ProCredit HOLDING

COMBINED MANAGEMENT REPORT AND ANNUAL FINANCIAL STATEMENTS

2020

ProCredit Holding AG & Co. KGaA

Contents

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.

The annual financial statements and the group management report, which includes the combined management report for ProCredit Holding AG & Co. KGaA for the 2020 financial year, will be submitted to the provider of the electronic Federal Gazette [Bundesanzeiger] and published electronically in the Federal Gazette.

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.

[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).

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.

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.

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.

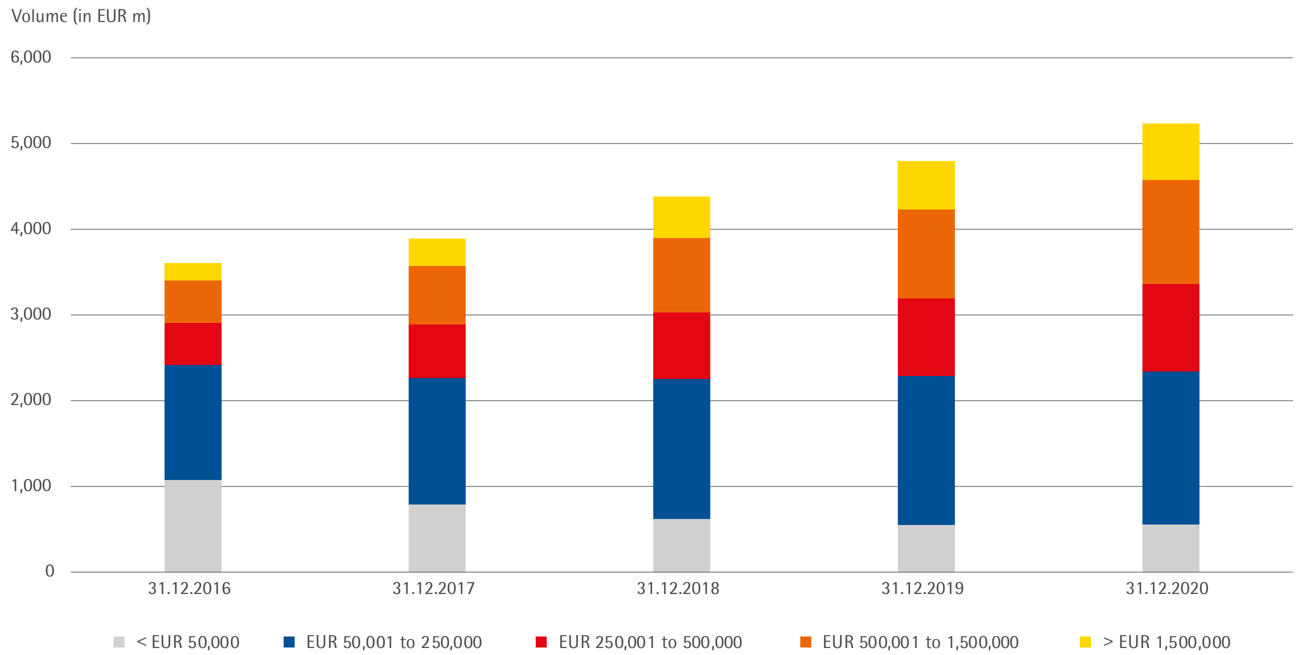
The group's capital base was stable in the financial year. The fully loaded CET 1 capital ratio declined by 0.8 percentage points to 13.3%, in large part due to the growth of our loan portfolio. This development is in line with our forecast for the year of above 13.0%. The leverage ratio of 9.3% (2019: 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.

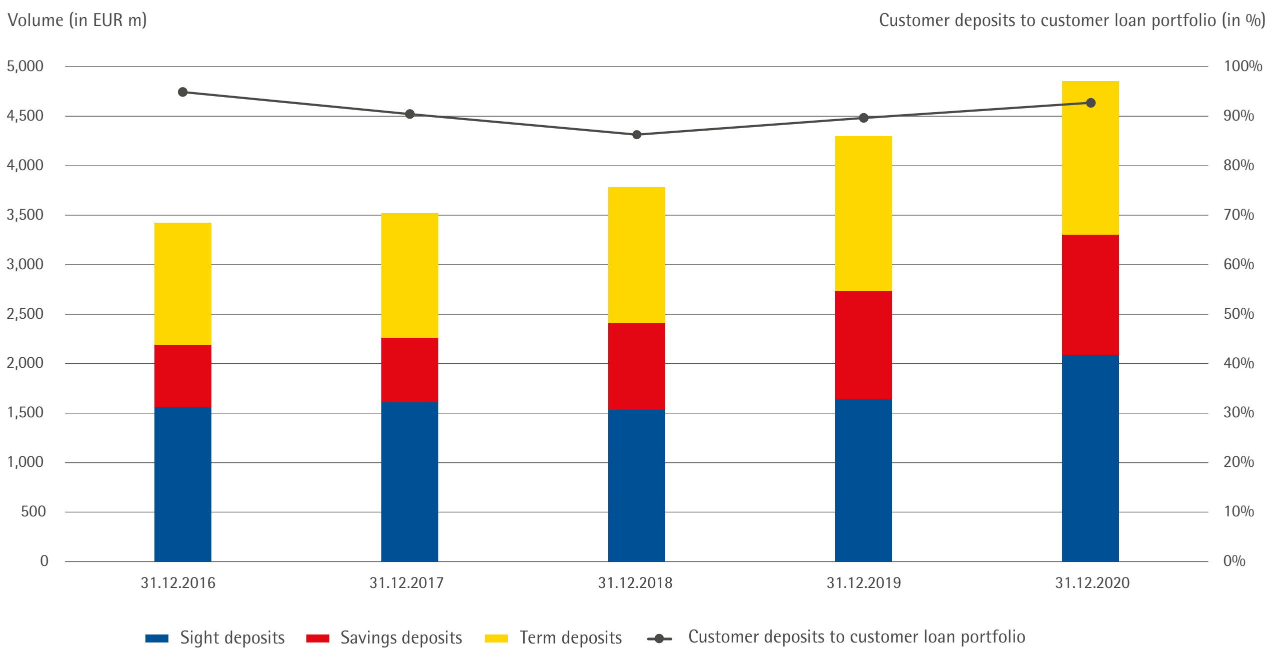
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented not more than 2.0% of the group's total portfolio volume at the end of 2020.

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

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.

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.

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.

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

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.

	31.12.2020					
in '000 EUR	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.

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

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

Annual Financial Statements

ProCredit Holding AG & Co. KGaA
Rohmerplatz 33-37
60486 Frankfurt am Main, Germany

HR Frankfurt Section B No. 91858
Tax No. 04724142020

BALANCE SHEET

in EUR	(Note)	31.12.2020	31.12.2019
A. Fixed assets			
I. Intangible fixed assets			
1. Trademarks and software		3,176	18,586
II. Tangible fixed assets			
1. Land and buildings		2,095,676	2,427,955
2. Other equipment, operating and office equipment		384,584	364,560
3. Prepayments on tangible assets		6,034	0
III. Long-term financial assets			
1. Shares in affiliated companies	(2)	600,521,302	638,719,683
2. Loans to affiliated companies	(3)	490,428,999	460,197,131
3. Long-term securities		1,297,784	1,297,784
4. Other loans		355,836	8,597,311
		1,095,093,391	**1,111,623,009**
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	(4)	45,595,676	37,249,012
of which, with a time to maturity of more than one year:		*0*	*0*
2. Other assets	(5)	1,580,880	9,004,426
of which, with a time to maturity of more than one year:		*0*	*0*
II. Cash in hand, bank balances and cheques	(6)	30,383,219	55,499,569
of which, with affiliated companies		*27,697,700*	*37,585,975*
		77,559,775	**101,753,007**
C. Prepaid expenses	(7)	6,966,614	6,969,477
Total assets		**1,179,619,780**	**1,220,345,493**

A. Equity	(9)		
I. Subscribed capital		294,492,460	294,492,460
of which, general partner:		*0*	*0*
of which, limited partner:		*294,492,460*	*294,492,460*
II. Capital reserves		149,749,052	149,749,052
of which, general partner:		*0*	*0*
of which, limited partner:		*149,749,052*	*149,749,052*
III. Revenue reserves			
1. Legal reserve		135,961	135,961
IV. Retained earnings	(10)	52,889,180	96,508,787
		497,266,653	**540,886,260**
B. Provisions			
1. Other provisions	(11)	758,077	798,717
C. Liabilities	(12)		
1. Bonds		337,027,825	416,440,732
of which, with a time to maturity of up to one year:		*39,106,425*	*135,341,836*
of which, with a time to maturity of more than one year:		*297,921,400*	*281,098,896*
2. Liabilities to banks		90,404,606	90,405,470
of which, with a time to maturity of up to one year:		*10,404,606*	*405,470*
of which, with a time to maturity of more than one year:		*80,000,000*	*90,000,000*
3. Trade payables		2,347,569	233,967
of which, with a time to maturity of up to one year:		*2,347,569*	*233,967*
4. Liabilities to affiliated companies		2,098,636	877,910
of which, with a time to maturity of up to one year:		*2,098,636*	*877,910*
5. Other liabilities		249,716,415	170,693,618
of which, taxes:		*96,090*	*91,066*
of which, for social security:		*4,519*	*1,343*
		681,595,050	**678,651,697**
D. Deferred income		0	8,820
Total equity and liabilities		**1,179,619,780**	**1,220,345,493**

INCOME STATEMENT

	in EUR	(Note)	1.1.–31.12.2020	1.1.–31.12.2019
1	Sales revenue	(15)	13,835,797	12,732,538
2	Other operating income		120,221	37,980
3	Personnel expenses		7,744,395	6,714,336
	a) Wages and salaries		*6,338,841*	*5,473,891*
	b) Social security, post-employment and other employee benefit costs		*1,405,554*	*1,240,445*
	of which, in respect of retirement pensions:		*238,803*	*228,814*
4	Depreciation on intangible and tangible fixed assets		533,644	520,260
5	Other operating expenses	(16)	14,308,195	15,302,833
	Net operating income (-loss)		**–8,630,215**	**–9,766,911**
6	Income from long-term equity investments	(17)	21,288,747	46,809,005
	of which, from affiliated companies:		*21,288,747*	*46,809,005*
7	Income from profit and loss transfer agreements	(18)	603,619	101,579
8	Other interest and similar income		16,433,855	15,950,169
	of which, from affiliated companies:		*16,381,737*	*15,627,873*
	Financial income		**38,326,220**	**62,860,753**
9	Depreciation on long-term financial assets		52,071,780	50,837,478
10	Expenses from profit and loss transfer agreements		0	362,976
11	Interest and similar expenses		19,906,948	19,843,820
	of which, to affiliated companies:		*0*	*0*
	Financial expenses		**71,978,728**	**71,044,275**
12	Taxes on income (corporate income tax, trade tax and other taxes)	(19)	1,336,884	558,880
13	**Result after taxes/ Net income (-loss) for the year**		**–43,619,607**	**–18,509,313**
14	Profit carried forward from previous years		96,508,787	132,687,647
15	Dividend distribution		0	-17,669,548
16	**Retained earnings**		**52,889,180**	**96,508,787**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

Basis of financial accounting

(1) Disclosures on recognition, measurement and presentation principles

The financial statements of ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Frankfurt am Main, as at 31 December 2020, were prepared in accordance with sections 242ff and 264ff of the German Commercial Code [*Handelsgesetzbuch*] (HGB) as well as the German Stock Corporation Act [*Aktiengesetz*] (AktG). The provisions governing large corporations apply. The preparation of these Financial Statements follows the same accounting policies and methods of computation as were used for the Financial Statements for the financial year 2019.

The profit and loss statement has been prepared in accordance with the cost of production method as per section 275 (2) HGB.

Intangible fixed assets and tangible fixed assets are valued at acquisition cost or production cost and, to the extent that they are depreciable, their value is reduced by regular depreciation amounts. The depreciation amounts are based on the expected useful life of the respective asset items and are calculated using the straight line method:

Intangible assets	3 – 5 years
Buildings	20 years
Operating and office equipment	3 – 20 years

If an asset is permanently impaired, it is written down to the impaired value.

Low-value assets with individual acquisition costs of up to EUR 800.00 are written off in full in the year of acquisition and reported as disposals.

In the case of financial assets, shares and securities are valued at acquisition cost. Loans are valued at nominal amount, unless they are part of a valuation unit (see below). If a financial asset is impaired permanently, it is written down to the lower fair value amount. Impairment on long-term financial assets is generally tested by comparing the net present value of future cash flows from investments with the respective carrying value. In cases in which the reasons for impairment have ceased to exist, a reversal of the impairment is undertaken; the acquisition cost serves as the asset value ceiling.

Receivables and other assets are generally reported at nominal value or at lower market prices, unless they are part of a valuation unit (see also below). Premiums or discounts appear on a pro-rata temporis basis in the income statement.

Receivables from banks are recognised at nominal amount. Equity is recognised at nominal amount.

Other provisions include all contingent liabilities which are discernible as at the balance sheet date. These are established at a settlement amount estimated on the basis of commercial judgement. Accruals with a term of more than one year were not recognised in the balance sheet.

Liabilities are reported at the amount repayable.

In order to determine the deferred taxes arising from temporary or quasi-permanent differences between the valuations of assets, liabilities and accruals and deferrals under the Commercial Code and their valuations for tax purposes or due to tax loss carry-forwards, the valuation is based on the company-specific tax rates at the time that the differences are eliminated. The amounts of the resulting tax burden/relief are not discounted. Deferred tax assets and liabilities are offset. In accordance with the option set forth in section 274 (1) sentence 2 HGB, a surplus of deferred tax assets is not recognised in the balance sheet.

Derivative financial instruments are used exclusively to reduce the risk resulting from transactions in foreign currencies. Valuation units, including derivative hedging transactions, are recognised in accordance with the requirements of section 254 HGB. ProCredit Holding strives to reduce the risk from currency transactions to a minimum through the formation of micro- and macro-hedges. Micro-hedges are used to cover the risk of individually identifiable underlying transactions. The prospective and retrospective effectiveness is determined using the critical terms match. Macro-hedges are used to hedge other open currency positions in USD. Financial accounting is performed in accordance with the "*Durchbuchungsmethode*" (revaluation method).

ProCredit Holding AG & Co. KGaA Sucursal Colombiana, Bogota, Colombia is a branch of ProCredit Holding and is therefore included in these financial statements.

All amounts are presented in euros (EUR), unless otherwise stated. Positions in foreign currency are translated in the balance sheet using the closing rate valid at the end of the reporting period. In general the company keeps currency positions closed, and open positions are actively closed to a large extent on a daily basis (see note 4). Income and expenses from currency translation are recognised in profit or loss for the period. Income and expenses in foreign currencies are generally translated at the middle exchange rate. The US dollar exchange rate as at 31 December 2020 was EUR 1/USD 1.2271. For computational reasons, figures may exhibit rounding differences of ± one unit (EUR, %, etc.).

Balance sheet disclosures

(2) Shares in affiliated companies

in '000 EUR **Affiliated company**	**at bookvalue 1.1.2020**	**Participation in %**	**Addition in 2020**	**Depreciation in 2020**	**Disposal in 2020**	**at bookvalue 31.12.2020**	**Participation in %**
ProCredit Bank sh.a. Tirana, **Albania**	3,826	100.0%	5,000	5,309	0	3,516	100.0%
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	21,179	100.0%	0	15,862	0	5,318	100.0%
ProCredit Bank (Bulgaria) EAD Sofia, **Bulgaria**	110,761	100.0%	0	0	0	110,761	100.0%
Banco ProCredit S.A. Quito, **Ecuador**	29,205	100.0%	0	0	0	29,205	100.0%
ProCredit Bank JSC Tbilisi, **Georgia**	68,050	100.0%	0	0	0	68,050	100.0%
ProCredit Bank AG Frankfurt am Main**, Germany**	75,000	100.0%	0	0	0	75,000	100.0%
ProCredit Academy GmbH Fürth/Weschnitz, **Germany**	500	100.0%	0	0	0	500	100.0%
Quipu GmbH Frankfurt am Main**, Germany**	6,141	100.0%	0	0	0	6,141	100.0%
ProCredit Bank Sh.a Prishtina, **Kosovo**	77,968	100.0%	0	0	0	77,968	100.0%
Pro Energy LLC Pristina, **Kosovo**	95	95.0%	0	0	0	95	95.0%
ProCredit Bank A.D. Skopje, North **Macedonia**	18,503	100.0%	0	0	0	18,503	100.0%
ProCredit Regional Academy Eastern Europe Veles, **North Macedonia**	1,962	100.0%	0	0	0	1,962	100.0%
ProCredit Reporting DOOEL Skopje, **North Macedonia**	5	100.0%	0	0	0	5	100.0%
ProCredit Bank S.A. Chisinau, **Moldova**	22,442	100.0%	0	5,053	0	17,389	100.0%
ProCredit Bank S.A. Bucharest, **Romania**	46,459	100.0%	0	25,782	0	20,677	100.0%
ProCredit Bank a.d. Belgrade, **Serbia**	83,130	100.0%	0	0	0	83,130	100.0%
ProCredit Bank JSC Kyiv, **Ukraine**	73,493	92.6%	8,808	0	0	82,301	100.0%
Total	**638,720**		**13,808**	**52,006**	**0**	**600,521**	

During the financial year, ProCredit Holding acquired the remaining 7.4% of the ordinary shares of ProCredit Bank Ukraine. ProCredit Holding now owns 100% of the ordinary share capital of ProCredit Bank Ukraine.

(3) Loans to affiliated companies

in EUR	Senior	Subordinated	31.12.2020	31.12.2019
ProCredit Bank sh.a. Tirana, **Albania**	23,500,000	7,000,000	30,500,000	31,000,000
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	63,500,000	4,500,000	68,000,000	70,000,000
Banco ProCredit S.A. Quito, **Ecuador**	105,940,836	0	105,940,836	65,871,462
ProCredit Bank JSC Tbilisi, **Georgia**	19,563,000	13,149,295	32,712,295	46,791,098
ProCredit Bank AG Frankfurt am Main, **Germany**	0	10,000,000	10,000,000	10,000,000
ProCredit Academy GmbH Fürth/Weschnitz, **Germany**	0	6,000,000	6,000,000	6,000,000
Quipu GmbH Frankfurt am Main, **Germany**	7,000,000	0	7,000,000	7,000,000
ProCredit Bank Sh.a Pristina, **Kosovo**	0	7,500,000	7,500,000	7,500,000
ProCredit Bank A.D. Skopje, **North Macedonia**	26,000,000	16,500,000	42,500,000	25,000,000
ProCredit Regional Academy Eastern Europe Veles, **North Macedonia**	640,000	0	640,000	0
ProCredit Bank S.A. Chisinau, **Moldova**	7,000,000	6,556,763	13,556,763	13,556,763
ProCredit Bank a.d. Belgrade, **Serbia**	121,000,000	16,000,000	137,000,000	139,000,000
ProCredit Bank JSC Kyiv, **Ukraine**	29,079,105	0	29,079,105	38,477,809
Total	**403,222,941**	**87,206,058**	**490,428,999**	**460,197,131**

Loans to affiliated companies are not secured. At the end of the reporting period, a variable interest rate was payable on about 11.0% of the loans; the remaining loans were granted on the basis of a fixed interest rate.

(4) Receivables from affiliated companies

in EUR	31.12.2020	31.12.2019
Short term loans	36,700,000	25,450,774
Accrued interest	5,246,271	5,051,182
Foreign-exchange and interest-rate swap	0	14,716
Collateral for swap transactions	3,000,000	3,000,000
Others	649,405	3,732,340
Total	**45,595,676**	**37,249,012**

(5) Other assets

in EUR	31.12.2020	31.12.2019
Receivable other loans	36,524	7,382,561
Tax receivable	1,001,034	1,037,250
Others	543,322	584,615
Total	**1,580,880**	**9,004,426**

(6) Receivables from banks

ProCredit Holding reported receivables from banks in the following positions:

in EUR	31.12.2020	31.12.2019
Loans to affiliated companies	476,788,999	447,197,131
Receivables from affiliated companies	44,194,764	32,548,293
Other loans	0	8,011,394
Cash in hand, bank balances and cheques	30,382,657	55,498,149
Total	**551,366,420**	**543,254,966**

The receivables from banks have the following remaining maturities:

in EUR	31.12.2020	31.12.2019
Up to three months	46,299,643	85,644,147
More than three months and up to one year	113,168,904	63,974,308
More than one year and up to five years	334,841,111	315,276,651
More than five years	57,056,763	78,359,861
Total	**551,366,420**	**543,254,966**

(7) Prepaid expenses

The item “Prepaid expenses” consists primarily of disbursement fees in relation to the issuance of loans and bonds. The expenses are amortised according to the terms of the loan. In the reporting period, amortised disbursement fees amounted to EUR 1,574,251.

(8) Deferred tax assets

The calculation was based on a tax rate of 31.93%. Deferred tax assets result primarily from corporate and trade tax loss carry-forwards. The deferred tax assets were not capitalised.

(9) Equity

	2020			2019		
	Number of shares	**Amount subscribed capital EUR**	**Amount capital reserve EUR**	**Number of shares**	**Amount subscribed capital EUR**	**Amount capital reserve EUR**
As at 1.1.	58,898,492	294,492,460	149,749,052	58,898,492	294,492,460	149,749,052
Capital increase						
As at 31.12.	**58,898,492**	**294,492,460**	**149,749,052**	**58,898,492**	**294,492,460**	**149,749,052**

All issued shares are non-par value shares and fully paid. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share.

The Management 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 noncash 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 at 31 December 2020, ProCredit Holding does not hold any treasury shares.

(10) Retained earnings

At the next 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 European Central Bank's recommendation that banks exercise extreme restraint in dividend payments until 30 September 2021. After offsetting the net loss for the year against revenue reserves, the remaining retained earnings of EUR 42,287,451 are to be carried forward to new account.

Moreover, by 31 December 2021 at the latest, the Management Board intends if necessary to convene an Extraordinary General Meeting, at which it will propose a further dividend payment of EUR 0.35 per share, provided that neither German Federal Financial Supervisory Authority (BaFin) nor the European Central Bank (ECB) issue any communications that would restrict the payment of such a dividend. In the event that the proposed second dividend is approved by the Extraordinary General Meeting and also paid out, the total distributions would correspond to one third of the cumulative consolidated results for the financial years 2019 and 2020 and thus be in line with our dividend policy. Due to the recommendations of the regulatory authorities at that time, no dividend was distributed to shareholders for 2019.

(11) Other provisions

in EUR	**31.12.2019**	**Used**	**Released**	**Additions**	**31.12.2020**
Audit fees	446,700	446,434	266	295,800	295,800
Untaken vacation	109,469	109,469	0	175,726	175,726
Others	242,548	238,575	3,973	286,551	286,551
Total	**798,717**	**794,478**	**4,239**	**758,077**	**758,077**

(12) Liabilities

The table below provides an overview of the remaining maturity of liabilities:

in EUR	31.12.2020	31.12.2019
Bonds		
up to three months	113,271	210,977
more than three months and up to one year	38,993,155	135,130,859
more than one year and up to five years	202,697,457	184,746,573
more than five years	95,223,943	96,352,323
Liabilities to banks		
up to three months	238,343	238,974
more than three months and up to one year	10,166,263	166,497
more than one year and up to five years	75,000,000	85,000,000
more than five years	5,000,000	5,000,000
Trade payables		
up to three months	2,347,569	233,967
Liabilities to affiliated companies		
up to three months	605,788	877,910
more than three months and up to one year	1,492,847	0
Other liabilities		
up to three months	21,432,098	431,159
more than three months and up to one year	115,784,316	16,762,459
more than one year and up to five years	112,500,000	153,500,000
Total	**681,595,050**	**678,651,697**

Other liabilities mainly includes promissory note loans from non-banking institutions.

(13) Contingent liabilities

The contingent liabilities consist of guarantees issued to third parties amounting to EUR 397,193,098 (previous year-end: EUR 383,108,053); these guarantees are to secure liabilities of companies affiliated to ProCredit Holding. A claim on the guarantees is not expected due to the net assets, financial position and results of operations of the subsidiaries concerned. ProCredit Holding also issued credit lines to affiliated companies totalling EUR 84,704,507 (previous year-end: EUR 84,231,084).

(14) Derivative financial instruments and valuation units

All swap transactions were with ProCredit Bank Germany and are therefore recognised as receivables from or liabilities to affiliated companies.

ProCredit Holding aims to keep the risk resulting from foreign currency transactions to a minimum. The Group Foreign Currency Risk Management Policy stipulates that the total open currency position may not exceed 10% of the company's equity. As of 31 December 2020 the open currency position of ProCredit Holding was USD 136,997.

The fair value of derivative financial instruments is as follows:

in EUR	nominal amount	31.12.2020 positive fair value	 negative fair value
Foreign-exchange swaps	40,746,475	0	-1,809,222
Total	**40,746,475**	**0**	**-1,809,222**

The following valuation units were established:

Underlying Transaction		Hedged risk				
Type	**USD**	**Type**	**USD**	**Hedge instrument**	**Valuation unit**	**Effectiveness**
Foreign currency liabilty	50,000,000	Currency translation	50,000,000	Swap	Micro-hedge	100% due to volume and maturity congruence with identical currencies
Foreign currency liabilty	11,140,970	Currency translation	11,140,970	Swap	Micro-hedge	100% due to volume and maturity congruence with identical currencies

The transactions recognised have a maximum residual maturity until 15 July 2022.

Income statement disclosures

(15) Sales revenue

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
Income from management service agreements	8,491,862	7,471,268
Income from reimbursed expenses	1,622,898	1,437,252
Income from guarantees to subsidiaries	3,408,718	3,289,453
Other sales revenue	312,319	534,565
Total	**13,835,797**	**12,732,538**

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
Germany	954,119	965,555
Other EU-Countries	2,593,729	2,329,726
Remaining Europe	9,142,955	8,326,327
South America	1,144,993	1,110,930
Total	**13,835,797**	**12,732,538**

Revenues include back charges of EUR 691,211 from the Management Service Agreements for 2019.

(16) Other operating expenses

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
Administration expenses	7,637,528	8,136,213
Expenses to be reimbursed by affiliated companies	1,274,449	1,257,625
Expenses due to exchange rate differences and hedging transactions	1,900,786	1,958,366
Legal and advisory services	1,829,988	1,993,061
Other personnel expenses	998,199	1,332,908
Other expenses	667,245	624,660
Total	**14,308,195**	**15,302,833**

The other operating expenses consist mainly of administration expenses and advances to affiliated companies and other investors, for which ProCredit Holding will be reimbursed. The income from the reimbursement of advances for affiliated companies and other investors is included in the position "Sales revenue".

As a general rule, open currency positions are closed at portfolio level by ProCredit Holding. If necessary, hedging transactions are concluded.

The Auditor's total fee for the financial year is calculated as follows:

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
Audit fees	477,000	539,000
Tax advice	0	17,285
Other confirmatory services	5,500	13,445
Total	**482,500**	**569,730**

(17) Income from equity holdings

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
ProCredit Bank E.A.D. Sofia, **Bulgaria**	0	18,111,309
BancoProCreditS.A. Quito, **Ecuador**	54,087	0
ProCredit Bank JSC Tbilisi, **Georgia**	0	8,051,013
ProCredit Bank S.A. Chisinau, **Moldova**	0	3,646,683
ProCredit Bank Sh.a Pristina, **Kosovo**	0	17,000,000
ProCredit Bank JSC Kyiv, **Ukraine**	21,234,660	0
Total	**21,288,747**	**46,809,005**

(18) Profit and loss transfer agreements

During the reporting period, profit and loss transfer agreements existed with ProCredit Bank AG, Frankfurt am Main, ProCredit Academy GmbH, Fürth/Weschnitz and Quipu GmbH, Frankfurt am Main. ProCredit Holding assumed the following profit:

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
ProCredit Academy GmbH Fürth/Weschnitz, **Germany**	201,068	101,579
Quipu GmbH, Frankfurt am Main, **Germany**	402,551	0
Total	**603,619**	**101,579**

ProCredit Holding assumed the following expenses:

in EUR	1.1.–31.12.2020	1.1.–31.12.2019
Quipu GmbH, Frankfurt am Main, **Germany**	0	362,976
Total	**0**	**362,976**

ProCredit Bank AG, Frankfurt am Main, Germany will transfer all of its profit to the legal reserve.

(19) Taxes on income

Taxes on income in the current financial year consist mainly of foreign capital gains tax on interest income amounting to EUR 270,645 (2019: EUR 284,587) and foreign capital gains tax on dividend income amounting to EUR 1,064,978 (2019: EUR 268,242).

Additional disclosures

(20) Other financial obligations

Rental commitments
ProCredit Holding incurred obligations totalling EUR 6,880,285 arising from rental contracts concluded at usual market conditions.

Guarantee framework agreements
ProCredit Holding signed a number of guarantee framework agreements with the European Investment Bank to secure the liabilities of ProCredit Holding's affiliated companies. The agreements cover obligations from loans by affiliated companies up to a maximum amount of EUR 355,000,000. As of the balance sheet date, EUR 193,643,532 had been utilised and recognised under contingent liabilities.

(21) Supervisory Board and Management Board

The following persons served as members of the Supervisory Board:

Supervisory board	
Dr Claus-Peter Zeitinger Frankfurt am Main	Entrepreneur (Chairperson since 2 April 2004) Member of the supervisory boards of: ProCredit Bank E.A.D., Sofia, Bulgaria ProCredit Bank JSC, Kyiv, Ukraine
Jasper Snoek Amsterdam	Managing Director, Fair Capital Partners Impact Investing BV, Muiden, Netherlands (Member until 26 May 2020)
Dr H.P.M. Ben Knapen Amsterdam	Member of the Dutch Senate (1st Chamber) and group parliamentary leader of the Christen-Democratisch Appèl (CDA) (Member since 26 May 2020) Member of the supervisory boards of: Leiden Asia Centre, Leiden, Netherlands Nuclear Research and Consultancy Group (until April 2020), Petten, Netherlands (Chair) Novamedia Foundation, Amsterdam, Netherlands (Chair)
Marianne Loner Zürich	Master of business administration (Member since 17 May 2017) Member of the supervisory boards of: ProCredit Bank S.A., Bucharest, Romania Sura Asset Management S.A., Medellin, Colombia Amundi Planet Sicav-SIF, Luxembourg (Luxembourg) Britam Holdings Plc, Nairobi, Kenya Britam Life Assurance Co., Nairobi, Kenya
Petar Slavchev Slavov Sofia	Economist (Member since 28 January 2014) Member of the supervisory board of: ProCredit Bank E.A.D., Sofia, Bulgaria
Christian Krämer Frankfurt am Main	Fully qualified lawyer (Member since 28 January 2014) Member of the supervisory board of: ProCredit Bank E.A.D., Sofia, Bulgaria
Rainer Peter Ottenstein Frankfurt am Main	Diplom-Kaufmann (business administration) (Member since 30 November 2016) Member of the supervisory boards of: ProCredit Bank AG, Frankfurt, Germany ProCredit Bank Sh.a, Pristina, Kosovo ProCredit Bank S.A., Bucharest, Romania ProCredit Bank A.D., Belgrade, Serbia ProCredit Bank JSC, Kyiv, Ukraine ProCredit Bank JSC, Tbilisi, Georgia

As per the Articles of Association, each member of the Supervisory Board is entitled to an annual compensation of EUR 10,000. One Supervisory Board member has waived his Supervisory Board compensation starting from 1 July 2020 until further notice due to the COVID-19 pandemic.

The following persons served as Management Board members of ProCredit General Partner AG:

Management Board		
Sandrine Massiani Frankfurt am Main	Dr Gabriel Schor Frankfurt am Main	Dr Gian Marco Felice Frankfurt am Main (since 3 June 2020)

ProCredit Holding is represented by two members of the Management Board or by a Management Board member together with an authorised representative (Prokurist).

Total emoluments for the members of the Management Board during the reporting period were:

Dr Gabriel Schor, EUR 178,367 (of which payments to a pension fund EUR 33,031)

Dr Gian Marco Felice, EUR 114,672 (of which payments to a pension fund EUR 0)

Sandrine Massiani, EUR 199,336 (of which payments to a pension fund EUR 0)

The following positions were also held by the members of the Management Board during the reporting period:

Dr Gabriel Schor	Member of the supervisory boards of: Banco ProCredit S.A., Quito, Ecuador (Chair) ProCredit Bank AG, Frankfurt, Germany (Chair) ProCredit Bank Sh.a, Pristina, Kosovo (Chair)
Dr Gian Marco Felice	Member of the supervisory boards of: ProCredit Bank d.d., Sarajevo, Bosnia and Herzegovina (Chair) ProCredit Bank S.A., Bucharest, Romania ProCredit Bank A.D., Belgrade, Serbia (Chair) ProCredit Bank JSC, Kyiv, Ukraine ProCredit Bank AG, Frankfurt, Germany ProCredit Bank E.A.D., Sofia, Bulgaria
Sandrine Massiani	Member of the supervisory boards of: ProCredit Bank JSC, Tbilisi, Georgia ProCredit Bank A.D., Skopje, North Macedonia (Chair) ProCredit Bank A.D., Belgrade, Serbia Member of the management boards of: ProCredit Reporting DOOEL, Skopje, North Macedonia Développement et Finance International S.à.r.l.; Nice, France

(22) Additional Notes

The personal liable general partner of ProCredit Holding is ProCredit General Partner AG, headquartered at Rohmerplatz 33-37, 60486 Frankfurt am Main. The capital of ProCredit General Partner AG amounts to EUR 100,000.

ProCredit Holding prepares IFRS consolidated financial statements for the largest group of entities in accordance with the provisions of section 315e (1) HGB and publishes these in the Federal Gazette [*Bundesanzeiger*].
The average number of staff members employed by ProCredit Holding during 2020 was 114 (43 males, 71 females). The total number of staff members as at 31 December 2020 was 111.

The declaration of compliance with the German Corporate Governance Code as per section 161 AktG is an integral part of the combined management report.

(23) Events after the reporting period

No events of particular significance occurred after the balance sheet date.

Responsibility of the legal representatives

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

Frankfurt am Main, 18 March 2021

ProCredit Holding AG & Co. KGaA
represented by
ProCredit General Partner AG

Sandrine Massiani Dr Gabriel Schor Dr Gian Marco Felice

Management Board

Annex 1: Statement of changes in fixed assets

in EUR	Acquisition cost					Accumulated depreciation				Net book values	
	as of 1.1.2020	Additions	Disposals/ Appreciations	Reclassifications	as of 31.12.2020	as of 1.1.2020	Additions	Disposals/ Appreciations	as of 31.12.2020	as of 31.12.2020	as of 31.12.2019
I. Intangible fixed assets											
1. Trademarks and software	1,327,115	3,253	-1	0	1,330,367	1,308,528	18,663	0	1,327,191	3,176	18,587
II. Tangible fixed assets											
1. Land and buildings	5,319,063	0	0	0	5,319,063	2,891,108	332,279	0	3,223,387	2,095,676	2,427,955
2. Other equipment, operating and office equipment	2,441,772	316,257	-1,145,645	-5,250	1,607,134	2,077,211	182,702	-1,037,363	1,222,551	384,583	364,560
3. Prepayments on tangible assets and construction in progress	0	784	0	5,250	6,034	0	0	0	0	6,034	0
	9,087,950	**320,294**	**-1,145,646**	**0**	**8,262,599**	**6,276,848**	**533,644**	**-1,037,363**	**5,773,129**	**2,489,469**	**2,811,102**
III. Long-term financial assets											
1. Shares in affiliated companies	702,315,628	13,807,862	0	0	716,123,490	63,595,945	52,006,243	0	115,602,188	600,521,302	638,719,683
2. Loans to affiliated companies	460,197,131	97,119,037	-66,887,168	0	490,428,999	0	0	0	0	490,428,999	460,197,131
3. long-term securities	1,297,784	0	0	0	1,297,784	0	0	0	0	1,297,784	1,297,784
4. Other loans	9,218,561	0	-8,175,938	0	1,042,623	621,250	65,537	0	686,787	355,836	8,597,311
	1,173,029,103	**110,926,899**	**-75,063,106**	**0**	**1,208,892,896**	64,217,195	52,071,780	0	116,288,975	1,092,603,921	1,108,811,908
Total fixed assets	**1,182,117,053**	**111,247,193**	**-76,208,752**	**0**	**1,217,155,495**	**70,494,043**	**52,605,424**	**-1,037,363**	**122,062,105**	**1,095,093,390**	**1,111,623,010**

Annex 2: Share ownership

The two non-material subsidiaries – ProCredit Reporting DOOEL, North Macedonia, and Pro Energy LLC, Kosovo – are not included in the scope of consolidation.

	Name of institution	Legal residence	Share capital incl. Capital reserve ('000 EUR)	Retained earnings and other reserves ('000 EUR)	Profit/-loss for the year ('000 EUR)	Share in %
1	ProCredit Bank sh.a. **Albania**	Tirana, Albania	38,698	-9,426	-3,559	100.0
2	ProCredit Bank d.d. **Bosnia and Herzegovina**	Sarajevo, Bosnia and Herzegovina	36,515	-11,446	277	100.0
3	ProCredit Bank E.A.D **Bulgaria**	Sofia, Bulgaria	105,747	29,761	17,338	100.0
4	Banco ProCredit S.A. **Ecuador**	Quito, Ecuador	38,214	8,226	-2,247	100.0
5	ProCredit Bank JSC **Georgia**	Tbilisi, Georgia	62,248	-10,093	7,841	100.0
6	ProCredit Bank AG **Germany**	Frankfurt/Main, Germany	75,000	4,873	705	100.0
7	ProCredit Academy GmbH **Germany**	Fürth/Weschnitz, Germany	500	95	0	100.0
8	Quipu GmbH **Germany**	Frankfurt/Main, Germany	1,000	7,106	-428	100.0
9	ProCredit Bank Sh.a **Kosovo**	Pristina, Kosovo	66,061	31,826	13,250	100.0
10	ProCredit Bank A.D. **North Macedonia**	Skopje, North Macedonia	16,000	29,188	3,400	100.0
11	ProCredit Regional Academy Eastern Europe **North Macedonia**	Veles, North Macedonia	1,202	534	-217	100.0
12	ProCredit Bank S.A. **Moldova**	Chisinau, Moldova	25,099	1,729	2,046	100.0
13	ProCredit Bank S.A. **Romania**	Bucharest, Romania	60,534	-15,748	-5,081	100.0
14	ProCredit Bank A.D. **Serbia**	Belgrade, Serbia	80,786	56,774	6,073	100.0
15	ProCredit Bank JSC **Ukraine**	Kyiv, Ukraine	83,785	7,760	17,458	100.0

INDEPENDENT AUDITOR'S REPORT

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

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

Opinions

We have audited the annual financial statements of ProCredit Holding AG & Co. KGaA, Frankfurt am Main, which comprise the balance sheet as at 31 December 2020 and the income statement for the financial year from 1 January to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. 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 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 annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, in compliance with German legally required accounting principles, and

- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual 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 [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and 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 and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company 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 annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual 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 annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

- Valuation of shares in affiliated companies

For the accounting policies and assumptions applied, please refer to the disclosures in the notes, section 1 "Accounting policies and presentation methods". Explanatory notes on business development can be found in the combined management report in the section "Management report of ProCredit Holding ".

The financial statement risk

Shares in affiliated companies of EUR 600.5 million are recognised in the Company's annual financial statements as at 31 December 2020. This item mainly includes the amounts recognised for the eleven operating subsidiaries based abroad. Shares in affiliated companies are recognised at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of the shares in affiliated companies using the discounted cash flow method.

The valuation method requires judgement, especially regarding the budget figures used to derive cash flows and the determination of the discount rates. The risk for the financial statements is that permanent impairment of shares in affiliated companies as at the reporting date may not be disclosed in compliance with German commercial law due to the fair values being based on improper valuation models, assumptions and valuation parameters.

Our audit approach

To define our audit approach, we conducted a risk assessment of the model used to measure the shares in affiliated companies held by the Company, as well as of the parameters and the planning assumptions. Based on this risk assessment, we developed an audit approach that encompasses a test of design concerning controls as well as substantive audit procedures.

In the course of our audit procedures for the internal control system, we performed a test of design initially based on the written rules of procedure to gain an understanding of the valuation process. Furthermore, we assessed the appropriateness of relevant controls in terms of the budget figures used and the identification of any necessary impairment, as well as regarding the determination of corresponding valuations for the shares in affiliated companies.

With the involvement of our internal KPMG valuation specialists, we carried out risk-based substantive audit procedures to assess the appropriateness of the valuation model for the business valuations carried out by the Company as well as the significant valuation assumptions and parameters.

In this regard, we

- assessed the computational and formal plausibility of the budget figures used
- used a risk-oriented approach to check the plausibility of the budget figures based on budget/actual and budget/budget analyses as well as by comparing the budget with the corresponding explanations provided by the management of selected subsidiaries
- evaluated the appropriateness of the models used
- examined the parameters used in the models (budget assumptions and discount rates) and checked and validated these against externally available parameters on discount rates (risk-free rates, beta factors and market risk and country risk premiums)
- reviewed the computational accuracy of the fair value measurement
- verified the accounting entries for the value adjustments.

Our observations
The calculation method used to measure the shares in affiliated companies is appropriate and is consistent with the applicable accounting policies. The assumptions and parameters used for measurement are reasonable.

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.

Our opinions on the annual 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 annual financial statements, with the combined management report information 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 Annual Financial Statements and the Combined Management Report
Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, management is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 combined management report.

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

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

Our objectives are to obtain reasonable assurance about whether the annual 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 Company's position and, in all material respects, is consistent with the annual 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 annual 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 annual 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 annual 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 annual 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 Company'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 annual 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company'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 annual 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 Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Annual 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 annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file "procredit_187583.zip" (SHA256 hash value: a600a6efe9d450ded7fb1c4 80316d533193ad2e5b2a4778c0172778090195246) that can be downloaded by the issuer from the electronic client portal with access protection 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 annual 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 annual financial statements and the combined 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 annual financial statements and the accompanying combined management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the Audit of the Annual Financial Statements and of the Combined Management Report" above.

We conducted our assurance work of the reproduction of the annual financial statements and the combined 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). 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 annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 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 annual 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 annual financial statements and the audited combined management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 26 May 2020. We were engaged by the Supervisory Board on 3 July 2020. We have been the auditor of ProCredit Holding AG & Co. KGaA 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 subsidiaries the following services that are not disclosed in the annual 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 289, 289a or Sections 289b to 289f HGB nor German Accounting Standard GAS 20:
  – Human Resources Report

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.

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

© 03/2021 ProCredit Holding AG & Co. KGaA
All rights reserved