DISCLOSURE REPORT

2020

FOR THE GRENKE GROUP PURSUANT TO ARTICLES 431 THROUGH 455 OF REGULATION (EU) NO. 575/2013

GRENKE

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1. Scope of application

The publication of this disclosure report as of the reporting date of December 31, 2020 is made in accordance with the regulatory requirements of the Basel III framework of Regulation (EU) No. 575/2013 (CRR) Articles 431 to 455, which came into force on January 1, 2014.

In 2009, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) granted GRENKE AG permission to derive the regulatory scope of consolidation from the scope of consolidation used in the consolidated financial statements under commercial law. The group of companies taken into account thus includes all companies with a direct majority shareholding in Germany and abroad as well as potentially controlled parts of companies without a direct shareholding. In the course of coordinating with BaFin at the time regarding the scope of consolidation, it was agreed that changes to the scope of consolidation, such as those made in the reporting year through the integration of the franchise companies, would be reported to BaFin without delay.

GRENKE AG is the parent company of a group of institutions as defined by Sections 10a and 25a of the German Banking Act (Kreditwesengesetz – KWG), which means that the GRENKE AG Group is also a financial holding company in accordance with Section 1 (35) KWG in conjunction with Article 4 (1) No. 20 of the Capital Requirements Regulation (CRR). The GRENKE Group also has a credit institution as a subsidiary, GRENKE BANK AG. Both the GRENKE Group and GRENKE BANK AG are subject to the regulatory provisions of CRR and the Capital Requirements Directive (CRD IV) as well as KWG.

In addition to the GRENKE Group and GRENKE BANK AG, the financial services institutions GRENKEFACTORING GmbH and GRENKE Investitionen Verwaltungs KGaA are also subject to the requirements of KWG and supervision of BaFin and the Deutsche Bundesbank at the level of individual institutions. For these financial services institutions, GRENKE AG has made use of the waiver regulation in accordance with Section 2 a (1) or (2) KWG in conjunction with Section 2 a (5) KWG.

2. Regulatory scope of consolidation

The following table provides an overview of the fully consolidated companies in the GRENKE AG Group's scope of consolidation under commercial and regulatory law as of the end of financial years 2020 and 2019. In the reporting year, a reassessment of the criteria for defining the scope of consolidation under commercial law as defined by IFRS 10 was made for franchise companies that were not previously consolidated. Due to this reassessment, the franchise companies are now considered controlled companies and are therefore fully consolidated. As a result, the 13 currently existing franchise companies have now been retroactively included in GRENKE AG's scope of consolidation under commercial law and therefore within the scope of consolidation under regulatory law from the commencement of business operations. In addition, a memorandum of understanding was concluded between GRENKE AG and the financial investors of the franchise companies in December 2020, under which the parties agreed that the shares of all franchise companies shall be acquired by December 31, 2021. The distinction made in previous years between the GRENKE Consolidated Group, i.e. GRENKE AG including its subsidiaries and the structured entities, and the GRENKE Group, defined as the Consolidated Group including the franchise partners, was rendered obsolete by the full consolidation of the franchise companies.

Table 1: Subsidiaries and structured entities

Name	Registered office	Equity interest Dec. 31, 2020 in %	Equity interest Dec. 31, 2019 in %
DOMESTIC			
GRENKE Service AG	Baden-Baden	100	100
GRENKE Investitionen Verwaltungs Kommanditgesellschaft auf Aktien	Baden-Baden	100	100
GRENKE BANK AG	Baden-Baden	100	100
GRENKEFACTORING GmbH	Baden-Baden	100	100
GRENKE Business Solutions GmbH Co. KG	Baden-Baden	100	100
GRENKE MANAGEMENT SERVICES GmbH	Baden-Baden	100	100
GRENKE digital GmbH	Karlsruhe	100	100

Name	Registered office	Equity interest Dec. 31, 2020 in %	Equity interest Dec. 31, 2019 in %
INTERNATIONAL			
GRENKELEASING s.r.o.	Prague / Czechia	100	100
GRENKE ALQUILER S.L.	Barcelona / Spain	100	100
Grenkefinance N.V.	Vianen / Netherlands	100	100
GRENKE RENT S.L.	Madrid / Spain	100	100
GRENKELEASING AG	Zurich / Switzerland	100	100
GRENKELEASING GmbH	Vienna / Austria	100	100
GRENKELEASING ApS	Herlev / Denmark	100	100
GRENKE LIMITED	Dublin / Ireland	100	100
GRENKE Finance Plc.	Dublin / Ireland	100	100
GRENKE LOCATION SAS	Schiltigheim / France	100	100
GRENKE Locazione S.r.l.	Milan / Italy	100	100
GRENKELEASING AB	Stockholm / Sweden	100	100
GRENKE LEASE SRL / BV	Brussels / Belgium	100	100
Grenke Leasing Ltd.	Guildford / Great Britain	100	100
GRENKELEASING Sp.z.o.o.	Poznan / Poland	100	100
GRENKELEASING Magyarország Kft.	Budapest / Hungary	100	100
Grenke Renting S.R.L.	Bucharest / Romania	100	100
GRENKE RENTING S.A.	Lisbon / Portugal	100	100
GRENKELEASING s.r.o.	Bratislava / Slovakia	100	100
GRENKELEASING Oy	Vantaa / Finland	100	100
GRENKELOCATION SARL	Munsbach / Luxembourg	100	100
GRENKEFACTORING AG	Basel / Switzerland	100	100
GRENKELEASING d.o.o.	Ljubljana / Slovenia	100	100
GRENKE Kiralama Ltd Sti.	Istanbul / Turkey	100	100
GRENKE RENTING LTD.	Sliema / Malta	100	100
GC Locação de Equipamentos LTDA.	São Paulo / Brazil	100	100
GRENKE LOCAÇÃO DE EQUIPAMENTOS LTDA.	São Paulo / Brazil	100	100
GC Leasing Middle East FZCO	Dubai / UAE	100	100
GRENKE Hrvatska d.o.o.	Zagreb / Croatia	100	100
FCT “GK”-COMPARTMENT “G2”	Pantin / France	100	100
FCT “GK”-COMPARTMENT “G3”	Pantin / France	0	0
FCT “GK”-COMPARTMENT “G4”	Pantin / France	100	100
Opusalpha Purchaser II Limited	Dublin / Ireland	0	0
Kebnekaise Funding Limited	St. Helier / Jersey	0	0
CORAL PURCHASING (IRELAND) DAC	Dublin / Ireland	0	0
GF Faktor Zrt.	Budapest / Hungary	0	0
GC Factoring Ltd.	London / Great Britain	0	0
GC Crédit-Bail Québec Inc.	Montréal / Canada	0	0
GC Leasing Ontario Inc.	Toronto / Canada	0	0
GL Leasing British Columbia Inc.	Vancouver / Canada	0	0
GC Rent Chile SpA	Santiago de Chile / Chile	0	0
GC Lease Singapore Pte Ltd	Singapore / Singapore	0	0
GC Factoring Ireland Limited	Dublin / Ireland	0	0
GC LEASING MELBOURNE PTY LTD	Melbourne / Australia	0	0
GC LEASING SYDNEY PTY LTD	Sydney / Australia	0	0
GC Faktoring Polska Sp.z.o.o.	Poznan / Poland	0	0
SIA GC Leasing Baltic	Riga / Latvia	0	0
GC Leasing AZ L.L.C.	Phoenix / USA	0	0

As a listed parent company that uses an organised market as defined by Section 2 (11) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), GRENKE AG has prepared its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRS) in accordance with Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB). The consolidated financial statements comply with IFRS as published by the International Accounting Standards Board (IASB).

3. Own funds

The following chapter contains information on the GRENKE Group's own funds calculated and reported as of the reporting date of December 31, 2020 in accordance with the requirements of KWG and Regulation (EU) No. 575/2013 CRR in conjunction with the relevant delegated regulations of the European Commission and the supplementary national legal regulations. The total own funds according to Article 25 et seq. CRR amounted to EUR 1'031 million as of the reporting date of the 2020 financial year (previous year: EUR 941 million[1]). Of this amount, EUR 831 million is attributable to Common Equity Tier 1 capital. The hybrid bonds issued by GRENKE AG meet the requirements of Article 52 et seq. Regulation 575/2013 (CRR) and can therefore be recognised as instruments of Additional Tier 1 capital at Group level. There is no Tier 2 capital. As of December 31, 2020, the total regulatory own funds of the GRENKE Group were comprised as follows:

Table 2: Own funds

	Equity based on consolidated financial statements as of Dec. 31, 2020 in EURk	Own funds on the basis of Regulation (EU) No. 575/2013 (CRR) as of Dec. 31, 2020 in EURk	Reference to Article Regulation (EU) No. 575/2013
Common Equity Tier 1 (CET1): Instruments and reserves			
Capital instruments and related premiums	335'668	335'668	26 (1), 27, 28, 29
of which: Share capital	46'354	46'354	EBA list pursuant to Article 26 (3)
of which: Capital reserves	289'314	289'314	EBA list pursuant to Article 26 (3)
Retained earnings	675'201	581'535	26 (1) c)
of which: Retained earnings	255'930	255'930	26 (1) c)
of which: Unappropriated profit	419'270	325'604	26 (1) c)
Accumulated other comprehensive income (and other reserves)	–1'507	–1'507	26 (1)
Funds for general banking risks			26 (1) (f)
Amount of the items referred to in Article 484 (3) plus related share premium accounts subject to phase out from CET1			486 (2)
Minority interests (permissible amount in consolidated CET1)			84, 479, 480
Independently reviewed interim profits net of any foreseeable charges or dividends			26 (2)
Common Equity Tier 1 (CET1) before regulatory adjustments	**1'009'361**	**915'695**	

[1] Figures correspond to the regulatory scope of consolidation before integration of the franchisees.

	Equity based on consolidated financial statements as of Dec. 31, 2020 in EURk	Own funds based on Regulation (EU) No. 575/2013 (CRR) as of Dec. 31, 2020 in EURk	Reference to Article Regulation (EU) No. 575/2013
Common Equity Tier 1 (CET1): Regulatory adjustments			
Additional value adjustments (negative amount)		–33	34, 105
Intangible assets (net of related tax liabilities) (negative amount)	(–68'717)	–68'717	36 (1) (b), 37, 472 (4)
In the EU:			
Deferred tax assets dependent on future profitability, except those resulting from temporary differences (net of related tax liabilities if the conditions of Article 38 (3) are met) (negative amount)	(–15'542)	–15'542	36 (1) c), 38, 472 (5)
Fair value reserves from gains or losses from cash flow hedges			33 (1) (a)
Negative amounts resulting from the calculation of expected loss amounts			36 (1) (d), 40, 159, 472 (6)
Increase in equity resulting from securitised assets (negative amount)			32 (1)
Gains or losses on liabilities measured at fair value from changes in own credit rating			33 (1) (b)
Exposure amount of the following items which qualify for a risk weight of 1'250 percent, where the institution deducts that exposure amount from the amount of Common Equity Tier 1 capital			36 (i) (k)
of which: Qualifying holdings outside the financial sector (negative amount)			36 (1) (k) (i), 89 to 91
of which: Securitisation positions (negative amount)			36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
of which: Free deliveries (negative amount)			36 (1) (k) (iii), 379 (3)
Deferred tax assets depending on future profitability resulting from temporary differences (above the 10 percent threshold net of related tax liabilities if the conditions of Article 38 [3] are met) (negative amount)			36 (1) c), 38, 48 (1) (a)
Losses for the current financial year (negative amount)			36 (1) (a), 472 (3)
Total regulatory adjustments to Common Equity Tier 1 capital (CET1)		**–84'292**	
Common Equity Tier 1 (CET1)		**831'403**	
Additional Tier 1 capital (AT1): Instruments			
Additional Tier 1 capital (AT1) before regulatory adjustments	**200'000**	**200'000**	
Additional Tier 1 capital (AT1): Regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital (AT1)			
Additional Tier 1 capital (AT1)		**200.000**	
Tier 1 capital (T1 = CET1 + AT1)		**1.031.403**	
Tier 2 capital (T2): Instruments and reserves			
Tier 2 capital (T2) before regulatory adjustments			

	Equity based on consolidated financial statements as of Dec. 31, 2020 in EURk	Own funds based on Regulation (EU) No. 575/2013 (CRR) as of Dec. 31, 2020 in EURk	Reference to Article Regulation (EU) No. 575/2013
Tier 2 capital (T2): Regulatory adjustments			
Total regulatory adjustments to Tier 2 capital (T2)			
Tier 2 capital (T2)			
Total capital (TC = T1 + T2)		**1'031'403**	
Total risk-weighted assets		**6'118'207**	
Capital ratios and buffers			
Common Equity Tier 1 ratio (as a percentage of total risk exposure amount)		13.59	92 (2) (a), 465
Tier 1 ratio (as a percentage of total risk exposure amount)		16.86	92 (2) (b), 465
Total capital ratio (as a percentage of total risk exposure amount)		16.86	92 (2) c)
Institution-specific capital buffer requirement (minimum CET1 ratio requirement under Article 92 (1) (a), plus the requirements for capital conservation and countercyclical capital buffers, systemic risk buffer and buffers for systemically relevant institutions, expressed as a percentage of total risk exposure amount)		7.00	CRD 128, 129, 130, 131, 133
of which: Capital conservation buffer		152'955	
of which: Countercyclical capital buffer		43	
of which: Systemic risk buffer			
of which: Buffer for global systemically relevant institutions (G-SRI) or other systemically relevant institutions (A-SRI)			CRD 131
Common Equity Tier 1 available to meet buffers (expressed as a percentage of total risk exposure amount)		0.17	CRD 128

Own funds consist of Common Equity Tier 1 capital (CET1 capital) and Additional Tier 1 capital (AT1 capital). The CET1 capital essentially consists of the share capital and the reserves. The existing subordinated bonds are allocated to AT1 capital. No items are allocated to Tier 2 capital (T2).

As a financial holding company in accordance with Article 4 (1) No. 20 CRR, the GRENKE Group must also comply with the requirements of CRR at the consolidated level. The reporting obligations include the determination of the total capital ratio in accordance with the requirements of Parts II and III of CRR.

Pursuant to Section 10 d KWG, the countercyclical capital buffer must be maintained above and beyond the minimum capital requirements stipulated in Article 92 (1) CRR. The transitional provisions for the countercyclical capital buffer are laid down in Section 64 r (5) KWG. The maximum limit of this buffer of 2.5 percent has been introduced in four 25% steps annually since 2016. As only a few countries have published a countercyclical capital buffer to date, the capital requirements in this area are significantly below the prescribed maximum limits. As of December 31, 2020, the required amount of combined capital buffer to be maintained was EUR 152'998k. In addition, an individual SREP capital surcharge of 1 percent was imposed in the reporting year.

Presented below are the main criteria for the capital instruments of shares and hybrid bonds.

Table 3: Capital instrument: Shares (main features of capital instruments – shares)

No.	Feature	Instrument
1	Issuer	GRENKE AG
2	Uniform identifier (e.g. CUSIP; ISIN or Bloomberg symbol for private placement)	DE000A161N30
3	Law applicable to the instrument	German legislation
	Regulatory treatment	
4	CRR transitional provisions	Common Equity Tier 1 capital
5	CRR regulations after the transition period	Common Equity Tier 1 capital
6	Eligible at individual / group / individual and group level	Group level
7	Instrument type (types to be specified by each country)	Shares
8	Amount eligible for regulatory capital (currency in millions, as of last reporting date)	46.4
9	Nominal value of the instrument	EUR 1.00
9a	Issue price	Various
9b	Redemption price	n/a
10	Accounting classification	Subscribed capital / share capital
11	Original issue date	Various
12	Perpetual or with expiry date	Perpetual
13	Original due date	n/a
14	Callable by issuer with prior approval of supervisory authority	No
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates and redemption amount	n/a
	Coupons / Dividends	
17	Fixed or variable dividend / coupon payments	Variable
18	Nominal coupon and any reference index	n/a
19	Existence of a “dividend stopper”	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of a step-up clause or other repayment incentive	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or not convertible	Not convertible
24	If convertible: Conversion trigger	n/a
25	If convertible: In whole or in part	n/a
26	If convertible: Conversion ratio	n/a
27	If convertible: Conversion mandatory or optional	n/a
28	If convertible: Type of instrument converted into	n/a
29	If convertible: Issuer of the instrument converted into	n/a
30	Write-down features	n/a
31	If write-down: Write-down trigger	n/a
32	If write-down: Full or partial	n/a
33	If write-down: Permanent or temporary	n/a
34	If temporary write-down: Write-up mechanism	n/a
35	Position in subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	n/a
36	Non-compliant features of the converted instruments	n/a
37	Where appropriate, specify non-compliant features	n/a

Table 4: Capital instrument: hybrid bond (main features of capital instruments – at 1 instruments)

No.	Feature	Instrument
1	Issuer	GRENKE AG
2	Uniform identifier (e.g. CUSIP; ISIN or Bloomberg symbol for private placement)	XS1262884171
3	Law applicable to the instrument	German legislation
	Regulatory treatment	
4	CRR transitional provisions	Additional Tier 1 capital
5	CRR regulations after the transition period	Additional Tier 1 capital
6	Eligible at individual / group / individual and group level	Group level
7	Instrument type (types to be specified by each country)	Subordinated bond
8	Amount eligible for regulatory capital (currency in millions, as of last reporting date)	50
9	Nominal value of the instrument (in EUR millions)	30 (in 2015) Additional 20 (in 2016)
9a	Issue price	100% (in 2015) Additional at 103% (in 2016)
9b	Redemption price	Regular 100% (exception: Write-down event)
10	Accounting classification	Liabilities – amortised cost
11	Original issue date	July 22, 2015 and December 20, 2016
12	Perpetual or with expiry date	Perpetual
13	Original due date	No maturity
14	Callable by issuer with prior approval of supervisory authority	Yes
15	Optional call date, contingent call dates and redemption amount	March 31, 2021 Call option at any time (in full) with notice at no earlier than 30 days and no longer than 60 days. Repayment at nominal amount subject to the approval of the competent supervisory authority
16	Subsequent call dates and redemption amount	Each calendar year after March 31, 2021
	Coupons / Dividends	
17	Fixed or variable dividend / coupon payments	Fixed
18	Nominal coupon and any reference index	8.25% p.a.
19	Existence of a “dividend stopper”	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of a step-up clause or other repayment incentive	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or not convertible	Not convertible
24	If convertible: Conversion trigger	n/a
25	If convertible: In whole or in part	n/a
26	If convertible: Conversion ratio	n/a
27	If convertible: Conversion mandatory or optional	n/a
28	If convertible: Type of instrument converted into	n/a
29	If convertible: Issuer of the instrument converted into	n/a
30	Write-down features	Yes
31	If write-down: Write-down trigger	Common Equity Tier 1 ratio
32	If write-down: Full or partial	Full or partial
33	If write-down: Permanent or temporary	Temporary
34	If temporary write-down: Write-up mechanism	Write-up dependent on the Common Equity Tier 1 ratio
35	Position in subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	Subordinated liabilities of third-party creditors
36	Non-compliant features of the converted instruments	No
37	Where appropriate, specify non-compliant features	n/a

Table 5: Main features of capital instruments – at 1 instruments

No.	Feature	Instrument
1	Issuer	GRENKE AG
2	Uniform identifier (e.g. CUSIP; ISIN or Bloomberg symbol for private placement)	XS1689189501
3	Law applicable to the instrument	German legislation
	Regulatory treatment	
4	CRR transitional provisions	Additional Tier 1 capital
5	CRR regulations after the transition period	Additional Tier 1 capital
6	Eligible at individual / group / individual and group level	Group level
7	Instrument type (types to be specified by each country)	Subordinated bond
8	Amount eligible for regulatory capital (currency in millions, as of last reporting date)	75
9	Nominal value of the instrument (in EUR millions)	75
9a	Issue price	100%
9b	Redemption price	Regular 100% (exception: Write-down event)
10	Accounting classification	Liabilities – amortised cost
11	Original issue date	September 27, 2017
12	Perpetual or with expiry date	Perpetual
13	Original due date	No maturity
14	Callable by issuer with prior approval of supervisory authority	Yes
15	Optional call date, contingent call dates and redemption amount	March 31, 2023 Call option at any time (in full) with notice no earlier than 30 days and no longer than 60 days. Repayment at nominal amount subject to the approval of the competent supervisory authority
16	Subsequent call dates and redemption amount	Each calendar year after March 31, 2023
	Coupons / Dividends	
17	Fixed or variable dividend / coupon payments	Fixed
18	Nominal coupon and any reference index	7.000% p.a.
19	Existence of a “dividend stopper”	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of a step-up clause or other repayment incentive	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or not convertible	Not convertible
24	If convertible: conversion trigger	n/a
25	If convertible: In whole or in part	n/a
26	If convertible: Conversion ratio	n/a
27	If convertible: Conversion mandatory or optional	n/a
28	If convertible: Type of instrument converted into	n/a
29	If convertible: Issuer of the instrument converted into	n/a
30	Write-down features	Yes
31	If write-down: Write-down trigger	Common Equity Tier 1 ratio
32	If write-down: Full or partial	Full or partial
33	If write-down: Permanent or temporary	Temporary
34	If temporary write-down: Write-up mechanism	Write-up dependent on Common Equity Tier 1 ratio
35	Position in subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	Subordinated liabilities of third-party creditors
36	Non-compliant features of the converted instruments	No
37	Where appropriate, specify non-compliant features	n/a

Table 6: Main features of capital instruments – at 1 instruments

No.	Feature	Instrument
1	Issuer	GRENKE AG
2	Uniform identifier (e.g. CUSIP; ISIN or Bloomberg symbol for private placement)	XS2087647645
3	Law applicable to the instrument	German legislation
	Regulatory treatment	
4	CRR transitional provisions	Additional Tier 1 capital
5	CRR regulations after the transition period	Additional Tier 1 capital
6	Eligible at individual / group / individual and group level	Group level
7	Instrument type (types to be specified by each country)	Subordinated bond
8	Amount eligible for regulatory capital (currency in millions, as of last reporting date)	75
9	Nominal value of the instrument (in EUR millions)	75
9a	Issue price	100%
9b	Redemption price	Regular 100% (exception: Write-down event)
10	Accounting classification	Liabilities – amortised cost
11	Original issue date	December 5, 2019
12	Perpetual or with expiry date	Perpetual
13	Original due date	No maturity
14	Callable by issuer subject to prior approval of supervisory authority	Yes
15	Optional call date, contingent call dates and redemption amount	March 31, 2026 Call option at any time (in full) with notice no earlier than 30 days and no longer than 60 days. Repayment at nominal amount subject to the approval of the competent supervisory authority
16	Subsequent call dates and redemption amount	Each calendar year after March 31, 2026
	Coupons / Dividends	
17	Fixed or variable dividend / coupon payments	Fixed
18	Nominal coupon and any reference index	5.375% p.a.
19	Existence of a “dividend stopper”	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of a step-up clause or other repayment incentive	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or not convertible	Not convertible
24	If convertible: Conversion trigger	n/a
25	If convertible: In whole or in part	n/a
26	If convertible: Conversion ratio	n/a
27	If convertible: Conversion mandatory or optional	n/a
28	If convertible: Type of instrument converted into	n/a
29	If convertible: Issuer of the instrument converted into	n/a
30	Write-down features	Yes
31	If write-down: Write-down trigger	Common Equity Tier 1 ratio
32	If write-down: Full or partial	Full or partial
33	If write-down: Permanent or temporary	Temporary
34	If temporary write-down: Write-up mechanism	Write-up dependent on the Common Equity Tier 1 ratio
35	Position in subordination hierarchy in case of liquidation (specify instrument type immediately senior to instrument)	Subordinated liabilities of third-party creditors
36	Non-compliant features of the converted instruments	No
37	Where appropriate, specify non-compliant features	n/a

The following table provides an overview of the regulatory capital requirements under CRR, broken down by risk type and, in the case of counterparty default risks, by risk position class:

Table 7: own funds requirements

EURk	Dec. 31, 2020	Dec. 31, 2019*
Own funds requirements for credit risk with central governments	–	–
Own funds requirements for credit risk with regional governments	5'279	7'838
Own funds requirements for credit risk from Exposures to institutions and corporates with a short-term credit assessment	14'301	15'109
Own funds requirements for credit risk with corporations	230'837	242'404
Own funds requirements for credit risk from retail business	116'579	119'760
Own funds requirements for credit risk from other positions	13'268	15'415
Own funds requirements for credit risk from investments	846	834
Own funds requirements for credit risk from positions associated with particularly high risks	–	–
Own funds requirements for credit risk from past due items	25'249	18'899
Total own funds requirements for credit risk	**406'359**	**420'259**
Total own funds requirements for market risk	**–**	**4'094**
Total own funds requirements for operational risk	**77'927**	**66'601**
Total own funds requirements for credit valuation adjustments	**5'170**	**4'779**
Total own funds requirements	**489'457**	**495'733**

* Figures correspond to the regulatory scope of consolidation before integration of the franchisees.

The GRENKE Group uses the Credit Risk Standard Approach (CRSA) to determine the own funds requirements for counterparty risks in accordance with Articles 111 through 141 CRR. The own funds requirements under the CRSA approach are the weighted risk positions of an institution multiplied by 8 percent. In the risk position category “central governments”, a risk weight of zero percent means that no own funds requirements exist, although corresponding risk positions exist.

As a non-trading book institution without commodities and other trading assets, the market price risk according to Article 351 CRR is determined exclusively from the overall currency position via the standard procedure. In previous years, the overall currency position mainly consisted of the guarantees issued to the franchise companies. As a result of the full consolidation of the franchise companies, there are no capital requirements as of the reporting date of December 31, 2020, as the total amount of the currency position in accordance with Article 351 CRR is less than 2 percent of the own funds and therefore does not have to be recognised.

The basic indicator approach is used to determine the equity requirements for operational risk pursuant to Article 315 CRR. The requirements are calculated as of the reporting date from the operating income before the settlement of claims and risk provision and net interest income as well as other operating income for the years 2017 to 2019.

The determination of the own funds requirements for the risk of credit valuation adjustments (CVA risk) is carried out according to the standard method pursuant to Article 384 CRR.

As of the reporting date, the GRENKE Group had a total capital ratio of 16.86 percent (previous year: 15.19 percent[2]), which is above the currently required minimum own funds ratio of 11.50 percent.

GRENKE BANK AG had a total capital ratio of 22.29 percent as of the reporting date (previous year: 25.65 percent). This ratio was also above 20 percent on the individual reporting dates at the end of each quarter, meaning that the regulatory requirements were met at all times.

[2] Figures correspond to the regulatory scope of consolidation before integration of the franchisees.

4. Countercyclical capital buffer

The countercyclical capital buffer is a macro-prudential tool of banking supervision based on the CRD IV framework. Institutions are required to hold more equity in order to better absorb potential losses in the future. The countercyclical capital buffer can amount to between 0 percent and 2.5 percent of the total risk-weighted assets and must be held in the form of Common Equity Tier 1 capital. In Germany, the level of the countercyclical capital buffer was determined by BaFin in a general ruling, taking into account any recommendations of the Financial Stability Committee. Due to the coronavirus pandemic in 2020, the domestic countercyclical capital buffer set in this general ruling at 0.25 percent, which would have had to be applied as of July 1, 2020, was set at 0 percent.

The capital requirements for the institution-specific countercyclical capital buffer are calculated by multiplying the percentage of the institution-specific countercyclical capital buffer by the total risk exposure amount under Article 92 (3) CRR. Institutions calculate the percentage of the institution-specific countercyclical capital buffer pursuant to Section 10 d (2) KWG as a weighted average of the countercyclical capital buffer ratios defined in the individual countries in which the institution’s relevant risk positions are located (Luxembourg, Norway, Slovakia, and Czechia). The relevant risk positions are defined in Section 36 of the Solvency Regulation and basically comprise positions vis-à-vis the private sector.

In order for these relevant risk positions to be weighted with the countercyclical capital buffer of their location, it is necessary to determine the location of all relevant risk positions in accordance with Delegated Regulation (EU) No. 1152/2014 of June 4, 2014. This geographical distribution of the relevant risk positions and the calculated amount of the institution-specific countercyclical capital buffer must be disclosed by institutions in accordance with Article 440 CRR in conjunction with Delegated Regulation (EU) No. 1555/2015 of May 28, 2015.

In accordance with Article 440 CRR, institutions shall disclose the geographical distribution of risk positions material to the calculation of the countercyclical capital buffer, as set out in the following table.

Table 8: Level of institution-specific countercyclical capital buffer

Position	Amount in EURk
Total risk exposure amount	6'118'207
Institution-specific CCB rate	0.001%
Own funds requirements at the institution-related CCB rate	43

Table 9: Geographical distribution of credit risk positions material for calculation of countercyclical capital buffer

	General credit risk positions in EURk	Own funds requirements in EURk		
Country	Risk exposure (SA)	of which: General credit risk positions	Weightings of own funds requirements	Ratio of the countercyclical capital buffer
Australia	52'967	4'164	1.04%	0.00%
Belgium	111'558	8'038	2.00%	0.00%
Brazil	35'483	2'489	0.62%	0.00%
Chile	24'080	1'520	0.38%	0.00%
Denmark	86'574	6'653	1.66%	0.00%
Germany	2'412'081	153'315	38.23%	0.00%
Finland	5'214	419	0.10%	0.00%
France	27'114	1'774	0.44%	0.00%
Great Britain and Northern Ireland	346'547	26'020	6.49%	0.00%
Ireland	1'369'245	82'216	20.50%	0.00%
Italy	1'213'221	77'216	19.25%	0.00%
Canada	55'681	4'142	1.03%	0.00%
Croatia	77'134	4'961	1.24%	0.00%
Latvia	2'158	129	0.03%	0.00%
Liechtenstein	9	1	0.00%	0.00%
Luxembourg	132	11	0.00%	0.50%
Malta	319	17	0.00%	0.00%
Netherlands	1'292	103	0.03%	0.00%
Norway	67	7	0.00%	1.00%
Austria	1'376	111	0.03%	0.00%
Poland	48'051	2'907	0.72%	0.00%
Portugal	6'323	509	0.13%	0.00%
Romania	4'385	482	0.12%	0.00%
Sweden	119'585	6'664	1.66%	0.00%
Switzerland	158'050	8'904	2.22%	0.00%
Singapore	14'038	1'073	0.27%	0.00%
Slovakia	2'643	191	0.05%	1.00%
Slovenia	520	42	0.01%	0.00%
Spain	70'850	4'416	1.10%	0.00%
Czechia	2'087	154	0.04%	0.50%
Turkey	19'354	1'391	0.35%	0.00%
Hungary	6'154	495	0.12%	0.00%
United Arab Emirates	6'599	473	0.12%	0.00%
United States of America	923	74	0.02%	0.00%
Total	**6'281'814**	**401'080**	**100%**	

5. Information on risk management

5.1 Risk management

The GRENKE Group's risk management takes into account the German minimum requirements for risk management (Mindestanforderungen an das Risikomanagement – MaRisk), the German banking supervisory requirements for IT (Bankaufsichtliche Anforderungen an die IT – BAIT) and other relevant pronouncements of the international regulatory authorities within a clearly defined risk management system. This covers all relevant levels of the Consolidated Group organisation and is closely coordinated with the activities of the individual divisions. In order to comply with and implement the regulatory requirements for risk management, a Group-wide risk controlling system has also been implemented that independently assesses, evaluates, monitors, communicates, and manages all material risks. The control, as well as the proof of the correct and comprehensive implementation of the regulatory requirements for risk management, are carried out annually by the audit of the internal audit.

The Risk Task Force (Arbeitskreis Risiko – AK Risk) is at the centre of the GRENKE Group's risk management. The task force consists of members of the Board of Directors and representatives from all key departments to ensure a comprehensive exchange of information. The strategic and risk policy framework for risk management is defined by the Consolidated Group's risk strategy. Within this framework, the strategic risk objectives and the resulting strategic risk appetite are defined, among other things. Information on risk strategy and risk management is provided in the Annual Report.

The risk management process is derived from the risk strategy and based on a regular cycle of risk definition, risk measurement, risk analysis, improving risk management, and risk control measures defined in the risk handbook. This process serves primarily to systematically and structurally recognise, disclose, evaluate, and document internal and external risks and opportunities within the Consolidated Group. The result is the establishment of a risk understanding, pronounced risk awareness, and transparent risk communication, which creates a solid and appropriate risk culture within the GRENKE Group. The Corporate Risk Management & Regulatory Department – the head of which exclusively assumes the risk controlling function under MaRisk – has a quality assurance function within the GRENKE Group that pertains to the establishment of the risk culture. The entire risk management process is disclosed in Chapter 7 of the management report.

At the Consolidated Group level, in addition to the risk control function, the independent functions of the Compliance Department, the anti-money laundering officer, the data protection officer, and the Chief Information Security Officer (CISO) have also been established in accordance with MaRisk. Pursuant to the regulatory requirements, the Consolidated Group has implemented internal control procedures to manage and monitor the aforementioned risks, based on the structure and operation of the relevant processes. These risks, in turn, are assessed and evaluated by Risk Controlling and independently monitored, managed, and communicated.

5.2 Risk-bearing capacity

To monitor risk-bearing capacity and ensure the Company's viability (going concern approach), the GRENKE Group uses an internal risk-bearing capacity model that contains all risk types identified as being material. This model is based on a forward-looking, rolling twelve-month view of items on the income statement and balance sheet. The areas and types of risks defined are to be limited and covered by risk coverage (RC) when contemplating risk-bearing capacity. The fundamental aim of the risk-bearing capacity model is to quantify existing risk, identify potential burdens on equity at an early stage and take the appropriate measures.

The going concern approach means that the risk-bearing capacity is designed in such a way that the going concern is ensured, even after the deduction of expected and unexpected losses at the selected level of safety and in compliance with the regulatory minimum capital requirements. The statistical safety level of 99.0 percent is used as the basis for the regulatory normal scenario and the regulatory stress scenarios.

The risk capital requirement to cover expected and unexpected losses from credit default risk and market risk is determined using quantitative models. The risk arising from operational risks is quantified using the basic indicator approach pursuant to Article 315 CRR. Refinancing and other risks are taken into account within the framework of the risk-bearing capacity calculation by means of risk buffers.

The following table shows the risk capital requirement and the degree of utilisation of the free risk cover from a going concern perspective.

Table 10: Risk-bearing capacity as of december 31, 2020

Risk status unexpected losses (EURk)	Normal scenario
Confidence level	99.0%
1 Credit risk	
Risk	368'867
Risk limit	439'000
Limit utilisation	**84%**
2 Operational risks	
Risk	87'056
Risk limit	100'000
Limit utilisation	**87%**
3 Market risks	
Risk	2'922
Risk limit	7'000
Limit utilisation	**42%**
Sum of risks 1–3	
Risk	458'844
Risk limit	546'000
Total limit utilisation	**84%**

As of the reporting date of December 31, 2020, the degree of utilisation of the free risk cover funds by the total risk position is 84 percent (December 31, 2019: 65 percent). The increased risk utilisation compared to the previous year resulted primarily from the increased overall risk as a result of applying risk premiums to the risk parameters for determining the credit risk, which primarily takes into account the regulatory requirement of an economic downturn. The risk cover amount is nevertheless sufficient to cover the risk capital requirement from the expected and unexpected risks over the risk horizon of one year.

5.2.1 Stress tests

Part of the risk-bearing capacity system is the appropriate consideration of findings from stress test assessments of the risks arising from extraordinary but possible extreme events. Risk Controlling develops classic stress scenarios (historical and hypothetical) and works out the corresponding measures, which it then proposes to the Board of Directors.

Unless otherwise defined, all scenario calculations are based on the risk calculations of the normal scenario. The result is the following utilisation rates:

Table 11: Impact of the stress tests as of december 31, 2020

Risk status of expected and unexpected losses (EURk)	Normal scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
1 Credit risk							
Risk	**368'867**	412'462	402'769	329'628	359'681	380'132	453'217
2 Operational risk							
Risk	**87'056**	136'119	92'184	90'136	92'332	94'464	113'509
3 Market risk							
Risk	**2'922**	742	20'142	2'922	2'922	4'243	4'243
Risk buffer							
4 Refinancing risks – risk buffer	11'000	11'000	11'000	11'000	11'000	11'000	20'000
5 Other risks – risk buffer	30'000	30'000	30'000	45'000	30'000	30'000	30'000
Sum of risks							
Risk	**458'844**	**590'323**	**556'096**	**478'685**	**495'936**	**519'838**	**620'969**
Free risk cover funds	**546'000**	602'403	586'750	588'473	513'963	467'080	513'335
Utilisation	**84%**	**98%**	**95%**	**81%**	**96%**	**111%**	**121%**

The inverse stress test analysis is based on the assumption that the business is not a going concern. Based on this assumption, the stress scenario level at which the business is no longer a going concern is calculated backwards. This is specifically the case if the refinancing or liquidity situation deteriorates significantly as a result of external effects.

5.3 Governing bodies

5.3.1 Supervisory board

The Supervisory Board is informed by the Board of Directors regularly, promptly, and comprehensively about all material issues relating to the business, IT and risk strategy, the risk situation, and the risk management of the GRENKE Group, among other things.

The Board of Directors informs the Supervisory Board at least once each year about the business, IT and corresponding risk strategies, and adjustments. The strategies are discussed with the Supervisory Board. In addition, the Risk Controlling informs the Supervisory Board in writing about the Consolidated Group's risk situation at least once quarterly.

The Supervisory Board is also informed of any changes in the management of Risk Controlling.

5.3.2 Board of Directors

The entire Board of Directors of the GRENKE Group is responsible for risk management. Based on the strategic business alignment and risk-bearing capacity, the Board determines the risk policy principles which, together with the limit structure, are anchored in the business and risk strategy of the GRENKE Group. In making its decisions, the Board of Directors also considers the quality of the processes and, specifically, the quality of the risk management controls.

The Board of Directors of GRENKE AG was composed as follows as of the reporting date of December 31, 2020:

- Antje Leminsky, Master of Business Administration, Baden-Baden, Germany, Chair of the Board
- Gilles Christ, Master of Business Administration, Wissembourg / France
- Sebastian Hirsch, Master of Arts, Sinzheim, Germany
- Mark Kindermann, Master of Business Administration, Bühl, Germany (until February 8, 2021)

By resolution of December 7, 2020, the Supervisory Board decided to appoint Isabel Rösler as a member of the Board of Directors, effective January 1, 2021. As Chief Risk Officer (CRO), Isabel Rösler has been responsible for the areas of reporting, risk management, compliance, money laundering prevention, and data protection since January 1, 2021. On February 8, 2021, the Supervisory Board complied with Mark Kindermann's wish to terminate his contract prematurely and resign from his Board of Directors' mandate and all other Group mandates. Mr Kindermann's resignation was preceded by a hearing letter from BaFin, in which criticism of internal audit procedures and procedural weaknesses in the area of compliance were expressed. In recent years, both areas were the responsibility of Mark Kindermann.

5.3.3 Number of management and supervisory functions held by members of the management body

Antje Leminsky is a member of the Board of Directors of GRENKE Service AG, Baden-Baden, and Cyberforum e. V. She is also a member of the Supervisory Boards of GRENKE BANK AG, Baden-Baden, Testo SE & Co. KGaA, Lenzkirch, Testo Management SE, Lenzkirch, and KF Stiftung, Lenzkirch.

Gilles Christ is Managing Director of GRENKE Management Services GmbH, Baden-Baden, and GRENKELEASING Sp.z.o.o., Poznan / Poland. He is also a member of the Supervisory Board of GRENKE Service AG, Baden-Baden.

Sebastian Hirsch is a member of the Supervisory Board of GRENKE BANK AG, Baden-Baden.

Mark Kindermann is a member of the Board of Directors of GRENKE LIMITED, Dublin / Ireland, and Chairman of the Board of Directors of GRENKE Service AG, Baden-Baden. He is also a member of the Supervisory Board of Grenkefinance N.V., Vianen / Netherlands, and GRENKE BANK AG, Baden-Baden. Mr Kindermann exercised all of his management and supervisory functions until February 8, 2021.

The following diagram shows the mandates of the Supervisory Board members of GRENKE AG:

Table 12: Supervisory board mandates

Name / Residence	Position / Profession	Other Supervisory Board / Advisory Board mandates
Prof Ernst-Moritz Lipp Baden-Baden Born 1951 First elected: 2003 Elected until the 2022 Annual General Meeting	Chair of the Supervisory Board, economist, Professor of International Finance, Managing Director of ODE-WALD & COMPAGNIE Gesellschaft für Beteiligungen mbH, and sole shareholder and Managing Director of AMA Beteiligungen GmbH	Chair of the Supervisory Board of GRENKE BANK AG, Baden-Baden
Jens Rönnberg Mainz Born 1957 First elected: 2019 Elected until the 2021 Annual General Meeting	Interim Deputy Chair of the Supervisory Board (since October 1, 2020), Master of Business Administration, self-employed auditor / tax consultant	–
Wolfgang Grenke Baden-Baden Born 1951 First elected: 2018 Elected until the 2022 Annual General Meeting	Deputy Chair of the Supervisory Board of GRENKE AG, Baden-Baden (suspended since September 21, 2020), businessman and Managing Director of WGW Investment GmbH, Vienna. Managing Director of CTP Handels- und Beteiligungs GmbH, Vienna, Sacoma AG, Switzerland, A&W Investment LTD, Malta, and Ikarus Aircharter und Handels GmbH & Co. KG, Rheinmünster. President of the Karlsruhe Chamber of Industry and Commerce, President of the Baden-Württemberg Chamber of Industry and Commerce, Vice-President at Eurochambres	Chair of the Supervisory Board of GRENKE SERVICE AG, Baden-Baden, Chair of the Supervisory Board of KSC GmbH & Co. KGaA, Karlsruhe, and member of the Supervisory Board of GRENKE BANK AG, Baden-Baden. He is also Chair of the Board of Directors of GRENKELEASING AG, Zurich / Switzerland, and GRENKE Factoring AG, Basel / Switzerland. Wolfgang Grenke's mandates within the GRENKE Group have been suspended since September 21, 2020
Claudia Karolina Krcmar Baden-Baden Born 1963 First elected: 2019 Elected until the 2021 Annual General Meeting	Member of the Supervisory Board, business economist, Managing Director of AMPIT GmbH, Baden-Baden	–
Dr Ljiljana Mitic Munich Born 1969 First elected: 2015 Elected until the 2023 Annual General Meeting	Member of the Supervisory Board, business economist, independent management consultant focused on IT, financial services and start-ups; Managing Director of Venture Value Partners GmbH	Non-Executive Director of Computacenter plc, London / United Kingdom
Florian Schulte Baden-Baden Born 1971 First elected: 2010 Elected until the 2023 Annual General Meeting	Member of the Supervisory Board, Master of Business Administration, Managing Director of S.K. Management- und Beteiligungs GmbH, Baden-Baden, Fines Holding GmbH, S.K. Beteiligungen GmbH, Baden-Baden, Micro Equity Management GmbH, S.K. Vermögensverwaltung Beteiligungs und Verwaltungs GmbH, Baden-Baden, S.K. Immobilien Holding Verwaltungs GmbH, Baden-Baden, S.K. Holding Verwaltungs GmbH, Baden-Baden, and S.K. Management GmbH	Deputy Chair of the Supervisory Board of Softline AG (mandate expected to expire in March 2021), Leipzig, member of the Board of Trustees of the Frieder Burda Foundation, and member of the Supervisory Board of Upside Beteiligungs AG, Grünwald

5.3.4 Strategy for the selection of members of the management body

When selecting the members of the Board of Directors, special attention is paid to function-specific knowledge and experience. This ensures that, in addition to competence in information technology, many years of experience in the leasing sector and relevant know-how in finance and banking are represented on the Board of Directors. In addition to individual competence and integrity, individual skills and an independent way of thinking ensure a balanced composition of the decision-making body. In accordance with their expertise, Board of Directors responsibilities are allocated via the schedule of responsibilities.

The current composition of the Board of Directors ensures that sufficient expertise and experience is available to perform the tasks of this body. This should ensure that all aspects of the GRENKE Group's business activities are taken into account in the decisions of the Board of Directors.

5.3.5 Diversity strategy for the selection of members of the management body

A diversity strategy for the selection of the members of the management body is not provided for since a far-reaching strategy with regard to diversity criteria such as gender, age, geographical origin, education, and professional background is not legally required based on the current composition of the Board of Directors.

5.3.6 Risk committee and number of supervisory board meetings

In accordance with Section 25 d (3) sentence 8 KWG, it is not required to form a separate risk committee. Seven Supervisory Board meetings were held in the past financial year.

5.3.7 Information flow to the management body

The management body is informed on a quarterly basis, among others, about the development of material risks and limit utilisation as part of risk reporting. The Board of Directors reports to the Supervisory Board on a regular basis, as well as on an ad hoc basis, in accordance with the rules of procedure. Furthermore, the strategies are reviewed annually and reported to and discussed with the Supervisory Board.

5.4 Statements by the management body

5.4.1 Statement on the adequacy of risk management procedures

Based on the type, scope, and complexity of the business activities, the entire Board of Directors of the GRENKE Group has implemented instruments, procedures, and controls that are intended to ensure the appropriate and adequate implementation of the regulatory and statutory requirements for risk measurement/assessment procedures. In order to comply with the regulatory requirements for risk management, in particular MaRisk established by BaFin, BAIT, and other relevant pronouncements of the international supervisory authorities must be observed. The strategic and risk policy framework for risk management is defined by the Consolidated Group's risk and IT strategy. The procedures in use are intended, among other things, to adequately ensure risk-bearing capacity as the core point of risk management, also in the going concern approach, as sustainably as possible. The risk objectives described should become as measurable, transparent, and controllable as possible to an appropriate extent through the procedures used. According to the Board of Directors, they should be in line with the strategy of the institution and regularly reviewed as well as further developed with regard to their appropriateness.

The Board of Directors of GRENKE AG considers the risk management systems to be generally appropriate with regard to the risk profile and risk strategy.

5.4.2 Concise risk declaration

The GRENKE Group's business strategy is targeted at providing small-ticket financial solutions (small-ticket business) in various segments based on its long history of understanding the financing needs of small and medium-sized enterprises (SMEs). The assumption of risks, for which the Board of Directors believes there is sufficient expertise and technology to handle and manage, is an inherent part of this business.

Based on the strategic business orientation, the identified risks on the basis of the results of the risk inventory and the risk-bearing capacity, the entire Board of Directors defines the risk policy principles and the targeted risk profile in the risk strategy and the IT strategy. This is characterised by the monitoring and limitation of risk types and the avoidance of risk concentrations. Ensuring the Company's ability to continue as a going concern is one of the primary objectives of the GRENKE Group's Board of Directors' risk management, which is aligned with the ongoing determination of the corresponding risk-bearing capacity for this purpose. Among the risks to be considered, the Board of Directors classifies credit, market, liquidity, other, and operational risks as material risks. The GRENKE Group's strategic focus on financing SMEs in the area of small-ticket financing is reflected above all in credit default risks as one of the most important risk types. However, this very business also focuses on appropriate risk minimisation through diversification and risk assessment by forecasting credit risk as accurately as possible. The relatively broad diversification of the portfolios in the areas of leasing, factoring, and banking across customers, industries, and countries as well as relatively low average contract volumes should characterise the business.

In order to achieve what the Board of Directors considers to be a balance between opportunities and risks, the GRENKE Group has installed processes and procedures for the earliest possible identification, measurement, analysis, management, and control of new and already identified risks. The risk appetite expressed in the risk strategy is to be ensured as well as possible, in particular by defining the business strategy targets, the security level, and the risk limits of all material risk types as part of the risk-bearing capacity calculation. Both the Board of Directors and the Supervisory Board of the GRENKE Group are regularly informed about the Consolidated Group's risk situation.

The auditing firm Mazars conducted a special audit of the GRENKE Group from October 2020 to April 2021 on behalf of BaFin in accordance with Section 44 KWG. All audit procedures have been completed. The GRENKE Group has received the corresponding reports from BaFin. The Company is currently reviewing the measures already initiated and planned and is in consultation with BaFin. BaFin, for its part, will also decide on the further course of action. The enforcement review of GRENKE AG's consolidated financial statements as of December 31, 2019 and the combined Group management report and management report for the 2019 financial year, which was taken over by BaFin from the German Financial Reporting Enforcement Panel on September 30, 2020, is also expected to be completed in the near future. The Company has already taken the expected findings into account in the preparation of its 2020 consolidated financial statements.

For important risk indicators, please refer to the individual chapters of the Disclosure Report on the main risk types and the comments on risk-bearing capacity.

6. Risk management of individual risk types

6.1 Credit risk

Credit risk in the broader sense concerns the potential losses that may arise primarily from the default or deterioration in the creditworthiness of borrowers or obligors. The GRENKE Group is subject to this risk specifically with its on-balance-sheet and off-balance-sheet customers and proprietary businesses, whereby the on-balance-sheet leasing business dominates. In addition to credit risk, the GRENKE Group also considers migration risk and credit concentration risks to be material risks.

The IRB formulas in accordance with Articles 153 and 154 CRR are used to quantify credit default risk within the scope of the risk-bearing capacity assessment at the 99.0 percent confidence level. As part of the validation processes, the internal procedures and models for assessing creditworthiness and default risks, as well as the external procedure for determining credit default risks as part of the risk-bearing capacity model, are reviewed regularly. Reporting credit risk to the management body takes place quarterly within the scope of the risk report.

6.1.1 Information on the structure of the loan portfolio

Receivables included in the scope of credit risk are calculated in accordance with the principles of Consolidated Group accounting on an IFRS basis. The average amounts of the risk positions in the 2020 financial year are shown in the following overview, broken down by risk position and without taking credit risk adjustments into account. The calculation was based on the quarterly financial statements of the Consolidated Group.

Table 13: Average risk exposure

EURk	Average risk exposure
Central governments	609'488
Regional governments	352'887
Exposures to institutions and corporates with a short-term credit assessment	325'547
Corporates	3'132'058
Retail business	2'665'246
Other positions	190'841
Investments	10'480
Past due items	592'368
Total	**7'878'916**

The Consolidated Group has a wide range of refinancing instruments at its disposal, which are used depending on market conditions within the framework of the overall strategy. Asset-based financing, including ABCP (asset-backed commercial paper) programmes, is an important instrument. Due to the transfer of lease receivables, the credit risk is transferred to the refinancing institution, e.g. GRENKE Finance PLC as well as GRENKE Investitionen Verwaltungs Kommanditgesellschaft auf Aktien. Table 14 presents the exposure amounts before credit risk adjustments broken down into major regions and exposure classes. The breakdown of geographical areas is based on the country of domicile of the risk-bearing company. In addition, the share of past due and non-performing receivables as well as the amount of the credit risk adjustment are broken down geographically. For the underlying definitions of "non-performing" and "past due", please refer to the chapter "Information on risk provisioning". The regional distribution of the portfolio shows a concentration of the GRENKE Group's activities in the markets of Germany, Italy, and Ireland in particular. The increased concentration in Ireland is due to the transfer of lease receivables and thus the transfer of credit risk to GRENKE Finance PLC. Thus, the credit risk can be minimised in many countries, such as France. No credit risk adjustment was made for the remaining portfolio in France.

Table 14: Risk exposure by key geographical area

EURk	Total	Germany	France	Italy	UK	Ireland	Other
Central governments	711'248	711'248	–	–	–	–	–
Regional governments	305'696	104'772	247	69'676	11'339	93'734	25'927
Exposures to institutions and corporates with a short-term credit assessment	320'818	27'253	10'017	1'662	17'162	216'101	48'623
Corporates	3'035'000	1'223'066	260	537'896	272'878	556'011	444'888
Retail business	2'604'922	1'115'551	–	601'848	46'939	522'210	318'375
Other positions	165'849	37'975	16'837	21'440	8'216	10'736	70'644
Investments	10'579	9'787	–	–	–	–	792
Past due items	676'934	88'887	–	214'452	30'238	213'053	130'304
Total	**7'831'045**	**3'318'540**	**27'362**	**1'446'973**	**386'772**	**1'611'845**	**1'039'553**
of which: Past due	443'881	122'733	–	145'057	30'582	95'500	145'510
of which: Non-performing	676'023	87'976	–	214'452	30'283	213'053	343'312
of which: Credit risk adjustments	–520'725	–78'085	–	–164'076	–29'175	–149'115	–100'273

The distribution of risk exposure by industry and with consideration of credit risk adjustments is carried out according to the NACE economic sector classification. This includes EUR 3'387'059k in receivables from SMEs, which corresponds to a share of 46.33 percent of the total risk exposure.

Table 15: Risk exposure by industry

Figures in EURk	Central governments	Regional governments	Exposures to institutions and corporates with a short-term credit assessment
Agriculture, forestry and fisheries	–	–	–
Mining and quarrying	–	–	–
Manufacturing industry / production of goods	–	–	–
Energy supply	–	–	–
Water supply; sewerage, waste management and remediation services	–	–	–
Building trade / construction	–	–	–
Wholesale and retail trade; repair of motor vehicles and motorcycles	–	–	–
Transport and storage	–	–	–
Hospitality / accommodation and gastronomy	–	–	–
Information and communication	–	–	–
Provision of financial and insurance services	711'248	–	320'818
Real estate and housing	–	–	–
Professional, scientific and technical service activities	–	–	–
Provision of other economic services	–	–	–
Public administration, defence; social security	–	275'883	–
Education and teaching	–	28'020	–
Health and social care	–	–	–
Art, entertainment and recreation	–	–	–
Provision of other service activities	–	–	–
Total in EURk	**711'248**	**303'903**	**320'818**

Corporates	Retail business	Other positions	Investments	Past due items	Total
30'069	19'376	–	–	2'869	52'315
3'105	3'560	–	–	232	6'898
344'952	532'740	–	–	34'604	912'296
–	–	–	–	–	–
18'427	24'290	–	–	1'407	44'124
121'557	175'753	–	–	13'555	310'865
527'301	558'261	–	–	54'674	1'140'236
63'963	93'170	–	–	7'325	164'458
212'896	185'776	–	–	40'521	439'193
68'408	110'062	–	–	5'788	184'259
88'012	53'081	–	10'579	5'180	1'188'918
84'291	62'269	–	–	6'003	152'564
334'955	256'748	–	–	19'662	611'364
360'896	146'773	165'849	–	24'325	697'842
11'111	2'397	–	–	3'608	292'998
73'243	36'467	–	–	6'442	144'171
334'172	161'630	–	–	13'307	509'109
72'460	58'397	–	–	9'471	140'328
222'095	76'262	–	–	20'026	318'383
2'971'912	**2'557'012**	**165'849**	**10'579**	**269'000**	**7'310'320**

The following presentation of the remaining terms is based on contractual remaining terms. For lease receivables, the present value of the instalments, including residual values at the contractual end date, is shown.

Table 16: Risk positions according to remaining terms

EURk	<3M	3M–6M	6M–9M	9M–12M	>12M	Total
Central governments	711'248	–	–	–	–	711'248
Regional governments	8'292	8'329	8'052	7'998	271'231	303'903
Exposures to institutions and corporates with a short-term credit assessment	320'818	–	–	–	–	320'818
Corporates	318'738	286'922	262'178	250'004	1'854'069	2'971'912
Retail business	189'070	217'266	209'483	200'341	1'740'852	2'557'012
Other positions	165'849	–	–	–	–	165'849
Investments	10'579	–	–	–	–	10'579
Past due items	269'000					269'000
Total	**1'993'594**	**512'517**	**479'713**	**458'343**	**3'866'153**	**7'310'320**

6.1.2 Leasing segment

Current and non-current lease receivables accounted for 82 percent of the GRENKE Group's total receivables volume as of December 31, 2020. Accordingly, the Consolidated Group considers the credit risk of its lessees to be its most significant risk. This risk is assessed and managed using statistical models. Country-specific logistic regression models based on both internal and external data are predominantly used. Country-specific models can be used if there is a contract portfolio with a sufficiently large number of contracts that is also sufficiently mature for statistical evaluation. As a result, the statistical models used by the Consolidated Group lead to an expected value of future credit losses, which are taken into account as imputed risk costs in the contribution margin calculation. The expected credit losses for the new business portfolio in 2020 averaged 4.8 percent (previous year: 5.7 percent) in relation to the acquisition costs of the leased assets and for the entire contract term of 48 months on average. The decline in expected credit losses is mainly due to the measures taken by GRENKE in the context of the coronavirus pandemic. The figure shows that GRENKE has limited its risks when concluding new contracts. The actual credit losses realised in the future will depend on the further course of the pandemic and the effects on the economy.

A distinction is made between two portfolios when calculating risk provisioning in accounting. The risk provisions for performing and non-performing receivables portfolios are each calculated in separate models.

In accordance with IFRS 9, the general approach based on a three-stage approach is used to determine the risk provision for performing lease receivables. Impairment losses for Level 1 leases correspond to the expected loss for a twelve-month period, which is recognised upon initial recognition. In the event of a significant increase in the credit risk of the lease receivables, they are reassigned to Level 2, and a risk provision in the amount of the expected loss for the entire remaining term of the contract is recognised. Credit-impaired lease receivables are reassigned to Level 3, whereby the expected losses are also recognised as risk provisions in the amount of the expected losses over the entire remaining term of the contract, based on the estimated cash flows still to be expected from the asset. As of December 31, 2020, 90.2 percent of the net receivables of the Leasing segment was allocated to Level 1. The amount of impairment losses at the end of the 2020 financial year was EUR 502.8 million (previous year: EUR 371.2 million). Expenses for risk provisions for leasing business increased in the reporting year to EUR 199.2 million (previous year: EUR 127.8 million).

The risk provision for "non-performing" lease receivables is determined using the calculation model for impairments. Using this model, a lease contract is predominantly treated as a "non-performing lease receivable" as soon as the second lease instalment is missed consecutively. In most cases, the contract is then terminated. The amount of the required impairment is determined using percentages and processing classes.

In the course of the coronavirus pandemic, the GRENKE Group concluded deferral agreements with lease customers. Under these agreements, individual payments for lease instalments were deferred without interest for a fixed period of time and thus not due until a later date. In part, the deferral agreements were also based on legislative moratoria. The majority of the deferral requests were received in March and April 2020. A risk provision of EUR 41.5 million was recognised for these.

By focusing on small-scale leasing business diversified across sectors and avoiding large-volume individual risks by means of clear internal guidelines, concentration risks in credit risk play a subordinate role. Concentrations of risk arise primarily when looking at the leasing portfolio of the respective countries. Concentrations exist in particular in the countries Germany, France, Italy, Switzerland, and Great Britain, which accounted for 75 percent of the total receivables volume of leasing business. Although France, Italy, and Great Britain were particularly severely affected by the coronavirus pandemic and suffered sharp declines in economic output, the Euler Hermes Country Risk rating for Germany and France remains at "1" and that for Great Britain and Italy unchanged at "2". Of the countries in which the GRENKE Group operates, Turkey, Brazil, and Romania are currently rated "3". In the reporting year, the GRENKE Group introduced a division into A and B countries. Austria, Belgium, Denmark, France, Finland, Germany, the Netherlands, Norway, Poland, Romania, Sweden, and Switzerland were classified as "A" countries, while all others were classified as "B" countries. Branches in B-countries may only decide on lease applications up to certain limits and score classes. Applications exceeding these limits must be approved by the credit centre.

The majority of finance leases concluded provide for full economic cost recovery. This means that payments made by the lessee during the basic lease period, including the guaranteed residual values, exceed the acquisition and contract costs. Accordingly, there are no significant residual value risks in leasing business.

6.1.3 Banking segment

The receivables from the lending business of GRENKE Bank mainly consist of SME loans, microcredit financing, and business start-up financing. Accordingly, credit risk constitutes the key credit risk for GRENKE Bank. GRENKE Bank's lending business is also concentrated on the small-ticket segment. The average customer receivables volume in the lending business as of December 31, 2020 was EUR 9k. GRENKE Bank also purchases lease receivables, among other things, to finance other Consolidated Group companies.

The general three-step approach under IFRS 9 is applied to determine loan loss provisions for receivables from GRENKE Bank's lending business. GRENKE BANK AG's loan loss provisions for the traditional lending business amounted to EUR 7.6 million in the 2020 reporting year (previous year: EUR 2.3 million) and total impairments as of the reporting date amounted to EUR 8.4 million.

6.1.4 Factoring segment

The GRENKE Group's factoring business also concentrates on the small-ticket segment. The Consolidated Group's factoring units operating in Germany, Switzerland, Italy – and in Portugal since 2019 – mainly process factoring contracts with obligors of the respective country. This business mainly involves so-called "notification factoring", in which the invoice recipients (obligors) are notified of the assignment of existing receivables. Under certain conditions, contracts are also offered in the form of non-notification factoring, in which the obligor is not notified of the assignment of the existing receivables to the factoring company. The range of services also includes recourse factoring, where the del credere risk remains with the customer.

For the expected losses from factoring receivables, impairment losses are recognised using the simplified procedure in accordance with IFRS 9. For this reason, outstanding receivables are grouped in Level 2 as long as they are not classified as impaired and a risk provision in the amount of the expected loss for the entire remaining contract term is recognised. Impairment in the factoring business amounted to EUR 3.9 million as of the reporting date (previous year: EUR 3.2 million). The cost of risk provisioning in the reporting year was EUR 1.0 million (previous year: EUR 1.7 million).

6.1.5 Deferral agreements

GRENKE has entered into deferral agreements with its leasing customers to provide them with support during the current COVID-19 pandemic and its consequences. In addition, the Consolidated Group's default risk is to be minimised. Under the deferral agreements, individual payments for lease instalments are deferred for a fixed period of time without interest and are thus not due until a later date but before the lease's termination. According to GRENKE's assessment, the agreed deferrals have not led to any changes in the scope of or consideration given for a lease. Therefore, the payment changes are treated as a substantive contract amendment (modification). The interest rate underlying the lease remains unchanged for the calculation of the net investment in the lease. The deferred lease receivables are regularly reviewed and reported. As part of the impairment assessment, the deferral agreements concluded are taken into account and assessed. Clustering is carried out and the probability of default is determined in scenarios. The contracts are recovered upon the repayment of the outstanding lease instalments.

Deferral agreements were also concluded with customers in the lending business. Here, the obligor was granted deferral of loan instalments for a certain period of time but with interest. This is also a non-substantial contractual amendment, as neither the qualitative nor the quantitative indicators are given which would justify a modification. Parts of these deferral agreements are based on legislative moratoria.

The following tables disclose the information required by EBA/GL/2020/07 as of June 2, 2020 on the impact of the COVID-19 crisis in relation to the legislative moratoria.

Table 17: Information on loans and advances subject to legislative and non-legislative moratoria

in EUR	Gross carrying amount						
		Performing			Non-performing		
			of which: Exposures with deferral agreements	of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Level 2)		of which: Exposures with deferral agreements	of which: Repayment unlikely in case of items which are not past due or past due <= 90 days
Loans and advances subject to a moratorium (granted)	1'144'210.47	1'071'834.25		65'275.00	72'376.22		
of which: Households	237'112.00	237'112.00					
of which: Collateralised by residential immovable property							
of which: Non-financial corporations	907'098.47	834'722.25	–	65'275.00	72'376.22	–	–
of which: SMEs	–	–	–	–	–	–	–
of which: Collateralised by commercial immovable property	–	–	–	–	–	–	–

The following presentation of the remaining terms is a breakdown of the receivables subject to legislative and non-legislative moratoria according to the remaining term of the moratoria. The deferral period had already ended for the majority of the contracts as of December 31, 2020. However, some of the repayments of the deferred amounts are not yet due or have not yet been made.

Table 18: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

in EUR	Number of obligors		of which: Legislative moratoria	of which: Expired
Loans and advances for which moratorium was offered	184	7'815'184.11		
Loans and advances subject to a moratorium (granted)	184	7'815'184.11	0.00	6'670'973.64
of which: Households		2'261'386.02	0.00	2'024'274.02
of which: Collateralised by residential immovable property		0.00	0.00	0.00
of which: Non-financial corporations		5'553'798.09	0.00	4'646'699.62
of which: Small and medium-sized enterprises (SMEs)		0.00	0.00	0.00
of which: Collateralised by commercial immovable property		0.00	0.00	0.00

Newly extended loans with public guarantees mainly comprise loans from the German state-owned development bank KfW (Kreditanstalt für Wiederaufbau) with indemnities. The deferrals granted were made within the framework of KfW's private moratorium on promotional loans.

Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
	Performing			Non-performing			Inflows into non-performing exposures
		of which: Exposures with deferral agreements	of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Level 2)		of which: Exposures with deferral agreements	of which: Repayment unlikely in case of items which are not past due or past due <= 90 days	
−21'717.95	−9'878.12		−6'004.91	−11'839.83		–	72'376.22
−2'312.70	−2'312.70					–	–
						–	–
−19'405.25	−7'565.41	–	−6'004.91	−11'839.83	–	–	72'376.22
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Gross carrying amount				
Residual maturity of moratoria				
<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
888'393.25	255'817.22	0.00	0.00	0.00
173'146.00	63'966.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00
715'247.25	191'851.22	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00

Table 19: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to the covid-19 crisis

in EUR	Gross carrying amount	of which: Deferred	Maximum amount of the guarantee that can be considered Public guarantees received	Gross carrying amount Inflows into non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	52'781'310.88		52'198'210.88	
of which: Households	0.00			
of which: Collateralised by residential immovable property	0.00			
of which: Non-financial corporations	50'781'310.88		52'198'210.88	
of which: SMEs				
of which: Collateralised by commercial immovable property				

6.1.6 Non-performing and past due receivables

"Non-performing" is defined as receivables where a contracting party has persistently failed or is unable to meet its payment obligations. Non-performing risk positions are all receivables that are allocated to Level 3 in accordance with the impairment provisions of the IFRS 9 model. These are risk positions that are more than 90 days past due, or contracts that have already been terminated, regardless of whether payments are already past due for the terminated contracts and regardless of the number of days of any default in payment (see the following section "Recognition of risk provisions"). In accordance with IFRS, these receivables are considered to be credit-impaired. In contrast, a financial asset is classified as "past due" when the payment of principal, interest or fees has not been made on time, and the contract is therefore in default (less than 90 days).

For the purposes of risk quantification and regulatory reporting, the definition of default pursuant to Article 178 CRR is used.

Credit risk adjustments are calculated as the amount of general and specific credit risk provisions recognised in the institution's financial statements in accordance with the applicable accounting framework. Following the EBA RTS (EBA/RTS/2013/04), credit risk adjustments are to be taken into account in particular in connection with the determination of the CRSA assessment basis and in the event of default of an obligor. Classification as a general credit risk adjustment requires the unrestricted availability of risk provisions in full at all times to cover credit risk-related losses on risk exposures without a currently occurring loss event. All other credit risk adjustments are considered specific credit risk adjustments. These include losses recognised in the income statement from the valuation of loans and financial instruments that are impaired due to credit risk.

The non-performing and past due risk exposures as of the reporting date are shown below. The expense for specific credit risk adjustments in the financial year amounted to EUR 49'525k.

Table 20: Overview of non-performing and past due risk exposures

EURk	Non-performing risk exposures	Past due risk exposures	Specific and general credit risk adjustments	Expenses for specific credit risk adjustments in the reporting year
Central governments	–	–	–	–
Regional governments	7'594	6'758	–1'793	–531
Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–
Corporates	384'568	254'378	–63'088	–15'003
Retail business	283'862	182'745	–47'910	–11'394
Other positions	–	–	–	–
Investments	–	–	–	–
Past due items	–	–	–407'934	–22'597
Total	**676'023**	**443'881**	**–520'725**	**–49'525**

The following overview shows the development of risk provisions from January 1, 2020 to December 31, 2020:

Table 21: Development of specific credit risk adjustments by risk class

EURk	Opening balance	Additions	Utilisation and reversals	Other changes	Closing balance
Central governments	–	–	–	–	–
Regional governments	–2'243	–531	961	21	–1'793
Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	–
Corporates	–47'090	–15'003	–1'461	467	–63'088
Retail business	–35'761	–11'394	–1'110	355	–47'910
Other positions	–	–	–	–	–
Investments	–	–	–	–	–
Past due items	–310'975	–22'597	–79'199	4'836	–407'934
Total	**–396'069**	**–49'525**	**–80'809**	**5'678**	**–520'725**

6.1.7 Counterparty default risk

Within the GRENKE Group, there is a limit for each counterparty with the aim of avoiding high individual risks. The limit amount is determined as part of the limit approval process and depends on creditworthiness, among other factors. The limits are approved by the entire Board of Directors.

The GRENKE Group uses derivative financial instruments exclusively and only when ordinary business activities entail risks that can be minimised or eliminated through the use of suitable derivatives. Only interest rate and currency swaps and interest rate caps are used. Each derivative contract is subject to an underlying economic transaction with a correspondingly opposing risk position.

Contract partners are only those credit institutions with predominantly good or very good credit ratings with an S&P rating above BBB+. The predominant market risks and the outstanding interest rate as well as currency risk positions are discussed at least once monthly with the responsible member of the Board of Directors. The hedging of unsettled foreign currency cash flows is carried out on the basis of internally defined hedging limits that take effect when the balance held at the day's exchange rate amounts to EUR 500k per currency.

The fair values of derivatives are determined using valuation models based on observable inputs. For forward exchange transactions, the valuation is carried out using a market-to-market valuation model. For interest rate derivatives, the fair value is determined using a present value method. The input parameters used for the valuation methods are taken from market quotations. Interest rates with matching maturities in the traded currencies are used for forward exchange transactions and interest rates for interest rate derivatives. The values determined are multiplied with a so-called add-on procedure with credit default swaps (CDS) of the counterparty or the own default risk observable on the market with matching maturities in order to obtain the fair value of these OTC derivatives.

GRENKE AG concludes collateralisation annexes without agreements to increase or decrease collateral in the event of rating changes. Furthermore, correlations between market price and counterparty risks are not taken into account. There are currently no credit derivatives.

The counterparty default risks are calculated in accordance with Part 3, Title II, Chapter 6, Article 4 CRR using the original exposure method. The corresponding risk exposures are shown in the following table:

Table 22: Credit equivalent amounts by original exposure method

Business type	Risk position (EURk)
Forward exchange transactions	19'720
Interest rate caps	0
Interest rate and currency swaps	41'081

Table 23: Effects of netting and collateral held on exposures

December 31, 2020	Total
Gross time value	– 17'728'541
Positive effects of netting	9'593
Net current default risk exposure	– 17'718'948
Collateral held	– 14'780'000
Net default risk exposure	**– 2'938'948**

6.1.8 Utilisation of ECAI

The external credit assessments used by the GRENKE Group meet the requirements of Article 444 Part 3, Title II, Article 3 CRR. The GRENKE Group has appointed Fitch Ratings as its External Credit Assessment Institution (ECAI). Their ratings are applied to exposures to institutions with short-term credit ratings and to exposures to regional or local authorities, as a high degree of portfolio coverage is achieved through Fitch Ratings' credit assessments. A derivation system is implemented for the transfer of credit assessments from issuers to positions as part of the COREP reporting process. The assignment of the rating grades to the regulatory credit rating categories is based on the European Banking Authority (EBA) standard. This results in the following allocation to the credit rating categories; credit risk mitigation techniques are not applied:

Table 24: Exposures to institutions with short-term credit ratings and to regional governments

Credit quality category	Risk exposure (EURk)
1	445'350
2	54'985
3	116'774
4	7'613
5	–
6	–

6.1.9 Investments

In 2015, the subsidiary GRENKE BANK AG acquired a 25.01 percent interest in viafintech GmbH in Berlin. The company is included in the consolidated financial statements using the equity method. In 2016, the Consolidated Group's diversification was broadened with a strategic investment by GRENKE BANK AG in Finanzchef24 GmbH with an interest of 15 percent, which is measured at fair value in the consolidated financial statements with changes in value designated in other comprehensive income. The carrying amount and at the same time fair value amounts to EUR 5'264k as of the reporting date. The change recognised in other comprehensive income in the financial year amounts to EUR – 241k. In 2018, GRENKE AG founded finux GmbH together with the Kassel-based FinTech company fino digital GmbH. GRENKE AG holds 30.03 percent of the capital and voting shares and accounts for the company in the consolidated financial statements using the equity method. The total carrying amount of the companies accounted for using the equity method is EUR 4'523k. A fair value was not determined. All investment positions are not traded on the stock exchange; moreover, no gains or losses were realised from sales or liquidations in the reporting year.

6.2 Market risk

Market risks are potential losses that may result from uncertainty regarding the future development (level and volatility) of market prices. Market risks are considered material within the GRENKE Group. The strategic orientation provides for taking market risks exclusively in connection with the operating business and reducing them to an appropriate minimum.

The predominant market risks and the outstanding interest rate and currency risk positions are discussed at least once monthly with the responsible member of the Board of Directors based on analyses prepared on an ongoing basis and reported to the management body within the quarterly risk reporting.

6.2.1 Interest rate risk

The interest rate risk of the GRENKE Group results from maturity transformation. It is quantified and analysed quarterly within the scope of calculating risk-bearing capacity using a value-at-risk (VaR) approach. In determining the interest rate risk, the effects of changes in the respective reference interest rates on the positions in the interest book (interest-bearing asset and liability items) are simulated and the effects on net interest income are derived. The change in the respective risk parameter (respective reference interest rate) is determined based on a historical simulation at the confidence level of 99.0 percent for a given holding period of 240 days and shown as an absolute base point shift. Based on a one-year risk horizon, the estimated maximum loss at the confidence level of 99.0 percent (corresponding to a rise in interest rates (VaR)) was EUR 2'180k. The interest rate risk is calculated on a net present value basis for all fixed and floating rates for on-balance-sheet and off-balance-sheet positions in the banking book based on Article 98 (5) CRD IV and the revised EBA guidelines (EBA/GL/2018/02). The effects of the eight interest rate scenarios are determined as an immediately occurring shift in the yield curve on the net present value of the interest book. For the regulatory standard test, the present value loss for a parallel shift of –200 basis points is highest at EUR –28'590k.

6.2.2 Currency risks

Due to the international orientation of its business, the GRENKE Group has unsettled foreign currency positions on the reporting date. Hedging strategies defined internally are applied in an effort to limit or eliminate these risks. The derivatives used are recognised on the reporting date at their fair values under the line items “financial assets” or “financial liabilities”. In addition, new business acquired in large markets, such as Great Britain, is refinanced in the local currency, which virtually eliminates currency risks. As a result, local subsidiaries generally conduct their operating business in their respective local markets and not across borders.

Currency risks mainly relate to the financing of Consolidated Group companies operating outside the eurozone. The hedging of unsettled foreign currency cash flows takes place on the basis of internally defined hedging limits that take effect when the holding at the day’s exchange rate amounts to EUR 500k per currency.

The currency risk is quantified quarterly within the framework of the risk-bearing capacity calculation on the basis of a VaR approach. To identify open positions that are subject to foreign currency risk, cash flows in foreign currency are compared with the forward exchange transactions concluded. For each currency position, the corresponding confidence level is calculated using historical exchange rate changes. In addition, various stress scenarios are simulated. With a confidence level of 99.0 percent and a one-year risk horizon, the VaR calculation results in an estimated currency risk of EUR 742k across the different currencies.

As a non-trading book institution without commodities and other trading assets, the market price risk according to Article 351 CRR is determined exclusively from the overall currency position via the standard procedure. In previous years, the overall currency position mainly consisted of the guarantees issued to the franchise companies. These were consolidated as of the reporting date of December 31, 2020, so that there are no own funds requirements, as the total amount of the currency position in accordance with Article 351 CRR is less than 2 percent of own funds and therefore does not have to be recognised.

6.3 Liquidity risk

Liquidity risk is defined as the potential loss that may result from a lack of liquidity or liquidity that can only be generated at higher-than-anticipated costs in order to meet payment obligations when due. The GRENKE Group's liquidity risk is considered material.

Among other things, liquidity risk is quantified as part of dynamic liquidity planning based on liquidity scenarios and within the risk-bearing capacity calculation. The adequacy of liquidity is monitored and reported by the Corporate Risk Management & Regulatory Department, among other things as part of the monthly liquidity risk analysis.

6.3.1 Short-term liquidity management

Liquidity risk management consists of the day-to-day management of incoming and outgoing payments. A liquidity overview is prepared for short-term reporting on the first working day of the calendar week and is discussed by the Board of Directors. The overview includes all the relevant information on the short-term cash developments expected in the following weeks. The weekly liquidity overview gives the Consolidated Group's current liquidity status and focuses on cash flows from leasing business. Wages and tax payments are also taken into account. Reporting differentiates between the following three liquidity levels:

// Liquidity 1 (cash liquidity): Cash in all accounts plus overdrafts at banks and all “immediate” (time horizon of approximately one week) cash flows

// Liquidity 2: Liquidity 1 plus cash flows due or to be received within one month, as well as committed assets that can be monetised within one month without a significant loss in value

// Liquidity 3: Liquidity 2 plus cash flows not due or to be received within one month, including committed assets that require a period of more than one month to be monetised without a significant loss in value

As the following liquidity overview illustrates, the GRENKE Group had sufficient liquid funds and liquidity reserves:

Table 25: Liquidity overview

EURk	Dec. 31, 2020	Dec. 31, 2019
Liquidity 1 (cash liquidity)	733'103	535'610
Liquidity 2 (up to 4 weeks)	869'952	649'675
Liquidity 3 (more than 4 weeks)	843'647	843'636

6.3.2 Medium and long-term liquidity management

In addition to short-term liquidity management and weekly reporting, dynamic liquidity planning is prepared monthly, the cash planning of which is aimed at mapping the liquidity status for the next periods. Dynamic liquidity planning complies with the regulatory requirements of MaRisk and is therefore also part of the quarterly risk reporting to the management body.

The GRENKE Group is principally independent of any single bank for its refinancing and has direct access to a variety of refinancing alternatives on the debt capital markets. The very wide range of refinancing instruments available includes traditional bank financing, revolving loan facilities, and ABCP programmes. The Consolidated Group has firm commitments for financing options at fixed conditions and terms for a defined time period so that there is no risk as to their availability.

ABCP programmes are financing arrangements based on defined underlying assets (lease receivables) and are currently being used to refinance the Consolidated Group's business in Germany, France, and Great Britain. The Consolidated Group also has access to forfaiting facilities for Brazil, Germany, Great Britain, and Poland.

The GRENKE Group also makes use of other refinancing instruments that are not asset-based and can be used at its discretion depending on the business development. One example of this is GRENKE's direct access to the capital markets via its debt issuance programme (DIP). A platform for issuing commercial paper (CP) has also been available since 2011 and can be utilised up to a maximum volume of EUR 750 million and durations ranging from 1 to 364 days. This CP platform provides interim refinancing alternatives with durations starting under one year, while DIP bonds offer durations in excess of one year. The GRENKE Group also takes advantage of the financing opportunities available to it via GRENKE BANK AG's deposit business. This broadly diversified range of instruments allows the Consolidated Group to choose financing channels available from a variety of alternatives.

In the 2021 financial year, debentures in the form of bonds and promissory notes amounting to EUR 410.0 million, SEK 316.0 million, DKK 66.0 million, and PLN 40.0 million will mature. The refinancing of these debentures may be subject to refinancing risk at maturity. As a relevant measure for managing the maturities of new refinancing and the liquidity structure, the duration is calculated on a monthly basis for the assets and liabilities side. As of the reporting date of December 31, 2020, the duration for the assets side was 20 months (previous year: 21 months) and for the liability side 32 months (previous year: 34 months). Based on this data, the risk of maturity transformations can be reduced through appropriate measures.

Due to the tense situation at times on the capital markets due to the coronavirus pandemic, the GRENKE Group changed the focus of its refinancing during the 2020 financial year. Fewer bonds were issued under DIP, as well as fewer promissory notes and CP than in the previous year. While an adjustment in the conditions for time deposits at GRENKE BANK AG led to a significant increase in deposits, the loan from the European Investment Bank was drawn down in full. The loan was reduced from EUR 100 million to EUR 10 million through a scheduled repayment on October 6, 2020. In December 2020, S&P Global Ratings confirmed GRENKE AG's "BBB+/A-2/Outlook negative" long- and short-term issuer rating and removed the credit watch that had been in place due to negative implications since September 17, 2020.

6.3.3 Liquidity coverage ratio

The liquidity coverage ratio (LCR) is used to measure whether an institution has a sufficient liquidity buffer in highly liquid assets to be able to independently compensate for a possible imbalance between liquidity inflows and outflows over a period of 30 calendar days in the event of stress. The LCR is calculated as the quotient of the portfolio of liquid assets (the so-called liquidity buffer) and the net liquidity outflows under stress conditions within 30 days. According to Delegated Regulation (EU) No. 575/2013, the liquidity coverage ratio must be complied with as binding at 100 percent since January 1, 2018.

Table 26 entitled "LIQUIDITY COVERAGE RATIO" discloses information about the LCR. The LCR for the GRENKE Group, determined in accordance with the EBA guidance on the disclosure of the liquidity coverage ratio, was 852 percent (previous year: 187 percent) as of the reporting date of December 31, 2020, taking into account a liquidity buffer of EUR 703 million (previous year: EUR 207 million) and net cash outflows of EUR 82 million (previous year: EUR 111 million).

Table 26: Liquidity coverage ratio

21	Liquidity buffer (EURk)	702.5
22	Total net cash outflows (EURk)	82.4
23	Liquidity coverage ratio (%)	852.39%

6.4 Operational risk

Operational risk concerns potential losses that may result from the inappropriateness or failure of internal processes, people and systems or as a result of externally driven events (e.g. system failure, fraud). Operational risk is considered a material risk within the GRENKE Group. This risk is quantified on the basis of the basic indicator approach in accordance with Article 315 CRR as part of the risk-bearing capacity and monitored and managed via individual recording in the risk inventory.

6.4.1 Risk management

Within the framework of the risk inventory, the overall risk profile is derived at least annually. The methodology provides for a risk officer for each risk subtype, who aggregates the results of all risk experts and, as a result, makes the materiality assessment of the risk. The risk experts are made up of appointed representatives from various departments who can provide a meaningful assessment of the risk. The results of the risk inventory are used to assess the materiality of the Company's risks as part of the risk strategy process. The most relevant risks are analysed in the AK Risk. The following risks have been classified as material for the year 2021:

- // Credit risk (credit default risk, credit concentration risk, migration risk)
- // Market risk (foreign currency risk, interest rate adjustment risk, yield curve risk)
- // Operational risk (operational risk (according to CRR), ICT availability and continuity risk, ICT security risk, ICT data integrity risk, ICT compliance risk, legal risk)
- // Liquidity risk (liquidity risk in the true sense, refinancing risk)
- // Other risks (business and strategic risk, reputational risk, investment risk)

In addition, all cases of fraud and other operational losses with a value of more than EUR 10k are collected in a loss database. This serves both for reporting and prevention purposes. The entire Board of Directors receives an annual report on major losses within the Consolidated Group, their extent and causes, as well as existing countermeasures. Initiatives to raise awareness are implemented on a regular basis. If individual loss amounts cannot be precisely determined, then the values are based on estimates.

In addition, the GRENKE Group has implemented indicators (e.g. cost and organisational indicators) for the Group-wide monitoring and management of operational risks, which are reported to the management body (Board of Directors and Supervisory Board) on a quarterly basis as part of the early warning indicator set.

At the beginning of the coronavirus pandemic, a weekly meeting of the AK Risk took place for which, among other things, a specific early warning indicator set was evaluated. In the reporting year, a COVID response team also met at regular intervals. The crisis team discussed, among other things, the processes for deferring receivables, IT availability in the home office, compliance issues in connection with the coronavirus crisis, and the situation surrounding the return to the (new) normal for the organisations. In addition, the COVID response team prepared decision papers for the Board of Directors. Furthermore, in the course of the coronavirus pandemic, regular consultations took place with the Deutsche Bundesbank and BaFin.

The quantification of operational risk for corporate management is carried out within the framework of the risk-bearing capacity calculation using the basic indicator approach in accordance with Article 315 CRR. The estimated risk, including the growth assumption, amounted to EUR 87'056k as of December 31, 2020 (previous year: EUR 82'175k).

6.5 Other risks

Other risks include or consider risks from changes in the legal, political or social environment as well as pension, insurance, real estate, investment, tax, and sovereign risks.

Among the other risks, business and strategic risks, reputational risks, and investment risks are considered material. Compared to the previous year, the investment risk was classified as material for the first time in the 2020 risk inventory and included in the risk assessment as of the reporting date. Such risks are taken into account in the risk inventory. In connection with the risk-bearing capacity calculation, other risks are taken into account via a flatrate buffer. For the monitoring of other risks, indicators are reported to the management body on a quarterly basis within the framework of the early warning indicator set. In addition, the Consolidated Group has implemented a PR and social monitoring tool.

In the course of the short-seller attack, an event-related risk inventory concerning reputational risk was carried out in the reporting year in order to assess the reputational damage triggered by the attack with regard to risk-bearing capacity. A group of experts was consulted specifically on reputational risk.

7. Encumbered and unencumbered assets

An asset is considered to be encumbered if it has been pledged or is the subject of an agreement to collateralise or enhance the credit quality of an on-balance-sheet or off-balance-sheet transaction from which it cannot be freely deducted (e.g. if it is pledged for financing purposes). Pledged assets that are subject to release restrictions and assets that require the approval of third parties or replacement by other assets before use are to be considered encumbered.

The following information is reported on the basis of the median of quarterly data for the reporting year, in accordance with the guidelines. Table 25 shows the carrying amounts of encumbered and unencumbered assets per product type. Encumbered assets are mainly the bank accounts (restricted cash) of the special purpose entities, the start-up financing agreements of GRENKE BANK AG with risk limitation provided by development banks and the assets assigned as collateral in the course of refinancing activities. The total assets of EUR 6'051 million represent the total unencumbered assets of the GRENKE Group.

Table 27: Encumbered and unencumbered assets

EURk		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Financial year 2020		**10**	**40**	**60**	**90**
10	Assets of the reporting institution	1'378'211		6'051'019	5'502'386
20	Loans callable at any time	1'500		869'203	869'203
30	Equity instruments	0	0	5'505	5'505
40	Debt securities	0	0	0	0
100	Loans and credits other than loans callable at any time	1'374'969		4'627'678	4'627'678
120	Other assets	1'388		585'258	

In the following, the associated encumbered assets are shown for "selected liabilities". This liability item consists of deposits and debentures issued.

Table 28: Encumbered assets / collateral received and associated liabilities

EURk	Coverage of liabilities, contingent liabilities and securities borrowed	Assets, collateral received, and other own debt instruments issued as encumbered mortgage bonds or ABSs
Financial year 2020		
Carrying amount of selected liabilities	1'025'831	1'378'211

The extent and importance of the burden on assets for the business model of the GRENKE Consolidated Group are explained in more detail below.

Amount of the encumbrance: By far the largest share of the encumbered assets results in particular from the lease receivables assigned or transferred to secure the liabilities from the refinancing of leasing business within the scope of the ABCP programmes and the sales of receivables. The assignment of lease receivables in the course of the ABCP programmes is mainly to consolidated structured entities. The collateral agreements and the associated transactions are therefore internal to the Consolidated Group but are nevertheless included in the above presentation. Within the scope of sales of receivables, there is also a transfer of leasing receivables to German, Polish, Swiss, British, and Brazilian credit institutions.

8. Remuneration policy

Pursuant to Section 1 (2) of the German Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung – InstitutsVergV), the GRENKE Consolidated Group is not classified as a major institution. Consequently, GRENKE does not have to name “risk takers” according to Section 18 InstitutsVergV. The information required under Section 16 InstitutsVergV in conjunction with Article 450 CRR therefore only refers to categories of employees whose professional activities have a significant impact on the risk profile of the GRENKE Group.

8.1 GRENKE’s remuneration strategy

GRENKE’s remuneration strategy is designed to be financially viable for the Company in the short, medium, and long term, equally attractive for employees and applicants, transparent, comprehensible, and acceptable to the employees, linked to the goals of the Consolidated Group and to stimulate the performance of the employees in the long term.

The principles laid down for this purpose in the remuneration policy are intended to ensure that all employees are in line with the objectives of the business and risk strategy, the corporate culture and values of GRENKE, and the long-term interests of the Consolidated Group. Furthermore, it should serve to avoid conflicts of interest and not encourage excessive risk-taking. Any changes to the strategy are also reviewed for their potential impact on remuneration policy. The long-term interests of the shareholders are also taken into account.

GRENKE’s remuneration system promotes the long-term success of the Company and creates incentives to take only those risks that are statistically well manageable and are matched by a return commensurate with the risk.

All remuneration components are generally determined for the GRENKE Group. However, they are always subject to the regulatory and nationally applicable legal provisions, which must always be given priority. They also include the issue of retirement and the framework for early retirement schemes.

As a matter of principle, the remuneration components apply equally to all employees of the GRENKE Group, subject to national specifics.

8.2 Principles of GRENKE's remuneration policy

On the basis of GRENKE's remuneration strategy underlying the remuneration policy, it is intended, on the one hand, to establish a certain competitiveness on the labour market in order to be able to attract and retain the necessary staff with the required qualifications and, on the other hand, to ensure that it is possible to operate on competitive terms in the target markets.

The employees are staff members of the companies of the GRENKE Group. The remuneration system of the GRENKE Group is based on principles that apply across the Consolidated Group regardless of hierarchy and function, and includes fixed performance-independent and variable performance-related components.

The four European directives 2000-2004, which were combined in the "General Equal Treatment Act" and have been in force since August 18, 2006, are complied with and implemented accordingly in the determination of remuneration within the Consolidated Group.

The GRENKE Group ensures compliance with Articles 92 (1) and 109 of Directive 2013/36/EU, according to which "institutions" must comply with all the requirements of Articles 92 (2), 93, 94, 95, and 96 of this Directive, including the applicable technical regulatory standards on remuneration, on a consolidated, partially consolidated (including subsidiaries and branches in third countries) and single-entity basis.

The GRENKE Group also observes that the internal remuneration policy complies with any specific requirements regarding the activities performed in the respective jurisdictions.

The remuneration policy determined by the Board of Directors of the GRENKE parent company is applicable for the entire GRENKE Group, i.e. for all subsidiaries belonging to the Consolidated Group and for all "identified employees". Legal regulations and collective bargaining agreements that apply in the national context of the individual Consolidated Group subsidiaries must naturally be implemented correctly and to the prescribed extent.

The German parent company ensures that its subsidiaries, which are not themselves subject to Directive 2013/36/EU, take into account and implement the principles anchored in GRENKE's Group-wide remuneration policy for all employees accordingly. This also applies to those employees whose professional activities have a significant impact on the Group's risk profile.

Employees who are seconded by the German parent company to an EU subsidiary in a third country which is a branch and who would fall within the scope of the identified employees of this branch if they were employed directly by the branch in the EU are also considered as identified employees.

In the case of short-term secondments (a few weeks to carry out project work), these provisions only apply if these persons would be identified as employees taking into account the remuneration granted for the relevant period and the function and responsibilities during the secondment. However, short-term contracts or secondments are not used as a means of circumventing the remuneration requirements of Directive 2013/36/EU (CRD IV) and related standards or guidelines.

The GRENKE Group ensures that, when determining and applying the total remuneration policy (including salaries and voluntary retirement benefits) for the various employee categories of all Consolidated Group companies – including management; employees who may take on high risk positions (risk takers); employees with control functions and all employees whose total remuneration corresponds to the income level of the Board of Directors; as well as risk takers whose professional activities have a material impact on the risk profile of the Company – the following principles are applied in a manner and scope appropriate to their size, their internal organisation and the complexity of their business:

a) the remuneration policy shall be consistent with and promote sound and effective risk management and shall not encourage risk-taking beyond the level tolerated by GRENKE

b) the remuneration policy shall be aligned with the corporate strategy, objectives, values and long-term interests of the Consolidated Group

c) the Supervisory Board of the parent company, in its supervisory function, shall determine the general principles for the remuneration policy (for all employees, including members of the Board of Directors and managing directors), review them regularly and be responsible for monitoring their implementation

d) a central and independent internal review shall be carried out at least once per year to determine whether the remuneration policy has been implemented in accordance with the principles established by the Supervisory Board

e) employees with control duties shall be independent of the departments they supervise and have adequate authority

f) the remuneration of the heads of the Risk Management and Compliance Departments shall be directly monitored by the Board of Directors of the Consolidated Group in its supervisory role; (EN L 176/386 Official Journal of the European Union June 27, 2013)

In accordance with Article 450 CRR, the GRENKE Group discloses at least the following for employee categories whose activities have a material impact on the risk profile:

a) summarised quantitative information on remuneration, broken down by category of employees (remuneration for the financial year broken down into fixed and variable, the number of beneficiaries, amounts and forms of variable remuneration), any new recruitment bonuses or severance payments paid and the number of beneficiaries thereby, in accordance with EN 27.6.2013 Official Journal of the European Union L 176/261

b) the main features of the remuneration system, including information on the criteria for performance measurement and risk orientation

c) the values established in accordance with Article 94 (1) (g) of Directive 2013/36/EU for the ratio between the fixed and variable components of remuneration

d) information on the criteria used to decide on the entitlement to shares, options or variable remuneration components

Although GRENKE is classified as a non-significant institution, the quantitative disclosures referred to in this article for the level of the members of the Supervisory Board and Board of Directors of the Consolidated Group are also made publicly available in the Annual Report.

Following Directive 2013/36/EU, GRENKE's remuneration policy clearly distinguishes, taking into account national conditions, between the criteria for determining

(i) the fixed basic remuneration, which corresponds, on the one hand, to professional experience and, on the other hand, to organisational responsibility in the company, and

(ii) the variable remuneration, which reflects sustainable and risk-adjusted performance and the success achieved with it.

8.3 Composition and structure of the grenke remuneration system

The remuneration system promotes the long-term success of the Company and creates incentives to take only those risks that are statistically well manageable and that are matched by a return commensurate with the risk.

The components that are independent of success include a gross annual salary that corresponds to the tasks, area of responsibility and local conditions, as well as benefits that are regulated by the uniform Consolidated Group-wide principles for reimbursement of travel expenses, provision of company cars, and company pension plans. A review of the appropriateness of the remuneration is generally carried out annually.

GRENKE's remuneration system is described in detail in the remuneration guideline published on the Consolidated Group's intranet.

In order to ensure that the companies in the GRENKE Group are still within the same salary range for comparable positions taking into account the different cost of living in the respective countries, the German parent company has developed a range model (called: Compensation Grid) for the gross monthly basic salaries. In the future, this is to serve as an orientation framework for annual staff cost planning.

The variable remuneration components defined within the framework of the GRENKE remuneration system, Performance Bonus I and Performance Bonus II (no Performance Bonus II for GRENKE BANK AG), apply to the same extent to each individual Consolidated Group subsidiary, irrespective of national framework conditions. In addition, the GRENKE subsidiaries must reflect any remuneration components prescribed by local law or to be implemented locally by means of a reference to collective bargaining agreements. The same applies to any social security or tax components that are imposed locally.

There are two parts to the performance-based components. The criteria for the variable remuneration components are determined annually in advance. Performance Bonus I is measured using a balanced scorecard (BSC) on the basis of corporate strategy targets for the Consolidated Group's long-term development. Achievement of the individual criteria is measured quarterly in arrears. Failure to achieve the target reduces the amount of this performance component (bonus reduction) accordingly. The BSC does not include a component that could in any way negatively influence the risk behaviour of employees.

A further variable component, to which only the Board of Directors is not entitled, is Performance Bonus II, which is calculated solely on the basis of the contribution margins generated. The risks associated with the conclusion of a lease are already considered in the contribution margin calculation. A subsequent calculation also checks whether the actual losses match the calculated losses, giving employees an incentive to conclude contracts only when the calculated risk involved is more than covered by the expected returns.

Both components contain the key figures that are essential for the long-term development of the Consolidated Group and create the prerequisites for successful market activities and the Company's long-term value appreciation.

The Board of Directors of the Consolidated Group was authorised by the Annual General Meeting of GRENKE AG on May 3, 2016 to increase the maximum amount of the variable remuneration components for employees of the Company as well as for members of the governing bodies and employees of the subsidiaries of GRENKE AG up to a maximum of 200 percent of the respective fixed remuneration.

In the GRENKE Group, bonuses are paid out as a variable component only at the level of the Board of Directors of the Consolidated Group and the Board of Directors of GRENKE BANK AG. For the Consolidated Group Board of Directors, this is based on Contribution Margin 2 excluding fixed costs determined annually in advance by the Supervisory Board and for the Board of Directors of GRENKE BANK AG on the increase in EBT (earnings before taxes) defined annually in advance by the Supervisory Board. If both criteria are not met but fall short by less than 10 percent, the bonus is granted on a pro rata basis. However, the bonus is not payable if CM2 (former version) determined by the Supervisory Board of the respective company in its first meeting of a financial year has been missed by 10 percent or, in the case of GRENKE BANK AG, EBT has been missed by 10 percent or more.

The Supervisory Board of GRENKE AG has entered into phantom stock agreements with all current members of the Board of Directors. The value of these phantom stock agreements and thus the Company's obligation amounted to EUR 0k at the end of the past financial year (December 31, 2019: EUR 653k). Payments under these agreements amounted to EUR 653k in the financial year (2019: EUR 0k).

All agreements include a maximum possible increase in value of EUR 450k each for a total virtual number of shares of 45'000 each over the respective term of the agreements. The term of the agreements for Ms Leminsky and Mr Hirsch covers the financial years 2018 to 2020, and for Mr Christ the financial years 2019 to 2021. The phantom stock agreement for Mr Kindermann expired when he left the Company on February 28, 2021.

Under these agreements, the members of the Board of Directors are entitled to a payment (tranche) for each financial year in the amount of the increase in the value of GRENKE AG shares from January 1 to the end of the term of the respective tranche. The increase in value per share corresponds to the difference between the initial value and the target value plus any cash inflows per tranche during the term of the respective tranches. If the increase in value plus any inflows of value is zero or negative, there is no claim to payment. The initial value corresponds to the arithmetic mean of the XETRA closing prices on all trading days from December 1 to December 23 of the respective previous year or at least the value of the first tranche determined in this way. For Mr Christ, the initial value for all three tranches is the average on all trading days from December 1 to December 23, 2018.

The target value corresponds to the arithmetic mean of the XETRA closing prices on all trading days from December 1 to December 23 of the respective financial year.

The participants in the programme are obliged to invest the respective net payout amount plus a personal investment of 25 percent of the payout amount in shares of GRENKE AG. The Company is entitled, but not obliged, to make the payout in full or in part, for one or more tranches, in shares instead of cash. The shares acquired under this programme are subject to a lock-up period until the end of the second year after payment of the tranche; in the case of Ms Leminsky and Mr Hirsch, the lock-up period is until the end of the third year after payment of the tranche, during which the shares cannot be freely disposed of.

The payment claim is limited to the amount of EUR 450k each for the three tranches (years) and is subject to the legal requirements for appropriate remuneration as well as the legal maximum limits for variable remuneration components, particularly the regulations of KWG. The payment claim for a tranche (and, if applicable, subsequent tranches) therefore lapses without compensation or replacement if the sum of the payment claims for previous tranches exceeds EUR 450k.

In accordance with the recommendation of the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK), the Supervisory Board is entitled to reduce the entitlement to payment of a tranche appropriately or to revoke it in part or in full if and to the extent that the increase in value of the share or inflows of value are influenced by extraordinary, unforeseeable developments.

8.4 Remuneration of the consolidated group's Board of Directors

The remuneration components of the members of the Consolidated Group's Board of Directors are determined on a regular basis by the Personnel Committee of the Supervisory Board.

Three of the six Supervisory Board members currently sit on the committee, which is chaired by Wolfgang Grenke. Mr Grenke's Supervisory Board mandate has been suspended since September 21, 2020. At the extraordinary meeting of the Supervisory Board on September 30, 2020, Jens Rönnberg was elected as a member of the Personnel Committee for the period of suspension. The other members are Prof Ernst-Moritz Lipp and Dr Ljiljana Mitic.

With regard to the Bank, this monitoring is performed by the Chair of the Supervisory Board of GRENKE BANK AG.

The Personnel Committee mainly deals with personnel decisions regarding the Board of Directors and their legal implementation. The Chair of the Personnel Committee reports in detail on its work to the full Supervisory Board at its meetings. In the 2020 reporting year, the Supervisory Board held four regular meetings and one internal Supervisory Board meeting without the participation of the Board of Directors. In addition, the Supervisory Board held nine extraordinary meetings.

The Supervisory Board ensures that the remuneration of the members of the Board of Directors is commensurate with the tasks and performance of the individual Board members and the overall situation of the GRENKE Group.

The remuneration of the members of the Consolidated Group's Board of Directors comprises the remuneration components described in the section "Composition and structure of the GRENKE remuneration system" with the exception of Performance Bonus II. The BSC criteria are geared to the long-term success of the Consolidated Group and the associated long-term value appreciation.

The Supervisory Board was authorised by the Annual General Meeting of GRENKE AG on May 3, 2016 to increase the maximum amount of the variable remuneration components for the respective members of the Board of Directors of GRENKE AG up to a maximum of 200 percent of the respective fixed remuneration. The Supervisory Board did not make use of this provision for the Consolidated Group's Board of Directors in 2019.

In the 2020 financial year, the remuneration of the members of the Consolidated Group's Board of Directors comprised the following:

Table 29: Remuneration of consolidated group's Board of Directors

	Fixed remuneration components		Variable remuneration components						
			Annual remuneration components		Long-term remuneration components			Total	Total
EUR	Fixed remuneration and allowances	Fringe benefits	Performance bonus	Bonus	Share-based remuneration	Target remuneration	Maximum remuneration	2020	2019
Christ	354'334.87	12'772.08	24'083.48	0.00	0.00	650'000.95	730'550.95	391'190.43	721'361.97
Hirsch	395'937.54	22'253.26	34'337.63	0.00	0.00	757'667.39	950'717.39	452'528.43	565'698.65
Kindermann	283'889.49	31'964.16	24'620.29	0.00	0.00	601'709.45	681'759.45	340'473.94	673'644.35
Leminsky	488'919.52	14'647.74	42'401.46	0.00	0.00	887'540.53	1'080'590.53	545'968.72	845'931.26
GESAMT	**1'523'081.42**	**81'637.24**	**125'442.86**	**0.00**	**0.00**	**2'896'918.32**	**3'443'618.32**	**1'730'161.52**	**2'806'636.23**

GRENKE AG has also taken out a directors' and officers' liability insurance policy for members of the Board of Directors. This policy prescribes a fixed 10 percent deductible per claim for each member of the Board of Directors and is limited to a maximum of one and a half times the annual fixed remuneration for all claims per year.

If employment is terminated, the service agreements contain a non-compete clause that provides compensation payments for a period of two years. The amount of the payments is limited to 50 percent of the most recent annual remuneration (cap). Compensation payments are based on the fixed and variable remuneration actually paid in the financial year preceding termination. During the reporting year, no member of the Board of Directors received benefits or corresponding commitments from third parties based on his or her position as a member of the Board of Directors.

There are no severance agreements in place.

8.5 Remuneration systems of institutions subject to financial supervision

The remuneration system of the Group is also applied in principle to the institutions GRENKE BANK AG, GRENKEFACTORING GmbH, and GRENKE Investitionen Verwaltungs-Kommanditgesellschaft auf Aktien, which are subject to financial supervision. The remuneration of the employees of GRENKE BANK AG is based on the fixed and variable remuneration components set out in the section "Composition and structure of the GRENKE remuneration system", excluding Performance Bonus II. However, the bank is a member of BVV Versicherungsverein des Bankgewerbes a. G. as part of the company pension scheme, under which each employee receives support upon joining the Bank. GRENKE BANK AG has an exception. It still employs one employee who, due to an older contract, is subject to collective bargaining regulations that govern, for example, the payment of a 13th and 14th salary, but no participation in GRENKE BANK AG's performance bonus scheme. In addition to the aforementioned employee remuneration, the members of the Board of Directors of GRENKE BANK AG are granted a bonus. The acquisition of the former private bank Hesse Newman still results in obligations to pay company and survivors' pensions for former employees.

8.6 Remuneration of employees by business area of the grenke group

In accordance with Article 450 (EU) 575/2013 (1) Sentence g, the quantitative information on remuneration is summarised by means of breaking down by business area. The allocations to the categories are therefore made as follows:

- // Category "Members of the supervisory body according to Section 25d KWG": The members of the Supervisory Board of GRENKE AG
- // Category "Members of the Management Board according to Section 25c KWG": The members of the Board of Directors of GRENKE AG
- // Category "Leasing": The employees working in leasing business in the GRENKE subsidiaries
- // Category "Banking": The employees working for GRENKE BANK AG and its foreign branches
- // Category "Factoring": The employees working in the factoring business in the GRENKE subsidiaries
- // Category "Corporate functions": Employees in the areas of Human Resources, IT, Controlling, Working Group Variable Compensation, Quality Management, Taxes, Facility, Consolidated Group Functions
- // Category "Independent control functions": ICS (Internal Audit DE Bank, Corporate Risk Management & Regulatory, Data Protection, Internal Audit, Compliance Office, Risk Management & Regulatory, IT Security, Information Security DE Bank)

Table 30: Remuneration by employee category

Employee categories		Members of management or supervisory body pursuant to Sec. 25d KWG	Members of Board of Directors pursuant to Sec. 25c KWG	Leasing	Banking	Factoring	Corporate functions	Independent control functions
Fixed remuneration	in EUR	289'833	1'496'447	44'744'199	2'665'832	2'065'915	16'880'497	1'492'010
	As % of total remuneration	100%	42%	58%	62%	63%	63%	62%
	Number of beneficiaries (heads)	6	4	1'497	74	51	459	31
	Number of employees (FTE)	6	4	1'281	60	42	390	28
Variable remuneration	Total in EUR	0	125'443	14'268'773	651'691	509'133	4'834'996	427'626
	Total variable remuneration as % of total remuneration	0%	3%	19%	15%	16%	18%	18%
	Number of beneficiaries (heads)	0	4	1'438	70	51	369	30
	Number of employees (FTE)	0	4	1'223	57	42	318	28
	Bonus I (BSC) in EUR		125'443	9'423'419	612'395	439'987	3'734'636	345'252
	BSC as % of fixed remuneration		8%	21%	23%	21%	22%	23%
	Performance Bonus II (EZII) in EUR		0	4'845'354	39'295	69'146	1'100'359	82'375
	EZII as % of fixed remuneration		0%	11%	1%	3%	7%	6%
	Previous year's BSC as % of fixed remuneration		3%	27%	29%	24%	27%	29%
	Previous year's value EZII in % of fixed remuneration		0%	15%	3%	4%	11%	9%
Bonuses	in EUR	0	0	0	0	0	0	0
	As % of total remuneration	0%	0%	0%	0%	0%	0%	0%
	Number of beneficiaries (heads)	0	0	0	0	0	0	0
	Number of employees (FTE)	0	0	0	0	0	0	0
Share-based payments	In EUR	0	0	0	0	0	0	0
	As % of total remuneration	0%	0%	0%	0%	0%	0%	0%
	Number of beneficiaries (heads)	0	0	0	0	0	0	0
	Number of employees (FTE)	0	0	0	0	0	0	0
Severance payments	Severance payments paid in EUR	0	0	297'608	0	127'701	57'345	0
	Number of beneficiaries (heads)	0	0	25	0	2	5	0
	Highest severance amount paid to individual employee in EUR	0	0	53'059	0	107'701	30'000	0
Total remuneration	In EUR	289'833	2'381'196	77'073'497	4'279'702	3'362'601	26'868'437	2'414'747
	In %	100%	100%	100%	100%	100%	100%	100%
	Number of beneficiaries	6	4	1'497	74	51	459	31
	Number of employees (FTE)	6	4	1'281	60	42	390	28

There are no agreements as referred to in Article 450 h) iii) to v) CRR for the specified employee categories. Severance agreements do not exist here either.

8.7 Remuneration of the Supervisory Bboard

The remuneration of the Supervisory Board was resolved at the Annual General Meeting on May 14, 2019.

Accordingly, the members of the Supervisory Board receive fixed remuneration of EUR 48k for each full financial year of membership, the chair receives EUR 72k, and the deputy chair EUR 60k. For membership on the Audit Committee, members of the Supervisory Board receive an additional EUR 10k and the Chair of this Committee receives EUR 15k. For Supervisory Board members who are members of the Personnel Committee, the fixed remuneration increases by EUR 2k, and that of the chair increases by EUR 3.5k. The members of the Strategy Committee receive an additional EUR 5k per financial year. If membership on the Supervisory Board is only temporary during a financial year, the fixed remuneration and the remuneration for committee memberships and chairmanships are calculated pro rata temporis on full months. By resolution of May 18, 2020, the members of the Supervisory Board waived 20 percent of their total remuneration for the year 2020, in view of the special burdens the Company faced in the past year as well as its exemplary function.

GRENKE AG has also taken out financial loss liability insurance for the members of the Supervisory Board. This provides for a deductible of ten percent per claim for each member, but no more than one and a half times the annual fixed remuneration for all claims per year.

In addition, the Company shall reimburse the members of the Supervisory Board for their expenses as well as for value-added tax to the extent that they are entitled to invoice the tax separately and exercise this right.

The following table shows the remuneration of the Supervisory Board for 2020:

Table 31: Remuneration of the Supervisory Board

Name	Position	Basic remuneration 2020	Audit Committee	Personnel Committee	Strategy Committee	Total 2020	Total 2019
In EUR							
Prof Lipp	Chair	57'600.00	3'333.34	1'600.00	3'000.00	65'533.34	89'791.66
Grenke	Deputy Chair	36'000.00	6'000.00	2'100.00	3'000.00	47'100.00	78'166.66
Dreilich	Supervisory Board (until May 14, 2019)	0.00	0.00	0.00	0.00	0.00	26'250.00
Krcmar	Supervisory Board (as of May 14, 2019)	38'400.00	0.00	0.00	0.00	38'400.00	32'000.00
Dr Mitic	Supervisory Board	38'400.00	0.00	1'466.66	0.00	39'866.66	48'000.00
Panter	Supervisory Board (May 14 – August 20, 2019)	0.00	0.00	0.00	0.00	0.00	16'000.00
Rönnberg	Supervisory Board (as of Nov. 12, 2019)	8'000.00	7'333.34	400.00	0.00	48'533.34	8'000.00
Schulte	Supervisory Board	40'800.00	12'000.00	0.00	0.00	50'400.00	58'000.00
Staudt	Supervisory Board (until May 14, 2019)	38'400.00	0.00	0.00	0.00	0.00	20'833.33
TOTAL		**349'600.00**	**36'250.00**	**5'566.66**	**6'000.00**	**289'833.34**	**377'041.65**

8.7.1 External consultants

External consultants were not involved in the design of the remuneration system.

9. Leverage

As a supplement to the risk-weighted equity requirements, the Basel III framework introduced the leverage ratio (LR) as a simple and transparent leverage ratio. This ratio compares the largely unweighted total of on-balance-sheet and off-balance-sheet transactions with regulatory Tier 1 capital. The leverage ratio is monitored as part of regulatory reporting and risk reporting.

CRR defines the calculation of the ratio in Article 429. The EU Commission revised these requirements in October 2014 by Delegated Regulation 2015/62. The disclosure of information on the leverage ratio in this report is based for the first time on Implementing Regulation (EU) 2016/200, which came into force on February 17, 2016. As part of the monitoring of the risk profile and regulatory capital adequacy, the leverage ratio is part of the risk reporting to the management body. According to the report to the Deutsche Bundesbank, the GRENKE Group's leverage ratio as of the December 31, 2020 reporting date was 14.30 percent (previous year: 13.55 percent) and is therefore significantly above the currently discussed minimum value of 3 percent. The coronavirus pandemic did not have a significant impact on the disclosed leverage ratio, so there was no significant deterioration in the leverage ratio during the reporting period.

Table 32: summary comparison between balance sheet assets and the total exposure measure

EURk		Amounts to be applied (reporting date Dec. 31, 2020)
1	Total assets recognised in the financial statements	7'331'781
2	Adjustment for investments consolidated for accounting purposes but not included in the regulatory scope of consolidation	
3	(Adjustment for trust assets recognised on the balance sheet in accordance with the applicable accounting rules but excluded from the total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	
4	Adjustments for derivative financial instruments	60'801
5	Adjustments for securities financing transactions (SFT)	
6	Adjustment for off-balance sheet transactions (i.e. conversion of off-balance sheet transactions into credit equivalent amounts)	3'340
EU-6a	(Adjustment for exposures arising from intra-group exposures excluded from the total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	
EU-6b	(Adjustments for exposures excluded from the total exposure measure under Article 429(14) of Regulation (EU) No 575/2013)	
7	Other adjustments	–182'180
8	**Total exposure measure of the leverage ratio**	**7'213'742**

Table 33: Leverage ratio common disclosure template

EURk		CRR leverage ratio exposure (reporting date Dec. 31, 2020)
On-balance-sheet exposure (excluding derivatives and securities financing transactions (SFTs))		
1	On-balance sheet items (excluding derivatives, securities financing transactions (SFTs), and trust assets, but including collateral)	7'233'860
2	(Assets deducted to determine Tier 1 capital)	84'259
3	**Total on-balance sheet exposure (excluding derivatives, securities financing transactions (SFTs), and trust assets) (sum of lines 1 and 2)**	**7'213'742**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margins)	
5	Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	
EU-5a	Exposure determined under original exposure method	60'801
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted exposure from transactions cleared via a qualified central counterparty (QCCP) for clients)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**60'801**
Securities financing transaction (SFT) exposures		
12	Gross securities financing transactions (SFTs) assets with no recognition of netting, after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross securities financing transactions (SFTs) assets)	
14	Counterparty credit risk exposure for securities financing transactions (SFTs) assets	
EU-14a	Derogation for securities financing transactions (SFTs): Counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No. 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted exposure from securities financing transactions (SFTs) cleared via a qualified central counterparty (QCCP) for clients)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	
Other off-balance-sheet exposures		
17	Off-balance-sheet exposure at gross notional amount	3'340
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance-sheet items (sum of lines 17 and 18)**	**3'340**
Exempted exposures in accordance with Article 429 (7) and (14) CRR (on- and off-balance-sheet)		
EU-19a	(Intra-group exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) No. 575/2013 (on- and off-balance-sheet))	
EU-19b	(Exempted exposures in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on- and off-balance-sheet))	
Capital and total exposure measure		
20	**Tier 1 capital**	**1'031'403**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**7'213'742**
Leverage ratio		
22	Leverage ratio	14.30
Application of transitional provisions and amount of derecognised trust items		
EU-23	Application of transitional provisions for the definition of the capital measure	
EU-24	Amount of derecognised trust items in accordance with Article 429 (13) of Regulation (EU) No. 575/2013	

Table 34: Leverage ratio common disclosure template – breakdown of on-balance sheet risk exposures, excluding derivatives, securities financing transactions (SFTs), and exempted risk exposures

EURk		CRR leverage ratio exposure (reporting date Dec. 31, 2020)
EU-1	Total on-balance-sheet exposures, excluding derivatives, securities financing transactions (SFTs), and exempted exposures; of which:	7'233'860
EU-2	Trading book exposures	
EU-3	Banking book exposures; of which:	7'233'860
EU-4	Covered bonds	
EU-5	Exposures to central governments or central banks	711'248
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as exposures to central governments	303'903
EU-7	Institutions	
EU-8	Secured by mortgages on immovable property	
EU-9	Retail exposures	2'549'326
EU-10	Corporates	2'963'939
EU-11	Exposures in default	269'000
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	436'444

LIST OF TABLES

GLOSSAR

ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AG	Aktiengesellschaft (stock corporation)
AK	Arbeitskreis (task force)
BaFin	German Federal Financial Supervisory Authority
BAIT	Bankaufsichtliche Anforderungen an die IT (German banking supervisory requirements for IT)
BSC	Balanced scorecard
CDS	Credit default swaps
CISO	Chief Information Security Officer
CP	Commercial paper
CRD	Capital Requirements Directive – EU Directive 2013/36/EU
CRR	Capital Requirements Regulation – Regulation (EU) No. 575/2013
DIP	Debt Issuance Programme
EBT	Earnings before taxes
ECAI	External Credit Assessment Institution
EUR	Euros
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IT	Information technology
KfW	Kreditanstalt für Wiederaufbau (German state-owned development bank)
KGaA	Kommanditgesellschaft auf Aktien (limited partnership with shares)
SME	Small and medium-sized enterprise
CRSA	Credit Risk Standard Approach
KWG	Kreditwesengesetz (German Banking Act)
LCR	Liquidity Coverage Ratio
MaRisk	Mindestanforderungen an das Risikomanagement (Mini-mum requirements for risk management)
No.	Number
Plc	Public limited company
EURk	Euro thousands
VaR	Value at risk
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

The figures in this Disclosure Report are generally presented in thousands and millions of euros. Rounding may result in differences between indi-vidual values in euros and the actual figure achieved in euros. These difference are not significant in nature.