earnings situation of the company. There was also an intensified monitoring process for new loan disbursements and their subsequent performance. As a result of intensified loan portfolio monitoring, risk classification downgrades were made where needed. Restructuring measures were already taken during 2020 as necessary to prevent possible defaults.

Above: Meeting at ProCredit Bank Romania
Below: ProCredit Bank North Macedonia (photo taken prior to COVID-19 protective measures)

On the basis of asset quality indicators, the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and on additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, as well as restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio indicators allow for a clear overview of the quality of the group's portfolio and that of an individual bank, and represent one of the most important tools for the credit risk management process.

- The *performing* loan portfolio shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.
- The *underperforming* loan portfolio comprises exposures with elevated credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or other factors. Nevertheless, the bank still assesses full repayment of the exposure to be possible, e.g. after restructuring.
- The *defaulted* loan portfolio comprises all exposures in default which have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet his loan obligations to the banking group in full or when insolvency proceedings have been initiated. Further details are provided below.

The indicators and the associated internal processes have been defined in line with the requirements set by international regulatory authorities and are continuously reviewed and adjusted accordingly. For example, as of 31 December 2020 adjustments were made regarding the counting of days past due as a criterion for determining default and the indicators for unlikelihood of settling liabilities. These changes were implemented as part of introducing the amended definition of default.

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure. One of the first steps in managing the exposure is to determine the current economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, specialised officers take over responsibility for dealings with the client. These officers are supported by the legal department of the respective bank. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 EUR	31.12.2020	31.12.2019
Real estate	7,394	11,266
Inventory	83	121
Other	48	765
Repossessed property	**7,525**	**12,152**

Loss allowances

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach

Loans and advances to customers are broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3, or exposures that have returned to Stage 1 from a higher stage. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.
- Stage 2 comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment, or exposures that have returned to Stage 2 from Stage 3. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3 includes all defaulted exposures; i.e. as of the reporting date, there is both a significant increase in credit risk and objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.

Calculation of expected credit loss (ECL)

The following parameters are used in the calculation of expected credit loss:

- *Exposure at Default (EAD)*
  EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. Based on historical data, estimates are made of the potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities. For financial guarantees, the EAD corresponds to the guaranteed amount; based on professional discretion, the conversion factor has generally been set at 100%.

- *Probability of default (PD)*
  The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The ProCredit group uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. In addition, the PDs over the remaining lifetime of an exposure are estimated.

- *Loss Given Default (LGD)*
  The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. For PDs and LGDs, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors in the forecast year. The sensitivity of our loss allowances is analysed in terms of the influence of relevant macroeconomic factors. The following table presents loss allowances on loans to customers following a one-percent shift in GDP growth.

	31.12.2020		
in '000 EUR	**Loss allowance GDP growth +1%**	**Loss allowance**	**Loss allowance GDP growth -1%**
Total	**111,344**	**122,684**	**137,936**

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. The ProCredit group acknowledges that discretionary decisions of the Management and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Such discretion is based on the applied definition of default, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors.

Significant increase in credit risk (SICR)
Quantitative and qualitative information is used to determine whether there is a significant increase in credit risk.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exists if the difference between the PDs exceeds a certain limit. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk is no longer significantly elevated.

In addition, qualitative criteria are used for SICR decisions. A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days.
- Classification of the customer as "restructured" pursuant to internal policies (adjustment of contractually agreed conditions).
- The customer is assigned to a risk class defined as insufficient in the risk classification system.

Impaired credit exposures
A credit exposure is considered impaired and is thus transferred to Stage 3 if one of the following criteria applies at the reporting date:

- Contractual payments are more than 90 days past due.
- Indications of significant financial difficulties of the debtor, as reflected in insufficient repayment capacity.
- Loan repayment is not possible without the realisation of collateral.
- Initiation of bankruptcy proceedings for the customer.
- Legal proceedings against the customer that endanger the existence of the business or the repayment capacity of the customer.
- Allegations of fraud against the customer.

Definition of default
The definition of impairment according to IFRS 9 corresponds to the regulatory definition of default. This default definition is also used for internal risk management and is applied to all exposures which are part of the customer loan portfolio of the group. The group considers an exposure to be impaired if at least one of the above criteria is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When determining provisions in Stage 3, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. No migration between stages is possible for POCI exposures.

Purchased or Originated Credit Impaired (POCI) exposures

The group has separate rules for POCI (Purchased or Originated Credit Impaired) exposures. Within our business model, the acquisition of impaired exposures is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation through significant modification of the contractually agreed cash flows. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, all changes with regard to the expected losses over the remaining maturity period (lifetime ECL) are recognised as an expense in the income statement and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)

Changes to the originally agreed contractual conditions of an exposure are possible, in particular with the aim of improving the prospects of repayment and, if possible, avoiding default, foreclosure or the realisation of collateral. The ProCredit group uses qualitative and quantitative factors to determine the existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed conditions of an exposure (net present value test). In the event of a substantial change, the original contract is derecognised and a new exposure is recognised at the fair value at the time of modification. In the case of a non-substantial change, the gain or loss from modification is recognised in expenses.

Write-offs

When a loan is uncollectible, it is written off against the corresponding loss allowance which has been set aside, provided there is no justified expectation of repayment. The direct and indirect costs of actively managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure.

For exposures of any size, the banks carry out an individual assessment of the justified feasibility of repayments. For exposures below EUR 10 thousand, this assessment is to be carried out at the latest once payment is 180 days overdue; for larger exposures, at the latest after 360 days, particularly if there is no realisable collateral. Based on the assessment, the bank may decide to write off the exposure or continue to actively manage the exposure in order to allow for further repayment of the loan. Some written-off exposures are still subject to enforcement activities.

	31.12.2020				
in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Written-off exposures subject to enforcement activity	1,147	0	8,870	19	10,036

Above: ProCredit Bank Bulgaria E-cars
Below: ProCredit Bank Romania (photo taken prior to COVID-19 protective measures)

The following tables provide an overview of the respective gross and net customer loan portfolio, as well as loss allowances. The establishment of loss allowances for the 2020 financial year was impacted by the COVID-19 pandemic. At the same time, there was a rise in the number of exposures with an individually identified increase in credit risk. In anticipation of a general deterioration in market developments and increased uncertainty due to the COVID-19 pandemic, also in the longer term, appropriate adjustments have been made to the macroeconomic factors used to determine the ECL model parameters. These adjustments were based on the newest IMF World Economic Outlook Database macroeconomic forecasts, taking account for the longer-term outlook.

	31.12.2020				
in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Germany					
Gross outstanding amount	49,820	3,616	0	0	**53,436**
Loss allowances	-213	-278	0	0	**-491**
Net outstanding amount	49,606	3,338	0	0	**52,945**
South Eastern Europe					
Gross outstanding amount	3,568,278	146,657	83,912	1,384	**3,800,232**
Loss allowances	-26,708	-7,865	-43,968	-333	**-78,873**
Net outstanding amount	3,541,570	138,793	39,944	1,052	**3,721,358**
Eastern Europe					
Gross outstanding amount	987,111	62,715	27,171	2,066	**1,079,063**
Loss allowances	-13,719	-7,077	-12,488	-593	**-33,877**
Net outstanding amount	973,393	55,638	14,683	1,472	**1,045,186**
South America					
Gross outstanding amount	257,335	44,509	19,692	0	**321,536**
Loss allowances	-2,314	-1,500	-5,628	0	**-9,442**
Net outstanding amount	255,020	43,009	14,064	0	**312,093**
Total					
Gross outstanding amount	4,862,544	257,497	130,775	3,450	**5,254,266**
Loss allowances	-42,955	-16,719	-62,084	-926	**-122,684**
Net outstanding amount	4,819,589	240,778	68,691	2,524	**5,131,582**

in '000 EUR	31.12.2019 Stage 1	Stage 2	Stage 3	POCI	Total
Germany					
Gross outstanding amount	54,122	1,940	0	0	**56,062**
Loss allowances	-224	-69	0	0	**-293**
Net outstanding amount	53,898	1,871	0	0	**55,769**
South Eastern Europe					
Gross outstanding amount	3,169,889	115,976	74,649	1,667	**3,362,181**
Loss allowances	-20,613	-5,488	-44,599	-491	**-71,192**
Net outstanding amount	3,149,276	110,488	30,050	1,175	**3,290,989**
Eastern Europe					
Gross outstanding amount	1,018,989	34,981	34,031	2,204	**1,090,206**
Loss allowances	-7,878	-1,699	-17,937	-588	**-28,101**
Net outstanding amount	1,011,112	33,283	16,094	1,616	**1,062,105**
South America					
Gross outstanding amount	272,281	9,826	6,776	0	**288,884**
Loss allowances	-3,308	-319	-3,159	0	**-6,786**
Net outstanding amount	268,974	9,507	3,617	0	**282,098**
Total					
Gross outstanding amount	4,515,282	162,724	115,456	3,871	**4,797,332**
Loss allowances	-32,022	-7,575	-65,696	-1,079	**-106,372**
Net outstanding amount	4,483,259	155,149	49,760	2,792	**4,690,961**

The following table presents gross and net exposures, broken down according to economic sector and internal risk classification and by stage.

in '000 EUR	31.12.2020				
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-5: Performing	4,361,845	62,422	0	0	4,424,267
Grades 6-7: Underperforming	36,653	172,124	0	0	208,777
Grade 8: Credit-impaired	0	0	110,469	3,383	113,852
Non-rated exposures	464,047	22,951	20,306	67	507,370
Gross outstanding amount	**4,862,544**	**257,497**	**130,775**	**3,450**	**5,254,266**

in '000 EUR	31.12.2019				
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-5: Performing	4,098,790	80,260	0	0	4,179,050
Grades 6-7: Underperforming	14,071	71,620	0	0	85,691
Grade 8: Credit-impaired	0	0	94,919	3,743	98,661
Non-rated exposures	402,420	10,844	20,537	128	433,930
Gross outstanding amount	**4,515,282**	**162,724**	**115,456**	**3,871**	**4,797,332**

	31.12.2020								
	Business loans					Private loans			
in '000 EUR	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Trans-portation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	Total
Stage 1									
Gross outstanding amount	1,280,568	917,002	1,150,446	214,109	983,518	262,840	47,204	6,859	**4,862,544**
Loss allowance	-10,509	-7,900	-9,680	-1,618	-7,961	-4,354	-821	-112	**-42,955**
Net outstanding amount	1,270,059	909,102	1,140,766	212,491	975,557	258,485	46,383	6,747	**4,819,589**
Stage 2									
Gross outstanding amount	54,868	49,485	50,130	24,145	71,188	6,350	935	395	**257,497**
Loss allowance	-2,761	-4,398	-2,866	-2,524	-3,565	-550	-42	-11	**-16,719**
Net outstanding amount	52,107	45,087	47,264	21,621	67,623	5,800	893	384	**240,778**
Stage 3									
Gross outstanding amount	36,196	24,609	28,207	9,346	24,927	5,873	1,171	446	**130,775**
Loss allowance	-17,576	-10,597	-12,756	-4,340	-12,297	-3,525	-695	-298	**-62,084**
Net outstanding amount	18,620	14,012	15,451	5,005	12,630	2,349	475	148	**68,691**
POCI									
Gross outstanding amount	852	1,014	6	0	1,289	8	0	280	**3,450**
Loss allowance	-404	-74	-6	0	-405	-2	0	-36	**-926**
Net outstanding amount	448	940	0	0	884	6	0	244	**2,524**
Total									
Gross outstanding amount	1,372,484	992,110	1,228,789	247,600	1,080,922	275,071	49,310	7,980	**5,254,266**
Loss allowance	-31,250	-22,968	-25,309	-8,483	-24,227	-8,431	-1,559	-457	**-122,684**
Net outstanding amount	1,341,234	969,142	1,203,480	239,117	1,056,695	266,640	47,751	7,523	**5,131,582**

	31.12.2019								
	Business loans					Private loans			
in '000 EUR	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Trans-portation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	Total
Stage 1									
Gross outstanding amount	1,197,729	917,513	1,017,809	231,414	840,859	262,689	38,314	8,955	**4,515,282**
Loss allowance	-8,410	-5,744	-6,368	-1,610	-5,795	-3,456	-534	-106	**-32,022**
Net outstanding amount	1,189,319	911,769	1,011,441	229,805	835,064	259,233	37,780	8,849	**4,483,259**
Stage 2									
Gross outstanding amount	49,722	26,382	38,682	11,766	28,701	6,427	745	300	**162,724**
Loss allowance	-2,134	-1,184	-2,316	-266	-1,130	-492	-45	-8	**-7,575**
Net outstanding amount	47,588	25,198	36,365	11,500	27,571	5,934	700	292	**155,149**
Stage 3									
Gross outstanding amount	31,074	28,289	21,471	6,104	20,317	5,666	1,713	821	**115,456**
Loss allowance	-18,474	-13,720	-13,497	-3,381	-11,553	-3,374	-1,184	-513	**-65,696**
Net outstanding amount	12,600	14,570	7,974	2,724	8,764	2,292	529	308	**49,760**
POCI									
Gross outstanding amount	957	888	226	13	1,675	85	0	28	**3,871**
Loss allowance	-494	-36	-214	-1	-281	-30	0	-24	**-1,079**
Net outstanding amount	463	852	12	12	1,394	55	0	4	**2,792**
Total									
Gross outstanding amount	1,279,482	973,072	1,078,187	249,297	891,552	274,867	40,772	10,103	**4,797,332**
Loss allowance	-29,511	-20,684	-22,395	-5,257	-18,759	-7,352	-1,763	-650	**-106,372**
Net outstanding amount	1,249,970	952,388	1,055,791	244,041	872,793	267,515	39,010	9,453	**4,690,961**

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write-offs, coverage level and concentration risk.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending in particular to small and medium-sized businesses in various economic sectors and to private clients. The distribution of the loan portfolio across 12 banks likewise makes a significant impact in terms of diversification.

	31.12.2020			
in '000 EUR	EUR/USD < 50,000	EUR/USD 50,000 – 250,000	EUR/USD > 250,000	Total
Business loans	**393,244**	**1,628,379**	**2,900,282**	**4,921,905**
Wholesale and retail trade	99,622	487,632	785,229	1,372,484
Agriculture, forestry and fishing	130,454	396,483	465,173	992,110
Production	59,453	352,209	817,128	1,228,789
Transportation and storage	33,319	102,412	111,869	247,600
Other economic activities	70,396	289,643	720,883	1,080,922
Private loans	**156,140**	**156,287**	**19,934**	**332,361**
Housing	111,937	146,504	16,629	275,071
Investment loans	37,327	8,945	3,038	49,310
Others	6,875	838	267	7,980
Gross outstanding amount	**549,383**	**1,784,666**	**2,920,216**	**5,254,266**

	31.12.2019			
in '000 EUR	EUR/USD < 50,000	EUR/USD 50,000 – 250,000	EUR/USD > 250,000	Total
Business loans	**387,774**	**1,602,548**	**2,481,267**	**4,471,590**
Wholesale and retail trade	107,849	478,846	692,787	1,279,482
Agriculture, forestry and fishing	116,117	411,898	445,057	973,072
Production	62,793	342,366	673,028	1,078,187
Transportation and storage	36,631	103,969	108,697	249,297
Other economic activities	64,385	265,468	561,699	891,552
Private loans	**176,052**	**138,206**	**11,485**	**325,743**
Housing	135,944	129,327	9,596	274,867
Investment loans	31,988	7,392	1,392	40,772
Others	8,119	1,487	498	10,103
Gross outstanding amount	**563,826**	**1,740,754**	**2,492,752**	**4,797,332**

In addition, the ProCredit banks limit the concentration risk of their portfolios by means of the following requirements: Large credit exposures (those exceeding 10% of regulatory capital of the respective ProCredit bank) require the approval of the bank's Supervisory Board and the Group Risk Management Committee. No large credit exposure may exceed 25% of regulatory capital of a bank, and the sum of all large credit exposures of a bank may not exceed 150% of its regulatory capital.

The quality of the loan portfolio in all client categories is monitored by credit control units at the individual bank level. They assess the quality of the credit analysis as well as compliance with internal procedures and identify signs of fraudulent activity. These teams comprise experienced staff who not only conduct on-site visits to customers but also systematically screen the portfolio for irregularities.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner. That is why the quality of the ProCredit banks' loan portfolios is significantly higher than the sector average in most countries, even in times when recovering outstanding loan repayments is more difficult.

Counterparty risk, including issuer risk

The ProCredit group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the ProCredit group mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards national central banks in the form of mandatory minimum reserves. We limit counterparty and issuer risk within the ProCredit group through our investment strategy.

Typically, our counterparties are central banks, central governments and commercial banks. The main exposures are account balances, short-term TDAs, highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (mostly foreign currency forwards and swaps).

Counterparty risk is managed according to the principle that our liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the group tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, we only work with carefully selected reliable banks that usually have a high credit rating, typically place our money for short terms (up to three months, but typically overnight) and use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. Engaging in speculative trading is prohibited in the ProCredit group. Liquidity in domestic currency is predominantly invested in central bank papers or sovereign bonds in the respective country. EUR or USD, on the other hand, are generally invested in OECD sovereigns or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited.

Since the outbreak of the COVID-19 pandemic, we have monitored the credit quality of our counterparties even more closely. To this end, we have closely followed rating actions by rating agencies, news coverage, analysis reports and assessments by our banks' risk managers, among other information. During the course of the year, only a few of our counterparties were downgraded by one notch; they nonetheless retained sufficiently high credit quality. The exception was the Ecuadorian sovereign (and some regional banks): Fitch downgraded the long-term issuer default rating to 'RD' (restricted default) and the country ceiling to 'CCC' in April 2020, as interest payments on ten external bonds were deferred until August. The ratings were restored back to the previous level of 'B-' in September due to the conclusion of a distressed debt exchange. Considering the fact that we did not make any investments in the affected bonds, the default event had no negative impact on the group. Despite pandemic events, the group's counterparty and issuer risk remained stable.

The group's exposure to counterparty and issuer risk increased compared to the previous year. This development is attributable to higher liquidity reserves in the banks.

in '000 EUR	**31.12.2020**	**in %**	**31.12.2019**	**in %**
Central bank balances	1,051,991		705,104	
Mandatory reserve	*504,491*		*436,059*	
of which covered by insurance	*-218,500*	64.7	*-233,637*	50.2
Other balances with central banks	*766,599*		*503,166*	
Loss allowances for central bank balances	*-599*		*-484*	
Loans and advances to banks	236,524	14.6	320,742	22.8
Loss allowances for loans and advances to banks	*-5*		*-5*	
Derivative financial assets	509	0.0	306	0.0
Investment securities	336,511	20.7	378,281	26.9
Loss allowance for investment securities	*-94*		*-46*	
Total	**1,625,435**	**100.0**	**1,404,383**	**100.0**

The exposure to banking groups contains repurchase agreements in the amount of EUR 42.5 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

The creditworthiness of another financial asset, i.e. a counterparty, is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. None of positions shown was past due nor showed any signs of impairment as of 31 December 2020. We have established provisions in accordance with IFRS 9 requirements (see also notes 15-18 to the consolidated financial statements).

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit banks conclude transactions only with counterparties that have previously been analysed and for which a limit has been approved. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. Exposures to shadow banks are limited to 20% of total group capital, which is stricter than the regulatory limit of 25%. Essentially, these comprise transactions in the framework of ordinary business activities with locally regulated commercial banks in those countries where we operate whose banking regulations are not aligned with CRR/CRD.

In order to avoid risk concentrations on group level, an additional maximum limit towards each banking group and each state group (total exposure towards central bank, government and state-owned entities) exists. Due to mandatory minimum reserves, a concentration exists at group level with regard to exposures towards central banks. The group has therefore insured almost half of this amount with guarantees from the Multilateral Investment Guarantee Agency (MIGA). The requirements for large exposures were met at all times.

Country risk

The ProCredit group defines country risk as the risk that the group is not able to enforce rights over certain assets in a country or that a counterparty in that country is unable to perform an obligation due to convertibility or transfer restrictions or expropriation of its cross-border obligations. Country risk thus arises solely from cross-border transactions.

Country risk is a material risk only for ProCredit Holding and the ProCredit bank in Germany, because only these companies conduct cross-border transactions with other group banks or clients abroad. The other ProCredit companies are only exposed to country risk to a very limited extent, particularly through their nostro accounts with ProCredit Bank Germany or selected third-party banks. Furthermore, they only carry out cross-border transactions in exceptional cases and only with prior approval from the Group Risk Management Committee.

Country limits are set in order to diversify cross-border transactions as much as possible. These country limits are defined taking into account both the risk perspective and the strategic business perspective. All cross-border transactions and developments in the ProCredit countries of operation are monitored regularly. Among other things, internal indicators, external ratings and country-specific information are used for this purpose.

As in most countries around the world, the economies in our countries of operation were negatively affected by the COVID-19 situation. Since the outbreak of the pandemic, we have been following developments in our countries even more closely, e.g. through regular exchanges with colleagues in the ProCredit banks and daily monitoring of news reports and newly published external analyses.

Ratings agencies maintained the sovereign ratings for our countries of operation in 2020 (a brief discussion of Ecuador's sovereign rating development in 2020 is provided in the "Counterparty Risk, including Issuer Risk" section). At year-end 2020, three countries where we operate (Romania, Georgia and North Macedonia) had a 'negative' outlook from Fitch (if no Fitch rating, then Moody's or S&P). The respective outlook for the other countries remained at 'stable'. We do not expect any significant deterioration in country risk for the group and continue to monitor developments on an ongoing basis.

The cross-border transactions generally take place between group companies, with country risk consisting of potential conversion or transfer restrictions. As a result, we do not consider provisions to be necessary for cross-border transactions within the group.

Market risks

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for the ProCredit group are foreign currency risk and interest rate risk in the banking book. All ProCredit banks are non-trading book institutions. The ProCredit group manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the group risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes.

Foreign currency risk

We define foreign currency risk as the risk that a group company or the group as a whole incurs losses due to exchange rate fluctuations or that the group's equity is reduced through currency translation effects. At the level of individual banks, foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios. At group level, foreign currency risk primarily arises from the equity investments made by ProCredit Holding.

Results are impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level.

Domestic currency depreciation can reduce regulatory capital ratios at bank level in cases where the capital of a bank is held in a different currency than many of the assets it supports: the foreign currency assets appreciate (from a local perspective) and the bank therefore has higher risk-weighted assets but the capital remains unchanged. To mitigate this risk, the group aims to keep a high share of assets in the domestic currency of the respective banks.

Foreign currency risk at group level arises as a result of the equity investments that ProCredit Holding maintains in its subordinated companies in countries which do not have the euro as the domestic currency. Most ProCredit banks keep their equity in the respective domestic currency. Thus, from a consolidated group perspective, OCPs in the respective domestic currencies exist and are roughly equal to the amount of the respective equity base. The group's regulatory capital and risk-taking potential are exposed to fluctuations due to changes in the exchange rates of domestic currencies against the euro. These are included in the translation reserve in the consolidated equity. These fluctuations are usually accompanied by simultaneous changes in the loan portfolio expressed in EUR terms.

The translation reserve changed from EUR -55.8 million at the end of 2019 to EUR -111.8 million in December 2020. This is mainly due to the significant depreciations of the Eastern European currencies and the US dollar. Since the outbreak of the COVID-19 pandemic, some currencies of the countries where we operate have been volatile. Compared to the previous year, the Ukrainian and Georgian national currencies, which were impacted by local political and economic developments in addition to the pandemic, depreciated by more than 20% against the euro. The depreciation of the US dollar and the Moldovan national currency was 8%; the other national currencies in the group showed 2% or less.

Within the scope of the group's capital adequacy calculation in the economic approach, a value-at-risk procedure is defined for fluctuations in the translation reserve. This amount decreased by EUR 23.9 million and stood at EUR 97.0 million as of December 2020. Due to depreciation of the national currency in Ukraine as well as a dividend payment, the amount, as expressed in EUR, of equity capital at ProCredit Bank Ukraine showed a decrease.

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The aim of interest rate risk management is to keep these differences as small as possible in all currencies. This is particularly relevant against the background of the limited opportunities to manage this risk using interest rate derivatives, especially in the local currencies of our banks (with the exception of the euro and US dollar).

The measurement, monitoring, limiting and management of interest rate risk is based on economic value impact and P&L-oriented indicators. The risk is measured on a regular basis, at least quarterly. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts, thereby aggregating individual contracts into homogeneous groups. Interest-bearing sight deposits and savings accounts with unspecified contractual fixed interest are included in the gap analysis according to country- and currency-specific historical analyses.

At the bank level, we assume a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a bank-specific historical analysis. Limits are set in relation to regulatory capital (non-netted in each case) for the economic value impact and for the P&L effect.

At the group level, interest rate risk is quantified and limited accordingly on the basis of economic value impact and on the basis of the 12-month P&L effect. Account is taken for EVI effects within the scope of the group's capital adequacy calculation in the economic approach. The indicators are calculated using historical Value-at-Risk models with a holding period of one year and confidence level of 99.9% (EVI) or 99% (P&L effect). Modelled country-specific risk-free curves are used in a multi-curve approach to discount the cash flows. The maturity-specific interest rate shocks are based on the historical daily development of the reference curves over the last ten years.

in '000 EUR	31.12.2020		31.12.2019	
	Economic Value Impact	12 month P&L-Effect	Economic Value Impact	12 month P&L-Effect
	-92,476	-10,750	-71,100	-8,529

Compared to the previous year, the economic value impact grew by EUR 21.4 million to EUR -92.5 million, mainly due to a higher contribution of the loan portfolio in euros. Furthermore, the portfolio of sight deposits in USD and the ongoing calibration of currency-specific interest rate shocks also had an effect. The 12-month P&L effect increased to EUR -10.8 million at year-end.

In addition, the calculation of the present value of the interest book and the calculation of economic value impact according to the regulatory interest shock scenarios from BaFin were implemented at group level and limits were set accordingly.

Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit group's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

We assess short-term liquidity risk in the ProCredit banks on the basis of a liquidity gap analysis, among other instruments, and we monitor this risk using numerous indicators. These include both a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI) and a survival period, as well as the liquidity coverage ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the banks are able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the banks. LCR indicates whether the banks and the group have sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario.

Market-wide, institution-specific (idiosyncratic) and combined stress tests are conducted monthly and ad hoc to make sure that every ProCredit bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, each bank has a contingency plan. If unexpected circumstances arise and an individual bank proves not to have sufficient liquid funds, ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis. In addition, ProCredit Holding has developed a liquidity contingency plan.

Liquidity is managed on a daily basis by the respective treasury departments, based on the ALCO-approved cash flow projections, and is monitored by risk management and ALCO as well as monthly by Group ALCO. Liquidity movements within the group are coordinated by Group ALCO in order to ensure efficient utilisation of liquidity.

A working group was established in March 2020 to monitor the impact of the COVID-19 pandemic on the group's liquidity position and to take appropriate action in a timely manner. Developments were monitored and assessed on the basis of daily liquidity risk indicators, regular communication between ProCredit Holding and the subsidiary banks, and monitoring of regulatory measures and market trends.

Despite considerable uncertainty regarding market liquidity and possible deposit outflows, especially at the beginning of the global pandemic outbreak, the liquidity situation of the ProCredit banks and the group remained stable. In fact, it showed improvement, mainly due to an increase in customer deposits in all banks as well as new funding agreements with IFIs. This can be seen as evidence of the high level of confidence in the ProCredit banks, even in stress situations, and it demonstrates our strong profile in our markets. The impact of customer loan repayment moratoria on the liquidity position was forecast accurately and absorbed by the banks accordingly. Both the banks and the group had sufficient liquidity available at all times in 2020 to meet all financial obligations in a timely manner.

The following tables show the undiscounted cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

The moratoria granted on customer loan repayments as part of the measures to handle the COVID-19 pandemic have been reflected accordingly in the tables below.

in '000 EUR	31.12.2020 Up to 1 month	1 – 3 months	4 – 12 months	1 – 5 years	over 5 years	Total
Assets						
Central bank balances	1,453,345	0	0	0	0	1,453,345
Loans and advances to banks	214,636	8,924	11,189	1,220	1,830	237,799
Derivative financial assets	43	0	0	466	0	509
Investment securities	125,561	30,011	72,620	108,475	5,980	342,648
Loans and advances to customers	186,310	333,001	1,526,396	2,502,459	1,142,772	5,690,937
Current tax assets	584	2,954	1,615	961	0	6,113
Other assets	16,289	2,125	2,753	2,591	5,654	29,412
Total assets	**1,996,769**	**377,015**	**1,614,573**	**2,616,172**	**1,156,236**	**7,760,765**
Liabilities						
Liabilities to banks	16,180	14,360	35,094	158,388	13,809	237,832
Derivative financial liabilites	969	426	2,543	57	410	4,405
Liabilities to customers	2,800,539	839,152	711,729	405,627	157,487	4,914,534
Liabilities to international financial institutions	13,765	57,742	318,544	521,563	143,432	1,055,045
Debt securities	534	1,130	42,407	189,439	62,162	295,672
Other liabilities	17,653	677	2,551	6,013	10,995	37,887
Provisions	2,767	892	5,473	3,311	958	13,402
Current tax liabilities	56	1,243	284	0	0	1,582
Subordinated debt	404	1,076	6,567	56,515	54,557	119,120
Total liabilities	**2,852,867**	**916,699**	**1,125,191**	**1,340,913**	**443,810**	**6,679,480**
Contingent liabilities						
Performance guarantees, payment guarantees and letters of credit	251,053	0	0	0	0	251,053
Loan commitments (revocable)	656,291	0	0	0	0	656,291
Loan commitments (irrevocable)	9,757	0	0	0	0	9,757
Contractual liquidity surplus	**-1,773,199**	**-539,684**	**489,382**	**1,275,259**	**712,426**	

in '000 EUR	31.12.2019 Up to 1 month	1 – 3 months	4 – 12 months	1 – 5 years	over 5 years	Total
Assets						
Central bank balances	1,126,627	0	0	0	0	1,126,627
Loans and advances to banks	289,387	16,013	26,427	32,899	9,398	374,125
Derivative financial assets	118	0	188	0	0	306
Investment securities	266,205	26,679	61,259	25,817	105	380,065
Loans and advances to customers	191,601	370,619	1,538,683	2,318,639	828,174	5,247,717
Current tax assets	907	1,112	2,043	1,253	0	5,314
Other assets	17,231	3,527	2,348	8,726	6,161	37,993
Total assets	**1,892,077**	**417,951**	**1,630,947**	**2,387,334**	**843,839**	**7,172,148**
Liabilities						
Liabilities to banks	26,894	5,588	33,167	154,459	14,791	234,899
Derivative financial liabilites	600	401	177	311	253	1,742
Liabilities to customers	2,865,614	221,914	903,004	362,799	22,046	4,375,377
Liabilities to international financial institutions	4,676	23,493	192,101	552,689	145,869	918,827
Debt securities	620	46,377	93,928	173,102	64,573	378,599
Other liabilities	14,963	1,807	3,420	8,392	2,565	31,146
Provisions	2,350	1,003	4,735	2,319	937	11,344
Current tax liabilities	0	1,574	327	0	0	1,901
Subordinated debt	455	1,081	7,992	58,239	56,332	124,100
Total liabilities	**2,916,171**	**303,237**	**1,238,850**	**1,312,311**	**307,367**	**6,077,937**
Contingent liabilities						
Performance guarantees, payment guarantees and letters of credit	211,609	0	0	0	0	211,609
Loan commitments (revocable)	518,714	0	0	0	0	518,714
Loan commitments (irrevocable)	15,037	0	22,000	0	0	37,037
Contractual liquidity surplus	**-1,769,455**	**114,713**	**370,097**	**1,075,023**	**536,472**	

In order to measure liquidity risk in the banks, some positions, in particular customer deposits, highly liquid investment securities and contingent liabilities, are allocated to the various time buckets. This is performed according to assumptions about inflows and outflows, based on their observed historical behaviour in stress situations or regulatory benchmarks. In addition, the majority of the guarantee commitments usually expire without being called upon.

At group level, short-term liquidity risk is measured particularly by means of LCR. As of 31 December 2020, the LCR was 153% (2019: 198%) at group level, and thus comfortably above the regulatory requirement of 100% and our internally defined early warning threshold. This indicates a comfortable liquidity situation for the group.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through customer deposits; our deposit-taking operations focus on our target group of business clients and private clients/savers, with whom we establish strong relationships. These are supplemented by long-term loans from international financial institutions (IFIs). The funding of the ProCredit group has proven to be resilient. As of end-December 2020, the largest funding source was customer deposits with EUR 4,898.9 million. IFIs are the second-largest source of funding, accounting for EUR 1,005.2 million.

The ProCredit group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the banks, identified in the business planning process, are monitored and regularly reviewed at group level. Group ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank in Germany also offer bridge financing in the event that a funding project is delayed. A key indicator for limiting funding risk is the deposit concentration indicator. Two more indicators additionally limit the level of funding from the interbank market.

Operational risk

In line with the Capital Requirements Regulation (CRR), we define operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems (e.g. failure of data-processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) or from external events (e.g. criminal activities, natural disasters). This definition also takes into account fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Operational risk management aims to identify, analyse and assess all material risks at an early stage and to avoid their recurrence.

One of the key components of operational risk management is the detailed recording of risk events arising from operational risks. In this context, a Risk Event Database was developed to ensure that all risk events identified in the group with realised or potential losses from operational risks are recorded, analysed and communicated effectively. Through this uniform, pre-defined structure for the documentation of risk events, it is ensured that adequate attention is paid to the implementation of necessary corrective and/or preventive measures for reducing or avoiding operational and fraud risk. The table below provides an overview of the gross and net losses due to operational loss events in the 2020 financial year.

Key operational risk figures 2020	
Gross loss, in EUR m	0.7
Current net loss, in EUR m	0.6
Number of loss events	167

Source: Risk Event Database (as of 25 January 2021)

In addition, risk assessments are carried out annually throughout the group. In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, these risk assessments are systematically performed in order to identify and evaluate key risks and to assess the adequacy of the control processes. Risk mitigation measures are defined for the areas identified as high risk. These two control components complement each other and provide an overall picture of the operational risk profile for each ProCredit bank, ProCredit Holding and the group as a whole.

In addition, early warning indicators have been defined at the level of ProCredit Holding to identify areas of banking business with increased fraud risk. These can be expanded upon by the subsidiary banks. The early warning indicators are analysed regularly and, where needed, preventive measures are agreed upon.

To complete the management of operational risk, all new products and/or activities, as well as outsourcing activities, need to be analysed to identify and manage potential risks before implementation.

Operational risk is accounted for and monitored within the scope of the group's capital adequacy calculation in the economic approach.

The group has defined detailed guidelines and standards to ensure the confidentiality, availability and integrity of all information and information-processing IT systems requiring protection. Regular controls of information security and business continuity are part of existing processes and procedures. The ProCredit banks carry out a classification of their information assets and conduct a risk assessment on their critical information assets each year. The business continuity framework implemented in the group ensures that these risks are understood by all members of staff, that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes. The IT service provider, Quipu GmbH, is part of the ProCredit group and supports all group companies with respect to software and hardware.

Against the background of the COVID-19 pandemic, a working group focusing on staff organisation and operational risk was set up at the level of ProCredit Holding at an early stage. The objective of this working group is to ensure the continuity of business operations and adequate staffing. Our digital approach to all routine banking operations has enabled us to quickly implement home-office models to protect the health and safety of customers and employees. The working group also focuses on regular monitoring of information security. Training measures on information security and data protection were carried out in the group at an early stage.

We have seen a pandemic-related increase in attempted cyber attacks in the group, although these did not result in any losses. We were able to maintain business continuity and guarantee the availability of IT systems without any loss of performance. Furthermore, we did not identify any increase in fraud or other operational risks.

Risks arising from money laundering, terrorist financing and other acts punishable by law

Responsible behaviour is an integral part of our values-oriented business model. This is reflected in the Code of Conduct for the group's employees as well as in the contents of the introductory courses for new staff and in the curricula of the ProCredit academies. The prevention of money laundering, terrorist financing and fraud is a key component of our self-perception. This is illustrated by the criteria used to select customers and by the few cases of internal fraud within the group.

ProCredit banks are in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Moreover, our banks have implemented the group-wide guidelines on the prevention of money laundering and terrorist financing, which can be stricter than the legal requirements prevailing in the individual countries of operation. Implementation is regularly reviewed by the group's Anti-Money Laundering Officer.

As the ProCredit group is supervised by the German financial supervisory authorities, we implement the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level, across the group as minimum requirements in all of our banks. As the superordinated company for the ProCredit group, ProCredit Holding is responsible for ensuring group-wide compliance with these requirements. All ProCredit banks also have their own independent money laundering officers, who in turn implement both group-wide requirements and national regulations for the prevention of money laundering and terrorist financing in the respective banks.

Above: Biogas and photovoltaic plant financed in the Agrinio region in Greece
Below: Kyiv ESKO, plumbing and heating installer, client of ProCredit Bank Ukraine

Our ethical responsibility is documented in the form of our Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit banks are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

Besides identifying all contracting parties and clarifying the purpose of the business relationship, at our banks the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client.

All ProCredit banks use specialised software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers in all of our banks work closely with the responsible law enforcement authorities and report regularly to the Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

Other material risk

Other risks that are assessed as material include business risk and model risk.

Business risk is defined as the risk of reduced profitability due to external and internal factors. These include deteriorating economic conditions, unanticipated regulatory interventions and disadvantageous business decisions. Business risk is mitigated by means of a structured process for the planning, implementation, assessment and adjustment of the business strategy and risk strategy, as well as through the regular interaction between the Management of ProCredit Holding and the management team in the banks. Furthermore, the standardised software products provided by the group's own IT provider, Quipu, likewise have risk-mitigating effects. Last but not least, our comprehensive internal training programme also ensures a universally high level of competence among our managers and staff.

Model risk comprises the risk that model deficiencies or inadequately applied models serve as a faulty basis for decision-making, resulting in the assumption of a higher level of risk than intended. The basic principles of model risk management are the identification and avoidance of model risks (e.g. through the use of standard market models) and the appropriate consideration of known model risks (e.g. through conservative calibration). Model risks that are not known and therefore cannot be mitigated are accepted as an inherent risk of the business model. With regard to governance in model risk management, requirements are defined for model use, model validation and model changes.

Capital Management

Capital management in the group is guided by the principle that neither a ProCredit bank nor the group as a whole may at any time incur greater risks than they are able to bear. In this context, the group has the following objectives:

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the group and the banks are able to act
- Support for the banks and for the group in implementing their plans for sustainable growth

The principle of capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators for each individual ProCredit bank and the group as a whole include, in addition to regulatory standards in each country, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of capitalisation in the economic perspective. Whereas the capital requirements for the ProCredit group are imposed and monitored by BaFin and by the Supervisory College pursuant to Section 8a KWG, the individual ProCredit banks are subject to the requirements imposed by the respective national supervisory authorities. The capital management of the ProCredit banks and the group as a whole is governed by group policies and monitored on a monthly basis by the Group Risk Management Committee.

Capitalisation in the economic perspective

Ensuring that the group as a whole and each individual bank maintains sufficient capitalisation in the economic perspective at all times is a key element of ProCredit's group-wide risk management and capital management processes. In the context of the economic perspective, the capital needs arising from our specific risk profile are compared with the available capital resources to assure that the ProCredit group's capitalisation is sufficient at all times. Capitalisation in the economic perspective was adequate at all times during the course of 2020.

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our calculations is that the group is able to withstand strong shock scenarios. Compared to the previous year, there were no significant adjustments to the risk models. The countries in which we do business have a relatively volatile history. Therefore, our datasets include various periods of stress, such as the armed conflicts in Ukraine. As a result, there was no need to adjust risk modelling to adequately reflect the impact of the COVID-19 pandemic.

When calculating the economic capital required to cover risk exposures, we apply a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the group and are based on the annually conducted risk inventory. The following risks are included in the calculation of the economic perspective for the group:

Material risk	**Quantification/treatment**
Credit risk, comprising: • customer credit risk • counterparty risk • country risk	Portfolio model based on a Monte Carlo simulation (VaR)
Foreign currency risk	Monte Carlo simulation (VaR)
Interest rate risk	Historical simulation (VaR)
Operational risk	Quantitative model based on a Monte Carlo simulation
Business risk	Analytical method (Business VaR)
Funding risk	Qualified expert assessment
Model risk	Qualified expert assessment

The group's risk-taking potential (RTP), defined as the consolidated group equity (net of intangibles and deferred tax assets) plus ProCredit Holding's subordinated debt, amounted to EUR 842.9 million as of the end of December 2020 (2019: EUR 858.1 million). The Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 745.0 million (2019: EUR 745.0 million). This reflects the maximum acceptable risk amount for the ProCredit group; moreover, taking account for the conservative risk tolerance, it was set below the group's RTP in order to ensure the existence of a sufficient security buffer. The economic capital required to cover the risks is compared with the internal capital available for each risk and for covering all risks.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation. In the standard scenario, which is calculated with a 99.9% confidence level, the ProCredit group needs 75.6% of its RAtCR (2019: 77.9%) and 66.9% of its RTP (2019: 67.7%) to cover its risk profile.

	31.12.2020		
in '000 EUR	Limit	Limit Used	Limit Used (in % of limit)
Credit Risk	385,000	288,607	75.0
Interest Rate Risk	122,000	92,481	75.8
Foreign Currency Risk	128,000	97,047	75.8
Operational Risk	27,000	21,015	77.8
Business Risk	28,000	19,404	69.3
Funding Risk	10,000	6,989	69.9
Model Risk	45,000	38,000	n.a.
Total	**745,000**	**563,544**	**75.6**

	31.12.2019		
in '000 EUR	Limit	Limit Used	Limit Used (in % of limit)
Credit Risk	385,000	306,457	79.6
Interest Rate Risk	97,000	71,100	73.3
Foreign Currency Risk	155,000	120,904	78.0
Operational Risk	27,000	19,060	70.6
Business Risk	28,000	19,725	70.4
Funding Risk	9,000	6,372	70.8
Model Risk	44,000	37,000	n.a.
Total	**745,000**	**580,617**	**77.9**

Stress tests

Stress tests are performed regularly, at least once per quarter and ad hoc, to test the group's capacity to withstand shock conditions. Various types of analysis are applied, from simple sensitivity analysis for individual risk types to scenario analyses in which multiple or all risk factors are stressed simultaneously. The stress tests are supplemented by reverse stress tests and, if applicable, by ad hoc stress tests.

A range of stress scenarios are adopted and tested in order to analyse the impact of extraordinary but plausible events. The scenarios apply to both historical and hypothetical stress situations. They are based on, among other things, assumptions depicting significant deterioration of worldwide macroeconomic conditions and include an analysis of a severe economic downturn. The selection of the scenarios takes account for the group's strategic orientation and the economic environment. The macroeconomic stress scenario we have analysed exceeds current expectations for the impact of the COVID-19 pandemic. In addition, various stress analyses related to the COVID-19 pandemic were conducted during 2020.

The results of stress testing show that the risks to which the group would be exposed in a severe stress event would not exceed the RAtCR, meaning that the capitalisation of the group in the economic perspective would be adequate under the defined stress conditions.

Capitalisation in the normative perspective

The normative perspective analyses whether regulatory and supervisory capital requirements have been met on a continuous basis. This was the case at all times during the reporting period. The group's regulatory capital ratios are presented below:

	31.12.2020	31.12.2019
Common equity Tier 1 capital ratio	13.3%	14.1%
Tier 1 capital ratio	13.3%	14.1%
Total capital ratio	**14.7%**	**15.7%**

The ProCredit group issued no AT1 instruments. Therefore, as of 31 December 2020 the total amount of Tier 1 capital of the ProCredit group consisted of Common Equity Tier 1 capital. A dividend distribution for 2019 financial year earnings continues to be accounted for throughout the period, despite the lack of actual payout due to the COVID-19 pandemic.

The CET1 and T1 capital ratios of the ProCredit group decreased from 14.1% to 13.3%. Risk-weighted assets (RWAs) increased by EUR 73 million compared to December 2019. The solid loan portfolio growth of EUR 441 million in 2020 was largely offset in RWAs by two factors, namely the recognition of Serbian banking regulations as CRR-equivalent by the EU Commission in January and by the introduction of a new SME support factor due to the "CRR quick fix" in June. CET1 capital decreased by EUR 36 million due to the negative development of the translation reserve. The total capital ratio decreased from 15.7% to 14.7%, due also to the reduced capacity to recognise several T2 instruments. Despite the COVID-19 pandemic, in 2020 the level of capitalisation in the ProCredit group was significantly higher than the current regulatory requirements, which include an SREP requirement amounting to 2.0%.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. The minimum was set at 3% in CRR II and compliance is binding as from 28 June 2021. As of year-end 2020 the ProCredit group reported a very comfortable leverage ratio of 9.3%.

in '000 EUR	31.12.2020	31.12.2019
Equity	706,378	742,324
Assets	7,601,680	6,885,604
Leverage ratio	**9.3%**	**10.8%**

Internal control system and risk management system in the financial reporting process

The internal control system and risk management system in the ProCredit Holding and ProCredit group's financial reporting process comprises the principles, procedures and measures for the effective, cost-efficient and rule-compliant application of financial reporting requirements. The main risks in due and proper financial reporting are the improper representation of financial position and financial performance or delayed publication. The internal control system in the financial reporting process is subject to the general principles of our risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance & Controlling implements the requirements of the Management and defines the specific parameters within the framework provided. Group Operational Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

The financial reporting process aims to standardise, to the greatest extent possible, the application of the main international financial reporting standards and related processes. The Group Accounting & Taxes department establishes the accounting manual, which applies throughout the group, and defines the material processes in the respective policies, taking account for the principle of dual control. The processes for report preparation are largely automated and the functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined and regularly monitored in accordance with the respective policies.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The units in the group prepare information relevant for financial reporting with the support of IT applications which are uniform throughout the group. The information packages from units in the group are reviewed locally, taking account for the dual control principle, and then subject to standardised quality checks. Consolidation is carried out using standard software support.

In addition, Internal Audit supports the Management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes in the ProCredit Holding and ProCredit group to determine whether they are effective, orderly and cost efficient.

REMUNERATION REPORT

Management

The group remuneration approach presented here applies equally to all employees of the ProCredit group, and thus also to the members of the Management of ProCredit Holding. Remuneration of the members of the Management generally consists of a fixed salary and should be appropriate and transparent. As for all employees in the ProCredit group, variable remuneration elements for members of the Management are not contractually set and are only applied on a limited scale.

The following remuneration elements generally apply for members of the Management:

- fixed monetary remuneration
- contributions to private health insurance (if applicable)
- contributions to retirement provisions and life insurance (if applicable)
- D&O insurance coverage with a deductible in accordance with section 93 (2) sentence 3 AktG

The remuneration of the members of the Management is set by the Supervisory Board, taking account for the respective duties and performance, as well as the economic situation and the institutional outlook. The Supervisory Board establishes an appropriate level of remuneration for the members of the Management Board based on an assessment of what constitutes appropriate compensation for their work and of what appropriately reflects their role in the company. Consideration is also given to both the basic principles of the group's remuneration approach and the relationship between the remuneration of the Management and employees.

The Supervisory Board may apply a special remuneration to reward specific cases of extraordinary performance. These decisions are based on a multi-year performance assessment, which generally takes into account the overall performance of the members of the Management Board and their contribution to the ProCredit *res publica*. Such decisions take account for the economic situation and outlook of the group. Variable remuneration elements can be used for the acquisition of shares in the employee investment company ProCredit Staff Invest. In such cases, the individual commits to hold the shares for a period of five years.

in '000 EUR	2020		2019	
Dr Gian Marco Felice (from 03.06.2020)	**Benefits granted**	**Allocation**	**Benefits granted**	**Allocation**
Basic Salary	114,672	114,672	-	-
Total remuneration	**114,672**	**114,672**	**0**	**0**

in '000 EUR	2020		2019	
Sandrine Massiani	**Benefits granted**	**Allocation**	**Benefits granted**	**Allocation**
Basic Salary	199,336	199,336	199,684	199,684
Total remuneration	**199,336**	**199,336**	**199,684**	**199,684**

in '000 EUR	2020		2019	
Dr. Gabriel Schor	**Benefits granted**	**Allocation**	**Benefits granted**	**Allocation**
Basic Salary	145,336	145,336	145,606	145,606
Pension cost**	33,031	30,286	33,031	33,031
Total remuneration	**178,366**	**175,621**	**178,637**	**178,637**

in '000 EUR	2020		2019	
Borislav Kostadinov (until 15.09.2019)	**Benefits granted**	**Allocation**	**Benefits granted**	**Allocation**
Basic Salary	-	-	142,699	142,699
Short-term variable remuneration*	-	-	192,000	192,000
Pension cost**	-	-	3,150	3,150
Total remuneration	**0**	**0**	**337,849**	**337,849**

* *In the case of Borislav Kostadinov, the one-year variable remuneration for 2019 includes the contract termination agreement.*

** *This includes: Disability insurance and life insurance, contributions to company pension insurance and voluntary/private health insurance, expense allowance as well as statutory allocations.*

The remuneration presented here does not contain employer contributions to health and long-term care insurance. In the event that duties are terminated for reasons for which the member of the management board is not responsible, the scope of claims shall be limited to the remainder of the employment contract or a maximum of two years' remuneration (severance cap). If duties are terminated for reasons for which the member of the management board is responsible, there shall be no severance payment to the member of the management board.

Supervisory Board

The members of the Supervisory Board each receive remuneration in the amount of EUR 10,000, independent of their role as Chairperson, Deputy Chairperson or member of a committee. One Supervisory Board member has waived his Supervisory Board compensation starting from 1 July 2020 until further notice due to the COVID-19 pandemic. There is no performance-related remuneration for members of the Supervisory Board. ProCredit Holding reimbursed the travel costs for Supervisory Board members. Furthermore, ProCredit Holding concluded a D&O insurance policy which provides coverage for the members of the Supervisory Board. No fees are paid for participating in the meetings of the Supervisory Board of ProCredit Holding. Additional remuneration is granted in individual ProCredit banks for supervisory board activities.

DISCLOSURES REQUIRED BY TAKEOVER LAW PURSUANT TO SEC. 315 (1) SENTENCE 1 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH)

The share capital of ProCredit Holding AG & Co. KGaA (the Company) is divided into 58,898,492 registered shares with no par-value. Each share entitles its holder to one vote.

In principle, all shares can be freely traded.

Certain restrictions apply to Zeitinger Invest GmbH, DOEN Participaties B.V., IFC, KfW and ProCredit Staff Invest 1 GmbH & Co. KG (the **Core Shareholders**) as follows:

The Core Shareholders entered into an agreement dated 7 July 2011, as amended on 24 May 2019 (the **Core Shareholders' Agreement**), according to which each Core Shareholder agrees to exercise its influence as a shareholder in the Company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the Company and its subsidiaries continue to be in line with applicable law and best-practice banking and socially responsible standards. The Core Shareholders' Agreement stipulates that each Core Shareholder exercises its voting rights at its own discretion only, and that there is no obligation to exercise such voting rights jointly and in a coordinated manner with any or all of the other Core Shareholders. Moreover, the Core Shareholders' Agreement sets out certain minimum levels for the Core Shareholders' shareholding in the Company, collectively amounting to 20% of the Company's share capital, which the Core Shareholders agreed to maintain until 31 October 2021.

The company's shares do not procure any particular monitoring rights.

The following shareholders owned (directly or indirectly) as of 31 December 2020, pursuant to their most recent voting rights notification, 10% or more of the voting rights:

- Zeitinger Invest GmbH (voluntary notification dated 8 October 2018)
- Federal Republic of Germany (indirectly via KfW) (voting rights notification dated 28 December 2016)
- DOEN Foundation (indirectly via DOEN Participaties B.V.) (voting rights notification dated 29 December 2016)

There are no shareholders holding shares with special rights conferring power of control.

As of 31 December 2020, the employees of the Company, according to the previous relevant legal voting rights notification, collectively held 2.99% of the voting rights via the investment company ProCredit Staff Invest 1 GmbH & Co. KG. The investment company is the direct shareholder and thus exercises the voting rights for the employees of the Company. As far as employees are direct shareholders, they themselves exercise the voting rights control.

The activities of the Company are managed by ProCredit General Partner AG, which, due to the legal nature of a partnership limited by shares (*Kommanditgesellschaft auf Aktien – KGaA*), does not have to be appointed but has been the managing entity of the Company since its establishment. The activities of ProCredit General Partner AG are managed by natural persons who are appointed and removed by the Supervisory Board of ProCredit General Partner AG in accordance with sec. 84 and 85 AktG and Art. 6 (2) of the Articles of Association of ProCredit General Partner AG. Pursuant to Art. 22 (1) of the Articles of Association of the Company and sec. 179 (2) AktG, the Articles of Association of the Company can be amended upon resolution of the Company's General Meeting with simple majority, unless otherwise stipulated by compulsory law. Furthermore, ProCredit General Partner AG has rights of approval for such changes pursuant to Art. 22 (2) of the Articles of Association of the Company. This approval is subject to confirmation by the Supervisory Board of ProCredit General Partner AG, pursuant to Art. 7 (4) of the Articles of Association of the Company, as well as by the General Meeting of ProCredit General Partner AG, pursuant to Art. 4 (2) of the Internal Rules of Procedure of the Management Board.

The Management of the Company was authorised by the Extraordinary General Meeting of 15 November 2019 to acquire, within the legal limits, treasury shares up to a total of 1.5% of the share capital existing at the time the resolution is adopted by the General Meeting or – if this value is lower – of the share capital existing at the time the authorisation is exercised. The authorisation may be exercised directly by the Company or by third parties commissioned by the Company; it permits the acquisition of the Company's own shares in their entirety or in partial amounts as well as one-off or multiple acquisitions. The acquisition of treasury shares can only be effected via the stock exchange. The Company may only pay a price per share (excluding incidental acquisition costs) which does not deviate more than 10% above or below the arithmetic mean of the prices of the Company's non-par value shares in the closing auction in Xetra trading (or a corresponding successor system) on the Frankfurt Stock Exchange during the last ten trading days prior to the conclusion of the commitment transaction.

The Management of the Company was also authorised to use shares of the Company acquired on the basis of the above authorisation for all legally permissible purposes, and in particular for the following: They may be transferred free of charge to selected members of the respective management as well as to selected employees in managerial and key positions of certain enterprises affiliated with the Company within the meaning of sections 15 et seq. of the German Stock Corporation Act (AktG) and domiciled abroad under the proviso that these shares are transferred without delay as contributions in kind to ProCredit Staff Invest 1 GmbH & Co. KG in exchange for shares in the limited partnership; the transfer of the shares to the aforementioned employees shall be effected in accordance with a staff programme. Shareholders' subscription rights to these treasury shares are excluded to this extent pursuant to sections 71 (1) no. 8, 186 (3) and (4) AktG.

ProCredit General Partner AG, as the managing general partner pursuant to Article 4 (3) of the Articles of Association of the Company is authorised to issue new shares in a total amount of up to EUR 29,449,246.00 in the period until 22 May 2023 (Authorised Capital 2018).

There are no significant agreements between the Company and another party that are subject to a change of control of the Company following a takeover bid.

Furthermore, there are no compensation agreements in place with the members of the Management or with any employees of the Company in case of a takeover bid.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Report

ProCredit Holding AG & Co. KGaA (also "Company" or "ProCredit Holding") places emphasis on transparent corporate governance and open communication with all stakeholders. This approach and our development-oriented mission are supported by the shareholders. The values upon which we have successfully built the ProCredit group include personal integrity and commitment, social responsibility and tolerance, open communication and transparency, as well as high professional standards.

Management Board and Supervisory Board

Relationship between Management Board and Supervisory Board

ProCredit Holding has the legal form of a partnership limited by shares ("KGaA" – Kommanditgesellschaft auf Aktien). In the case of a KGaA, the management board's duties of a stock corporation ("AG" – Aktiengesellschaft) are incumbent upon the general partner. The sole personally liable general partner of the Company is ProCredit General Partner AG (Geschäftsleitung) (also "General Partner" or "Management"), whose management board ("Management Board") is thereby responsible for managing the Company's business operations.

Currently the supervisory boards of ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA (the latter "Supervisory Board") comprise the same individuals. This allows for a high level of transparency in the cooperation between the Supervisory Board level and the Management Board of ProCredit General Partner AG.

Management Board and Supervisory Board cooperate closely to the benefit of the Company. The Supervisory Board meets at least twice in each half year. During the 2020 financial year, the Supervisory Board held one in-person meeting. Due to the prevailing pandemic conditions, five video conferences and two telephone conferences were also held. In addition, a resolution was adopted through a written circulation procedure.

The Supervisory Board has determined a comprehensive set of reports to be provided by the Management in due time before each meeting. The Management Board reports on the business and risk strategies of the group at least once per year and routinely reports on the status of implementation of the strategies.

The Supervisory Board reviews and approves the Annual Financial Statements for ProCredit Holding and the Consolidated Annual Financial Statements for the ProCredit group. The Supervisory Board examines the efficiency and effectiveness of its activities on a regular basis, and at least once in every calendar year. The Company complies with the German Corporate Governance Code except as outlined in the Statement provided below.

Management Board of ProCredit General Partner AG

The Management Board comprised the following individuals in the 2020 financial year:

Member of the Management Board (in alphabetical order)	First appointed	Appointed until	Responsibilities as of year-end
Dr Gian Marco Felice	2020	31 May 2024	Business Support, Environmental Management and Impact Reporting, IT
Sandrine Massiani	2017	28 February 2026	Risk Management, Legal, Human Resources Management, Internal Audit, Anti-Money Laundering and Compliance
Dr Gabriel Schor	2004	31 December 2021	Accounting and Taxes, Administration and Translation, Communications, Funding and Treasury, Investor Relations, Reporting and Controlling, Supervisory Reporting and Capital Planning

The members of the Management Board are jointly responsible for the management of the General Partner and the management of the Company. Its Internal Rules of Procedure govern the work of the Management Board. The supervisory board of ProCredit General Partner AG decides on the appointment and dismissal of members of the Management Board, including long-term succession planning for the Management Board. The supervisory board of ProCredit General Partner AG also sets the remuneration of the individual members of the Management Board. The Supervisory Board has been informed of and has agreed to the decisions. A Nominations Committee and a Remuneration Control Committee were established for this purpose in February 2021.

The basis for succession planning is the continuous and systematic development of the Company through the early identification of suitable candidates of different disciplines and nationalities as well as different genders and ages. Another crucial aspect is the development of managers through the assumption of tasks with increasing responsibility and with a good understanding of and interest in the group's core business and its objectives with regard to sustainable and responsible banking. When appointing management board members, sufficient diversity is ensured in terms of professional training and experience, cultural background, internationality and gender. Independent of individual criteria, a holistic appreciation of the individual personality is decisive.

Supervisory Board of ProCredit Holding AG & Co. KGaA

The Supervisory Board comprised the following individuals in the 2020 financial year:

Supervisory Board member	First appointed	Appointed until	Supervisory board positions held outside the group
Dr Claus-Peter Zeitinger (Chairman)	2004	2022	None
Rainer Ottenstein (Deputy Chairman since 24 March 2020)	2016	2021	None
Dr H.P.M. (Ben) Knapen	May 2020	2022	Member of the Supervisory Board of the Leiden Asia Centre Chairman of the Supervisory Board of the Nuclear Research and Consultancy Group (until April 2020) Chairman Novamedia Foundation
Christian Krämer (Deputy Chairman until 24 March 2020)	2014	2022	None
Marianne Loner	2017	2022	Sura Asset Management S.A., Medellin, Colombia, Member of the Supervisory Board Britam Holdings Plc, Nairobi, Kenya, Member of the Supervisory Board Britam Life Assurance Co. Nairobi, Kenya, Member of the Supervisory Board Amundi Planet Sicav-SIF, Luxembourg, Member of the Supervisory Board
Petar Slavov	2014	2022	None
Jasper Snoek	2007	May 2020	None

The Supervisory Board of the General Partner oversees the Management Board and is involved in decisions of fundamental importance to the group. The Management Board regularly informs the Supervisory Board of the group business strategy and other fundamental matters relating to the financial position and financial performance of the group as well as its risk situation, risk management and risk controlling. Key decisions of the group are approved by the supervisory board of the General Partner. The Supervisory Board is informed of and can discuss these decisions, particularly since it is comprised of the same individuals of the supervisory board of the General Partner.

Objectives for the composition of the Supervisory Board and status of implementation

The Supervisory Board has determined that its members shall include persons who, in addition to a sound knowledge of banking, also have:

- a good understanding of and interest in the group's core business
- the time and interest to travel to the region to understand and assess the operations of ProCredit subsidiaries, and ideally a seat on at least one supervisory board of a subsidiary
- a good understanding of and interest in development finance and sustainability aspects
- at least one member should have professional experience in South Eastern and Eastern Europe

Above: IVEX, provider of gas systems and solar electricity, client of ProCredit Bank Bosnia and Herzegovina
Below: Novagros, agribusiness for grain and seed, client of ProCredit Bank Ukraine

All members should have sufficient knowledge of financial analysis and risk aspects of banking. Furthermore, since the Company's shares are listed on the Frankfurt Stock Exchange, a general understanding of capital markets is valuable.

All members of the Supervisory Board aim to act as independent members within the meaning of the provisions of the German Stock Corporation Act and the GCGC. The Supervisory Board has determined that it has an adequate number of independent members. More than half of the members of the Supervisory Board are independent at all times. Members of the Supervisory Board are also members of the supervisory board of ProCredit General Partner AG. Five members have been nominated by core shareholders. However, in our opinion, this does not affect the independence of the Supervisory Board members involved, as they have been carefully instructed to comply with all applicable laws, in particular with those obliging them to maintain their independence. Furthermore, the Management Board has not become aware of any circumstances that may compromise the independence of any Supervisory Board member. Although Dr Zeitinger has been a member of the Company's Supervisory Board for more than twelve years, he is nevertheless to be regarded as independent, as there is no personal or economic proximity between him and any member of the General Partner's Management Board. With respect to Dr Zeitinger's independence from the Management Board, it should also be noted that Ms Massiani and Dr Felice have only been members of the Management Board for four years and less than one year, respectively. There are no other circumstances that would impair Dr Zeitinger's independence.

The Supervisory Board requires prospective candidates to indicate any potential conflicts of interest and shall assess such conflicts and satisfy itself that the respective candidates can devote the required amount of time before making its proposals to the General Meeting of the Company concerning the election of new members of the Supervisory Board.

As a rule, the age limit for Supervisory Board members is 75 years.

The Supervisory Board believes that it complies with the specified concrete objectives regarding its composition.

There were no committees of the Supervisory Board in the 2020 financial year. All members of the Supervisory Board are well qualified and have sufficient time to perform their duties. In February 2021, the Supervisory Board formed three committees: A Risk and Audit Committee, a Nominations Committee and a Remuneration Control Committee.

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. One member of the six-person Supervisory Board and one member of the three-person Management Board are women.

The Supervisory Board has set the target that at least one woman should serve on the Management Board. In addition, at least one woman should serve on the Supervisory Board should there only be one or fewer women on the Management Board.

Furthermore, the Management has established a 25% minimum level of gender representation for the first two levels of management.

The Supervisory Board evaluates the effectiveness and efficiency of its activities and the activities of the Management Board on a regular basis at the last Supervisory Board meeting before the end of the year, and it assesses whether the supervisory and control tasks have been achieved with regard to the above-mentioned objectives. This is based on experience and on regular contact and meetings with members of the Management and with all managers and colleagues in the group. Of particular importance in this respect is the regular exchange of information within the framework of the quarterly Supervisory Board meetings of the banks in the group, with participation from Management and staff from the subsidiaries. In addition, assessment shall take into account the quarterly group risk report and the handling of changes in the regulatory framework, both at group level and at the level of the banks in the group. The composition and competencies of the Management Board are likewise discussed. In the 2020 financial year, the review did not give rise to any complaints.

Remuneration and share ownership of the Management and Supervisory Board members

For information on the compensation of the Management and Supervisory Boards' members, please refer to our Remuneration Report.

Of the Supervisory Board members, only Petar Slavov owns (indirectly) ProCredit Holding shares.

Management Board members hold shares in ProCredit Holding either directly or indirectly (via ProCredit Staff Invest 1 GmbH & Co. KG). However, in no individual case or together does the aggregated volume of shares reach 1% of the total share capital of the Company. There is no share option scheme for members of the Company's Management Board.

The combined volume of shares held directly and indirectly by all Management Board and Supervisory Board members amounts to less than 1% of the shares of the Company.

Managers' transactions

The members of the Management Board and of the Supervisory Board as well as persons closely associated to them are required pursuant to Art. 19 Regulation (EU) No. 596/2014 (Market Abuse Regulation – "MAR") to disclose transactions relating to the shares of the Company as well as other financial instruments linked thereto, if the total amount of such transactions reaches EUR 5,000 within a calendar year. Information on such transactions will be made public and can be seen on the Company's website under www.procredit-holding.com/en/investor-relations/news. During the 2020 financial year no such reportable transactions occurred.

Other Key Aspects of our Approach to Corporate Governance

Working relationship between ProCredit Holding and its subsidiaries

Central to the effective governance of the ProCredit group is the relationship between the Company as the holding entity and its subsidiaries. A strength of the ProCredit group is its ability to implement its business and risk strategies with a very high degree of efficiency and uniformity, despite having operations spread across countries. All ProCredit banks are independent, licensed and regulated banks. The Company holds a controlling stake (typically 100%) of its subsidiaries and is in a position to appoint the majority of supervisory board members of its subsidiaries. The management board at each ProCredit bank bears responsibility for the operations of the respective institution. They operate within the tight business and risk management framework set by ProCredit Holding.

Transparency

ProCredit Holding is committed to transparency and open communication with its shareholders. Relevant information is to be made available to the public promptly to ensure the equal treatment of shareholders. ProCredit Holding oversees an effective consolidated reporting process. It makes quarterly financial statements available. ProCredit Holding's Investor Relations team provides additional clarity via investor and analyst presentations, roadshows and press communication, including ad hoc notifications, as necessary. Important non-financial information, including an annual non-financial group statement (Group Impact Report) in accordance with section 315b (3.1b) HGB, as well as our Group Code of Conduct, is also available on the ProCredit Holding website.

Risk Management

Risk management, controlling and promoting an appropriate risk culture are central aspects of management in the ProCredit group. The ProCredit group applies a standardised and comprehensive framework of rules and policies for risk management, internal control and the prevention of money laundering and other criminal offences. All ProCredit banks are required to follow the centrally set standards. The implementation of this framework is monitored regularly by ProCredit Holding. Group risk management and anti-money laundering policies are in line with German and European banking regulations and are updated annually to reflect new developments. ProCredit is firmly committed to transparency and takes a conservative approach to risk management. Management Board is supported by the Group Risk Management Committee and receives a monthly report on the risk profile and capitalisation (economic and normative perspective) of the group. The Supervisory Board receives a comprehensive report on the risk profile and capitalisation of the group at least quarterly.

Compliance Management System

At a fundamental level, the group compliance management system is rooted in our development mission and our unique approach to staff recruitment and development. Our methodical and responsible approach to all operations is underpinned by our Code of Conduct. Compliance with the Code of Conduct is compulsory for all staff members, and regular training is provided. On a more formal level, the Group Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all applicable regulatory requirements. There is a Group Compliance Committee and corresponding committees at the bank level to enable efficient coordination on all compliance-relevant issues. Compliance risks are regularly assessed and controlled. Each ProCredit bank has a Compliance Officer who bears responsibility for managing adherence to national banking regulations and for reporting regularly and ad hoc to the Management of the bank and to the Group Compliance Officer. The Supervisory Board receives an Annual Group Compliance Risk Management Report.

All ProCredit institutions apply German and EU regulatory standards, local AML regulations as well as international best-practice methods for the prevention of money laundering and other financial crimes. Comprehensive Group Operational Risk Management and Fraud Prevention Policies set stringent standards with regard to whistleblowing, New Risk Approval, Key Risk Indicators and the group Risk Event Database. All ProCredit institutions apply a diligent approach to data protection. Any conduct which is inconsistent with established rules, in any group institution, can be reported anonymously to an e-mail address established for the group.

Statement on the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to section 161 of the German Stock Corporation Act

Pursuant to section 161 of the German Stock Corporation Act (AktG), the "Management Board" of ProCredit General Partner AG, as the sole "General Partner", and the "Supervisory Board" of ProCredit Holding AG & Co. KGaA ("Company") declare that the Company, in accordance with the special legal characteristics of a partnership limited by shares, has been in compliance, unless otherwise indicated below, with the recommendations of the German Corporate Governance Code ("GCGC 2017") of 7 February 2017, as published by the Federal Ministry of

Justice in the official part of the German Federal Gazette on 24 April 2017, since its last statement of compliance on 18 March 2020, with the deviations listed therein. Excepting the deviations listed in the following, the Company shall comply in the future with the recommendations of the German Corporate Governance Code of 16 December 2019 ("GCCG 2020"), as published by the Federal Ministry of Justice in the official part of the German Federal Gazette on 20 March 2020.

Deviations based on the legal form of the Company

- The Company's legal form is that of a partnership limited by shares ("KGaA" – Kommanditgesellschaft auf Aktien). In the case of a KGaA, the managerial duties of a stock corporation ("AG" - Aktiengesellschaft) are incumbent upon the General Partner. The sole personally liable general partner of the Company is ProCredit General Partner AG ("General Partner"), whose Management Board ("Management Board") is thereby responsible for managing the Company's business operations.
- Compared to the supervisory board of an AG, the rights and obligations of the supervisory board of a KGaA are more restricted. In particular, the Company's Supervisory Board has no authority to appoint the General Partner or its Management Board and to set the terms of the contractual agreement with the General Partner, nor to issue any internal rules of procedure governing the Company's management, nor to determine which transactions require authorisation. These duties are performed by the supervisory board of the General Partner.
- The General Meeting of a KGaA has essentially the same rights as that of an AG. It also decides upon the approval of the Company's annual financial statements as well as the ratification of the acts of the Supervisory Board and of the General Partner. Many of the resolutions of the General Meeting require the consent of the General Partner; this includes the approval of the Company's annual financial statements.

Deviations from the statement of the GCGC compliance dated 18 March 2020

5.3.2 GCGC 2017

The GCGC 2017 recommended that the Supervisory Board set up an audit committee, which – insofar as no other committee is responsible – shall be entrusted with monitoring the accounting process, the effectiveness of the internal control mechanisms, the risk management system, the internal audit system and the external auditing of the annual financial statements, in particular the independence of and the additional services provided by the external auditor, the awarding of the contract to the external auditor, the determination of the main focus of the audit and concluding the fee agreement as well as overseeing compliance issues.

There was no audit committee within the Company's Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole generally made the formation of committees, particularly an audit committee, superfluous. In order to comply with the new requirements of section 25d of the German Banking Act as amended on 29 December 2020 ("KWG"), the Supervisory Board established at its meeting on 12 February 2021 a Risk and Audit Committee that would commence its activities in March 2021. In view of the small size of the Supervisory Board, the Committee is composed of the same members as the Supervisory Board, as they are also equally qualified for this task.

5.3.3 GCGC 2017

The GCGC 2017 recommended that the Supervisory Board set up a nominations committee which comprises exclusively shareholder representatives and whose purpose it is to nominate suitable candidates for the Supervisory Board to propose to the General Meeting for election to the Supervisory Board.

Until the end of financial year 2020, there was no nominations committee within the Company's Supervisory Board, because the Company is of the opinion that the relatively small Supervisory Board, which has only six members, and the limited scope of the business activities of the Company and the group as a whole, made the formation of committees superfluous. In order to comply with the new requirements of section 25d KWG, the Supervisory Board of the Company established at its meeting on 12 February 2021 a Nominations Committee that would commence its activities in March 2021. In view of the small size of the Supervisory Board, the Committee is composed of the same members as the Supervisory Board, as they are also equally qualified for this task.

Deviations from the recommendations of the GCGC 2020

Recommendation B.3
The GCGC 2020 recommends that initial appointment of management board members should be for a maximum of three years.

By resolution of the Supervisory Board of the General Partner dated 8 May 2020, Dr Gian Marco Felice was appointed, with effect from 3 June 2020, as a member of the Management Board for the first time, with a term of four years.

He gained extensive experience as an executive in senior management in various ProCredit banks and at Quipu GmbH, the IT consulting and software development company which is part of the ProCredit group. He was managing director of Quipu GmbH, which is responsible, among other things, for the development of the core banking systems used by the banks of the ProCredit group. Against this background, the Supervisory Board of the General Partner considered an initial appointment of three years to be too short; instead, this body is of the opinion that Dr Felice could have been appointed, without any reservations, to the Management Board for five years. In order to nonetheless acknowledge the spirit of the GCGC, the Supervisory Board of the General Partner decided to appoint Dr Felice for an initial period of four years.

Recommendation G.17
The GCGC 2020 recommends that the higher time commitments of the Chairman and Deputy Chairman of the Supervisory Board as well as the Chairman and members of committees should be adequately taken into account in the remuneration of Supervisory Board members.

The Supervisory Board members receive a uniform remuneration of EUR 10,000 per annum. Although there is a Chairman on the Supervisory Board and positions on committees, these individuals receive no additional remuneration. The Management Board and the Supervisory Board are of the opinion that the current level of remuneration for the Supervisory Board members is adequate and that additional remuneration is unnecessary.

Frankfurt am Main, 18 March 2021

Management Board of
ProCredit General Partner AG

Supervisory Board of
ProCredit Holding AG & Co. KGaA

ProCredit Holding Supervisory Board Report

Dear Shareholders,

In the following, I would like to inform you about the work undertaken by the Supervisory Board ("**Supervisory Board**") of ProCredit Holding AG & Co. KGaA ("**ProCredit Holding**" or "**Company**") in the 2020 financial year.

In the 2020 financial year, the Supervisory Board performed its tasks as defined by the law, the Company's Articles of Association and the Supervisory Board's Internal Rules of Procedure, in particular:

- It continually advised and supervised the activities of ProCredit General Partner AG (**Komplementär**) ("**General Partner**") and its management board ("**Management Board**" or "**Management**").
- It approved decisions for which its consent was required following careful review and consultation.
- It examined whether the annual financial statements of ProCredit Holding and the ProCredit group, as well as the other financial reports, were in compliance with the applicable requirements.

Working relationship between the Supervisory Board and the General Partner

In the 2020 financial year, the Supervisory Board again regularly advised the General Partner on the management of ProCredit Holding and continuously supervised its conduct of business. The Supervisory Board concluded that the management of the Company was lawful, proper and appropriate.

The meetings of the Supervisory Board featured open and intensive exchanges of information and opinions. The General Partner fulfilled its duty to inform the Supervisory Board and provided regular written and oral reports with prompt and comprehensive information on all issues of relevance to ProCredit Holding and the whole ProCredit group.

The Supervisory Board was also kept fully informed about specific topics between its regular meetings. In addition, as the Chairman of the Supervisory Board, I am kept regularly informed by the General Partner as and when needed about important developments and discussions that have taken place. At the following Supervisory Board meeting, I then report on important findings to the other Supervisory Board members.

The Supervisory Board was aware of all decisions of major significance.

Where required by the law or the Articles of Association, the Supervisory Board provided its approval for individual decisions, based on prior critical assessment.

Supervisory Board meetings during 2020

In the financial year 2020, the Supervisory Board of the Company held one routine in-person meeting, while five meetings were conducted as video conferences over Skype for Business owed to risks and restrictions imposed as consequences of the COVID-19 pandemic. In addition, two meetings were held by telephone as well as by means of one written vote.

The Supervisory Board meeting with physical attendance was attended by four members, while Mr Ottenstein and Mr Slavov could not attend.

The Supervisory Board meetings over Skype for Business were attended on three occasions by all members, while on two meetings Mr Krämer could not attend.

The two meetings by telephone as well as the written vote were attended by all members.

At each meeting, and on the basis of the quarterly Management Board reports, group-wide risk reports and the reports of the internal audit department, the Supervisory Board received timely and detailed reports from the General Partner on the current business and financial performance of the ProCredit group, including analysis in relation to planning, as well as analysis of the group risk position and risk management, internal audit findings and significant personnel and organisational issues. In the context of the COVID-19 pandemic, particular attention was always given to indicators and initiatives which relate to operational risk, credit risk, liquidity planning, regulatory changes and other fields likely to become affected by the COVID-19 pandemic. As in previous years, the Supervisory Board has always given due consideration to the impact and ethical aspects of our operations, and not just the financial results. It was also regularly updated on the results of the implementation of the direct banking concept for our target private customers and the development of the green loan portfolio during the whole year.

As a rule, the Supervisory Board meets subsequent to the meetings of the supervisory board of the General Partner. As the members of both supervisory boards are identical, the members of the Supervisory Board are informed of the discussions and resolutions of the supervisory board of the General Partner. Therefore, if separate decisions by the Supervisory Board are not required, its members approve the discussions and decisions of the agenda of the foregoing supervisory board meeting of the General Partner.

The members of the Supervisory Board essentially take care self-responsibly of their training and further education measures required for their work. In the financial year 2020, the members of the Supervisory Board did not see the need for any particular training measures. This said, the Company has offered to support the Supervisory Board members upon their appointment and during training and professional development measures as needed.

By means of a **written vote on 17 January 2020** the Supervisory Board unanimously resolved to approve the Declaration of Compliance (Entsprechenserklärung) pursuant to sec. 161 German Companies Act (Aktiengesetz).

In its **meeting with physical attendance on 14 February 2020**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 14 February 2020 and provided its unanimous acknowledgement. The supervisory board of the General Partner had addressed, in addition to the regular items on the agenda, the Management Board's business and capital plan as well as the group business strategy, the group risk strategy and the group IT strategy for the financial year 2020. Further, the Supervisory Board was presented the management report (focusing on business development and IT support, the development of Human Resources, Environmental Management and Credit Risk, Investor Relations, and including the preliminary financial results from the financial year 2019), the group risk report and the internal audit report for the group and the Company for the fourth quarter 2019. Special consideration was given to the implementation of the group plastic strategy in the screening of clients, to the positive trends in the profit and loss dynamics, and to the enhanced stability of the capital ratios.

In a **telephone conference on 24 March 2020**, the Supervisory Board unanimously acknowledged the discussions held and resolution proposals brought forward by the General Partner's supervisory board meeting held on 24 March 2020. To start with, the supervisory board of the General Partner had been updated by Management on the positive business development in the first two months of the year, and on the business continuity and safety measures implemented to address the effects of the emerging COVID-19 pandemic, in particular to protect the health of our staff and clients. The supervisory board of the General Partner had further been presented, and taken the occasion to comment on, the annual financial statements of the Company, the consolidated financial statements for the ProCredit group as well as on the Group Impact Report, each for the financial year 2019. Following the presentation by Management (1) of the annual financial statements of the Company, of the consolidated financial statements for the ProCredit group and the combined management report, each for the financial year 2019, (2) of the results of that financial information's audit by the statutory auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, and finally (3) of the General Partner's proposal on the appropriation of profits of ProCredit Holding from the financial year 2019, the supervisory board of the General Partner had discussed the presented information, and had unanimously resolved to give its formal consent to the General Partner's approval to the financial statements' adoption (*Feststellung*) by the Company's Shareholders' Meeting.

Following the auditors' detailed presentation on the scope, approach and results of the statutory audit and a discussion of its results, the Supervisory Board unanimously approved the annual financial statements of ProCredit Holding and the consolidated financial statements for the ProCredit group as well as the Combined Management Report, each for the financial year 2019. Furthermore, the Supervisory Board resolved, in each case unanimously after discussion, the following decisions: (1) to approve the proposal of the General Partner concerning the appropriation of profits from the financial year 2019; and (2) to approve the report of the Supervisory Board, which is to be submitted pursuant to sec. 171 AktG. Moreover, following an in-depth discussion, the Supervisory Board unanimously resolved to propose the following to the Shareholders' Meeting: (1) to adopt (*feststellen*) the Company's annual financial statements and the Combined Management Report for the Company and the ProCredit group for the financial year 2019; (2) to pay out a dividend of EUR 0.30 per non-par value share from the Company's profits (*Bilanzgewinn*) from the financial year 2019 in accordance with the dividend policy of the group and to carry forward the remaining profits (*Bilanzgewinn*) from the financial year 2019 to new account; (3) to formally ratify the acts of the General Partner for the financial year 2019; (4) to formally ratify the acts of the members of the Supervisory Board for financial year 2019; (5) to appoint KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the statutory auditor of the Company and the ProCredit group for the financial year 2020 as well as for a possible review of the condensed financial statements and the interim management report for the ProCredit group for the first half year 2020; and (6) to elect Dr H.P.M. (Ben) Knapen as member of the Supervisory Board with effect from the end of the Company's Ordinary Shareholders' Meeting on 26 May 2020 until the conclusion of the Company's Shareholders' Meeting which decides over the ratification of the acts of the Supervisory Board for the financial year 2021.

Finally, the Supervisory Board unanimously resolved, to appoint Mr Florian Stahl to be appointed as the Chairperson (*Versammlungsleiter*) of the Company's Ordinary Shareholders' Meeting 2020, and to grant its approval to the General Partner to conduct that Shareholders' Meeting as a purely virtual assembly in accordance with the Act on measures in company, cooperative, association, foundation and residential property law to combat the effects of the COVID-19 pandemic.

In a **telephone conference on 26 March 2020** the Supervisory Board convened with the Management Board upon its request to discuss options identified by Management regarding the proposal of the appropriation of profits of the Company from the financial year 2019 against the background of the recommendations issued by BaFin on 24 March 2020, recommending banks to assess the payment of dividends for the financial year 2019 very carefully.

After an extensive discussion of the options at hand, the Supervisory Board advised to closely follow the further developments and recommendations of the regulators, and thus, to postpone the proposal on the appropriation of profits to an Extraordinary Shareholders' Meeting in the fourth quarter of the year.

In its **meeting on 8 May 2020 held over Skype for Business**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 8 May 2020 and provided its unanimous acknowledgement. The supervisory board of the General Partner had addressed, in addition to the regular items on the agenda, the detailed report from the Management Board for the first quarter 2020, which had been strongly coloured by the effects and implications of the COVID-19 pandemic as well as the measures yet taken or planned to address them. The Management Board had explained their three-way strategy, firstly by focusing on the health and safety of staff and clients, secondly by defining appropriate approaches to credit risk and liquidity, and thirdly by an on-going focus on client relationships and business opportunities. The Management Board had further stressed that the measures to secure the continuity of operations and the safety of our staff had been successfully implemented; a group approach to moratoria, in line with the EBA guidelines, had been defined and enhanced monitoring procedures had been put in place to adequately accompany our clients and reflect the loan portfolio quality of the group. The Management Board had continued to report that in the year's first quarter the business developments had been positive, even though the outbreak of the pandemic in March has been reflected in both the loan portfolio and deposit development in this very month. The deposit base remained however stable with an upward tendency and the funding situation secured. Regarding the financial results of the year's first quarter Management had been reported that the profit had increased by nearly a third, driven by, among others, a strongly increased net interest and an improved operational profitability. Notwithstanding the positive aspects reported on the loan portfolio and the liquidity situation, the Management Board had explained that the first quarter's Group Risk Report's outlook of the group's credit risk and liquidity would be downgraded from stable to negative, owed to the overall uncertainty of the COVID-19 situation. Finally, the supervisory board of the General Partner had unanimously appointed Dr Gian Marco Felice as new member of the Management Board as from June 2020 for a term of four years.

In its **meeting on 24 July 2020 held over Skype for Business** the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 24 July 2020 and provided its unanimous acknowledgement. In addition to the routine agenda points, the supervisory board of the General Partner had been presented the management report for the first half of the year 2020. The Management Board had reported on the strong development of the loan portfolio and a steady customer deposit growth, the stable loan portfolio quality, the growing number of clients and the stable profitability, all owed to the close relationships with the clients and our digital banking approach, both strategic pillars that have proven to be particularly sound in this crisis period. The share of green loans had been reported to have increased to 17.3% of the total loan portfolio. To further address the impact of the pandemic to credit risks, the supervisory board of the General Partner had been informed in detail about the specific group credit risk approach regarding (1) the implementation of moratoria, (2) the loan portfolio categorisation, (3) the type and frequency of monitoring, and (4) the conditions for disbursement of new funds. The financial results as of 30 June 2020 had further been reported to show higher than projected loan loss provisioning expenses and a lower fee income, while the operating expenses had been slightly below those of Q2 2019 and the net interest income had increased in line with the business plan. Further, the supervisory board of the General Partner had been updated on the changes made to the risk profile in March on the basis of the final assessments; while the outlook for two risks had been set to negative and the outlook for further risks, including that of the overall risk, to "watch", no impact on the risk profile had materialised yet. Finally, the internal audit report for Q2 2020 had been presented, highlighting the introduction of three new focus areas on group level in the context of the pandemic, comprising the categorisation of the loans impacted by the pandemic, business continuity planning, and physical security.

In a **meeting over Skype for Business on 12 August 2020** the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 12 August 2020 and provided its unanimous acknowledgement. In addition to the routine agenda points and updates on business developments as of July

2020, the supervisory board of the General Partner had been reported that after finalisation of the review of the group's financial results for the first half of the year, and that the respective interim report the preliminary results presented on 24 July 2020 had been confirmed.

In addition, the statutory auditors from KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, had reported on the results of the half-year review. Finally, it had been reported that the risk report for the Company and the ProCredit group, which had been finalised and approved, confirmed the assessment of the group risk profile both from a normative and an economic perspective, as it had been presented in the preceding meeting of the General Partner's supervisory board.

In the **meeting over Skype for Business on 9 November 2020**, the Supervisory Board reviewed the discussions and decisions of the General Partner's supervisory board meeting held on 9 November 2020; these had included the review of the management report and the group financial results for the third quarter 2020 as well as the corresponding interim report, the internal audit report for the third quarter of 2020, a discussion of the preliminary business planning for the ProCredit group, as well as an update of the risk profile of the ProCredit group as of the end of the third quarter 2020. The Management Board reported on the strict safety measures being in place in the group in the context of accelerating infection rates in our countries of operations. It also reported on the steady growth of the loan portfolio, including the renewable energy portfolio, the positive developments of customer deposits and account numbers and the stable default loan portfolio rate. The Supervisory Board was also briefed on the group's remuneration structure. Moreover, the General Partner's supervisory board had been informed on the on-going deliberations of Management concerning the Company's appropriation of profits from the financial year 2019 and asked to stand by to decide on a proposal to be provided by Management in the coming days after having spoken with the supervisory authorities. Furthermore, the General Partner's supervisory board resolved, in each case unanimously, on the formal requirements in connection with the approval of the amendment of the Profit and Loss Transfer Agreement (*Ergebnisabführungsvertrag*) between the Company and ProCredit Bank AG dated 12 April 2012, as last amended on 6 November 2020. After the General Partner's supervisory board had unanimously resolved on a formal change of its Internal Rules of Procedures, the prolongation of Ms Massiani's mandate as a member of the Management Board until end of February 2026, and on its consent to Ms Massiani's role as an interim manager of ProCredit Bank AG up to the end of 2021, the General Partner's supervisory board had decided unanimously to approve investments of the Company in ProCredit Bank Albania and in Banco ProCredit Ecuador as well as to the sale of ProCredit Academy Colombia. Moreover, the General Partner's supervisory board had reported on its annual efficiency assessment. In this context, it had confirmed its members to be well-informed and able to fulfil their supervisory functions in light of their experience and on the basis of regular contact and meetings with the members of the Management Board members and other managers and colleagues across the group.

Further, the Supervisory Board unanimously approved to conduct the Company's Extraordinary Shareholders' Meeting, to be held in December 2020, as a purely virtual assembly in accordance with the Act on measures in company, cooperative, association, foundation and residential property law to combat the effects of the COVID-19 pandemic, and unanimously elected Mr Florian Stahl, who had chaired the Company's Shareholders' Meeting in the previous three years, as the chairperson (*Versammlungsleiter*) for this Extraordinary Shareholders' Meeting. Moreover, the Supervisory Board unanimously resolved to propose to the Extraordinary Shareholders' Meeting the formal approval of the amendment to the Profit and Loss Transfer Agreement (*Ergebnisabführungsvertrag*) between the Company and ProCredit Bank AG dated 12 April 2012, as last amended on 6 November 2020. In order to comply with the revised version of the German Corporate Governance Code, the Supervisory Board thereafter unanimously approved amendments to its Internal Rules of Procedures, mainly related to the independence of and conflicts of interest regarding Supervisory Board members. With a view to the external audit of the financial statements of the year 2020 the Supervisory Board did not recommend any specific focus areas. Finally, the Supervisory Board examined the efficiency of its own activities and of the Management Board of the General Partner. The Supervisory Board members reported to be well-informed and able to fulfil their supervisory functions, based on their experience and on regular contact and meetings with the members of the Management and other managers and staff in the group. In this context, the participation of Supervisory Board members in the quarterly supervisory board meetings of the group banks, which all take place within the same week, as well as the provision of the quarterly Group Risk Reports, are particularly important. During the quarterly supervisory board meetings of the group banks, the Supervisory Board members are, inter alia, informed of the ProCredit bank results, sector developments, and the regulatory framework in the various countries of operation. The Supervisory Board members indicated that they did not see the need for any particular training. Nonetheless, it was confirmed that Company would support the Supervisory Board members in line with the provisions of the Internal Rules of Procedure of the Supervisory Board.

The composition and skills of the Management Board of the General Partner were also discussed and deemed adequate.

In the financial year's last **meeting over Skype for Business on 11 November 2020** the Supervisory Board was informed that the Management Board had resolved on that same day that the General Partner proposes, in line with the recommendations of the European Central Bank and BaFin, that the Company's profits from the financial year 2019 be appropriated such that no dividends should be paid out and that the entire profits be carried forward to new account. Management further informed the Supervisory Board that it intended to consider a dividend payment in 2021 which will take into consideration the absence of a dividend payment in 2020, subject to the then existing recommendations of the banking supervisory authorities. The Supervisory Board, after discussion of the proposal, unanimously resolved (1) to annul all of its resolutions taken in the telephone conference dated 24 March 2020 regarding the appropriation of profits of the Company from the financial year 2019; (2) to approve the new proposal of the General Partner dated 11 November 2020 concerning the appropriation of profits from the financial year 2019, and (3) to propose to the Company's Extraordinary Shareholders' Meeting to carry the entire profits (*Bilanzgewinn*) from the financial year 2019 of EUR 96,508,787.06 forward to new account in accordance with Articles 278 paragraph 3, 58 paragraph 3 German Stock Corporation Act (*Aktiengesetz*).

Committee Work

No committees were formed within the Supervisory Board in the financial year 2020. The relatively small size of the Supervisory Board and the fact that all Supervisory Board members are sufficiently qualified and devote sufficient time to their duties renders the formation of such committees superfluous. In order to comply with the requirements of the amended Banking Act (Kreditwesengesetz) the Supervisory Board formed a Risk and Audit Committee as well as a Nominations Committee in the beginning of 2021.

Audit of ProCredit Holding AG & Co. KGaA

The annual financial statements for ProCredit Holding, the consolidated annual financial statements and the combined management report for ProCredit Holding and the ProCredit group for financial year 2020 were audited by the statutory auditor KPMG AG Wirtschaftsprüfungsgesellchaft, Berlin, Germany. The external auditors granted an unqualified audit opinion in each case.

The Supervisory Board also carefully examined the annual financial statements of ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for the group for financial year 2020. The external auditors participated via video in the respective meeting of the Risk and Audit Committee and in the corresponding Supervisory Board meeting at which the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group as well as the combined management report and the non-financial report for financial year 2020 were discussed. In accordance with applicable law, the non-financial report was not subject to the statutory audit.

The Risk and Audit Committee discussed the financial statement documents and the reports of KPMG in detail with the auditor and subjected them to its own careful review. The committee came to the conclusion that the reports meet, in particular, the legal requirements set out in Sections 317 and 321 of the German Commercial Code (HGB). The Committee reported to the Supervisory Board on its review and recommended that the annual financial statements and the consolidated financial statements be approved.

After conducting its own review and discussion of the annual financial statements, the consolidated annual financial statements, the combined management report and the non-financial report for the group, the Supervisory Board acknowledged the findings of the auditor's report and stated that no objections would be submitted. In accordance with the recommendation of the Risk and Audit Committee, the Supervisory Board unanimously approved the annual financial statements for ProCredit Holding and the consolidated annual financial statements of the ProCredit group for financial year 2020, and recommended that the Shareholders' Meeting adopt (*feststellen*) the annual financial statements for ProCredit Holding.

Changes to the members of the Supervisory Board and the Management Board of the General Partner

In financial year 2020 Mr Jasper Snoek resigned as member of the Supervisory Board with effect from the end of the Ordinary Shareholders' Meeting on 26 May 2020. Dr H.P.M. (Ben) Knapen was elected as a new member of the Supervisory Board for the period from the close of the Ordinary Shareholders' Meeting on 26 May 2020 until the close of the Shareholders' Meeting that resolves on the ratification of the acts of the Supervisory Board for the 2021 financial year. Further, on 24 March 2020, Mr Krämer declared his resignation as Deputy Chairperson of the Supervisory Board, while Mr Ottenstein was unanimously elected as the new Deputy Chairperson.

Finally, the Supervisory Board acknowledged the decisions of the supervisory board of the General Partner dated 8 May 2020 regarding the appointment of Dr Gian Marco Felice as a new member of the Management Board for a term of four years with effect from the BaFin's approval of Dr Felice's appointment, which took place on 3 June 2020, and of the prolongation of Ms Massiani's appointment until 28 February 2026.

Conflicts of Interests

In the financial year 2020 there were no conflicts of interest of individual members of the Supervisory Board.

Frankfurt am Main, 22 March 2021

Dr Claus-Peter Zeitinger
Chairman of the Supervisory Board of
ProCredit Holding AG & Co. KGaA

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in '000 EUR	Note	1.1.–31.12.2020	1.1.–31.12.2019
Interest income (effective interest method)		301,924	304,954
Interest expenses		100,364	110,421
Net interest income	(6)	**201,561**	**194,533**
Loss allowance	(7)	28,600	-3,327
Net interest income after allowances		**172,961**	**197,860**
Fee and commission income		66,416	69,971
Fee and commission expenses		19,035	17,998
Net fee and commission income	(8)	**47,380**	**51,972**
Result from foreign exchange transactions	(9)	16,341	16,890
Result from derivative financial instruments		-553	-389
Result on derecognition of financial assets measured at amortised cost		1,072	452
Net other operating result	(10)	-13,686	-14,182
Operating income		**223,514**	**252,603**
Personnel expenses	(11)	84,305	80,188
Administrative expenses	(12)	87,125	95,549
Operating expenses		**171,430**	**175,737**
Profit before tax		**52,085**	**76,866**
Income tax expenses	(22)	10,689	15,344
Profit of the period from continuing operations		**41,396**	**61,522**
Profit of the period from discontinued operations		0	-7,217
Profit of the period		**41,396**	**54,305**
Profit attributable to ProCredit shareholders		41,396	52,605
from continuing operations		*41,396*	*59,726*
from discontinued operations		*0*	*-7,121*
Profit attributable to non-controlling interests		0	1,700
from continuing operations		*0*	*1,796*
from discontinued operations		*0*	*-96*

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

in '000 EUR	Note	1.1.-31.12.2020	1.1.-31.12.2019
Profit of the period		**41,396**	**54,305**
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve	(18)	968	263
Reclassified to profit or loss		*0*	*0*
Change in value not recognised in profit or loss		*955*	*694*
Change in loss allowance (recognised in profit or loss)		*13*	*-431*
Change in deferred tax on revaluation reserve	(18)	-69	-59
Change in translation reserve	(5)	-54,710	21,376
Reclassified to profit or loss		*0*	*5,205*
Change in value not recognised in profit or loss		*-54,710*	*16,171*
Other comprehensive income of the period, net of tax		**-53,811**	**21,580**
Total comprehensive income of the period		**-12,415**	**75,885**
Total comprehensive income attributable to ProCredit shareholders		-12,415	72,388
from continuing operations		*-12,415*	*79,509*
from discontinued operations		*0*	*-7,121*
Total comprehensive income attributable to non-controlling interests		0	3,497
from continuing operations		*0*	*3,593*
from discontinued operations		*0*	*-96*
Earnings per share* in EUR	(14)	0.70	0.89
from continuing operations		*0.70*	*1.01*
from discontinued operations		*0.00*	*-0.12*

* *Basic earnings per share were identical to diluted earnings per share.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in '000 EUR	Note	31.12.2020	31.12.2019
Assets			
Cash	(4, 15)	134,857	142,982
Central bank balances	(4, 7, 15)	1,270,491	938,741
Loans and advances to banks	(4, 7, 16)	236,519	320,737
Derivative financial assets	(4, 17)	509	306
Investment securities	(4, 7, 18)	336,476	378,281
Loans and advances to customers	(4, 7, 19)	5,131,582	4,690,961
Property, plant and equipment	(20)	140,744	138,407
Intangible assets	(21)	19,316	20,345
Current tax assets	(22)	6,113	5,314
Deferred tax assets	(22)	1,630	739
Other assets	(4, 7, 23)	51,063	60,747
Total assets		**7,329,301**	**6,697,560**
Liabilities and equity			
Liabilities to banks	(4)	230,556	226,819
Derivative financial liabilities	(4, 17)	4,405	1,742
Liabilities to customers	(4, 25)	4,898,897	4,333,436
Liabilities to international financial institutions	(4)	1,005,207	852,452
Debt securities	(4, 26)	266,858	343,727
Other liabilities	(27)	41,249	33,361
Provisions	(28)	14,875	12,060
Current tax liabilities	(22)	1,582	2,022
Deferred tax liabilities	(22)	969	1,251
Subordinated debt	(4, 29)	84,974	87,198
Liabilities		**6,549,573**	**5,894,068**
Subscribed capital and capital reserve	(32)	441,277	441,277
Retained earnings		447,434	405,199
Translation reserve		-111,779	-55,821
Revaluation reserve		2,797	1,896
Equity attributable to ProCredit shareholders		**779,729**	**792,551**
Non-controlling interests		0	10,941
Equity		**779,729**	**803,492**
Total liabilities and equity		**7,329,301**	**6,697,560**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in '000 EUR	Subscribed capital and capital reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non-controlling interests	Total equity
Balance as of 1.1.2020	**441,277**	**405,199**	**-55,821**	**1,896**	**792,551**	**10,941**	**803,492**
Profit of the period		41,396			41,396	0	41,396
Other comprehensive income of the period, net of tax			-55,958	901	-55,056	1,246	-53,811
Total comprehensive income of the period		41,396	-55,958	901	-13,661	1,246	-12,415
Change of ownership interests		839			839	-12,187	-11,348
Balance as of 31.12.2020	**441,277**	**447,434**	**-111,779**	**2,797**	**779,729**	**0**	**779,729**

in '000 EUR	Subscribed capital and capital reserve	Retained earnings	Translation reserve	Revaluation reserve	Equity attributable to ProCredit shareholders	Non-controlling interests	Total equity
Balance as of 1.1.2019	**441,277**	**368,303**	**-75,392**	**1,684**	**735,872**	**7,762**	**743,634**
Profit of the period		52,510			52,510	1,796	54,305
Other comprehensive income of the period, net of tax			19,571	212	19,783	1,797	21,580
Total comprehensive income of the period		52,510	19,571	212	72,292	3,593	75,885
Distributed dividends		-17,670			-17,670		-17,670
Change of ownership interests		2,056			2,056	-413	1,643
Balance as of 31.12.2019	**441,277**	**405,199**	**-55,821**	**1,896**	**792,551**	**10,941**	**803,492**

CONSOLIDATED STATEMENT OF CASH FLOWS

in '000 EUR	Note	1.1.–31.12.2020	1.1.–31.12.2019
Profit of the period		41,396	54,305
Income tax expenses		10,689	15,344
Profit before tax (including discontinued operations)		**52,085**	**69,649**
Non-cash items included in the profit of the period and transition to the cash flow from operating activities:			
Depreciation, impairment and appreciation of loans and advances, property, plant and equipment and financial investments		53,509	23,929
Increase / decrease of provisions		7,567	5,687
Gains / losses from disposal of fixed assets		798	1,352
Other non-cash expenses and income		-227,484	-199,177
Cash flow from discontinued operations		0	2,472
Subtotal		-113,525	-96,088
Net change in assets and liabilities from operating activities:			
Loans and advances to banks		-51,717	-78,033
Loans and advances to customers		-452,087	-460,849
Other assets from operating activities		-86,594	-11,471
Liabilities to banks and to international financial institutions		158,247	75,409
Liabilities to customers		568,232	536,361
Debt securities	(26)	-76,870	137,515
Other liabilities from operating activities		11,450	-3,513
Interest received		289,309	302,142
Interest paid		-97,436	-96,720
Income tax paid		-13,124	-15,120
Cash flow from discontinued operations		0	701
Cash flow from operating activities		**135,885**	**290,335**
Proceeds from disposal of fixed assets		3,691	8,375
Payments for purchase of fixed assets		-29,231	-20,185
Proceeds from sale of subsidiaries		0	1,651
Cash flow from discontinued operations		0	-53
Cash flow from investing activities		**-25,541**	**-10,211**
Dividends paid		0	-17,670
Acquisition of shares from NCI's		-8,808	-277
Proceeds/ payments from subordinated loans		-7,626	-63,212
Cash flow from discontinued operations		0	0
Cash flow from financing activities		**-16,433**	**-81,158**
Cash and cash equivalents at end of previous year		**1,229,077**	**1,011,586**
Cash flow from operating activities		135,885	290,335
of which discontinued operations		*0*	*701*
Cash flow from investing activities		-25,541	-10,211
of which discontinued operations		*0*	*-53*
Cash flow from financing activities		-16,433	-81,158
of which discontinued operations		*0*	*0*
Effects of exchange rate changes		-43,759	18,526
Cash and cash equivalents at end of period	(15)	**1,279,229**	**1,229,077**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant accounting principles

(1) Basis of accounting

The ProCredit group focuses on banking services for Small and Medium-sized Enterprises (SMEs) and on direct banking activities for private clients. We operate in South Eastern Europe, Eastern Europe, South America and Germany. Through our business activities we aim to provide a sustainable return on investment for our shareholders while making a contribution to economic, social and ecological development. The parent company of the group is ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), domiciled at Rohmerplatz 33-37, 60486 Frankfurt am Main, Germany (Commercial Register Frankfurt, Section B No. 91858). We prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as applicable within the European Union.

Our consolidated financial statements as of 31 December 2020 comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. Further disclosures with regard to the nature and extent of risks arising from financial instruments are presented in our risk report as part of the Combined Management Report.

The consolidated financial statements are presented in euros, which is also the group's functional currency. The significant accounting policies have been consistently applied to all financial years presented, unless otherwise stated. The financial year of the ProCredit group is the calendar year. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (EUR, %, etc.). Reporting and valuation are made on a going concern assumption.

The group's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the consolidated financial statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

(2) Principles of consolidation

ProCredit Holding prepares the consolidated financial statements for the largest scope of entities. The consolidated financial statements comprise the financial statements of ProCredit Holding together with its subsidiaries. Subsidiaries are all companies which are controlled by the group. Control over a subsidiary is achieved when ProCredit Holding is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date on which control ceases. The group has no interest in joint ventures or associates. Group-internal transactions, balances and interim profits are eliminated in full.

The following subsidiaries are included in the scope of consolidation:

#	Name of institution	Company purpose	Principal place of business	Turnover in '000 EUR	Profit before tax in '000 EUR	Income tax expenses in '000 EUR	Staff No. 31.12.2020	Proportion of ownership interest	
								31.12.2020	31.12.2019
	EU member states								
1	ProCredit Bank (Bulgaria) E.A.D.	Credit institution with banking licence	Bulgaria	42,811	19,381	2,043	402	100.0	100.0
2	ProCredit Bank AG	Credit institution with banking licence	Germany	9,744	705	0	64	100.0	100.0
3	ProCredit Academy GmbH*	Training academy	Germany	1,830	0	0	25	100.0	100.0
4	Quipu GmbH	IT consulting and software company	Germany	33,057	-279	42	409	100.0	100.0
5	ProCredit Bank S.A.	Credit institution with banking licence	Romania	12,377	-5,080	0	194	100.0	100.0
	Non-EU member states								
6	ProCredit Bank Sh.a	Credit institution with banking licence	Albania	7,219	-3,559	0	112	100.0	100.0
7	ProCredit Bank d.d.	Credit institution with banking licence	Bosnia and Herzegovina	8,091	364	87	138	100.0	100.0
8	Banco ProCredit S.A.	Credit institution with banking licence	Ecuador	17,538	-2,367	-120	249	100.0	100.0
9	JSC ProCredit Bank	Credit institution with banking licence	Georgia	19,633	8,233	392	294	100.0	100.0
10	ProCredit Bank Sh.a	Credit institution with banking licence	Kosovo	32,676	14,133	883	275	100.0	100.0
11	ProCredit Bank A.D.	Credit institution with banking licence	North Macedonia	13,056	3,767	367	175	100.0	100.0
12	ProCredit Regional Academy* Eastern Europe	Training academy	North Macedonia	-11	-217	0	4	100.0	100.0
13	BC ProCredit Bank	Credit institution with banking licence	Moldova	10,469	2,344	299	114	100.0	100.0
14	ProCredit Bank a.d. Beograd	Credit institution with banking licence	Serbia	31,012	7,286	1,212	375	100.0	100.0
15	JSC ProCredit Bank	Credit institution with banking licence	Ukraine	46,492	21,659	4,200	320	100.0	92.6

* *not considered in the regulatory scope of consolidation*

Turnover is defined as operating income before loss allowances. The amounts shown are reported for each country without eliminating transactions between group companies, i.e. based on the respective annual financial statements for each subsidiary.

Shares in subsidiaries whose influence on the financial position and financial performance is insignificant, both individually and as a whole, are not consolidated but are recognised as financial investments under equity instruments. This includes the wholly owned subsidiaries ProCredit Reporting DOOEL, North Macedonia, Pro Energy L.L.C., Kosovo, and the limited liability company "Quipu GmbH", Ukraine, as well as the special purpose entity PC Finance II B.V., The Netherlands. ProCredit Reporting DOOEL supports the reporting activities of the group and Pro Energy L.L.C. will be engaged in the production, trade and distribution of renewable energy. The limited liability company "Quipu GmbH" is a subsidiary of Quipu GmbH, Germany, and provides IT consulting and software development in Ukraine. In the past, part of the loan portfolio of a ProCredit bank was securitised via PC Finance II B.V.

(a) Acquisition of shares in subsidiaries

In January 2020 ProCredit Holding acquired the minority shares in ProCredit Bank Ukraine. ProCredit Holding now holds 100% of the issued share capital of the bank. The change in shareholdings is as follows:

in '000 EUR	**Ukraine**
Carrying amount of non-controlling interests acquired	9,645
Consideration paid to non-controlling interests	8,808
Difference	**838**

(b) Significant restrictions

Our group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the banking subsidiaries operate. These frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets. In some countries where the ProCredit group operates, payout of dividends is subject to the approval of local regulatory authorities.

(3) Accounting developments

(a) Standards, amendments and interpretations that are already effective

- Amendments to References to the Conceptual Framework in IFRS Standards have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IAS 1 and IAS 8: "Definition of Material" have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IFRS 9, IAS 39 and IFRS 7: "Interest Rate Benchmark Reform" have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the consolidated financial statements: Amendments to IFRS 3 "Business Combinations" and amendments to IFRS 16 "COVID-19-Related Rent Concessions".

(b) Standards, amendments and interpretations issued but not yet effective

- Amendments to IFRS 4: "Deferral of IFRS 9" have no impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in relation to Interest Rate Benchmark Reform (IBOR reform) will have a minor impact. The amendments concern changes in contractual cash flows: If a change in the reference interest rate results in changes in contractual cash flows, the carrying amount of the financial instruments concerned shall not be adjusted or derecognised, but the effective interest rate shall be updated. Information must be disclosed on new risks arising from the IBOR reform and on how the transition to new reference interest rates is handled. Hedge accounting has no impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021.

- Annual improvements to IFRSs (2018-2020 cycle) with amendments to IFRS 1, IFRS 9, IFRS 16 (Illustrative Example) and IAS 41 have a minor impact on the consolidated financial statements with regard to the amendment to IFRS 9. The amendment clarifies which fees are to be included when assessing whether the contractual terms of a modified financial liability differ significantly from the original financial liability. The amendments are effective for annual periods beginning on or after 1 January 2022.

- Amendments to IFRS 3: "Reference to the Conceptual Framework", to IAS 16: "Proceeds before Intended Use" and to IAS 37: "Onerous Contracts: Cost of Fulfilling a Contract" will not have an impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2022.

- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

- IFRS 17 "Insurance Contracts" will not have an impact on the consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.

There was no early adoption of any standards, amendments and interpretations not yet effective.

(4) Financial instruments

We classify our financial assets according to their underlying business model. We differentiate between the following business models:

- "Hold to collect": the financial assets are held with the aim of collecting the contractual cash flows.
- "Hold to collect and sell": the financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets.
- "Other": this business model is used for financial assets that are neither allocated to the "hold to collect" business model nor to the "hold to collect and sell" business model.

Our business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. This is a discretionary decision by the Management. We take the following criteria, among others, into account:

- our business strategy and risk strategy,
- the way in which the development of the business model is evaluated and reported to our Management and Supervisory Board,
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the "hold to collect" business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets". "Investment securities" are allocated to the "hold to collect" or the "hold to collect and sell" business model. Furthermore, a small amount of shares is allocated to the "hold to collect and sell" business model, which are included in the balance sheet under "Other assets". "Cash" and "Derivative financial assets" are allocated to the "other" business model.

Subsequent recognition of financial liabilities is generally performed at amortised cost. Only derivative financial liabilities are recognised at fair value.

(a) Financial assets and liabilities at amortised costs
A financial asset is classified "at amortised cost" when the financial asset is assigned to the "hold to collect" business model with the objective to solely collect contractual cash flows through interest and principal payments (SPPI conform). The review of the SPPI criterion is a discretionary decision of the Management. The financial assets arise when the group provides capital directly to a contracting party with no intention of trading the receivable.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Expected credit losses (ECL) are generally recognised using a three-stage model (see note 7)). If the amount of the loss allowance decreases, the loss allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or we have transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the Consolidated Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is settled, cancelled or expired.

(b) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income
A financial asset is classified and recognised as "Fair Value through Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect and sell" business model.

In general, part of "Investment securities" are allocated to this business model. The cash flow criterion is checked individually. Investment securities of the ProCredit group generally fulfil the cash flow criterion (SPPI conform) but can be sold if required. Furthermore, a small amount of shares included under "Other assets" are allocated to this business model. In general, there is no intention to trade or sell these shares.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Consolidated Statement of Other Comprehensive Income under "Revaluation reserve". If the financial asset is derecognised or impaired (see note 7) for details on loss allowance), the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Consolidated Statement of Profit or Loss. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Consolidated Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Consolidated Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when we have transferred substantially all risks and rewards of ownership.

(c) Financial assets and financial liabilities at fair value through profit or loss
Financial assets allocated to the "other" business model are recognised at fair value through profit or loss. This includes "Cash" and "Derivative financial assets". "Derivative financial liabilities" are recognised as financial liabilities at fair value through profit or loss.

Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Derivative financial assets". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Derivative financial liabilities". We do not apply hedge accounting.

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the group commits to purchase or sell the instrument. Subsequently, the financial instruments are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Consolidated Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is settled, cancelled or expired.

(5) Foreign currency translation

(a) Transactions in foreign currency
Transactions in foreign currencies are translated into the respective functional currencies of the group companies at the exchange rates prevailing on the date of the transaction.

Foreign currency monetary assets and liabilities are translated using the closing exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss (result from foreign exchange transactions).

Foreign non-monetary items measured at amortised cost are translated with the historical exchange rate as at the date of the transaction.

(b) Group companies

The financial statements of all group entities (none of which operate in an economy subject to hyperinflation) whose functional currency is not the euro are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position.
- Income and expenses are translated at average exchange rates of the period.
- All differences resulting from the translation of net investments in foreign subsidiaries are recognised in the "Translation reserve" in Equity. Upon disposal of a foreign subsidiary, the accumulated translation differences are reclassified from Equity to the Consolidated Statement of Profit or Loss.

Result for the financial year

(6) Net interest income

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Interest income from		
Cash and central bank balances	626	132
Loans and advances to banks	1,284	2,441
Derivative financial assets	1,248	334
Investment securities FVOCI	1,579	13,827
Investment securities AC	10,434	0
Loans and advances to customers	286,308	287,861
Prepayment penalty	445	359
Interest income (effective interest method)	**301,924**	**304,954**
Interest expenses on		
Liabilities to banks	4,002	4,823
Derivative financial liabilities	822	1,450
Liabilities to customers	53,395	56,871
Liabilities to international financial institutions	26,579	33,213
Debt securities	7,621	6,072
Subordinated debt	5,894	7,992
Negative interest from assets	2,052	0
Interest expenses	**100,364**	**110,421**
Net interest income	**201,561**	**194,533**

Interest income and expenses are recognised in the Consolidated Statement of Profit or Loss and reported on an accrual basis. In principle, net interest income is calculated on the gross book value of a financial asset. For financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in net interest income, but rather under "Loss allowance".

(7) Loss allowance

We establish loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for investment securities recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for contingent liabilities. In general, a three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

The ProCredit group sets aside loss allowances for the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers", "Investment securities", for the financial assets under "Other assets" and for contingent liabilities. These are generally recognised at net value within the corresponding balance sheet position; the exceptions are investment securities recognised at fair value and contingent liabilities. The loss allowance for investment securities at fair value are recognised through profit or loss directly in shareholders' equity under "Revaluation reserve". Loss allowances for contingent liabilities are reported under the balance sheet item "Provisions".

in '000 EUR	**1.1.–31.12.2020**	**1.1.–31.12.2019**
Change in loss allowances	39,440	8,659
Recovery of written-off loans	–11,213	–12,389
Direct write-offs	373	403
Loss allowance	**28,600**	**–3,327**

Change in loss allowances

Recognition of loss allowances uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: Generally, all financial assets are allocated to Stage 1 upon recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). We establish loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as Stage 2 and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Impaired financial assets are classified as Stage 3 and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined individually on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised on the net book value (taking account for loss allowances).

Financial assets which are already impaired at initial recognition (POCI) are reported as part of the impaired exposures. These financial assets are initially recognised at fair value and thus no loss allowances are established. In subsequent periods, changes in the expected loss over the entire remaining maturity are recognised as an expense in the Consolidated Statement of Profit or Loss.

A non-substantial modification exists if a financial asset is modified without derecognition. The modification gain or loss is recognised in “Change in loss allowances”. The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

Migration between the stages is possible in both directions (except for POCI), provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reduced.

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Recoveries of written-off loans and direct write-offs

When a loan is uncollectible, it is written off considering the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts which have been written off are recognised in the Consolidated Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised in profit or loss as direct write-offs.

(8) Net fee and commission income

in '000 EUR	**1.1.–31.12.2020**	**1.1.–31.12.2019**
Fee and commission income from		
Payment services	22,680	23,322
Debit/credit cards	10,111	11,403
Account maintenance fee	23,034	25,387
Letters of credit and guarantees	5,496	4,974
Other fee and commission income	5,094	4,885
Fee and commission income	**66,416**	**69,971**
Fee and commission expenses on		
Payment services	3,707	3,936
Debit/credit cards	9,947	9,966
Account maintenance fee	2,812	2,560
Letters of credit and guarantees	2,447	1,012
Other fee and commission expenses	121	524
Fee and commission expenses	**19,035**	**17,998**
Net fee and commission income	**47,380**	**51,972**

Fee and commission income and expenses are recognised on the basis of the agreed amount payable. Income and expenses are generally recognised at a point in time.

(9) Result from foreign exchange transactions

This position refers to the results of foreign currency exchange with and for customers. We do not engage in foreign currency trading on our own account. This position also includes unrealised foreign currency revaluation effects.

(10) Net other operating result

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Reversal of provisions	1,050	3,477
Income from reimbursement of expenses	396	444
Income from repossessed properties	1,548	2,526
Surplus from sale of property, plant and equipment	757	2,038
Income from IT-services	3,968	3,814
Income from rents from investment properties	784	648
Others*	1,430	2,978
Other operating income	**9,933**	**15,924**

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Expenses for deposit insurance	10,055	10,092
Expenses to be reimbursed	256	170
Loss from disposal of property, plant and equipment	1,555	3,389
Impairment of repossessed properties	3,264	6,697
Expenses for credit recovery services and solvency checks	768	1,063
Administration of repossessed properties	456	475
Impairment of goodwill	986	2,000
Expenses from litigation settlements	1,842	2,098
Expenses for provisions for non-financial off-balance sheet items	63	498
Others	4,374	3,626
Other operating expenses	**23,619**	**30,107**
Net other operating result	**-13,686**	**-14,182**

* *Previous year figures have been adapted to the current disclosure structure.*

In 2020, the ProCredit group received public funding totalling EUR 43 thousand (2019: EUR 151 thousand). In addition, staff of ProCredit Academy GmbH received furlough compensation from the Federal Employment Agency in the amount of EUR 285 thousand (2019: EUR 0 thousand), which was netted against personnel expenses.

(11) Personnel expenses and employees

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Salary expenses	70,399	66,690
Social security expenses	9,018	8,313
Post-employment benefits plans (Defined contribution plans)	3,367	3,215
Post-employment benefits plans (Defined benefit plans)	123	142
Other employee benefits	1,398	1,828
Personnel expenses	**84,305**	**80,188**

During the reporting period, total compensation paid to the Management of ProCredit General Partner AG as the representative of ProCredit Holding amounted to EUR 495 thousand (2019: EUR 717 thousand). The members of the Supervisory Board receive annual compensation totalling EUR 56 thousand (2019: EUR 60 thousand). Further details on remuneration are provided in the remuneration report for the Management and Supervisory Board as part of the Combined Management Report.

The number of employees is broken down according to the following segments:

	2020		2019	
	Average	Year end	Average	Year end
South Eastern Europe	1,742	1,768	1,618	1,664
Eastern Europe	695	728	641	644
South America	238	249	220	225
Germany	512	516	477	491
Total	**3,187**	**3,261**	**2,956**	**3,024**

(12) Administrative expenses

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Depreciation fixed and intangible assets (incl. Impairment)	24,017	27,593
IT expenses*	17,713	14,434
Office space-related expenses*	10,013	10,790
Non-profit tax	10,564	9,100
Legal and consulting fees	7,797	8,721
Marketing, advertising and representation	3,188	6,314
Transport	1,742	5,247
Recruitment and other personnel-related expenses	3,204	3,868
Insurances	3,290	3,164
Lease expenses	1,859	2,140
Other administrative expenses	3,739	4,178
Administrative expenses	**87,125**	**95,549**

* *Previous year figures have been adapted to the current disclosure structure.*

Of the total administrative expenses, EUR 6,096 thousand (2019: EUR 7,228 thousand) was incurred for staff training.

Lease expenses mainly include short-term leases or leases of low value assets.

Legal and consulting fees include the following expenses of ProCredit Holding for the total fee charged by the group auditor:

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Audit of financial statements*	477	539
Tax advisory services	0	18
Other confirmatory services*	6	17
Other services	0	0
Group auditor expenses	**483**	**574**

* *Previous year figures have been adapted to the current presentation.*

(13) Segment reporting

The group aggregates its operations into reporting segments according to geographical regions. Each of these segments exhibits individual risk and return characteristics, as described in the Combined Management Report. In general, business activities in all countries of operations are carried out with local customers, so that the respective items are allocated to the country in which the subsidiary is based. The operating income of the parent company is derived mainly from within the group. With the exception of the relationship between the German segment and the subsidiaries, there are no significant income or expense items arising from business dealings between segments. All income and expense items between the segments are disclosed separately in the following table. These are primarily interest income and expenses derived from loans extended by the parent company to the subsidiaries. The underlying interest rates are established at market conditions. Additionally, inter-segment transactions include the provision of centralised services by ProCredit Holding, IT services, staff training and dividends transferred from the subsidiaries to ProCredit Holding.

	1.1.-31.12.2020					
in '000 EUR	**South Eastern Europe**	**Eastern Europe**	**South America**	**Germany**	**Consolidation**	**Group**
Interest income (effective interest method)	147,404	120,050	31,653	23,949	-21,132	301,924
of which inter-segment	*-289*	*30*	*-1*	*21,391*		
Interest expenses	30,129	57,236	13,049	23,115	-23,166	100,364
of which inter-segment	*9,148*	*7,613*	*5,816*	*590*		
Net interest income	**117,275**	**62,814**	**18,604**	**834**	**2,034**	**201,561**
Loss allowance	13,685	11,156	3,562	197	0	28,600
Net interest income after allowances	**103,590**	**51,658**	**15,042**	**637**	**2,034**	**172,961**
Fee and commission income	49,377	13,627	1,105	12,891	-10,583	66,416
of which inter-segment	*736*	*43*	*0*	*9,804*		
Fee and commission expenses	17,998	5,304	1,371	2,214	-7,852	19,035
of which inter-segment	*4,753*	*2,288*	*552*	*259*		
Net fee and commission income	**31,379**	**8,322**	**-267**	**10,677**	**-2,731**	**47,380**
Result from foreign exchange transactions	10,904	7,271	70	-2,161	257	16,341
of which inter-segment	*22*	*602*	*50*	*-930*		
Result from derivative financial instruments	-718	292	0	165	-292	-553
of which inter-segment	*31*	*292*	*0*	*-31*		
Result on derecognition of financial assets measured at amortised cost	942	131	0	0	0	1,072
Net other operating result	-10,125	-2,236	-869	64,303	-64,760	-13,686
of which inter-segment	*1,502*	*-40*	*979*	*62,319*		
Operating income	**135,972**	**65,438**	**13,977**	**73,620**	**-65,492**	**223,514**
Personnel expenses	38,082	12,288	5,818	28,118	0	84,305
Administrative expenses	61,721	20,914	10,526	33,097	-39,133	87,125
of which inter-segment	*19,699*	*7,671*	*4,235*	*7,528*		
Operating expenses	**99,803**	**33,202**	**16,344**	**61,214**	**-39,133**	**171,430**
Profit before tax	**36,169**	**32,236**	**-2,367**	**12,406**	**-26,358**	**52,085**
Income tax expenses	4,580	4,890	-120	1,338		10,689
Profit of the period	**31,589**	**27,345**	**-2,247**	**11,067**	**-26,358**	**41,396**
Profit attributable to ProCredit shareholders						*41,396*

in '000 EUR	South Eastern Europe	Eastern Europe	South America	Germany	Consolidation	Group
	1.1.–31.12.2019					
Interest income (effective interest method)	143,070	134,935	27,367	22,406	-22,824	304,954
of which inter-segment	*-183*	*1,035*	*4*	*21,967*		
Interest expenses	32,588	67,998	10,614	23,340	-24,119	110,421
of which inter-segment	*10,393*	*8,355*	*3,776*	*1,596*		
Net interest income	**110,482**	**66,937**	**16,752**	**-933**	**1,295**	**194,533**
Loss allowance	-4,869	2,074	-424	-109	0	-3,327
Net interest income after allowances	**115,351**	**64,862**	**17,176**	**-825**	**1,295**	**197,860**
Fee and commission income	52,804	14,838	1,107	12,907	-11,685	69,971
of which inter-segment	*1,719*	*0*	*0*	*9,966*		
Fee and commission expenses	16,908	5,103	1,572	2,107	-7,692	17,998
of which inter-segment	*5,086*	*1,977*	*607*	*22*		
Net fee and commission income	**35,896**	**9,735**	**-465**	**10,800**	**-3,993**	**51,972**
Result from foreign exchange transactions	9,924	6,826	-15	80	75	16,890
of which inter-segment	*0*	*603*	*0*	*-677*		
Result from derivative financial instruments	31	-171	0	-224	-25	-389
of which inter-segment	*227*	*27*	*0*	*-228*		
Result on derecognition of financial assets measured at amortised cost	389	81	0	-19	0	452
Net other operating result	-13,893	-1,736	-666	79,915	-77,803	-14,182
of which inter-segment	*1,110*	*0*	*2*	*76,691*		
Operating income	**147,698**	**79,597**	**16,030**	**89,729**	**-80,451**	**252,603**
Personnel expenses	36,359	12,100	5,535	26,194	0	80,188
Administrative expenses	66,410	22,473	10,455	31,593	-35,382	95,549
of which inter-segment	*17,405*	*6,920*	*3,712*	*7,345*		
Operating expenses	**102,769**	**34,573**	**15,990**	**57,787**	**-35,382**	**175,737**
Profit before tax	**44,930**	**45,024**	**40**	**31,942**	**-45,069**	**76,866**
Income tax expenses	6,542	7,366	1,322	113		15,344
Profit of the period from continuing operations	**38,387**	**37,658**	**-1,282**	**31,829**	**-45,069**	**61,522**
Profit of the period from discontinued operations*						-7,217
Profit of the period	**38,387**	**37,658**	**-1,282**	**31,829**	**-45,069**	**54,305**
Profit attributable to ProCredit shareholders						*52,510*
Profit attributable to non-controlling interests						*1,796*

* *ProCredit Bank Colombia and ARDEC Mexico are shown as discontinued operations.*

in '000 EUR	31.12.2020 Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities
South Eastern Europe	5,259,051	4,712,439	705,965
Eastern Europe	1,492,020	1,293,906	189,728
South America	394,422	351,110	13,301
Germany	1,992,080	1,293,034	8,108
Consolidation	-1,816,015	-1,103,467	0
Total	**7,321,558**	**6,547,021**	**917,102**

in '000 EUR	31.12.2019 Total assets excl. taxes	Total liabilities excl. taxes	Contingent liabilities
South Eastern Europe	4,575,803	4,065,666	570,669
Eastern Europe	1,568,519	1,320,541	153,493
South America	353,129	301,948	9,563
Germany	2,028,330	1,340,137	11,635
Consolidation	-1,834,273	-1,137,497	0
Total	**6,691,507**	**5,890,795**	**745,360**

(14) Earnings per share

	2020			2019		
in '000 EUR	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Profit of the period	41,396	0	41,396	61,522	-7,217	54,305
Profit attributable to ProCredit shareholders	41,396	0	41,396	59,726	-7,121	52,605
Profit attributable to non-controlling interests	0	0	0	1,796	-96	1,700
Weighted average number of ordinary shares	58,898,492	0	58,898,492	58,898,492	58,898,492	58,898,492
Earnings per share* (in EUR)	**0.70**	**0.00**	**0.70**	**1.01**	**-0.12**	**0.89**

* *Basic earnings per share were identical to diluted earnings per share.*

Notes to the Statement of Financial Position

(15) Cash and central bank balances

in '000 EUR	31.12.2020	31.12.2019
Cash in hand	134,857	142,982
Balances at central banks	1,271,090	939,225
Loss allowances for central bank balances	-599	-484
Cash and central bank balances	**1,405,349**	**1,081,723**
Loss allowances for central bank balances	599	484
Loans and advances to banks with a maturity up to 3 months	223,553	303,121
Investment securities with a maturity up to 3 months	154,242	292,003
Minimum reserve, which does not qualify as cash for the statement of cash flows	-504,515	-448,254
Cash and central bank balances for the statement of cash flows	**1,279,229**	**1,229,077**

The changes in central bank balances and the respective loss allowances are presented in the following tables. All central bank balances are classified as Stage 1.

in '000 EUR	2020	2019
Gross outstanding amount as of 1.1.	939,225	806,387
New financial assets originated	72,789	88,810
Derecognition	-22,968	-29,845
Other and exchange rate movements	282,045	77,002
Reclassification to discontinued operations	0	-3,130
Gross outstanding amount as of 31.12.	**1,271,090**	**939,225**

in '000 EUR	2020	2019
Loss allowances as of 1.1.	-484	-618
New financial assets originated	0	-119
Release due to derecognition	0	185
Change in credit risk	-131	76
Exchange rate movements	17	-11
Sale of/ reclassification to discontinued operations	0	3
Loss allowances as of 31.12.	**-599**	**-484**

(16) Loans and advances to banks

The changes in loans and advances to banks and the respective loss allowances are presented in the following tables. All loans and advances to banks are classified as Stage 1.

in '000 EUR	2020	2019
Gross outstanding amount as of 1.1.	320,742	211,763
New financial assets originated	80,396	189,065
Derecognition	-118,872	-79,187
Other and exchange rate movements	-45,741	798
Sale of/ reclassification to discontinued operations	0	-1,697
Gross outstanding amount as of 31.12.	**236,524**	**320,742**

in '000 EUR	2020	2019
Loss allowances as of 1.1.	-5	-170
New financial assets originated	-3	-5
Release due to derecognition	3	8
Change in credit risk	0	165
Exchange rate movements	0	-2
Sale of/ reclassification to discontinued operations	0	1
Loss allowances as of 31.12.	**-5**	**-5**

(17) Derivative financial assets and liabilities

	31.12.2020		
		Fair value	
in '000 EUR	Contractual amount	Assets	Liabilities
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	275,159	508	3,936
Forwards	14,609	1	2
b) Interest rate derivatives			
Interest rate swaps	17,072	0	467
Total derivatives with third parties	**306,840**	**509**	**4,405**

	31.12.2019		
		Fair value	
in '000 EUR	Contractual amount	Assets	Liabilities
Fair value from derivatives			
a) Foreign exchange derivatives			
Swaps	189,334	305	1,485
Forwards	13,223	1	4
b) Interest rate derivatives			
Interest rate swaps	9,226	0	253
Total derivatives with third parties	**211,782**	**306**	**1,742**

(18) Investment securities

	31.12.2020			31.12.2019		
in '000 EUR	Investment securities at FVOCI	Investment securities at AC	Total	Investment securities at FVOCI	Investment securities at AC	Total
Fixed interest rate securities	159,899	127,777	287,676	311,953	0	311,953
Variable interest rate securities	37,624	11,211	48,835	66,328	0	66,328
Loss allowance		-35	-35		0	0
Investment securities	**197,524**	**138,952**	**336,476**	**378,281**	**0**	**378,281**

The changes in investment securities and the respective loss allowances are presented in the following tables. All investment securities are classified as Stage 1.

	2020			2019		
in '000 EUR	Investment securities at FVOCI	Investment securities at AC	Total	Investment securities at FVOCI	Investment securities at AC	Total
Gross outstanding amount as of 1.1.	378,281	0	378,281	297,308	0	297,308
New financial assets originated	171,554	723,155	894,709	310,403	0	310,403
Derecognition	-311,504	-584,186	-895,690	-230,207	0	-230,207
Other and exchange rate movements	-40,808	18	-40,790	1,942	0	1,942
Sale of/ reclassification to discontinued operations	0	0	0	-1,165	0	-1,165
Gross outstanding amount as of 31.12.	**197,524**	**138,987**	**336,511**	**378,281**	**0**	**378,281**

in '000 EUR	2020 Investment securities at FVOCI	2020 Investment securities at AC	2020 Total	2019 Investment securities at FVOCI	2019 Investment securities at AC	2019 Total
Loss allowances as of 1.1.	-46	0	-46	-476	0	-476
New financial assets originated	-54	-137	-191	-40	0	-40
Release due to derecognition	31	100	130	460	0	460
Change in credit risk	10	2	12	98	0	98
Exchange rate movements	1	0	1	-88	0	-88
Sale of/ reclassification to discontinued operations	0	0	0	1	0	1
Loss allowances as of 31.12.	**-59**	**-35**	**-94**	**-46**	**0**	**-46**

The revaluation reserve (for ProCredit shareholders) developed as follows during the financial year:

in '000 EUR	2020	2019
Revaluation reserve as of 1.1.	1,894	1,691
Changes in fair value	955	694
Amount recognised in income statement	0	0
Change in loss allowance	13	-431
Impairment	0	0
Deferred taxes	-69	-59
Acquisition of minority interests	4	0
Revaluation reserve as of 31.12.	**2,797**	**1,894**

(19) Loans and advances to customers

in '000 EUR	31.12.2020 Gross outstanding amount	Loss allowance	Net outstanding amount	Share of total portfolio
Business loans	**4,921,905**	**-112,237**	**4,809,668**	**93.7%**
Wholesale and retail trade	1,372,484	-31,250	1,341,234	26.1%
Agriculture, forestry and fishing	992,110	-22,968	969,142	18.9%
Production	1,228,789	-25,309	1,203,480	23.5%
Transportation and storage	247,600	-8,483	239,117	4.7%
Other	1,080,922	-24,227	1,056,695	20.6%
Private loans	**332,361**	**-10,447**	**321,915**	**6.3%**
Housing	275,071	-8,431	266,640	5.2%
Investment loans and OVDs	49,310	-1,559	47,751	0.9%
Other	7,980	-457	7,523	0.1%
Total	**5,254,266**	**-122,684**	**5,131,582**	**100.0%**

in '000 EUR	31.12.2019 Gross outstanding amount	Loss allowance	Net outstanding amount	Share of total portfolio
Business loans	**4,471,590**	**-96,606**	**4,374,983**	**93.3%**
Wholesale and retail trade	1,279,482	-29,511	1,249,970	26.6%
Agriculture, forestry and fishing	973,072	-20,684	952,388	20.3%
Production	1,078,187	-22,395	1,055,791	22.5%
Transportation and storage	249,297	-5,257	244,041	5.2%
Other	891,552	-18,759	872,793	18.6%
Private loans	**325,743**	**-9,766**	**315,977**	**6.7%**
Housing	274,867	-7,352	267,515	5.7%
Investment loans and OVDs	40,772	-1,763	39,010	0.8%
Other	10,103	-650	9,453	0.2%
Total	**4,797,332**	**-106,372**	**4,690,961**	**100%**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1.1.2020	**4,515,282**	**162,724**	**115,456**	**3,871**	**4,797,332**
New financial assets originated	2,072,094	18,966	24,007	431	**2,115,497**
Modification of contractual cash flows of financial assets	130	-315	-188	2	**-371**
Derecognitions	-714,256	-69,155	-21,816	-298	**-805,525**
Write-offs	0	0	-16,683	-169	**-16,851**
Changes in interest accrual	11,290	1,617	1,292	155	**14,354**
Changes in the principal and disbursement fee	-653,201	-18,348	-20,210	-660	**-692,419**
Transfers to Stage 1	232,398	-229,223	-3,175	0	**0**
Transfers to Stage 2	-433,254	438,161	-4,907	0	**0**
Transfers to Stage 3	-14,364	-47,827	62,191	0	**0**
Other and exchange rate movements	-153,575	897	-5,192	118	**-157,751**
Gross outstanding amount as of 31.12.2020	**4,862,544**	**257,497**	**130,775**	**3,450**	**5,254,266**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2020	**-32,022**	**-7,575**	**-65,696**	**-1,079**	**-106,372**
New financial assets originated	-21,137	-1,583	-8,310	0	**-31,030**
Release due to derecognition	3,722	3,266	11,413	171	**18,571**
Transfers to Stage 1	-3,930	3,856	73	0	**0**
Transfers to Stage 2	6,055	-6,499	444	0	**0**
Transfers to Stage 3	259	4,636	-4,895	0	**0**
Change in credit risk	1,518	-13,855	-14,574	-176	**-27,088**
Usage of allowance	0	0	16,789	178	**16,967**
Exchange rate movements	2,582	1,034	2,671	-19	**6,267**
Loss allowances as of 31.12.2020	**-42,955**	**-16,719**	**-62,084**	**-926**	**-122,684**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1.1.2019	**4,155,427**	**99,847**	**134,329**	**2,569**	**4,392,173**
New financial assets originated	2,314,613	4,601	2,316	378	**2,321,908**
Modification of contractual cash flows of financial assets	851	-79	193	0	**965**
Derecognitions	-960,424	-37,026	-27,140	-72	**-1,024,662**
Write-offs	-18	-124	-22,768	-26	**-22,936**
Changes in interest accrual	2,321	127	2,326	144	**4,918**
Changes in the principal and disbursement fee	-864,252	-29,799	-26,244	791	**-919,504**
Transfers to Stage 1	110,048	-107,640	-2,408	0	**0**
Transfers to Stage 2	-274,844	280,873	-6,029	0	**0**
Transfers to Stage 3	-9,778	-50,222	60,000	0	**0**
Other and exchange rate movements	77,571	6,294	5,573	361	**89,798**
Sale of/ reclassification to discontinued operations	-36,235	-4,128	-4,692	-273	**-45,328**
Gross outstanding amount as of 31.12.2019	**4,515,282**	**162,724**	**115,456**	**3,871**	**4,797,332**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2019	**-34,981**	**-13,454**	**-75,417**	**-493**	**-124,344**
New financial assets originated	-18,117	-99	-75	0	**-18,292**
Release due to derecognition	8,488	3,729	11,610	34	**23,860**
Transfers to Stage 1	-1,634	1,523	111	0	**0**
Transfers to Stage 2	2,623	-3,443	820	0	**0**
Transfers to Stage 3	111	6,470	-6,582	0	**0**
Change in credit risk	11,383	-2,652	-23,088	-701	**-15,058**
Usage of allowance	1	5	23,783	27	**23,815**
Exchange rate movements	-844	-112	-1,177	48	**-2,086**
Sale of/ reclassification to discontinued operations	948	458	4,320	6	**5,733**
Loss allowances as of 31.12.2019	**-32,022**	**-7,575**	**-65,696**	**-1,079**	**-106,372**

in '000 EUR	1.1.–31.12.2020	1.1.–31.12.2019
Amortised cost before modification	239,497	130,847
Net modification	-371	965

The change in loss allowances in the financial year essentially results from an increase in expected losses in Stages 1 and 2 and a slight decrease in loss allowances in Stage 3. With regard to the change in loss allowances, we would also like to refer to the explanations in the Report on the Economic Position of the Group as part of the Combined Management Report.

The following table shows the share of our customer loan portfolio which is subject to moratoriums due to COVID-19 or which has been restructured due to COVID-19.

	31.12.2020				
in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Customer loan portfolio					
currently under moratorium:					
moratorium only	60,845	12,169	3,864	0	**76,879**
moratorium and restructuring	159	8,409	556	0	**9,124**
with expired moratorium:					
moratorium only	1,262,578	73,360	19,583	0	**1,355,521**
moratorium and restructuring	19	33,080	18,283	770	**52,151**
with restructuring but not under moratorium	0	5,470	3,229	0	**8,699**

(20) Property, plant and equipment

in '000 EUR	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total PPE
Total acquisition costs as of 1.1.2020	**128,563**	**24,316**	**97,567**	**167**	**250,612**
Additions	10,758	10,623	13,105	124	34,610
Disposals	-4,575	-3,144	-9,927	-46	-17,692
Exchange rate adjustments	-7,085	-740	-4,036	0	-11,861
Total acquisition costs as of 31.12.2020	**127,660**	**31,055**	**96,710**	**244**	**255,669**
Accumulated depreciation as of 1.1.2020	**-34,907**	**-5,272**	**-71,967**	**-60**	**-112,205**
Depreciation	-3,988	-5,908	-9,803	-62	-19,760
Disposals	1,895	1,211	8,770	46	11,922
Exchange rate movements	1,685	313	3,120	0	5,118
Accumulated depreciation as of 31.12.2020	**-35,314**	**-9,656**	**-69,879**	**-76**	**-114,925**
Net book value	**92,346**	**21,399**	**26,831**	**169**	**140,744**

in '000 EUR	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total PPE
Total acquisition costs as of 1.1.2019	**132,178**	**23,544**	**99,169**	**167**	**255,057**
Additions	8,493	2,652	7,311	0	18,456
Disposals	-11,186	-1,727	-7,855	0	-20,768
Sale of/ reclassification to discontinued operations	-1,987	-153	-1,459	0	-3,599
Exchange rate adjustments	1,064	0	401	0	1,465
Total acquisition costs as of 31.12.2019	**128,563**	**24,316**	**97,567**	**167**	**250,612**
Accumulated depreciation as of 1.1.2019	**-33,533**	**0**	**-67,661**	**0**	**-101,194**
Depreciation	-6,642	-5,603	-11,965	-60	-24,269
Disposals	3,740	311	6,713	0	10,764
Exchange rate movements	-285	-26	-310	0	-621
Sale of/ reclassification to discontinued operations	1,812	46	1,256	0	3,115
Accumulated depreciation as of 31.12.2019	**-34,907**	**-5,272**	**-71,966**	**-60**	**-112,205**
Net book value	**93,656**	**19,044**	**25,601**	**107**	**138,407**

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the current financial period.

Management makes the discretionary decision to depreciate assets on a straight-line basis over the following expected useful lives:

- Buildings 15 – 40 years
- Equipment 2 – 10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected useful life. The rights of use are amortised on a straight-line basis until the end of the lease term.

In addition, all property, plant and equipment are tested for impairment on an annual basis, or to the extent that events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Depreciation and impairment are recognised within "Administrative expenses".

(21) Intangible assets

Intangible assets consist predominantly of software and goodwill. A small amount is related to trademarks.

(a) Software

	2020		2019	
in '000 EUR	Developed software	Acquired software	Developed software	Acquired software
Total acquisition costs as of 1.1.	**17,046**	**34,912**	**15,327**	**37,432**
Additions	1,460	3,355	1,719	2,026
Disposals	0	-1,460	0	-2,898
Exchange rate movements	0	-527	0	-59
Sale of/ reclassification to discontinued operations	0	0	0	-1,589
Total acquisition costs as of 31.12.	**18,506**	**36,280**	**17,046**	**34,912**
Accumulated depreciation as of 1.1.	**-10,685**	**-28,900**	**-9,780**	**-30,738**
Depreciation	-1,865	-2,391	-906	-2,382
Disposals	0	1,455	0	2,612
Exchange rate movements	0	484	0	56
Sale of/ reclassification to discontinued operations	0	0	0	1,551
Accumulated depreciation as of 31.12.	**-12,551**	**-29,352**	**-10,685**	**-28,900**
Net book value	**5,956**	**6,928**	**6,360**	**6,012**

Software is stated at acquisition or production cost less scheduled depreciation and impairment losses. The acquisition or production costs include all expenses to acquire or to develop and bring to use the specific software. Management makes the discretionary decision to amortise software on a straight-line basis over an expected useful life of up to five years. In addition, software is tested for impairment on an annual basis or to the extent that there are indications that impairment may have occurred. Depreciation and impairment are recognised within "Administrative expenses".

(b) Goodwill

in '000 EUR	31.12.2020	31.12.2019
Eastern Europe	1,605	2,043
South Eastern Europe	4,823	4,847
South America	0	1,077
Goodwill	**6,428**	**7,967**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. In general, impairment losses are charged to "Net other operating result" in the Consolidated Statement of Profit or Loss. Changes in ownership interest without changes of control are accounted for as equity transactions with owners and do not result in changes of goodwill.

Goodwill developed as follows:

in '000 EUR	2020	2019
Goodwill as of 1.1.	**7,967**	**9,949**
Gross amount as of 01.01.	13,877	13,859
Exchange rate movements	-1,220	18
Gross amount as of 31.12.	12,657	13,877
Accumulated impairment losses as of 1.1.	-5,910	-3,910
Additions	-986	-2,000
Exchange rate movements	667	0
Accumulated impairment losses as of 31.12.	-6,229	-5,910
Goodwill as of 31.12.	**6,428**	**7,967**

Goodwill is tested for impairment at least annually or whenever there is an indication of impairment. In performing goodwill impairment testing, a discounted cash flow model is used where each subsidiary is defined as an individual cash-generating unit. Management estimates are involved in forecasting future cash flows and in determining the cost of capital. The cash flow projections are based on the current business planning and therefore appropriately reflect future business prospects. Estimated future cash flows are extrapolated in perpetuity due to the long-term perspective of the equity investments, using management's best estimate for determining future net growth rates based on currently observable data and economic projections. The estimated future cash flows are discounted at specific equity discount rates which reflect the risk profile of the individual entity. The pre-tax discount factors are derived from a group pricing model and are between 5.6% and 14.8% (2019: between 7.2% and 13.8%). Goodwill is tested by comparing the respective net present value of future cash flows from a subsidiary (value in use) with the carrying value of its net assets plus goodwill.

(22) Income taxes

In calculating both the current taxes on income and earnings and the deferred income tax, the respective country-specific tax rates are applied. The income tax rate applied for the reporting period was 13.6% (2019: 19.3%), calculated by dividing the total tax burden by the unconsolidated profits.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using local tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

We recognise deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the current business planning and reflects the Management's view of future business prospects.

Changes of deferred taxes related to fair value re-measurement of investment securities in the previous year are charged to the Consolidated Statement of Other Comprehensive Income. The presentation in the Consolidated Statement of Other Comprehensive Income is made on a gross basis. During the financial year, the respective deferred taxes at the time of sale were recognised in the Consolidated Statement of Profit or Loss together with the deferred gain or loss.

Income tax assets and liabilities of the companies are recognised net if they relate to the same tax authority.

The tables below show the development of deferred taxes and provide information on the underlying business transactions for deferred income tax assets and liabilities:

in '000 EUR	Tax depreciation	Loss allowance	Tax loss carried forward	Provisions	Other temporary differences	Deferred taxes
Net book value as of 1.1.2020	**232**	**-1,181**	**42**	**1**	**395**	**-512**
Considered in Profit or Loss	177	796	-14	118	118	**1,196**
Considered in Other Comprehensive Income	0	0	0	0	-71	**-71**
Exchange rate movements	-15	91	0	-17	-11	**48**
Net book value as of 31.12.2020	**394**	**-294**	**28**	**102**	**431**	**661**
thereof deferred tax assets	*435*	*342*	*28*	*287*	*538*	***1,630***
thereof deferred tax liabilities	*41*	*636*	*0*	*185*	*107*	***969***

in '000 EUR	Tax depreciation	Loss allowance	Tax loss carried forward	Provisions	Other temporary differences	Deferred taxes
Net book value as of 1.1.2019	**116**	**-261**	**246**	**967**	**55**	**1,123**
Considered in Profit or Loss	88	-941	-205	-980	375	**-1,662**
Considered in Other Comprehensive Income	0	0	0	0	-43	**-43**
Exchange rate movements	27	21	0	13	7	**69**
Sale of/ reclassification to discontinued operations	0	0	0	0	1	**1**
Net book value as of 31.12.2019	**232**	**-1,181**	**42**	**1**	**395**	**-512**
thereof deferred tax assets	*195*	*25*	*42*	*71*	*406*	***739***
thereof deferred tax liabilities	*-37*	*1,206*	*0*	*70*	*11*	***1,251***

The reconciliation between taxes of the consolidated financial statements according to IFRS and the local tax statements is shown in the following table:

in '000 EUR	1.1.-31.12.2020	1.1.-31.12.2019
Profit before tax	52,085	76,866
Tax expected	8,155	8,412
Tax effects of items which are not deductable:		
non-taxable income	-7,072	-16,050
non-tax deductable expenses	2,240	18,246
no tax asset built on tax loss carry forwards	3,238	4,773
consolidation effects	4,127	-38
Income tax expenses	**10,689**	**15,344**

The expected tax expense is calculated by applying the weighted average of all local tax rates to the profit before tax. Compared to the previous year, local tax rates have not changed.

Taxes on unused loss carry-forwards largely comprise an amount of EUR 2.4 million for ProCredit Holding. ProCredit Holding does not establish deferred tax assets for losses carried forward, as it will not be possible to make use of these assets within the tax planning period. The accumulated tax loss carry-forwards for which no deferred tax assets were established as of the balance sheet date for ProCredit Holding are EUR 131.1 million (2019: EUR 121.5 million) for corporation income tax and EUR 57.2 million (2019: EUR 62.9 million) for trade tax. The loss carry-forwards are mainly accumulated due to dividend income of ProCredit Holding, 95% of which is non-taxable in Germany, and are adjusted for trade tax by special add-backs within the interest barrier.

The following table shows the main components of income tax expense:

in '000 EUR	1.1.-31.12.2020	1.1.-31.12.2019
Current tax	11,884	13,682
Deferred tax relating to origination and reversal of temporary differences	-1,196	1,662
Income tax expenses	**10,689**	**15,344**
Deferred tax on revaluation reserve	-69	-59
Items charged or credited directly to equity	**-69**	**-59**
Total	**10,620**	**15,285**

(23) Other assets

in '000 EUR	31.12.2020	31.12.2019
Non-financial instruments		
Repossessed properties	7,525	12,152
Investment properties	5,756	5,912
Inventory and assets to be sold	913	1,501
Financial instruments		
Shares	5,280	6,266
Accounts receivable (up to one year)	9,931	15,270
Prepayments	13,004	12,350
Others	9,406	7,727
Loss allowance	-752	-431
Other assets	**51,063**	**60,747**

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No scheduled depreciation is charged for the respective assets. All subsequent impairment losses and reversals of impairment up to the original amount are recognised in the Consolidated Statement of Profit or Loss in "Net other operating result". Repossessed property can be subdivided into segments as follows:

in '000 EUR	31.12.2020	31.12.2019
Eastern Europe	2,432	5,096
South Eastern Europe	4,840	6,826
South America	253	230
Repossessed properties	**7,525**	**12,152**

Investment property comprises land and buildings leased to third parties. Gains and losses on disposals (determined by comparing sale proceeds with carrying amount) are recognised within "Result on derecognition of financial assets measured at amortised cost" in the Consolidated Statement of Profit or Loss at the time of disposal. As in the previous period, during the 2020 financial year no impairment was recorded. The fair value of investment property amounts to EUR 5.9 million (2019: EUR 6.3 million). The future minimum lease income from investment property is broken down as follows:

in '000 EUR	31.12.2020	31.12.2019
Future minimum lease income		
- no later than one year	694	282
- later than one year and no later than five years	437	758
- later than five years	0	0
Total	**1,131**	**1,040**

The changes in other financial instruments (excluding shares) and the respective loss allowances are presented in the following tables. The simplified approach is used when establishing loss allowances.

in '000 EUR	2020	2019
Gross outstanding amount as of 1.1.	35,347	35,749
New financial assets originated	148,188	189,561
Derecognition	-151,489	-187,231
Other and exchange rate movements	295	-642
Sale of/ reclassification to discontinued operations	0	-2,091
Gross outstanding amount as of 31.12.	**32,341**	**35,347**

in '000 EUR	2020	2019
Loss allowances as of 1.1.	-431	-691
New financial assets originated	-88	-84
Release due to derecognition	93	170
Change in credit risk	-446	-224
Exchange rate movements	119	350
Sale of/ reclassification to discontinued operations	0	48
Loss allowances as of 31.12.	**-752**	**-431**

(24) Pledged and transferred assets

We have pledged a number of our assets for funding, the majority of which on a portfolio basis. The pledges could be exercised in case of default of principal or interest payment. The maturities of the pledges are in line with the related liabilities.

	31.12.2020		31.12.2019	
in '000 EUR	Pledged assets that can be repledged or sold	related liability	Pledged assets that can be repledged or sold	related liability
Loans and advances to banks	9,045	3,387	6,228	892
Loans and advances to customers	27,365	34,986	11,681	16,291
Other assets	1,561	36	3,597	2,443
Total	**37,971**	**38,408**	**21,506**	**19,626**

(25) Liabilities to customers

in '000 EUR	31.12.2020	31.12.2019
Sight deposits	**2,126,947**	**1,669,908**
private individuals	591,647	512,691
legal entities	1,535,300	1,157,217
Saving deposits	**1,215,113**	**1,089,460**
private individuals	653,184	576,595
legal entities	561,929	512,865
Term deposits	**1,556,837**	**1,574,068**
private individuals	902,660	945,950
legal entities	654,177	628,118
Liabilities to customers	**4,898,897**	**4,333,436**

(26) Debt securities

In 2020, we repaid debt securities totalling EUR 131 million (2019: EUR 10 million), and new securities totalling EUR 54 million (2019: EUR 146 million) were issued.

(27) Other liabilities

in '000 EUR	31.12.2020	31.12.2019
Lease liabilities	22,776	19,155
Deferred income	3,379	2,096
Liabilities for goods and services	7,915	6,505
Non-income tax liabilities	3,370	2,796
Others	3,809	2,808
Other liabilities	**41,249**	**33,361**

Lease liabilities are recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

(28) Provisions

Provisions are established when we have a present legal or constructive obligation resulting from past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount of provisions represents the best possible estimate, taking into account estimation uncertainties regarding the amount to be paid or the probability of occurrence. The majority our obligations will be settled within a one-year period. Multi-year obligations are discounted at an average interest rate of 3.2% (2019: 3.5%). Unwinding is recognised as interest expense over time.

The development of provisions is as follows:

in '000 EUR	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2020	**2,856**	**2,656**	**1,921**	**1,186**	**1,683**	**1,758**	**12,060**
Additions	2,626	1,626	2,055	123	2,272	812	**9,514**
Releases	-307	-129	-66	-37	-1,125	-543	**-2,208**
Used	-2,274	-285	-1,263	0	0	-162	**-3,984**
Exchange rate movements	-53	-154	-127	-82	-96	-114	**-626**
Unwinding	0	34	0	86	0	0	**120**
Book Value as of 31.12.2020	**2,847**	**3,748**	**2,521**	**1,276**	**2,733**	**1,751**	**14,875**

in '000 EUR	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2019	**2,373**	**1,611**	**2,117**	**1,602**	**2,114**	**717**	**10,534**
Additions	2,706	1,451	1,619	167	498	1,673	**8,114**
Releases	-270	-208	-108	-598	-941	-121	**-2,246**
Used	-1,974	-245	-1,714	-13	0	-535	**-4,481**
Exchange rate movements	21	47	55	28	12	34	**197**
Unwinding	0	0	0	0	0	0	**0**
Sale of subsidiaries	0	-1	-48	0	0	-10	**-59**
Book Value as of 31.12.2019	**2,856**	**2,656**	**1,921**	**1,186**	**1,683**	**1,758**	**12,060**

Provisions for post-employment benefits include obligations for staff pensions. Provisions for contingent liabilities include provisions for financial and non-financial off-balance sheet transactions. Provisions for legal risks are mainly established for legal cases. Provisions for untaken vacation are established for employee vacation days still outstanding as of the reporting date. Provisions for unbilled services are established for services which have been provided but not yet invoiced as of the reporting date.

(29) Subordinated debt

The change in subordinated debt is as follows:

in '000 EUR	Subordinated debt
Book value as of 31.12.2019	**87,198**
Cashflow	
Cash out	-5,218
Cash in	0
Non-cashflow	
Deferred fees and accrued interest	5,401
Exchange rate movements	-2,407
Book value as of 31.12.2020	**84,974**

(30) Maturities of assets and liabilities

In the following table, we show amounts for assets and liabilities that will be settled within twelve months (short term) and more than twelve months (long term) after the balance sheet date. Financial instruments without contractual maturities as well as cash and central bank balances are generally classified as short term. We classify the balance sheet items Property, plant and equipment, Intangible assets and Deferred tax assets/ liabilities as long term.

in '000 EUR	Short-term	Long-term	31.12.2020	Short-term	Long-term	31.12.2019
Assets						
Cash	134,857	0	134,857	142,982	0	**142,982**
Central bank balances	1,270,491	0	1,270,491	938,741	0	**938,741**
Loans and advances to banks	233,469	3,050	236,519	320,738	0	**320,737**
Derivative financial assets	43	466	509	306	0	**306**
Investment securities	226,052	110,423	336,476	352,485	25,797	**378,281**
Loans and advances to customers	1,869,489	3,262,093	5,131,582	1,900,255	2,790,706	**4,690,961**
Property, plant and equipment	0	140,744	140,744	0	138,407	**138,407**
Intangible assets	0	19,316	19,316	0	20,345	**20,345**
Current tax assets	5,153	961	6,113	4,061	1,253	**5,314**
Deferred tax assets	0	1,630	1,630	0	739	**739**
Other assets	42,828	8,236	51,063	45,875	14,872	**60,747**
Total assets	**3,782,383**	**3,546,919**	**7,329,301**	**3,705,442**	**2,992,118**	**6,697,560**
Liabilities						
Liabilities to banks	62,854	167,703	230,556	212,531	14,287	**226,819**
Derivative financial liabilities	3,938	467	4,405	1,178	564	**1,742**
Liabilities to customers	4,341,454	557,443	4,898,897	3,964,496	368,940	**4,333,436**
Liabilities to international financial institutions	368,351	636,856	1,005,207	193,648	658,804	**852,452**
Debt securities	35,514	231,344	266,858	131,613	212,114	**343,727**
with fixed interest rate	*35,515*	*221,344*	*256,858*	*21,702*	*202,114*	**223,816**
with variable interest rate	*0*	*9,999*	*9,999*	*109,911*	*10,000*	**119,911**
Other liabilities	24,242	17,007	41,249	22,404	10,957	**33,361**
Provisions	10,606	4,269	14,875	8,803	3,257	**12,060**
Current tax liabilities	1,582	0	1,582	2,022	0	**2,022**
Deferred tax liabilities	0	969	969	0	1,251	**1,251**
Subordinated debt	896	84,078	84,974	713	86,485	**87,198**
with fixed interest rate	*654*	*38,000*	*38,654*	*420*	*38,000*	**38,420**
with variable interest rate	*242*	*46,078*	*46,320*	*293*	*48,485*	**48,778**
Total liabilities	**4,849,436**	**1,931,479**	**6,549,573**	**4,537,409**	**1,356,658**	**5,894,068**

(31) Fair value of financial instruments

		31.12.2020				
in '000 EUR	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash	FV	134,857	134,857	134,857	0	0
Central bank balances	AC	1,270,491	1,270,491	0	1,270,491	0
Loans and advances to banks	AC	236,519	236,524	0	236,524	0
Derivative financial assets	FV	509	509	0	509	0
Investment securities	FVOCI	197,524	197,524	118,358	79,165	0
Investment securities	AC	138,952	139,495	0	139,495	0
Loans and advances to customers	AC	5,131,582	5,162,924	0	0	5,162,924
Other assets (Shares)	FVOCI	5,280	5,280	2,910	1,518	852
Other assets (Financial instruments)	AC	31,589	31,589	0	30,850	739
Total		**7,147,303**	**7,179,192**	**256,126**	**1,758,551**	**5,164,515**
Financial liabilities						
Liabilities to banks	AC	230,556	226,453	0	29,843	196,610
Derivative financial liabilities	FV	4,405	4,405	0	4,405	0
Liabilities to customers	AC	4,898,897	4,904,504	0	3,512,125	1,392,379
Liabilities to international financial institutions	AC	1,005,207	991,949	0	5,178	986,772
Debt securities	AC	266,858	276,524	0	0	276,524
Subordinated debt	AC	84,974	86,344	0	0	86,344
Total		**6,490,897**	**6,490,180**	**0**	**3,551,551**	**2,938,629**

Categories: FV - at Fair Value; AC - Amortised cost; FVOCI - at Fair Value through other comprehensive income

		31.12.2019				
in '000 EUR	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash	FV	142,982	142,982	142,982	0	0
Central bank balances	AC	938,741	938,741	0	938,741	0
Loans and advances to banks	AC	320,737	320,737	0	320,737	0
Derivative financial assets	FV	306	306	0	306	0
Investment securities	FVOCI	378,281	378,281	104,213	274,068	0
Loans and advances to customers	AC	4,690,961	4,703,408	0	0	4,703,408
Other assets (Shares)	FVOCI	6,266	6,266	2,787	1,505	1,974
Other assets (Financial instruments)	AC	34,916	34,916	0	34,282	635
Total		**6,513,190**	**6,525,638**	**249,983**	**1,569,638**	**4,706,017**
Financial liabilities						
Liabilities to banks	AC	226,819	225,665	0	36,869	188,796
Derivative financial liabilities	FV	1,742	1,742	0	1,742	0
Liabilities to customers	AC	4,333,436	4,339,305	0	3,004,703	1,334,603
Liabilities to international financial institutions	AC	852,452	813,154	0	1,333	811,820
Debt securities	AC	343,727	343,727	0	0	343,727
Subordinated debt	AC	87,198	92,777	0	0	92,777
Total		**5,845,374**	**5,816,370**	**0**	**3,044,647**	**2,771,723**

Categories: FV - at Fair Value; AC - Amortised cost; FVOCI - at Fair Value through other comprehensive income

ProCredit's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for financial instruments and the lowest priority to unobservable inputs. For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value. The ProCredit group has no fair value financial instruments with Level 3 inputs, with the exception of an insignificant amount of shares. In general, there is no reclassification between levels of the fair value hierarchy.

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

The ProCredit group applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

(a) Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow models using observable market parameters. Each subsidiary applies individual observable interest and exchange rates, predominantly from local central banks.

(c) Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit Group Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

(32) Equity

a) Subscribed capital

The subscribed capital amounts to EUR 294.5 million, unchanged since the previous year, and is divided into 58,898,492 non-par value shares. All issued shares are non-par value shares and fully paid. The holders of ordinary shares are entitled to receive dividends (as resolved) and are entitled to one vote per share.

At the next Annual General Meeting, the Management Board intends to propose the distribution of dividends totalling EUR 10.6 million or EUR 0.18 per share. This proposal is in line with the recommendation of the European Central Bank that banks should exercise the utmost restraint in dividend distributions until 30 September 2021. The Management Board also plans to propose a further dividend distribution of EUR 0.35 per share at the latest by 31 December 2021 at an Extraordinary General Meeting that is to be convened, provided that neither the Federal Financial Supervisory Authority nor the European Central Bank has issued any restrictive notifications to the contrary. In the event that the second planned dividend is also distributed, which would have to be approved by an Extraordinary General Meeting, the total distribution would correspond to one third of the cumulative consolidated results for the 2019 and 2020 financial years, thereby complying with our dividend policy. Due to the recommendations of the regulatory authorities at that time, no dividend was distributed to shareholders for 2019.

The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital by issuing 5,889,849 new registered value shares for cash and non-cash consideration by a total amount of up to EUR 29.4 million, which may be issued in whole or in part until 22 May 2023.

By resolution of the Extraordinary General Meeting of 15 November 2019, the general partner, ProCredit General Partner AG, was authorised to acquire treasury shares of stock in accordance with section 71 (1) no. 8 AktG. The acquisition is possible for any legally permissible purpose. The authorisation is valid until five years after the date of the resolution and is limited in total to 1.5% of the share capital existing at the time the resolution is adopted by the General Meeting or – if lower – of the share capital existing at the time the authorisation is exercised. As of 31 December 2020 the ProCredit group did not hold any treasury shares of stock.

b) Capital reserve

Premiums from the issue of shares are shown in the capital reserve. The costs for issuing new shares are offset against capital reserve.

c) Retained earnings

The retained earnings mainly result from profit carried forward from previous years, less dividends distributed. The retained earnings also include the legal reserve.

d) Translation reserve

The translation reserve includes exchange rate gains and losses arising from capital consolidation and is based on exchange rate differences from the currency translation of the financial statements of consolidated subsidiaries.

e) Revaluation reserve

The results from the measurement of investment securities and shares, after taking deferred taxes into account, as well as loss allowances for investment securities, are recognised in the revaluation reserve.

Additional Notes

(33) Regulatory own funds

We calculate our capital adequacy according to CRR and CRD IV on the basis of the IFRS consolidated financial statements. Whereas the capital requirements for the ProCredit group are imposed and monitored by BaFin and by the Supervisory College, the individual ProCredit banks are subject to the requirements imposed by the respective national supervisory authorities. These national requirements are largely based on the recommendations of the Basel Committee. In addition to compliance with the national requirements, each ProCredit bank calculates its capital ratios in accordance with CRR and ensures compliance with internally defined minimum requirements.

As of 31 December 2020, the Common Equity Tier 1 capital of the ProCredit group amounted to EUR 706 million, which is EUR 36 million lower than the previous year. This decline is mainly due to the negative development of the currency translation reserve. Tier 2 capital as of 31 December 2020 stood at EUR 76 million, a decrease of EUR 8 million from the previous period that can largely be attributed to the diminished capacity to recognise existing subordinated debt.

in ´000 EUR	**31.12.2020**	**31.12.2019**
Common equity Tier 1 capital	706,378	742,324
Additional Tier 1 capital	0	0
Tier 2 capital	75,922	83,734
Total capital	**782,300**	**826,059**
Risk weighted assets	**5,325,153**	**5,252,032**

Our risk-weighted assets increased during the year by EUR 73 million or 1%, reaching a total amount of EUR 5.3 billion. Solid loan portfolio growth of EUR 441 million in 2020 was largely offset in risk-weighted assets by the recognition of Serbia's banking regulation as CRR-equivalent by the EU Commission in January and by the introduction of a new SME support factor due to the "CRR quick fix" in June.

For assessing the exposure towards credit risk, the credit risk standardised approach (CRSA) is used for all exposure classes. The amount of credit risk increased in 2020 by EUR 123 million, ending the period at EUR 4.4 billion.

Since the ProCredit group consists only of non-trading book institutions, the market risks are limited to foreign currency risk. This arises almost exclusively as a result of the equity holdings denominated in foreign currency that ProCredit Holding maintains in its foreign subsidiaries. The amount for foreign currency risk as of 31 December 2020 was EUR 528 million, which represents a decrease of EUR 46 million.

We apply the standardised approach to quantify operational risk. The amount for operational risk at year-end was EUR 432 million.

Given the small volume of derivatives held by the group, the risk arising from credit valuation adjustment (CVA) is insignificant. The standard method is used for calculation. The amount for CVA risk increased slightly and, as of 31 December 2020, was EUR 2 million.

	31.12.2020		31.12.2019	
in '000 EUR	Risk-weighted assets	Minimum capital requirements	Risk-weighted assets	Minimum capital requirements
Credit risk	4,362,966	349,037	4,240,209	339,217
Market risk	528,343	42,267	574,142	45,931
Operational risk	431,892	34,551	436,233	34,899
Credit Valuation Adjustment risk	1,951	156	1,449	116
Total	**5,325,153**	**426,012**	**5,252,032**	**420,163**

The CRR minimum capital ratios are set to 4.5% for the Common Equity Tier 1 capital ratio, 6% for the Tier 1 capital ratio and 8% for the total capital ratio. In addition, various capital buffers consisting of CET1 capital must be maintained: The capital conservation buffer, which had been introduced in stages, has stood at 2.5% since 2019. The institution-specific countercyclical capital buffer amounted to 0.1% as at 31 December 2020. An individual capital add-on pursuant to the Supervisory Review and Evaluation Process (SREP) was set for the ProCredit group based on total capital. This add-on was reduced in 2020 from 2.5% to 2.0%. Overall, these results (taking into account the capital buffers) in a minimum capital requirement of 8.2% for the CET1 capital ratio, 10.1% for the T1 capital ratio and 12.6% for the total capital ratio of ProCredit group.

During the reporting period, the ProCredit group met all regulatory capital requirements at all times. The capital ratios of the ProCredit group are shown below:

	31.12.2020	31.12.2019
Common equity Tier 1 capital ratio	13.3%	14.1%
Tier 1 capital ratio	13.3%	14.1%
Total capital ratio	**14,7%**	**15.7%**

(34) Contingent liabilities

in '000 EUR	31.12.2020	31.12.2019
Credit commitments (revocable)	656,291	518,714
Payment guarantees	138,445	119,853
Performance guarantees	108,682	89,700
Credit commitments (irrevocable)	9,757	15,037
Letters of credit	3,926	2,056
Total	**917,102**	**745,360**

The table above discloses the contractually agreed maximum amounts of contingent liabilities, without consideration of collateral. We expect that the most significant portion of guarantees will expire without being drawn upon. It is not practicable to estimate the future use of the credit commitments.

(35) Related party transactions

Legal entities or natural persons are considered to be related parties if they are in a relationship with ProCredit group and if these have the ability to directly or indirectly control or exercise significant influence in making financial or operational decisions. All transactions are performed substantially on the same terms, including interest rates and security, as for transactions of a similar nature with third party counterparts. The group's related parties include key management personnel, close family members of key management personnel, ProCredit General Partner AG, Frankfurt am Main, as the direct parent company and ultimate controlling party, subsidiaries and entities which are controlled or significantly influenced by key management personnel or their close family members (Zeitinger Invest GmbH, Frankfurt am Main).

in '000 EUR	Management Board	Supervisory board	Family members of key personnel	ProCredit General Partner AG	Zeitinger Invest GmbH	31.12.2020
Income	0	1	0	1	7	**10**
Expenses	4	16	18	577	0	**614**
Assets	0	39	0	0	0	**39**
Liabilities	90	383	79	0	0	**552**

in '000 EUR	Management Board	Supervisory board	Family members of key personnel	ProCredit General Partner AG	Zeitinger Invest GmbH	31.12.2019
Income	0	0	0	1	7	**9**
Expenses	9	20	41	802	0	**870**
Assets	0	46	0	0	0	**46**
Liabilities	50	357	79	0	0	**487**

The expenses for ProCredit General Partner AG consist mainly of remuneration of the members of the Management Board. The liabilities largely comprise client deposits.

Intra-group transactions between affiliated companies within the scope of consolidation are eliminated in full (see also notes (2) and (13)) and are also not shown as transactions with related parties. Transactions with affiliated companies outside the scope of consolidation (see Note (2)) are as follows:

in '000 EUR	31.12.2020	31.12.2019
Income	57	454
Expenses	601	494
Assets	945	1,346
Liabilities	507	671

The expenses consist mainly of personnel expenses of ProCredit Reporting DOOEL, North Macedonia. The assets mainly comprise the receivables from PC Finance II B.V., The Netherlands, and investments in the companies.

(36) Events after the reporting period

No significant events arose after the reporting date.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, we assert that the consolidated financial statements give a true and fair view of the financial position and financial performance of the group, and the consolidated management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the significant opportunities and risks associated with the expected development of the group.

Frankfurt am Main, 18 March 2021

ProCredit Holding AG & Co. KGaA
represented by
ProCredit General Partner AG (personally liable shareholder)

Management Board

Sandrine Massiani | Dr. Gabriel Schor | Dr. Gian Marco Felice

Forward-looking statements

This report contains forward-looking statements on the business and earnings development of the ProCredit group; among other things, these are based on current plans, assumptions and forecasts. Forward-looking statements involve risks and uncertainties, such that actual results may differ materially from forward-looking statements. In particular, these factors include economic development trends, possible loan defaults, the state of financial markets and exchange rate fluctuations. Forward-looking statements are therefore only valid at the time of publication. We assume no obligation to adjust the forward-looking statements, nor do we intend to do so, in light of new information or unexpected events.

INDEPENDENT AUDITOR'S REPORT

To ProCredit Holding AG & Co. KGaA, Frankfurt am Main

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of ProCredit Holding AG & Co. KGaA and the Group (combined management report) for the financial year from 1 January to 31 December 2020.

In accordance with the German legal requirements, we have not audited the content of those components of the combined management report specified in the appendix to the independent auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion regarding the combined management report does not extend to the content of the components of the combined management report specified in the appendix to the independent auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management

Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

- Identification and measurement of loans and advances to customers with impaired credit (Stage 3)

The key policies for the accounting and measurement of financial instruments according to IFRS 9 are explained in note 4 "Financial instruments" in the notes to the consolidated financial statements. For information on impairment under IFRS 9 please refer to the section on "Risk provisioning" in the Risk Report in the combined management report.

The financial statement risk

In the Company's consolidated financial statements, loans and advances to customers of KEUR 5,131,582 were recognised as at 31 December 2020, of which KEUR 130,775 were classified as loans and advances to customers with impaired credit (Stage 3). To this end, the Company recognised loss allowances of KEUR 62,084.

Loans and advances to customers with impaired credit are identified and assigned to Stage 3 if certain predefined credit events occur. In light of the current COVID-19 pandemic, there is an elevated risk regarding the identification of relevant credit events, which for example may be concealed only temporarily by government assistance measures, as well as in terms of the measurement of the loss allowances to be recognised.

For the purpose of our audit, it was therefore important that appropriate criteria for identifying loans and advances to customers requiring specific credit loss allowances are defined and that the identification of these exposures is ensured through the process. Therefore it is particularly significant that, due to the current uncertainties in connection with the COVID-19 pandemic, the group has not restricted itself to quantitative factors only, but also considers current developments and future forecasts in the assessment of creditworthiness.

In addition, it was relevant for our audit that appropriate assumptions are made regarding the amount of the contractual cash flows still expected and/or the amount of the cash flows to be expected from the use of the loan collateral provided when calculating the expected credit loss allowances. Inaccurate assumptions regarding the amount of the expected cash flows result in counterparty credit risks not being taken into account in the appropriate level and by extension loans and advances to customers being inaccurately measured.

Our audit approach

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

In a first step, we gained an extensive understanding of the performance of the loans and advances to customers, the associated risks and the internal control system with regard to managing, monitoring and measuring the loans and advances to customers, as well as their allocation to a default stage defined under IFRS 9.

To assess the appropriateness of the internal control system with regard to identifying, controlling, monitoring and measuring loans and advances to customers, we inspected the relevant organisational policies and conducted interviews. In addition, we satisfied ourselves that the relevant controls that the Company has set up for identifying loans and advances to customers with impaired credit, complying with the methodology for calculating credit loss allowances as well as for deriving the assumptions made are appropriate, implemented and effective.

We examined the impairment testing of receivables using deliberate sampling of individual exposures from the perspective of materiality and risk. We initially examined whether criteria indicating impaired creditworthiness are in place for the selected exposures. Where the criteria indicating impaired creditworthiness are met, we are satisfied that these have been properly taken into account and the necessary inferences have been drawn on this basis.

In the case of the measurement of the amount of the credit loss allowances, we also assessed whether the number and nature of the scenarios used as well as the probabilities assigned to these scenarios were appropriate. In doing so, we took into account the complexity of financing in each case and the factors likely determining further exposure to risk and considered whether the assumptions underlying the scenarios were consistent with the forecasts of general macroeconomic conditions used at ProCredit Holding AG & Co. KGaA.

We then assessed the cash flows derived for the scenarios including the payment dates assumed. Our assessment included an evaluation of collateral depending on the exposure strategy pursued by the Company.

Lastly, we verified that the value of expected credit losses was accurately calculated. In the case of the specific credit loss allowances to be recognised, we arithmetically reconstructed them and checked their appropriate recording in the financial reporting system.

Our observations

The process for identifying exposures with indications of impairment is appropriate. The identification criteria as well as the assumptions regarding the amount of contractual cash flows still to be expected and/or regarding the amount of the cash flows to be expected from the use of the pledged loan collateral were selected appropriately and used in accordance with the applicable accounting standards for the measurement of specific credit loss allowances.

Other Information

Management respectively the Supervisory Board are responsible for the other information. The other information comprises the components of the combined management report specified in the appendix to the independent auditor's report, whose content was not audited.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the information in the combined management report audited for content or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the electronic reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, „procredit_187561.zip“ (SHA256-Hashwert: 8cf60c55cbfe25d28ff4cbadb56f0021ebdca7951c16d00ac2828f006a2fd910) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2020, contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report" above.

We conducted our assurance work of the reproduction of the consolidated financial statements and the combined group management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor at the annual general meeting on 26 May 2020. We were engaged by the Supervisory Board on 3 July 2020. We have been the group auditor of ProCredit Holding AG & Co. KGaA without interruption since financial year 2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or its controlled entities the following services that are not disclosed in the consolidated financial statements or in the combined management report:

We conducted a review in accordance with Section 115 of the German Securities Trading Act [WpHG] of the condensed interim financial statements as at 30 June 2020. In addition, we have issued an assurance report (agreed-upon procedures) in connection with the determination of the supervisory fees of the European Central Bank (ECB).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 22 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Fox	Dyhr
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

APPENDIX TO THE INDEPENDENT AUDITOR'S REPORT: COMBINED MANAGEMENT REPORT COMPONENTS NOT AUDITED FOR CONTENT AND CROSS REFERENCES

We did not audit the following components of the combined management report:

- the combined corporate governance statement contained in the combined management report,

- the Group's separate non-financial report (Impact Report), which is referred to in the combined management report, and

- the following disclosures that are not part of the management report. Disclosures not part of the combined management report are those disclosures that are neither required pursuant to Sections 315, 315a or Sections 315b to 315d HGB nor German Accounting Standard GAS 20:
  - Human Resources Report

ProCredit
HOLDING

ProCredit Holding AG & Co. KGaA
Rohmerplatz 33-37
60486 Frankfurt am Main, Germany
Tel. +49-(0)69 - 95 14 37-0
Fax +49-(0)69 - 95 14 37-168
www.procredit-holding.com