COMBINED MANAGEMENT REPORT AND ANNUAL FINANCIAL STATEMENTS

2021

ProCredit Holding AG & Co. KGaA

Contents

Combined Management Report 4

Fundamental information about the Group 4
Human Resources report 9
Report on the economic position of the Group 12
Management report of ProCredit Holding 25
Report on expected developments....27
Risk report 29
Disclosures required by Takeover Law 71
Corporate Governance Statement 72

Annual Financial Statements 80

Balance Sheet.... 81
Income Statement 82
Notes to the Annual Financial Statements.....83

Independent Auditor's Report 102

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 notes pursuant to IFRS 7.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Our Strategy

The activities of the ProCredit group comprise the financing of Small and Medium-sized Enterprises (SMEs) and direct banking 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. 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.

Accountability is part of our culture. Sustainable behaviour is therefore essential for us, and we want our activities to make a positive, lasting contribution to the environment and to society. We coordinate our actions 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 promote 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 and pandemic situation, we feel more validated than ever in our sustainable business approach.

We aim to be the "Hausbank" for our clients, and thus to be their first point of contact for financing and deposits as well as for account and payment services. Our SME clients typically have financing needs ranging from EUR 50 thousand to the single-digit millions. As specialists in financing SMEs, we understand the particular challenges these clients face and the specific needs they have, often going well beyond just loans. We offer all 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 also place great emphasis on the prevention of money laundering, terrorist financing and other illegal activities.

We maintain long-term relationships with our customers and are convinced that this is beneficial for both sides: Our customers have us as a reliable partner who stands by their side, even when economic conditions become difficult. At the same time, we create a portfolio of loans to reliable clients that grows steadily and 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 can conduct their banking transactions directly via our digital channels, and individual 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 changes in 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. 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 virtually no role in our business strategy. Such loans can be a lucrative bulk business through which high margins can be achieved with little administrative effort. Overly intensive marketing of consumer loans, however, can lead to over-indebtedness problems for borrowers; at the same time, poorly collateralised consumer loan portfolios represent a higher risk for banks, especially in times of economic uncertainty. Consumer lending business is therefore not compatible with our strategy. In order to achieve sustainable profits, we instead place emphasis on long-term relationships with our customers. The share of consumer loans in our total portfolio is far below 1%.

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 3,178 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 owns 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, Frankfurt am Main, is responsible for the management of ProCredit Holding. The Supervisory Board of ProCredit General Partner AG 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 the 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 banking operations for clients, 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 operation 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 GmbH & Co. KG). Together they hold roughly 55%[1] of the shares in ProCredit Holding. The core shareholders have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

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

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. Likewise, HR, risk and sustainability considerations are included. 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. During this pandemic year, these meetings continued with the use of 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 addition, in the 2021 financial year we applied the following key performance indicators:

- The growth of the 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.

[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).

[2] Our loan portfolio as of the balance sheet date of the current period relative to our loan portfolio as of 31 December of the previous year. Our loan portfolio corresponds to loans and advances to customers before loss allowances.

[3] Personnel and administrative expenses relative to operating income.

- 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.

We also consider the following key figures as additional indicators:

- The ratio of deposits to loan portfolio[6] reflects our ability to fund our lending business through deposits.
- The net interest margin[7] is an important indicator of our profitability and measures the average interest earnings.
- Cost of risk indicates the level of expenditures for loss allowances relative to the size of the loan portfolio.[8]
- The share of defaulted loans[9] is the key indicator for us to assess portfolio quality.
- The ratio of allowances to defaulted loans in Stage 3[10] provides information on loss allowances for defaulted loans.
- The green 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.

[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.
[6] Our loan portfolio relative to deposits as of the balance sheet date.
[7] Our net interest income relative to the average total assets in the reporting period.
[8] Loss allowance expenditures for a period relative to the average loan portfolio.
[9] Defaulted loans relative to the loan portfolio at the respective balance sheet date.
[10] Loss allowances for defaulted loans relative to defaulted loans as of the balance sheet date.

HUMAN RESOURCES REPORT[11]

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 want to offer staff long-term prospects with 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 countries 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 individuals 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 2021, in the context of the pandemic, the theoretical module was conducted online. These two 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.

[11] The Human Resources Report is not a mandatory component of the Combined Management Report pursuant to sections 289 et seq., sections 315 et seq. HGB and GAS 20, and it is therefore not part of the audit of the financial statements.

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 constant improvement of their 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 on advising clients, particularly on acquiring new customers, and on communicating the advantages of our direct banking options. Regular, group-wide seminars are held for all areas 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, the curricula also have units dedicated to philosophy, anthropology, history and political economics. To date, more than 530 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 provided 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.

We have 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. Staff talks are conducted on an annual basis. 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 business performance was positive in the past financial year. Our loan portfolio increased by EUR 670 million or 12.8%. More than 20% of this growth came from "green" loans, particularly financing related to renewable energies. Deposits also developed positively, rising by EUR 643 million or 13.1%. The consolidated result stood at EUR 79.6 million, representing a return on equity of 9.7%. Despite the ongoing COVID-19 pandemic, the financial position and financial performance of the group remain solid and exceeded our expectations for the financial year.

in EUR m

Statement of Financial Position	**31.12.2021**	**31.12.2020**	**Change**
Loan portfolio	5,924.4	5,254.3	670.1
Deposits	5,542.3	4,898.9	643.4
Statement of Profit or Loss	**1.1.–31.12.2021**	**1.1.–31.12.2020**	**Change**
Net interest income	222.0	201.6	20.5
Net fee and commission income	50.9	47.4	3.5
Operating income	281.9	252.1	29.8
Personnel and administrative expenses	180.9	171.4	9.4
Loss allowance	6.5	28.6	-22.1
Profit of the period	79.6	41.4	38.2
Key performance indicators	**1.1.–31.12.2021**	**1.1.–31.12.2020**	**Change**
Change in loan portfolio	12.8%	9.5%	3.2 pp
Cost-income ratio	64.2%	68.0%	-3.8 pp
Return on equity	9.7%	5.3%	4.5 pp
	31.12.2021	**31.12.2020**	**Change**
Common Equity Tier 1 capital ratio	14.1%	13.3%	0.9 pp
Additional indicators	**31.12.2021**	**31.12.2020**	**Change**
Deposits to loan portfolio	93.5%	93.2%	0.3 pp
Net interest margin	2.9%	2.9%	0.0 pp
Cost of risk	12 bp	57 bp	-45 bp
Share of defaulted loans	2.3%	2.6%	-0.3 pp
Stage 3 loans coverage ratio	49.6%	46.9%	2.7 pp
Green loan portfolio	1,128.1	984.9	143.2

We were able to increase the loan portfolio by a total amount of EUR 670.1 million or 12.8%, influenced to a minor extent by positive currency effects. Excluding currency effects, growth was just over 10%, which is in line with our expectations. Our consolidated result of EUR 79.6 million was EUR 38.2 million above the level recorded for the previous year. Our performance was substantial better than the 6.0-7.5% RoE that we had originally expected for the financial year, particularly because our cost of risk was lower than anticipated. At the same time, our cost-income ratio developed better than expected, decreasing by 3.8 percentage points overall to 64.2%. With a return on equity of 9.7% for the period just ended, we were able to reach the 10% medium-term target we had set in past years. Furthermore, we had aimed for our green loan portfolio to account for 20% of our overall portfolio in the medium term; however, due to continued strong growth in this area, we were able to nearly reach this goal already. Our green loan portfolio represented 19.0% of the total portfolio at year-end 2021.

In addition to strong loan portfolio expansion, we also achieved deposit portfolio growth of EUR 643.4 million or 13.1%. This development is primarily attributable to larger deposits by our business clients, but deposits from our private clients also developed positively. As planned, the increase in 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.

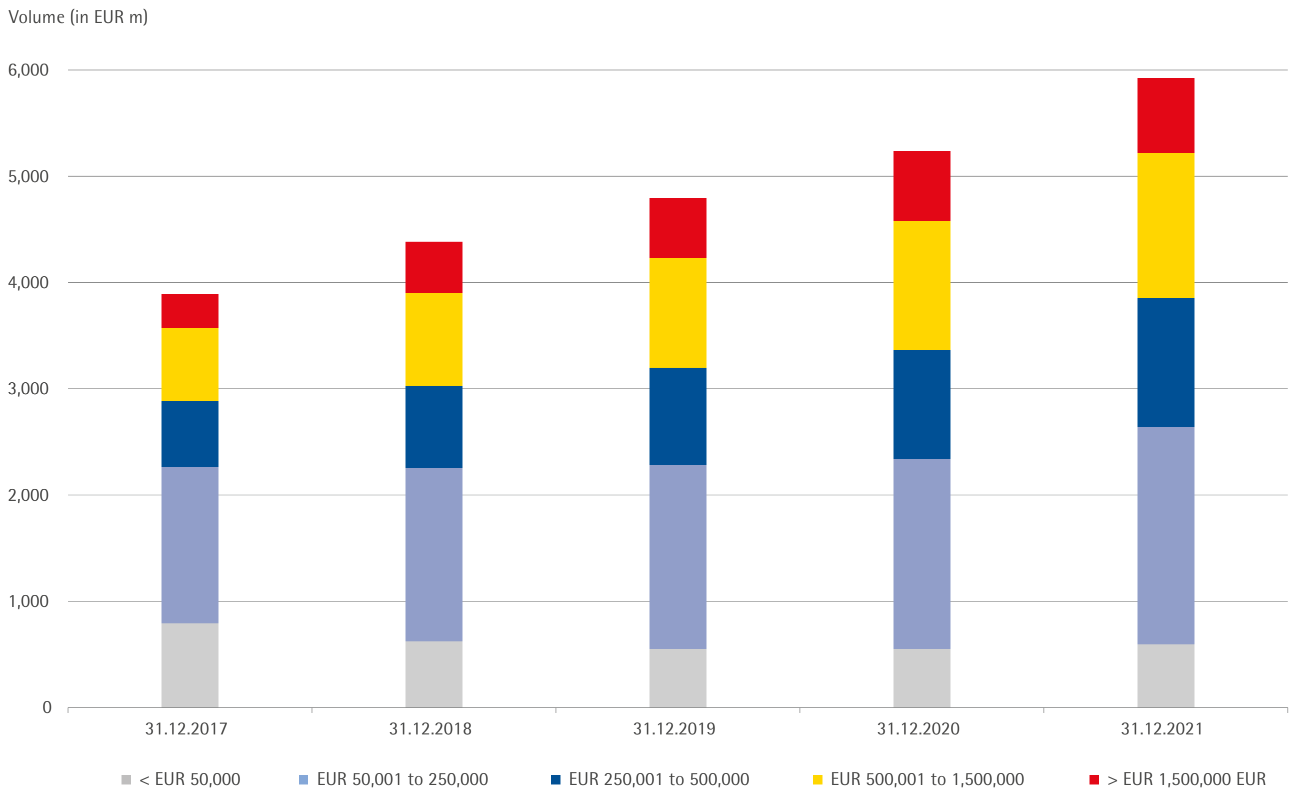
The group's capital base was stable in the financial year. The fully loaded CET 1 capital ratio increased by 0.9 percentage points to 14.1% and was thus above our original expectation of "around 13%". The main driver for this development was that our financial performance was better than expected. The leverage ratio of 9.3% is much better than the banking-sector level. The LCR was 158% at year-end and thus comfortably above the regulatory requirement of 100%.

The financial year continued to be marked by the COVID-19 pandemic, even as the economies in the countries where we are active had recovered substantially compared with the previous year. The share of defaulted loans in our banks decreased by 0.3 percentage points; at 2.3%, it is well below the average for the banking sectors in which we operate. The ratio of loss allowances to loans in Stage 3 increased by 2.7 percentage points to 49.6% overall. Personnel and administrative expenses grew, as expected, by EUR 9.4 million or 5.5%, also due to an increase in employee remuneration. These higher expenses were more than offset by operating income, which showed a significant increase of EUR 29.8 million or 11.8%. As a result, our cost-income ratio improved by 3.8 percentage points; at 64.2%, it stands below our forecast of "65-68%".

Assets

Total assets increased by EUR 887 million during the 2021 financial year, due in particular to the strong growth of the loan portfolio. The positive developments in deposit business also led to strong growth in cash and cash equivalents. The overall structure of the assets remained stable compared to the previous year. The group's asset situation was affected by significant currency effects during the period. In particular, the national currencies of Ukraine and Georgia appreciated by 11% and 13%, respectively. The US dollar exchange rate also improved by around 8% during the year.

The loan portfolio increased by EUR 670 million compared to the previous year; it stood at EUR 5.9 billion at year-end. The 12.8% growth (or just over 10% excluding currency effects) was in line with our expectations and was spread across nearly all ProCredit banks. More than 20% of this growth was achieved through the granting of green loans. Revocable credit commitments to customers increased slightly, by EUR 25.4 million, to EUR 681.7 million.



Loan portfolio development, by loan volume

At year-end, the loan portfolio consisted of 92% loans to businesses and 8% 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 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 housing loans to purchase, renovate or improve the energy efficiency of real estate.

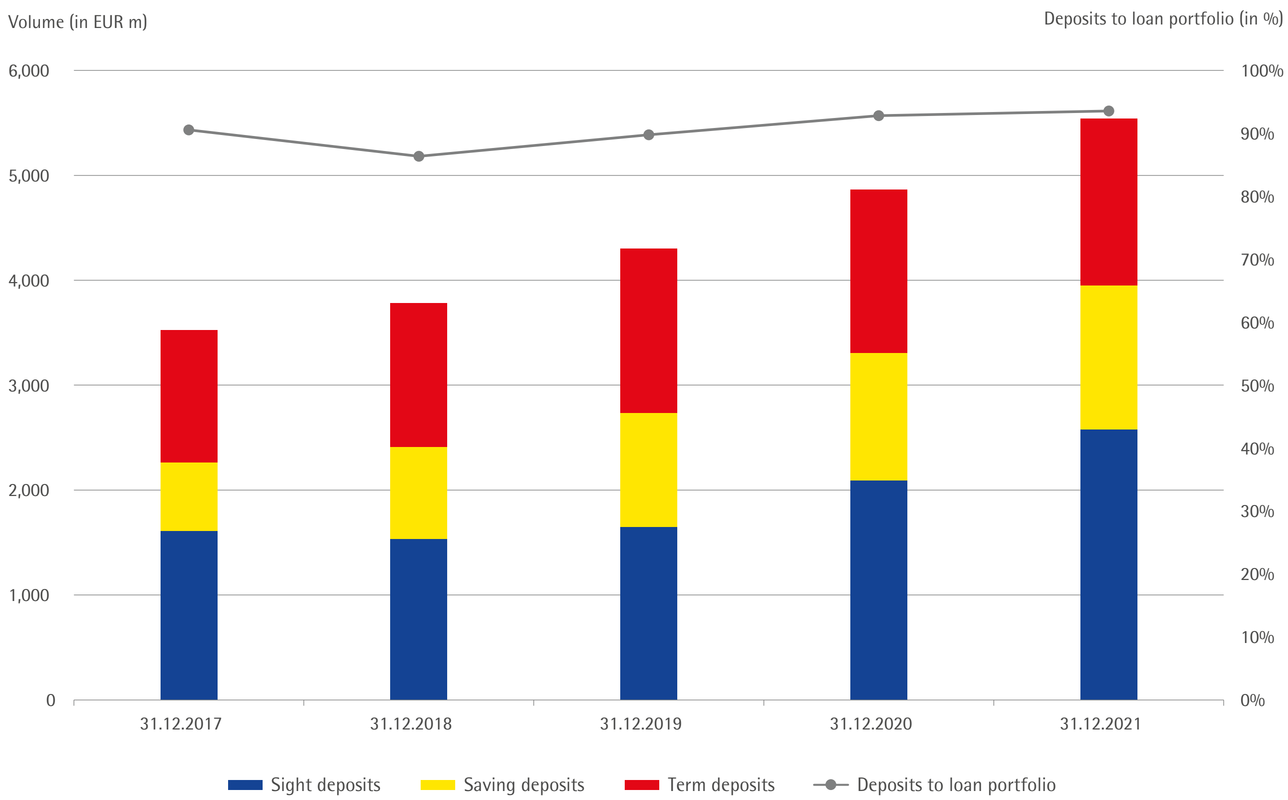
The loan portfolio of the ProCredit group continues to be highly diversified. The largest ten exposures represented not more than 2.0% of the group's total portfolio volume at the end of 2021.

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 provides proportional guarantees for lending to innovative SMEs and small MidCaps in Eastern and South Eastern Europe.

Liabilities and equity

Liabilities comprise mostly deposits. Further sources of funding include liabilities to banks as well as debt securities.

At year-end deposits stood at EUR 5.5 billion, up by EUR 643.4 million from the previous period. The growth of deposits was primarily due to business clients, though deposits from private clients increased also, by EUR 216 million. Excluding exchange rate effects, deposits grew by over EUR 545 million. At 93.5%, the ratio of deposits to the loan portfolio remained at roughly the previous year's level.



Deposits

Liabilities to banks and debt securities increased by EUR 164 million.

Our equity base increased by EUR 76.6 million compared to the previous period and stood at EUR 856.3 million at year-end. This increase is mainly due to the current consolidated result and an increase in the currency translation reserve by EUR 28.6 million. During the financial year, EUR 31.2 million (53 cents per share) was paid out in dividends.

Result of operations

Our profit of the period stood at EUR 79.6 million, which is EUR 38.2 million above the previous year and represents a substantially improved return on equity of 9.7%. With this result, we were able to reach our medium-term target of 10%. The cost-income ratio also improved by 3.8 percentage points to 64.2%, as growth in operating income, and particularly net interest income, outweighed the increase in our personnel and administrative expenses.

Net interest income increased by EUR 20.5 million or 10.2% year on year due to growing interest income and declining interest expenses; it stood at EUR 222.0 million at year-end. At 2.9%, the net interest margin was at the previous year's level; at the end of the financial year, a positive trend was evident.

Net fee and commission income increased by EUR 3.5 million, or 7.3%, to EUR 50.9 million, with a particularly strong improvement in transaction business, which had been adversely affected by the far-reaching trade and travel restrictions in the previous year. The result from currency transactions improved by EUR 2.0 million to EUR 18.3 million. Net other operating income improved by EUR 3.7 million.

Personnel and administrative expenses grew by EUR 9.4 million compared to the previous year, mainly due to an increase in employee remuneration.

Expenses for loss allowances decreased by EUR 22.1 million; the previous year's expenses were higher than in the periods before, mainly due to the deterioration of macroeconomic indicators following the outbreak of the COVID-19 pandemic. Loss allowances amounting to EUR 6.5 million correspond to a cost of risk of 12 basis points. In the financial year, there was a decrease in both the proportion of loans in Stage 2 (down 1.3 percentage points to 3.6%) and the proportion of loans in default (down 0.3 percentage points to 2.3%).

At EUR 14.9 million, tax expenses were higher than in the previous year due to the improved pre-tax results in nearly all ProCredit banks.

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 2021) 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 Fitch Ratings). The assessments made take into account the respective country ratings.

Institution	2021 Rating	2020 Rating
ProCredit Holding	BBB	BBB
ProCredit Bank, Albania	BB-	BB-
ProCredit Bank, Bosnia and Herzegovina	B+	B+
ProCredit Bank, Bulgaria	BBB-	BBB-
ProCredit Bank, Germany	BBB	BBB
ProCredit Bank, Ecuador	B-	B-
ProCredit Bank, Georgia	BB+	BB+
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

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. During the financial year, the countries in this region recorded average economic growth of around 5%. Following a crisis year in 2020, consumer spending in the countries grew significantly and exports increased by 10% or more in almost all cases. Inflation rates increased in line with global trends. Higher energy prices and bottlenecks in global supply chains are the main factors here. Import and export balances recovered after the declines, in some cases sharp, of the previous year, with unemployment falling by an average of more than 2 percentage points.

The economies in Romania, Serbia and Kosovo recorded the strongest increases in economic growth rates, each by 6-7%. Falling infection rates and relaxed travel and mobility restrictions facilitated a strong uptick in domestic consumption and tourism.

Competition in South Eastern Europe is driven by European banking groups. The banking sector continues to be characterised by low, yet stabilising, interest rates. Due to the pandemic, the option for loan moratoria was granted via regulatory authorities in most countries until the middle of the financial year.

Development of financial position and financial performance

The South Eastern Europe segment was able to achieve EUR 335 million in loan portfolio growth. The profit of the period increased by more than EUR 16 million to EUR 47.8 million. This represents a return on equity of 8.4%.

in EUR m

Statement of Financial Position	**31.12.2021**	**31.12.2020**	**Change**
Loan portfolio	4,134.7	3,800.2	334.5
Deposits	3,936.8	3,556.2	380.6
Statement of Profit or Loss	**1.1.-31.12.2021**	**1.1.-31.12.2020**	**Change**
Net interest income	130.1	117.3	12.8
Net fee and commission income	31.8	31.4	0.4
Operating income	166.4	149.7	16.7
Personnel and administrative expenses	106.3	99.8	6.5
Loss allowance	7.0	13.7	-6.7
Profit of the period	47.8	31.6	16.2
Key performance indicators	**1.1.-31.12.2021**	**1.1.-31.12.2020**	**Change**
Change in loan portfolio	8.8%	13.0%	-4.2 pp
Cost-income ratio	63.9%	66.7%	-2.8 pp
Return on equity	8.4%	6.0%	2.5 pp
Additional indicators	**31.12.2021**	**31.12.2020**	**Change**
Deposits to loan portfolio	95.2%	93.6%	1.6 pp
Net interest margin	2.4%	2.4%	0.0 pp
Cost of risk	18 bp	38 bp	-21 bp
Share of defaulted loans	2.0%	2.2%	-0.2 pp
Stage 3 loans coverage ratio	53.2%	51.9%	1.3 pp
Green loan portfolio	826.1	739.8	86.3

Loan portfolio and deposits are presented without intercompany accounts.

The loan portfolio for this segment increased by EUR 334.5 million or 8.8% in 2021, ending the year at EUR 4.1 billion. All ProCredit banks in this region recorded good loan portfolio growth figures for the year. The green loan portfolio grew by 11.7%, thus accounting for over a quarter of total growth.

Deposits grew by more than EUR 380.6 million or 10.7%, totalling EUR 3.9 billion at the end of the financial year. All banks in this segment achieved strong growth figures. The ratio of deposits to the loan portfolio increased by 1.6 percentage points to 95.2%.

Net interest income increased by EUR 12.8 million or 10.9% on the basis of a stable net interest margin of 2.4%.

The share of defaulted loans fell by 0.2 percentage points and stood at 2.0% at year-end. As in previous years, the proportion of defaulted loans at our banks is well below the banking sector average. The ratio of loss allowances to loans in Stage 3 increased by 1.3 percentage points to 53.2%.

The profit of the period grew by EUR 16.2 million, representing a return on equity of 8.4%. This increase was due in particular to the higher net interest income and the EUR 6.7 million decline in loss allowances. Personnel and administrative expenses grew by EUR 6.5 million, which was significantly less than the increase in operating income, which rose by EUR 16.7 million or 11.2%. The cost-income ratio thus improved by 2.8 percentage points to 63.9%.

Eastern Europe

Macroeconomic and sector-specific environment

In Eastern Europe, the ProCredit group operates in Ukraine, Georgia and Moldova. The three countries recovered from crisis year 2020 and recorded positive economic growth. Economic output grew by 3.5% in Ukraine, 4.5% in Moldova and 7.7% in Georgia. At the same time, inflation rose sharply in Ukraine and Georgia in particular, by 9.5% and 9.3% respectively, prompting the central banks to raise key interest rates in local currency. The currencies of all three countries appreciated sharply against the euro, following strong depreciation in the previous period.

Payment deferrals for loans continued to be possible during the year, although the majority of economic stimulus measures have now expired.

At the end of February 2022, the Russian military launched a full-scale invasion of Ukraine. The loss of life and damage to cities and critical infrastructure is already very high. An end to the conflict is not currently in sight. Due to the very dynamic overall situation in Ukraine, the effects of the conflict cannot be estimated at the present time (see also "Events after the reporting period").

Development of financial position and financial performance

The Eastern Europe segment recorded strong loan portfolio growth of EUR 237 million, which was also influenced positively by currency effects. The profit of the period improved by EUR 11.7 million to reach EUR 39 million. This represents a return on equity of 17.8%.

in EUR m

Statement of Financial Position	31.12.2021	31.12.2020	Change
Loan portfolio	1,315.6	1,079.1	236.6
Deposits	1,094.1	896.7	197.4

Statement of Profit or Loss	1.1.-31.12.2021	1.1.-31.12.2020	Change
Net interest income	71.3	62.8	8.5
Net fee and commission income	7.8	8.3	-0.6
Operating income	83.8	76.6	7.2
Personnel and administrative expenses	38.1	33.2	4.9
Loss allowance	-1.4	11.2	-12.6
Profit of the period	39.0	27.3	11.7

Key performance indicators	1.1.-31.12.2021	1.1.-31.12.2020	Change
Change in loan portfolio	21.9%	-1.0%	22.9 pp
Cost-income ratio	45.5%	43.3%	2.1 pp
Return on equity	17.8%	12.3%	5.6 pp

Additional indicators	31.12.2021	31.12.2020	Change
Deposits to loan portfolio	83.2%	83.1%	0.1 pp
Net interest margin	4.3%	4.1%	0.2 pp
Cost of risk	-12 bp	103 bp	-115 bp
Share of defaulted loans	1.9%	2.7%	-0.8 pp
Stage 3 loans coverage ratio	58.7%	44.7%	13.9 pp
Green loan portfolio	205.0	190.1	14.8

Deposits are presented without intercompany accounts.

The loan portfolio of the segment expanded by EUR 236.6 million or 21.9% during the period. Excluding exchange rate effects, growth was around EUR 139 million or 13%. Deposits increased by EUR 197.4 million or 22%. The ratio of deposits to the loan portfolio remained stable at a level of 83%.

The share of defaulted loans fell by 0.8 percentage points to 1.9%, and the ratio of loss allowances to Stage 3 loans rose sharply to 58.7%. As in previous years, the proportion of defaulted loans at our banks is well below the banking sector average.

The profit of the period grew by EUR 11.7 million, representing a return on equity of 17.8%. This improvement was due in particular to lower cost of risk and an increase in net interest income by EUR 8.5 million or 13.6%. The net interest margin increased slightly, by 0.2 percentage points. The EUR 4.9 million increase in personnel and administrative expenses was offset by a EUR 7.2 million rise in operating income. The cost-income ratio increased slightly, rising 2.1 percentage points to 45.5%.

South America

Macroeconomic and sector-specific environment

The South America segment, comprising the ProCredit Bank in Ecuador, accounts for roughly 7% of the group's loan portfolio. In 2021, the country's GDP increased by 2.8%, following a severe recession in the previous year caused by the COVID-19 pandemic and the drop in oil prices. Inflation remained below the zero percent mark. The overall balance of trade is further impacted by dollarisation and by restrictions on the transfer of goods and capital. Unemployment fell to a level of 4.6%.

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 of ProCredit Bank Ecuador showed strong growth of over EUR 100 million, which is also attributable in part to the appreciation of the US dollar during the financial year. The profit of the period improved by EUR 2.5 million.

in EUR m			
Statement of Financial Position	**31.12.2021**	**31.12.2020**	**Change**
Loan portfolio	423.3	321.5	101.8
Deposits	254.2	173.0	81.2
Statement of Profit or Loss	**1.1.-31.12.2021**	**1.1.-31.12.2020**	**Change**
Net interest income	20.2	18.6	1.6
Net fee and commission income	-0.4	-0.3	-0.1
Operating income	18.8	17.5	1.2
Personnel and administrative expenses	16.9	16.3	0.5
Loss allowance	1.0	3.6	-2.5
Profit of the period	0.2	-2.2	2.5
Key performance indicators	**1.1.-31.12.2021**	**1.1.-31.12.2020**	**Change**
Change in loan portfolio	31.7%	11.3%	20.4 pp
Cost-income ratio	89.9%	93.2%	-3.3 pp
Return on equity	0.5%	-4.7%	5.3 pp
Additional indicators	**31.12.2021**	**31.12.2020**	**Change**
Deposits to loan portfolio	60.0%	53.8%	6.2 pp
Net interest margin	4.5%	5.0%	-0.5 pp
Cost of risk	27 bp	117 bp	-89 bp
Share of defaulted loans	6.5%	6.1%	0.4 pp
Stage 3 loans coverage ratio	30.3%	28.6%	1.7 pp
Green loan portfolio	84.1	52.6	31.5

Deposits are presented without intercompany accounts..

The bank's loan portfolio developed very positively during the financial year, growing by EUR 101.8 million or 31.7% up to EUR 423.3 million. Even when excluding the effects of US dollar appreciation, the loan portfolio showed very strong growth of more than 20%. This growth came primarily from "green" loans, which increased by a total of EUR 31.5 million. Deposits increased by EUR 81.2 million, leading to a 6.2 percentage point improvement in the ratio of deposits to the loan portfolio.

Net interest margin development was slightly negative. Net interest income nonetheless increased by EUR 1.6 million. The decline in expenses for loss allowances was mainly because the figure for the previous period was elevated due to the pandemic. The share of defaulted loans rose slightly, by 0.4 percentage points. Personnel and administrative expenses increased EUR 0.5 million.

Overall, the profit for the period improved significantly by EUR 2.5 million, mainly due to lower loss allowances and higher net interest income. The cost-income ratio of the bank improved by 3.3 percentage points to 89.9%. The increase in the loan portfolio and deposits, combined with stable operating expenses, provide a generally positive outlook for the coming years.

Germany

Macroeconomic and sector-specific environment

During the year, the German economy recovered, despite the ongoing pandemic and supply bottlenecks, with gross domestic product increasing by 3.1% in 2021. Based on European Central Bank policy, the interest margin remained at a low level. Business activities in Germany are mainly limited to services for the other segments. As a result, it is less heavily impacted by the macroeconomic and financial market trends in Germany.

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	**31.12.2021**	**31.12.2020**	**Change**
Loan portfolio	50.7	53.4	-2.7
Deposits	257.1	273.0	-15.8

Statement of Profit or Loss	**1.1.-31.12.2021**	**1.1.-31.12.2020**	**Change**
Net interest income	0.5	0.8	-0.4
Operating income*	125.9	73.8	52.1
Personnel and administrative expenses	65.3	61.2	4.0
Loss allowance	-0.1	0.2	-0.3
Profit of the period	59.9	11.1	48.8
Profit of the period and consolidation effects	-7.5	-15.3	7.8

Loan portfolio and deposits are presented without intercompany accounts.
** Previous year figures have been adapted to the current disclosure structure.*

The loan portfolio and deposits in the segment are attributed to the ProCredit Bank in Germany. The loan portfolio is almost unchanged from the previous year. Deposits decreased by EUR 15.8 million.

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.

Events after the reporting period

At the end of February 2022, the Russian military launched a full-scale invasion of Ukraine. The loss of life and damage to cities and critical infrastructure is already very high. An end to the conflict is not currently in sight. The ProCredit group stands behind its bank in Ukraine. In order to support the bank in the current situation, we think primarily in the long term, while also staying in close exchange with our bank's Management Board in order to be able to make decisions quickly in a very dynamic environment. We believe that we have an important function to perform as ProCredit in Ukraine and we trust that the international community as a whole will also act in a wise and prudent manner.

At the moment, our primary focus is on our employees in Ukraine and their families. In cooperation with employees of other ProCredit banks, we try to accommodate our Ukrainian colleagues and their families in our academies and training centres in Germany, North Macedonia and Serbia. Overall, we have several hundred beds to offer. Additional accommodations will be rented as needed. In addition, we aim to deliver urgently needed medicines to Ukraine.

At another level, our Ukrainian colleagues are trying to continue banking operations in the country as well as possible. The capital and financial position of ProCredit Bank Ukraine at the time of financial statement preparation was solid, also in stress scenarios. The bank's operationality is largely uninterrupted. Employees of ProCredit Bank Ukraine are currently working from various locations inside and outside Ukraine. In doing so, they have access to the bank's systems. In coordination with the Ukrainian central bank, we have granted our Ukrainian customers a 30-day moratorium. The databases essential for the banking business were secured by our group-internal software company, Quipu, on servers in Germany. Payment orders have thus far been processed in a timely manner. Card payments are also processed by Quipu outside Ukrainian territory. The bank's reporting system is also functional. As far as circumstances allow, we will maintain close contact with our borrowers and deposit customers via digital communication channels. It is above all the long-term relationships between our experienced staff and our customers that help us to respond to the current situation.

Due to the very dynamic overall situation in Ukraine, the impact of this non-adjusting event on our group cannot be estimated precisely at the present time. It can be assumed that the conflict will also lead to increased payment defaults and a reduction of collateral at ProCredit Bank Ukraine. ProCredit Bank Ukraine contributes around 13% to the group's loan portfolio. The equity (net book value) of ProCredit Bank Ukraine according to IFRS amounts to EUR 129.9 million as of 31 December 2021. In addition, ProCredit Holding and ProCredit Bank Germany have outstanding receivables of EUR 45.1 million and guarantees, to be claimed in the case of war, of EUR 3.7 million with ProCredit Bank Ukraine. In view of the current situation, we have updated our stress tests to simulate the effect of expropriation and a full write-down of the aforementioned consolidated net carrying amounts, as well as analysing additional scenarios with significant adverse economic developments in other ProCredit banks, in particular those in the Eastern Europe segment. In all scenarios, the group's financial position and regulatory capital situation is solid, without taking capital-strengthening measures into account. In the stress scenarios, the financial performance is negative only in the first year and develops positively in the years thereafter. With regard to the financial position, the stress scenarios indicate that there could be a shortfall that would have to be covered by additional funding measures (see also the "Liquidity and funding risk" section of the risk report and note 1 to the consolidated financial statements).

The ProCredit group's operations are spread across a total of 12 banks, with the majority of our assets not directly impacted by the events in Ukraine. ProCredit Holding has implemented risk management structures to ensure a sound capacity to assess and respond to group-relevant risks that may arise from the situation in Ukraine and from further sanctions. In view of the current situation, probabilities of default are expected to increase, particularly in the Eastern Europe segment. The sanctions against the Russian Federation have no significant direct impact on the ProCredit group. Moreover, our banks only have a limited number of clients who rely on trade with the Russian Federation.

In the current situation, a potential expansion of the military conflict with effects beyond the assumptions in these stress scenarios is a significant risk factor for our banks, especially for the ProCredit banks in the Eastern Europe segment, as well as for the financial position and financial performance of the group. In addition, a tightening or long-term continuation of sanctions against the Russian Federation could have a material impact on international markets and lead to, among other things, a substantial increase in inflation in the countries where we operate and in funding costs for the ProCredit group. Country risks could increase in the wake of political tensions, and the national currencies of the countries in which we operate, especially those not pegged to the euro, could depreciate.

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).

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, finance & controlling, HR, 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 2021, ProCredit Holding had 131 staff members (2020: 112). 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 events after the reporting period, 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 through shareholders' equity.

ProCredit Holding's total assets decreased by EUR 15.0 million in 2021 (2020: EUR -40.7 million). The shares in affiliated companies increased by a total of EUR 40.7 million (2020: EUR -38.2 million) due to capital increases in three subsidiaries as well as additions and write-downs. At the same time, loans to/receivables from affiliated companies decreased by EUR 98.3 million (2020: EUR +38.6 million).

ProCredit Holding's financial liabilities decreased by EUR 46.9 million during the year (2020: EUR +2.9 million). Equity increased by a total of EUR 32.0 million (2020: EUR -43.6 million). This increase is largely due to the current profit for the period, less dividends distributed.

Result of operations

The financial results of ProCredit Holding are highly influenced 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, interest expenses and impairment on shares in affiliated companies.

ProCredit Holding's profit for 2021 was EUR 63.3 million (2020: EUR -43.6 million). At EUR 66.2 million, dividend income was higher than in the previous year (2020: EUR 21.3 million). ProCredit Holding's operating expenses remained largely constant during the period.

We anticipate positive profit for 2022, but below the level of the previous year. We consider the current situation regarding the conflict in Ukraine, the COVID-19 pandemic and the uncertain macroeconomic situation to be significant risk factors that may have a negative impact on the financial position and financial performance of ProCredit Holding. The risks presented in the section "Events after the reporting period" are also relevant for ProCredit Holding.

REPORT ON EXPECTED DEVELOPMENTS

Macroeconomic environment and competitive situation

2021 was largely characterised by economic recovery, as it followed the sharp global economic contraction in 2020 brought on in particular by the COVID-19 pandemic. Global GDP grew by 5.9% in 2021, boosted primarily by the increasing availability of vaccines and the resulting dissolution of trade and travel restrictions. Nevertheless, the economic situation remains fragile. Global supply chains continue to be constrained, leading among other things to shortages of various goods. Rising energy prices reinforce inflationary tendencies. The outbreak of the Omicron variant in the fourth quarter of 2021 also led to a reintroduction of COVID-19 protective measures in many countries.

At the end of February 2022, the Russian military launched a full-scale invasion of Ukraine. The loss of life and damage to cities and critical infrastructure is already very high. Since an end to the conflict is currently not in sight, the impact on the global economy cannot be precisely estimated at the present time.

Expected development of the ProCredit group

Due to the armed conflict in Ukraine and the associated high level of political and macroeconomic uncertainty, it is difficult to make forecasts for the key performance indicators of the ProCredit group at the current time. The effects on the financial position and financial performance are described in the section "Events after the reporting period".

In 2021, we continued in a targeted manner to expand our position in the markets where we operate. All our banks achieved solid growth figures, mostly above the 10% mark, and most were well above the average for the respective banking sector[12]. Overall, we achieved growth of 12.8% in our loan portfolio. Again in 2022 we continue to see good potential for sustainable and profitable growth with our business strategy. At many of our banks, we expect loan portfolio growth of around 10%. In addition to expanding our market position, our focus is on further expanding the business relationships with our existing customers. We continue to see substantial growth potential in energy efficiency and renewable energy financing in our markets, and we expect our "green" loan portfolio to show further significant increases. At the same time, in view of the severity of the events in Ukraine, we expect the growth of our loan portfolio at group level to be below that of the previous year.

In the 2021 financial year, our group's return on equity of 9.7% was above the level of our short-term forecast, reaching the level of our medium-term forecast from recent years. All ProCredit banks were able to make a positive contribution to this development, in some cases with significantly improved financial figures. The cost-income ratio also improved substantially, by 3.8 percentage points to 64.2%, mainly due to higher operating income. For 2022, against the backdrop of current events in Ukraine, we expect the return on equity to decrease significantly compared with the period under review and the cost-income ratio to increase noticeably.

At year-end, our Common Equity Tier 1 capital ratio (CET1 fully loaded) was 14.1% and our leverage ratio was 9.3%. We expect that our CET1 ratio and leverage ratio may show a stronger decline due to the negative impact of the armed conflict in Ukraine, but will remain well above regulatory requirements. We do not expect any significant changes in capital requirements in the short term.

[12] Excluding currency effects.

The Management Board also reiterates that it continues to take a positive view of the group's medium-term development in the current context, confirming the group's medium-term targets.

Assessment of business opportunities and risks

Beyond the conflict in Ukraine, a potential spread of the conflict to other countries in Eastern Europe, especially those in which ProCredit banks operate, represents the most significant risk factor for the group in the current situation.

Furthermore, ongoing armed conflict could result in significant changes in foreign trade or monetary policy, a worsening of the interest rate margin or pronounced exchange rate fluctuations, with a direct impact on the economies where we operate. These risks could have a negative effect on the business development of our banks and lead to an increase in overdue loans, which could result in lower profitability for the group.

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 continues to be sustainable and appropriate at all times, as well as to achieve steady results. The activities and risks of ProCredit Holding are deeply intertwined with the development of the group. The risk management principles and the risk strategy of the ProCredit group have not changed compared to the previous year.

Like the whole world, our countries of operation have been severely affected by COVID-19 since 2020 and the effects have an impact on the ProCredit group. In 2021, we experienced multiple strong pandemic waves in the countries where we do business. Infection levels there were comparable to, and in some cases higher than, those of the most severely affected countries in Western Europe. In response, several governments imposed new measures in 2021, albeit inconsistently and rather sporadically. COVID-19 vaccination was rolled out during the year in all countries where we operate, albeit at varying rates. The measures introduced in 2020, including lockdown measures, dividend restrictions, relaxed capital and liquidity requirements, fiscal and budgetary stimulus packages, and moratoria on loan repayments, had lost almost all relevance for the ProCredit group in 2021. Managing the potential impact of the COVID-19 pandemic on the quality of the loan portfolio was the focus of our activities. 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 health and economic crisis continues, despite clear signs of economic recovery during 2021. Rising energy prices, bottlenecks in supply chains and increasing inflation, particularly towards the end of 2021, caused further uncertainty.

At the end of February 2022, the Russian military launched a full-scale invasion of Ukraine. The loss of life and damage to cities and critical infrastructure is already very high. An end to the conflict is not currently in sight. The ProCredit group stands behind its bank in Ukraine. In order to support the bank in the current situation, we think primarily in the long term, while also staying in close exchange with our bank's Management Board in order to be able to make decisions quickly in a very dynamic environment. We believe that we have an important function to perform as ProCredit in Ukraine and we trust that the international community as a whole will also act in a wise and prudent manner. The possible effects of the conflict on our group are listed in the section "Events after the reporting period".

These developments will shape the focus of our risk management activities in 2022. We will thus continue to closely monitor the situation in our countries of operation in order to assess the impact and, if necessary, take measures.

The group complied with internal limits as well as all applicable regulatory requirements at all times during the 2021 financial year. Even in light of the above-mentioned uncertainties, the group's overall risk profile remains appropriate. 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. They apply strict selection criteria and use a holistic approach with our customers. Accordingly, income is generated primarily in the form of interest income from lending 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 loans and 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 clear, transparent services. A high degree of diversification in our activities and profit-generation, combined with our simple, transparent services and processes, contribute to 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 in staff training over many years. Our 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. Our strong awareness of environmental and sustainability aspects also informs this process.

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. We have high standards for the quality of our risk measurement data. 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 reviewed annually by the Management, following thorough 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 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.
- 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 material 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 the corresponding utilisation is monitored. The effectiveness of the chosen measures, limits and methods is continuously checked.
- Regular stress tests are performed for 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, business processes, 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 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 Environmental Steering Committee develops guidelines in the areas of energy and resource efficiency, renewable energy, green finance, and environmental and social risk management.

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 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. 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, and ad hoc if necessary, 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 on a quarterly basis. The Group Audit team monitors the quality of the audits conducted in each ProCredit bank and provides technical guidance.

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, an Internal Audit Committee, and an Environmental Steering Committee, as well as specialised committees that address individual risks. These committees monitor and manage the risk profile of the individual institutions.

At the individual bank level, risk positions are analysed regularly, discussed and documented in standardised reports. The risk departments of each bank report 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 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, including potential risk concentrations, 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.

The group-wide recovery plan was prepared on the basis of regulatory requirements. Among other things, it outlines the options for action 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.

Strong risk awareness on the part of all employees is a core element of risk management. This awareness supports the ability of organisational units and committees to provide timely information to the Management on relevant risk events and on the risk profile of the banks or the group. Training programmes are conducted to strengthen capacity in all areas of risk management. Moreover, regular group-wide meetings and training events are held to support the exchange of best practices and the development and enhancement of risk management.

Management of Individual Risks

The material risks for the ProCredit group are credit risk, market risks (foreign currency risk and interest rate risk), liquidity and funding risk, operational risk, risks arising from money laundering, terrorist financing and other acts punishable by law, business risk and model risk.

We have deliberately not treated the risk type "sustainability/environmental, social and corporate governance (ESG) risks" as a separate category, as it would hardly be possible to isolate such a risk. ESG risks can have a material impact on all of our identified risk types, contributing as a factor in their materiality. We assume that ESG risks for the ProCredit group have the greatest impact on credit risk arising from business with clients.

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. Environmental awareness, consideration of the impact of our actions on the environment and consideration of climate change impacts have always been highly relevant to the ProCredit group and its clients. We aim to promote sustainable development in all its facets, and we believe that our banks can make an important contribution to this by promoting sustainable economic development in our countries of operation, where the level of economic prosperity, transparency and environmental efficiency still lags behind the EU average in some cases.

Given our environmental awareness, as also set out in our Impact Report, we pro-actively analyse ESG-related issues. Transition risk is inherently reduced by the strict application of our Exclusion List (which prohibits the financing of coal production, among other activities) and by our business policy orientation. Potential physical and transition risks are addressed already at loan disbursement; we do not adopt a wait-and-see approach in this respect. For example, already in 2019, the ProCredit group developed a strategy aimed at directly and indirectly reducing plastic consumption. In this context, three issues in particular were addressed: reducing the group's plastic footprint through our own practices and by discontinuing business relationships associated with single-use plastic production; assessing and managing plastic-related risks; and focusing on a business and lending approach that promotes plastic reduction or substitution. Currently, we are focusing strongly on sustainable agriculture, including animal welfare and related lending criteria. For example, in the area of animal welfare, we set minimum standards and criteria that we require our business clients to meet in their operations.

The management of material risks in the ProCredit group is described in greater detail in the following section.

Credit risk

We define credit risk as the risk that 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	**31.12.2021**	**31.12.2020**
Central bank balances	1,405,779	1,271,090
Loss allowances for central bank balances	*-745*	*-599*
Loans and advances to banks	252,654	236,524
Loss allowances for loans to banks	*-5*	*-5*
Derivative financial assets	1,343	509
Investment securities	410,421	336,511
Loss allowance for investment securities	*-101*	*-94*
Loans and advances to customers	5,924,410	5,254,266
Loss allowance for loans to customers	*-131,444*	*-122,684*
Other assets (financial instruments)	40,663	37,621
Loss allowance for other assets (financial instruments)	*-1,724*	*-752*
Contingent liabilities	986,577	917,102
Provisions	*-3,222*	*-2,733*
Total	**8,884,606**	**7,926,755**

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 loss allowances. The diversification of our business activities across 12 countries and the experience we have gained in these markets over the past decades form the basis for limiting customer credit risk effectively.

The ProCredit banks serve a clear target group. For our relatively small business clients with increasingly formalised structures up to larger SMEs, the following principles, among others, apply to our lending activities:

- 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
- Avoiding overindebtedness among credit clients
- Building a long-term relationship, maintaining regular contact, and documenting the development of the exposure in regular monitoring reports
- 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).

We divide our 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.

A careful creditworthiness assessment is a necessary form of credit risk management for the ProCredit group. 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 during the pandemic, supported as well by the increasing shift to virtual channels.

All credit decisions are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. Granting of medium credit exposures is carried out exclusively 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 general, high collateral requirements apply to our exposures in the SME sector; specifically: the lower the loan amount, the more detailed the documentation, the shorter the loan period, the longer the client's history with the bank, and the higher the account turnover with the bank, then the lower our 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 can also be issued without being fully collateralised. Credit exposures are primarily covered with collateral security, mostly through immovable property.

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 as of 31 December 2021 is EUR 3.9 billion.

Based on our collateralisation requirements, securing loans with immovable property 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.

	31.12.2021		31.12.2020	
in '000 EUR	Defaulted loan portfolio	Total loan portfolio	Defaulted loan portfolio	Total loan portfolio
Loan portfolio	135,738	5,924,410	134,225	5,254,266
Loss allowance	*-67,328*	*-131,444*	*-63,010*	*-122,684*
Coverage ratio excluding collateral	49.6%	2.2%	46.9%	2.3%
Loan collateral	90,196	3,850,973	89,568	3,091,117
Coverage ratio including collateral	116.0%	67.2%	113.7%	61.2%

The early detection of increases in credit risk at the level of a credit exposure is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients. This is done at the individual customer level and for a specific part of the loan portfolio (e.g. for clients in a specific industry or region) based on the currently available and relevant information such as customer financial data or market information. Supplementary to that assessment, the ProCredit group has developed early warning indicators based on quantitative and qualitative risk features; these indicators are implemented by the banks and monitored at portfolio level. 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 branch management, 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. Assessing the impact of the COVID-19 pandemic is currently a particular priority in this context. At the beginning of the pandemic, the ProCredit group's focus was on providing direct support measures to affected clients and immediately assessing the potential increase in risk for certain segments of the loan portfolio. In 2021, the assessment of COVID-19-related impacts was integrated into the regular monitoring of loans. Stricter requirements have been applied in assessment, particularly for borrowers where we continue to see increased risks of pandemic-related effects on the businesses or where use was made of moratoria. 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. The greater we consider the risk to be, the more intensive the monitoring. This is reflected primarily in the frequency and the requirements of the monitoring. There is also an intensified monitoring process for new loan disbursements and their subsequent performance. As a result of intensified monitoring, risk classification downgrades were made where needed.

When we offered our clients moratoria, the issue of which was permissible until March 2021, it was only as a temporary measure to address short-term liquidity problems. Therefore, the share of the loan portfolio in moratorium was already below 2% at the end of 2020, and below 0.1% by the end of 2021. In line with the EBA's interpretations, applying these moratoria did not in itself automatically lead to forbearance measures or allocation to a worsened risk class. After the moratoria expired, restructuring measures were taken if the borrower's individual situation necessitated it. This was mainly observed in the first half of the year. Towards the end of the year, we see a continuous reduction of the restructured portfolio.

Based on our intensive monitoring in 2021, we assess the impact of the COVID-19 pandemic on our loan portfolio thus far to be low. This is also reflected in observations regarding the quality indicators implemented for the loan portfolio. The credit exposures potentially exposed to longer-term impacts, either due to belonging to an economic sector identified as vulnerable or from current business figures of customers on which the credit analysis is based, account for a small share of the total portfolio, 0.9% at the end of 2021.

On the basis of asset quality indicators, the loan portfolio is divided into 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) or restructuring, or by a deterioration in the financial circumstances of clients, as expressed through an adjustment of the risk classification. 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, pursuant to the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178), that have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet their 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 are defined in accordance with the requirements of the European Banking Authority and are continuously reviewed and, if necessary, adjusted. For example, as of 31 December 2020 as part of introducing the amended definition of default, adjustments were made with regard to the counting of days past due as a criterion for determining default and to the indicators for the unlikelihood of settling liabilities.

Once we identify a higher risk of default for a credit exposure, it is placed under intensified management and assigned to the *underperforming* category. 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 dealings with these loans. 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	**31.12.2021**	**31.12.2020**
Real estate	6,072	7,394
Other*	202	131
Repossessed property	**6,274**	**7,525**

** The previous year's figures have been adjusted to the current presentation.*

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

As with all of our debt instruments, loans and advances to customers are also 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; this also includes exposures which have been re-assigned to Stage 1 from other stages. 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; this also includes exposures which have been re-assigned 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 (except POCI); i.e. as of the reporting date, there are 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.
- POCI (Purchased or Originated Credit Impaired) exposures refer to defaulted exposures; however, they are recorded separately and are differentiated from other exposures in Stage 3 in the recognition of loss allowances.

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 expected exposures (including credit risk from off-balance sheet business) 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. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

- *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. In order to establish the ECL parameters, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors.

The establishment of loss allowances for the 2021 financial year was also impacted by the COVID-19 pandemic. In anticipation of the continued increased uncertainty due to the COVID-19 pandemic, also in the longer term, appropriate adjustments have been made to the fundamental 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. The parameters are calculated by weighting the three scenarios (base/pessimistic/optimistic). The following table presents the macroeconomic factors used to calculate ECL parameters as of the reporting date for the banks in the group during the forecast period.

Baseline scenario	**GDP growth in %**			**Inflation rate in %**		**Unemployment rate in %**	**Weight**
Country	**2021**	**2022**	**2023**	**2021**	**2022**	**2022**	
Albania	1.39	2.17	2.55			11.91	50.0%
Bosnia and Herzegovina	0.43	1.14	1.51				50.0%
Bulgaria	1.36	2.12			1.98	4.85	50.0%
Ecuador	-1.65	-0.36			0.75	4.49	50.0%
Georgia	2.17	3.07	3.55				50.0%
Germany	-0.15	1.03				3.56	50.0%
Kosovo	3.12	3.29	3.39				50.0%
Moldova	0.41	1.60		4.31			50.0%
North Macedonia	1.90	2.19					50.0%
Romania	2.42	3.02	3.19				50.0%
Serbia	3.27	3.58	3.76		2.30		50.0%
Ukraine	0.87	1.56	1.93				50.0%

Downside scenario	**GDP growth in %**			**Inflation rate in %**		**Unemployment rate in %**	**Weight**
Country	**2021**	**2022**	**2023**	**2021**	**2022**	**2022**	
Albania	0.23	1.00	1.39			12.35	40.0%
Bosnia and Herzegovina	-1.65	-0.94	-0.57				25.0%
Bulgaria	-0.29	0.46			5.41	6.06	25.0%
Ecuador	-3.65	-2.36			2.83	5.24	25.0%
Georgia	0.76	1.65	2.14				25.0%
Germany	-1.75	-0.57				4.21	25.0%
Kosovo	1.56	1.73	1.84				25.0%
Moldova	-4.06	-2.87		9.37			25.0%
North Macedonia	0.89	1.18					25.0%
Romania	-0.42	0.18	0.34				25.0%
Serbia	0.57	0.88	1.06		3.94		25.0%
Ukraine	-2.75	-2.06	-1.69				40.0%

Upside scenario	GDP growth in %			Inflation rate in %		Unemployment rate in %	Weight
Country	**2021**	**2022**	**2023**	**2021**	**2022**	**2022**	
Albania	2.38	3.16	3.54			11.08	10.0%
Bosnia and Herzegovina	1.89	2.59	2.97				25.0%
Bulgaria	3.42	4.18			-1.63	3.19	25.0%
Ecuador	0.95	2.24			-1.86	3.56	25.0%
Georgia	4.11	5.01	5.49				25.0%
Germany	0.59	1.77				2.95	25.0%
Kosovo	4.25	4.42	4.52				25.0%
Moldova	5.16	6.35		-2.58			25.0%
North Macedonia	3.93	4.22					25.0%
Romania	5.63	6.23	6.39				25.0%
Serbia	5.66	5.97	6.16		-0.14		25.0%
Ukraine	5.07	5.76	6.13				10.0%

In case of insignificance, the respective macroeconomic factor is not specified.

The sensitivity of our loss allowances is analysed in terms of the influence of relevant macroeconomic factors. The analysis was performed for two changes in macroeconomic development. A positive shift corresponds to an absolute increase in GDP growth by one percentage point, whereas the inflation rate and unemployment rate each decline by one percentage point compared with the baseline values in the table above. A negative shift reverses the assumptions: GDP growth is reduced by one percentage point and the inflation rate and unemployment rate each increase by one percentage point. The macroeconomic scenarios (base/pessimistic/optimistic) are adjusted to simulate the ECL of a positive/negative change in macroeconomic factors according to the above methodology. In the model specifications of parameters for the forecast year 2022, the values of the years 2021 to 2023 are used.

The following table presents the loss allowances for the group with the respective macroeconomic changes.

	31.12.2021		
in '000 EUR	**Loss allowance Positive macroeconomic change**	**Loss allowance**	**Loss allowance Negative macroeconomic change**
South Eastern Europe	73,005	82,617	94,101
Eastern Europe	33,024	36,014	40,329
South America	11,706	12,457	13,257
Germany	306	356	393
Total	**118,041**	**131,444**	**148,080**

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.

Due to the granting of COVID-19-related moratoria on loan repayments for a certain portion of the loan portfolio, a supplementary adjustment of PD model parameters was made for 2021. The country-specific PDs are assigned to the scale for internal risk classification. This results in a breakdown of the loan portfolio into the presented PD intervals. Exposures assigned to risk classes 6 and 7 correspond to the underperforming category and are considered to have higher risk and therefore have PDs over 5%. The risk classifications are assigned according to an internal evaluation process for the current repayment capacity of the credit exposure, based on quantitative as well as qualitative factors.

in '000 EUR	12-months PD range	31.12.2021		31.12.2020	
Risk classes 1-5: Performing*	0% - 1.0%	892,998	15.1%	609,934	11.6%
	1.0% - 3.0%	2,625,838	44.3%	2,298,346	43.7%
	3.0% - 5.0%	1,204,343	20.3%	1,355,933	25.8%
Risk classes 6-7: Underperforming	5.0% - 10.0%	164,555	2.8%	213,115	4.1%
	10.0% < 100%	142,639	2.4%	155,715	3.0%
Risk class 8: Defaulted	100%	115,574	2.0%	113,852	2.2%
Without risk class**		778,464	13.1%	507,370	9.7%
Gross outstanding amount		**5,924,410**	**100.0%**	**5,254,266**	**100.0%**

* For individual banks in the Group, risk class 5 may also have probabilities of default (12-months PD) of more than 5%.
** Loans to private customers and business customers with a credit volume of less than EUR 50,000 are not assessed with an internal risk classification.

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 that remaining time period at initial recognition. A significant increase in credit risk is deemed to exist if the difference between these two PDs exceeds a factor of 2.5. This limit is set by the Management, based on an analysis of historical data on the risk characteristics of the loan portfolio. 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 loan as "restructured" *(forbearance)* pursuant to internal policies (adjustment of contractually agreed conditions).

A return from Stage 2 to Stage 1 occurs when no overdue payments are outstanding for more than 30 days and no other Stage 2 criteria are met. Restructuring *(forbearance)* is subject to an additional two-year probationary period during which no payments due may be outstanding for more than 30 days. The period begins with the restructuring of the contract.

Impaired credit exposures
If a credit exposure is deemed to be impaired, it is transferred to Stage 3 accordingly. The definition of impairment according to IFRS 9 corresponds to the definition used for the *Defaulted* portfolio in internal risk management, and thus also the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178). This default definition is applied to all exposures which are part of the loan portfolio of the group.

The group considers an exposure to be impaired if at least one of the default definition 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 loss allowances, taking account for probability-weighted expected inflows in various scenarios, 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. Unrestructured loans can be repaid no sooner than three months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. Restructured loans *(forbearance)* can be repaid no sooner than 12 months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. No migration between stages is possible for POCI exposures.

Purchased or Originated Credit Impaired (POCI) exposures

In line with IFRS guidelines, the group performs separate recognition of 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 is recognised through profit or loss.

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. 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. A portion of written-off exposures are still subject to enforcement activities.

			31.12.2021		
in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Written-off exposures subject to enforcement activity	0	0	13,673	0	13,673

			31.12.2020		
in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Written-off exposures subject to enforcement activity	0	0	10,017	19	10,036

The following table provides an overview of the respective loan portfolio, as well as loss allowances by stage and segment.

	31.12.2021				
in '000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
South Eastern Europe					
Gross outstanding amount	3,933,093	118,360	82,084	1,202	**4,134,739**
Loss allowances	-27,261	-11,012	-43,893	-451	**-82,617**
Net outstanding amount	3,905,833	107,349	38,191	750	**4,052,122**
Eastern Europe					
Gross outstanding amount	1,231,375	59,279	23,619	1,371	**1,315,644**
Loss allowances	-15,248	-6,099	-14,167	-499	**-36,014**
Net outstanding amount	1,216,127	53,180	9,452	872	**1,279,630**
South America					
Gross outstanding amount	358,722	37,132	27,463	0	**423,316**
Loss allowances	-3,102	-1,037	-8,317	0	**-12,457**
Net outstanding amount	355,619	36,095	19,146	0	**410,859**
Germany					
Gross outstanding amount	50,334	376	0	0	**50,711**
Loss allowances	-353	-4	0	0	**-356**
Net outstanding amount	49,982	373	0	0	**50,354**
Total					
Gross outstanding amount	5,573,524	215,148	133,166	2,572	**5,924,410**
Loss allowances	-45,964	-18,152	-66,377	-951	**-131,444**
Net outstanding amount	5,527,560	196,996	66,788	1,622	**5,792,966**
Contingent liabilities					
Nominal amount	827,719	12,334	992	0	**986,577**
Provisions	-2,406	-401	-214	0	**-3,222**

in '000 EUR	31.12.2020 Stage 1	Stage 2	Stage 3	POCI	Total
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**
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**
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**
Contingent liabilities					
Nominal amount	789,581	14,605	4,234	0	**917,102**
Provisions	-2,396	-129	-143	0	**-2,733**

The following tables show the changes in loss allowances for the respective loan portfolio, broken down by geographical region.

Development of loss allowances in the South Eastern Europe segment

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2021	**-26,708**	**-7,865**	**-43,968**	**-333**	**-78,873**
New financial assets originated	-13,196	-2,110	-2,934	0	**-18,240**
Release due to derecognition	2,331	1,147	6,387	0	**9,865**
Transfers to Stage 1	-1,640	1,600	40	0	**0**
Transfers to Stage 2	2,110	-2,363	253	0	**0**
Transfers to Stage 3	95	1,172	-1,267	0	**0**
Change in credit risk	9,270	-2,640	-13,255	-217	**-6,842**
Usage of allowance	0	0	11,543	99	**11,642**
Exchange rate movements	476	48	-692	-1	**-168**
Loss allowances as of 31.12.2021	**-27,261**	**-11,012**	**-43,893**	**-451**	**-82,617**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2020	**-20,613**	**-5,488**	**-44,599**	**-491**	**-71,192**
New financial assets originated	-11,406	-999	-4,915	0	**-17,320**
Release due to derecognition	1,736	1,773	7,150	152	**10,811**
Transfers to Stage 1	-2,284	2,229	55	0	**0**
Transfers to Stage 2	2,566	-2,870	304	0	**0**
Transfers to Stage 3	163	3,444	-3,608	0	**0**
Change in credit risk	2,506	-6,619	-10,488	6	**-14,595**
Usage of allowance	0	0	11,482	0	**11,482**
Exchange rate movements	625	665	651	0	**1,941**
Loss allowances as of 31.12.2020	**-26,708**	**-7,865**	**-43,968**	**-333**	**-78,873**

The main change in loss allowances in the South Eastern Europe segment resulted from additions for newly disbursed loans during the financial year. The adjustment of the model parameters in 2021 resulted in a reduction in loss allowances for loans in Stage 1; however, based on higher loss allowances due to a change in credit risk for Stage 2 and Stage 3, there was an overall increase in this category. In particular, loss allowances for Stage 2 increased significantly, due to additions during the year as well as the regular update of the model parameters. Usage of loss allowances was exclusively for loans in Stage 3 and is in line with our expectations from previous years.

Development of loss allowances in the Eastern Europe segment

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2021	**-13,719**	**-7,077**	**-12,488**	**-593**	**-33,877**
New financial assets originated	-9,600	-456	-1,212	0	**-11,268**
Release due to derecognition	1,926	993	3,781	450	**7,150**
Transfers to Stage 1	-399	395	4	0	**0**
Transfers to Stage 2	1,104	-1,796	693	0	**0**
Transfers to Stage 3	43	2,306	-2,349	0	**0**
Change in credit risk	6,489	-99	-5,614	-72	**704**
Usage of allowance	0	0	4,424	503	**4,927**
Exchange rate movements	-1,093	-366	-1,405	-787	**-3,650**
Loss allowances as of 31.12.2021	**-15,248**	**-6,099**	**-14,167**	**-499**	**-36,014**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2020	**-7,878**	**-1,699**	**-17,937**	**-588**	**-28,101**
New financial assets originated	-8,577	-584	-1,048	0	**-10,209**
Release due to derecognition	1,071	1,384	3,582	19	**6,056**
Transfers to Stage 1	-1,599	1,594	6	0	**0**
Transfers to Stage 2	3,308	-3,447	139	0	**0**
Transfers to Stage 3	40	1,173	-1,213	0	**0**
Change in credit risk	-1,798	-5,762	-1,985	-182	**-9,727**
Usage of allowance	0	0	4,477	178	**4,655**
Exchange rate movements	1,713	265	1,492	-20	**3,450**
Loss allowances as of 31.12.2020	**-13,719**	**-7,077**	**-12,488**	**-593**	**-33,877**

In the Eastern Europe segment as well, the largest change in loss allowances resulted from additions for newly disbursed loans during the financial year. The update of model parameters in 2021 likewise resulted in a positive change in loss allowances for Stage 1, which was balanced out overall by higher loss allowances due to a change in credit risk for Stage 2 and Stage 3. The effect of currency fluctuations on loss allowances is typically greater in Eastern Europe than in other regions. Usage of loss allowances was exclusively for loans in Stage 3 and is in line with our expectations from previous years.

Development of loss allowances in the South America segment

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2021	**-2,314**	**-1,500**	**-5,628**	**0**	**-9,442**
New financial assets originated	-1,665	0	-2,167	0	**-3,833**
Release due to derecognition	485	330	1,491	0	**2,306**
Transfers to Stage 1	-87	5	82	0	**0**
Transfers to Stage 2	17	-19	2	0	**0**
Transfers to Stage 3	40	139	-179	0	**0**
Change in credit risk	639	113	-1,944	0	**-1,192**
Usage of allowance	0	0	612	0	**612**
Exchange rate movements	-217	-105	-586	0	**-908**
Loss allowances as of 31.12.2021	**-3,102**	**-1,037**	**-8,317**	**0**	**-12,457**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2020	**-3,308**	**-319**	**-3,159**	**0**	**-6,786**
New financial assets originated	-1,124	0	-2,347	0	**-3,471**
Release due to derecognition	904	109	681	0	**1,694**
Transfers to Stage 1	-46	34	13	0	**0**
Transfers to Stage 2	165	-166	1	0	**0**
Transfers to Stage 3	56	19	-75	0	**0**
Change in credit risk	800	-1,285	-2,101	0	**-2,587**
Usage of allowance	0	0	830	0	**830**
Exchange rate movements	239	109	529	0	**877**
Loss allowances as of 31.12.2020	**-2,314**	**-1,500**	**-5,628**	**0**	**-9,442**

In South America, additions for newly disbursed loans are the largest item in loss allowances during the year. The update of model parameters in 2021 resulted in a positive change in loss allowances for Stage 1 and Stage 2. However, the adjustments for loans in Stage 3 predominate, so an overall increase in loss allowances is visible as a result of changes in credit risk. Usage of loss allowances was exclusively for loans in Stage 3 and is in line with the usual amount from previous years.

Development of loss allowances in the Germany segment

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2021	**-213**	**-278**	**0**	**0**	**-491**
New financial assets originated	-85	0	0	0	**-85**
Release due to derecognition	14	159	0	0	**173**
Transfers to Stage 1	-70	70	0	0	**0**
Transfers to Stage 2	3	-3	0	0	**0**
Transfers to Stage 3	0	0	0	0	**0**
Change in credit risk	-1	48	0	0	**47**
Usage of allowance	0	0	0	0	**0**
Exchange rate movements	0	0	0	0	**0**
Loss allowances as of 31.12.2021	**-353**	**-4**	**0**	**0**	**-356**

in '000 EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1.1.2020	**-224**	**-69**	**0**	**0**	**-293**
New financial assets originated	-29	0	0	0	**-29**
Release due to derecognition	10	0	0	0	**10**
Transfers to Stage 1	0	0	0	0	**0**
Transfers to Stage 2	16	-16	0	0	**0**
Transfers to Stage 3	0	0	0	0	**0**
Change in credit risk	10	-189	0	0	**-179**
Usage of allowance	0	0	0	0	**0**
Exchange rate movements	4	-4	0	0	**0**
Loss allowances as of 31.12.2020	**-213**	**-278**	**0**	**0**	**-491**

For the business in Germany, the releases for existing contracts are greater than the additions for newly disbursed loans during 2021. The loan portfolio in Stage 2 decreased primarily due to loan repayments and transfers back to Stage 1. The bank in Germany has no exposures in Stage 3.

The tables below show our loan portfolio broken down by internal risk classification and by economic sector and stage.

in '000 EUR		31.12.2021				
Loan portfolio	**Risk class**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	7,973	0	0	0	7,973
	2	408,472	792	0	0	409,264
	3	1,764,187	1,341	0	0	1,765,527
	4	2,077,631	8,581	0	0	2,086,212
	5	533,465	12,774	0	0	546,239
Underperforming	6	36,936	112,014	0	0	148,950
	7	2,791	63,415	0	0	66,206
Defaulted	8	0	0	113,100	2,473	115,574
Without risk class*		742,069	16,231	20,066	99	778,464
Gross outstanding amount		**5.573.524**	**215.148**	**133.166**	**2.572**	**5.924.410**

in '000 EUR		31.12.2020				
Loan portfolio	**Risk class**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	5,672	0	0	0	5,672
	2	345,909	1,177	0	0	347,085
	3	1,649,138	4,509	0	0	1,653,647
	4	1,861,776	24,301	0	0	1,886,076
	5	499,350	32,436	0	0	531,786
Underperforming	6	33,440	114,150	0	0	147,590
	7	3,213	57,974	0	0	61,187
Defaulted	8	0	0	110,469	3,383	113,852
Without risk class*		464,047	22,951	20,306	67	507,370
Gross outstanding amount		**4,862,544**	**257,497**	**130,775**	**3,450**	**5,254,266**

* Loans to private customers and business customers with a credit volume of less than EUR 50,000 are not assessed with an internal risk classification.

	31.12.2021								
	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	Others	Total
Stage 1									
Gross outstanding amount	1,434,086	1,059,525	1,188,281	222,502	1,201,370	401,576	57,770	8,414	**5,573,524**
Loss allowance	-10,609	-8,826	-8,870	-1,741	-9,450	-5,250	-1,101	-116	**-45,964**
Net outstanding amount	1,423,477	1,050,700	1,179,411	220,761	1,191,920	396,326	56,669	8,297	**5,527,560**
Stage 2									
Gross outstanding amount	41,676	39,596	47,923	22,988	57,522	4,561	720	162	**215,148**
Loss allowance	-2,760	-4,708	-3,431	-2,197	-4,513	-499	-38	-5	**-18,152**
Net outstanding amount	38,916	34,888	44,492	20,791	53,009	4,062	682	157	**196,996**
Stage 3									
Gross outstanding amount	34,659	20,438	26,240	10,969	31,602	7,574	1,302	381	**133,166**
Loss allowance	-17,908	-10,780	-12,489	-5,646	-14,258	-4,221	-797	-278	**-66,377**
Net outstanding amount	16,751	9,658	13,751	5,323	17,344	3,353	505	104	**66,788**
POCI									
Gross outstanding amount	326	656	0	217	1,324	48	0	1	**2,572**
Loss allowance	-171	-88	0	0	-658	-32	0	-1	**-951**
Net outstanding amount	155	568	0	217	666	16	0	0	**1,622**
Total									
Gross outstanding amount	1,510,747	1,120,215	1,262,444	256,675	1,291,818	413,759	59,792	8,958	**5,924,410**
Loss allowance	-31,449	-24,402	-24,791	-9,583	-28,880	-10,003	-1,936	-400	**-131,444**
Net outstanding amount	1,479,298	1,095,814	1,237,654	247,092	1,262,939	403,757	57,856	8,558	**5,792,966**

	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	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**

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 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 13 countries likewise makes a significant impact in terms of diversification.

	31.12.2021			
in '000 EUR	< EUR 50,000	EUR 50,000 - 250,000	> EUR 250,000	Total
Business loans	**405,015**	**1,804,543**	**3,232,342**	**5,441,901**
Wholesale and retail trade	110,701	549,570	850,476	1,510,747
Agriculture, forestry and fishing	134,220	443,380	542,615	1,120,215
Production	62,499	388,708	811,237	1,262,444
Transportation and storage	33,923	103,790	118,962	256,675
Other economic activities	63,674	319,094	909,051	1,291,818
Private loans	**187,334**	**247,316**	**47,860**	**482,509**
Housing	125,723	240,634	47,402	413,759
Investment loans	53,677	5,657	457	59,792
Others	7,934	1,025	0	8,958
Gross outstanding amount	**592,349**	**2,051,859**	**3,280,202**	**5,924,410**

	31.12.2020			
in '000 EUR	< EUR 50,000	EUR 50,000 - 250,000	> EUR 250,000	Total
Business loans	**394,934**	**1,634,846**	**2,892,124**	**4,921,905**
Wholesale and retail trade	100,500	489,736	782,247	1,372,484
Agriculture, forestry and fishing	130,485	397,073	464,552	992,110
Production	59,722	354,124	814,943	1,228,789
Transportation and storage	33,696	102,427	111,477	247,600
Other economic activities	70,531	291,486	718,905	1,080,922
Private loans	**156,272**	**156,788**	**19,301**	**332,361**
Housing	112,064	147,011	15,997	275,071
Investment loans	37,333	8,939	3,038	49,310
Others	6,875	838	267	7,980
Gross outstanding amount	**551,207**	**1,791,634**	**2,911,426**	**5,254,266**

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 conduct on-site visits to customers and 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 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 in the most 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 which normally have high credit ratings, we typically place our money for short terms (typically overnight) and we use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. Within the ProCredit group, it is prohibited to engage in speculative trading. 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 with a high international rating. The impact of market price changes on the group is limited.

Despite the still ongoing COVID-19 pandemic, the group's counterparty and issuer risk remained stable in 2021. None of our counterparties were downgraded by rating agencies during the year; on the contrary, some of our major counterparties were upgraded, indicating their high credit quality.

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

in '000 EUR	**31.12.2021**	**in %**	**31.12.2020**	**in %**
Central bank balances	1,215,034		1,051,991	
Mandatory reserve	*565,798*		*504,491*	
of which covered by insurance	*-190,000*	64.7	*-218,500*	64.7
Other balances with central banks	*839,981*		*766,599*	
Loss allowances for central bank balances	*-745*		*-599*	
Loans and advances to banks	252,654	13.4	236,524	14.6
Loss allowances for loans and advances to banks	*-5*		*-5*	
Derivative financial assets	1,343	0.1	509	0.0
Investment securities	410,421	21.8	336,511	20.7
Loss allowance for investment securities	*-101*		*-94*	
Total	**1,879,346**	**100.0**	**1,625,435**	**100.0**

The exposure to banking groups contains repurchase agreements in the amount of EUR 55.3 million. For these, collateral items were obtained with a fair value in approximately the same amount. None of them were repledged or sold.

For other financial assets, creditworthiness of 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 a party to a contract, or a significant deterioration of the external rating. None of our investment securities was past due nor showed any signs of impairment. They are thus assigned to Stage 1 (performing). We have established provisions in accordance with IFRS 9 requirements (see also notes 15-18 to the consolidated financial statements).

The table below provides a breakdown of the investment portfolio by rating category and corresponding loss allowances (only Stage 1). Securities from the respective issuers are assigned to rating categories based on the "long-term issuer default rating" from Fitch; if unavailable, then from S&P or Moody's, or according to our internal methodology.

in '000 EUR	**31.12.2021**		**31.12.2020**	
Ratings	**Gross outstanding amount**	**Loss allowance**	**Gross outstanding amount**	**Loss allowance**
AAA	33,398	-1	51,103	-1
AA+	42,593	-2	32,347	-2
BBB	31,421	-12	11,524	-6
BBB-	26,652	-6	23,042	-9
BB+	81,376	-37	58,852	-29
BB	11,909	-6	12,753	-5
BB-	28,916	-20	20,656	-13
B+	14,087	-5	10,439	-4
B	71,929	-7	61,005	-5
B-	68,140	-6	54,791	-20
Investment securities	**410,421**	**-101**	**336,511**	**-94**

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for 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 a significant share, totalling EUR 190 million, 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 on 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. Furthermore, we closely follow the developments in all countries where we operate, including through regular communication and exchange of information with our colleagues in the ProCredit banks and through publications by economic research institutes.

Economic development in the countries in which we operate continued to be impacted by the COVID-19 pandemic in 2021. Moreover, rising energy prices, bottlenecks in supply chains and increasing inflation, particularly towards the end of 2021, caused further uncertainty. The current armed conflict in Ukraine and the associated high level of political and macroeconomic uncertainty represent substantial country risk.

Ratings agencies maintained the sovereign ratings for our countries of operation in 2021. At year-end 2021, two countries where we operate (Romania and North Macedonia) still had a ‘negative’ outlook from Fitch (if no Fitch rating, then Moody’s or S&P). The outlook was changed for three countries during the year: Georgia was changed from “negative” to “stable”, Bulgaria from “stable” to “positive”, and Ukraine from “stable” to “positive”. Due to the armed conflict, Ukraine’s rating was downgraded from “B” to “CCC” in February 2022. The outlook for the other countries in which we operate remained “stable” in each case.

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 as of 31 December 2021.

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: 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 -111.8 million at the end of 2020 to EUR -83.1 million in December 2021. This is mainly due to strong appreciations of Eastern European currencies and the US dollar. In 2021, exchange rates were recovering from the sharp depreciations they had experienced since the outbreak of the COVID-19 pandemic in 2020. Compared to the previous year, the Ukrainian and Georgian national currencies appreciated by 11% and 13%, respectively. The appreciation of the US dollar was 8%.

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 increased by EUR 13.1 million during the year and stood at EUR 110.2 million as of December 2021.

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 (EVI) 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 contractual terms, 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 analyses of historical data. In addition, regularly updated assumptions on planned business developments are used to calculate the P&L indicator.

Both at bank level and for the group as a whole, interest rate risk is quantified on the basis of economic value impact and on the basis of the 12-month P&L effect. Modelled country-specific, risk-free yield curves are used in a multi-curve approach to discount the cash flows.

At the bank level, we assume a +/– parallel shift of the yield curves. The magnitude of the interest rate shock is essentially determined on the basis of a historical analysis of the corresponding yield curves. For each currency, only the parallel shift scenario that results in a loss is included in the indicator. Limits are set in relation to regulatory capital for the economic value impact and in relation to the forecast net interest income for the P&L effect. In addition, further scenarios are considered.

At group level, 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 Value-at-Risk models with a holding period of one year and confidence level of 99.9% (EVI) or 99% (P&L effect). The maturity-specific interest rate shocks per curve are based on the historical daily development of the reference curves over the last ten years.

in '000 EUR 31.12.2021		31.12.2020*	
Economic Value Impact	**12 month P&L-Effect**	**Economic Value Impact**	**12 month P&L-Effect**
–101,214	**–7,141**	**–68,447**	**–5,168**

* The risk values at year-end 2020 were recalculated using the model updated in 2021. Therefore, the figures are different from those published last year by approximately EUR -24 million for the economic value impact and EUR -5.6 million for the 12-month P&L-effect.

Compared to the previous year, the negative economic value impact grew by EUR 32.8 million to EUR -101.2 million, mainly driven by the growth of the loan portfolio on group level. More specifically, the local currency in Ukraine and the US dollar translated into a higher contribution due to a higher volatility of the respective reference curves. Moreover, the model was refined during the year. Essentially, for the determination of the economic value impact, the basis point approach was replaced by the present value approach, eliminating some limitations of the former (e.g. applicable only for small interest rate changes). This, along with the ongoing calibration of the currency-specific interest rate shocks, also impacted the results for both indicators. The 12-month P&L effect increased by EUR 2 million to EUR 7.1 million, with the increase being driven by a higher share of the variable-rate loan portfolio.

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 and limited 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.

Liquidity risk

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 a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), a survival period, and 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. Each ProCredit bank should keep 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 utilise liquidity as efficiently as possible.

We continued to closely monitor the potential impact of the COVID-19 pandemic on the group's liquidity position in 2021, in order to be able to take appropriate measures in good time if necessary. 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. Compared with the previous year, the considerable uncertainty regarding market liquidity and possible deposit outflows has decreased. The liquidity situation of the ProCredit banks and the group remained adequate and even improved over the course of the year. This was mainly due to an increase in deposits in all banks as well as new funding agreements with banks. Both the banks and the group had sufficient liquidity available at all times in 2021 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 loan repayments as part of the measures to handle the COVID-19 pandemic have been reflected accordingly in the tables below. Based on their very low volume, these are not significant.

	31.12.2021					
in '000 EUR	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**over 5 years**	**Total**
Assets						
Cash	140,488	0	0	0	0	140,488
Central bank balances	1,445,368	0	0	22,557	0	1,467,925
Loans and advances to banks	238,984	19,249	28,324	49,580	17,032	353,169
Derivative financial assets	650	150	144	0	399	1,343
Investment securities	152,540	49,634	72,266	136,640	7,296	418,375
Loans and advances to customers	172,241	360,274	1,702,375	2,809,847	1,314,708	6,359,444
Current tax assets	0	1,257	1,394	821	0	3,472
Other assets	14,316	1,461	1,157	1,301	6,085	24,320
Total assets	**2,164,586**	**432,025**	**1,805,660**	**3,020,745**	**1,345,519**	**8,768,536**
Liabilities						
Liabilities to banks	39,699	56,117	286,647	696,883	302,868	1,382,214
Derivative financial liabilites	148	59	3	0	150	360
Liabilities to customers	4,041,272	224,213	1,003,351	243,687	41,024	5,553,547
Debt securities	30,606	1,403	136,097	139,913	72,836	380,854
Other liabilities	17,746	814	4,695	11,028	3,646	37,929
Provisions	2,681	1,835	7,713	2,717	207	15,152
Current tax liabilities	11	3,581	22	0	0	3,614
Subordinated debt	413	787	5,535	99,316	0	106,051
Total liabilities	**4,132,576**	**288,808**	**1,444,063**	**1,193,543**	**420,731**	**7,479,721**
Contingent liabilities						
Performance guarantees, payment guarantees and letters of credit	282,458	0	0	0	0	282,458
Loan commitments (revocable)	681,697	0	0	0	0	681,697
Loan commitments (irrevocable)	22,423	0	0	0	0	22,423
Contractual liquidity surplus	**-2,954,566**	**143,217**	**361,597**	**1,827,202**	**924,789**	

in '000 EUR	31.12.2020 Up to 1 month	1 – 3 months	4 – 12 months	1 – 5 years	over 5 years	Total
Assets						
Cash*	134,857	0	0	0	0	134,857
Central bank balances*	1,318,488	0	0	0	0	1,318,488
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*	29,945	72,102	353,638	679,951	157,241	1,292,878
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
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**	

* The previous year's figures have been adjusted to the current presentation.

When presented by contractual maturity, there is a negative contractual liquidity surplus in the first maturity band, in particular due to sight deposits, overnight deposits and contingent liabilities. Therefore, contractual liquidity surpluses do not represent the group's liquidity risk. In order to take appropriate account of liquidity risk, assumptions are made about inflows and outflows, based on their observed historical behaviour in stress situations or on regulatory benchmarks. Guarantee commitments usually expire without being called upon. Due to special termination rights of creditors, particularly at the level of ProCredit Holding, if a material default event occurs for ProCredit Holding or one of its significant subsidiaries, then, depending on the type of default event, the debt securities and a majority of the subordinated loans in the maturity bands "up to 1 month" or "1-3 months" are taken into account. The associated liquidity and funding risks are generally very low in the ordinary course of business, but can become significant in the event of unexpected major political events, as is currently the case in the wake of the Russian invasion of Ukraine.

At group level, short-term liquidity risk is measured particularly by means of LCR. As of 31 December 2021, the LCR was 158% (2020: 153%) at group level, and thus above the regulatory requirement of 100% and our internally defined early warning threshold. This indicates an appropriate liquidity situation for the group. It should be emphasised that, for the majority of ProCredit banks, the LCR at individual institution level is significantly higher than the consolidated LCR at group level. Due to liquidity transfer restrictions, which are mainly based on national regulatory requirements in the countries where we operate, a portion of the banks' liquidity buffer is not included in LCR consolidation.

Pledged assets
Assets are deemed to be pledged when they are committed to collateral agreements or agreements to improve the credit assessment of on- or off-balance sheet transactions and it is not possible to withdraw these assets from the terms of such agreements.

The ProCredit group has a limited amount of pledged assets, as the group largely funds its activities through deposits. These comprise primarily assets which are pledged on a portfolio basis for special-purpose funding. These pledges would be exercised in case of default of interest or principal payment on the respective loans; the maturities of these pledges are the same as the maturities of the respective liabilities. As of 31 December 2021, the pledged assets of the ProCredit group amounted to EUR 48.5 million (see also note 24 to the consolidated financial statements), which is equivalent to 0.6% of total assets.

Funding risk
Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. This risk exists at ProCredit group level and for ProCredit Holding. 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 deposits; our deposit-taking operations focus on our target group of business clients and private clients/savers. These are supplemented by loans from international financial institutions (IFIs). The funding of the ProCredit group has proven to be resilient. As of end-December 2021, the largest funding source was deposits with EUR 5,542.3 million. Liabilities to banks are the second-largest source of funding, accounting for EUR 1,313.7 million.

The ProCredit group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. This includes the structural liquidity ratio (net stable funding ratio, NSFR), which was introduced in June 2021 by the CRR Amendment Regulation (CRR II). As of 31 December 2021 the NSFR was 142%.

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 number of loss events during the financial year was 202 (12.2020: 167). The table below provides an overview of the gross and net losses due to operational loss events.

in EUR m	31.12.2021	31.12.2020
Gross loss	2.9	0.7
Current net loss	2.2	0.6

Figures as of 31 Dec. 2021 are based on our Risk Even Database (RED) as of 31 Jan. 2022; figures as of 31 Dec. 2020 are based on the RED as of 25 Jan. 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 centrally for all ProCredit banks, in order 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, is part of the ProCredit group and supports all group companies with respect to software and hardware.

Against the backdrop of the COVID-19 pandemic, we have not identified any increase in operational risk (including increase in fraudulent acts). The continuity of business operations, protection of clients and employees, and appropriate staffing levels were ensured at all times. 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. Another focal point in pandemic times is the regular monitoring of information security. We have seen a pandemic-related increase in attempted cyber attacks in the group, although these did not result in any losses. The events in Ukraine give rise to additional risk potential. We were able to maintain business continuity and guarantee the availability of IT systems without any loss of performance.

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 internal training programme also promotes a 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, among other things.

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 are 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.

Capitalisation in the economic perspective

Ensuring that the group as a whole and each individual bank maintains sufficient capitalisation in the economic perspective 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. Capitalisation in the economic perspective was adequate at all times during the course of 2021.

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 changes to the risk models. However, interest rate risk modeling was expanded. The countries in which we do business have a relatively volatile history. Therefore, our datasets include various periods of stress. As a result, there was no need to adjust risk modelling for the 2021 financial year.

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 922.4 million as of the end of December 2021 (2020: EUR 842.9 million). The Management set the Resources Available to Cover Risk (RAtCR) at an amount of EUR 826.0 million (2020: EUR 745.0 million). This reflects the maximum acceptable risk amount for the ProCredit group; moreover, taking account for the risk tolerance, it was set below the group's RTP in order to ensure the existence of a sufficient security buffer. In the course of 2022, the ProCredit group will adjust the definition of risk-taking potential and no longer take into account the subordinated debt of ProCredit Holding. This change has thus been accounted for in the planning. 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 73.1% of its RAtCR (2020: 75.6%) to cover its risk profile.

	31.12.2021		31.12.2020	
in Mio. EUR	**Limit**	**Limit Used**	**Limit**	**Limit Used**
Credit Risk	420	301.1	385	288.6
Interest Rate Risk	140	101.2	122	92.5
Foreign Currency Risk	150	110.2	128	97.0
Operational Risk	30	22.6	27	21.0
Business Risk	28	21.0	28	19.4
Funding Risk	11	8.0	10	7.0
Model Risk	47	40.0	45	38.0
Total	**826**	**604.2**	**745**	**563.5**
Total limit used in %		**73.1%**		**75.6%**

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. Against the backdrop of the current war in Ukraine, we are analysing further stress scenarios. The results of stress testing show 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:

	31.12.2021	**31.12.2020**
Common equity Tier 1 capital ratio	14.1%	13.3%
Tier 1 capital ratio	14.1%	13.3%
Total capital ratio	**15.3%**	**14.7%**

The ProCredit group issued no AT1 instruments during the reporting period. Therefore, as of 31 December 2021 our entire Tier 1 capital consisted of Common Equity Tier 1 capital. The dividend distributions for the 2019 and 2020 financial year earnings have been accounted for throughout the period, despite the delay in payouts payout due to the COVID-19 pandemic.

Our (fully loaded) Tier 1 capital ratio increased from 13.3% to 14.1%. Risk-weighted assets (RWA) increased by EUR 276 million compared to December 2020. Solid loan portfolio growth of EUR 670.1 million in 2021 was largely offset in risk-weighted assets by the following effects: recognition of North Macedonia's and Bosnia and Herzegovina's banking regulation as CRR-equivalent by the EU Commission, full implementation of the SME support factor, and application of Deep and Comprehensive Free Trade Area (DCFTA) guarantees for credit risk reduction. CET1 capital increased by EUR 86 million, mainly due to the recognition of 2021 interim profits and the positive development of the translation reserve. Our total capital ratio increased from 14.7% to 15.3%. The level of capitalisation in the ProCredit group is 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 has been binding since 28 June 2021. As of year-end 2021 the ProCredit group reported a comfortable leverage ratio of 9.3%.

in '000 EUR	**31.12.2021**	**31.12.2020**
Equity	791,990	706,378
Assets	8,506,240	7,601,680
Leverage ratio	**9.3%**	**9.3%**

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 Risk Data and 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.

DISCLOSURES REQUIRED BY TAKEOVER LAW PURSUANT TO SEC. 289a AND 315a 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 GmbH & Co. KG (the Core Shareholders) as follows:

The Core Shareholders entered into an agreement dated 7 July 2011, as amended on 27 October 2021 (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 30 October 2022.

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

The following shareholders owned (directly or indirectly) as of 31 December 2021, 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 2021, the employees of the Company, according to the most recent corresponding legal voting rights notification from 3 December 2019, collectively held 2.99% of the voting rights via the investment company ProCredit Staff Invest 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 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[13]

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 2021 financial year, the Supervisory Board held one in-person meeting. Due to the prevailing pandemic conditions, eight video conferences were also held.

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.

[13] The corporate governance statement is not part of the audit of the financial statements.

Management Board of ProCredit General Partner AG

The Management Board comprised the following individuals in the 2021 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
Ms 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 2022	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 AG 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 Nomination 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.

The Management Board of ProCredit General Partner AG will be expanded by one member, Hubert Spechtenhauser. The expansion of the Management Board was resolved at the Supervisory Board meeting on 11 February 2022, with effect from 1 March 2022.

Supervisory Board of ProCredit Holding AG & Co. KGaA
The Supervisory Board comprised the following individuals in the 2021 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)	2016	2026	None
Dr H.P.M. (Ben) Knapen	2020	2022	None
Christian Krämer	2014	May 2021	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 Amundi Planet Sicav-SIF, Luxembourg, Luxembourg, member of the supervisory board
Jovanka Joleska Popovska	May 2021	2022	None
Petar Slavov	2014	May 2021	None
Dr Jan Martin Witte	May 2021	2022	Global Public Policy Institute, e.V., Berlin, Germany, member of the supervisory board Microfinance Enhancement Fund SICAV SIF, Luxembourg, Luxembourg, member of the management

On 7 March 2022, the chairmanship of the Supervisory Board passed from Dr Claus-Peter Zeitinger to Rainer Ottenstein.

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 assets, liabilities, financial and profit situation 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 Mr 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 Mr Zeitinger's independence from the Board, it should also be noted that Ms Massiani and Mr Felice have only been members of the Board for 4 years and less than one year, respectively. There are no other circumstances that would impair Mr 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.

In February 2021, the Supervisory Board formed a Risk and Audit Committee and a Nomination Committee for the first time, in order to comply with the requirements of the German Banking Act. Both committees are composed of all members of the Supervisory Board.

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. Two members 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. This target was met in 2021.

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 2021 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, which is published on the ProCredit Holding website (https://www.procredit-holding.com/investor-relations/reports-and-publications/).

Of the Supervisory Board members, Ms Jovanka Joleska Popovska and Mr Petar Slavov hold shares in ProCredit Holding indirectly (via ProCredit Staff Invest GmbH & Co. KG).

Management Board members hold shares in ProCredit Holding either directly or indirectly (via ProCredit Staff Invest 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 https://www.procredit-holding.com/en/investor-relations/news. During the 2021 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 its 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) no. 1 and 2 b) HGB, as well as our Group Code of Conduct, is also available on the ProCredit Holding website. The Group Impact Report is available at: https://www.procredit-holding.com/investor-relations/reports-and-publications/.[14]

Risk Management

Risk management, controlling and promulgating 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 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. The 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.

The ProCredit banks, which themselves are subject to national regulations on the prevention of money laundering and terrorist financing, implement the regulations under section 9 of the German Money Laundering Act (Geldwäschegesetz – GwG) as a minimum standard, in accordance with the Group Anti-Money Laundering Policy. In addition to the legal requirements, this also includes the recommended best practices from EU-wide and international standards, such as the guidelines on risk factors for money laundering and terrorist financing issued by the European Banking Authority (EBA) and the recommendations of the Financial Action Task Force (FATF). In addition, all ProCredit banks implement all national regulations related to the prevention of money laundering and terrorist financing in the countries where they operate. All ProCredit banks implement, without exception, the financial sanctions of the United Nations (UN), the European Union (EU), Germany, France and the United States of America (USA). 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. Violations of applicable law or of the internal policies of the ProCredit group can be reported to the relevant ProCredit bank

[14] The Group Impact Report is not part of the audit of the financial statements.

or ProCredit Holding via a whistleblowing system. All notifications are treated equally; anonymous reports can also be submitted to ProCredit banks and ProCredit Holding.

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 with the recommendations of the German Corporate Governance Code ("GCGC") of 16 December 2019, as published by the Federal Ministry of Justice in the official part of the German Federal Gazette on 20 March 2020, since its last statement of compliance on 18 March 2021, with the deviations listed therein, and will, with the deviations listed below, continue to be in compliance in the future.

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.

Recommendation G.17

The GCGC 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, 22 March 2022

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

The management report for ProCredit Holding AG & Co. KGaA and the group management report for the ProCredit group have been combined and published together with the consolidated financial statements for ProCredit Holding AG & Co. KGaA for the financial year ending 31 December 2021.

The annual financial statements and the group management report, which includes the combined management report for ProCredit Holding AG & Co. KGaA for the 2021 financial year, will be submitted to the provider of the electronic Federal Gazette ["Bundesanzeiger"] and published electronically in the Federal Gazette.

BALANCE SHEET

in EUR	(Note)	31.12.2021	31.12. 2020
A. Fixed assets			
I. Intangible fixed assets			
1. Trademarks and software		2,247.00	3,176.00
II. Tangible fixed assets			
1. Land and buildings		0.00	2,095,675.56
2. Other equipment, operating and office equipment		326,906.50	384,583.50
3. Prepayments on tangible assets		0.00	6,034.48
III. Long-term financial assets			
1. Shares in affiliated companies	(2)	641,236,213.90	600,521,302.07
2. Loans to affiliated companies	(3)	415,350,608.14	490,428,999.40
3. Long-term securities	(4)	2,169,725.53	1,297,783.77
4. Other loans		0.00	355,835.84
		1,059,085,701.07	**1,095,093,390.62**
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	(5)	22,334,869.82	45,595,675.54
of which, with a time to maturity of more than one year:		*0.00*	*0.00*
2. Other assets	(6)	1,129,910.31	1,580,880.22
of which, with a time to maturity of more than one year:		*0.00*	*0.00*
II. Cash in hand, bank balances and cheques	(7)	76,003,115.62	30,383,219.48
of which, with affiliated companies:		*58,696,088.79*	*27,697,699.88*
		99,467,895.75	**77,559,775.24**
C. Prepaid expenses	(8)	6,047,064.27	6,966,614.11
Total assets		**1,164,600,661.09**	**1,179,619,779.97**

A. Equity	(9)		
I. Subscribed capital		294,492,460.00	294,492,460.00
of which, general partner:		*0.00*	*0.00*
of which, limited partner:		*294,492,460.00*	*294,492,460.00*
II. Capital reserves		149,749,051.95	149,749,051.95
of which, general partner:		*0.00*	*0.00*
of which, limited partner:		*149,749,051.95*	*149,749,051.95*
III. Revenue reserves			
1. Legal reserve		135,960.75	135,960.75
IV. Retained earnings	(10)	84,935,018.79	52,889,179.97
		529,312,491.49	**497,266,652.67**
B. Provisions			
1. Other provisions	(11)	594,961.40	758,077.30
C. Liabilities	(12)		
1. Bonds		425,824,482.57	337,027,825.42
2. Liabilities to banks		80,396,881.07	90,404,605.82
3. Trade payables		256,411.25	2,347,568.60
4. Liabilities to affiliated companies		883,722.27	2,098,635.56
5. Other liabilities		127,331,711.04	249,716,414.60
of which, taxes:		*108,162.33*	*96,089.53*
of which, for social security:		*4,531.98*	*4,518.75*
		634,693,208.20	**681,595,050.00**
Total equity and liabilities		**1,164,600,661.09**	**1,179,619,779.97**

INCOME STATEMENT

	in EUR	(Note)	1.1.–31.12.2021	1.1.–31.12.2020
1	Sales revenue	(15)	14,752,071.00	13,835,796.92
2	Other operating income	(16)	9,183,573.45	120,220.86
3	Personnel expenses		8,465,915.78	7,744,394.59
	a) Wages and salaries		*6,869,534.07*	*6,338,840.95*
	b) Social security, post-employment and other employee benefit costs		*1,596,381.71*	*1,405,553.64*
	of which, in respect of retirement pensions:		*258,925.66*	*238,802.73*
4	Depreciation on intangible and tangible fixed assets		246,586.10	533,643.74
5	Other operating expenses	(17)	12,966,276.72	14,308,194.76
	Net operating income (-loss)		**2,256,865.85**	**-8,630,215.31**
6	Income from long-term equity investments	(18)	66,157,746.74	21,288,747.00
	of which, from affiliated companies:		*66,157,746.74*	*21,288,747.00*
7	Income from profit and loss transfer agreements	(19)	1,453,484.52	603,618.69
8	Other interest and similar income		15,988,523.96	16,433,854.79
	of which, from affiliated companies:		*15,945,371.91*	*16,381,737.16*
	Financial income		**83,599,755.22**	**38,326,220.48**
9	Depreciation on long-term financial assets	(20)	3,139,024.84	52,071,780.10
10	Interest and similar expenses		18,324,892.11	19,906,948.01
	Financial expenses		**21,463,916.95**	**71,978,728.11**
11	Taxes on income (corporate income tax, trade tax and other taxes)	(21)	1,130,664.54	1,336,884.15
12	**Result after taxes/ Net income (-loss) for the year**		**63,262,039.58**	**-43,619,607.09**
13	Profit carried forward from previous years		52,889,179.97	96,508,787.06
14	Dividend distribution		-31,216,200.76	0.00
15	**Retained earnings**		**84,935,018.79**	**52,889,179.97**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

BASIS OF FINANCIAL ACCOUNTING **84**

1. Disclosures on recognition, measurement and presentation principles 84

BALANCE SHEET DISCLOSURES **87**

2. Shares in affiliated companies 87
3. Loans to affiliated companies 88
4. Long-term investments 88
5. Receivables from affiliated companies 88
6. Other assets 89
7. Receivables from banks 89
8 Prepaid expenses 89
9. Equity 89
10. Retained earnings 90
11. Other provisions 90
12. Liabilities 90
13. Contingent liabilities 91
14. Derivative financial instruments and valuation units 91

INCOME STATEMENT DISCLOSURES **92**

15. Sales revenue 92
16. Other operating income 92
17. Other operating expenses 92
18. Income from equity holdings 93
19. Income from profit-transfer agreements 93
20. Write-down on financial assets 93
21. Taxes on income 93

ADDITIONAL DISCLOSURES **94**

22. Other financial obligations 94
23. Supervisory Board and Management Board 95
24. Additional Notes 96
25. Events after the reporting period 97

Annex 1: Statement of changes in fixed assets 100

Annex 2: Share ownership 101

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 2021, 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 income statement has been prepared in accordance with the cost of production method as per section 275 (2) HGB. The preparation of these Financial Statements follows the same accounting policies and methods of computation as were used for the Financial Statements for the 2020 financial year.

Intangible fixed assets and tangible fixed assets are valued at acquisition 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 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 permanent 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. Balances at banks are recognised at nominal value.

Equity is recognised at nominal amount.

Other provisions include all contingent liabilities which are discernible as at the balance sheet date. There are established in the settlement amount required according to prudent business judgement. Provisions with a remaining term of more than one year are discounted at the average market rate consistent with their remaining maturity.

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. The calculation was based on a tax rate of 31.93%. 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-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. Financial accounting is performed in accordance with the "Durchbuchungsmethode" (revaluation method). Offsetting of positive and negative changes in value are recognised through profit or loss in the income statement.

All amounts are presented in euros (EUR), unless otherwise stated. Positions in foreign currency are translated using the closing rate valid at the end of the reporting period, with the exception of closed currency positions (see note 14). Receivables and liabilities in foreign currencies are generally translated at the middle exchange rate. Expenses resulting from the currency translation of these items are recognised, and income is recognised if the remaining term of the receivables and liabilities denominated in foreign currency does not exceed one year. The US dollar exchange rate as at 31 December 2021 was EUR 1/USD 1.1326. For computational reasons, figures may exhibit rounding differences of ± one unit (EUR, %, etc.).

Reporting and valuation are made on a going concern assumption. In this assessment, we had to gauge the current situation and make assumptions due to the armed conflicts in Ukraine.

A material default event of ProCredit Bank Ukraine could lead to special termination rights in the funding agreements at the level of ProCredit Holding, which could result in additional liquidity risk for the group (see "Liquidity risk" section in the Combined Management Report).

A material default event would arise if bankruptcy proceedings were initiated against the bank by the Ukrainian supervisory authority, if the bank were insolvent or over-indebted, or if certain third-party liabilities of ProCredit Bank Ukraine were prematurely declared due. At the present time, these risks are assessed as low. The capital and financial position of ProCredit Bank Ukraine was solid at the time of financial statement preparation. The operationality of the bank is supported by the decentralised location of employees in Ukraine and abroad and by the securing of ProCredit Bank Ukraine's IT infrastructure outside of Ukrainian territory by our group-internal software company, Quipu (see section "Events after the reporting period" in the Combined Management Report). The Management Board currently considers the risk of a non-continuation of Ukrainian rule of law as the greatest risk for a potential default event of ProCredit Bank Ukraine.

These financial statements have been prepared on a going concern basis because there are currently no special termination rights due to a material default event, and because at this time we have no indication that the necessary funding measures to eliminate the liquidity risk could not be implemented.

ProCredit Holding has already taken measures to mitigate the liquidity risk described, in particular negotiations on new funding guarantees. Due to the very recent developments in Ukraine, these could not be finalised on the date these financial statements were prepared.

Balance sheet disclosures

(2) Shares in affiliated companies

in '000 EUR **Affiliated company**	at bookvalue 1.1.2021	Participation in %	Addition in 2021	Depreciation + / Appreciation in 2021	Disposal in 2021	at bookvalue 31.12.2021	Participation in %
ProCredit Bank Sh.a. Tirana, **Albania**	3,516	100.0%	0	775	0	4,291	100.0%
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	5,318	100.0%	10,500	-2,783	0	13,034	100.0%
ProCredit Bank (Bulgaria) EAD Sofia, **Bulgaria**	110,761	100.0%	15,000	0	0	125,761	100.0%
Banco ProCredit S.A. Quito, **Ecuador**	29,205	100.0%	0	0	0	29,205	100.0%
JSC ProCredit Bank Tbilisi, **Georgia**	68,050	100.0%	9,290	0	0	77,340	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 Pristina, **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 dooel 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%
BC ProCredit Bank S.A. Chisinau, **Moldova**	17,389	100.0%	0	7,933	0	25,322	100.0%
ProCredit Bank S.A. Bucharest, **Romania**	20,677	100.0%	0	0	0	20,677	100.0%
ProCredit Bank a.d. Belgrade Belgrade, **Serbia**	83,130	100.0%	0	0	0	83,130	100.0%
JSC ProCredit Bank Kiev, **Ukraine**	82,301	100.0%	0	0	0	82,301	100.0%
Total	**600,521**		**34,790**	**5,925**	**0**	**641,236**	

In 2021, capital increases were carried out at the following subsidiaries:
- ProCredit Bank d.d., Bosnia and Herzegovina
- ProCredit (Bulgaria) E.A.D., Bulgaria
- JSC ProCredit Bank, Georgia

Annual impairment testing of the investments resulted in a write-up for ProCredit Bank Sh. a., Albania and for BC ProCredit Bank S.A., Moldova, as well as a write-down for ProCredit Bank d.d., Bosnia and Herzegovina.

(3) Loans to affiliated companies

in EUR	Senior	Subordinated	31.12.2021	31.12.2020
ProCredit Bank Sh.a. Tirana, **Albania**	15,500,000	7,000,000	22,500,000	30,500,000
ProCredit Bank d.d. Sarajevo, **Bosnia and Herzegovina**	40,500,000	0	40,500,000	68,000,000
Banco ProCredit S.A. Quito, **Ecuador**	101,263,713	8,409,722	109,673,435	105,940,836
JSC ProCredit Bank Tbilisi, **Georgia**	19,563,000	6,580,778	26,143,778	32,712,295
ProCredit Bank AG Frankfurt am Main, **Germany**	0	10,000,000	10,000,000	10,000,000
ProCredit Academy GmbH Fürth, **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**	11,000,000	21,000,000	32,000,000	42,500,000
ProCredit Regional Academy Eastern Europe dooel Veles, **North Macedonia**	640,000	0	640,000	640,000
BC ProCredit Bank S.A. Chisinau, **Moldova**	7,000,000	6,556,763	13,556,763	13,556,763
ProCredit Bank a.d. Belgrade Belgrade, **Serbia**	94,000,000	16,000,000	110,000,000	137,000,000
JSC ProCredit Bank Kiev, **Ukraine**	29,836,633	0	29,836,633	29,079,105
Total	**326,303,346**	**89,047,262**	**415,350,608**	**490,428,999**

Loans to affiliated companies are not secured. At the end of the reporting period, a variable interest rate was payable on about 12.0% of the loans; the remaining loans were granted on the basis of a fixed interest rate.

(4) Long-term investments

ProCredit Holding acquired shares in the European Investment Fund in 2021.

(5) Receivables from affiliated companies

in EUR	31.12.2021	31.12.2020
Short term loans	12,200,000	36,700,000
Accrued Interest	4,758,196	5,246,271
Foreign-exchange and interest-rate swap	1,169	0
Collateral for swap transactions	3,000,000	3,000,000
Others	2,375,505	649,405
Total	**22,334,870**	**45,595,676**

(6) Other assets

in EUR	31.12.2021	31.12.2020
Tax receivable	524,967	1,001,034
Others	604,943	579,846
Total	**1,129,910**	**1,580,880**

(7) Receivables from banks

ProCredit Holding reported receivables from banks in the following positions:

in EUR	31.12.2021	31.12.2020
Loans to affiliated companies	403,470,699	476,788,999
Receivables from affiliated companies	19,209,000	44,194,764
Cash in hand, bank balances and cheques	76,003,116	30,382,657
Total	**498,682,814**	**551,366,420**

The receivables from banks have the following remaining maturities:

in EUR	31.12.2021	31.12.2020
Up to three months	86,332,555	46,299,643
More than three months and up to one year	117,167,367	113,168,904
More than one year and up to five years	227,024,407	334,841,111
More than five years	68,158,485	57,056,763
Total	**498,682,814**	**551,366,420**

(8) 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 1,680,882.

(9) Equity

	2021			2020		
	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR	Number of shares	Amount subscribed capital EUR	Amount capital reserve EUR
As at January 1	58,898,492	294,492,460	149,749,052	58,898,492	294,492,460	149,749,052
Capital increase	-	-	-	-	-	-
As at 31. December	**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. Each holder of ordinary shares is entitled, subject to a resolution of the General Meeting, to receive dividends and are entitled to one vote per share.

The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital by issuing up to 5,889,849 new registered value shares for cash and non-cash con-sideration by a total amount of up to approximately 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 ProCredit Holding 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 2021, ProCredit Holding does not hold any treasury shares.

(10) Retained earnings

In view of the current conflict situation in Eastern Europe, the Management Board does not intend to propose the distribution of a dividend at the next Annual General Meeting.

(11) Other provisions

in EUR	**31.12.2020**	**Used**	**Released**	**Additions**	**31.12.2021**
Audit fees	295,800	280,327	15,473	298,700	298,700
Untaken vacation	175,726	175,726	0	155,053	155,053
Others	286,551	233,979	52,572	141,208	141,208
Total	**758,077**	**690,032**	**68,045**	**594,961**	**594,961**

(12) Liabilities

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

in EUR	**31.12.2021**	**31.12.2020**
Bonds		
up to three months	30,299,573	113,271
more than three months and up to one year	133,587,552	38,993,155
more than one year and up to five years	196,937,357	202,697,457
more than five years	65,000,000	95,223,943
Liabilities to banks		
up to three months	15,238,974	238,343
more than three months and up to one year	30,157,908	10,166,263
more than one year and up to five years	35,000,000	75,000,000
more than five years	0	5,000,000
Trade payables		
up to three months	256,411	2,347,569
Liabilities to affiliated companies		
up to three months	879,970	605,788
more than three months and up to one year	3,752	1,492,847
Other liabilities		
up to three months	15,939,979	21,432,098
more than three months and up to one year	27,391,732	115,784,316
more than one year and up to five years	62,000,000	112,500,000
more than five years	22,000,000	0
Total	**634,693,208**	**681,595,050**

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 475,682,539 (previous year-end: EUR 397,193,098); 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.

(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.

The fair value of derivative financial instruments is as follows:

		31.12.2021	
in EUR	**nominal amount**	**positive fair value**	**negative fair value**
Foreign-exchange swaps	20,304,675	1,169	3,752
Total	**20,304,675**	**1,169**	**3,752**

FX swaps have a maximum remaining maturity until 4 January 2022.

The following valuation units were established:

Underlying Transaction		**Hedged risk**					
Type	**USD**	**Type**	**USD**	**Hedge instrument**	**Valuation unit**	**Effectiveness**	**Maturity**
Foreign currency liabilty	11,140,970	Currency translation	11,140,970	Swap	Micro-hedge	100% due to volume and maturity congruence with identical currencies	19.07.2022

Income statement disclosures

(15) Sales revenue

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
Income from management service agreements	8,918,296	8,491,862
Income from reimbursed expenses	1,563,577	1,622,898
Income from guarantees to subsidiaries	3,480,544	3,408,718
Other sales revenue	789,655	312,319
Total	**14,752,071**	**13,835,797**

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
Germany	1,145,269	954,119
Other EU-Countries	2,764,686	2,593,729
Remaining Europe	9,694,934	9,142,955
South America	1,147,182	1,144,993
Total	**14,752,071**	**13,835,797**

Revenues include back charges of EUR 308,073 from the Management Service Agreements for 2020.

(16) Other operating income

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
Income from appreciation in value of shares of subsidiaries	8,708,100	0
Currency translation income	397,619	98,380
Income from the reversal of provisions	68,045	4,239
Income from the sale of assets	4,805	0
Other income	2,247	3,074
Income from previous periods	2,758	14,528
Total	**9,183,573**	**120,221**

The income from the reversal of impairment losses on financial assets results from the annual impairment testing of investments. This resulted in a write-up for ProCredit Bank Sh. a., Albania and for BC ProCredit Bank S.A., Moldova.

(17) Other operating expenses

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
Administration expenses	6,253,398	7,637,528
Expenses due to exchange rate differences and hedging transactions	2,449,093	1,900,786
Expenses to be reimbursed by affiliated companies	1,511,668	1,274,449
Legal and advisory services	1,270,744	1,829,988
Other personnel expenses	1,173,944	998,199
Other expenses	307,431	667,245
Total	**12,966,277**	**14,308,195**

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".

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

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
Audit fees	354,800	477,000
Other confirmatory services	5,500	5,500
Total	**360,300**	**482,500**

(18) Income from equity holdings

in EUR	1.1.–31.12.2021	1.1.–31.12.2020
ProCredit Bank Sh.a Pristina, **Kosovo**	35,000,000	0
JSC ProCredit Bank Kiev, **Ukraine**	16,154,617	21,234,660
JSC ProCredit Bank Tbilisi, **Georgia**	13,634,421	0
BC ProCredit Bank S.A. Chisinau, **Moldova**	1,368,709	0
Banco ProCredit S.A. Quito, **Ecuador**	0	54,087
Total	**66,157,747**	**21,288,747**

(19) Income from profit-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.–31.12.2021	1.1.–31.12.2020
ProCredit Academy GmbH Fürth/Weschnitz, Germany	599,556	201,068
Quipu GmbH Frankfurt am Main, Germany	853,928	402,551
Total	**1,453,485**	**603,619**

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

(20) Write-down on financial assets

Annual impairment testing of the investments resulted in a write-down for ProCredit Bank d.d., Bosnia and Herzegovina.

(21) Taxes on income

Taxes on income in the current financial year consist mainly of foreign capital gains tax on interest income amounting to EUR 240,456 (2020: EUR 270,645) and foreign capital gains tax on dividend income amounting to EUR 889,853 (2020: EUR 1,064,978).

Additional disclosures

(22) Other financial obligations

Rental commitments

ProCredit Holding incurred obligations totalling EUR 6,149,635 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 253,406,261 had been provided to affiliated companies as loans and recognised under contingent liabilities. ProCredit Holding also issued credit lines to affiliated companies totalling EUR 78,000,000 (previous year-end: EUR 84,704,507).

(23) Supervisory Board and Management Board

The following persons served as members of the Supervisory Board:

Dr Claus-Peter Zeitinger Frankfurt am Main	Entrepreneur (Chairperson since 2 April 2004) Member of the supervisory board of: JSC ProCredit Bank, Kiev, Ukraine
Dr Jan Martin Witte Kronberg	Director of Equity Finance (LNd) in the Development Bank Division of KFW, Frankfurt am Main, Germany (Member since 27 May 2021) Member of the supervisory board of: Global Public Policy Institute e.V., Berlin, Germany Member of the management board of: Microfinance Enhancement Fund SICAV SIF, Luxembourg (Luxembourg)
Dr H.P.M. (Ben) Knapen Amsterdam	Foreign minister of the Netherlands (24. September 2021 - 10. Januar 2022) (Member since 26 May 2020) Member of the supervisory board of: ProCredit (Bulgaria) E.A.D., Sofia, Bulgaria
Marianne Loner Zürich	Finance Expert (MBA) (Member since 17 May 2017) Member of the supervisory boards of: Sura Asset Management S.A., Medellin, Colombia Amundi Planet Sicav-SIF, Luxembourg (Luxembourg) Britam Holdings Plc, Nairobi, Kenya
Petar Slavchev Slavov Sofia	Economist (Member until 27 May 2021) Member of the supervisory board of: ProCredit (Bulgaria) E.A.D., Sofia, Bulgaria
Christian Krämer Frankfurt am Main	Fully qualified lawyer (Member until 27 May 2021)
Jovanka Joleska Popovska Skopje	Finance Expert (BA) Chartered Certified Accountant (ACCA) (Member since 27 May 2021) Member of the supervisory boards of: ProCredit Bank Sh.a., Tirana, Albania ProCredit Bank A.D., Skopje, North Mazedonia (Chair) BC ProCredit Bank S.A., Chisinau, Moldova
Rainer Ottenstein Frankfurt am Main	Degree in Business (Diplom-Kaufmann) (Member since 30 November 2016) Member of the supervisory boards of: ProCredit Bank AG, Frankfurt am Main, Germany ProCredit Bank Sh. a, Pristina, Kosovo ProCredit Bank S.A., Bucharest, Romania (Chair) ProCredit Bank A.D. Belgrade, Belgrade, Serbia JSC ProCredit Bank, Kiev, Ukraine JSC ProCredit Bank, Tbilisi, Georgia

As per the Articles of Association, each member of the Supervisory Board is entitled to an annual compensation of EUR 10,000. Two Supervisory Board members waived their Supervisory Board compensation. On 7 March 2022, the chairmanship of the Supervisory Board passed from Dr Claus-Peter Zeitinger to Rainer Ottenstein.

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

Management Board		
Dr Gian Marco Felice Frankfurt am Main	Sandrine Massiani Frankfurt am Main	Dr Gabriel Schor Frankfurt am Main

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 Gian Marco Felice EUR 203,503 (of which payments to a pension fund EUR 3,408)

Sandrine Massiani EUR 199,993 (of which payments to a pension fund EUR 0)

Dr Gabriel Schor EUR 178,787 (of which payments to a pension fund EUR 33,031)

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

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, Belgrade, Serbia (Chair) JSC ProCredit Bank, Kiev, Ukraine ProCredit Bank AG, Frankfurt am Main, Germany ProCredit (Bulgaria) E.A.D., Sofia, Bulgaria JSC ProCredit Bank, Tbilisi, Georgia
Sandrine Massiani	Member of the supervisory boards of: JSC ProCredit Bank, Tbilisi, Georgia ProCredit Bank A.D., Skopje, North Macedonia ProCredit Bank A.D. Belgrade, Belgrade, Serbia Member of the management boards of: ProCredit Bank AG, Frankfurt am Main, Germany ProCredit Reporting DOOEL, Skopje, North Macedonia
Dr Gabriel Schor	Member of the supervisory boards of: Banco ProCredit S.A., Quito, Ecuador (Chair) ProCredit Bank AG, Frankfurt am Main, Germany (Chair) ProCredit Bank Sh. a, Pristina, Kosovo (Chair)

Mr Hubert Spechtenhauser was appointed as a member of the Management Board of ProCredit General Partner AG on 11 February 2022, with effect from 1 March 2022.

(24) Additional Notes

The personally liable general partner of ProCredit Holding is ProCredit General Partner AG, head-quartered 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 2021 was 127 (49 males, 78 females). The total number of staff members at 31 December 2020 was 131.

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

(25) Events after the reporting period

At the end of February 2022, the Russian military launched a full-scale invasion of Ukraine. The loss of life and damage to cities and critical infrastructure is already very high. An end to the conflict is not currently in sight. The ProCredit group stands behind its bank in Ukraine. In order to support the bank in the current situation, we think primarily in the long term, while also staying in close exchange with our bank's Management Board in order to be able to make decisions quickly in a very dynamic environment. We believe that we have an important function to perform as ProCredit in Ukraine and we trust that the international community as a whole will also act in a wise and prudent manner.

At the moment, our primary focus is on our employees in Ukraine and their families. In cooperation with employees of other ProCredit banks, we try to accommodate our Ukrainian colleagues and their families in our academies and training centres in Germany, North Macedonia and Serbia. Overall, we have several hundred beds to offer. Additional accommodations will be rented as needed. In addition, we aim to deliver urgently needed medicines to Ukraine.

At another level, our Ukrainian colleagues are trying to continue banking operations in the country as well as possible. The capital and financial position of ProCredit Bank Ukraine at the time of financial statement preparation was solid, also in stress scenarios. The bank's operationality is largely uninterrupted. Employees of ProCredit Bank Ukraine are currently working from various locations inside and outside Ukraine. In doing so, they have access to the bank's systems. In coordination with the Ukrainian central bank, we have granted our Ukrainian customers a 30-day moratorium. The databases essential for the banking business were secured by our group-internal software company, Quipu, on servers in Germany. Payment orders have thus far been processed in a timely manner. Card payments are also processed by Quipu outside Ukrainian territory. The bank's reporting system is also functional. As far as circumstances allow, we will maintain close contact with our borrowers and deposit customers via digital communication channels. It is above all the long-term relationships between our experienced staff and our customers that help us to respond to the current situation.

Due to the very dynamic overall situation in Ukraine, the impact of this non-adjusting event on our group cannot be estimated precisely at the present time. It can be assumed that the conflict will also lead to increased payment defaults and a reduction of collateral at ProCredit Bank Ukraine. ProCredit Bank Ukraine contributes around 13% to the group's loan portfolio. The equity (net book value) of ProCredit Bank Ukraine according to IFRS amounts to EUR 129.9 million as of 31 December 2021. In addition, ProCredit Holding and ProCredit Bank Germany have outstanding receivables of EUR 45.1 million and guarantees, to be claimed in the case of war, of EUR 3.7 million with ProCredit Bank Ukraine. In view of the current situation, we have updated our stress tests to simulate the effect of expropriation and a full write-down of the aforementioned consolidated net carrying amounts, as well as analysing additional scenarios with significant adverse economic developments in other ProCredit banks, in particular those in the Eastern Europe segment. In all scenarios, the group's financial position and regulatory capital situation is solid, without taking capital-strengthening measures into account. In the stress scenarios, the financial performance is negative only in the first year and develops positively in the years thereafter. With regard to the financial position, the stress scenarios indicate that there could be a shortfall that would have to be covered by additional funding measures (see also the "Liquidity and funding risk" section of the risk report and note 1 to the consolidated financial statements).

The ProCredit group's operations are spread across a total of 12 banks, with the majority of our assets not directly impacted by the events in Ukraine. ProCredit Holding has implemented risk management structures to ensure a sound capacity to assess and respond to group-relevant risks that may arise from the situation in Ukraine and from further sanctions. In view of the current situation, probabilities of default are expected to increase, particularly in the Eastern Europe segment. The sanctions against the Russian Federation have no significant direct impact on the ProCredit group. Moreover, our banks only have a limited number of clients who rely on trade with the Russian Federation.

In the current situation, a potential expansion of the military conflict with effects beyond the assumptions in these stress scenarios is a significant risk factor for our banks, especially for the ProCredit banks in the Eastern Europe segment, as well as for the financial position and financial performance of the group. In addition, a tightening or long-term continuation of sanctions against the Russian Federation could have a material impact on international markets and lead to, among other things, a substantial increase in inflation in the countries where we operate and in funding costs for the ProCredit group. Country risks could increase in the wake of political tensions, and the national currencies of the countries in which we operate, especially those not pegged to the euro, could depreciate.

Frankfurt am Main, 22 March 2022

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

Management Board

Dr Gian Marco Felice | Sandrine Massiani | Dr Gabriel Schor | Hubert Spechtenhauser

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, 22 March 2022

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

Management Board

Dr Gian Marco Felice | Sandrine Massiani | Dr Gabriel Schor | Hubert Spechtenhauser

Annex 1: Statement of changes in fixed assets

in EUR	Acquisition cost					Accumulated depreciation					Net book values	
	as of 1.1.2021	Additions	Disposals	Reclassifi-cations	as of 31.12.2021	as of 1.1.2021	Additions	Disposals	Reclassifi-cations	as of 31.12.2021	as of 31.12.2021	as of 31.12.2020
I. Intangible fixed assets												
1. Trademarks and software	1,330,367	0	0	0	1,330,367	1,327,191	929	0	0	1,328,120	2,247	3,176
II. Tangible fixed assets												
1. Land and buildings	5,319,063	0	-5,319,063	0	0	3,223,387	116,115	-3,339,502	0	0	0	2,095,676
2. Other equipment, operating and office equipment	1,607,134	73,012	-177,544	6,034	1,508,637	1,222,551	129,542	-170,363	0	1,181,731	326,906	384,583
3. Prepayments on tangible assets and construction in progress	6,034	0	0	-6,034	0	0	0	0	0	0	0	6,034
	8,262,599	**73,012**	**-5,496,607**	**0**	**2,839,004**	**5,773,129**	**246,586**	**-3,509,865**	**0**	**2,509,851**	**329,154**	**2,489,469**
III. Long-term financial assets												
1. Shares in affiliated companies	716,123,490	34,790,001	0	0	750,913,491	115,602,188	2,783,189	0	8,708,100	109,677,277	641,236,214	600,521,302
2. Loans to affiliated companies	490,428,999	24,881,252	-99,959,643	0	415,350,608	0	0	0	0	0	415,350,608	490,428,999
3. long-term securities	1,297,784	871,942	0	0	2,169,726	0	0	0	0	0	2,169,726	1,297,784
4. Other loans	1,042,623	0	0	0	1,042,623	686,787	355,836	0	0	1,042,623	0	355,836
	1,208,892,896	**60,543,194**	**-99,959,643**	**0**	**1,169,476,448**	116,288,975	3,139,025	0	8,708,100	110,719,900	1,058,756,548	1,092,603,921
Total fixed assets	**1,217,155,495**	**60,616,206**	**-105,456,249**	**0**	**1,172,315,452**	**122,062,105**	**3,385,611**	**-3,509,865**	**8,708,100**	**113,229,751**	**1,059,085,701**	**1,095,093,390**

Annex 2: Share ownership

The two non-material subsidiaries – ProCredit Reporting DOOEL, North Macedonia, and Pro Energy L.L.C., 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.	Tirana, Albania	38,698	-12,297	612	100.0
2	ProCredit Bank d.d.	Sarajevo, Bosnia and Herzegovina	47,015	-11,163	1,177	100.0
3	ProCredit Bank (Bulgaria) E.A.D.	Sofia, Bulgaria	120,747	47,015	19,553	100.0
4	Banco ProCredit S.A.	Quito, Ecuador	38,375	9,516	244	100.0
5	JSC ProCredit Bank	Tbilisi, Georgia	71,538	-5,891	11,109	100.0
6	ProCredit Bank AG	Frankfurt/Main, Germany	75,000	5,523	1,464	100.0
7	ProCredit Academy GmbH	Fürth/Weschnitz, Germany	500	94	0	100.0
8	Quipu GmbH	Frankfurt/Main, Germany	1,000	6,678	-742	100.0
9	ProCredit Bank Sh.a	Pristina, Kosovo	66,061	10,108	17,446	100.0
10	ProCredit Bank A.D.	Skopje, North Macedonia	16,000	32,569	3,020	100.0
11	ProCredit Regional Academy Eastern Europe dooel	Veles, North Macedonia	1,202	318	-190	100.0
12	BC ProCredit Bank S.A.	Chisinau, Moldova	25,099	3,765	4,112	100.0
13	ProCredit Bank S.A.	Bucharest, Romania	60,534	-21,541	1,823	100.0
14	ProCredit Bank a.d. Belgrade	Belgrade, Serbia	80,786	62,742	4,068	100.0
15	JSC ProCredit Bank	Kiev, Ukraine	83,785	22,342	23,736	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 statement of financial position as at 31 December 2021, the statement of profit or loss for the financial year from 1 January to 31 December 2021, and notes to the annual financial statements, including a summary of significant accounting policies.

In addition, we have audited the combined management report of ProCredit Holding AG & Co. KGaA and the Group (combined management report) for the financial year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of those components of the combined management report mentioned in the “Other Information”.

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 Code applicable to stock corporations [Handelsgesetzbuch: German Commercial Code] and give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 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 mentioned in the “Other Information”.

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

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the 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 2021. 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.

Below, we describe what we consider to be the key audit matters:

1. Impact of the russian invasion of ukraine on the company's going concern assumption

Description of matter

Management is responsible for the preparation of the annual financial statements on a going concern basis unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

In the notes to the annual financial statements as of 31 December 2021, in section "1) Basis of accounting" and in section "25) Events after reporting period", the financial impact of the Russian invasion of Ukraine is reported, which is a non-adjusting event that does not have to be taken into account in the annual financial statements as at 31 December 2021.

Notwithstanding this, when preparing the annual financial statements, a non-adjusting event after the balance sheet date must also be included in the assessment of the appropriateness of the going concern assumption.

Management has determined that in a stress scenario in which JSC ProCredit Bank, Kiev/Ukraine, is expropriated, a write-off of the entire investment value (of EUR 82.3 Mio. as at 31 December 2021) as well as the outstanding receivables (of EUR 30.1 Mio. as at 31 December 2021) from JSC ProCredit Bank, Kiev/Ukraine is required, and further guarantees given (of EUR 3.7 Mio.) become due, the equity of the company of EUR 529.3 Mio. as at 31 December 2021 will not be consumed.

With regard to the liquidity situation of the company, assuming the occurrence of a material event of default of JSC ProCredit Bank, Kiev/Ukraine, the liquidity planning of ProCredit Holding AG & Co. KGaA has taken into consideration that special termination rights of creditors of the company will become effective and that the exercise of these rights will result in a liquidity shortfall at the level of ProCredit Holding AG & Co. KGaA that has to be covered by additional financing measures. Since, in the Company's opinion, no special termination right due to a material event of default has yet become effective, because measures have already been taken to mitigate the liquidity risk as descripted, in particular negotiations on new financing capacities, and because, as of today time, management does not have any indication that the necessary financing measures to mitigate the liquidity risk cannot be implemented, the legal representatives have prepared the annual financial statements on the going concern assumption.

In assessing the appropriateness of the going concern assumption, management had to make complex judgments, in particular with regard to the conditions for the special termination rights to take effect and other assumptions, in particular with regard to the feasibility of planned financing measures, due to the current constantly changing situation. In light of these complex judgements, we consider the assessment of the appropriateness of the going concern assumption by management as a key audit matter.

Information on the judgement of management is provided in the section "1) Basis of accounting" and in the section "25) Events after the reporting period" in the notes and in the section "Liquidity and funding risk" of the risk report in the combined management report.

Auditor's response
In order to gain an understanding of the situation of JSC ProCredit Bank, Kiev/Ukraine, we first obtained an overview of the risk management and reporting structures implemented on the occasion of the events after the reporting period. Up to the date of completion of our audit, we reviewed the regular (working day) reporting of the Company to the German Federal Financial Supervisory Authority (BaFin) as well as the extraordinary reporting of management to the Supervisory Board on the development of the situation of JSC ProCredit Bank, Kiev/Ukraine, since 24 February 2022. In addition, we received explanations and risk-oriented evidence on the situation of JSC ProCredit Bank, Kiev/Ukraine. We also compared the evidence obtained with generally available external information on the war in Ukraine and measures affecting financial institutions.

We then assessed the consistency of the financial impacts identified under the different stress scenarios, in particular in the liquidity planning, and the methodology used. We also verified data used to the audited annual financial statements.

We have obtained a legal opinion from a law firm commissioned by management with regard to the question of whether, at the time our audit was completed, the conditions for a special termination right already existed, in particular for the debt securities of ProCredit Holding AG & Co. KGaA. We have assessed this opinion in consultation with our internal legal experts.

Finally, we inspected the recorded documents relating to meetings of management with the Supervisory Board and with the German Financial Supervisory Authority (BaFin) and, in particular, reviewed the planned financing measures recorded in the meeting documents. On this basis, we have assessed whether - in order to be able to react in a timely manner in the event that the special termination rights are exercised - precautionary financing measures have already been initiated, and whether these are suitable and sufficient to eliminate any liquidity shortfall.

2. Valuation of shares in affiliated companies

Description of matter
In the annual financial statements as at 31 December 2021, investments in affiliated companies amounting to EUR 641 Mio. (55.0 % of total assets) are reported under financial assets. Investments in affiliated companies

are measured at cost or, in the event of an impairment that is expected to be permanent, at the lower fair value, provided that the reason for this has not ceased to exist.

The impairment test is performed for each affiliated companies. As part of the impairment test, a comparison is made as to whether the carrying amount of the investment is lower than the fair value at the reporting date. The fair value of the shares is determined using the discounted cash flow method on the basis of the present value of future cash flows. The discounting is based on the weighted average cost of capital of the respective affiliated company. The result of this valuation depends to a large extent on the estimation of future cash flows by management and on the discount rates used in each case. The valuation is therefore subject to significant uncertainties. In light of these and due to the high complexity of the process as well as the materiality of the shares in affiliated companies, this is a key audit matter.

Information on the valuation of shares in affiliated companies is provided in the section "B.2 Shares in affiliated companies" in the notes to the annual financial statements.

Auditor's response
We performed a risk assessment in relation to the shares in affiliated companies held by the Company. We obtained an understanding of the valuation process as part of our audit procedures on the internal control system. In doing so, we assessed - with the involvement of our BDO internal valuation specialists - the methodical procedure for carrying out the impairment test under German commercial code, including the determination procedure for calculating the cost of capital used for discounting.

We assessed the appropriateness of the significant assumptions, in particular by reconciling them with general and industry-specific market expectations, for a risk-oriented conscious selection, and compared the future cash flows used in the calculation of the fair values with the approved planning of the respective affiliated company. In doing so, we also assessed the appropriate consideration of the effects of the Corona pandemic in the planning calculations.

We investigated intensively with parameters used to determine the discount rates and traced their mathematical derivation, knowing that even relatively small changes in the discount rates used can have a significant impact on the amount of the calculated share values.

We then verified the arithmetical correctness of the calculation of the fair values of the shares in affiliated companies and the accounting recognition of the value adjustments determined.

Other Information
Management respectively the Supervisory Board are responsible for the other information. The other information comprises

- 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
- Human Resources Report in the combined management report

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 information in the combined management report audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to stock corporations and that the annual financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the company. In addition, management is responsible for such internal control as they 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 unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the 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 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 skepticism 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 the Assurance in accordance with Section 317 (3a) HGB on the Electronic Rendering of the Annual Financial Statements and the Combined Management Report Prepared for Publication Purposes

Opinion

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the electronic rendering of the annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, "PCH_JA_2021.zip" (SHA256-Hashwert: 1104eab277846c3cc6df1814b5216a6853ccf834e96715c29a4d33552581ea41) 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 rendering nor any other information contained in the above-mentioned electronic file.

In our opinion, the rendering of the annual financial statements and the combined group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this rendering 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 to 31 December 2021, contained in the "Report on the Audit of the Annual Financial Statements and of the Combined Management Report" above.

Basis for the opinion

We conducted our assurance work of the rendering of the annual financial statements and the combined group management report contained in the above-mentioned electronic file in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes (IDW AsS 410 (October 2021)). 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).

Responsibilities of Management and the Supervisory Board for the ESEF documents

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

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

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

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

Auditor's Responsibilities for the assurance work on the ESEF documents
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 skepticism 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 rendering 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 at the annual general meeting on 27 May 2021. We were engaged by the Supervisory Board on 25 October 2021. We have been the auditor of ProCredit Holding AG & Co. KGaA since financial year 2021.

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

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

- review in accordance with Section 115 of the German Securities Trading Act [WpHG] of the condensed interim financial statements as at 30 June 2021
- review in accordance with Section 115 of the German Securities Trading Act [WpHG] of the condensed interim financial statements as at 30 September 2021
- issue of 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 Björn Grunwald.

Frankfurt am Main, 23 March 2021

BDO AG
Wirtschaftsprüfungsgesellschaft

Dr. Faßhauer	Grunwald
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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.

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