GRENKE

2020
GRENKE GROUP

ANNUAL REPORT

GROUP KEY FIGURES

	UNIT	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019	Change (%)
NEW BUSINESS LEASING	EURK	2'027'927	2'849'057	–28.8
DACH*	EURk	561'475	630'133	–10.9
Western Europe (without DACH)*	EURk	491'138	734'483	–33.1
Southern Europe*	EURk	550'405	877'797	–37.3
Northern/Eastern Europe*	EURk	328'387	481'606	–31.8
Other regions*	EURk	96'523	125'038	–22.8
NEW BUSINESS FACTORING*	EURK	647'775	663'432	–2.4
of which Germany	EURk	186'281	176'658	5.5
of which International	EURk	461'494	486'774	–5.2
GRENKE BANK				
Deposits per end of period	EURk	1'537'284	884'151	73.9
New business SME lending business incl. microcredit business	EURk	119'274	54'124	120.4
CONTRIBUTIONS MARGIN 2 (CM2) ON NEW BUSINESS				
LEASING	EURK	372'885	485'235	–23.2
DACH*	EURk	82'204	88'436	–7.1
Western Europe (without DACH)*	EURk	97'152	131'133	–25.9
Southern Europe*	EURk	107'067	150'919	–29.1
Northern/Eastern Europe*	EURk	64'226	87'368	–26.5
Other regions*	EURk	22'237	27'379	–18.8
FURTHER INFORMATION LEASING				
Number of new contracts	units	246'510	313'818	–21.5
Mean acquisition value	EURk	8.2	9.1	–9.4
Mean term of contract per end of period	months	48	49	–2
Volume of leased assets per end of period	EURm	9'015	8'474	6.4
Number of current contracts per end of period	units	997'927	942'308	5.9

* Regions:
DACH: Germany, Austria, Switzerland
Western Europe (without DACH): Belgium, France, Luxembourg, the Netherlands
Southern Europe: Croatia, Italy, Malta, Portugal, Slovenia, Spain
Northern / Eastern Europe: Denmark, Finland, Ireland, Latvia, Norway, Sweden, UK | Czechia, Hungary, Poland, Romania, Slovakia
Other regions: Australia, Brazil, Canada, Chile, Singapore, Turkey, UAE, USA

Consolidated franchise companies:
Leasing: Australia (2x), Canada (3x), Chile, Latvia, Norway, Singapore, USA
Factoring: Hungary, Ireland, Italy, Poland, Portugal, UK

	UNIT	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019	Change (%)
			adjusted[1]	
INCOME STATEMENT				
Net interest income	EURk	407'102	381'501	6.7
Settlement of claims and risk provision	EURk	202'434	136'591	48.2
Total operating expenses	EURk	230'280	229'547	0.3
Operating result	EURk	125'117	166'674	−24.9
Earnings before taxes (EBT)	EURk	115'172	162'775	−29.2
NET PROFIT	EURK	88'440	133'338	−33.7
Net profit attributable to ordinary shareholders	EURk	86'185	134'039	−35.7
Net profit attributable to hybrid capital holders	EURk	7'481	6'531	14.5
Net profit attributable to non-controlling interests	EURk	−5'226	−7'232	27.7
Earnings per share (basic and diluted)	EUR	1.86	2.89	−35.6
Cost/income ratio	percent	43.1	44.4	−2.9
Staff cost	EURk	119'780	120'825	−0.9
of which total remuneration	EURk	98'622	99'815	−1.2
of which fixed remuneration	EURk	77'029	73'450	4.9
of which variable remuneration	EURk	21'593	26'365	−18.1
Average number of employees in full-time equivalent (FTE)	employees	1'863	1'768	5.4

1 Previous year's amounts adjusted (see note 2.3 in the notes to the consolidated financial statements)

	UNIT	Dec. 31 2020	Dec. 31 2019	Change (%)
			adjusted[1]	
STATEMENT OF FINANCIAL POSITION				
Total assets	EURm	7'332	7'098	3.3
Lease receivables	EURm	5'636	5'776	−2.4
Equity persuant to statement of financial position[2]	EURm	1'193	1'143	4.4
Equity persuant to CRR	EURm	1'031	941	9.6
Equity ratio	percent	16.3	16.1	1.2
Embedded value, leasing contract portfolio (excl. equity before taxes)	EURm	664	699	−5.0
Embedded value, leasing contract portfolio (incl. equity after taxes)	EURm	1'657	1'661	−0.2

1 Previous year's amounts adjusted (see note 2.3 in the notes to the consolidated financial statements)
2 Including AT1 bonds (hybrid capital), which are reported as equity under IFRS

CONTENT

LETTER FROM THE BOARD OF DIRECTORS

TO OUR SHAREHOLDERS

GRENKE AG is a healthy company at its core with a SOUND BUSINESS MODEL. We are a reliable financing partner for many thousands of small and medium-sized enterprises worldwide, making us an ANCHOR FOR THE SME SECTOR, even – and especially – in challenging times.

ANTJE LEMINSKY
Chief Executive Officer (CEO)

SEBASTIAN HIRSCH
Chief Financial Officer (CFO)

ISABEL RÖSLER
Chief Risk Officer (CRO)

GILLES CHRIST
Member of the Board

Dear Shareholders,
Ladies and Gentlemen,

We look back on the year 2020 as by far the most challenging year in GRENKE AG's 20-year history.

The Covid-19 pandemic caused a global health crisis with far-reaching consequences for the world economy. To slow the spread of the coronavirus and protect everyone's health, restrictions were placed on public life that affected the overall economic activity in nearly all countries where GRENKE operates.

We responded quickly to the new environment. And we were still able to achieve our communicated quarterly targets even though the pandemic made it almost impossible to reliably predict our new business development for the year 2020 as a whole. By strictly focusing on low-risk new business and implementing volume quotas, we were able to manage our new business at a lower level in a targeted manner and in line with market conditions. Our focus was on small-ticket business with high contribution margins. In addition, we limited our costs. Furthermore, despite the general conditions, the first location was opened in the USA.

We have proven to be a loyal partner to our customers during the pandemic and, naturally, intend to continue doing so. We responded quickly to the changes in the environment, found simple solutions and were able to provide our business partners with entrepreneurial and personal support despite the global crisis.

As GRENKE AG, we have held on to our team and have not cut any jobs. Our workforce is the backbone of our company, which has been successful even during the crisis, and we are proud of our employees.

Our focus right from the start of the pandemic was on preserving our room to manoeuvre in the short- to medium-term by building up a high liquidity position at an early stage.

As a result of all these measures, we have successfully secured our contribution margin 2 and have even increased our CM 2 margin above the previous year's level.

We now look forward together and hope that we will all return to a more familiar economic environment as soon as possible and step by step through the use of vaccines. The subsiding of the wave of infections should increasingly lead to a revival in overall economic activity and ultimately be reflected in the investment behaviour of our customers. The pandemic has also promoted the awareness of digitalisation in all areas of life. We expect this to create more demand for our solutions, which is precisely why it was important for us to stand by our partners during the crisis and hold on to our team.

A second extraordinary challenge in GRENKE's corporate history was the short-seller report published on September 15, 2020, and the subsequent reactions. Upon our recommendation, the Supervisory Board commissioned the auditor KPMG and the auditing firm Warth & Klein Grant Thornton to review the facts after the report was publicised. We also worked with the auditing firm Mazars, which was mandated by the German Federal Financial Supervisory Authority (BaFin) to complete the special audit launched for this occasion. The contents of the short-seller report and the resulting consequences to date are presented in this annual report.

Dear shareholders, we were able to quickly refute many of the serious allegations made by the short seller. An interim report by Mazars, commissioned by BaFin, has exonerated us on important points. We have also already responded to material findings from the ongoing audits and have taken measures that have already been partially implemented. It is important that your GRENKE AG is a healthy company at its core with a sound business model. We are a reliable financing partner for many thousands of small and medium-sized enterprises worldwide, making us an anchor for the SME sector, even – and especially – in challenging times.

Our franchise concept has contributed significantly to our growth over the past two decades. The acquisitions of franchise companies made to date have been described by the auditing firm Warth & Klein as positive for the GRENKE Group in their entirety. We intend to acquire all outstanding franchise companies and integrate them into the GRENKE Group by 2022 if possible. The consolidation of these companies is already taking place regardless of the planned acquisition, and we are already showing this for the restated prior year. It is an expression of our economic strength to rely on the establishment of our own companies in our expansion strategy in the future.

We have provided transparent information about Mazars' points of criticism. This concerns, among other things, internal processes, further development potential in terms of compliance and governance, as well as organisational money laundering prevention. You can rest assured, dear shareholders, that we have actively taken up the points of criticism and are consistently working through them in order to meet our own standards in all these areas as well.

In addition to the engagement of the auditors and the decision to integrate the franchises, we made the following key decisions in the reporting year together with the Supervisory Board: We installed a chief risk officer at the level of the Board of Directors by hiring Isabel Rösler. Sebastian Hirsch was officially appointed as CFO. Internal Audit was made a top priority and is now the responsibility of Antje Leminsky. Together with external consultants, we have been examining the processes for Internal Audit and Compliance since December 2020 and are continuing to advance both areas. This also involves an increase in staff. We have decided to discontinue certain GRENKE Band lending transactions with small and medium-sized enterprises and to strengthen the Bank's Board of Directors.

The key figures of the past financial year 2020 demonstrate the solidity, profitability and performance of the GRENKE Group. On the basis of a 28.8 percent reduction in leasing new business of EUR 2,027.9 million and a net profit of EUR 88.4 million (–33.7 percent), the Board of Directors and the Supervisory Board propose a dividend of EUR 0.26 per share to the Annual General Meeting.

Looking ahead, we want to return to the business level of 2019 as quickly as possible and continue our growth path after this stage. On this path, 2021 will be an important transition year. A reliable forecast for the volume of new business in 2021 is also difficult because the start of the year was again under uncertain omens and the course for the year as a whole is always set in the first few months. Primarily due to the pandemic and the burdens of the audits, we expect leasing new business to be between EUR 1.7 billion and EUR 2.0 billion in 2021. In any case, we want to keep our focus on profitability. Even though the pandemic will continue to occupy us for some time and we must also assume that risk provisioning will be higher by historical standards in 2021, with a loss rate of between 1.9 percent and 2.2 percent, according to our current planning we expect a net profit of between EUR 50 million and EUR 70 million for the current financial year.

However, we can only achieve our goals for the 2021 financial year with the personal commitment of our employees, most of whom had to work from home for the first time last year to protect themselves and their colleagues from contracting the coronavirus. We would like to express our sincere thanks for their outstanding commitment in these past, extremely difficult months.

Equally, we would like to thank our Supervisory Board, which was also confronted with extraordinary tasks last year and worked all the more intensively and closely with us.

Last but not least, we would like to express our sincere thanks to you, our shareholders, and all those who have accompanied us along the way. After all, it was your trust and patience that was put to the test, especially towards the end of the financial year, and to an extent that was previously unimaginable.

GRENKE AG is a healthy company with a functioning business model. We are profitable even in times of crisis and strategically very well positioned in our markets. After the 2021 transitional year, we intend to return to our growth path and are working to do this with all our might!

Yours Sincerely,

The Board of Directors of GRENKE AG

Antje Leminsky
Chief Executive Officer

Gilles Christ
Member of the Board

Sebastian Hirsch
Chief Financial Officer

Isabel Rösler
Chief Risk Officer

"Digitalisation fuels our global business. We will continue to evolve to the satisfaction of our customers, investors and regulators."

ANTJE LEMINSKY
Chief Executive Officer (CEO)

SCOPE OF RESPONSIBILITY:

Group Strategy, Internal Audit, IT, Human Resources, Process Management

LONG-TERM GROWTH OPPORTUNITIES

As a global financing partner for small and medium-sized enterprises, GRENKE has true competitive advantages and a strong market position thanks to a vast network of sales partners. These are the best prerequisites for long-term profitable growth.

ALWAYS THERE FOR YOU

Employees (FTE)

1,863

A year-on-year increase of 5 percent (GRENKE Group, 2019: 1,769).

CUSTOMER PROXIMITY

Countries / Markets

33

Available to our customers on 5 continents.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The 2020 financial year was marked by major challenges. The outbreak of the COVID-19 pandemic at the beginning of the year, the spread of the pandemic to Europe and the USA in the spring, and the resulting global economic crisis all had a significant impact on the GRENKE Group's new business and results. Despite the adverse conditions, we are confident about the future thanks to our cost savings, a good liquidity position, and strong profitability. We are convinced that we will be able to return to growth once the COVID-19 pandemic subsides. The short-seller attack presented our Company with an additional challenge, to which we have decisively, transparently, and steadfastly responded. For over 40 years, GRENKE has stood for trust in the marketplace and comprehensive leasing, banking, and factoring services for small and medium-sized enterprises. With a global presence in 33 countries, we have a solid platform for future sustainable growth. The value of our business model was confirmed by the independent auditors mandated by the Supervisory Board, KPMG AG, and Warth & Klein Grant Thornton, as well as the by the review of the auditing and consulting firm Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft on behalf of the German Federal Financial Supervisory Authority.

On behalf of the Supervisory Board, I would like to thank all employees of the GRENKE Group for their tremendous commitment this past year. We would also like to thank the Board of Directors of GRENKE AG, who led the Company with composure in a historic economic crisis and under the pressure of a short-seller attack. I would also like to take this opportunity to thank you, our shareholders, for the trust you have placed in GRENKE AG, the Board of Directors, and the employees.

Cooperation between the Supervisory Board and the Board of Directors

During the 2020 financial year, the Supervisory Board dealt thoroughly with the situation of the Company and fully performed the duties incumbent upon it by law, the Articles of Association, and the Rules of Procedure. We continuously monitored the work of the Board of Directors, supported it in an advisory capacity in the Company's management and its strategic development, and jointly discussed significant business transactions. We routinely assured ourselves of the legality, appropriateness, and regularity of the activities of the Board of Directors.

The cooperation between the Supervisory Board and the Board of Directors was always trustworthy and comprehensive during the 2020 financial year. The Board of Directors provided us with regular, timely, and comprehensive information, both verbally and in writing, on relevant developments throughout the GRENKE Group. The reports of the Board of Directors were critically reviewed by the Supervisory Board for plausibility. The scope and subject matter of the reporting by the Board of Directors always fully met our requirements. The Supervisory Board voted on reports and draft resolutions submitted by the Board of Directors after a thorough examination when required by law, the Articles of Association, or the Rules of Procedure. All matters requiring approval were submitted by the Board of Directors in a timely manner.

As the Chair of the Supervisory Board, I was also in regular contact with the Board of Directors and individual members of the Board of Directors outside of the meetings regarding the current course of business, including the banking business. This ensured a constant exchange of information with the Board of Directors and ensured that the Supervisory Board was always informed about current developments and business transactions in the GRENKE Group. The focus of the personal discussions with members of the Board of Directors was on considerations regarding acquisitions and investments, refinancing decisions, compliance matters, the Company's risk situation, risk management, controlling, and personnel issues. Furthermore, starting in September 2020, the handling of the short-seller attack was also the subject of the regular weekly video and telephone conferences between the Board of Directors and the Supervisory Board.

In the reporting period, there were no indications of conflicts of interest on the part of the Board of Directors or Supervisory Board members that would need to be disclosed immediately to the Chair of the Supervisory Board or the Chair of the Board of Directors and reported on.

Composition and areas of responsibility of the Board of Directors

In 2020, the Board of Directors of GRENKE AG consisted of the Chair of the Board of Directors Antje Leminsky, who was responsible for the IT and Human Resources Strategy, Consolidated Group Strategy, Risk Controlling, and Credit Centre Departments. At the initiative of the Supervisory Board, Ms Leminsky also assumed responsibility for the Internal Audit Department as of October 29, 2020. As a member of the Board of Directors, Sebastian Hirsch has responsibility for the Controlling, M&A, Treasury, Legal, Tax, and Investor Relations Departments. Mr Hirsch was also appointed Chief Financial Officer by decision of the Supervisory Board as of October 29, 2020. Gilles Christ has responsibility for the areas of Marketing, Sales, and Franchise, while Mark Kindermann was responsible as a member of the Board of Directors for the areas of Administration, Internal Control Systems (ICS), Human Resources, Accounting, Quality Management, Internal Services, Disposals, and Property and Facility Management. Isabel Rösler was added as a fifth member of the Board of Directors with effect from January 1, 2021. As Chief Risk Officer (CRO), Ms Rösler has been responsible for the areas of Risk Controlling, Risk Management Compliance, Money Laundering Prevention, and Data Protection since January 1, 2021. She has been appointed for a 3-year term, until December 31, 2023. On February 8, 2021, we complied with Mark Kindermann's wish to terminate his contract prematurely and resign from his Board of Directors mandate and all other Consolidated Group mandates. Mr Kindermann's resignation was preceded by a hearing letter from the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin), expressing criticism of internal audit procedures and procedural weaknesses in the area of compliance. BaFin's criticism referred to periods in which both areas had fallen under Mr Kindermann's responsibility. Following his resignation, the Supervisory Board reassigned the responsibilities of the Board of Directors' members on February 10, 2021. Chair of the Board of Directors Antje Leminsky took over the Personnel Department, while the essential administrative functions of the back office were transferred to Isabel Rösler. Sebastian Hirsch was given responsibility for Consolidated Group Accounting.

Composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board of GRENKE AG consists of six members. Jens Rönnberg, who was appointed to the Supervisory Board by the Mannheim Local Court at the request of GRENKE AG following the resignation of Heinz Panter, was elected to the Supervisory Board by the Annual General Meeting on August 6, 2020 by way of a by-election. After the Deputy Chair of the Supervisory Board Wolfgang GRENKE laid down his Supervisory Board mandate effective September 21, 2020, the Supervisory Board elected Jens Rönnberg as the interim Deputy Chair on September 30, 2020.

The following persons were members of the Supervisory Board in the 2020 financial year:

Name	Position	Member of the Supervisory Board since	Current mandate term	Age	Profession	Further Supervisory Board and Board of Directors mandates
Prof Ernst-Moritz Lipp	Chair of the Supervisory Board (since May 2005)	May 2003	Until Annual General Meeting 2023	69 years	Economist	GRENKE BANK AG, Chair of the Supervisory Board
Mr Jens Rönnberg	Interim Deputy Chair of the Supervisory Board (since October 2020)	November 2019	Until Annual General Meeting 2022	63 years	Graduate Business Administrator/Auditor and tax consultant	None
Mr Wolfgang GRENKE	Deputy Chair (mandate suspended)	May 2018 (mandate suspended effective September 21, 2020)	Until Annual General Meeting 2023	70 years	Founder and entrepreneur	GRENKE Service AG, Chair of the Supervisory Board GRENKE BANK AG, member of the Supervisory Board KSC GmbH & Co. KGaA, Chair of the Supervisory Board
Ms Claudia Karolina Krcmar	Member of the Supervisory Board	May 2019	Until Annual General Meeting 2022	57 years	Business economist	None
Dr Ljiljana Mitic	Member of the Supervisory Board	May 2015	Until Annual General Meeting 2024	51 years	Business economist	Computacenter PLC, member of the Supervisory Board
Mr Florian Schulte	Member of the Supervisory Board	May 2010	Until Annual General Meeting 2024	50 years	Master of Business Administration	Upside Beteiligungs AG, member of the Supervisory Board

Supervisory Board 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 also made decisions outside of the meetings by means of circular resolutions. Due to the need for infection control during the ongoing COVID-19 pandemic, a total of ten of the meetings were held as telephone or video conferences. The attendance rate at the Supervisory Board meetings was 95 percent, as Wolfgang GRENKE did not attend the meetings after September 21, 2020 due to the suspension of his mandate. Aside from his absence, the participation rate was 100 percent. On August 4, 2020, we held our regular internal Supervisory Board meeting without the participation of the Board of Directors. With the exception of this meeting, the entire Board of Directors also participated in all regular and extraordinary meetings of the Supervisory Board. A detailed overview of the participation in meetings of the Supervisory Board can be found in the following table. All members of the Supervisory Board attended half or more of the meetings of the Supervisory Board or the committees to which he or she belongs.

Date	Location / Type of meeting	Prof Ernst-Moritz Lipp	Wolf-gang	Claudia Krcmar	Dr Ljiljana Mitic	Jens Rönn-berg	Florian Schulte	Antje Lemin-sky, CEO	Sebas-tian Hirsch, CFO	Mark Kinder-mann, Board of Di-rectors	Gilles Christ, Board of Di-rectors
Feb. 3, 2020	Baden-Baden; Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Feb. 17, 2020	Baden-Baden; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Mar. 27, 2020	By phone; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Apr. 23, 2020	By phone; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
May 18, 2020	By phone; Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Aug. 4, – Aug. 5, 2020	Baden-Baden; internal Supervisory Board meeting	√	√	√	√	√	√	–	–	–	–
Aug. 4, – Aug. 5, 2020	Baden-Baden; Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Aug. 27, 2020	By phone; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Sep. 9, 2020	By phone; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Sep. 21, 2020	By phone; extraordinary Supervisory Board meeting	√	√	√	√	√	√	√	√	√	√
Sep. 30, 2020	By phone; extraordinary Supervisory Board meeting	√	**	√	√	√	√	√	√	√	√
Nov. 11, 2020	By phone; extraordinary Supervisory Board meeting	√	**	√	√	√	√	√	√	√	√
Nov. 23, 2020	By phone; Supervisory Board meeting	√	**	√	√	√	√	√	√	√	√
Dec. 7, 2020	By phone; extraordinary Supervisory Board meeting	√	**	√	√	√	√	√	√	√	√

√ = Participation --- = No Participation ** = No participation, as mandate is suspended

All Supervisory Board meetings included a discussion on the Board of Directors' reports on strategic issues and the development of the GRENKE Group. Regular topics of the Supervisory Board's discussions were current business development, the monitoring of the international units, the discussion of sales development, administrative topics, the status of corporate planning, and personnel development matters. Starting in September 2020, the short-seller attack was a permanent component of the discussions at both the ordinary and extraordinary meetings of the Supervisory Board, as well as at the regular weekly video and telephone conferences between the Board of Directors and the Supervisory Board. Due to the high importance of digitalisation for business success, GRENKE digital GmbH and the topic of cybersecurity were also regular items on the agenda.

At our ordinary meeting on **February 3, 2020,** we discussed the annual and consolidated financial statements of GRENKE AG for the 2019 financial year, as well as the non-financial report pursuant to Section 171 (1) of the German Stock Corporation Act (Aktiengesetz – AktG), and the combined management report. At the start of the meeting, the auditors of KPMG AG informed us of the audit environment, the audit approach and the audit focus. At this meeting, KPMG AG also confirmed the independence of the auditors vis-à-vis GRENKE AG. The Chair of the Audit Committee addressed key milestones in the 2019 financial year and discussed potential improvements with respect to audit planning for 2020. The Supervisory Board unanimously adopted the Report of the Supervisory Board in GRENKE AG's 2019 annual financial report. Subsequently, the declaration of the Chair of the Supervisory Board on the appropriateness of the remuneration of the Board of Directors was discussed and signed by the Chair with the consent of the Supervisory Board. The Board of Directors presented the business development plan for the 2020 financial year, which we approved. Another item on the agenda was a resolution on the proposal to the Annual General Meeting for the appropriation of the unappropriated surplus generated in 2019 and the amount of the dividend, as well as the agenda for the 2020 Annual General Meeting and its broadcast on the internet, which were discussed and unanimously approved. Prior to the meeting, the Board of Directors and the Supervisory Board of GRENKE AG had already unanimously approved this year's Declaration of Conformity in accordance with Section 161 AktG by way of circulation on January 21, 2020. We also unanimously resolved to issue the declaration on the adequacy of risk management procedures and the concise risk declaration as already resolved by the Board of Directors on January 9 and 10, 2020, respectively. Subsequently, the proposal of the Audit Committee to elect KPMG AG as auditor for the 2020 financial year was unanimously approved. KPMG AG was accordingly proposed to the 2020 Annual General Meeting as the auditor for the 2020 financial year. The Board of Directors then reported on the current business development, sales, the refinancing situation at the Company, and developments in the IT area. Finally, the composition of the Supervisory Board committees was discussed. Dr Ljiljana Mitic was elected as a new member of the Personnel Committee, Prof Ernst-Moritz Lipp resigned from the Audit Committee at his own request, and Jens Rönnberg was elected as a new member of the Audit Committee. The franchise model and potential acquisitions were also discussed at the end of the meeting.

Our extraordinary meeting on **February 17, 2020** dealt with possible international acquisitions in the franchise network. Furthermore, the current status of the risk strategy, business strategy, and IT strategy was presented by the Board of Directors and discussed with us. The definition of strategic targets was a particular point of discussion between us and the Board of Directors.

The focus of our extraordinary meeting on **March 27, 2020,** which was conducted via video conference, was the handling of the growing COVID-19 pandemic and its impact on the course of business. We discussed the development of new business, the liquidity outlook, risk management, and cost planning with the Board of Directors. In view of the COVID-19 pandemic, we also had a detailed discussion on how to deal with possible acquisitions and the direct impact of the pandemic on our international franchise partners.

On **April 23, 2020,** the Supervisory Board convened for an extraordinary meeting via telephone conference. In this meeting, the Board of Directors informed us in depth about the current and foreseeable business development during the COVID-19 pandemic, as well as about the new business and the liquidity situation. We also discussed the road map for the postponed Annual General Meeting to be conducted virtually. Regarding the dividend proposal, we agreed to maintain the dividend level of EUR 0.80 per share, as well as to offer the Annual General Meeting a so-called Scrip Dividend. Finally, the Board of Directors informed us of the status of the effects of the pandemic on the franchise companies.

In the ordinary meeting of the Supervisory Board on **May 18, 2020,** which was held as a video conference, we dealt with the current business development, new business, the refinancing situation, and the current analyst reports on the capital market. We discussed these agenda items in detail with the Board of Directors of GRENKE AG. We also discussed the cost plan for the current financial year and the topic of cybersecurity at the Company in light of the pandemic-related increase in the use of digital solutions. The Board of Directors also informed us of the status of future products and services. The evaluation of possible acquisitions, the adjusted capital planning due to the pandemic, and the long-term corporate strategy were discussed in detail. We then dealt with the agenda of the virtual Annual General Meeting on August 6, 2020 and the audit planning of KPMG AG for the annual audit for the 2020 financial year.

On **August 4, 2020,** we held an internal Supervisory Board meeting to discuss the employment contracts of selected managers.

In our strategy meeting on **August 4 and 5, 2020,** together with the Board of Directors, we discussed business developments, sales, and the refinancing situation, as well as the key developments in the second quarter of 2020. In view of the ongoing pandemic and its effects, we dealt intensively with the development of costs in the current financial year. The Board of Directors informed us of the development of GRENKE digital GmbH and we discussed cybersecurity. Another item on the agenda was the preparations for the upcoming virtual Annual General Meeting. In the subsequent strategy discussion with the Board of Directors, we spoke in detail with the management about the goals and results, the vision for the Company, and possible strategic steps for medium- and long-term implementation. Possible working models in the Consolidated Group and the organisational structure were discussed extensively. The respective international franchise companies and their outlook were then analysed and debated in detail, as were GRENKE AG's investments and joint ventures. The Consolidated Group's digital strategy and the performance of the Banking segment were further items on the meeting's agenda.

In the extraordinary meeting on **August 27, 2020,** we dealt with the Board of Directors' multi-year planning in a video conference and discussed relevant issues regarding new business, lease volumes, and expense items. The Board of Directors also presented the business performance for the month of August.

On **September 9, 2020,** we met with the entire Board of Directors via video conference for the extraordinary Supervisory Board meeting. In this meeting, we discussed in detail and adopted the new Rules of Procedure of the Supervisory Board and the Board of Directors. The agenda item "Factoring" from the strategy discussion on August 5, which had been postponed due to time constraints, was included in this meeting and discussed extensively. The Board of Directors informed us about the current situation on the capital markets, both with regard to the valuation of GRENKE shares by analysts and with regard to trading in bonds. Potential acquisitions of franchise companies and the underlying valuation criteria were discussed later in great detail. In order to achieve results quickly, the Supervisory Board commissioned an audit of the planned valuation models with the existing auditor KPMG.

In connection with the short-seller attack by Viceroy Research on September 15, 2020, the Board of Directors proposed to the Supervisory Board that a special expert opinion be prepared in order to discuss the allegations made regarding the Consolidated Group's economic basis. On September 18, we commissioned the auditing firm KPMG AG to prepare such a special audit.

The extraordinary meeting in the form of a video conference on **September 21, 2020** dealt exclusively with the Company's statement of September 21, 2020 and the decision of Supervisory Board member Wolfgang GRENKE to suspend his mandate until further notice. We took note of Mr GRENKE's decision and thanked him for his willingness to support us and the Board of Directors in the current situation. We also decided to commission the auditing firm Warth & Klein Grant Thornton to review the franchise model.

The extraordinary meeting of the Supervisory Board on **September 30, 2020** via video conference focused on an update of the current audit activities of KPMG AG and Warth & Klein Grant Thornton. We also elected Jens Rönnberg as Deputy Chair of the Supervisory Board on an interim basis for the period during which Wolfgang GRENKE's mandate would be suspended. We also elected Prof Ernst-Moritz Lipp as a member of the Audit Committee and Jens Rönnberg as a member of the Personnel Committee for this period.

At the extraordinary Supervisory Board meeting on **November 11, 2020,** we discussed current personnel issues and the status of the ongoing audit activities.

On **November 23, 2020,** we held the fourth ordinary Supervisory Board meeting of the year. After dealing with the current business development, sales, refinancing, and the topic of cybersecurity, we extensively discussed the status of the audits as well as the possibility of integrating the franchise system. This was followed by an efficiency review of the work of the Supervisory Board by the Supervisory Board members. Finally, the auditing and consulting firm Ebner Stolz Mönning Bachem Wirtschaftsprüfer Steuerberater Rechtsanwälte Partnerschaft mbB conducted a Supervisory Board-specific training event for the members of the Supervisory Board on current developments in supervisory law and accounting. All members of the Supervisory Board took part in the training course, the cost of which was borne by the Consolidated Group.

The extraordinary meeting of the Supervisory Board on **December 7, 2020** dealt mainly with the preparation of the 2020 annual financial statements and personnel matters. The items on the agenda were discussed in depth with all members of the Supervisory Board and the Board of Directors.

Committees of the Supervisory Board and their activities

In order to perform our duties efficiently and in accordance with legal requirements and our Articles of Association, we have formed an Audit Committee, a Personnel Committee and a Strategy Committee. The Chairs of these committees reported on the work of the committees to the full Supervisory Board at its meetings.

The **Audit Committee** is primarily concerned with the audit of the accounting, the monitoring of the accounting process, as well as with the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements, and compliance. The topic of compliance also includes compliance with the German Banking Act (Kreditwesengesetz – KWG) and the whistleblower system. The members of the Committee have special knowledge in these areas. The focal points of the audit were determined by the Audit Committee. The independence of the auditor and the auditor's fee agreement were also reviewed. During the reporting year, the Audit Committee did not come to any conclusions that called into question the independence of the auditor or the quality of the audit. The Audit Committee agreed with the auditor that the auditor would inform the Committee immediately of all relevant material findings and events that come to the auditor's attention during the audit. In addition, it was agreed with the auditor that the auditor would inform the Audit Committee and make a note in the audit report if facts were discovered during the audit that revealed a misstatement in the declaration on the German Corporate Governance Code submitted by the Board of Directors and the Supervisory Board.

The Audit Committee prepared the meeting of the Supervisory Board to adopt the annual financial statements and approve the 2019 consolidated financial statements on February 3, 2020. In the presence of the auditor, the Audit Committee dealt extensively with the annual financial statements. In addition, the Audit Committee discussed and reviewed the quarterly reports to be published in the reporting year in detail with the Board of Directors.

The Audit Committee consisted of the members of the Supervisory Board:

- // Florian Schulte (Chair)
- // Prof Ernst-Moritz Lipp (member until February 3, 2020 and interim member since September 30 due to the suspension of Mr GRENKE's mandate)
- // Wolfgang GRENKE (mandate suspended as of September 21, 2020)
- // Jens Rönnberg (since February 3, 2020)

The Audit Committee's Chair Florian Schulte has extensive knowledge and experience in the application of accounting principles and internal control procedures from his many years as a managing director, CEO, and board member of renowned companies and organisations, and as a consultant for corporate finance and strategy. He is sufficiently familiar with the audit of the financial statements. Mr Schulte is independent of the GRENKE Group.

The Committee met seven times in the 2020 financial year; the auditor was present at two of the Committee meetings. The Board of Directors participated in all meetings of the Audit Committee, either as a whole or individually. The Chair of the Audit Committee also maintained regular contact with the auditor outside of the meetings.

Audit Committee Date	Location	Florian Schulte (Chair)	Prof Ernst-Moritz Lipp	Wolfgang	Jens Rönnberg***	Antje Leminsky, CEO	Sebastian Hirsch, CFO	Mark Kindermann, Board of Directors	Gilles Christ, Board of Directors
Jan. 28, 2020	Baden-Baden	√	√	√		√		√	√
Feb. 3, 2020	Baden-Baden	√	√	√	√	√	√	√	√
Apr. 23, 2020	Conference call	√	√*	√	√	√	√		
Jul. 27, 2020	Conference call	√	√*	√	√	√	√		
Oct. 21, 2020	Conference call	√	√		√	√	√	√	√
Nov. 23, 2020	Conference call	√	√		√	√	√	√	√
Dec. 14, 2020	Conference call	√	√		√	√	√	√	√

* Member of the Audit Committee until February 3, 2020 and interim member since September 30, 2020. Participated as a guest on April 23, 2020 and July 27, 2020
** Mandate suspended effective as of September 21, 2020. Member of the Audit Committee until September 21, 2020
*** Member of the Audit Committee since February 3, 2020

The **Personnel Committee** (Executive Committee) is responsible for concluding, amending, and terminating the employment contracts with the members of the Board of Directors. In addition, the proposals for the variable remuneration of the Consolidated Group's executives were submitted to the Committee for approval. Furthermore, it deals with the strategic aspects of human resources planning.

The members of the Personnel Committee were:
// Wolfgang GRENKE, Committee Chair (mandate suspended as of September 21, 2020)
// Prof Ernst-Moritz Lipp
// Dr Ljiljana Mitic (since February 3, 2020)
// Jens Rönnberg (since September 30, 2020 on an interim basis due to the suspension of Mr GRENKE's mandate)

The Personnel Committee met twice in the 2020 reporting year. On December 1, 2020, the meeting dealt with the evaluation of candidates for the position of Chief Risk Officer and the discussion of variable remuneration components for executives. The meeting on December 21, 2020 dealt with various personnel topics.

Personnel Committee Date	Location	Prof Ernst-Moritz Lipp	Dr Ljiljana Mitic	Jens Rönnberg	Wolfgang GRENKE*
Dec. 1, 2020	Conference call	√	√	√	
Dec. 12, 2020	Conference call	√	√	√	

* Mandate suspended as of September 21, 2020

The **Strategy Committee,** which was established in 2018, met once in the reporting period. The Committee members Prof Lipp and Wolfgang GRENKE attended the meeting together with all members of the Board of Directors. The Committee deals with fundamental issues of corporate direction and strategy. As the mandate of Wolfgang GRENKE has been suspended since September 21, 2020, we have refrained from appointing a replacement to the Strategy Committee. The plenum has been entrusted with the tasks of the Strategy Committee for the time being.

Strategy Committee Date	Location	Prof Ernst-Moritz Lipp	Wolfgang GRENKE*	Antje Leminsky, CEO	Sebastian Hirsch, CFO	Mark Kindermann, Board of Directors	Gilles Christ, Board of Directors
Jan. 31, 2020	Baden-Baden	√	√	√	√	√	√

* Mandate suspended since September 21, 2020

Efficiency review

The Supervisory Board regularly evaluates the efficiency of its activities as a whole and of its Committees. The basis for this evaluation is a comprehensive, company-specific questionnaire, which was developed on the basis of consulting companies and is individually adapted to each year's existing situation. The evaluation widely analyses various relevant subject areas of the Supervisory Board's activities. The quantitative and qualitative evaluation of the efficiency of the respective fields of activity of the Supervisory Board is carried out anonymously, and in each case also according to the time spent. The evaluation is conducted in aggregated form, the results are then discussed in the plenum and suggestions for improvement are recorded for each subject group. These are incorporated into the work of the Committees. This measure was carried out at the Supervisory Board meeting on November 23 by the Chair of the Audit Committee, Florian Schulte.

Corporate governance and Declaration of Conformity

We regularly monitor the application and further development of corporate governance regulations. In accordance with Section 161 AktG, the Board of Directors and the Supervisory Board of GRENKE AG issued the Declaration of Conformity with the DCGK on January 30, 2021 and declared that the recommendations of the Government Commission on the German Corporate Governance Code (version of December 16, 2019) published by the German Federal Ministry of Justice in the official section of the German Federal Gazette (Bundesanzeiger) have been and are complied with, taking into account the exceptions stated in the Declaration. The Declaration of Conformity with the DCGK adopted by us on January 30, 2021 is reproduced in the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB). The Declaration of Conformity and its update of May 18, 2021 have also been made permanently available to shareholders on the Company's website under the Corporate

Governance section. It is also reproduced in the corporate governance statement pursuant to Sections 289f and 315d of the German Commercial Code (Handelsgesetzbuch – HGB).

Education and training measures

In the 2020 financial year, the entire Supervisory Board took part in a supervisory board-specific training event organised by the auditing and consulting firm Ebner Stolz Mönning Bachem Wirtschaftsprüfer Steuerberater Rechtsanwälte Partnerschaft mbB. This event dealt with the current developments in supervisory law and accounting. The cost of the training was borne by the Consolidated Group. In addition, the members of the Supervisory Board each took part in individual training.

Annual and consolidated financial statements and audit

The annual financial statements of GRENKE AG and the consolidated financial statements prepared by the Board of Directors as of December 31, 2020, the combined management report of GRENKE AG and the GRENKE Group for the 2020 financial year in accordance with Sections 315 (5) and 298 (2) HGB, and the Board of Directors' proposal for the appropriation of GRENKE AG's unappropriated surplus were all submitted to the Supervisory Board in a timely manner.

The annual financial statements and the condensed financial statements and interim management report for the first six months of the 2020 financial year were audited or reviewed by KMPG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The accounting underlying GRENKE AG's annual financial statements was carried out in accordance with the provisions of HGB and taking into consideration accounting regulations for banks. The audit of the annual financial statements as of December 31, 2020 under commercial law was conducted in accordance with the provisions of Section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW).

The consolidated financial statements and the group management report for the financial year from January 1 to December 31, 2020 were prepared in accordance with Section 315e (1) HGB on the basis of the International Financial Reporting Standards as adopted by the EU and in application of German Accounting Standard No. 20. The audit of the consolidated financial statements was conducted in accordance with the provisions of Section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the IDW (DIW PS 200). The annual financial statements of GRENKE AG and the consolidated financial statements of the GRENKE Group were each issued with an unqualified audit opinion.

The Supervisory Board discussed and examined in detail the annual financial statements submitted by the Board of Directors and the auditor, as well as the non-financial statement to be prepared. The responsible auditor attended the Supervisory Board's balance sheet meeting and reported on the key results of the audit and confirmed the timely submission of the non-financial statement, as required by law. The Supervisory Board also dealt with the mandatory disclosures pursuant to Sections 289a and 315a HGB as well as the related report. The Supervisory Board has examined and adopted these disclosures and explanations, which it considers to be complete in the combined management report. After its own examination, the Supervisory Board raised no objections to the results of the audit of the annual financial statements by the auditor and adopted the annual financial statements of GRENKE AG and approved the consolidated financial statements of GRENKE AG on May 18, 2021. The Supervisory Board concurred with the Board of Directors' proposal for the appropriation of GRENKE AG's unappropriated surplus.

The coming year is expected to be dominated by the economic recovery from the global economic crisis triggered by the COVID-19 pandemic. We see GRENKE as well-equipped for the challenges that lie ahead and will resolutely take the necessary steps associated with them.

We would like to thank you, dear shareholders, for your trust and loyalty to our company and look forward to you continuing to accompany us on our journey.

Baden-Baden, May 18, 2021

On behalf of the Supervisory Board

Prof Dr Ernst-Moritz Lipp
Chair

SHARES AND INVESTOR RELATIONS

1. Development on the financial markets

The capital markets in the year 2020 were also marked by the COVID-19 pandemic and were correspondingly volatile. The DAX began the trading year on January 2, 2020 at a level of 13,233 points and peaked in the first half of the year at 13,795 points on February 17, 2020. The DAX marked its high for the year on December 29, 2020 at 13,903 points. Almost simultaneously, the MDAX, which started the year at 28,294 points, reached its high for the first half-year on February 20 at 29,438 points and its high for the year on December 29, 2020 at 31,009 points. The SDAX also reached its high for the first half of 2020 of 13,088 points on February 17, 2020 and a high for the year of 14,810 points on December 29, 2020.

With the spread of the COVID-19 pandemic to Europe and the USA and the resulting lockdowns to contain the spread of the virus, the end of February to mid-March saw a historic fall in prices on the capital markets and a slump in the global economy. On the day of March 9, 2020, the DAX lost 7.94 percent, and on the day of March 12, 2020 it fell 12.24 percent, marking the seventh and second largest one-day losses in the DAX's history. Within one month, the DAX had lost around 40 percent, falling to a low for the year of 8,255 points on March 16, 2020. The MDAX and SDAX had also fallen around 40 percent by March 19, 2020, with the MDAX trading at a year low of 17,714 points on this day and the SDAX reaching its year low of 7,841 points at the same time.

After the initial easing of lockdowns for retail, tourism, and the leisure industry, among others, in the summer of 2020 and continued expansionary signals from the European Central Bank in July 2020, the German DAX, MDAX, and SDAX benchmark indices steadily recovered. The DAX reached the 13,000 point mark again for the first time on July 20, 2020, the MDAX exceeded the 27,000 point threshold again on July 6, 2020, and the SDAX was quoted above the 12,000 point level again for the first time on June 3.

With infection figures on the rise again in autumn 2020, the German government ordered a "lockdown light" from November 2, which was extended in the form of a hard lockdown on December 16 until after the turn of the year. Measures included restrictions specifically on the freedom to travel, the hospitality and event industry, and the tourism industry, as well as far-reaching restrictions in the retail sector from December 16. In the aftermath of announcing these measures, on October 30, 2020, the DAX had fallen again to 11,472 points, the MDAX to 25,665 points, and the SDAX to 11,620 points. The ongoing economic recovery, an improvement in forecasts in November 2020, the outcome of the US presidential election, and the announcement of the approval of the first vaccines against the COVID-19 virus at the beginning of December 2020 all had a positive effect on the stock markets and resulted in a real euphoria on the capital markets. Despite the massive restrictions in the second lockdown, the German stock indices climbed higher in the period from November 1 to the close of trading on December 30, with the DAX rising 18.7 percent, the MDAX 19.7 percent, and the SDAX 27.1 percent.

On December 30, the DAX closed at 13,719 points, or 3.7 percent above its opening price on January 2, 2020. Over the same period, the MDAX gained 8.8 percent to 30,796 points, while the SDAX closed at 14,765 points, equal to 17.7 percent above its opening level for the year.

See page 23 for share price development in 2020. //

2. The GRENKE share

GRENKE AG's shares began the trading year on January 2, 2020 at EUR 93.68. The shares developed largely in sync with the performance of the largest German stock indices in the first two quarters of the year and reached their high for the year of EUR 104.04 on February 12, 2020. In the course of the stock market slump in March 2020, the GRENKE share also fell sharply, reaching a preliminary low of EUR 40.36 on March 19, 2020. GRENKE AG shares also benefited from the subsequent market recovery and were already back above EUR 80.00 temporarily on June 4, 2020. Over the course of the summer, the shares gave back some of their strong price gains and closed at EUR 61.55 on August 31, 2020.

On September 15, 2020, Viceroy Research published a report with several matters relating to GRENKE AG. As a result, the GRENKE AG share price plummeted and reached its low for the year of EUR 23.92 on September 17, 2020. In response to the Viceroy Research report, the Supervisory Board of GRENKE AG commissioned two independent auditing firms at the suggestion of the Board of Directors. KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG) was commissioned to expand audit activities in the context of its activities as the auditor of the Company's annual financial statements. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft (Warth & Klein Grant Thornton) was commissioned to provide an independent expert opinion, among others, on the market conformity of the valuations of past franchise acquisitions and the advantageousness of these acquisitions for GRENKE AG.

On October 5, 2020, the Company provided the first information on the status of the auditors' reviews. By this date, KPMG AG had already received bank confirmations for 98.6 percent of GRENKE AG's cash holdings as of the September 15, 2020 reporting date. GRENKE AG provided further information on the interim status of the commissioned audits on October 20, 2020. It was reported that KPMG AG was able to confirm the existence of 99.2 percent of the Consolidated Group's bank balances at that time. In addition, Warth & Klein Grant Thornton notified the Company's Supervisory Board of the preliminary interim results of the audit, on the basis of which the acquisitions could be described as positive for the GRENKE Consolidated Group.

After receiving the expert opinion from Warth & Klein Grant Thornton on December 16, 2020, GRENKE AG provided information on Warth & Klein Grant Thornton's assessment that the 17 franchise acquisitions to date could be described as positive for GRENKE AG overall. Warth & Klein Grant Thornton assessed GRENKE AG's expansion model as very specific but fundamentally plausible, although the exclusive cooperation with CTP Handels- und Beteiligungs GmbH was only partially plausible. Warth & Klein Grant Thornton continued the audit of the personnel and company law relationships in relation to the ownership structures of the acquired companies. As a consequence of the initial audit results, the Board of Directors of GRENKE AG announced its intention to integrate the existing franchise companies into the Consolidated Group and to expand in the future through its own start-up companies. The reviews of KPMG AG had not been completed at that time and continued beyond the reporting date of December 31, 2020. The reviews of the structure of leasing contracts based on random samples and of the resellers and specialised reseller partners however had not provided any indications that these did not exist.

The special audit in accordance with Section 44 KWG and the audit of the 2019 consolidated financial statements of GRENKE AG by the auditing and consulting firm Mazars GmbH & Co KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Mazars) commissioned by BaFin were not yet completed in financial year 2020, nor was GRENKE AG aware of any interim status of the audits as of December 31, 2020.

As a consequence of the Viceroy Research report, the price of GRENKE shares continued to face increased volatility between September 15, 2020 and October 30, 2020, trading in a range of EUR 29.40 to EUR 44.36. Following the publication of the initial status and results of the reviews in October and December 2020, the share price largely stabilised above the level of EUR 35.00 starting on November 2, 2020 and closed at EUR 38.82 on December 30, 2020. This resulted in an annual share performance of –58 percent and a market capitalisation for GRENKE AG as of the reporting date of EUR 1.8 billion.

3. Stock exchange segment

GRENKE AG's shares in the 2020 reporting year were listed in the Mid-Cap DAX for medium-sized companies, following their move from the SDAX to the MDAX in June 2019. On December 3, 2020, Deutsche Börse announced that GRENKE AG would switch back to the SDAX as of December 21, 2020. The reason for this change was the IPO of Siemens Energy AG, which received “Fast Entry” into the MDAX based mainly on its significantly higher market capitalisation.

4. Trading volume

In the first 179 trading days of the year until the publication of the Viceroy Research report on September 15, 2020, the total trading volume in GRENKE shares on Xetra was around 14.6 million shares. This volume is equal to an average trading volume of around 81,700 shares per day. On September 17, 2020, the daily trading volume on Xetra reached a high for the year at 4.01 million shares. After the publication of the report by Viceroy Research, the trading volume saw a sustained increase and in the period from

September 15, 2020 to December 30, 2020 amounted to 30.0 million shares, or a daily volume of around 400,000 shares. The average trading volume for the year was roughly 176,000 shares per day, with a total volume of around 44.7 million shares in the reporting period.

5. Rating agency assessment

In the 2020 financial year, GRENKE AG's unsubordinated debt was rated at regular intervals by the rating agencies Standard & Poor's and GBB Rating. In the last update of the year on December 10, 2020, GRENKE AG received a BBB+ rating with a long-term outlook of A-2 (negative) from Standard & Poor's. The credit watch set by Standard & Poor's on September 17, 2020 following the publication of the Viceroy Research report was also withdrawn as part of this last update. According to Standard & Poor's, the negative outlook reflects the ongoing audit activities, the current difficult market situation in Europe, and the progress still needed in the area of risk management and in restoring investor confidence. GBB Rating last gave the GRENKE Consolidated Group a negative A- rating in October.

6. Annual General Meeting, dividend and share capital

On August 6, 2020, GRENKE AG held its first virtual Annual General Meeting in the Company's history. The entire event was broadcast live on the Company's website. With 86.77 percent of the share capital represented at the time of the vote, participation was significantly above the previous year's figure of 78.16 percent. The shareholders of GRENKE AG approved the proposal of the Board of Directors and Supervisory Board to distribute a dividend of EUR 0.80 per no-par value share with an optional Scrip Dividend. As a result of the liquidity-preserving issuance of 141,655 new shares, the cash dividend distribution was reduced to EUR 28.0 million. The issue of the Scrip Dividend increased GRENKE AG's share capital from EUR 46,353,918 to EUR 46,495,573.

The Board of Directors and the Supervisory Board of GRENKE AG will propose a dividend payment to the shareholders at the Annual General Meeting in the amount of EUR 0.26 per share for the financial year 2020. This proposal corresponds to a profit distribution of EUR 12.1 million.

7. Shareholder structure

GRENKE AG is a medium-sized family business. The Company has a major shareholder, GRENKE Beteiligung GmbH & Co. KG, which represents family members of Company founder Wolfgang GRENKE. GRENKE Beteiligung GmbH & Co. KG held 40.84 percent of the shares in the Consolidated Group as of the December 31, 2020 reporting date, resulting in a free float of 59.16 percent. The other shareholders with a share of more than 3.00 percent each on the publication date stated in the respective voting rights announcement to be allocated to the free float according to the definition of Deutsche Börse are Universal-Investment GmbH, Acatis Gane Value Event Fonds (9.29 percent), and Investmentaktiengesellschaft für langfristige Investoren TGV (3.11 percent).

8. Analyst rating

GRENKE AG's shares were covered in research reports by nine financial analysts in the 2020 financial year. As of December 31, 2020, two analysts had issued a buy recommendation for GRENKE shares and three analysts had issued a hold recommendation. As of the reporting date, four analysts had not yet resumed their coverage of GRENKE shares after the publication of the short-seller report in September 2020.

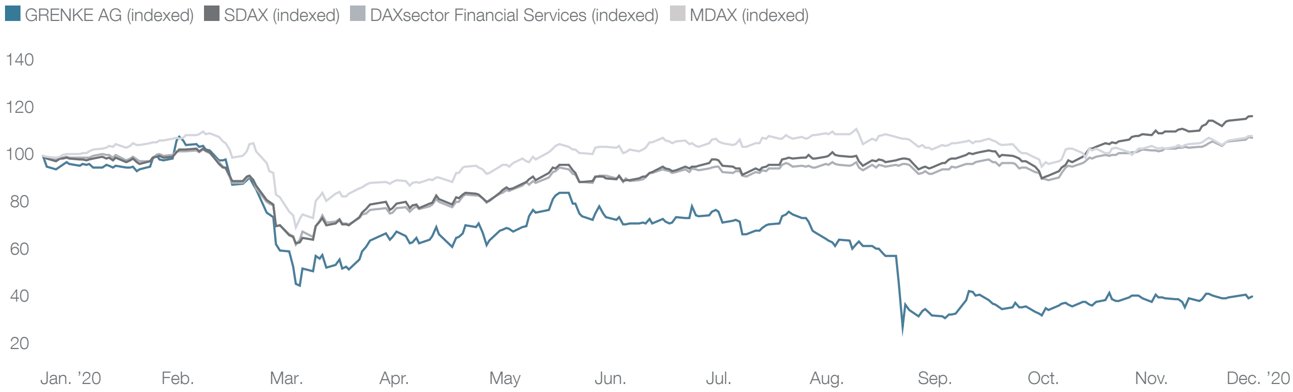
9. Investor relations

GRENKE AG continuously seeks dialogue with capital market stakeholders. In the 2020 reporting year, the Board of Directors of GRENKE AG and the Investor Relations team participated in a large number of virtual capital market conferences and road shows. During this same period, they engaged personally with over 265 institutional investors directly in regular conference calls and one-on-one discussions. The Chair of the Supervisory Board also met with internationally based investors as part of a governance road show.

GRENKE AG's Investor Relations team is available for enquiries and comments both in writing and by telephone. Further information on the Company and the shares is provided in the "Investor Relations" section of the website at www.GRENKE.com.

Please contact our team at any time by emailing investor@GRENKE.de or calling +49 7221 5007 204.

GRENKE'S share price performance (January 1 through december 31, 2020)



Reference data

Symbol / Bloomberg / Reuters	GLJ / GLJ_GR / GLJn.DE
ISIN	DE000A161N30
Market segment	Regulated market (Prime Standard)
Index	MDAX
Designated Sponsors	ODDO BHF AG; HSBC Trinkaus and Burkhardt AG
Total number of registered shares outstanding	46'353'918.00
Class	No-par-value shares (registered shares)
Notional nominal value per share	EUR 1.00
Shareholder structure: Freefloat according to Section 1.9 of the current "Deutsche Börse Stock Indices Guideline" GRENKE Beteiligung GmbH & Co. KG	59,2% 40,8%

* General partner: GRENKE Vermögensverwaltung GmbH
Limited partners: GRENKE family (Wolfgang, Anneliese, Moritz, Roland and Oliver GRENKE)

Share data (adjusted for the 1:3 stock split as per July 10, 2017)

	UNIT	2020	2019	2018	2017
CLOSING PRICE ON LAST DAY OF FISCAL YEAR	EUR	38.82	92.25	74.20	76.19
Highest share price	EUR	79.68	96.70	107.30	86.12
Lowest share price	EUR	26.70	68.95	69.10	48.80
MARKET CAPITALISATION	EURM	1'805	4'276	3'439	3'508
Earnings per share	EUR	1.86	2,89**	2.79	2.31
Dividend per share*	EUR	0.26	0.80	0.80	0.70
PRICE-EARNINGS RATIO		20.87	31,92**	26.60	34.30

Share prices based on XETRA closing prices.
* 2020: Proposal to the Annual General Meeting
** Previous year's amounts adjusted (see note 2.3 in the notes to the consolidated financial statements)

"We have remained at the side of our customers and partners with easy financing solutions, even during the COVID-19 pandemic and want to continue to build on these relationships."

GILLES CHRIST
Member of the Board of Directors

SCOPE OF RESPONSIBILITY:

Brand Management, Sales, Services

OPENING OF NEW LOCATIONS IN 2020

5 Brazil, Finland, Portugal, USA

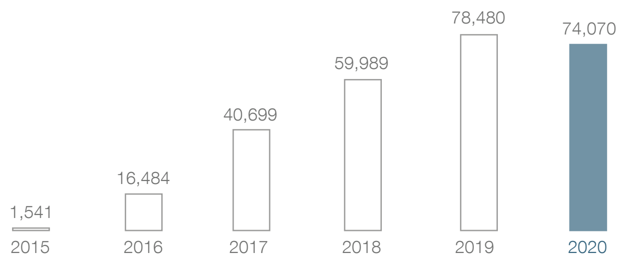
EXPANSION OF THE ELECTRONIC SIGNATURE SOLUTION

Number of lease contracts concluded with e-Signature

E-SIGNATURE RATIO

25% in 2019

30% in 2020



COMBINED MANAGEMENT REPORT

The following is the combined management report for the GRENKE Group (hereinafter also referred to as the "Consolidated Group") and the Consolidated Group's parent company GRENKE AG (the "Company") for the 2020 financial year (January 1 to December 31). This report also includes the Non-Financial Statement for the GRENKE Group. The Consolidated Group reports in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The Company reports in accordance with the German Commercial Code (HGB). The Company's consolidated financial statements and annual financial statements for the 2020 financial year are published in the Federal Gazette (Bundesanzeiger). The 2020 Annual Report is also available online as a PDF document at https://www.grenke.com/investor-relations/reports-and-presentations.

1. Consolidated group principles

1.1 GRENKE overview

1.1.1 Corporate profile

The GRENKE Group acts as a global financing partner for small and medium-sized enterprises (SMEs). Customers have access to solutions from a single source: from flexible small-ticket leasing and demand-driven banking products to convenient factoring. Fast and easy processing, along with personal contact with customers and partners, are a key focus. Founded in Baden-Baden, Germany, in 1978, the Company as of the end of the 2020 financial year operated worldwide with more than 1,700 employees in 33 countries.

GRENKE AG is the parent company of the GRENKE Group with 36 subsidiaries. The management of GRENKE AG is performed by a Board of Directors based at the Company's headquarters in Baden-Baden, which as of December 31, 2020 consisted of four members. The Company's Supervisory Board consists of six members in accordance with the Company's Articles of Association.

1.1.2 Business model

By providing a range of lease financing for small-ticket IT and office communication products and software starting at a net purchase price of EUR 500, GRENKE has defined and developed a market that is addressed only selectively by many of the lease providers. The net acquisition value for more than 90 percent of the leases is less than EUR 25k. This market segment differs significantly from the general leasing market, where the size of the tickets tends to be much higher.

The Consolidated Group has also been expanding its business model in the past several years beyond its offers for IT and office communication products to include new product groups such as small machinery and systems, and medical and security devices. In 2020, the share of new business contributed by these product groups amounted to 36.0 percent compared to 36.6 percent in the prior year.

As a provider of financing solutions for low contract volumes, a fundamental prerequisite for GRENKE's economic success is maintaining the highest level of processing efficiency possible and a low level of related direct costs. To accomplish this, the GRENKE Group gears its business model towards optimising efficiency across all core operating processes through standardisation, comprehensive IT-based automation, speed and a lean organisation. The management believes that this has allowed GRENKE to build a significant and unique advantage over the past several years.

In phases of economic volatility, the Consolidated Group manages its business by modifying its acceptance practices for lease applications. In the past, this approach has enabled the Consolidated Group to achieve risk-adequate margins and operate profitably on a sustainable basis, irrespective of cyclical fluctuations.

1.1.3 Franchise model

Since 2003, the Consolidated Group has been using a franchise model, among other strategies, to develop new regional markets. GRENKE AG does not hold an interest in the legally independent franchisees. In the past, GRENKE has been able to acquire the franchise companies after a customary period of four to six years. The purchase prices were based on a formula established at the time the franchise agreement was concluded and took into account not only market parameters but also the individual business development of the franchise company. Under this franchise model, GRENKE AG provides its partners with expertise, operational infrastructure, a range of services, and the right to use the GRENKE name. GRENKE AG generally ensures the refinancing of the franchisees' operating business of rental, lease and factoring agreements concluded by the franchisees with their customers.

As of the end of 2020, a total of 16 companies were operating under the GRENKE franchise model. The Leasing segment at year-end 2020 had franchise companies in Australia, Chile, Canada, Latvia, Singapore, and the United States, and the Factoring segment had franchise companies in the United Kingdom, Ireland, Italy, Poland, Portugal, and Hungary. Option agreements exist providing the GRENKE Group the option to acquire 13 franchise companies and the sales agency in Norway. None of these purchase options were exercised in the reporting year.

In December 2020, GRENKE AG and the financial investors of the franchise companies also concluded a memorandum of understanding in which the parties agreed that GRENKE acquire the shares of all franchise companies by December 31, 2021. In return, GRENKE AG received a power of attorney to exercise voting rights for the shares for the 2021 financial year.

Irrespective of the ownership structure, the auditing firm Mazars, which was mandated by the German Federal Financial Supervisory Authority (BaFin), came to the conclusion in February 2021 that the franchise companies should have been consolidated in the consolidated financial statements upon their formation due to de facto control in accordance with IFRS 10. Based on this assessment, GRENKE reassessed the accounting for the franchise business and retrospectively consolidated the franchise companies in full in the consolidated financial statements as of December 31, 2020. 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, i.e. the Consolidated Group including the franchise partners, has thus become obsolete. Further information on the financial effects of the full consolidation of the franchise companies can be found in Note 2.3.1.1 in the notes to the consolidated financial statements.

1.1.4 Segments

The GRENKE Group is divided into three segments – Leasing, Banking and Factoring – in accordance with its organisational structure. For a description of the business development in the segments during the reporting year, please refer to the comments in "Business Segments" in note 2.7.2.1 of the combined management report and the section 8 entitled "Segment Reporting" contained in the notes to the consolidated financial statements.

The Leasing segment represents the core business of the Consolidated Group. In the reporting year, this segment contributed 86.4 percent of the total operating segment income. The Leasing segment comprises all of the Consolidated Group's activities related to its role as a lessor. The range of services under this segment includes assuming the financing for commercial lessees, leasing, service business, service and maintenance offers for lease objects and the disposal of used equipment.

The Banking segment comprises the activities of GRENKE BANK AG ("GRENKE Bank"), which acts as a financing partner mainly for SMEs. In cooperation with a variety of federal government and state development banks, GRENKE Bank grants development loans to SMEs and self-employed professionals in Germany who want to finance new business purchases through lease financing. GRENKE Bank also offers straightforward investment alternatives such as fixed deposit products to private and business customers via its website.

Via its Factoring segment, GRENKE offers traditional factoring services with an emphasis on small-ticket factoring. In the context of non-recourse factoring, this segment offers notification factoring (the debtor is notified of an assignment of the receivables) and non-notification factoring (the debtor is not notified of an assignment of the receivables). This segment also provides recourse factoring, where the del credere risk remains with the customer. The average volume of receivables per customer in the reporting year amounted to EUR 7.3k (2019: EUR 7.0k).

1.1.5 Investments

In addition to its proprietary business activities, the GRENKE Group has undertaken individual strategic investments in recent years.

In 2015, GRENKE Bank acquired a 25.01 percent stake in the Berlin-based Cash Payment Solutions GmbH (CPS). In the year under review, this company changed its name to viafintech GmbH. The company's payment service enables customers to make cash deposits and withdrawals and pay invoices from a wide range of industries. The company initially launched under the name "Barzahlen" in Germany and Austria. In the years that followed, the network expanded to Switzerland, Italy and Greece under the name "viacash". To ensure a uniform market presence, the name of the service in Germany and Austria will first change to Barzahlen/viacash and later to viacash. At the end of 2020, the network comprised 16,000 partner branches across Europe.

In 2016, GRENKE Bank acquired a 15 percent interest in Finanzchef24 GmbH based in Munich. This company is the first digital insurance broker for commercial customers in Germany, operating an online financial portal that enables entrepreneurs and self-employed professionals to compare and conclude insurance policies online. Since the target customers of Finanzchef24 and GRENKE Bank overlap to a large extent, GRENKE Bank has been offering current accounts and loans to business customers via the online portal since 2017, whereas GRENKE Group has been providing financing solutions.

In 2018, GRENKE digital GmbH and the Kassel-based fintech company fino digital GmbH founded the affiliated company finux GmbH in which GRENKE digital GmbH holds 30 percent of the shares and voting rights. The aim of this cooperation is to develop a financial cockpit designed specifically for SMEs and provide decisionmakers a product that can assist them in all matters related to finance.

1.1.6 Business processes and services

In the Leasing segment, GRENKE utilises a multitude of distribution channels. Specialist reseller partners arrange financing agreements with end customers, supported by GRENKE employees in local sales offices. Manufacturers are supported by key account managers, and selected corporate clients are offered leasing solutions in the direct business by the Consolidated Group's sales department, which operates independently of manufacturers and specialist resellers.

GRENKE has been continuously expanding its digital offers for the past several years. The focus of this expansion has been on its "eSignature product", introduced in 2015, which enables lease contracts to be processed entirely digitally and, thereby, quickly and easily. This product is now available in 21 markets. In the 2020 reporting year, 30.1 percent (2019: 25.0 percent) of all leases were concluded using eSignature. The signature app also allows leases to be signed digitally on a tablet computer or smartphone. This service is currently available in a total of 23 countries. A further digital service available on the customer portal is the ability to receive invoices electronically by email.

GRENKE Bank's range of products and services also includes a growing number of digital services and applications. The GRENKE banking app, for example, allows customers to manage their accounts and credit cards using a mobile application. The banking app also offers a reminder function that can be used to make transfers, pay open invoices or make recurring payments while on the move or at home. Another online service offered by GRENKE Bank is the GRENKE cash app, which enables customers to withdraw cash or make account deposits at a partner branch in the German retail sector. Checking accounts can also be opened online. GRENKE Bank additionally offers fixed-term deposits within the scope of its cooperation with the fintech portal "WeltSparen" and over the "Zinspilot" platform offered by bank N26 and Hoerner Bank AG.

One of the focal points of the SME lending business is GRENKE Bank's participation in the initiative of the German Federal Ministry of Labour and Social Affairs entitled "Mikrokreditfonds Deutschland" (Microcredit Fund Germany). As part of this initiative, the German government provides guarantees for microcredit loans to small companies with economically viable concepts that do not receive bank financing themselves. Since 2015, microcredit loans have been granted by GRENKE Bank on the prior recommendation of an approved microfinance institution. GRENKE also cooperates with a number of German development banks through which SMEs, self-employed professionals, and start-ups can access GRENKE's leasing offers for new business purchases. A total of more than 80,000 lease contracts have been concluded todate as part of such collaborations. At the European level, GRENKE Bank offers a similar programme in cooperation with the European Investment Bank (EIB). In the context of the Corona pandemic, KfW increased the amount of the liability exemption for the promotional loans so that the GRENKE Group was completely exempted from default risk for certain products. For an overview of the development loans from various collaborations with domestic and European development banks, please refer to the notes to the consolidated financial statements under Note 5.11.4 “Committed Development Loans”.

1.1.7 Sales markets

As of the 2019 financial year, GRENKE has also been working on sharpening the focus of its sales organisation. Going forward, GRENKE intends to offer its customers the entire range of financing solutions, regardless of whether they are leasing, banking or factoring customers. In bundling its sales activities, GRENKE expects to be better able to implement its principles: simple, fast, personal and entrepreneurial.

At the end of the 2020 financial year, the GRENKE Group was operating a total of 154 locations in 33 countries on five continents. In the course of 2020, 2 new locations were opened in Brazil and 1 new branch each in Finland and Portugal as part of cell divisions. GRENKE also opened its first franchise location in the United States in Phoenix (Arizona).

The Consolidated Group is primarily present in Europe, with operations in almost all countries. At the end of 2020, GRENKE had a total of 32, 19, and 18 locations in the core markets of Germany, France and Italy, respectively. Since 2011, the Consolidated Group has been successively expanding its presence outside of Europe, entering various countries in Asia, Australia, and North and South America. The breakdown of new leasing business in the 2020 financial year was 95.2 percent in Europe and 4.8 percent outside of Europe.

1.1.8 External influential factors affecting business

GRENKE Group’s business is not immune to the effects of macroeconomic fluctuations. Nevertheless, the continuous development of its risk management, as well as its ability to adapt its acceptance practices and conditions to the respective market and macroeconomic environment, has proven the Consolidated Group's business model to be resilient in the past. As a result, the Consolidated Group has been able to operate profitably on a sustained basis, even during extremely difficult economic times, such as the financial market crisis in 2009 and the corona pandemic in 2020.

In the view of the Board of Directors, the main external factors influencing the business include, above all, industry-related trends such as the business policies of banks and financial service providers in the leasing, factoring, and deposit business and the ever-growing regulatory requirements in this sector.

Other external factors influencing, such as the effect of changes in capital market and central bank interest rates on refinancing costs, are presented in the risk report.

1.2 Targets and strategies

GRENKE provides financial services for SMEs with a focus on small-ticket leasing. GRENKE's lease offers have made it by its own assessment one of the leading providers in Germany, Switzerland, Italy and France. The Consolidated Group’s medium-term objective is to position GRENKE as a comprehensive small-ticket financial service provider for medium-sized businesses located not only in Europe but also internationally.

In addition to its geographic expansion into new markets, GRENKE is continuously broadening its market position in existing markets by splitting up existing sales territories – also referred to as "cell divisions" – in order to achieve the closest possible proximity to customers and specialist reseller partners.

The GRENKE Group's goal is to achieve long-term growth in new business volume – defined as the total of the acquisition costs of newly acquired leased assets, factoring volumes and the SME lending business – of 12 percent annually. This target may be temporarily surpassed, as in the period from 2015 to 2019, or fallen short of in a given year, as was the case in the reporting year due to the corona pandemic, without affecting the growth momentum supported by the business model.

A further objective of the Consolidated Group is to ensure the continued high profitability of its business, particularly in economically difficult times. The key to accomplishing this is risk management and particularly the ability to assess risks as accurately as possible and achieve risk-adequate contribution margins. For further details on the GRENKE Group's risk management system, please refer to the "Report on Risks, Opportunities and Forecasts".

In an effort to further scale its business model, the Consolidated Group is also focusing on increasing its long-term efficiency, which is to be achieved primarily through the digitalisation and standardisation of processes. This focus is reflected in the Consolidated Group's cost structure. The

GRENKE Group target is to achieve a cost-income ratio of less than 46 percent in the medium term. At 43.1 percent, the ratio in the 2020 reporting year remained within the targeted range (2019: 44.4 percent). Here it is important to point out that, starting with the 2020 financial year, GRENKE has been calculating the cost-income ratio in accordance with the calculation method customary in the financial sector, without taking into account expenses for settlement of claims and risk provision.

The Consolidated Group has a wide range of refinancing instruments at its disposal, which its uses as part of the overall strategy depending on market conditions. Financing is essentially based on three pillars: GRENKE Bank's deposits, asset-based financing (including ABCP programmes), and senior unsecured instruments such as bonds, debentures and commercial paper. In using these instruments, the Consolidated Group avoids maturity transformation, thereby eliminating potential interest rate and follow-on financing risks at the portfolio level. GRENKE also attaches great importance to maintaining an equity base that enables the Company to retain its investment grade rating. The internal benchmark for the equity ratio has been 16.0 percent for many years.

In its latest analysis published in December 2020, the rating agency Standard & Poor's confirmed GRENKE AG's long- and short-term issuer rating of BBB+/A-2. The outlook for the long-term rating is negative. The credit watch that was instated due to the short-seller attack of Viceroy Research in September 2020 has been lifted in December 2020. The Gesellschaft für Bonitätsbeurteilung ("GBB") awarded the GRENKE Group an unchanged "A" rating in October 2020 and revised its outlook from "stable" to "negative".

1.3 Management system

In order to assess our current business performance and manage the GRENKE Group, the Board of Directors relies on the following key financial performance indicators:

// New business growth
// Consolidated Group net profit
// Equity ratio (ratio of equity to total assets)
// Cost-income ratio (ratio of total operating expenses versus total operating income)

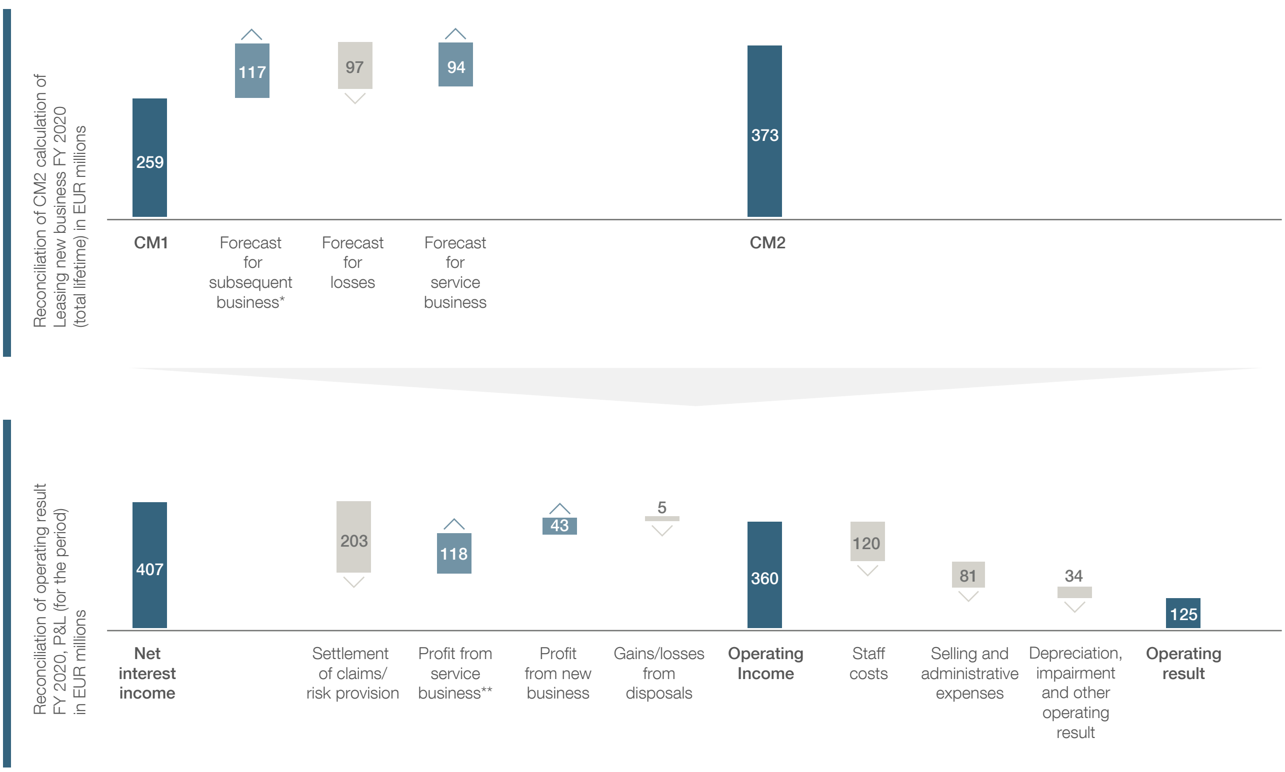
Other key financial performance indicators for the leasing business that are managed at the Consolidated Group level are the following:

// Contribution margins 1 and 2
// Embedded value
// Expected loss

In the leasing business, a distinction is made between contribution margin 1 (CM1), or the CM1 margin, which is the contribution margin 1 in relation to new business, and the contribution margin 2 (CM2), or the CM2 margin. CM1 corresponds to the present value of the net interest income from a lease contract less the commission paid to third parties, while CM2 represents the present value of the operating income from a leasing contract and includes the cost of risk as well as service and disposal income. Management focuses particularly on CM2, whose calculation corresponds to the Consolidated Group's operating profit. This is illustrated by the chart below which shows the derivation of operating profit and net profit for the period on the one hand and the CM2 calculation for new leasing business on the other, based on the total term of the contracts (total period).

See diagram "Reconciliation Contribution Margin 2 (CM2) and Operating Result" //

Reconciliation Contribution Margin 2 (CM2) and Operating Result



* In the income statement, the expected residual value is reflected in the interest income for the period.
** Corresponding items for the CM2 calculation are not relevant as the diagram reflects the lifetime period.

The Consolidated Group's value-based management is guided by CM2, which cumulates the periodic operating income based on an analysis of the total period, presenting the relationship between the contribution margin or operating income generated and the costs incurred (cost-income ratio). While the contribution margin is largely determined by the new business generated in the immediate prior reporting period, the operating income and Consolidated Group net profit are determined additionally based on the new business acquired in past financial years.

Because the expenses arising from expanding into new markets, cell divisions and opening new branches in existing markets are not immediately covered by income but usually only after completion of the start-up phase, the Consolidated Group uses embedded value as an added indicator. Embedded value represents the present value of all outstanding instalments and gains from disposals after costs and risk provisioning based on the remaining maturity of the entire existing portfolio. The difference between the embedded value at the beginning of a financial year versus the end of a financial year represents the change in the Company's intrinsic value. CM2 indicates the total embedded value of the new business for a single period before costs and taxes. By managing the business with an eye to embedded value, the Consolidated Group is able to combine the goals of growing its new business while increasing its intrinsic value.

The expected loss corresponds to the amount of loss initially calculated over the entire term of a lease contract and/or a portfolio. The GRENKE Group aims to keep the deviation of expected losses from realised losses as low as possible. The loss rate (the ratio of expenses for the settlement of claims and risk provision to the lease volume) serves as a periodic indicator.

GRENKE Bank plays an important role in GRENKE Group's refinancing strategy through the purchase of lease receivables. Therefore, a key performance indicator for GRENKE Bank is its deposit volume. Depending on needs and market conditions, GRENKE's intention is to finance between 15 and 30 percent of the Consolidated Group's financial liabilities via GRENKE Bank. At the end of 2020, planned refinancing volumes for 2021 were brought forward to 2020 due to GRENKE Bank's comfortable liquidity situation, which is why this figure was slightly above the usual range at 31 percent (previous year: 20 percent) as at 31 December 2020. GRENKE Bank is also managed based on its equity base, which is evaluated using the equity ratio, the overall ratio according to capital requirement regulations (CRR), the leverage ratio and the liquidity coverage ratio (LCR).

The most important performance indicators for the factoring business are the gross margin (defined as the income from the purchase of receivables, crediting and collection services in relation to the respective net acquisition values), as well as the length of a respective factoring transaction measured in the number of days. Over the long term, the segment's management focuses on factoring volumes, which correlate with the acquisition of new customers. In the process, the acceptance of financing applications is managed according to risk categories.

1.4 Research and development

GRENKE Group's core capabilities include standardised and – particularly in the area of leasing – highly digitised processes, as well as the effective evaluation of lease applications. The Consolidated Group continuously optimises its software products and its applications to maintain these capabilities. Next to expanding the technical infrastructure, the focus of activities is on further developing the portals and processing systems for sales and administration. Playing a leading part in this context is the GRENKE Technology Center, founded in 2015. As the Consolidated Group's own centre for software and business process development, it develops system solutions for the GRENKE Group and its partners. In organisational terms, the GRENKE Technology Center is part of GRENKE digital GmbH, which comprises all of the Consolidated Group's digital expertise.

In the reporting year, the Consolidated Group capitalised a total of EUR 4.8 million in development costs (previous year: EUR 5.8 million) and recognised total amortisation for internally generated software of EUR 4.3 million (previous year: EUR 3.3 million).

GRENKE Group also uses third-party research and development services. In the 2020 financial year, these services were primarily related to IT projects and totalled EUR 5.3 million (previous year: EUR 8.6 million), of which EUR 2.1 million (previous year: EUR 3.4 million) were capitalised.

2. Report on business development

2.1 Short-seller report

On September 15, 2020, Viceroy Research published a report on GRENKE AG raising a variety of issues, some of which GRENKE AG is still working through in detail. Among other things, the report referred to the acquisitions of franchise companies, the cash and cash equivalents reported in the Half-Year Financial Report 2020, measures to prevent money laundering, as well as the Company's business model and corporate governance. According to its own statement, Viceroy sold had sold short GRENKE AG shares in the run-up to the publication.

In response to the report, on September 21, 2020, the Supervisory Board of GRENKE AG commissioned the Company's auditor KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) to conduct a separate audit alongside the regular audit of the annual financial statements at the suggestion of the Board of Directors. In this context, KPMG paid particularly close attention to examining the following matters:

- // The existence of cash and cash equivalents: KPMG requested written confirmations from the account-holding institutions, including the Bundesbank, of all bank balances of the GRENKE Group as of the two reporting dates of June 30, 2020 and September 15, 2020. These were evaluated and validated.
- // The existence and substance of the leasing business: KPMG audited the portfolio of lease contracts case-by-case based on a random sample. Material contract documents and selected payments from this sample were reviewed. In addition, lessees were contacted directly by KPMG to confirm the lease contracts and the outstanding lease payments. KPMG also reconciled the lessees' incoming payments as of July 1, 2020, August 1, 2020 and October 1, 2020 in the largest markets of Germany, Italy, France, the United Kingdom, Spain and Portugal. In addition to validating incoming payments, the audit also included the posting and the corresponding reconciliation with the contract data's record keeping.
- // Relationships with resellers: In order to identify any concentration risks or potential dependencies, KPMG analysed the structure of the GRENKE Group's resellers on the basis of sales data. As part of the background research on the 30 largest resellers, KPMG also examined whether any resellers are involved in criminal transactions or have business activities that are questionable in other respects. KPMG also examined the involvement of resellers in risk management.
- // Business organisation: The review of the business organisation by KPMG covered, among others, the handling of legal cases and customer objections, the Know Your Customer (KYC) rule, as well as money laundering and fraud prevention.
- // GRENKE BANK AG guarantees made for the benefit of Consolidated Group companies: KPMG examined whether GRENKE BANK AG provides guarantees for Consolidated Group financial liabilities and particularly for bond issues, which could jeopardise the Bank's existence.
- // The inclusion of franchise companies in the consolidated financial statements and the nature and extent of related-party disclosures in the IFRS consolidated financial statements: Another subject of KPMG's audit was the nature and extent of the persons and companies to be included in GRENKE AG's consolidated financial statements (related parties). The audit examined the extent to which disclosures regarding business relationships with franchise companies or their shareholders should be classified as disclosures under IAS 24 and provided in the notes to the consolidated financial statements under IFRS in the future.

KPMG's separate audit process had been completed at the time of the publication of GRENKE AG's consolidated financial statements.

In addition, on September 24, 2020, the Supervisory Board of GRENKE AG commissioned the auditing firm Warth & Klein Grant Thornton (WKGT) to prepare an expert opinion. The focal points of WKGT's examination were the following:

- // The advantageousness of franchise company acquisitions for GRENKE AG: WKGT examined the 17 franchise acquisitions completed to date. For this purpose, simply speaking, the purchase prices, capital contributions, expost directly generated earnings contributions of the companies according to IFRS, and the earnings generated in the Consolidated Group from the business of these companies were used as a basis.
- // The market conformity of the franchise acquisitions: In this context, WKGT examined the valuation methodology of the agreed purchase options for the franchise companies. It also analysed the concrete implementation of individual transactions and, specifically, purchase price-increasing deviations from the originally agreed fundamental valuation methodology.
- // The validation of the concluded purchase agreements: For this purpose, WKGT reconstructed the evidence for the disbursements of the purchase prices of the franchise acquisitions examined.

// Research on personnel and company law relationships in relation to the ownership structures of the acquired companies.

On December 16, 2020, GRENKE AG reported on WKGT's expert opinion regarding the market conformity of the acquisitions of the franchise companies and their advantageousness for GRENKE AG. In addition, WKGT continued its research on personnel and company law relationships with regard to the ownership structures of the acquired companies. The Board of Directors of GRENKE AG also commissioned WKGT to determine the valuation of the franchise companies to be acquired.

The German Federal Financial Supervisory Authority (BaFin) commissioned Mazars GmbH & Co KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Mazars) to conduct a special audit of GRENKE AG in accordance with Section 44 (1) of the German Banking Act.

BaFin specified the following as the subject of the examination:

// the recoverability of the investments recognised in the consolidated financial statements as of December 31, 2019;
// the recoverability of the lease receivables recognised in the consolidated financial statements as of December 31, 2019;
// GRENKE BANK AG's lending business with regard to loans to persons and companies affiliated with the Consolidated Group and franchisees, including their recoverability;
// the proper business organisation of the GRENKE Group with regard to the lease contracts brokered by Viewble Media UK Ltd; and
// compliance with all requirements under money laundering law to prevent money laundering, terrorist financing and other criminal acts that may lead to a risk to institution's assets.

On November 10, 2020, BaFin ordered that the scope of the audit be expanded to include the following:

// a review of the internal scoring model used by GRENKE AG to assess the creditworthiness of lessees (application scoring);
// an assessment of the accounting-related scope of consolidation in accordance with IFRS 10 and review of the correct presentation of equity and risk assets in the regulatory reporting system for both the GRENKE Group and GRENKE Bank AG; and
// the inclusion of the Bank's entire lending business.

On September 30, 2020, BaFin assumed 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 from the German Financial Reporting Enforcement Panel. BaFin also commissioned Mazars for this purpose. The scope of the audit included the following audit areas:

// The recognition and amount of the receivables from leasing contracts reported in the consolidated balance sheet under the item non-current assets and under the item current assets.
// The recognition and amount of the balances with central banks and credit balances with credit institutions reported in the consolidated balance sheet under the item cash and cash equivalents.
// The recoverability of goodwill recognised on the consolidated balance sheet.
// Information on relationships and business transactions with related persons or companies in the notes to the consolidated financial statements.
// The first-time adoption of IFRS 16 "Leases".
// The first-time adoption of IFRS 9 "Financial Instruments" in the period following the first-time adoption.
// The adoption of IAS 12 "Income Taxes" including IFRIC 23 "Uncertainty Over Income Tax Treatment".

Both audits by MAZARS were still ongoing at the time of the publication of GRENKE AG's consolidated financial statements.

2.2 Macroeconomic environment

According to the estimates of the International Monetary Fund (IMF), the global economy recorded a decline of 3.3 percent in 2020 as a result of the COVID-19 pandemic. The major European economies were hit disproportionately hard by the pandemic's effects. The IMF is forecasting a decline in economic output in 2020 of 11.0 percent in Spain, 9.9 percent in the United Kingdom, 8.9 percent in Italy and 8.2 percent in France. The slowdown in these countries is attributable not only to the duration and scope of the lockdown measures imposed but also the relatively high dependence on tourism and structural challenges that already existed in these countries before the crisis.

Germany proved to be relatively resilient compared to the rest of Europe, with the IMF estimating a decline in economic output in 2020 of 4.9 percent. Germany benefited from its early measures to contain the pandemic, as well as from its extensive government aid programmes, including emergency aid, the reimbursement of lost sales in particularly hard-hit sectors, and the granting of loans and guarantees. The aid packages also made it possible for the extensive use of short-time work schedules as a further tool[1].

2.3 Sector environment

The European leasing markets that are relevant for GRENKE are served primarily by local providers – particularly the leasing subsidiaries of banks and equipment manufacturers. The GRENKE Group's most important market segment in terms of business volume is the small-ticket leasing segment, however, represents only a relatively small part of the overall market, so that meaningful information on market share is hardly available. In its own estimation, GRENKE is Europe's leading provider of financial services to SMEs with a focus on small-ticket lease financing. The following comments describing the market position and competitive situation relate to the Consolidated Group's three core markets – Germany, France and Italy.

The German leasing market is predominantly characterised by medium-sized companies. Of the roughly 150 registered members of the Federal Association of German Leasing Companies (Bundesverband der Deutschen Leasingunternehmen – BDL), almost three-quarters are small or very small companies with fewer than 50 employees. Only 3 percent of leasing providers in Germany – including the GRENKE Group – have more than 500 employees. The German leasing market has traditionally been driven largely by the "Passenger car and station wagons, trucks, bus and trailers" segment, which accounts for around three-quarters of new business volume.

In contrast, the areas of "Office equipment/IT" and "Communications, signalling and other equipment" (including medical technology, among others) that are relevant to GRENKE each account for roughly just 5 percent of the total market volume. The GRENKE Group estimates that it is the market leader in this narrow part of the overall market.

According to the calculations of the German Federal Statistical Office, capital expenditures in Germany fell by 12.1 percent in 2020, the sharpest decline of all GDP aggregates. The decline in capital investments and in the propensity to invest are also reflected in the ifo Business Climate Equipment Leasing index . Compared to the low in the second quarter of 2020 (-37.9 points in April), the index recovered to +1.1 points by the end of 2020 but was still below the previous year's level (+26.5 points in December 2019).

The Federal Association of German Leasing Companies (BDL – Bundesverband Deutscher Leasing-Unternehmen) has not yet published figures for new business volume in 2020. However, according to a survey by the BDL in October, the volume of new business fell by 12.3 percent in the first nine months of the year. A decline of 13.6 percent was recorded in the IT equipment segment. In 2019, the leasing industry was still able to achieve record new business volume of EUR 74.4 billion.

The French leasing market is largely dominated by the leasing subsidiaries of the major French banks. GRENKE Group is the largest small-ticket lease provider in France among bank- and manufacturer-independent companies.

The market research institute MARKESS is forecasting that French IT leasing market experienced a decline of 6 to 7 percent in 2020 to around EUR 4.7 billion. MARKESS believes that the segment of small and very small companies was most affected by the economic crisis. This particularly affected the catering, hotel and entertainment and events industries, which are strongly represented in this segment.

In Italy, GRENKE is one of the five largest providers in the area of capital goods leasing. The GRENKE Group has achieved a dominant market position in recent years, particularly in the market segments for lease finance with acquisition values below EUR 25k and in the range of EUR 25k – EUR 50k.

According to the Italian leasing association Associazione Italiana Leasing ("ASSILEA"), the Italian leasing market recorded a decline of 18.0 percent in the reporting year. In the operating lease market segment for capital goods, which is relevant for the GRENKE Group, the volume fell by 21.2 percent in 2020.

[1] Source: World Economic Outlook, April 2021. https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021
[2] Source: German Federal Statistical Office. https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/02/PD21_081_81.html
[3] Source: Federal Association of German Leasing Companies https://bdl.leasingverband.de/konjunkturdaten/#c275
[4] Source: Federal Association of German Leasing Companies https://bdl.leasingverband.de/newsroom/aktuelles/corona-folgen-auch-im-iii-quartal-spuerbar-2020-11-04/2019; number from Annual Report 2019

With the GRENKE Group generating more than 85 percent of its income in the Leasing segment, it follows that the industry development in the Banking and Factoring segments is of secondary importance for the Consolidated Group. In addition, GRENKE Bank's deposit business is managed exclusively in line with what is required for the Consolidated Group's refinancing.

2.4 Impact of the COVID-19 pandemic

The economic environment in the 2020 financial year was dominated by the COVID-19 pandemic. The measures to contain the pandemic led to significant restrictions on public life and economic activity starting in March 2020 and unleashed unprecedented effects on economic performance worldwide. The first lockdown in the spring of 2020 initially succeeded in slowing the pace of the pandemic's spread, enabling many countries to begin to gradually lift the restrictions starting in the middle of the second quarter of 2020. From autumn onwards, a renewed wave of infection set in, especially in Europe, to which many governments reacted by imposing a second lockdown.

Due to the effects of the COVID-19 pandemic, Euler Hermes is fore-casting an increase in global insolvencies of 17 percent for 2020. In Germany, Euler Hermes expects an increase in insolvencies of merely 4 percent. It is important to point out however that Germany has suspended the obligation to file for insolvency until the end of April 2021 in order to mitigate the consequences of the COVID-19 pandemic. In France and Italy, the other two core markets of the GRENKE Group and the second and third largest economies in the eurozone, Euler Hermes expects an increase in insolvencies in 2020 of 4 and 18 percent respectively.

The measures to contain the COVID-19 pandemic had a negative effect on GRENKE Group's new business development in the reporting year. As a result, new leasing business fell by a total of 28.8 percent to EUR 2,027.9 million for the year as a whole (previous year: EUR 2,849.1 million). For further details on the new business development by region and by quarter, please refer to the comments in section 2.5 New Business. GRENKE adapted to the changed economic environment in the reporting year. By focusing strictly on low-risk new business – i.e. excluding high-risk industries and customers – and implementing volume quotas, it was possible to manage new business at a lower level in a targeted manner and in line with market conditions. Small-ticket, high-margin business were the main types of contracts. As a result, the CM2 margin for the year 2020 as a whole rose to 18.4 percent (2019: 17.0 percent). This high-quality new business was the main reason as it goes hand in hand with a lower loss forecast. (See also the diagram "Correlation between CM2 (new business) and net profit for the period (P&L) in section 1.3. Management System).

GRENKE supported its customers during the corona pandemic by entering into deferral agreements with leasing customers. Under these agreements, individual payments for lease instalments were deferred without interest for a set period and not due until a later date. The deferral agreements were also partly based on statutory moratoria. As of the December 31, 2020 reporting date, a total of 1,018 deferral agreements equal to a volume of EUR 1.4 million were still in place. Deferral agreements were also concluded with customers in the lending business. Here, debtors were granted a deferral for loan instalments, but with interest, for a specific time period. For further details, please refer to the comments on the results of operations, the opportunities and risks report, and section 3.3.1.3 "Deferral Agreements" in the notes to the consolidated financial statements.

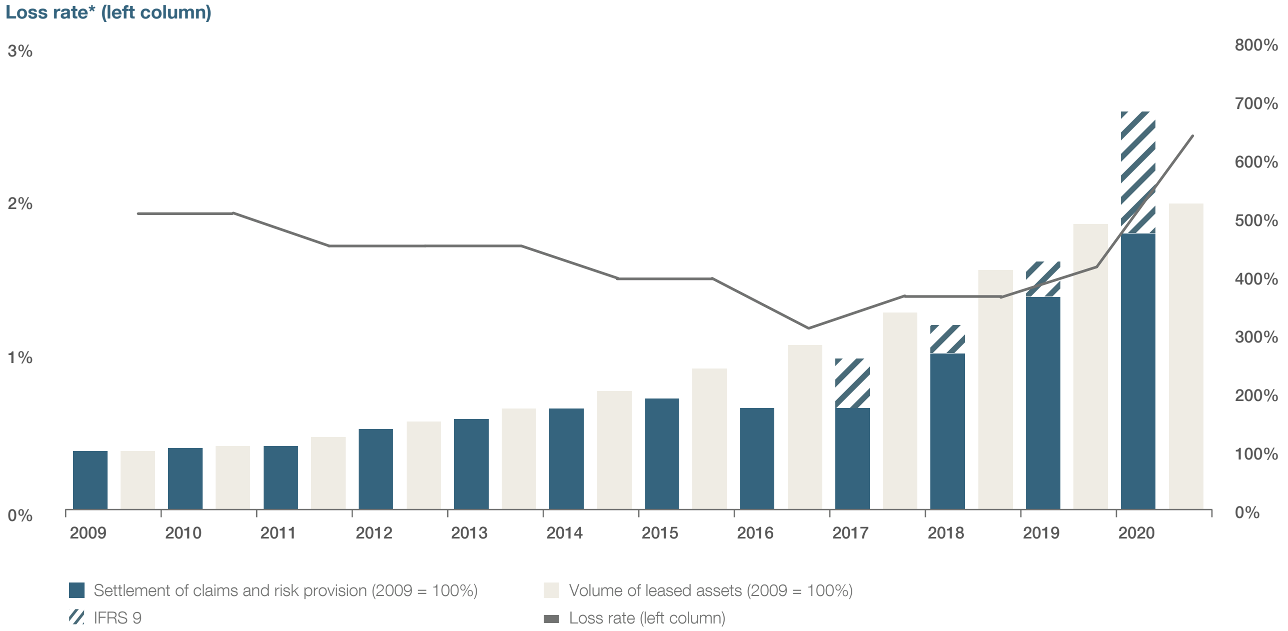
Due to the increase in uncertainties, significantly more liquidity was held in the reporting year than in prior years. As of the reporting date, the Consolidated Group's cash and cash equivalents amounted to EUR 944.7 million (December 31, 2019: EUR 446.0 million). Liquid funds serve to reduce potential liquidity risks and increase financial independence.

For some Group companies, the prospects planned for new business and returns have changed due to the corona pandemic. There has also been an increase in the discount rates used for goodwill impairment testing. As a result, the GRENKE Group recognised overall impairment losses on goodwill of EUR 2.2 million in the reporting year (2019: EUR 4.2 million). These were related to the cash-generating unit GRENKE Bank and the cash-generating unit in Slovakia, which is active in the leasing business. For further details, please refer to the comments on the results of operations and to item 5.7 in the notes to the consolidated financial statements.

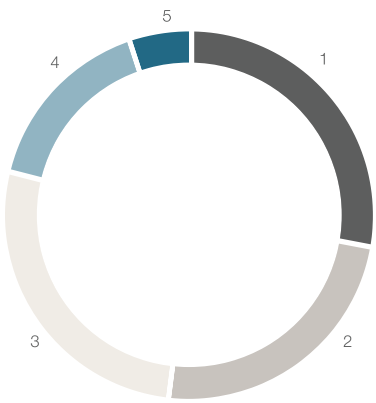
[5] Source: Euler Hermes https://www.eulerhermes.de/content/dam/onemarketing/ehndbx/eulerhermes_de/dokumente/2020-07-euler-hermes-insolvenzupdate.pdf

Precise calculation and forecasting of credit losses

Development of loss rate



Leasing new business by region



	2020	2019
LEASING (IN PERCENT)		
1 DACH	27.7	22.1
2 Western Europe	24.2	25.8
3 Southern Europe	27.1	30.8
4 Northern / Eastern Europe	16.2	16.9
5 Other Regions	4.8	4.4
GRENKE GROUP (IN EUR MILLIONS)	2020	2019
New business Leasing	2'027.9	2'849.1
New business Factoring	647.8	663.4
Business start-up financing GRENKE Bank (incl. microcredit business)	119.3	54.1

Regions: DACH: Germany, Austria, Switzerland
Western Europe (without DACH): Belgium, France, Luxembourg, the Netherlands
Southern Europe: Croatia, Italy, Malta, Portugal, Slovenia, Spain
Northern / Eastern Europe: Denmark, Finland, Ireland, Latvia*, Norway, Sweden, UK / Czechia, Hungary, Poland, Romania, Slovakia
Other Regions: Australia*, Brazil, Canada*, Chile*, Singapore*, Turkey, UAE, USA*

* Consolidated franchise companies

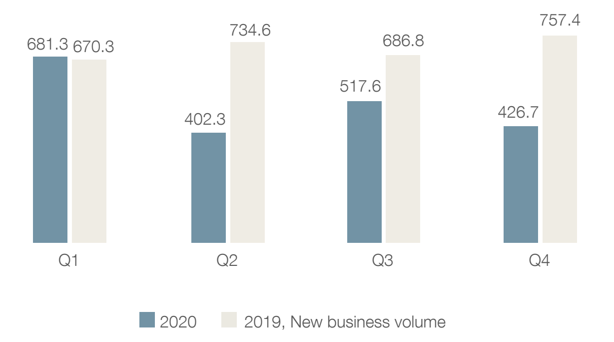
2.5 New business

The GRENKE Group's new business comprises the newly financed business volume of the subsidiaries and the consolidated franchise companies. Due to the economic environment described above, the Consolidated Group's new business volume across the three business segments of Leasing, Banking and Factoring declined by 21.6 percent to EUR 2,795.0 million in the 2020 financial year (previous year: EUR 3,566.6 million).

New leasing business – defined as the total acquisition cost of newly acquired leased assets – fell by 28.8 percent to EUR 2,027.9 million in the reporting year (previous year: EUR 2,849.1 million). The development of new business volume in the course of 2020 essentially reflects the effects of the macroeconomic restrictions put in place as a result of the COVID-19 pandemic. New leasing business in the first two months of the reporting year was initially within the range forecast at the beginning of the year. However, following the first lockdown, new business in the months of March to May 2020 was significantly below the previous year's level. In June, new business started to pick up again until the end of the third quarter of 2020. The renewed increase in the number of infections and the resulting second – and in some countries even third – lockdown led to a stronger decline in new business again in the fourth quarter.

Quarterly development new business leasing

As per December 31, 2020, in EUR millions



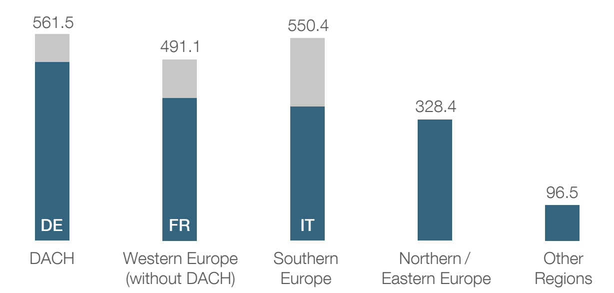
Within the Leasing segment, the DACH region, which includes Germany, Austria and Switzerland, recorded the smallest decline (10.9 percent) in the 2020 financial year. With new business volume of EUR 561.5 million (previous year: EUR 630.1 million), the DACH region was the largest region in terms of its share of new leasing business. The development in Germany, where new business in 2020 fell by only 10.0 percent, contributed significantly to the comparatively small decline. In its home market, GRENKE benefited from its extensive and long-standing relationships with customers and resellers. In addition, Germany was less affected by the corona pandemic than other European countries. In Western Europe without DACH new business decreased by 33.1 percent to EUR 491.1 million in the reporting year (previous year: EUR 734.5 million). In France, the most important single market in this region, new business volume fell by 35.6 percent. In Southern Europe, new business fell by 37.3 percent to EUR 550.4 million (previous year: EUR 877.8 million), with new business in Italy, the region's most important market, dropping by 40.8 percent. In the Northern/Eastern Europe region, new business declined by 31.8 percent and reached a volume of EUR 328.4 million (previous year: EUR 481.6 million). In the United Kingdom, new business declined by 42.3 percent. Starting from a relatively low base, the volume of new business in the other regions fell by 22.8 percent to EUR 96.5 million (previous year: EUR 125.0 million).

SEE CHART "NEW LEASING BUSINESS BY REGION".

The new business of the consolidated franchise companies in the Leasing segment figures totalled EUR 65.1 million in the 2020 financial year (previous year: EUR 82.8 million), corresponding to a decline of 21.4 percent. Of that volume, EUR 56.9 million (previous year: EUR 74.5 million) was attributable to the other regions and EUR 8.2 million (previous year: EUR 8.3 million) to the Northern / Eastern Europe region. Of particular note among the consolidated franchise companies was the development in Australia, where the volume of new business almost reached the previous year's level (-2.8 percent). GRENKE opened new business operations in the United States in the middle of the year.

New business leasing by region*

As per December 31, 2020, in EUR millions



* See previous page for regional description.

The structure of the leasing portfolio remained largely stable in the 2020 financial year. IT products accounted for a total share of 64.0 percent (previous year: 63.4 percent). The share of the largest group of lease objects, IT equipment, increased slightly to 33.9 percent (previous year: 33.8 percent). Copying technology (18.8 percent after 18.3 percent) and telecommunications equipment (7.9 percent after 7.6 percent) also recorded slight increases. The share of new business in the non-IT equipment groups of medical technology products, small machinery and equipment, security devices and other products, was 36.0 percent in the reporting year (previous year: 36.6 percent). Here the decline was primarily in small machinery and equipment, whose share fell to 20.5 percent (previous year: 22.3 percent). The share of medical technology products remained unchanged at 8.8 percent.

In the period from January to December 2020, the GRENKE Group registered 513,434 lease applications (previous year: 616,269). The number of new lease contracts concluded in the same period was 246,510 (previous year: 313,818), which corresponded to a declining conversion rate (applications into contracts) of 48.0 percent (previous year: 50.9 percent). The lower conversion rate reflects a more restrictive acceptance policy for lease applications. The international markets accounted for 415,220 applications (previous year: 514,013), which led to the conclusion of 184,472 (previous year: 253,063) new contracts. Accordingly, the conversion rate in this area fell to 44.4 percent (previous year: 49.2 percent). In the DACH region, in contrast, the conversion rate rose to 63.2 percent (previous year: 59.4 percent).

The mean acquisition value per lease contract fell by 9.4 percent in 2020 to EUR 8,227 (previous year: EUR 9,079). The lower mean value reflects the stronger demand for small-ticket financing solutions from small and medium-sized enterprises. A focus was placed on concluding contracts with low volumes from industries and companies with good to very good credit ratings.

The contact restrictions caused by the lockdown likely had a favourable effect on the acceptance of the eSignature option, which enables the processing of lease contracts to be performed entirely digitally. The share of contracts concluded using eSignature rose to 30.1 percent in the reporting year (previous year: 25.0 percent). By the end of the reporting year, this procedure had been established in 21 markets.

In line with the lower business volume, the contribution margin 2 (CM2) of new leasing business fell in absolute terms to EUR 372.9 million in the 2020 financial year (previous year: EUR 485.2 million). At the same time, the CM2 margin improved to 18.4 percent (previous year: 17.0 percent). The higher share of the above-average profitable small-ticket business had a positive effect on the margin. GRENKE Group was able to successively increase its CM2 margin in the course of 2020 due to the stronger focus of business management on the quality of the contracted new business in response to the pandemic's outbreak. The CM2 margin reached 19.5 percent in the fourth quarter of 2020, compared to 18.2 percent in the first quarter.

For the year as a whole, the CM2 margin of the Leasing segment increased across all regions. The strongest margin improvement occurred in the Southern Europe region. In 2018, the CM2 margin in this region was still lower as a result of the expiry of tax benefits for lease financing in Italy ("Super ammortamento"). The tax incentives for lessors enabled GRENKE to offer its customers more attractive contract conditions. Following the end of the programme, GRENKE adjusted its conditions at the beginning of 2019 and the CM2 margin gradually increased again in the following quarters.

The CM1 margin of the leasing business (contribution margin 1 at acquisition values) was 12.8 percent in the 2020 financial year and amounted to EUR 258.6 million (previous year: 12.4 percent or EUR 354.2 million).

The contribution margin 2 of the consolidated franchise companies totalled EUR 14.2 million compared to EUR 17.5 million in the previous year. Of this amount, EUR 12.3 million (previous year: EUR 15.7 million) was attributable to other regions and EUR 1.9 million (previous year: EUR 1.8 million) to the Northern / Eastern Europe region. Consequently, the CM2 margin of the consolidated franchise companies reached 21.8 percent (previous year: 21.2 percent).

New factoring business – the total amount of purchased receivables – fell by 2.4 percent in the reporting year to EUR 647.8 million (previous year: EUR 663.4 million). New business in Germany grew by 5.5 percent to EUR 186.3 million (previous year: EUR 176.7 million). With a significantly increased share of receivables management (without financing function) of 25.5 percent (previous year: 17.9 percent), where no default risks are assumed, the gross margin in Germany fell to 1.36 percent (previous year: 1.55 percent). In contrast, international business declined by 5.2 percent to EUR 461.5 million (previous year: EUR 486.8 million). The share of receivables management (excluding the financing function) increased here to 27.9 percent (previous year: 21.8 percent). The gross margin in the international markets remained almost unchanged at 1.37 percent (previous year:

1.36 percent). The gross margin refers to the average period of a factoring transaction of approx. 26 days in Germany (previous year: approx. 27 days) and approx. 47 days at an international level (previous year: approx. 41 days).

The new business of the consolidated franchise companies included in the figures for the Factoring segment rose by 4.1 percent in the 2020 financial year to a total of EUR 327.1 million (previous year: EUR 314.3 million). Growth was primarily driven by the development of the company in Portugal, which commenced business operations in the course of 2019.

GRENKE Bank was able to expand its new lending business for SMEs to EUR 119.3 million in the reporting year (previous year: EUR 54.1 million). The doubling is mainly due to the granting of microcredit loans (KFW development loans); lending to small and medium-sized enterprises was discontinued in the first quarter of 2021. GRENKE Bank's deposit volume increased to EUR 1,537.3 million at the end of 2020. This was 73.9 percent higher than the figure at the end of financial year 2019 (EUR 884.2 million).

2.6 Comparison of actual and forecast business performance

At the beginning of the 2020 financial year, the GRENKE Group had forecast new business growth of between 14 and 18 percent in the Leasing segment. Group net profit was expected in a range of EUR 153 million to EUR 165 million.

GRENKE published this forecast on February 11, 2020. At that time, the restrictions on public life and economic activity with the onset of the COVID-19 pandemic were not yet foreseeable. On April 2, 2020, with the publication of the new business figures for the first quarter, GRENKE clarified that the effects of the COVID-19 pandemic on the business and earnings development of the GRENKE Group could not be estimated with any certainty and were not included in the forecast for the 2020 financial year published on February 11, 2020.

Subsequently, the Board of Directors provided a forecast for the new leasing business expected in the current quarter in each of the quarterly reports. In May, the Board of Directors expected new business volume for the second and third quarters of 2020 of approximately 50 percent of the originally planned new business. With a decline of 45.2 percent compared to the same prior-year period, new leasing business in the second quarter of 2020 was within this communicated range. At the end of July, the Board of Directors provided a new business volume forecast of approximately 70 percent of the previous year's level for the third quarter of 2020. With a decline of 24.6 percent compared to the same prior-year period, new leasing business in the third quarter of 2020 was slightly higher than the level communicated by the Board of Directors. At the end of October 2020, prior to the second lockdown in a number of countries, the Board of Directors projected new business for the fourth quarter of 2020 at approximately 60 percent of the level in the fourth quarter of the prior year. At 56.3 percent of the volume recorded in the fourth quarter of 2019, new business in the fourth quarter of 2020 came in slightly below the projected volume.

Overall, the GRENKE Group generated new leasing business of EUR 2,027.9 million in 2020, corresponding to a decline of 28.8 percent compared to the previous year. In the Factoring segment, new business volume of EUR 647.8 million was generated, corresponding to a decline of 2.4 percent.

Group net profit in the reporting year amounted to EUR 88.4 million, which was below the original forecast that had been described as no longer applicable following the presentation of the new business figures in April 2020.

2.7 Business performance

In the first quarter of 2020, two new branches were opened in Brazil and one new branch each in Finland and Portugal within the scope of cell divisions. In the second quarter of 2020, GRENKE opened its first franchise location in the United States of America (Phoenix, Arizona). At the end of 2020, GRENKE was present for its customers at a total of 154 locations in 33 countries.

GRENKE AG held its first virtual Annual General Meeting 2020 on August 6, 2020. All agenda items were approved by the Annual General Meeting with a large majority. These included, among other things, the resolution of a scrip dividend for the 2019 financial year. Shareholders were given the option to receive the dividend either exclusively in cash or partially in cash and partially in the form of GRENKE AG shares.

Selected information from the consolidated income statement

EURk	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019
NET INTEREST INCOME	407'102	381'501
Settlement of claims and risk provision	202'434	136'591
NET INTEREST INCOME AFTER SETTLEMENT OF CLAIMS AND RISK PROVISION	204'668	244'910
Profit from service business	118'049	106'199
Profit from new business	43'053	55'118
Gains (+) / losses (–) from disposals	–5'432	–6'562
INCOME FROM OPERATING BUSINESS	360'338	399'665
Staff costs	119'780	120'825
of which total remuneration	98'622	99'815
of which fixed remuneration	77'029	73'450
of which variable remuneration	21'593	26'365
Selling and administrative expenses (excluding staff costs)	81'629	78'279
of which IT project costs	3'223	5'240
EARNINGS BEFORE TAXES	**115'172**	**162'775**
NET PROFIT	**88'440**	**133'338**
EARNINGS PER SHARE (IN EUR; BASIC / DILUTED)	**1.86**	**2.89**

2.7.1 Full consolidation of the franchise companies and other accounting adjustments

Due to recent findings in connection with the consolidation criteria for the franchise companies, the GRENKE Group has reassessed the scope of consolidation as defined by IFRS 10. Following the reassessment, the Consolidated Group came to the conclusion that all franchise companies should be fully consolidated. As a result, the thirteen currently existing franchise companies were included in the scope of consolidation and treated as if they had been fully consolidated upon their inception. In addition, all acquisitions of former franchise companies as of January 1, 2014 were retrospectively corrected and also treated as if they had always been a part of the scope of consolidation.

On the balance sheet, this retrospective adjustment offset the good-will recognised for these acquisitions (EUR 56.5 million) against retained earnings as of January 1, 2019. Intangible assets arising from purchase price allocation were eliminated (EUR 16.4 million). The consolidation of the currently existing franchise companies resulted in the item "Non-controlling interests" in equity, to which the share of net profit of these companies were allocated. In addition, the lease and factoring receivables of the respective franchise companies were included. This addition was offset by a decrease in the now intra-Group loans to these companies within the item "other financial assets". There was also an increase in the financial liabilities from the refinancing of the operating business of these companies at banks. GRENKE Group's equity decreased by a total of EUR 88.8 million due to the consolidation of the franchise companies as of January 1, 2019. This sum includes a negative amount of EUR 13.4 million attributable to non-controlling interests.

The goodwill of the leasing company in Poland was adjusted in accordance with IAS 8 and retroactively written off in full (EUR 4.2 million) in the 2019 financial year. In addition, there was a correction of an error in the purchase price allocation of the Portuguese franchise company acquired in the 2012 financial year, which reduced good-will and retained earnings by EUR 2.0 million. In addition, a correction of the impairment on lease receivables was made retrospectively as of January 1, 2019. Portions of the impairment were not discounted with the original internal interest rate of the leases but instead at the current market interest rate. The adjustment led to a reduction in lease receivables and equity of EUR -6.1 million. Adjustments also included the conversion of subsequent leases, which were previously presented as operating leases and are now accounted for as finance leases. This change is a consequence of the elimination of the option in IFRS 16. As a result of this change, property, plant and equipment, in which the leases were previously reported as operating leases, was reduced by EUR -22.2 million as of January 1, 2019. The contracts will now continue to be reported under lease receivables.

In the consolidated income statement for the 2019 financial year, the adjustments resulted in the consolidated profit including the results of the consolidated franchise companies (EUR -7.2 million). In addition, the above-mentioned impairment of goodwill of the leasing company in Poland (EUR 4.2 million) was recognised. This was offset by lower amortisation of intangible assets from the purchase price allocation (EUR 2.5 million). In total, the GRENKE Group's net profit in financial year 2019 was EUR 8.7 million lower compared to the originally published figure. As the negative result of the franchise companies is attributable to non-controlling interests, the adjustments nevertheless had a positive effect on earnings per share (earnings per share of EUR 2.89 compared to previous EUR 2.92).

For further information on the adjustments, please refer to Note 2.3 "Adjustments in accordance with IAS 8" in the notes to the consolidated financial statements.

2.7.2 Results of operations

Interest and similar income from financing business rose in the 2020 financial year by 7.3 percent over the previous year to EUR 470.5 million (previous year: EUR 438.4 million). The relatively small increase in interest income compared to the previous year resulted from the declining volume of new business in the reporting year. Interest expenses increased disproportionately by 11.4 percent and reached EUR 63.4 million (previous year: EUR 56.9 million). Net interest income, the balance of the two items, grew by 6.7 percent to EUR 407.1 million (previous year: EUR 381.5 million). In line with the segments' share of new business, the majority of the net interest income in the 2020 financial year was attributable to the Leasing segment. For further information, please refer to the disclosures under Note 4.1 "Net interest income" in the notes to the consolidated financial statements.

Expenses for the settlement of claims and risk provision rose in the reporting year by 60.2 percent to EUR 213.5 million (previous year: EUR 133.3 million). This item is made up of two parts: Impairments for losses that have already occurred and impairments for expected losses in the sense of risk provisioning. The calculation of expected loan losses is based on a three-level approach in accordance with IFRS 9. If a significant deterioration in credit risk (Level 2) or an impairment of creditworthiness (Level 3) occurs, a risk provision must be recognised in the amount of the losses expected over the entire remaining term of the contract. GRENKE AG uses model-based approaches based on statistical methods and has expanded these to include macroeconomic factors in accordance with the standard without this resulting in any significant changes to the estimates of the amount of the risk provision. For further information on the method for determining the impairment of lease receivables, please refer to the disclosures under Note 5.2 "Lease Receivables" in the notes to the consolidated financial statements.

Due to the effects of the corona pandemic, significantly more leases were identified to be classified in Level 2 and Level 3 as of the reporting date December 31, 2020 compared to the previous year. The change in level assignment led to an increase in risk provisions of EUR 86.1 million (previous year: EUR 59.8 million). The majority of the affected lease contracts were not terminated at the end of the reporting year. If these contracts improve in the future, they must be transferred back to the previous level and the excess risk provision must be reversed. The deferrals granted by GRENKE led to impairments totalling EUR 41.5 million as of the reporting date. The largest share of this (EUR 19.3 million) was attributable to Level 1 in accordance with IFRS 9. In total, the risk provisions according to IFRS 9 for all three levels and for non-terminated leases amounted to EUR 180.2 million in the reporting year. These related particularly to the markets in Italy and France. For further information on deferral agreements, please refer to the disclosures under Note 3.3.1.3 "Deferral Agreements" in the notes to the consolidated financial statements.

The loss rate (expenses for the settlement of claims and risk provision in relation to the volume of leased assets) increased to 2.3 percent in 2020 (previous year: 1.5 percent). The loss rate forecast of 2.3 percent for 2020 as a whole was thus achieved. The increase compared to the previous year resulted in part from higher risk provisions, as well as from the low growth in the volume of leased assets (sum of the net acquisition values of all current lease contracts). Due to new business in the reporting year, the volume of leased assets as of the reporting date of December 31, 2020 (EUR 9,015 million) increased by 6.4 percent compared to the value at the end of the year (December 31, 2019: EUR 8,474 million).

Due to the higher risk provisions, net interest income after settlement of claims and risk provision fell by 22.0 percent to EUR 193.6 million in the 2020 financial year (previous year: EUR 248.2 million).

The profit from service business rose in the reporting year by 11.2 percent to EUR 118.0 million (previous year: EUR

106.2 million) and benefited from the high volume of new business in previous years. In contrast, the profit from new business fell by 21.6 percent to EUR 43.2 million (previous year: EUR 55.1 million), reflecting the decline in new business in the reporting year due to the COVID-19 pandemic. Gains/losses from disposals improved to EUR −5.6 million (previous year: EUR −6.6 million) but remained in negative territory. Overall, income from operating business in the 2020 financial year fell by 13.3 percent to EUR 349.2 million (previous year: EUR 403.0 million).

The Consolidated Group's largest expense item, staff costs, came to EUR 119.8 million in the reporting year (previous year: EUR 120.8 million), 0.9 percent below the previous year. The increase in the average number of employees by 5.4 percent to 1,937 (on the basis of full-time employees; previous year: 1,838) was offset by an 18.0 percent decrease in variable remuneration.

Depreciation, amortisation and impairment fell in the reporting year by 5.2 percent to EUR 28.9 million (previous year: EUR 30.4 million). The decrease resulted from lower goodwill impairments of EUR 2.2 million (previous year: EUR 4.2 million). The impairments in the reporting year related to GRENKE BANK AG (EUR 1.6 million) and the leasing company in Slovakia (EUR 0.6 million) and were based on deteriorating new business expectations as a result of the COVID-19 pandemic. In the 2019 financial year, the item included the retro-spective adjustment of the goodwill of the leasing company in Poland of EUR 4.2 million in accordance with IAS 8. In contrast, depreciation and amortisation of other intangible assets, rights of use and property, plant and equipment increased by 1.6 percent to EUR 26.7 million (previous year: EUR 26.3 million).

Selling and administrative expenses increased by 0.4 percent to EUR 78.6 million (previous year: EUR 78.3 million) in the past financial year. The main reason for the increase was additional legal, consulting and audit costs of EUR 7.0 million in connection with the report of a short-seller. On the other hand, advertising, travel and IT project costs were down, essentially as a result of the COVID-19 pandemic.

The balance of other operating income and expenses in the reporting year was EUR −4.9 million (previous year: EUR −3.4 million) and resulted from the increase in other operating expenses due to increased foreign currency translation differences. These stemmed primarily from temporary differences during the term of foreign currency hedging relationships that do not currently qualify for hedge accounting. The differences resulted from the translation of balance sheet items at the closing rate and the market valuation of forward exchange rates. This difference should decline over the term of the hedge relationship, so that at the end of the term, the contracted forward exchange rate at which the hedge was made is decisive and will be realised.

Despite the additional legal, consulting and audit costs, the cost-income ratio in the reporting year declined to 42.6 percent (previous year: 44.4 percent). As explained in the Annual Report 2019, it is important to highlight that, starting with the 2020 financial year, GRENKE has been calculating the cost-income ratio in accordance with the calculation method customary in the financial sector, without taking into account expenses for settlement of claims and risk provision.

Mainly as a result of the increased risk provisions, the operating result in the 2020 financial year fell by 31.2 percent to EUR 117.0 million (previous year: EUR 170.0 million) and earnings before taxes by 35.6 percent to EUR 107.0 million (previous year: EUR 166.1 million). Other interest expenses, which rose to EUR 11.0 million (previous year: EUR 5.2 million), contributed to the comparatively stronger decline in earnings before taxes. These resulted, among other things, from negative interest on balances at the Deutsche Bundesbank. These amounted to a total of EUR 3.2 million for the reporting year (previous year: EUR 0.9 million).

The tax rate in the past financial year was 23.8 percent after 18.2 percent in the previous year. Compared to the previous year, the tax rate increased in particular due to the increase in non-tax-deductible expenses and changes in tax rate differences on foreign results. Accordingly, net profit was EUR 81.5 million (previous year: EUR 135.9 million), a decrease of 40.0 percent. Net profit attributable to ordinary shareholders and hybrid capital holders of GRENKE AG was EUR 85.7 million (previous year: EUR 143.2 million). The profit attributable to non-controlling interests to be reported for the first time due to the consolidation of the franchise companies amounted to EUR −4.1 million (previous year: EUR −7.2 million). This results in earnings per share of EUR 1.69 for the 2020 financial year (previous year: EUR 2.95).

2.7.2.1 Business Segments

Segment reporting is based on the organisational structure of the Consolidated Group. The Consolidated Group's operating segments are defined accordingly based on the management of the business areas in the Leasing, Banking and Factoring segments. Further information on the business segments is provided in the Consolidated Group's segment reporting in section 8, which is part of the notes to the consolidated financial statements.

2.7.2.2 Business Development

The conditions described in the sections on the macroeconomic and industry-specific environment had a particularly adverse impact on the Leasing segment in the 2020 financial year. Accordingly, operating income in this segment fell by 17.1 percent to EUR 301.8 million (previous year: EUR 364.0 million). As a result, the Leasing segment's share of the GRENKE Group's total operating segment income fell to 86.4 percent (previous year: 90.3 percent). The segment result fell by 35.7 percent to EUR 102.8 million in the reporting year (previous year: EUR 160.0 million). Amid the strong new business growth, the Banking segment recorded a 22.6 percent increase in operating income to EUR 42.0 million (previous year: EUR 34.3 million). The segment result improved by 28.8 percent to EUR 18.6 million compared to EUR 14.5 million in the previous year. In the Factoring segment, operating income increased by 13.7 percent to EUR 5.4 million in the 2020 financial year (previous year: EUR 4.8 million). The increase was mainly due to lower risk provisions. Due to continued investments in the sales infrastructure and startup costs for the stronger international positioning of the business, the segment's loss remained almost unchanged at EUR –4.5 million, compared with EUR –4.4 million in the previous year.

Selected disclosures on the business segments

	Segments							
	Leasing		Bank		Factoring		Consolidation & others	
EURk	2020	2019	2020	2019	2020	2019	2020	2019
GROUP LEVEL								
New business (Leasing) / Receivables volume incl. collection services (Factoring) / (Bank)	2'027'927	2'849'057	119'274	54'124	647'775	663'432		
Contribution margin 2 (CM2)	372'885	485'235						
CM2 margin (in percent)	18.4	17.0						
Deposit volume			1'537'284	884'151				
Factoring gross margin (in percent)					1.4	1.4		
CONSOLIDATED GROUP LEVEL								
Operating segment income	313'950	360'631	40'976	34'273	5'412	4'761	0	0
STAFF COSTS	**110'285**	**111'902**	**4'249**	**3'954**	**5'871**	**5'446**	**–625**	**–477**
Segment result	111'999	156'653	17'581	14'471	–4'496	–4'412	33	–38

2.7.3. Financial position

Selected information from the Consolidated Statement of cash flows

EURk	2020	2019
– Investments in new lease receivables	–2'082'344	–2'913'629
– Addition of new refinancing (excl. deposit business)	1'123'549	2'152'993
Net addition to deposit business	650'916	192'498
(I) CASH FLOW FROM INVESTMENTS IN NEW BUSINESS	**–307'879**	**–568'138**
+ Payments by lessees	2'318'717	2'080'205
– Repayments of refinancing (excl. deposit business)	–1'485'150	–1'323'847
(II) CASH FLOW FROM EXISTING BUSINESS	**833'567**	**756'358**
(III) OTHER CASH FLOW FROM OPERATING ACTIVITIES	**60'936**	**–40'977**
CASH FLOW FROM OPERATING ACTIVITIES (I) + (II) + (III)	**586'624**	**147'243**
Net cash flow from operating activities	567'187	115'448
Cash flow from investing activities	–16'522	–21'540
Cash flow from financing activities	–53'285	16'641
TOTAL CASH FLOW	**497'380**	**110'549**

Cash flow from operating activities improved in the 2020 reporting year to EUR 586.6 million (previous year: EUR 147.2 million). In the presentation above, the net cash flow from investments in new business includes, on the one hand, investments for new lease receivables. This includes the net acquisition values for the leasing objects and the costs incurred directly with the conclusion of the contract. Due to the lower volume of new business, investments for new lease receivables in the reporting year were EUR 2,082.5 million (previous year: EUR 2,913.6 million). These are offset by cash inflows from the increase in refinancing (EUR 1,123.5 million after EUR 2,153.0 million in the previous year) and GRENKE Bank's deposit business (EUR 650.9 million after EUR 192.5 million in the previous year). In total, net cash flow from investments improved to EUR –308.1 million (previous year: EUR –568.1 million). Cash flow from existing business rose to EUR 833.5 million (previous year: EUR 756.4 million), enabling both the refinancing of new business and the precautionary buildup of liquid funds.

After interest and taxes paid and received, net cash flow from operating activities amounted to EUR 567.2 million in the reporting year (previous year: EUR 115.4 million).

Cash flow from investing activities in the 2020 financial year amounted to EUR –16.5 million (previous year: EUR –21.5 million). It comprised primarily payments for the acquisition of property, plant and equipment and intangible assets of EUR 17.3 million (previous year: EUR 22.4 million).

Cash flow from financing activities amounted to EUR –53.3 million in the reporting year (previous year: EUR 16.6 million). The decrease was primarily the result of the fact that the previous year's figure contained net proceeds of EUR 73.7 million (2020: EUR 0.0 million) from the issue of hybrid capital. In contrast, due to the scrip dividend resolved by the Annual General Meeting, the dividend payment led to a cash outflow of only EUR 28.2 million (previous year: EUR 37.1 million). The interest payment on the hybrid capital equalled EUR 10.7 million (previous year: EUR 9.4 million) and the repayment of lease liabilities amounted to EUR 12.2 million (previous year: EUR 11.2 million).

Thus, the total cash flow in 2020 was EUR 497.4 million (previous year: EUR 110.5 million). Cash and cash equivalents rose accordingly to EUR 944.7 million as of December 31, 2020, compared to EUR 445.9 million at the end of the 2019 financial year.

Selected informations from the consolidated statement of financial position

EURk	Dec. 31, 2020	Dec. 31, 2019
Current assets	3'407'121	2'934'938
of which cash and cash equivalents	944'733	445'978
of which lease receivables	2'066'352	1'952'386
Non-current assets	3'924'660	4'163'004
of which lease receivables	3'569'940	3'823'263
Total assets	7'331'781	7'097'942
Current liabilities	2'073'208	1'900'172
of which financial liabilities	1'868'140	1'738'467
Non-current liabilities	4'065'470	4'054'556
of which financial liabilities	3'941'970	3'941'509
Equity	1'193'103	1'143'214
Equity ratio (in percent)	16	16
Total liabilities and equity	7'331'781	7'097'942
Embedded value incl. equity after taxes	1'657'227	1'661'094

2.7.4 Net assets

The GRENKE Group's total assets increased by 3.1 percent to EUR 7.3 billion as of December 31, 2020 compared to the end of the 2019 financial year (December 31, 2019: EUR 7.1 billion). This increase resulted solely from the growth in cash and cash equivalents, which more than doubled to EUR 944.7 million as of the reporting date (December 31, 2019: EUR 446.0 million). In the current macroeconomic situation, the GRENKE Group is placing a particular focus on maintaining sufficient liquidity in order to be able to react spontaneously to market conditions. Overall, the Consolidated Group held significantly more cash and cash equivalents as of the reporting date than liabilities due in the short term. Furthermore, the Consolidated Group is obliged to maintain a liquidity buffer in accordance with regulatory requirements. Therefore, at the end of 2020, a total of EUR 711.2 million (December 31, 2019: EUR 212.2 million) was held in accounts at the German Bundesbank, which led to a corresponding interest expense as a result of negative deposit interest rates.

The Consolidated Group's largest balance sheet item – non-current and current lease receivables – declined by a total of 2.6 percent to EUR 5.6 billion as of the reporting date (December 31, 2019: EUR 5.8 billion). This development reflects the low volume of new business and the impairments in the reporting year. For further details, please refer to Note 5.2 “Lease receivables” in the notes to the consolidated financial statements.

The decrease in other current assets to EUR 176.5 million (December 31, 2019: EUR 324.2 million) resulted largely from lower reporting-date-related VAT refund claims.

The decline in goodwill to EUR 43.6 million (December 31, 2019: EUR 46.0 million) was mainly the result of impairment losses of EUR 2.2 million on the goodwill of GRENKE BANK AG (EUR 1.6 million) and the leasing company in Slovakia (EUR 0.6 million). These impairments were based on deteriorating new business expectations as a result of the COVID-19 pandemic. Due to the retrospective full consolidation of the franchise companies from the date of their foundation, goodwill is no longer recognised for these companies on the consolidated balance sheet. The impairment of the goodwill of the leasing companies in Turkey and Brazil and the factoring company in Switzerland that was originally recognised in the interim consolidated financial statements as of September 30, 2020 was reversed due to the change in accounting. The goodwill of the leasing company in Poland was adjusted in accordance with IAS 8, under which an impairment of EUR 4.2 million was retroactively recognised on the goodwill for the 2019 financial year. For further information, please refer to Note 5.7 Goodwill in the notes to the consolidated financial statements.

On the liabilities side of the balance sheet, current and non-current financial liabilities increased by a total of 2.3 percent to EUR 5.8 billion (December 31, 2019: EUR 5.7 billion). The largest share of this item consisted of current and non-current liabilities from refinancing, which fell by 10.8 percent to EUR 4.3 billion compared to the end of 2019 (EUR 4.8 billion). Current and non-current liabilities from the deposit business, in contrast, increased by 73.1 percent to EUR 1.5 billion (December 31, 2019: EUR 0.9 billion).

The Consolidated Group's equity as of December 31, 2020 totalled EUR 1,196.8 million, for a year-on-year increase of 3.7 percent (December 31, 2019: EUR 1,153.8 million). The Group net profit of EUR 81.5 million generated in the reporting year was offset by the distribution of a dividend of EUR 37.1 million, the interest payment for the hybrid capital (EUR 7.5 million) and negative effects from currency translation (EUR 3.2 million). In contrast, there was a positive effect from the issue of shares in the course of the scrip dividend (EUR 8.8 million). Accordingly, the equity ratio as of December 31, 2020 was 16.3 percent (December 31, 2019: 16.2 percent) and thus still within the long-term benchmark of at least 16.0 percent. The retroactive full consolidation of the franchise companies and the other adjustments in accordance with IAS 8 reduced the Consolidated Group's equity reported as of December 31, 2019 by a total of EUR 94.9 million. For further details, please refer to the information in Note 2.3 “Adjustments in accordance with IAS 8” in the notes to the consolidated financial statements.

2.7.5 Liquidity

Based on a high level of cash and cash equivalents and a broadly diversified refinancing structure, the GRENKE Group was in a position at all times during the past fiscal year to meet its payment obligations. For more information about the Consolidated Group's liquidity management, please refer to Note 7.1.8.2 “Liquidity Management” contained in the risk report.

Three new fixed-interest bonds with a total gross volume of EUR 210.0 million and HKD 300.0 million were issued via the subsidiary Grenke Finance PLC in the 2020 reporting year. Bonds totalling EUR 273.0 million were redeemed as scheduled. The nominal value of bonds still outstanding as of the 2020 reporting date totalled EUR 2,496.0 million, JPY 8,000.0 million, HKD 800.0 million and SEK 250.0 million (previous year: EUR 2,559.0 million, JPY 8,000.0 million, HKD 500.0 million and SEK 250.0 million). Further information on the bonds issued can be found in Note 5.11.3.1 "Bonds" in the notes to the consolidated financial statements and on the Company's website at https://www.grenke.com/investor-relations/debt-capital/issued-bonds.

In addition, three promissory notes in the amount of EUR 19.0 million and CHF 40.0 million were issued in the reporting year. Promissory notes totalling EUR 57.5 million, DKK 66.0 million, SEK 66.0 million, GBP 10.0 million and PLN 10.0 million were repaid as scheduled. The total volume of promissory notes outstanding as of December 31, 2020 was EUR 313.0 million (previous year: EUR 351.5 million), CHF 60.0 million (previous year: CHF 20.0 million), GBP 0.0 million (previous year: GBP 15.0 million), DKK 86.0 million (previous year: DKK 152.0 million), SEK 66.0 million (previous year: SEK 132.0 million) and PLN 40.0 million (previous year: PLN 50.0 million).

In the short-term area, GRENKE completed 8 commercial paper issues in the financial year for a total of EUR 70.0 million. The programme's total volume as of the reporting date was EUR 750.0 million (previous year: EUR 750.0 million) and utilisation was EUR 0.0 million (previous year: EUR 226.5 million).

The utilisation of the ABCP programmes reached EUR 680.2 million and GBP 122.4 million as of December 31, 2020 (December 31, 2019: EUR 709.9 million and GBP 125 million). The total volume of these programmes was EUR 947.8 million and GBP 150.0 million (December 31, 2019: EUR 947.8 million and GBP 150.0 million).

The available money market facility of EUR 35.0 million was utilised as of the reporting date with a volume of CHF 6.0 million (previous year: CHF 11.5 million), GBP 3.5 million (previous year: GBP 0.0 million) and PLN 30.0 million (previous year: PLN 5.0 million).

Refinancing via GRENKE Bank's deposits amounted to EUR 1,373.1 million as of the reporting date of December 31, 2020, compared to EUR 884.2 million at the end of 2019. This corresponds to an increase of 55.3 percent.

The Consolidated Group's unutilised credit lines (bank credit lines plus available volume of bonds and commercial paper) amounted to EUR 3,367.9 million, PLN 24.0 million, HRK 40.0 million and CHF 10.0 million as of the reporting date (December 31, 2019: EUR 1,565.6 million, PLN 27.0 million, HRK 70.0 million and CHF 14.5 million).

In addition, the Consolidated Group intensified its cooperation with federal development banks (KfW) and expanded existing programmes to further support SMEs. In April 2020, a loan of EUR 90 million from the European Investment Bank (EIB) was disbursed. Further information on the existing and newly added collaborations can be found in the notes to the consolidated financial statements under Note 5.11.4 "Committed development loans". The total volume of global loans used to refinance the development loans brokered amounted to EUR 705 million as of December 31, 2020, compared to EUR 632.5 million at the end of the previous financial year. Of this amount, EUR 216.3 million was utilised (previous year: EUR 233.2 million).

The GRENKE Group uses a variety of instruments for its refinancing and staggers their maturities over several periods. This gives the Consolidated Group the flexibly to respond to changes in the refinancing markets. The following table shows the expected cash outflows resulting from contractual obligations as of December 31, 2020. Of the total of EUR 1.1 billion in financial liabilities maturing in 2021, liabilities from ABCP programmes total EUR 367.6 million, and bonds, debentures and private placements total EUR 568.9 million. Details on the maturities of the individual instruments are presented in the notes to the consolidated financial statements in Note 5.11 "Current and Non-current Financial Liabilities".

The GRENKE Group's off-balance-sheet obligations totalled EUR 435.9 million as of the December 31, 2020 reporting date (previous year: EUR 922.5 million). In addition to the usual purchase obligations in the ordinary course of business, these include irrevocable credit commitments and obligations from onerous contracts. Lease and rental agreements are off-balance sheet only to the extent that lease liabilities are not recognised under IFRS 16. Further details on the off-balance-sheet obligations are presented in the notes to the consolidated financial statements in the section "9.3 Contingencies (Contingent Liabilities) and Other Financial Obligations."

Expected cash outflows from contractual obligations

			Payment due			
EURk	Dec. 31, 2019 total	Dec. 31, 2020 total	1 to 3 months	3 months to 1 year	1 to 5 years	alter 5 years
Financial liabilities	5'157'752	4'633'653	366'741	826'363	3'068'281	372'268
ABCP related liabilities	987'284	891'931	100'261	267'331	523'089	1'250
Bonds, debentures, private placements (denominated in EUR)	3'482'930	3'149'673	143'386	381'957	2'254'591	369'739
Bonds, debentures, private placements (not denominated in EUR)	250'609	241'296	68'495	60'405	112'396	0
Sales of receivables agreements (denominated in EUR)	7'658	7'564	1'278	2'386	3'900	0
Sales of receivables agreements (not denominated in EUR)	153'380	92'466	14'119	39'051	39'296	0
Payments related to bank liabilities	275'891	250'723	39'202	75'233	135'009	1'279
Hybrid bond	254'719	262'387	13'406	0	116'285	132'696
Leases and rentals	48'699	51'637	4'748	12'642	30'914	3'333
Irrevocable credit commitments	4'504	4'708	4'708	0	0	0
Purchase obligations*	903'793	410'663	293'297	117'366	0	0
Obligations from onerous contracts	9'004	8'477	782	2'377	5'318	0
TOTAL CONTRACTUAL COMMITMENTS	**6'378'471**	**5'371'525**	**683'682**	**958'748**	**3'220'798**	**508'297**

* The obligations include those payment obligations that the Group cannot avoid even if it exercises contractual termination options. Legally binding obligation to purchase goods and services and trade payables.

2.8 General statement on the consolidated group's business performance and financial situation

The GRENKE Group faced a number of challenges in financial year 2020. The measures to contain the COVID-19 pandemic led to an unprecedented global economic slump. The development of new business was both a consequence of the weaker economy and the result of the successful focus on small-ticket contracts. At the same time, expenses for the settlement of claims and risk provision increased noticeably. In addition to higher losses, this was also due to the regulations of IFRS 9 for the recognition of risk provisions for expected future losses on current lease contracts.

In addition to the pandemic-related circumstances, the decline in net profit is also due to additional burdens resulting from the report of a short-seller published in September. GRENKE reacted immediately and commissioned independent expert opinions to clarify all of the issues raised in the report. GRENKE was also in contact with the German Federal Financial Supervisory Authority. Internal processes were subsequently improved upon, and the Board of Directors was expanded to include a chief risk officer. Departmental responsibilities were also structured more clearly.

In view of the nature and dimension of the extraordinary burden placed on the Consolidated Group, the Board of Directors of GRENKE AG regards the commitment of its employees and the results achieved in financial year 2020 to be remarkable. The assessment for the development of new leasing business during the year proved to be accurate and the control mechanisms were effective. GRENKE was able to adapt to the changed economic environment quickly. By focusing more intensely on the quality of contracted new business and balanced risk-taking, the CM2 margin was able to increase significantly by a total of 140 basis points compared to the prior year. Although the Consolidated Group net profit of EUR 81.5 million was clearly below the previous year's figure, the GRENKE Group once again proved that its business model is profitable, even in a prolonged phase of extraordinarily high burdens.

3. Financial and non-financial performance indicators

The financial performance indicators utilised to manage the GRENKE Group are presented and explained in the section "1.3 Management System". In addition, the enterprise value of the GRENKE Group is also determined by non-financial performance indicators. The development of the Consolidated Group's key non-financial performance indicators in the 2020 financial year is described below:

// Workforce development: The GRENKE Group's average number of employees based on full-time equivalents increased to 1,863 in 2020 (previous year: 1,769 employees). Of these, 706 employees (previous year: 654 employees) were employed at the German locations and 1,157 (previous year: 1,115) at the Consolidated Group's international locations. The steady development of staff in the reporting year resulted from new hires/replacements of the existing staff, in consideration of the COVID-19 pandemic and the associated economic constraints.

// GRENKE AG gender ratio: We were able to achieve our target for the equal participation of women and men in management positions in the second and third management levels of 30 percent each in the 2020 financial year. The ratio for each of the two management levels below the Board of Directors will remain at a minimum of 30 percent until December 31, 2021.

// Number of trainees/dual-study students: In the 2020 financial year, a total of 62 people (previous year: 54) completed dual training/dual studies in Germany.

// Professional training: The percentage of employees at the GRENKE Group who took part in mandatory and voluntary training courses was 85 percent in the reporting year (previous year: 91 percent).

For further information, please refer to the non-financial statement that follows.

4. Non-financial statement

We see our non-financial commitment as a critical success factor for the GRENKE Group's longevity, performance, and strong competitive position. At GRENKE, the corresponding information is systematically collected and integrated as manageable indicators in controlling and risk management. A critical examination of the impact of the Consolidated Group's activities on the environment and society is part of our forward-looking management approach.

As part of our systematic stakeholder relations management, we address the concerns of our relevant stakeholder groups – who are first and foremost capital market participants, employees, and customers – and incorporate them into our strategic decisions. The sustainability issues identified as essential for our business model are an integral part of GRENKE's risk management (see "Risk Management Process" in note 7.1.2 of the combined management report). In preparing the separate non-financial report for the Consolidated Group, we not only look at the significant risks to our business activities but also consider risks having a significant negative impact on the aspects defined in the context of non-financial reporting (Section 315c in conjunction with Section 289c (3) nos. 3 and 4 HGB).

This report presents the non-financial statement of the GRENKE Group in accordance with the CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG), which came into force in the 2017 financial year. Unless otherwise stated, the following information refers exclusively to the GRENKE Group. In 2020, franchise companies were retrospectively included in the consolidated financial statements (fully consolidated). In this non-financial statement, the comparable figures are therefore presented accordingly.

As a rule, our sustainability activities are closely linked to GRENKE's core business. Examples of this are the integration of sponsorship programmes into our financial services, miocrocredits and voucher programmes for new lease purchases (for more information on our business model, please see the section entitled "Consolidated Group Principles" in note 1. of the combined management report).

As a financing partner for SMEs, we are not directly involved in the production of goods or commodities but still work to have an influence on the sustainability of the upstream and downstream processes. For example, we pay close attention to ensuring that the lease objects purchased from suppliers and directly from manufacturers are always new items that meet common market standards. We expect a longer service life from new, high-quality products. We also make certain that used lease objects are recycled and used further in the economic cycle to the greatest extent possible.

4.1 Key issues and areas of action for stakeholder relations management

GRENKE has been tracking and evaluating the proposals, requests, and complaints of our employees, suppliers, and business partners since as early as 1996. Meanwhile, we have been systematically expanding our stakeholder relations management and now address our relevant stakeholders using a variety of target group-specific formats and channels in addition to letters, phone calls, and email. Communicating about sustainability-related topics is becoming increasingly important.

Our stakeholders and communication channels

Stakeholders	Formats and channels

Employees
// Management
// Employees
	Consolidated Group-wide management forums, regular information for employees, employee surveys, campaigns on occupational health and safety; social media (XING, LinkedIn, Facebook)

Business partners // Customers / resellers of the three business segments Leasing, Banking and Factoring	Visits and workshops with customers, welcome calls, participation in trade fairs, customer and partner magazines, satisfaction surveys

Capital markets
// Investors (debt and equity)
// Analysts
// Rating agencies
	Annual reports, Annual General Meeting, analyst and investor conferences, roadshows and capital market conferences, ratings (S&P, GBB)

Government bodies
// Supervisory authorities
// Regulators
// Auditing companies
// National / international legislators
	Supervisory discussions, notifications and reporting, annual reports / reporting, dialogue with development banks such as the Kreditanstalt für Wiederaufbau on development programmes and the Federal Ministry of Labour and Social Affairs regarding microcredits

Civil society
// Potential employees
// Media representatives
// Local stakeholders
// Non-profit institutions
	Social media presence on XING, LinkedIn, Facebook, and kununu, corporate reporting, exchange with media representatives, customer and partner magazines, interaction in charitable projects

The activities involved in our internal stakeholder relations management include determining the level of "internal recipient satisfaction", a survey of all employees (excluding trainees) on the cooperation among departments. The survey's results flow into our balanced scorecard (BSC) evaluation and form a component of the variable compensation.

External proposals from our finance recipients and specialist reseller partners are recorded under the category of "external recipient satisfaction" and continuously evaluated. We take this systematic collection and evaluation of feedback into account when further developing our range of products and services.

No framework concept has been applied thus far in the preparation of this non-financial statement or in the selection of the key figures presented. In the 2020 reporting year, we continued to evaluate the option of implementing an international reporting standard. The standard, which is yet to be defined, will serve as a framework for explicit sustainability reporting in the future, supplementing the reports that exist today in the individual areas.

Previously, the non-financial statement had contained a materiality analysis with sustainability issues of strategic relevance from a corporate and economic perspective while at the same time reflecting the interests and expectations of the relevant stakeholders. In 2020, the report of a short seller added other significant topics from both an external and internal perspective. The materiality matrix will therefore go through a fundamental revision in the 2021 financial year and be prepared in accordance with a reporting standard.

Our activities in the areas of Responsible Corporate Governance, Sustainable Human Resources Management, Resource Management, and Community Involvement, as well as in Quality Management, can be seen in the following overview. The five aspects of environmental, employee and social issues, respect for human rights and combating corruption and bribery from CSR-RUG pursuant to Section 289 c (2) HGB are also shown in this reporting structure. We provide information on the development status of our sustainability strategy and report on individual KPIs that have been developed within the fields of action (indicated below by **KPI**). We also describe our sustainability measures in the respective fields of action. These are also presented in the table "Our sustainability measures" together with their status. A review of the current status and consideration of new measures is carried out annually.

Our fields of action and related key issues

Fields of action	Issues	Aspect under CSR-RUG
Responsible Corporate Governance Ethical and legal standards determine our actions. We make our decisions in a responsible and value-oriented manner. We comply with applicable regulations and laws as well as internal rules and identify with the principles of transparent corporate governance. Assessments carried out in 2020 focused, among others, on the areas of compliance and money laundering prevention. We see the partially criticised results as an opportunity for ongoing improvement.	Compliance Money laundering prevention Corporate governance Data protection Information security	Combating bribery and corruption Respecting human rights
Sustainable Human Resources Management Attracting and retaining qualified employees who take responsibility for their actions is one of the most important pillars of our corporate success. GRENKE is loyal to its workforce and lives up to its duty of care more than ever in an extraordinary time of change due to the pandemic.	Desirability as an employer Training and education Employee development Health management and occupational safety	Employee concerns
Resource Management We pay attention to our responsible use of the resources left available to us.	Resource management Digital processes	Environmental concerns
Community Involvement We embrace our social responsibility to society. For example, we support projects and organisations that are active in the areas of social welfare, youth, sports, and culture.	Collaborations	Social issues
Across all fields of action	Quality management	
	Stakeholder relations management	

Our sustainability measures

Field of action	Measure	Scope of application	Deadline	Status
Responsible Corporate Governance, Sustainable Human Resources Management, Resource Management, Community Involvement, Across all fields of action	Evaluate reporting standard for sustainability reporting	GRENKE Group	2021	In progress
Responsible Corporate Governance	Place Chief Risk Officer at level of Board of Directors due to continued increasing regulatory requirements for internal control systems	GRENKE Group	2021	Achieved
Responsible Corporate Governance	Review internal process for money laundering prevention	GRENKE Group	2021	In progress
Responsible Corporate Governance	Train new employees on topics of compliance, money laundering, fraud prevention, anti-corruption, and bribery	GRENKE Group	Ongoing	In progress
Responsible Corporate Governance	Conduct compliance and anti-money laundering audits	Subsidiaries of GRENKE AG	Ongoing – Each subsidiary is reviewed every 3 years	In progress
Responsible Corporate Governance	Introduce compliance e-learning tool	GRENKE Group	2021	In progress
Responsible Corporate Governance	Provide e-learning on data privacy for all employees	GRENKE Group	Ongoing	In progress
Responsible Corporate Governance	Provide information security training for all employees	GRENKE Group	Ongoing	In progress
Sustainable Human Resources Management	Introduce measures to reconcile family and career, such as flexible working models and a digital infrastructure that enables location-independent work	GRENKE Group	Ongoing	In progress
Sustainable Human Resources Management	Introduce leadership principles	GRENKE Group	2021	In progress
Sustainable Human Resources Management	Provide further training options for specialists and managers	GRENKE Group	Ongoing	In progress
Sustainable Human Resources Management	Staff management positions in the second and third management levels with at least 30 percent men and 30 percent women	GRENKE Group	2021	In progress
Sustainable Human Resources Management	Promote vocational training and dual-study programmes to secure young talent	GRENKE Group	Ongoing	In progress
Resource Management	Reduce surface mail through processes such as digital personnel files, digital customer portals, and the electronic signature solution	GRENKE Group	Ongoing	In progress
Resource Management	Carry out an energy audit according to DIN EN 16247	In Baden-Baden and selected branches in Germany	2021	In progress
Resource Management	Update the company car policy to include the procurement of electric and hybrid vehicles as company cars	GRENKE Group	2021	In progress
Community Involvement	Participate in social and community-based projects	GRENKE Group	Ongoing	In progress
Across all fields of action – Quality Management	Complete a control audit of the quality management system by TÜV SÜD Management Service GmbH	GRENKE Group	Annually	In progress
Across all fields of action – Quality Management	Obtain random sample certification of GRENKE locations by TÜV SÜD Management Service GmbH in addition to internal audits in the area of quality management	GRENKE Group	Ongoing	In progress

4.2 Responsible corporate governance

The year 2020 has underscored the importance of responsible corporate governance for GRENKE. We strive to act with integrity at all times and to ensure that our decisions are in accordance with the legal and regulatory framework and our values.

Following a report of Viceroy Research LLC (see "Short-seller Report" in note 2.1 of the combined management report) the Company commissioned a separate audit from KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG). In addition, BaFin mandated a special audit at the auditing firm Mazars in accordance with Section 44 KWG as well as an audit of the consolidated financial statements of GRENKE AG as of December 31, 2019 and the combined group management report and management report for the 2019 financial year.

KPMG raised significant objections regarding the adequacy of organisational money laundering prevention in the GRENKE Group (ad hoc notification pursuant to Article 17 of the Market Abuse Regulation (MAR) dated December 16, 2020). The potential for improvement of the internal process for money laundering prevention identified in the course of the audit was reviewed and implementation commenced.

Mazars' preliminary criticisms of the compliance function related to procedural weaknesses in the documentation of related parties, a lack of traceability of the updates to the compliance manual, questioning of the metrics for assessing compliance risks, insufficient documentation of the written annual reports of the compliance function, and inadequate staffing of the compliance function. With regard to money laundering prevention, the internal control measures were not effective in some areas, and there were significant deficiencies in the material and personal resources of the money laundering officer function. These findings are also being addressed, and the processes are being further developed.

On the basis of these preliminary points of criticism, BaFin sent the Company a hearing letter (for further information, please refer to the "Report of the Supervisory Board"). As a result, Mark Kindermann informed the Supervisory Board on February 8, 2021 that he would resign from his position on the Board of Directors and from all other positions held in the Consolidated Group. The Supervisory Board complied with this request.

For the further development of compliance and the entire internal control system, the Board of Directors was expanded to include the position of Chief Risk Officer (CRO). Isabel Rösler took over the newly created position on the Board of Directors as of January 1, 2021. She is responsible for key internal control functions such as Risk Management, Compliance, Corporate Credit, Administration and Data Protection.

GRENKE AG complies with the essential statutory regulations for the management and supervision of listed companies as set forth in the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK) as well as to a large extent with the internationally and domestically recognised standards for good and responsible corporate governance recommended by the DCGK (see "Declaration of Conformity pursuant to Section 161 AktG" in note 9.1 of the combined management report).

4.2.1 Compliance management

Compliance at GRENKE extends to all business activities and processes. Acting in accordance with the law and supervisory and internal regulations is just as fundamental for us as respectful treatment of employees and external stakeholders, equal treatment, anti-discrimination, and respect for human rights. The rules of mutual respect and ethical conduct are also laid down in writing in our Code of Conduct, which is given to all employees as part of their employment contracts. In addition, all corporate bodies and staff are kept informed of the laws, internal regulations, and any reforms or changes thereto via the Company intranet, by email, and in training courses.

In our international business operations, the various legal systems and laws in the 33 countries where GRENKE operates present a key challenge. Our goal is to meet the diverse international requirements and, thereby, mitigate operational risks and uncertainties with confidence using our Group-wide Compliance Management System (CMS). The aforementioned points of criticism brought up in the audits from KPMG and Mazars are being addressed and acted upon, and our processes further developed.

The risk potential for non-compliance cases (including corruption and money laundering risks) is reviewed annually by GRENKE's local foreign subsidiaries. Due diligence processes are carried out prior to company acquisitions. Local compliance officers in the respective countries ensure that our standards are observed both domestically and internationally. Subsidiaries are monitored regularly by means of compliance and money laundering audits.

Local compliance officers report directly to the compliance officer of the GRENKE Group, who then informs the relevant members of the Board of Directors of any material findings. The GRENKE Group's compliance officer also helps the Board of Directors avoid committing violations of the law, acts of corruption, or fraudulent activities, and assists in the clarification of suspicious cases. The responsible member of the Board of Directors receives an annual compliance report. The Group Compliance Office also informs the Board of Directors and Supervisory Board of all material information by means of an annual compliance report.

Our employees have a variety of ways available to report possible rule violations. In the 2019 financial year, we added the "GRENKE Integrity Line" whistleblower platform to give employees, customers, resellers, and third parties the opportunity to make us aware of potential rule violations with confidentiality ensured (see www.grenke.com/grenke-integrity-line). We handle the reported information responsibly. GRENKE addresses violations of applicable law with appropriate measures.

4.2.2 Money laundering prevention

We address potential money laundering and terrorist financing, as well as other criminal acts, through a wide range of work procedures and guidelines. The potential for improvement in the area of money laundering prevention identified in the separate audit is being systematically dealt with and implemented. The appointment of national money laundering officers forms the basis for the monitoring of legally compliant behaviour throughout the Consolidated Group. In order to stay apprised of legislation in terms of sanctions, we have opted for a system-supported process.

The level of risk in the areas of money laundering, terrorist financing, and other criminal acts is assessed annually by all subsidiaries and at the Consolidated Group level. This includes an assessment of the existing security and control measures, which are expanded further if necessary. The local money laundering officers report to the local management as well as to the GRENKE Group's money laundering officer, who forwards all relevant information to the responsible member of the Board of Directors. The Board of Directors and the Supervisory Board receive a detailed annual report on money laundering prevention.

We screen our customers and specialised reseller partners within the scope of the law based on the know-your-customer principle, which includes the identification and verification of the beneficial owners, their PEP status, and listing on national and international sanctions and embargo lists.

In the event of suspicious cases, our employees have a variety of channels for reporting. The money laundering officers immediately forward any suspicious cases to the pertinent authorities in accordance with local requirements.

4.2.3 Compliance training and audits

A sound understanding of compliance among our workforce is key to achieving our goal of effectively preventing violations. This is the reason all of the new employees throughout the Consolidated Group receive a comprehensive introduction to relevant compliance topics such as money laundering, fraud prevention, anti-corruption, and bribery. The core content of the training includes instructions and rules on the correct and legally compliant handling of invitations and gifts.

In 2020, 194 of the 269 newly hired employees were trained in the above topics. This corresponds to a training ratio of **KPI** 72.1 percent (previous year: 62.1 percent). Training courses were held as part of an introductory face-to-face event in the first quarter of the year and followed by online training.

With our use of online training as part of the induction process, our new compliance e-learning tool, and the training provided by the local compliance and money laundering officers, we ensure that the topics of compliance and money laundering prevention are communicated at GRENKE on an ongoing basis. The compliance newsletter, launched in 2020, also helps raise the awareness of compliance-relevant topics.

During the past financial year, we carried out **KPI** 11 audits on compliance and money laundering prevention remotely at our subsidiaries as scheduled (previous year: 9 audits). These triennial audits examine the existence, adequacy, and effectiveness of the CMS and the money laundering organisation.

4.2.4 Data protection

Data protection is a high priority at the GRENKE Group. We make it a point to develop our data protection management system on an ongoing basis to ensure that data processing activities within the Consolidated Group are executed in accordance with the legal requirements. This also allows us to recognise potential violations at an early stage so that we can counter them with the appropriate actions.

The European General Data Protection Regulation (GDPR), which took effect on May 25, 2018, establishes uniform data protection within the European Union. Despite this regulation, the different legal systems with their varying national legal requirements will continue to present GRENKE with a data protection challenge due to its international business activities.

The implementation of data protection requirements therefore also takes into account the changes to national legislation, which means that, in addition to the provisions of the GDPR, individual member states continue to have different data protection regulations. As soon as a member state introduces an opening clause to supplement or expand the requirements under national data protection regulations, the affected processes are adapted accordingly.

To meet the major challenges posed by data protection, both GRENKE AG, as the parent company, as well as the Consolidated Group companies, have each appointed their own data protection officers in accordance with the legal requirements. Employees receive ongoing e-learning sessions on the topic of data protection. In addition, data protection officers are available to our customers, business partners, and employees as competent contact people. A central unit was also set up in 2019 to ensure the coordination of all data protection officers.

4.2.5 Information security

Information security is a key aspect of the GRENKE Group. We continue to advance our information security management system on a routine and ad hoc basis in order to provide an appropriate level of protection for the information that we are entrusted with and process.

The requirements of the relevant ordinances and laws, especially the German minimum requirements for risk management (Mindestanforderungen an das Risikomanagement – MaRisk) and the German banking supervisory requirements for IT (Bankaufsichtliche Anforderungen an die IT – BAIT), and their updates, form the basis of our actions.

The measures, processes, and controls follow the ISO 27001 standard and the IT security maturity model according to COBIT (the internationally recognised framework for IT governance) and are continually expanded. The Board of Directors and Supervisory Board are informed regularly of the current status of information security management. There is close cooperation and coordination with important interfaces such as compliance, data protection, and risk management.

In 2020, the existing business impact analysis – which focuses on potential risks for the organisation – and the protection needs analysis were expanded further for targeted planning and investment in additional appropriate security measures. This was accompanied by the introduction of a new, integrated security information and event management system for the early detection and prevention of potential security incidents.

Various training courses focusing on information security are held to address risks and opportunities in an effort to increase employee security awareness.

4.3 Sustainable human resources management

The success of the GRENKE Group rests on the skills and commitment of its employees. Attracting, retaining, and developing them accordingly are at the core of our human resources strategy. The principle of promoting and challenging is applied in our work together every day. As a family business, GRENKE is loyal to its employees and takes its duty of care seriously.

At GRENKE, employee concerns are given top priority above and beyond the legal and regulatory requirements. The manner in which we should work and interact with each other internally is set out in our Corporate Code of Conduct. The Code clearly defines the obligations of the employees towards the Company, as well as those of the Consolidated Group towards the workforce. We focus special attention on mutual appreciation, fairness and respect. We support equal opportunity and accountability, promote employees' individual strengths, and consider their proposals for improving the work environment.

The Human Resources Department coordinates and monitors all key HR matters using the "SAP SuccessFactors" platform, which was rolled out across the Consolidated Group in 2020. Due to their high importance, personnel issues are recorded, backed by reports on key performance indicators, and routinely evaluated and discussed at meetings of the Board of Directors.

4.3.1 Desirability as an employer

The year 2020 was challenging for GRENKE. The outbreak of the COVID-19 pandemic affected not only our new business but also our work lives. Since mid-March, more than 90 percent of the workforce has spent time working from home. The surveys conducted among the workforce showed that they highly appreciated the option to work remotely. The Board of Directors reached out to employees through video messages, internal communications, and personally in several video conferences. The transparent communication was reflected back in the form of great commitment and strengthened the GRENKE team.

The year 2020, in particular, showed that being a desirable employer is a high priority for GRENKE. To this end, we offer employees an attractive and safe working environment, flexible hours, and fair compensation. GRENKE sees diversity as a crucial ingredient to success, and the principle of equal opportunity is given overriding importance.

The recruitment of new team members and their loyalty to the Company are also very important to GRENKE. The goal of recruiting new employees is to ensure a sufficient level of personnel and, at the same time, keep the fluctuation rate low. To accomplish this, we work continually to raise the profile of GRENKE's brand as an employer both regionally and nationally. GRENKE uses selected social media to adequately address new target groups and increase the reach of job advertisements and recruiting initiatives. Since 2017, for example, we have had a uniform presence on XING, kununu, LinkedIn, and Facebook. Potential applicants can gain significant insight into the Company on these platforms as well as communicate with employees. The approach using these channels and formats with the corresponding content is increasingly developed by our own employees, who present GRENKE based on their own experience.

In 2020, we participated virtually in the recruiting fair KIT-Karrieremesse@home and in person at Jobs4future in Mannheim, Germany.

In addition to the cooperation with the Baden-Württemberg Cooperative State University (Duale Hochschule Baden-Württemberg – DHBW), the GRENKE Group organises other activities in collaboration with selected universities and initiatives that also contribute to strengthening our employer brand and attracting talent. As part of the Germany scholarship programme, we are currently sponsoring one scholarship holder (previous year: three scholarship holders) from the Karlsruhe University of Applied Sciences enrolled in the bachelor's degree programme in Business Informatics. In addition, the Grenke Centre for Entrepreneurial Studies at the Berlin University of Applied Sciences identifies significant opportunities and challenges for companies, researches the skills such as leadership and innovation that are needed in the 21st century, and transfers this knowledge to the entrepreneurship programme.

4.3.1.1 Employment models and remuneration

GRENKE employees have numerous options available to them for creating their own individual work schedules and their chosen locations to fit their current life situation. Our digital infrastructure offers employees a variety of flexible mobile work opportunities. GRENKE also caters to new generations by providing young parents in particular with the option to set up special work schedules so that they can combine their family and career in the best way possible. Remuneration consists of a fixed base salary and performance-related remuneration components.

4.3.1.2 Diversity

GRENKE promotes diversity and equal opportunities for women and men. Women make up 33 percent of the Supervisory Board. Until the departure of Mark Kindermann on February 8, 2021, women also made up 40 percent of the Board of Directors. Following Mr Kindermann's exit, women make up 50 percent of the Board of Directors. The Consolidated Group is led by Antje Leminsky as Chair of the Board of Directors. With the appointment of Isabel Rösler, another woman was added to the Board of Directors in January 2021.

// With regard to the equal participation of women and men in management positions, we were able to achieve our target of 30 percent in each of the second and third management levels in the past financial year. In the future, we aim to maintain a gender-specific target of at least 30 percent in each of the two management levels below the Board of Directors by December 31, 2021.

The principles of equal opportunity and diversity apply at GRENKE. When selecting new talent, for example, GRENKE brings in external personnel specialists who are required to consider all genders equally in their selection in order to fill the advertised position with the most suitable candidate.

GRENKE will also place an especially strong focus in the future on the promotion and qualification of female employees in the area of further training.

4.3.1.3 Development of the workforce

GRENKE employed 1,863 people on average based on full-time equivalents during the past year (previous year: 1,769). Of these, 706 employees (previous year: 654 employees) were employed at the German locations and 1,157 people were employed at our international locations (previous year: 1,115).

The average fluctuation rate for the Consolidated Group was **KPI** 10.0 percent (previous year: 11.5 percent). The rate in Germany was 8.4 percent, compared with 11.5 percent in the previous year. The fluctuation rates were determined on the basis of employee data measured in full-time equivalents. The fluctuation rate in the management area and among senior executives was again well below the Consolidated Group average.

4.3.2 Employee qualification and development

Business and work processes are changing just as rapidly as the legal environment. The knowledge, motivation, and ongoing training of the workforce have long been strategic corporate resources that continue to gain increasing importance in a constantly evolving market environment. GRENKE believes that a well-qualified workforce makes all the difference. Further education injects new know-how into the Company, fosters innovation and the ability and enthusiasm to perform, and promotes strong job satisfaction among employees. This objective is firmly anchored in our personnel development concept. A basic prerequisite to accomplishing this is to actively accompany internal and external change processes and shape them together when possible. With the availability of internal and external digital HR platforms, this can be done at all times online.

4.3.2.1 Induction and orientation

Our goal is to give every employee the best possible start in our Company. Potential new team members are therefore supported by a permanent contact person from Human Resources (HR) during the application process and informed of every step of the selection process. They also have the opportunity to get to know the team in advance.

New team members are then accompanied through a detailed induction process. An important component of this process is “Join GRENKE”. In this programme, employees provide new team members with insight into the individual specialist departments via web conferences. This is how the respective areas of responsibility and the interaction between the areas are presented during the induction phase. These introductory meetings are offered at regular intervals, coordinated by HR, and individually agreed to with the relevant manager. In addition to the systematic introduction to the GRENKE Group, new employees naturally also undergo a thorough technical induction within their team.

New employees also attend a three-day introductory event during their first year of employment. This event has been traditionally held at the Consolidated Group’s headquarters in Baden-Baden, however, due to the COVID-19 pandemic, an online-based format was created that includes live and recorded theme presentations. These are available in both German and English to make it possible for all employees to take advantage of this offer. The concept is prepared in close cooperation with respective speakers and continually reviewed and updated.

To steer the relevant workforce processes and make them even more efficient, we implemented new HR management software at the end of 2019. This software supports the HR team and all managers in their HR tasks and provides them with tools to facilitate the recruitment, development, and retention of our employees.

4.3.2.2 The GRENKE Talent Lab

The GRENKE Talent Lab provides all further training offers and formats within the GRENKE Group. The Lab’s objective is to ensure the continuous qualification and development of our employees through a diverse range of further training programmes tailored to their specific needs.

The GRENKE Talent Lab offers practical, didactically and methodically structured continuing education programmes across all locations. Through the use of various learning formats and media such as modern e-learning programmes and permanent evaluation processes, we ensure the quality of our ongoing training and guarantee that knowledge is shared within the Company. Where feasible, our goal is to ensure that each and every employee participates in a minimum of one GRENKE Talent Lab continuing education programme every year.

GRENKE Talent Lab is divided into two areas: personnel qualification and personnel development. The Lab offers continuing education programmes that are tailored to specific departments and roles within the organisation. The two areas supplement each other and are designed as a common path that can be individually tailored for each team member. *see diagram “Structure of the GRENKE Talent Lab”.*

At GRENKE, personnel qualification refers to the ongoing support employees receive to do their daily work through high-quality, practice-oriented training to ensure they are continually qualified in their field of responsibility. When we design the annual training programmes, we place a special emphasis on combining internal and external training courses with supplementary individualised training on specific topics.

Internal training is carried out by GRENKE experts who are accompanied and supported by the HR Department. In the case of external training, GRENKE commissions experienced trainers who are qualified in a particular topic. In its selection and assessment of external trainers and coaches, the HR Department uses an in-house evaluation model.

In August 2020, the GRENKE Talent Lab offering was expanded to include the leading digital learning platform LinkedIn Learning. With this addition, the GRENKE team can now access over 15,000 e-learning programmes in the categories of business (e.g. project management), IT (e.g. handling hardware and software), and creativity (e.g. brainstorming and innovation) and continue their education flexibly, without the constraints of time or location.

At least once a year, a task review meeting is held between the employee and the responsible manager. This meeting involves a discussion about the employee's performance of duties and a skill assessment, among others. As a result of these meetings, GRENKE also determines whether or not further training requirements are necessary and, if so, includes these in the annual training schedule.

Within the scope of personnel development, which is dedicated to the individual advancement and further development of the GRENKE workforce in line with the Company's objectives, two instruments are used:

// HR Personal Development Survey – This survey gives employees an opportunity to express their individual desire for further development at the Company. The survey is conducted online via the HR portal enabling GRENKE to offer a protected environment in which team members can express their professional and personal goals to the Company. Under the assurance of neutrality and objectivity, GRENKE is able to gather information about the employee's development wishes and goals and his or her individual willingness to learn and change.

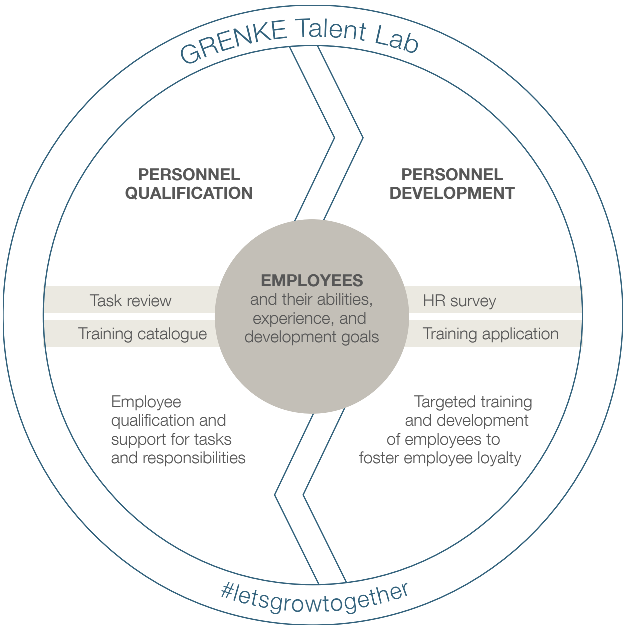
// Application for special individualised further training – employees can apply to receive some desired further training or make a concrete request for training outside of what is offered in the annual training portfolio. Once the application has been approved, an individual training agreement is concluded between the employee and GRENKE.

In 2018, a company-wide programme for an international group of middle managers was conducted for the first time under the name "Leadership Personality". During the past financial year, four new training groups started, consisting of three German-speaking groups and one international group. The training programme contains a total of five modules encompassing ten training days, which were held digitally due to the COVID-19 pandemic. The training modules address GRENKE-specific topics as well as relevant content on the theory and practice of managing employees. Due to the current pandemic, for example, the topics of working and leadership from a distance were added. The focus of this training is on an open exchange, as well as the practical application and experience of the learning content. The GRENKE team uses the support of an external partner to carry out this programme. The topic of leadership from a distance was also offered to all executives as an internal online course.

Leadership development at GRENKE will continue to be emphasised and successively expanded in the current year. In 2020, leadership principles were developed to guide executives in their leadership roles. We also intend to introduce additional career paths (talent journeys) alongside the executive programme.

The further training offered by the GRENKE Talent Lab was very popular again in 2020, with **KPI** 85 percent (previous year: 91 percent) of GRENKE Group's employees taking part in the courses offered.

Structure of the GRENKE Talent Lab



4.3.3 Training and education

Our human resources management is continuously developing and improving the content of the training and education programmes and the qualification and development of employees. At a minimum, this effort not only strengthens GRENKE's desirability as an employer but also draws new, qualified talent to the Company.

At the same time, the HR Department works to ensure that existing employees identify positively with the Company. Possessing a qualified and autonomous workforce is one of our most important resources – especially during periods where there is a shortage of skilled workers. Our goal in the area of training and education is to retain as many suitable young people and potential managers as possible at an early stage. To achieve this, we rely on a host of supporting activities, including training coordination, partnerships with schools within the scope of the "Business Provides Education" campaign, internships, and various campaigns for vocational training.

4.3.3.1 Training management and dual-study programmes

We provide our employees with all of the professional skills they need for their careers at GRENKE, starting with the traineeships at the Company. Our trainees receive individualised and demand-oriented training, which takes into account their strengths and the requirements of their special areas of activity.

After a multi-day in-depth induction period, the training programme includes an established feedback process and a half-yearly deployment plan that incorporates the training requests of our trainees.

Trainees are assigned contact persons and deputies (vocational trainers) in each department, who have taken the Chamber of Commerce and Industry (Industrie- und Handelskammer – IHK) training exams. The contact persons are responsible for supervising and accompanying the trainees and familiarising them with specific vocational topics. By rotating the trainees through different departments, they develop a comprehensive understanding of the Company's processes. We also use standardised introduction plans to ensure that all trainees obtain extensive and uniform fundamental knowledge in addition to individual vocational skills.

A comprehensive orientation programme ensures that trainees develop the fundamental skills necessary for their desired position, as well as an understanding of the specific challenges faced during a typical workday at GRENKE. As the trainees continue to develop, they start to actively participate in projects and contribute their original ideas.

In Germany, together with the IHK in Karlsruhe, Kiel, and Mannheim, we offer trainees courses for the following vocations:

// Office manager
// IT specialist in application development and systems integration

We have also been educating young trainees in a variety of study areas in cooperation with the DHBW since 2004. Our range of training currently includes the following courses of study:

// International Business (B.A.)
// International (tri-national) Business Management (B.A.)
// Business Administration/German-French Management (B.A.)
// Business Administration/Financial Services (B.A.)
// Business Administration/Digital Business Management (B.A.)
// Accounting & Controlling (B.A.)
// Business Information Systems (B.Sc.)
// Information Technology (B.Sc.)

Due to the ever-evolving market situation, it is important that we review our training programme regularly. Through our ongoing market research, we have identified new vocations and study courses and are striving to expand our training portfolio to better meet the demand for junior staff.

In the 2020 financial year, a total of 62 trainees and students in Germany (previous year: 54) completed either a dual vocational training programme or dual degree programme. A total of 13 of the 18 trainees and students were subsequently hired, which corresponds to a hiring ratio of **KPI** 72.2 percent (previous year: 81.8 percent). The development internationally was as follows: our French subsidiary, GRENKE Location SAS, had 25 trainees in 2020 (previous year: 16). Italy and the UK each currently have four trainees, and one trainee is in Switzerland. We have started training operations in other countries in 2020. In Spain, for example, GRENKE will be reinforced with two junior employees, and in Portugal, Denmark, and Finland with one junior employee each. Internationally, ten people completed their vocational training, three of whom were hired permanently. The number of trainees is growing slightly. However, due to the growth in the number of employees in the various countries, the training ratio for the GRENKE Group entities' offering training amounted to **KPI** 3.6 percent compared to 5.8 percent in the previous year.

For our commitment to training management, we received another award in the category "Best Trainers in Germany" in 2020, after already receiving this award in 2018 and 2019, in a study with the same name, conducted by Capital business magazine. Achieving the highest possible score in this category encourages us even more to maintain the outstanding quality of training at our Company.

4.3.3.2 School partnerships, corporate internships, and training ambassadors

As part of the "Business Provides Education" campaign sponsored by the Karlsruhe IHK, GRENKE has entered into collaboration agreements with the Markgraf-Ludwig High School and the Richard-Wagner High School in Baden-Baden, as well as with the Lothar-von-Kübel Secondary School in Sinzheim. The aim of these collaborations is to give students a better understanding of economic interrelationships and make it easier for them to choose a profession and manage the application process, in addition to strengthening the advisory skills of the teachers. We are also involved through workshops, sponsorships, and through our participation in career fairs. In 2020, for example, we participated in the Karlsruhe education fair "Career Start" and a "Study Info Day" sponsored by DHBW Mannheim, as well as in "Open House", which was held virtually, sponsored by DHBW Karlsruhe.

In addition, six internships were also completed, which gave trainees the opportunity to visit the departments of their choice. In addition, the "KSC GRENKE aKAdemie" partnership made it possible for an additional KSC youth player to complete a one-year internship at GRENKE.

We also give our trainees the opportunity to be trained as "training ambassadors" by the Chamber of Industry and Commerce (IHK). As training ambassadors, they support the IHK, among others, at career orientation events where they present their job profile and the Company.

Through our strong presence in the pre-professional training sector, we strive to help students choose a career and further strengthen their perception of GRENKE as a committed and attractive training company and employer for the long-term.

4.3.4 Health management and occupational safety

We promote the long-term well-being of our workforce and ensure a health-protected workplace. In Germany, for example, we identify potential health and safety risks for each workplace and define the appropriate actions to take. Our focus is on ergonomic design and general instructions provided on the potential hazards in the individual work environment. In addition to the measures mentioned, GRENKE offers all employees the option of receiving regular medical health check-ups.

The "GRENKEmachtfit" health platform, introduced in 2017, supports our corporate health management with fitness offers and nutritional advice. In the reporting period, 83 percent of our workforce in Germany had registered on this platform (previous year: 83 percent). In 2020, many of the courses were offered digitally due to the COVID-19 pandemic. The platform is also used to efficiently organise the G37 preventive medical check-up for computer workstations, which is relevant under occupational safety law, and to promote internal, health-supportive, and team-strengthening sports groups. Employees at branches in other countries can design comparable health platforms and search for similar offerings. Cooperation agreements, for example, have already been concluded with fitness studios in Poland and Portugal.

The following corporate team sports offers are available in Germany and include the participation of members of the Board of Directors:

- // Since 2006, the GRENKE soccer team has been meeting weekly to train at the Baden-Baden location. The team also participates in leisure competitions.
- // Since 2014, employees have been competing in the B2RUN corporate marathon. Starting in 2019, a weekly running and strength training programme was offered for the GRENKE team in Baden-Baden to encourage running as a sport.

As of March 2020, the above-mentioned sports could no longer be offered due to the COVID-19 pandemic; the corporate B2RUN marathon was also cancelled.

- // From July 1 to July 21, 2020, 56 colleagues cycled to work as part of the "STADTRADELN" initiative. The goals of this initiative are to help protect the climate while setting an example of more bicycling in the community. The GRENKE team came in third in the Baden-Baden community with more than 11,000 kilometres cycled – of these, 2,000 kilometres were contributed by members of the Board of Directors.

4.4 Resource management

GRENKE Group is committed to the responsible handling of all available resources. That is why the area of resource management combines all of the measures that increase our environmental performance. At the core of this effort are the digitalisation of our processes, energy efficiency at the Company's locations, certified energy audits, and our policy on travel costs.

In the previous financial year, more than 90 percent of employees worked remotely from different locations, which had a positive impact on the environment as it saved commuting time.

4.4.1 Digital processes

As an internationally positioned provider of lease financing, our business model traditionally involves a high volume of records and documents. Here, too, we recognise the challenge of minimising our ecological footprint and the tools we need to accomplish this. In concrete terms, GRENKE is striving to achieve a continuous reduction in its paper consumption. Three digitalisation initiatives supporting this goal are described in the following:

- // The digital personnel file – By means of a digital personnel file, we make it possible for our employees to process and manage important formalities such as holiday requests and payslips without using paper.
- // The digital customer portal – With our digital customer portal, our customers can manage their contracts, invoices, and data online at any time. This portal is available to our customers in 21* countries (previous year: 21), and there is also a plan to roll it out further to other countries. Dispatching invoices is an essentially paperless process. Invoices are sent digitally in 18** countries (2019: 9 countries). Electronic invoicing is also becom-

ing the standard paperless solution for cooperation with public institutions. According to the EU Directive (2014/55/EU), all EU countries must successively introduce e-invoicing, at least in the business-to-government sector – a law we are happy to follow, especially as we are already pioneers in this area. After introducing e-invoicing at our subsidiaries in France, Italy, Sweden, Turkey, and Hungary, and at our franchise company in Chile in recent years, the introduction at our subsidiaries in Germany and Finland followed in 2020.

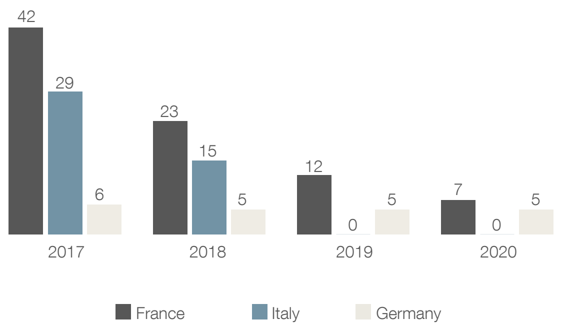
// The measures mentioned have led to a further overall reduction in the amount of surface mail sent by GRENKE. Achieving this has enabled us to reduce the number of paper invoices generated and sent by surface mail in our core markets to a minimum. In Germany, for example, only 5 percent of our invoices are sent by surface mail (previous year: 5 percent); in France that figure is 7 percent (previous year: 12 percent); and in Italy that figures has reached 0 percent (previous year: 0 percent) following the introduction of e-invoicing.

see chart "Percentage share of printed invoices in core markets".

* Austria, Belgium, Czechia, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom
**Austria, Belgium, Czechia, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Switzerland, United Kingdom

Percentage share of printed invoices in core markets

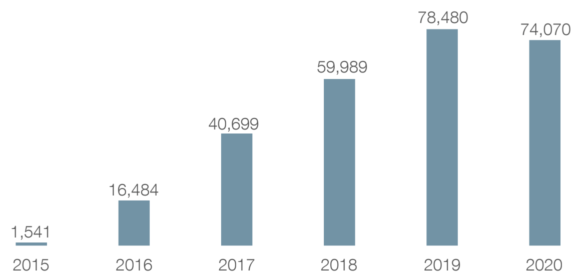
as of 31 December 2020, in percent



// eSignature, GRENKE's electronic signature solution, has been recording increasing user numbers ever since its introduction in 2015. This complimentary service for specialist reseller partners and customers makes it easier to conclude financing agreements. Documents are sent electronically and signed with a legally valid signature. As a result, this solution also saves paper needed for copies and sending correspondence by mail. eSignature was first introduced in 2015 in Germany and France and was available in a total of 21 markets. In the reporting year, the proportion of leasing contracts concluded using eSignature amounted to 30 percent (previous year: 25 percent). The electronic signature is also gaining importance within the Consolidated Group, specifically when signing protocols or contracts between Consolidated Group companies.

see diagram "Leasing contracts concluded using an electronic signature".

Leasing contracts concluded using an electronic signature



4.4.2 Location modernisation and energy audits

All of the office buildings rented by the GRENKE Group in Germany have energy certificates documenting their energy status. This status, however, represents only a temporary snapshot of our consumption, as our aim is to continually reduce the energy consumed at our locations. To achieve this, we continually update the technical systems in our buildings. A digital, modern building control system enables us to operate these facilities in an energy-efficient manner.

The data we receive on the Company's energy efficiency stems from the routine energy audits carried out in Germany. We use this data to help determine any action we can take to enhance our energy efficiency. A new energy audit in accordance with DIN EN 16247 was initiated in 2020 and is being conducted at our headquarters in Baden-Baden and other selected branches in Germany. TÜV SÜD has been commissioned to carry out our periodic recertification, with the next recertification scheduled for 2025.

4.4.3 Travel expense policy

The GRENKE Group strives to keep the number of business trips as low as possible and prefers the use of environmentally friendly forms of communication, such as video and telephone conferences. In 2020, a total of 1,443,541 conference calls and 154,598 video conferences took place within our organisation. This is largely due to the COVID-19 pandemic and the associated increase in remote working.

Any business trips that are still necessary despite these efforts are scheduled and taken along the guidelines of our internal travel expense policy. Among other things, this policy recommends taking public transportation, especially trains, over other forms of transportation. Within the scope of a pilot project in Germany, we have been testing the use of e-mobility since June 2017. In the first stage of this project, two vehicles with electric motors were put into operation. In the second stage, the car policy was updated, and now electric and hybrid vehicles can also be purchased as company cars.

4.5 Community involvement

At GRENKE, sustainability management is primarily considered in direct connection with our core business. We believe, however, that corporate responsibility should also include returning a portion of the profits we generate to the community and supporting organisations and projects that are not necessarily directly related to our value creation. A few examples of GRENKE's community involvement are described in the sections below.

4.5.1 Sports, culture and education

GRENKE has traditionally placed a special emphasis on promoting chess as a mental sport discipline. Since 1997, the Company has been a sponsor of the Baden-Baden chess centre, as well as the Ooser chess society (OSG), which, with over 370 members, is one of the largest chess clubs in Germany. The OSG holds the German championship record in both the women's and men's team events. A number of successes were also achieved in the learner and youth segments.

In 2013, for the first time, we were the primary sponsors of the "GRENKE Chess Classic" in Baden-Baden – an event that regularly features high-ranking players such as the Norwegian chess world champion Magnus Carlsen. We are also sponsors of the "GRENKE Chess Open" – the world's largest open chess tournament, which has been held in Karlsruhe since 2016. In 2019, this event attracted almost 2,000 participants from all over the world.

GRENKE also sponsors other types of sports events. The indoor football tournament known as the GRENKE Cup was scheduled to take place for the fourth time in November 2020 under the sponsorship of GRENKE AG and the SV Sinzheim sponsorship association but was cancelled due to the COVID-19 pandemic. This tournament is held to benefit young people and aims to create a stronger link between athletics and education, vocational training, and university studies.

GRENKE also maintains an unwavering focus on youth development when it comes to football. Together with Karlsruher SC, GRENKE helps talented young people to develop a professional career and as they get started on their chosen career path. The KSC GRENKE aKAdemie offers a holistic education that goes far beyond a pure football training programme and is geared towards the long-term promotion of KSC young talents in the areas of athletics, academics, and personal development (see www.ksc.de/akademie).

In the areas of music and education, we support a school programme entitled "Columbus – Discover classical music!" Through a grant, we provide pupils discounted access to events at the festival hall (Festspielhaus) in Baden-Baden. Pupils participate in classes discussing the content of the performances they have attended. They are also allowed to visit opera, ballet, and orchestra rehearsals (see www.festspielhaus.de/bildung/schulprojekt-kolumbus).

Since 2016, GRENKE AG has been supporting the SRH Berlin University of Applied Sciences through its endowed professorship for Entrepreneurship and two part-time doctoral positions expiring in 2022. GRENKE has also been a promoter of the GRENKE Centre for Entrepreneurial Studies research institute, which opened in January 2018. The work of this institute involves analysing business start-ups and using scientific methods to determine the real-world factors for success. As founder and former Chair of the Board of Directors of GRENKE AG, Mr Wolfgang Grenke contributes his expertise and network to this sponsorship project.

4.5.2 Other sponsorship activities for charitable projects and organisations

In addition to sponsoring the institutions mentioned, we also pledge our support to regional and national non-profit organisations, including the following:

// SOS Children's Villages relief organisation
// Foundation for the maintenance and scientific development of regulatory economics (Stiftung Ordnungspolitik)

// technika | Karlsruhe Technology Initiative, a project initiated by the Karlsruhe IT-cluster CyberForum e.V. to promote the technology and IT skills of pupils
  /// The Karlsruhe fischertechnik day, an event of the technika | Karlsruhe Technology Initiative. Here, GRENKE provided concrete support to establish the Fischertechnik Group at the Theodor-Heuss School, Baden-Baden
// Special Education and Counselling Centre (Sonderpädagogisches Bildungs- und Beratungszentrum – SBBZ) to support the emotional and social development of pupils with varying levels of education (a partnership with the Stulz von-Ortenberg School, Baden-Baden)
// Baden Disabled and Rehabilitation Sports Association (Behinderten Rehabilitationssportverband e. V. – BBS)
  /// The kilometres run by the GRENKE team at B2Run events throughout Germany result in annual financial donations, which primarily benefit the Paralympics sponsorship team
// PionierGarage e.V.
  /// Student initiative to promote the founding of new innovative companies. Within the scope of this initiative, GRENKE was a sponsor of "GROW – The student founding contest" in order to lend its support to students starting up businesses.

For further information on regional social commitment, see www.GRENKE.de/unternehmen/grenke-deutschland/soziales-engagement.

4.6 Quality management

GRENKE uses a quality management system that provides the framework for various actions in the everyday business of the GRENKE Group, thereby also contributing to the implementation of our sustainability strategy. All business and work processes established throughout the Consolidated Group are scalable, public-oriented, and aligned with our quality management. This is how we make sure that our national and international customers receive simple, flexible, and cost-efficient financing solutions from us locally. All employees have access to our quality management system. These measures enable us to react appropriately to requirements at all times.

The quality management system places a strong focus on work processes, which supports the GRENKE team in its everyday work. This helps employees to become more familiar with and understand the processes more easily.

Since 1998, GRENKE's quality management has been certified by independent auditing companies. However, we are not resting on our laurels; instead, we will continue to regard quality management as the supporting pillar of our business success in the future – and will continue to have it certified regularly in order to ensure and continuously improve the quality of our products and services. Following this year's surveillance audit, TÜV SÜD Management Service GmbH once again confirmed that we have a well-functioning and effective quality management system that fully meets the requirements of the ISO 9001:2015 standard. The current certificate is valid until October 2022. Our certified locations and entities can be found on our website.

(See www.grenke.de/unternehmen/grenke-deutschland/auszeichnungen-zertifizierungen).

4.6.1 Quality management control cycle

Quality management is the central component of our corporate philosophy, risk management, and due diligence process. In a so-called quality management cycle, which includes the modules "quality policies", "quality objectives", "programmes and projects", "quality audits", and "quality reviews", we systematically examine and optimise our organisational structure, processes, and results within the Consolidated Group in order to contribute to the Company's long-term success.

Quality management control cycle

As part of this quality management control cycle and in addition to the recertification audits and TÜV monitoring mentioned, we carry out internal audits and continuously record quality-relevant documents, which are updated regularly. This is how we ensure that our quality management reflects both current legislative changes and any recent product or process modifications. This allows us to identify any deviations in the process early enough to make any necessary adjustments. In the past financial year, **KPI** 24 locations were audited by TÜV SÜD as part of the random sample certification (previous year: 20). In addition, 104 internal audits took place (previous year: 105).

4.6.2 Idea management

Suggestion schemes have always been a part of GRENKE. What makes them so special, however, is the knowledge gained through these schemes and the motivation they generate throughout the entire staff. At the end of 2018, a new process for submitting suggestions was created, and the scheme was then renamed Idea management. Employees have the opportunity to present their ideas for the idea campaign every quarter using a digital platform.

5. Remuneration report of the GRENKE Group

5.1 Remuneration of the Board of Directors

The principles of the remuneration system for the Board of Directors provide for fixed remuneration components that include non-performance-related fixed remuneration, allowances, fringe benefits such as company cars, and the payment of insurance premiums, as well as performance-related remuneration components.

The structure of the remuneration system aims to promote the Consolidated Group's long-term success and create an incentive to assume only those risks that are statistically measurable and controllable and that lead to the expectation of an appropriate return for the respective risk. No incentive is provided for assuming inappropriate risk. The remuneration practice neither jeopardises GRENKE AG's regulatory capital nor does it restrict the long-term maintenance of its equity. The Supervisory Board reviews the total remuneration of the members of the Board of Directors at regular intervals in relation to the remuneration of senior management and to see whether it is in line with customary market practices. The Supervisory Board consults various analyses, including those by auditing firms, in order to assess whether the Board of Directors' remuneration is in line market practices. These included analyses by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, the Technical University of Munich, and PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. The Board of Directors' salaries in comparison to that of those in the second management level of the Consolidated Group is based on the assessment of the Supervisory Board and Board of Directors, as there is no medium-sized financial services company listed in the MDAX and SDAX that publishes such data.

There are three variable remuneration components. Performance Bonus I is a variable remuneration component that is granted in addition to the fixed basic salary by way of a separate supplementary agreement, generally up to an amount of 35 percent. The criteria for granting the performance bonus are determined quarterly in advance and are based on key performance indicators of the GRENKE balanced scorecard (BSC). The achievement of the BSC key performance indicators is measured retrospectively on a quarterly basis. The 22.5 percent share of the BSC is generally granted as a fixed performance bonus. The remainder between 22.5 percent and the actual BSC result achieved in the quarter is variable.

In the second quarter of 2020, the BSC's reading amounted to 13.196 percent. According to their employment contracts, the members of the Board of Directors were entitled to a guaranteed performance bonus of 22.5 percent based on the BSC. The Board of Directors waived payment of the difference of 9.304 percent.

In addition, a bonus is granted which is calculated on the basis of the target achievement of a defined Contribution Margin 2 after fixed costs. If the target is achieved, the bonus is paid in full and amounts to 40 percent of the gross annual fixed salary of the previous financial year. If this figure is not achieved but is less than 10 percent lower, the bonus is paid on a pro rata basis. If Contribution Margin 2 before fixed costs falls short of the target by 10 percent or more, the bonus is forfeited in full.

Remuneration of the Board of Directors

	Fixed renumeration components		Variable remuneration components						
		Annual remuneration components			Long-term remuneration components			Total	Total
EUR	Fixed salary and allowances	Fringe benefits	Performance bonus	Bonus	Share-based compensation	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
TOTAL	**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**

According to the BSC, the relevant criteria correspond to the key performance indicators for the success of the Consolidated Group and thus for a sustainable increase in enterprise value. These indicators include the development of the number of leases, new business, contribution margins, and losses, among others. In exceptional cases (imminent risks, spontaneous changes in market conditions, damage to the Company that must be averted) and to the extent that GRENKE AG's situation makes it necessary, the Supervisory Board is authorised to agree on a temporary waiver of this rule in consultation with the members of the Board of Directors.

The Supervisory Board of GRENKE AG has concluded a phantom stock agreement with each sitting member of the Board of Directors. The value of these phantom stock agreements and, therefore, the obligation of the Company at the end of the reporting year was EUR 0k (December 31, 2019: EUR 653k). The payments made under these agreements during the 2020 financial year amounted to EUR 653k (2019: EUR 0k).

The maximum possible capital appreciation under all agreements is EUR 450k each, based on a virtual number of 45,000 shares each for the lifetime of the respective agreement. The lifetime of the agreements made with Ms Leminsky and Mr Hirsch pertains to financial years 2018 – 2020. The lifetime of the agreement with Mr Christ pertains to financial years 2019 – 2021. The phantom stock agreement for Mr Kindermann expired upon his departure on February 28, 2021.

Under these agreements, members of the Board of Directors are entitled to payments (tranches) for the respective financial years equal to 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 so-called inflows of value per tranche during the term of the respective tranches. If the increase in value plus any value added is zero or negative, there is no claim to payment. The initial value is the arithmetic mean of the XETRA closing prices on all trading days from December 1 to December 23 of the respective previous year and at least the value determined in this manner for the first tranche. In the case of Mr Christ, the initial value for all three tranches in each case was the mean for the period December 1 – 23, 2018.

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

The participants in the programme are required to invest the respective net payment amount plus a personal investment of 25 percent of the payout amount in GRENKE AG shares. The Company is entitled, but not required, to render the payment in whole or in part in the form of shares instead of cash for one or more tranches. The shares thus purchased are subject to a vesting period that expires at the end of the second year following the payout of the tranche. In the cases of Ms Leminsky and Mr Hirsch, the vesting period expires at the end of the third year after the payout of the tranche, during which time the shares cannot be freely disposed of.

The payout entitlement is limited to the three tranches (years) in an amount of up to EUR 450k each and is subject to the statutory requirements for appropriate remuneration and the statutory maximum limits for variable remuneration components, and specifically to the provisions of KWG. The payment entitlement for a tranche (and any subsequent tranches) is therefore waived without compensation or replacement when the total of the payment entitlements for previous tranches exceeds EUR 450k.

In accordance with the recommendation of the DCGK, the Supervisory Board is entitled to reduce the amount of the payout entitlement, or partially or completely revoke the entitlement to receive a tranche if and to the extent that the increase in value of the share or value inflows are influenced by extraordinary, unforeseeable developments.

GRENKE AG has also taken out a directors' and officers' liability insurance policy for members of the Board of Directors. This policy prescribes a 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 (cap). 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, excluding phantom stocks actually paid in the financial year preceding termination. No settlement agreements are in place. During the reporting year, no members of the Board of Directors received benefits or corresponding commitments from third parties based on their position as a member of the Board of Directors.

5.2 Remuneration of the supervisory board

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

The members of the Supervisory Board are to receive fixed remuneration of EUR 48,000; the Chair is to receive EUR 72,000 and the Deputy Chair EUR 60,000 for each full financial year of membership. For their membership on the Audit Committee, Supervisory Board members receive an additional EUR 10,000, and the Committee Chair receives an additional EUR 15,000. The fixed remuneration of Supervisory Board members who are also members of the Personnel Committee increases by EUR 2,000 and the Chair's fixed compensation increases by EUR 3,500. Members of the Strategy Committee receive an additional EUR 5,000 for each 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 the basis of full months. By resolution of May 18, 2020, the members of the Supervisory Board waived 20 percent of their total compensation for 2020, taking into account the particular burdens on the Company during the past year and its function as a role model.

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

The Company also reimburses the members of the Supervisory Board for their expenses and VAT insofar as they are entitled to invoice the tax separately and exercise this right to do so.

Remuneration of the Supervisory Board

Name	Position	Basic remuneration 2020	Audit commitee	Personell commitee	Strategy commitee	Total 2020	Total 2019
EUR							
Prof. Dr. Lipp	Chair	57'600.00	3'333.34	1'600.00	3'000.00	65'533.34	89'791.66
Grenke	Vice Chair	36'000.00	6'000.00	2'100.00	3'000.00	47'100.00	78'166.66
Dreilich	Member (until May 14. 2019)	0.00	0.00	0.00	0.00	0.00	26'250.00
Krcmar	Member (since May 14. 2019)	38'400.00	0.00	0.00	0.00	38'400.00	32'000.00
Dr. Mitic	Member	38'400.00	0.00	1'466.66	0.00	39'866.66	48'000.00
Panter	Member (May 14 – Aug, 20. 2019)	0.00	0.00	0.00	0.00	0.00	16'000.00
Rönnberg	Member (since Nov, 12. 2019)	40'800.00	7'333.34	400.00	0.00	48'533.34	8'000.00
Schulte	Member	38'400.00	12'000.00	0.00	0.00	50'400.00	58'000.00
Staudt	Member (until May 14. 2019)	0.00	0.00	0.00	0.00	0.00	20'833.33
TOTAL		**249'600.00**	**28'666.67**	**5'566.66**	**6'000.00**	**289'833.34**	**377'041.65**

6. Changes in the Company's governing bodies

The GRENKE AG Annual General Meeting on August 6, 2020 elected Jens Rönnberg to the Supervisory Board by way of a by-election. At the request of GRENKE AG, the District Court of Mannheim initially appointed Mr Rönnberg to the Supervisory Board in November 2019 to succeed Heinz Panter until the following ordinary Annual General Meeting.

With effect from September 21, 2020, Wolfgang Grenke suspended his mandate on the GRENKE AG Supervisory Board. As of this date, his Supervisory Board mandate at GRENKE Bank AG and his Board of Directors' mandate at Grenkeleasing AG in Switzerland were also suspended. On October 1, 2020, the GRENKE AG Supervisory Board elected Jens Rönnberg as the Deputy Chair of the Supervisory Board on an interim basis. Mr Rönnberg was also appointed as a member of the Personnel Committee.

On October 29, 2020, GRENKE AG announced a change in the assignment of responsibilities within the Board of Directors. Board member Sebastian Hirsch was appointed as Chief Financial Officer (CFO) with immediate effect. The Internal Audit responsibility was transferred to Chair of the Board of Directors Antje Leminsky. At the same time, the Company announced the creation of a new position, Chief Risk Officer (CRO), at the level of the Board of Directors. The GRENKE AG Supervisory Board appointed Isabel Rösler to this position at the end of December 2020. She assumed her position on the Board of Directors on January 1, 2021 and has since been responsible for key internal control functions such as risk controlling, compliance, money laundering prevention, and data protection.

On February 8, 2021, the Supervisory Board complied with Mark Kindermann's request to terminate his contract prematurely and resign from his Board of Directors' mandate and all other Group mandates. Mark Kindermann's resignation was preceded by a hearing letter received from BaFin, in which criticism was expressed of internal audit procedures and procedural weaknesses in the area of compliance. The criticism referred to periods in which both areas had fallen under the responsibility of Mr Kindermann. In the wake of Mr Kindermann's resignation, the Supervisory Board reassigned the responsibilities of the members of the Board of Directors on February 9, 2021. Chair of the Board of Directors Antje Leminsky assumed responsibility for the Personnel Department, while the essential administrative functions of the back office were transferred to Chief Risk Officer Isabel Rösler. Chief Financial Officer Sebastian Hirsch was given responsibility for Group Accounting. As a result of these measures, the number of Board of Directors' members fell to four. In the ad hoc announcement on February 26, 2021, the Supervisory Board announced a renewed expansion of the Board of Directors following the resignation of member Mark Kindermann.

SCOPE OF RESPONSIBILITY:

Compliance, Corporate Credit, Administration, Risk Management, Data Protection

AVOIDANCE OF DEPENDENCIES

The GRENKE Group's most important reseller accounted for a share of only 0.5 percent of total new business volume at the end of the 2020 financial year. The 20 largest resellers accounted for a total share of 4.7 percent of new business in 2020.

RISK DIVERSIFICATION

93 %

of the lease contracts have an acquisition value of less than EUR 25 thousand. This underlines the small-ticket focus and thus the risk diversification.

7. Report on Risks, Opportunities and Forecasts

7.1 Risk Report

7.1.1 Risk Management

The GRENKE Group's risk management system is designed to identify and assess new, potential and existing risks. Both individual risks and possible risk concentrations and interdependencies between different risk areas are considered. GRENKE Group's risk management follows an internally defined process that covers all relevant levels of the Consolidated Group's organisation and is closely aligned with the activities of the individual divisions. The Board of Directors bears overall responsibility for monitoring the risk management system and its compliance throughout the Consolidated Group.

Based on the business strategy, the Consolidated Group's risk strategy defines the long-term risk policy framework for risk management. This framework defines the overarching risk objectives as well as the use of consistent standards, methods, procedures and instruments to achieve these objectives. Precise requirements have been defined for operational implementation. Compliance with the regulatory capital and liquidity ratios at all times is also implemented operationally and strategically. The risk strategy specifies the following goals:

// Diversifying risk to avoid cluster risks
// Reducing complexity through transparency, standardisation and continued automation of business processes to reduce operational risks
// Limiting market risk to the lowest level possible for the operating business
// Use of IT-based models (e.g. for forecasting losses) to measure and control risks
// Maintaining sufficient capital and liquidity to meet the Tier I and Tier II regulatory requirements

In order to comply with regulatory requirements, a Group-wide risk controlling system has also been implemented that independently assesses, evaluates, monitors, communicates and manages risks. Internal Audit checks the correct and comprehensive implementation of the regulatory requirements for risk management annually. In the 2020 reporting year, the Internal Audit department's risk management audit did not result in any material objections.

7.1.2 Risk Management Process

The risk management process is derived from the risk strategy and includes a coordinated cycle of risk definition, risk measurement, risk analysis, improving risk management and risk control measures. This process systematically and structurally recognises, discloses, evaluates and documents internal and external risks and opportunities within the Consolidated Group. The Risk Task Force is at the centre of the risk management process. The task force consists of members of the Board of Directors and representatives from all key departments.

As part of the risk definition, an assessment of the risk inventory is carried out by specified risk managers and risk experts as required and at least once a year. The main component of the risk inventory is a risk catalogue that was designed in accordance with the regulatory expectations of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the ECB and the Supervisory Review and Evaluation Process (SREP) guidelines. The risk inventory includes financial and non-financial risks. The assessment is divided into a quantitative and a qualitative analysis, each based on a scale of 1 (immaterial) to 5 (significantly material). The assessments are aggregated by risk type and then discussed in workshops as needed to ensure that, among other things, the materiality of individual risks can be determined. Ultimately, the overall risk profile is drawn up, receives final approval by the Board of Directors and made available to the Risk Task Force. In addition to the Risk Task Force, there are working groups for other types of risks, such as credit risk, market and liquidity risk, other risk and operational risk, which analyse and discuss the assessment of the risk subtypes, among other things. The Risk Task Force discusses the reports of the working groups for the respective risk subtypes, the ad-hoc risk reports and other regulatory and legal challenges, as well as innovations in risk management. During the reporting year, a total of 2 ad hoc risk notifications were submitted.

The Risk Control unit uses a period-based risk-bearing capacity model that assesses all risks identified as material and serves the Group-wide control and monitoring of the overall risk profile and capital. The exception here is liquidity risk in the true sense (insolvency risk), as this does not necessarily have to be included in the risk-bearing capacity assessment according to AT 4.1, Item 4 of the Minimum Requirements for Risk Management (MaRisk). The defined risk areas or types of risk are to be backed with risk coverage capital and limited in the course of the risk-bearing capacity considerations. The assessment of risk-bearing capacity includes consideration given to the findings of the stress test for material risks. Risk Control prepares a quarterly risk report that presents and explains the current risk situation.

Pursuant to Germany's minimum requirements for risk management (MaRisk), the independent functions of the Compliance Office, the anti-money laundering officer, the data protection officer and the Chief Information Security Officer, as well as the risk control function, are organised at the Group level. The Compliance Office oversees the handling and compliance with GRENKE's Code of Conduct. It also identifies and manages potential risk associated with conflicts of interest throughout the GRENKE Group. The data protection officer monitors the compliance and implementation of data protection laws. The anti-money laundering officer monitors compliance with the duty of care under the Prevention of Money Laundering Act and takes risk-based measures to combat legal and reputational risks using an up-to-date risk analysis of the Consolidated Group, as well as through monitoring and research tools in compliance with regulatory requirements. The Chief Information Security Officer sets standards, monitors IT security and is responsible specifically for protecting the Consolidated Group's internally generated intangible assets. The Consolidated Group has implemented internal control mechanisms for managing and monitoring the risks specified based on the structure and operation of the respective processes in accordance with regulatory requirements. These risks are in turn assessed and evaluated by the Risk Control department and independently monitored, managed and communicated.

7.1.3 Implementation of regulatory Requirements

Due to the fact that GRENKE AG is the parent company of a group of institutions within the meaning of Sections 10a and 25a of the German Banking Act (KWG), the GRENKE Group is a financial holding company pursuant to Section 1 (35) KWG in conjunction with Article 4 (1) no. 20 of the CRR. The GRENKE Group also has a bank as a subsidiary, GRENKE BANK AG. Both the GRENKE Group and GRENKE BANK AG are subject to the regulatory provisions of the Capital Requirement Regulation (CRR) and the Capital Requirements Directive (CRD IV) and the German Banking Act (KWG). The GRENKE Group and GRENKE BANK AG must therefore comply with the Minimum Requirements for Risk Management (MaRisk) and the Banking Supervisory Requirements for IT (BAIT) issued by the German Federal Financial Supervisory Authority (BaFin). These include qualitative and quantitative requirements for risk management that must be implemented by financial institutions taking into account their size as well as the type, scope, complexity and risk content of the business.

Additionally, the financial services institutions GRENKE-FACTORING GmbH and Grenke Investitionen Verwaltungs KGaA are also subject to the KWG and supervision of BaFin and the Deutsche Bundesbank at the individual institution level. GRENKE AG made use of the waiver rules according to Section 2a (1 or 2) KWG in combination with Section 2a (5) KWG for these group companies. The subordinate institutions have notified BaFin and the Bundesbank that certain regulatory provisions have been applied and incorporated at a Group level rather than being applied at the individual institution level because the necessary organisational requirements have been fully met by the primary institution. GRENKE AG's application submitted to BaFin requesting that it recognise the regulatory Consolidated Group as identical to the consolidated accounting group was approved in 2009. As a result, all Group companies of the GRENKE Group are included in the regulatory scope of consolidated companies. In the course of the reconciliation with the BaFin regarding the scope of consolidation, it was agreed that changes to the scope of consolidation, such as the integration of the franchise companies in the reporting year, must be reported to the BaFin without delay.

7.1.4 Risk-bearing capacity

The interaction of risk limitation, quantified risk capital requirements (risk) and risk coverage capital (capital made available for risk coverage) is referred to as the risk-bearing capacity system. The risk-bearing capacity checks, in accordance with the going-concern approach, whether the material risks are sufficiently covered with risk coverage capital. A portion of the risk coverage capital is reserved for compliance with minimum capital requirements, regulatory deductions and other regulatory capital surcharges (currently SREP capital surcharge for other risks) and is not available for risk coverage. The GRENKE Group uses an internal risk-bearing capacity model to monitor its risk-bearing capacity, including all risk types identified as material. An exception is liquidity risk in the true sense (insolvency risk), as this does not necessarily need to be included in the risk-bearing capacity analysis in accordance with AT 4.1, Item 4 MaRisk. The areas and types of risks defined are to be limited and covered by risk coverage (when contemplating risk-bearing capacity. The fundamental aim of the risk-bearing capacity model is to quantify existing risk and identify potential burdens on equity at an early stage and take the appropriate measures.

SEE DIAGRAM "RISK-BEARING CAPACITY CONCEPT"

Risk-bearing capacity concept

The maximum financial resources available for risk coverage – essentially the equity on the balance sheet and the annual planned result based on a rolling twelve-month view – are referred to as risk coverage capital. In accordance with the logic of the going-concern approach, a portion of the risk coverage capital is reserved for compliance with the regulatory minimum capital requirements and other deductible items (particularly intangible assets and goodwill) and is not available for risk coverage. The remaining available or free risk coverage capital is allocated to the quantified risk areas. Refinancing and other risks are taken into account in the risk-bearing capacity calculation through risk buffers. In accordance with the risk strategy, the GRENKE Group aims for an overall risk utilisation of less than 95 percent on a permanent basis.

One aspect of the risk-bearing capacity system is the consideration of stress test findings for risks from extraordinary but possible events. Risk Control creates classic scenarios (historical and hypothetical) that are adopted by resolution of the Board of Directors. The focus is on analysing the sources of potentially high risk in the respective stress scenarios.

The following stress test scenarios are computed as part of the quarterly ascertainment of risk-bearing capacity:

// Severe economic downturn: This scenario assumes a severe economic downturn and stagnation in the years that follow, caused, for example, the financial difficulties of a major banking or financial services institution. It also assumes that growing financial market uncertainty is accompanied by higher risk premiums in the money and capital markets, rating downgrades, an implosion in exports and investment in both Germany and Europe. Fraud would become more prevalent due to rage and desperation. Ultimately, the very poor outlook and growing strong insecurity would lead to a drop in new business.

// Serious EU currency crises after Italexit: This scenario assumes the imminent bankruptcy of the Italian government leading to Italy's exit from the euro area. It also assumed that receivables against this country would need to be impaired to a large extent and followed by higher risk premiums in the money and capital markets, rating downgrades for Italian companies, banks and the government and a massive decline in the euro following the accompanying loss of confidence. The new Italian currency would depreciate significantly versus the euro. The increasing uncertainty would lead to a decline in new business.

// Slowdown in the IT sector: An unexpected change in the IT industry worldwide leads to a global decline in demand for IT products. This causes a decline in domestic prices that then leads to a temporary decline in new business and low revenues for the Company.

// Loss of investment grade status: The scenario assumes a temporary qualitative deterioration in the risk profile rating for the GRENKE Group in the context of the Supervisory Review and Evaluation Process (SREP) as a result of increasing regulatory requirements. The rating agencies downgrade the rating due to the increasing risk of non-compliance with regulatory requirements. Refinancing costs increase accordingly.

// Inflation: This scenario assumes higher inflation in the euro area following drastic monetary and fiscal policy action and increased investment in fixed assets. Inflation fears would precipitate a drop in the savings rate and an accompanying rise in the consumption rate. Rising investment in the euro area goes hand in hand with an appreciation in the euro. The ECB would react by raising key interest rates to drain excess liquidity from the markets. European central banks increase the country-specific ratios for determining the anti-cyclical capital buffers in order to restrict higher bank lending.

// The corona pandemic: This scenario was newly included in the stress test analysis in the reporting year for specific reasons. State-imposed restrictions on public life worldwide lead to a drastic decline in economic activity. As a result, there is a massive increase in corporate insolvencies. The general uncertainty on the money and capital markets also results in more difficult refinancing conditions.

In the stress test scenarios described, the limit utilisation in the reporting year at times exceeded 100 percent of the free risk coverage capital. This is due to the fact that the stress considerations were technically additive to the already special overall situation triggered by the COVID-19 pandemic.

Additionally, an inverse stress test is carried out annually. This is based on the assumption that the business activity cannot be continued (as opposed to going concern). Based on this assumption, it is determined at which stress scenario level the threshold for the Company no longer being a going concern would have just been reached. This can primarily occur when the refinancing or liquidity situation turns strongly negatively as a result of external effects.

7.1.5 Risk situation of the grenke group

Following the restrictions on overall economic activity as a result of the corona pandemic, the GRENKE Group's risk increased in financial year 2020. In the context of the risk-bearing capacity calculation, the total risk on a gross basis increased to around EUR 459 million as of as of the December 31, 2020 reporting date (previous year: EUR 393 million). Credit risks, the most important risk category for the Consolidated Group, contributed significantly to the increased overall risk with an increase of 21 percent. The higher credit risks resulted, among other things, from a premium on the loss given default (LGD) in accordance with EBA Guideline 2019/03, which takes into account the regulatory requirement of an economic downturn. Credit risk as a share of the total risk was 74 percent (previous year: 75 percent). With a share of around 17 percent (previous year: 20 percent), operational risk was the second most important risk category for the Consolidated Group, followed by market risk (interest rate and currency risks) with a share of around 1 percent (previous year: 1 percent).

As a result of the short-seller criticism, an event-related risk inventory took place in the reporting year with regard to the reputational risk in order to assess the reputational damage within the framework of the risk-bearing capacity. Derived from the result of the risk inventory, the buffer for the significant other risks was increased accordingly from EUR 15 million to EUR 30 million. As in the previous year, the buffer for refinancing risks remained at EUR 11 million.

The overall limit utilisation in the calculation of risk-bearing capacity in the normal regulatory scenario amounted to 84 percent at the end of 2020 (previous year: 65 percent). The increased risk utilisation compared to the previous year resulted primarily from higher overall risk due to the application of risk premiums to the risk parameters for determining the credit risk. The overall risk utilisation of permanently less than 95 percent specified in the Consolidated Group's risk strategy applicable as of the reporting date was adhered to. As in the previous year, there were no risks as of the December 31, 2020 reporting date whose occurrence would endanger the existence of the Consolidated Group or a significant group company.

The individual risk areas of the GRENKE Group are described in the following table:

Overview of risks for the GRENKE Group

Credit Risk	Potential losses that may result above all from the default or deterioration in the creditworthiness of borrowers, lessees or debtors
Market Price Risk	Potential losses that may result from uncertainty about future development (degree and volatility) of market price risk factors (mainly interest rates and foreign exchange rates)
Liquidity Risk	Potential losses that may arise from a lack of liquid funds or are more expensive to attain than expected to meet payment obligations when they become due
Operational Risk	Potential losses that may result from inadequate or failed internal processes, errors performed by people or systems or from externally driven events
OTHER MATERIAL RISKS	
Business and Strategic Risk	Potential losses due to unexpected earnings developments that are not covered by other risk types. In particular, this includes the risk that losses cannot be countered due to changes in key framework conditions (e.g. economic and product environment, customer behaviour, competitive situation) and / or due to inadequate strategic positioning
Reputation Risk	Potential losses related to an institution's income, equity and liquidity as a result of damage to the reputation of the institution
Investment Risk*	Potential losses that may result from providing equity to third parties. Wholly owned subsidiaries, which are fully consolidated in accordance with regulatory requirements, are also allocated to the investment risk.

* Compared with the previous year, the investment risk was classified as material for the first time in the 2020 risk inventory and taken into account in the risk assessment as of the reporting date.

7.1.6 Credit risk

1.1.6.1 Risk definition

Credit risk in a broader sense can be defined as the potential loss that can primarily occur as a result of the default or deterioration in the solvency of borrowers or debtors. The GRENKE Group is especially subject to this risk with on-balance sheet and off-balance sheet customers and proprietary businesses, whereby the on-balance sheet leasing business is dominant. In addition to credit risk, the GRENKE Group also considers migration risk and credit concentration risk to be material risks.

7.1.6.2 Risk Management

To manage its business, the GRENKE Group places a high value on the measurement and expectation of losses due to default or credit deterioration of its customers. The Consolidated Group defines credit risk in a narrower sense as the potential negative difference between losses expected and those that actually occur. Therefore, the strategic goal is to keep the gap between expected and actual losses from credit risk as low as possible. This is the prerequisite for enabling the Consolidated Group to generate a risk premium that is adequate for the risk.

In addition, the Consolidated Group counters possible credit concentration risk by diversifying its business across countries, industries, products and customers and by focusing on individual small-ticket exposure. Credit concentration risk occurs particularly in connection with the proprietary business portfolio and is methodically taken into account within the framework of the credit portfolio.

Furthermore, migration risk, which is classified as material, is assessed alongside the mapping of credit rating deteriorations via the IFRS 9 levels within the framework of risk provisioning as well as within the framework of the stress scenarios in terms of a historical increase in the risk parameters.

Credit risk is assessed as part of the risk-bearing capacity assessment using an internal rating-based approach (IRB formulae) in accordance with Articles 153 and 154 of EU Regulation 575/2013 (CRR). The probabilities of default (PD) and the loss given default (LGD) correspond in principle to the parameters used under IFRS 9. In order to sufficiently take into account the idea of conservatism as well as the regulatory situation of economic downturns, surcharges are applied to the risk parameters PD and LGD of the IFRS 9 model within the scope of the risk-bearing capacity assessment. The estimated credit default risk, including the growth assumption, amounted to EUR 368.9 million as of December 31, 2020 (previous year: EUR 305.6 million). The increase in credit default risk is primarily due to parametric adjustments in the risk models, as described in section 7.1.5.

Credit volume – GRENKE consolidated statement of financial position

EURk	Dec. 31, 2020	Dec. 31, 2019
CURRENT RECEIVABLES		
Cash and cash equivalents	944'733	445'978
Lease receivables	2'066'352	1'952'386
Financial instruments with positive fair value	5'074	946
Other current financial assets	161'757	148'605
Trade receivables	6'384	7'747
TOTAL CURRENT RECEIVABLES	**3'184'300**	**2'555'662**
NON-CURRENT RECEIVABLES		
Lease receivables	3'569'940	3'823'263
Other non-current financial assets	120'767	96'650
Financial instruments with positive fair value	2'442	1'492
Investments accounted for using the equity method	4'523	4'923
TOTAL NON-CURRENT RECEIVABLES	**3'697'672**	**3'926'328**
TOTAL RECEIVABLES VOLUME	**6'881'972**	**6'481'990**

7.1.6.3 Credit Volume – GRENKE Consolidated Statement of Financial Position

The GRENKE Group's receivables volume totalled EUR 6.9 billion as of December 31, 2020 (previous year: EUR 6.5 billion). At approximately EUR 5.7 billion (previous year: EUR 5.8 billion), the majority of this volume was attributable to current and non-current lease receivables.

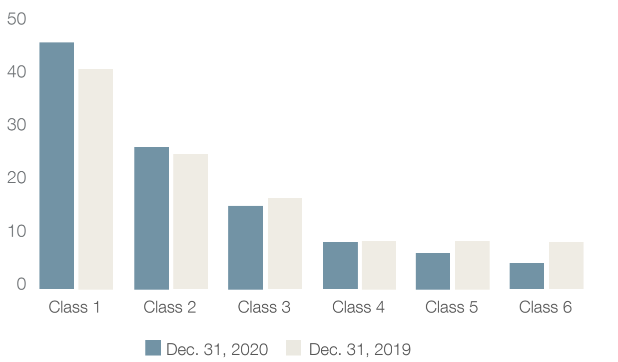
// SEE TABLE "CREDIT VOLUME – GRENKE CONSOLIDATED STATEMENT OF FINANCIAL POSITION".

As of the reporting date of December 31, 2019, cash and cash equivalents included a Bundesbank deposit of EUR 711.2 million (previous year: EUR 212.2 million). This amount partially results from the liquidity coverage requirements pursuant to Implementing Regulation (EU) 2016/322. Other cash and cash equivalents, with the exception of EUR 18k cash on hand (previous year: EUR 24k), consisted of credit balances at domestic and foreign banks. Financial instruments with a positive fair value represented the Consolidated Group's derivatives carried at their fair value as of the reporting date.

The GRENKE Group assesses the creditworthiness of its customers by calculating expected values for payment defaults. Lessees and customers in the lending business are assigned score classes from 1 to 6 with regard to their creditworthiness. Score class 1 corresponds to the best possible rating and score class 6 to the worst rating. As of the December 31, 2020 reporting date, the average decision value for new business was 2.13 (previous year: 2.37). The year-on-year improvement in the value was due to a number of measures taken in the context of the corona pandemic. For example, a restriction was implemented on the acceptance of customer applications with score class 6 as well as those from sectors particularly affected by corona. The acceptance limits in the area of sales were also reduced.

New business according to risk category*

at 31 December 2020



* Excl. factoring business

The distribution of GRENKE Group's new business according to volume is shown in the following table.

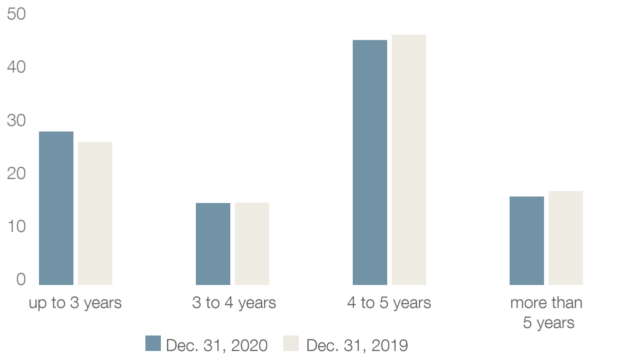
GRENKE group: new business by volume (based on net acquisition values)

Percent	Dec. 31, 2020	Dec. 31, 2019
EURk < 2.5	5.64	5.21
EURk 2.5 – 5	12.46	11.58
EURk 5 – 12.5	22.75	22.29
EURk 12.5 – 25	19.84	18.84
EURk 25 – 50	16.30	16.89
EURk 50 – 100	10.66	12.98
EURk 100 – 250	7.28	8.70
EURk > 250	5.08	3.51

As the receivables from the factoring business are of a short-term nature, the breakdown of the net acquisition values by term class is based exclusively on the Leasing and Banking segments. The average term of the new business contracted in the reporting year was 48 months (previous year: 49 months).

New business by term category
(based on net acquisition values)

at 31 December 2020



7.1.6.4 Leasing Business

A share of 82 percent of the GRENKE Group's total receivables volume as of December 31, 2020 was attributable to lease receivables. Accordingly, the Consolidated Group considers the credit default risk of its lessees to be the most significant business risk. This risk is assessed and managed on the basis of 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. In the overall result, the models used by the Consolidated Group lead to an expected value of future default losses, which are taken into account as imputed risk costs in the contribution margin calculation. Decision-making powers for the conclusion of contracts gradually increase with the rise from the sales staff to the Board of Directors in the form of powers of attorney and serve as a further instrument to limit risk.

A review of credit risk is performed regularly and at least once per quarter based on actual losses. This system is continually enhanced by GRENKE.

Target/actual comparisons are carried out continually for all portfolios, in which the initially expected credit losses are compared with the updated loss expectancy. Findings from this comparison flow into statistical models, thereby forming a loop system. The plan ensures that the ongoing costs of operations can still be generated even when the actual losses significantly exceed the expected losses.

Throughout the Group, the aim is to achieve the broadest possible portfolio diversification when contracting leasing agreements based on the following:

- // Lessees: Diversified portfolio of lessees consisting of business and corporate clients (B2B)
- // Resellers/manufacturers: No individual dependencies
- // Leased assets: No significant outstanding residual values (full cost recovery); maintenance and warranty risks are always borne by suppliers/manufacturers; leased assets are seen as part of the customer's value chain
- // Categories of lease items: IT products, small machinery and systems and medical devices
- // Lease agreements: A large number of running contracts with an average contract term of roughly four years and a focus on small tickets below EUR 25k each (more than 90 percent of all leases)
- // Sales channels: A variety of sales channels with an extensive network of resellers, direct business and brokers
- // Geographic presence: The GRENKE Group is represented in all major European economies with locations in 33 countries worldwide

The business model's focus on small-ticket leasing largely avoids a concentration of risk. This is reflected in the comparatively low mean acquisition value per lease contract concluded by the GRENKE Group. In the 2020 financial year, the mean acquisition value amounted to EUR 8,227 (2019: EUR 9,079). The GRENKE Group had no individual lessee whose total exposure accounted for more than one percent of the Consolidated Group's equity. At the end of the 2020 financial year, there were 27 borrowers in the

Leasing segment whose exposure exceeded EUR 1.5 million. In total, they accounted for less than 1.8 percent of the total exposure to leases. Exposures above EUR 750k are monitored particularly closely. In the case of sales partners, the Consolidated Group also monitors its dependence on individual resellers and agents with regard to possible risk concentrations. The most important reseller for the GRENKE Group accounted for a share of only 0.54 percent of the total new business volume at the end of the 2020 financial year. The 20 largest resellers accounted for a total share of 4,65 percent of new business in 2020.

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 material residual value risks in the GRENKE Group's leasing business model. In accordance with IFRS 16, residual values are calculated for the recognition of lease receivables on a portfolio basis. Therefore, over the total period, gains/losses from disposals do not contribute a material amount to earnings.

The expected losses for GRENKE AG's 2020 new business portfolio averaged 4.8 percent (previous year: 5.7 percent) in relation to the acquisition costs of the leased assets for the entire contract term of 48 months on average. The decrease in expected losses resulted mainly from the measures taken by GRENKE in the context of the corona pandemic. The figure shows that GRENKE has limited its risks when concluding new contracts. The losses that will actually be realised in the future depend on the further course of the pandemic and the effects on the economy. To determine the risk provision for lease receivables in accordance with IFRS 9, these are divided into three levels depending on their respective credit risk. Impairment losses for leases in Level 1 correspond to the expected loss for a twelve-month period. For lease receivables in Level 2, a risk provision is recognised in the amount of the expected loss for the entire remaining contract term. For Level 3 lease receivables, the expected losses are recognised as risk provisions. As of the reporting date December 31, 2020, 90.2 percent of the net receivables volume of the Leasing segment was allocated to Level 1. Expenses for risk provisions for the leasing business rose in the reporting year to EUR 199.2 million (previous year: EUR 127.8 million). Impairment losses at the end of the 2020 financial year equalled EUR 502.8 million (previous year: EUR 371.2 million).

In the course of the corona 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. The deferral agreements were also partly based on statutory 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 requests.

Country risk at the end of the 2020 financial year was concentrated in four countries, Germany, France, Italy, Switzerland and the UK, which together accounted for 75 percent of the total receivables volume of the leasing business. Although France, Italy and the UK in particular were severely affected by the corona pandemic and experienced sharp declines in economic output, the Euler Hermes Country Risk Rating for Germany and France remains at "1", and that for the UK and Italy unchanged at "2". Of the countries where 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 are able to make decisions on leasing applications only up to certain limits or score classes. Applications exceeding these limits must be approved by the credit centre.

7.1.6.5 Lending Business

The receivables resulting from GRENKE BANK AG's lending business mainly consist of the purchase of lease receivables, SME loans, microcredit financing and business start-up financing. Accordingly, credit default risk represents a material financial risk of GRENKE BANK AG. GRENKE BANK AG's lending business is also focused on the small-ticket segment with the average customer receivables volume at EUR 9k as of December 31, 2020.

As a financing partner for SMEs, GRENKE BANK AG's offers include the granting of loans to SMEs. In cooperation with Mikrokreditfonds Deutschland and selected microfinance institutions, GRENKE BANK AG has also been granting microloans of up to EUR 25k to SMEs since 2015. Processing and refinancing is carried out on behalf of the Federal Republic of Germany. The credit risk is borne entirely by the Mikrokreditfonds Deutschland. GRENKE BANK AG also represents an important strategic pillar of the GRENKE

Group's refinancing strategy through the purchase of lease receivables.

The expected credit loss model is applied to determine loan loss provisions for receivables from GRENKE BANK AG'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 per the reporting date amounted to EUR 8.4 million.

7.1.6.6 Factoring Business

AThe GRENKE Group's factoring business also concentrates on the small-ticket segment. The Consolidated Group's factoring units operating in Germany, Switzerland, Italy and Portugal mainly process factoring contracts with debtors of the respective country. This business mainly involves so-called "notification factoring", in which the invoice recipients (debtors) 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 debtor 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. As per the December 31, 2020 reporting date, the portfolio of factoring receivables amounted to EUR 65.5 million (previous year: EUR 79.5 million).

The main customer selection criteria in the factoring business include creditworthiness, average annual revenues, industry affiliation and accounts receivables reference list of the potential factoring client. Monitoring factoring customers on a continual basis allows for risk-adjusted pricing. When making the loan decision, a credit check of the factoring client's accounts receivable is conducted on the basis of data from external credit reporting agencies. This information is then evaluated by the Consolidated Group's credit support centre. Payment histories are used during the contract period to conduct an ongoing review and evaluation of the debtors and customers.

As of December 31, 2020, there were 5 customers in the Consolidated Group's factoring business with receivables in excess of EUR 1.0 million, accounting for 10.8 percent of total factoring receivables.

For the expected losses from factoring receivables, impairment losses are recognised on the basis of the 12-month expected credit loss. As factoring receivables are short-term receivables, the 12-month expected credit loss corresponds to the lifetime expected credit loss. Impairments in the factoring business amounted to EUR 3.9 million as of the reporting date (previous year: EUR 3.2 million), and the cost for risk provisioning in the reporting year was EUR 1.0 million (previous year: EUR 1.7 million).

7.1.6.7 Investments

The GRENKE Group holds interests in two associated companies accounted for using the equity method: an interest of 25.01 percent in viafintech GmbH in Berlin, held via the subsidiary GRENKE BANK AG, and an interest of 30.03 percent in finux GmbH, held via the subsidiary GRENKE digital GmbH. The GRENKE Group also has a 15 percent shareholding in Finanzchef24 GmbH in Munich, held via GRENKE BANK AG, which is not included in the consolidated financial statements.

7.1.7 Market Risk

7.1.7.1 Risk Definition

Market risk is defined as potential losses that may result from uncertainty about the future development (amount and volatility) of market prices. Financial market price fluctuations can have a significant effect on the Consolidated Group's cash flow and net profit. Of particular importance are changes in interest rates and certain currencies. The Consolidated Group is not subject to risks from changes in share prices or in the cost of raw materials.

7.1.7.2 Risk Management

The GRENKE Group's strategic approach is to enter into market risk exclusively in conjunction with the operating business and reduce these risks to the greatest extent possible. As part of the risk management and ongoing monitoring of interest and currency positions, the Consolidated Group actively manages its positions and risk (for example, by hedging open currency positions) in the course of its ordinary business.

In addition to risk-prone, market-sensitive positions such as floating-rate notes or foreign currency receivables, sensitivities and elasticities of the respective market prices also play a decisive role in dealing with interest rate and exchange rate risks. The GRENKE Group's goal is for the Group's net profit to have the lowest level of sensitivity to the volatility of market prices possible. This means that while maintaining an appropriate relationship between the costs and benefits of hedging relationships, net profit should be as unaffected as possible by developments in the interest rate and currency markets.

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 and the Finance & Treasury and Corporate Risk Management departments.

7.1.7.3 Derivatives for Hedging Purposes

The Consolidated Group uses derivative financial instruments specifically when ordinary business activities involve risks that can be reduced or eliminated through the appropriate derivatives. The sole instruments used are interest rate and currency swaps and forward exchange contracts. Each derivative contract relates to an underlying economic transaction with a corresponding opposing risk position. The contract partners are banks with predominantly good or very good credit ratings with an S&P rating starting at BBB+. Further details on market risks and specifically interest rate and currency risk management are presented in section 7.3 "Derivative financial instruments" in the notes to the consolidated financial statements".

7.1.7.4 Interest Rate Risk

The GRENKE Group's interest rate risk results from the effects of changes in market interest rates on the positions in the interest book (interest-bearing asset and liability items on the statement of financial position) and the corresponding effects on net interest income. This affects the Consolidated Group's variable-interest financial liabilities, which primarily consist of debentures and ABCP programmes. The GRENKE Group does not engage in maturity transformation to generate net interest income but instead strives for financing with matching maturities. For this reason, the effects of future interest rate developments affect only the portfolio to be contracted in the future.

A sensitivity analysis is prepared to conduct risk assessments using a 100 basis point (one percentage point) parallel shift in the interest rate curve. The analysis is based on ceteris paribus assumptions, in which the shift in the interest rate curve is considered independently of any compound effects on other interest rate-induced market developments. The analysis also assumes that all other influencing factors, especially exchange rates, remain constant. The actual effects on the consolidated income statement can deviate significantly from this due to the actual development. A 100 basis points (bps) change in interest rates in the reporting year would have increased or decreased the equity and net profit before income taxes for the year by less than EUR 0.3 million. There were no interest rate swaps outstanding outside the ABCP programmes as of December 31, 2020.

SEE TABLE "INTEREST RATE RISK AND THEIR IMPACT ON NET PROFIT AND EQUITY BEFORE INCOME TAXES" //

Interest rate risk and their impact on net profit and equity before income taxes

	Net profit before income taxes		Equity before income taxes	
EURk	+100 BP	–100 BP	+100 BP	–100 BP
DECEMBER 31, 2020				
Variable-rate instruments	237	–237		
Fair value measurement of interest rate swaps			0	0
DECEMBER 31, 2019				
Variable-rate instruments	–2'101	2'101		
Fair value measurement of interest rate swaps			387	–389

The issuance of bonds and the contracting of interest rate swaps are part of implementing the Consolidated Group's risk strategy, in which liquidity procurement and interest rate hedging are carried out separately. This gives the GRENKE Group a high degree of flexibility to optimise its refinancing. Any resulting risks (variable interest-related cash flows) are hedged using suitable interest rate derivatives. Because designated hedging transactions have proven to be almost 100 percent effective, any changes in the fair value of interest rate derivatives as hedging transactions were recognised directly in equity based on their clean value (excluding accrued interest).

Under the ABCP programmes with Helaba (Opusalpha Purchaser II), HypoVereinsbank/UniCredit Bank AG (Elektra) and HSBC France (Regency), the GRENKE Group is responsible for interest rate hedging and, therefore, interest rate risk management. The ABCP transaction serves as the underlying floating-rate transaction, whereas cash flows are hedged using interest rate swaps. Under both ABCP programmes with SEB AG (Kebnekaise Funding Limited) and the ABCP programme with DZ Bank (CORAL 2), interest rate swaps are used to limit the risk of changes in interest rates. GRENKE AG is not the counterparty to these swaps.

When contracting the interest rate swaps, the focus is always on the parameters of the underlying transaction dictated by the financing (liabilities). Therefore, interest rate terms of the swaps on the variable side are largely identical to those of the underlying transaction. Furthermore, the swap volume contracted is never greater than the volume of the hedged financing. Existing and planned refinancing transactions are actively incorporated into risk management, and the related hedge relationships are subject to ongoing analysis in the form of quarterly effectiveness tests using a method permitted under IFRS.

The open interest positions according to the internal definition are assessed monthly and any need for action is initiated. Hedging transactions decided by the Board of Directors are then carried out by the Finance & Treasury team.

Interest rate risk is quantified quarterly within the framework of the risk-bearing capacity calculation on the basis of the value-at-risk (VaR) approach. Here, the change in the respective risk parameter (respective reference interest rate) is determined by means of a historical simulation at a confidence level of 99.0 percent with a specified holding period of 240 days and presented as an absolute shift in basis points. Since the historically derived risk shifts are considered too low, the procedure was adjusted in the reporting year so that falling interest rates are mirrored and assumed as rising interest rates. In addition, all standard interest rate shock scenarios of the EBA Guideline 2018/02 are calculated. In addition to the parallel interest rate shift of 200 basis points, these also include various rotations of the yield curve. With a risk horizon of one year, the Consolidated Group's estimated maximum loss at a confidence level of 99.0 percent was EUR 2.2 million at the end of 2020 (previous year: EUR 3.7 million).

7.1.7.5 Currency Risk

Due to the international orientation of its business, the GRENKE Group has open foreign currency positions and is exposed to currency risks accordingly. Internally defined hedging strategies are used to limit or eliminate these risks. The derivatives used are recognised on the balance sheet as of the reporting date at their fair values under the line items financial assets or financial liabilities. In the larger markets, such as Great Britain, the Consolidated Group refinances the new business acquired in local currencies. The subsidiaries generally conduct their business in the respective local markets rather than internationally (cross border), which excludes currency risks almost entirely.

Currency risk exists mainly in the area of financing for Group companies that operate outside the eurozone. The hedging of open foreign currency cash flows is carried out on the basis of internally defined hedging limits, which take effect when the balance at the day's exchange rate equals EUR 500k per currency. The exchange rate for the majority of financing in Australia, Canada, Switzerland, Denmark, Great Britain, Sweden, Singapore, the USA, the United Arab Emirates, Czechia and Hungary is fixed by contract. In these countries, risk continues to exist only for the respective open tranches where the hedging limit of EUR 500k applies. Brazil, Chile, Poland and Croatia are only affected by currency risks in direct lease refinancing to a very limited extent because lease refinancing agreements in those countries are concluded in local currency. GRENKE BANK AG grants the Turkish and Croatian subsidiaries loans in local currency. In such cases, all cash flows are hedged at fixed exchange rates via forward exchange transactions. The lease contracts concluded in Norwegian kroner are also hedged on the basis of internally defined hedging limits.

Currency risk resulting from the cash flows of the issued foreign currency bonds is fully hedged by the simultaneous conclusion of cross currency swaps with matching maturities.

In general, risks arise from currency fluctuations relate to financial assets and receivables, onerous contracts denominated in foreign currency and from the translation of the Consolidated Group companies' financial statements. The use of derivatives (forward exchange contracts and currency swaps are used for currency risk) lessens the market sensitivity of the underlying transaction, i.e. cash flows from financial assets and receivables. Ideally, the instruments are offset almost entirely. Currency risk is quantified quarterly within the framework of the risk-bearing capacity calculation on the basis of a value-at-risk (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 fluctuations. In addition, various stress scenarios such as an ad hoc exchange rate shift of 25 percent are simulated. As of the reporting date of December 31, 2020, the VaR calculation resulted in an estimated currency risk across the various foreign currencies relevant to the Consolidated Group of EUR 0.7 million (previous year EUR 0.9 million) at a confidence level of 99.0 percent and a risk horizon of one year.

Foreign currency sensitivities and their impact on the net profit before income taxes

	2020		2019	
EURk	Appreciation	Depreciation	Appreciation	Depreciation
GBP	–715	718	–878	882
HUF	–844	851	–712	716
CHF	–196	215	–229	229
SEK	39	47	168	–168
TRY	–596	417	749	–1.203
DKK	192	–53	28	–14

7.1.7.6 Foreign Currency Sensitivity Analysis

Management has concluded that the Consolidated Group's primary material exposure to foreign exchange rate risk is related to the British pound (GBP), Hungarian forint (HUF), Swiss franc (CHF), Swedish krona (SEK), Turkish lira (TRY) and Danish krone (DKK). The selection of currencies was based on the potential impact on the analysis and on the size of the volume of lease receivables in the respective country.

The table shows the sensitivity of a ten percent appreciation or depreciation of the euro against the respective other currencies as of December 31, 2020 and during the reporting period from a Consolidated Group perspective and its impact on the net profit before income taxes.

// SEE TABLE "FOREIGN CURRENCY SENSITIVITIES AND THEIR IMPACT ON NET PROFIT BEFORE TAXES".

The impact on net profit before income taxes shown results from the changes in the fair value of monetary assets and liabilities, including those that are foreign currency derivatives not designated as hedging transactions or from actual cash flows that were recognised in whole or in part in profit or loss in the reporting period and converted during consolidation into euros. At the same time, all other influencing factors were kept unchanged, particularly interest rates. The influence of projected sales and purchase transactions is not considered. Changes in the values of cross-currency swaps have no material effect on earnings before taxes, as these swaps are accounted for as hedges. Changes in the values of swaps have a direct impact on the Consolidated Group's equity.

7.1.8 Liquidity risk

7.1.8.1 Risk Definition

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. Consequently, the GRENKE Group defines liquidity risk as insolvency risk (liquidity risk in the strict sense) and refinancing risk.

7.1.8.2 Liquidity Management

The Consolidated Group's liquidity management is based on the three pillars of money and capital market programmes, the sale of receivables, and financing via GRENKE BANK AG. Thanks to this diversified refinancing structure, the Consolidated Group was able to raise sufficient liquidity for its global business and meet its payment obligations at all times in the reporting year. In the case of the bonds and promissory note loans issued by the GRENKE Group and its subsidiaries, GRENKE was not obliged to comply with certain financial and regulatory ratios (such as equity, debt, or profitability ratios – so-called financial covenants) in the reporting year. In this respect, there continues to be no risk of potentially not complying with such obligations. As with market risks, liquidity risks are mitigated overall by the principle of not engaging in any significant maturity transformation. Liquidity risks are managed operationally by the Finance & Treasury department and strategically by the Board of Directors and monitored by the Corporate Risk Management & Regulatory team as part of monthly liquidity risk reporting.

7.1.8.3 Short-term Liquidity

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 of 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 the leasing business. Wages and tax payments are also taken into account.

Reporting differentiates between 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 significant losses 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 significant losses in value

Liquidity levels

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

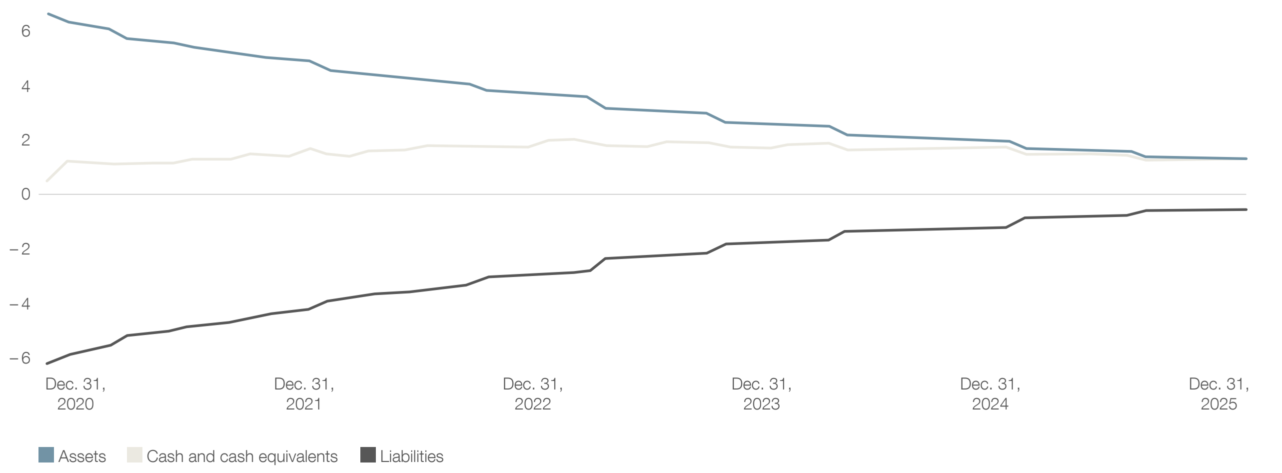
Short-term liquidity is also managed within the scope of the liquidity coverage ratio (LCR). The objective of the LCR is to ensure short-term solvency at all times in a stress scenario of 30 calendar days. The LCR is calculated by dividing the liquidity buffer by the net out-going payments (liquidity gaps). The LCR minimum ratio is 100 percent, i.e. the liquidity buffers from unencumbered, high-quality and highly liquid assets (Bundesbank funds) must fully cover the net payment outflows (liquidity gaps). In this respect, the LCR serves as a limit for the cumulative liquidity shortfall. The GRENKE Group's liquidity buffer amounted to EUR 702.5 million as of as of the December 31, 2020 reporting date and consisted of EUR 702.4 million in balances with Deutsche Bundesbank. As of the reporting date of December 31, 2020, the LCR was 852.39 percent (previous year: 186.67 percent). The LCR minimum ratio of 100 percent was complied with at all times in 2020.

As the aggregated liabilities of each foreign currency were less than five percent of the GRENKE Group's total liabilities at the end of the 2020 financial year, the LCR for the reporting year only had to be fulfilled in the reporting currency euro and in no foreign currency in accordance with the revised Delegated Regulation LCR 2018/1620. In the previous year, the LCR also had to be fulfilled in British pounds.

The main sources of refinancing for securing the short-term ability to meet its financial obligations are cash holdings, EUR, CHF, GBP, HUF and PLN money market lines, EUR, CHF, GBP, DKK and SEK revolving credit facilities and overdraft facilities in EUR, GBP, HRK, HUF and BRL. Some of these short-term refinancing facilities are firm commitments and subject to only minimal market fluctuation versus the EONIA, SONIA, BUBOR, EURIBOR/LIBOR, ZIBOR and CDI reference interest rates. In addition, the existing refinancing agreements do not include regular, early termination rights. The maturities of money market and overdraft facilities are unlimited, where-as the maturity of revolving credit facilities is usually 364 days. To bridge short-term liquidity constraints, we have contractually committed revolving credit facilities available for EUR 300 million, CHF 20 million, HRK 125 million and PLN 100 million with a variety of banks.

Liquidity development

as per December 31, 2020, in EUR millions



7.1.8.4 Medium- and Long-Term Liquidity

Monthly static liquidity planning is carried out in addition to short-term liquidity management and weekly reporting. The basic assumption of this planning is the liquidation of the existing leasing, lending and factoring portfolio in accordance with the contractual agreements so that the proceeds from the assets flow in due time. The liabilities are also repaid on time on the basis of contractual agreements. As the duration of the liabilities side (liabilities) approximates that of the portfolio, financing largely matching maturities is ensured. For more information, please also refer to the overview of the expected outflows from contractual obligations in section 2.7.5 Liquidity.

See chart "Liquidity development as of december 31, 2020"

In addition, dynamic liquidity planning is carried out at least once per quarter, with the aim of replicating the liquidity status under stress conditions and thus the liquidity risk in the true sense for the next periods. This serves to control the entire Consolidated Group with regard to its liquidity. Refinancing risk is observed on a quarterly basis as part of the risk-bearing capacity assessment by checking whether an increase in credit spreads on the refinancing costs increases the refinancing risk.

In the 2021 financial year, bonds and promissory note loans amounting to EUR 410.0 million, SEK 316.0 million, DKK 66.0 million and PLN 40.0 million are scheduled to mature. The refinancing of these bonds 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 December 31, 2020 reporting date, the duration of the assets was 20 months (previous year: 21 months) and 32 months for the liabilities (previous year: 34 months). Based on this data, the maturity transformation risk can be reduced using the appropriate measures.

In principle, the GRENKE Group refinances itself independently of individual banks and also has direct access to various 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. GRENKE 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 funding arrangements based on defined underlying assets, i.e. 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.

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. 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.

Due to the temporarily tense situation on the capital markets due to the corona pandemic, the GRENKE Group changed the focus of its refinancing in the 2020 financial year. Fewer bonds under the debt issuance programme (DIP), promissory notes and commercial paper were issued than in the previous year. An adjustment in the conditions for time deposits at GRENKE BANK AG led to a significant increase in deposits. In addition, the loan with the European Investment Bank was drawn down in full. In December 2020, S&P Global Ratings confirmed GRENKE AG's "BBB+/A-2" long- and short-term issuer rating and removed the credit watch that had been in place due to negative implications since September 17, 2020.

7.1.9 Operational risk

7.1.9.1 Risk Definition

Operational risks are potential losses that may result from the inappropriateness or failure of internal procedures, people and systems or as a result of externally driven events (e.g. elementary hazards, forces majeure, intentional acts). According to the internal definition, reputational risks do not fall under operational risks but instead under other risks.

7.1.9.2 Risk Management

In the context of the 2020 risk inventory, the risk subtypes "Operational risk" (according to CRR), legal risk, and individual manifestations of ICT risk (information and technology) were classified as material. Compared with the previous year, legal risk was classified as material for the first time and taken into account in the risk assessment as of the reporting date. For the Group-wide monitoring of operational risk, GRENKE Group has implemented indicators (e.g. cost and organisational indicators) that are reported to the management bodies (Board of Directors and Supervisory Board) on a quarterly basis – also within the scope of the early warning indicator set.

Additionally, all cases of fraud and other operational damage of more than EUR 10k are collected in a loss database. This serves both for reporting and prevention purposes. The 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 (e.g. newsletters) are done on a regular basis. If individual loss amounts cannot be precisely determined, then the values are based on estimates.

At the beginning of the corona pandemic, the Risk Task Force held a weekly meeting, which included the evaluation of a specific early warning indicator. In the reporting year, a COVID response team also met at regular intervals and discussed topics such as the process for deferring receivables, IT availability at home offices, compliance issues in connection with the corona crisis and the situation surrounding the return to the "new normal" for the organisation. In addition, the COVID response team prepared decision papers for the Board of Directors. Regular consultations also took place with Deutsche Bundesbank and the German Federal Financial Supervisory Authority during the corona pandemic.

Operational risk is quantified on the basis of the basic indicator approach according to Article 315 CRR I as part of the risk-bearing capacity assessment and monitored and controlled via individual recording in the risk inventory. The estimated risk, including the growth assumption, amounted to EUR 87.1 million as of December 31, 2020 (previous year: EUR 82.2 million). Operational risk is also considered as part of the stress test scenarios across all risk types (see section 1.1.8).

7.1.9.3 Business Process and IT Risk Management

All core business, management and support processes are aligned with the business strategy, standardised and digitised and are continually developed to make them simpler and faster. This is done as part of the customer-oriented updating of the legacy system and requires a technologically state-of-the-art and highly flexible system architecture whose changes (change management), content and methodology, are systematically recorded and subjected to periodic reviews. High operating reliability is achieved through the continued modernisation of the infrastructure based on completely duplicated data centre architecture and the virtualisation of servers, storage and networks. IT risk management involves full risk transparency across all functional areas of IT, including the administration; processes; applications; and infrastructure operations including IT security, projects and compliance.

The measurement and control of risks arising from information and communication technology (ICT) is carried out on the basis of information networks based on GRENKE-specific business process clusters. These are enhanced with additional IT-specific information, such as the applications and hardware components used. The measured ICT risk therefore relates to the essential business processes and provides a reliable assessment of the quality of the performance support provided by the Consolidated Group's ICT systems. In the risk inventory carried out during the reporting year, the ICT risk was assessed according to the following risk subtypes: availability, further development, security, data/information quality, adaptability, compliance, maintainability and outsourcing.

7.1.9.4 Business Continuity Management

The Consolidated Group has set up a business continuity management system that documents the measures to be taken in the event of an emergency and all necessary information in writing including scenarios for the continuation and relaunch of business. The aim is to reduce the extent of potential losses. A crisis unit serves as an emergency central response tool when needed. The crisis unit's responsibilities are broken down into the areas of situation assessment, coordinated actions, communication with the parties involved, activation of measures to relaunch processes and restoring operational continuity. Precautionary measures, organisational structures and processes for the technical operation of systems are reviewed once annually using an emergency test to ensure the adequacy, efficiency and accuracy of emergency plans and emergency and crisis management.

Amid the COVID-19 pandemic, the GRENKE Group further expanded its business continuity management. A cross-functional COVID Response Team (CRT) reporting directly to the Board of Directors was formed at an early stage and met regularly. The CRT is responsible for the company-wide management of pandemic-related measures and reporting to the Board of Directors.

Through terminal-independent workplace virtualisation and established platforms for digital collaboration, the IT architecture was already designed for secure mobile working worldwide. The operational capability for mobile working was already given by the hardware equipment of our employees before the pandemic began. Around 75 percent of all workstations had mobile devices as standard. During the lockdown phases, it was therefore possible to continue working quickly and smoothly in the home office. The locations were operated with a minimum of emergency staffing, and the majority of employees – up to 90 percent – were able to ensure the provision of all processes and services from the home office.

During the pandemic, tools were expanded, particularly in the areas of video communication and mobile decentralised collaboration, in order to ensure direct communication with staff, partners and customers using digital channels. This ensured the continuation of operations in all core business processes at all times.

7.1.10 Other risks

In addition to risks arising from changes in the legal, political or social environment, other risks include or consider 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 with the previous year, the investment risk was classified as material for the first time in the 2020 risk inventory and taken into account in the risk assessment as of the reporting date. Such risks are taken into account in the risk inventory. Within the framework of the risk-bearing capacity calculation, the other risks are taken into account by means of a lumpsum buffer using risk coverage. 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 group has implemented a PR and social monitoring tool.

In the course of the attack by a short seller, an event-related risk inventory was carried out in the reporting year with regard to the reputational risk in order to assess the damage to the reputation triggered by this within the framework of the risk-bearing capacity. A group of experts was consulted specifically on reputational risk. Please refer to section 7.1.5 Risk Situation of the GRENKE Group for the result and the effects on the risk-bearing capacity calculation.

7.1.10.1 Internal Control System based on the Consolidated Group's accounting process

At GRENKE, the internal control system and the risk management system are both interlinked with regard to group accounting. In the following, the term "ICS" is used when referring to the internal control system. ICS represents the entirety of the principles, procedures and measures introduced by the Company's management that are aimed at the organisational implementation of the management's decisions in the organisation and ensures

// the effectiveness and efficiency of business activities, including the protection of assets and the prevention and detection of losses to assets;

// the correctness and reliability of internal and external accounting; and
// compliance with the legal provisions relevant to the Company.

The Board of Directors bears overall responsibility for the accounting process at the Company and the Consolidated Group. All of the companies included in the annual financial statements and the consolidated financial statements are also a part of a defined management and reporting organisation process. The Consolidated Group's accounting and consolidation are organised centrally. The posting of each country's local entity transactions is centrally recorded and processed by the responsible administrators in accordance with mandatory schedules for generating qualitative and quantitative information. The cross-check principle generally applies.

The principles, structures, process organisation and accounting methods used by the ICS are documented in writing and updated at regular intervals.

The systems used for the group accounting process and the required IT infrastructure are regularly reviewed by the Internal Audit department with regard to the necessary security requirements. The same applies to the continuing development of the Consolidated Group's accounting process, particularly with respect to new products, facts and revised legal regulations. External consultants are called in, if necessary. To ensure the quality of the Consolidated Group's accounting, the employees involved are regularly trained on a demand-driven basis. The Supervisory Board is also involved in the control system and supervises the Consolidated Group-wide risk management system, including the internal control systems in the areas of audit, accounting and compliance. The Supervisory Board also reviews the contents of the non-financial statement. The Supervisory Board is supported by the Audit Committee, whose focus is to oversee internal and external accounting and the accounting process.

In view of the accounting process for the Company and the Consolidated Group, features of the ICS are considered to be significant when they are capable of materially influencing the accounting and general statement presented in the financial statements, including the combined management report. These features include the following elements in particular:

// Identification of significant risk and control areas relevant to the accounting process
// Controls to monitor the accounting process and its results at the levels of the Board of Directors and the companies included in the financial statements
// Preventative control measures in the finance and accounting systems as well as in the operative, performance-oriented company processes that generate material information for the preparation of the financial statements and the combined management report, and a separation of functions and pre-defined approval processes in relevant areas
// Measures that safeguard the orderly IT-based processing of accounting issues and data
// The establishment of an internal audit system to monitor accounting-related ICS

To reduce the identified risks, controls are implemented as part of the Group's accounting process. For the effectiveness of the ICS, the design of the controls and their integration into the process and the operational implementation of the controls are the important determinants of risk minimisation. Internal Audit regularly examines the ICS for the Consolidated Group's accounting process in subareas on a rotating basis which reinforces the ICS.

Composition of core capital prior to adoption

EURk	31.12.2020**	31.12.2019*
Paid-in capital instruments	46'354	46'354
Premium on capital stock	289'314	289'314
Retained earnings	581'535	570'613
Other comprehensive income	–1'507	410
Deductions from core capital	–84'292	–165'252
Transitional provisions pursuant to Section 478 CRR	–	–
Total Tier 1 capital pursuant to Section 26 CRR	831'403	741'438
Total additional core capital pursuant to Section 51 CRR	200'000	200'000
Total supplementary capital pursuant to Section 62 CRR	–	–
TOTAL EQITY PURSUANT TO SECTION 25 FF CRR	**1'031'403**	**941'438**

* Figures correspond to the regulatory scope of consolidation before integration of the franchisees.
** Figures before adoption. Correction report to Deutsche Bundesbank after adoption.

Relevant risk positions

EURk	31.12.2020**	31.12.2019*
Equity requirements for credit risk with central governments and central banks	–	–
Equity requirements for credit risk with regional / local authorities	5'279	7'838
Equity requirements for credit risk with institutions / corporations with short-term rating	14'301	15'109
Equity requirements for credit risk with corporations	230'837	242'404
Equity requirements for credit risk from retail business	116'579	119'760
Equity requirements for credit risk from other positions	13'268	15'415
Equity requirements for credit risk from investments	846	834
Equity requirements for credit risk from positions associated with particularly high risks	–	–
Equity requirements for credit risk from non-performing positions	25'249	18'899
TOTAL EQUITY REQUIREMENTS FOR CREDIT RISK	**406'359**	**420'259**
TOTAL EQUITY REQUIREMENTS FOR MARKET RISK	**–**	**4'094**
TOTAL EQUITY REQUIREMENTS FOR OPERATIONAL RISK	**77'927**	**66'601**
TOTAL EQUITY REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENTS	**5'170**	**4'779**
TOTAL EQUITY REQUIREMENTS	**489'457**	**495'733**

* Figures correspond to the regulatory scope of consolidation before integration of the franchisees.
** Figures before adoption. Correction report to Deutsche Bundesbank after adoption.

7.1.11 Own funds information

As GRENKE AG is the parent company as defined by Section 10a KWG, the GRENKE Group must regularly comply with the requirements of the Capital Requirement Regulation (CRR). In accordance with the requirements of Article 92 (1) of the CRR in conjunction with Section 10a KWG, GRENKE AG calculates the Consolidated Group's total capital ratio on the basis of the IFRS financial statements.

In accordance with the requirements of EU Regulation 575/2013 (CRR), the GRENKE Group had eligible own funds of EUR 1,031 million as of the December 31, 2020 reporting date (previous year: EUR 941 million). The Consolidated Group's own funds (regulatory capital) consists of paid-in capital, the premium on capital stock, retained earnings from previous financial years, other accumulated income and eligible items of additional Tier 1 capital. In addition, deductible items consisting primarily of intangible assets and good-will are taken into account. As in the previous year, there was no Tier 2 capital.

The risk amount requiring underlying results from credit risk, operational risk and market risk. In the case of credit risk, which is determined on the basis of the Credit Risk Standard Approach (CRSA), the risk amount is calculated based on the risk weightings for the individual categories of receivables. The risk amount for operational risks is calculated according to the basic indicator approach on the basis of the gross income of the past three financial years. The market risk results from the open foreign currency positions. As a result of the full consolidation of the franchise companies, there was a decrease in foreign currency positions compared to the previous year and thus a decrease in market risk due to the absence of foreign currency guarantees to the franchise companies.

The total capital ratio in accordance with Article 92 (2) b CRR was 16.86 percent as of the December 31, 2020 reporting date (previous year: 15.19 percent). The requirements for the total capital ratio of 11.50 percent (previous year: 11.74 percent), which in addition to the 8 percent pursuant to Article 92 CRR also includes the capital conservation buffer of 2.5 percent, the countercyclical capital buffer of 0.00 percent, and the SREP capital surcharge of 1.0 percent, were consistently met in the 2020 reporting year.

In addition to the risk-adjusted equity requirement, the CRR also requires the observation of a capital ratio that is largely based on balance sheet ratios and is therefore risk-sensitive. As of the reporting date, the ratio pursuant to Article 429 CRR was 14.30 percent (previous year: 13.55 percent). The minimum ratio of 3.0 percent, which is not yet required by law, was thus met.

7.2 Report on Opportunities

The effects of the corona pandemic had a significant impact on the overall economic environment and the business development of the GRENKE Group in financial year 2020. The Board of Directors of GRENKE AG assumes that these effects will continue to be felt into 2021. However, once the pandemic has subsided, the Board of Directors expects that the GRENKE Group will return to its precrisis level followed by a sustainable growth path. The potential is to be tapped primarily through the following strategic approaches:

// Markets: densification of the network in existing markets and entry into new markets
// Group structure: Integration of the franchise model into the group in order to accelerate international expansion
// Channels: Diverse design of customer acquisition via existing and new distribution channels
// Customers/partners: Intensification of existing relationships
// Products/objects: Expansion of the product and service range and further diversification of the portfolio of lease objects
// Niche focus: consistent service of small-ticket finance solutions for SMEs

As a leading provider, based on its own assessment, in the small-ticket leasing segment in Europe, GRENKE is growing in its core market primarily by gaining market share. Opportunities are opening up above all where smaller competitors – for example due to the increased regulatory burden – are with-drawing from markets in whole or in part. In addition, the network of existing branches is being continuously consolidated through cell divisions, thus ensuring the greatest possible proximity to customers. In the past financial year 2020, the GRENKE Group opened a total of 5 new locations.

At the end of 2020, the GRENKE Group was represented in a total of 33 countries. Since 2011, GRENKE has gradually entered additional markets outside the European core market and is currently present in the Americas (Brazil, Chile, Canada and the United States), Asia (Singapore, Turkey and the United Arab Emirates) and Australia. In the past financial year 2020, these countries accounted for a share of approximately 4.8 percent of the GRENKE Group's new business volume.

In the reporting year, GRENKE decided to gradually integrate the existing franchise model into the Consolidated Group by 2022. Since 2003, the Consolidated Group's expansion into new markets has been carried out, among others, through franchise companies where the managing partners of these companies held a substantial minority interest. In the past, GRENKE has typically been able to acquire the franchise companies after a period of four to six years. The Consolidated Group expects the integration of the franchise companies and the future entry into new markets with its own subsidiaries to accelerate its international growth and increase its flexibility to take advantage of market opportunities as they arise. [check]

Additional growth potential results primarily from the expansion of the direct and online sales channel. GRENKE introduced eSignature, a process for the fully digital processing of lease contracts, back in 2015. In the 2020 financial year, around 30.1 percent of all contracts were concluded on the basis of eSignature. The goal of the subsidiary GRENKE digital GmbH, which was founded in 2018, is also to consistently drive forward the digitalisation of all of the Consolidated Group's processes and products, thereby giving the Consolidated Group cost and efficiency advantages over the competition.

Intensive relationships exist with numerous customers and resellers that go beyond a single contract. Many customers are repeat contract partners, often servicing one branch or one country, but increasingly in several countries at the same time. In other cases, customer loyalty can be strengthened, for example, in addition to a leasing line of credit, which is used to draw down financing for various objects as needed, through a parallel business current account at GRENKE BANK AG or single invoice factoring via GRENKEFACTORING GmbH. This is an example of the Consolidated Group's options for generating business with existing customers within the segments as well as across segments.

In recent years, the Leasing segment has increasingly expanded its range of products and services beyond the IT area. The goal is to successively expand the expertise acquired in the IT area to other asset categories and to further develop GRENKE into a general small-ticket leasing provider for SMEs. The Factoring and Banking business units round off the range of solutions for customers. In the Factoring segment, services are gradually being rolled out in additional countries, using the franchise model in particular. GRENKE BANK AG also regularly expands its various financing, investment and payment transaction products.

With these measures, the Consolidated Group is pursuing the strategic goal of establishing the GRENKE brand and its business model globally. Taking advantage of the opportunities that arise, the GRENKE Group plans to further expand its market position new business in the coming years.

7.3 Summary

For the GRENKE Group, the controlled assumption of risks is a significant part of its business model. A comprehensive system for risk identification, quantification , control and management has been implemented and is being continuously refined.

For identified credit, market, liquidity, operational and other risks from the leasing, banking, factoring and investment business, write-offs, impairments and provisions were made using objective evidence. In the opinion of the Board of Directors, adequate precaution has been recognised for all identifiable risks. Based on the overall assessment of the risk situation, the Board of Directors concludes that the Consolidated Group's risk-bearing capacity was consistently given in the reporting year. Within the GRENKE Group, the total exposure does not exceed the 1 percent mark of the Consolidated Group's equity for any individual lessee. In view of the volume of business and the Consolidated Group's economic situation, the Board of Directors considers the overall risk situation to be manageable.

The total capital ratio in accordance with Article 92 (2) b CRR was 16.86 percent as of as of the December 31, 2020 reporting date (previous year: 15.19 percent). The maximum possible requirements for the total capital ratio of 11.50 percent (previous year: 11.74 percent), which includes the capital conservation buffer and the countercyclical capital buffer as well as the SREP capital surcharge in addition to the 8 percent pursuant to Article 92 CRR), was consequently met in the 2020 reporting year. The Group's own funds (regulatory equity) amounted to EUR 1,031 million at the end of the 2020 financial year and consisted exclusively of core capital.

With regard to the future development of the Consolidated Group and the Company as well as its subsidiaries, no special risks associated with the business that go beyond the normal level can be identified. The risk coverage capital is sufficient to cover future planned business activities for at least one year.

7.4 Report on forecasts and outlook

7.4.1 Expected development of the macroeconimic and sector environments

Due to the overall economic conditions, the forecasts are subject to an exceptionally high degree of uncertainty. This applies in particular to Europe, where the infection figures rose again significantly in numerous countries at the beginning of 2021 due to the appearance of new virus mutations. At the same time, vaccination campaigns are proceeding rather sluggishly, so that at the time of the preparation of the consolidated financial statements it is not foreseeable when the restrictions on economic and social life can be lifted again.

In January 2021, the International Monetary Fund[1] (IMF) initially lowered its forecast for economic growth in the eurozone in the current year to 4.2 percent, down from 5.2 percent (October forecast). In April 2021, the IMF[2] then revised its expectations slightly upwards again to 4.4 percent. The reduced expectations on balance affect all major economies in the eurozone. The IMF now expects growth of 3.6 percent for Germany (October forecast: 4.2 percent), 5.8 percent for France (October forecast: 6.0 percent) and 4.2 percent for Italy (October forecast: 5.2 percent).

For the global economy as a whole, in contrast, the IMF was confident and initially raised its forecast from 5.2 percent to 5.5 percent in January and again to 6.0 percent in April. The more optimistic outlook resulted specifically from the higher forecast for the United States of 6.4 percent (October forecast: 3.1 percent) as a result of the additional government aid and stimulus programmes.

According to the results of the economic survey by the Association of German Chambers of Industry and Commerce[3] (DIHK), the sentiment in the German economy clouded over at the beginning of 2021. In numerous sectors of the economy, companies see their current situation less favourably than they did in autumn 2020. This is particularly true for smaller companies. Investment intentions are correspondingly restrained with only 22 percent of the companies planning to increase their investments in the months ahead, and 30 percent anticipating lower investments. At minus eight points, the balance was still well below the longterm average of plus four points. The ifo business climate index[4] for the leasing sector, which suffered a setback in February 2021, paints a similar picture. The index is under pressure from the further postponement of equipment investments due to the ongoing lockdown. It remains to be seen to what extent government aid programmes, especially liquidity assistance for SMEs, will be able to offset these negative effects.

Although capital market interest rates have risen somewhat in recent months due, in particular, to higher inflation expectations in the United States, long-term interest rates in Europe remain in negative territory. Based on the signal of the European Central Bank (ECB) of its willingness to continue to provide the economy with ample liquidity and keep key interest rates at a very low level, the Board of Directors does not expect any significant changes in the interest rate environment in 2021.

7.4.2 business performance and future business strategy

The following statements on the future business development of the GRENKE Group and the assumptions regarding the development of the market and the industry that are considered material for this purpose are based on our estimates, which we currently consider to be realistic according to the information available to us. However, these are subject to uncertainties and entail the unavoidable risk that the forecast developments may not actually occur either in terms of their tendency or their extent.

The Board of Directors expects that the ongoing COVID-19 pandemic with its associated economic constraints will continue to make for a challenging market environment in the 2021 financial year. As a result, considerable volatility is to be expected in the economy as a whole and on the capital markets. From today's perspective, it is not possible to make a binding assessment of the extent to which this will influence business activity and the development of results. At the same time, the conclusion of the special audit and the implementation of the resulting measures are important for the Consolidated Group. Above all, the ability to access the capital market and refinancing opportunities are important for the continuation and expansion of new business.

1 www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
2 www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021
3 www.dihk.de/resource/blob/35738/75dca701af5b226cce35e8a85789f035/dihk-konjunkturumfrage-jahresbeginn-2021-kurzfassung-data.pdf
4 www.bdl.leasingverband.de/leasing/marktzahlen/geschaeftsklima-leasing/#c3866

7.4.2.1 New Business Development at the GRENKE Group

2021 is a transition year for GRENKE. Primarily due to the pandemic and the burdens of the audits, the Board of Directors is currently assuming new lease business of between EUR 1.7 billion and EUR 2.0 billion for 2021. Due to corona, the 2021 financial year had a muted start, with the first quarter of 2021 at the same level as the fourth quarter of 2020. As the year progresses, the Board of Directors expects the markets to pick up, resulting in stronger business than in the first half of 2021.

In the medium term, the Board of Directors plans to initially reach the volume of new leasing business of 2019 again.

The DB2 margin of new business in the 2021 financial year is expected to be slightly below the previous year. This is due in particular to the general conditions of the refinancing terms.

7.4.2.2 Results of Operations of the GRENKE Group

The lower volume of new business in the first quarter of 2021 as well as in the coming months will also be reflected in the income from operating business for the full year 2021. In addition, the Board of Directors expects costs to rise slightly despite the lower business volume. Overall, the Board of Directors expects a net profit of between EUR 50 million and EUR 70 million for 2021 due to the high profitability of the existing contract portfolio and new business. This expectation is based on the assumption that the loss rate will be between 1.9 and 2.2 percent.

The Board of Directors also aims to continue the long-term dividend policy for the 2021 financial year and to ensure that shareholders participate appropriately in the Company's success. The Board of Directors and the Supervisory Board propose the distribution of a dividend of 26 cents per share for the 2020 financial year.

7.4.2.3 Development of the GRENKE Group's Financial Position and Net Assets

Based on the expected development of consolidated net profit, GRENKE expects an equity ratio of more than 16 percent (2020: 16.3 percent). When assessing the equity ratio, the effects of the full consolidation of all franchise companies must be taken into account. Above all, the fact that less goodwill is recognised on the statement of financial position reduces the equity requirements according to regulatory and rating-related standards. As a result, 16 percent of balance sheet equity is no longer considered necessary to meet external equity requirements, but rather 15 percent.

The GRENKE Group expects stable cash flow from operating activities, with which the planned investments can be fully internally financed.

In addition, the Board of Directors assumes that the Consolidated Group's equity base and cash flow development will enable it to refinance the expected volume of new business in 2021 at risk-adequate conditions through various money and capital market accesses.

7.4.2.4 Non-financial performance indicators

Based on the anticipated level of new business, the Board of Directors currently expects that the average number of employees in 2021 will be at approximately the same level as in the previous year (average for 2020: 1,863 employees measured in full-time equivalents).

With regard to the equal participation of women and men in management positions, the target for the second and third management levels for the 2021 financial year remains at a minimum of 30 percent in each case (2020: at least 30 percent in each case).

In the 2021 financial year, the number of trainees and dual-study students in Germany is expected to be 49 (2020: 62).

The percentage of GRENKE Group employees participating in voluntary and mandatory training (training rate) is expected to be in the range of 85 to 90 percent in the 2021 financial year (2020: 85 percent).

7.4.2.5 General statement on future development

The Board of Directors is convinced that the GRENKE Group is well positioned to continue the growth course of the past years in the medium term after the transition year 2021. The Consolidated Group intends to further expand its position as one of the leading providers of financial services for SMEs with a focus on small-ticket financing by increasing the density of its network in existing markets, expanding its range of products and services, and expanding its direct and online sales. Nevertheless, it is not currently foreseeable how long the macroeconomic consequences of the COVID-19 pandemic will last. As a result, the Board of Directors expects new leasing business in the range of EUR 1.7 billion and EUR 2.0 billion in 2021. Thanks to the organisation's high cost awareness and the scalability of its business model, the cost-income ratio should remain below 50 percent and thus, in the view of the Board of Directors, at a good level. At the same time, the Consolidated Group's stable equity position provides it with the necessary financing basis to conclude the new business it is aiming for.

8. Acquisition-related disclosures

Explanatory report on the disclosures pursuant to sections 289a and 315a HGB

Composition of the subscribed capital:

GRENKE AG has fully paid-in subscribed capital of EUR 46,495,573.00, divided into 46,495,573 registered shares, each with a notional interest in the share capital of EUR 1.00 per share. All shares carry the same rights. Each share grants one vote. The shares of GRENKE AG have been admitted for trading on the Frankfurt Stock Exchange in the segment of the regulated market with additional post-admission obligations defined by Deutsche Börse AG (Prime Standard segment).

Restrictions affecting voting rights and share transfers:

There are no restrictions on voting rights, preference shares, or special rights with controlling powers.

The Board of Directors is not aware of any restrictions agreed between shareholders that affect voting rights or share transfers, other than the vesting periods for shares granted under the share-based payment scheme mentioned in the remuneration report. For further information, please refer to the remuneration report. In general, voting rights from the shares concerned are excluded by law in the cases of Section 136 AktG. According to Section 71b AktG, rights also cannot be exercised based on treasury shares.

Direct or indirect shareholdings in the capital exceeding 10 percent of the voting rights:

As of the reporting date of December 31, 2020, the family holding company Grenke Beteiligung GmbH & Co. KG with registered office in Baden-Baden (Germany) holds 18,989,984 shares in the Company, corresponding to around 40.84 percent of the share capital. The general partner of Grenke Beteiligung GmbH & Co. KG is Grenke Vermögensverwaltung GmbH with registered office in Baden-Baden (Germany), and its limited partners are the following members of the Grenke family: Wolfgang, Anneliese, Moritz, Roland, and Oliver Grenke. Grenke Vermögensverwaltung GmbH does not have any interest in the assets or income of Grenke Beteiligung GmbH & Co KG. Wolfgang Grenke and Anneliese Grenke are each Managing Directors with sole power of representation. Wolfgang Grenke has a significant influence on Grenke Vermögensverwaltung GmbH and thus indirectly on Grenke Beteiligung GmbH & Co KG. Wolfgang Grenke is a member of the Supervisory Board of GRENKE AG and was Deputy Chair of the Supervisory Board of GRENKE AG until September 21, 2020. His Supervisory Board mandate has been suspended since that date. In a notice dated September 1, 2014, BaFin exempted Grenke Beteiligung GmbH & Co. KG and Grenke Vermögensverwaltung GmbH from the obligations of Sections 35 (1) Sentence 1 and 35 (2) Sentence 1 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG) pursuant to Section 37 WpÜG (submission of a mandatory offer for shares in GRENKE AG). The Company is not aware of any other direct or indirect shareholdings in the capital exceeding 10 percent of the voting rights.

Statutory provisions and provisions of the Articles of Association on the appointment and dismissal of members of the Board of Directors and amendments to the Articles of Association:

GRENKE AG's Articles of Association do not contain any provisions on the appointment of members of the Board of Directors by the Supervisory Board that deviate from the statutory provisions. Accordingly, members of the Board of Directors are appointed for a maximum of five years. Reappointment is permissible.

The members of the Board of Directors are appointed and dismissed by the Supervisory Board in accordance with Sections 84 and 85 AktG, Sections 24 (1) and 25c (1) KWG, and Article 5 (2) of the Articles of Association. Pursuant to Article 5 (1) of the Articles of Association, the Board of Directors of GRENKE AG shall consist of at least two members. The Supervisory Board determines the number of members of the Board of Directors. It decides on their appointment, the revocation of their appointment, and the conclusion, amendment, and termination of the employment contracts to be concluded with members of the Board of Directors. The Supervisory Board may appoint a Chair and Deputy Chair of the Board of Directors as well as deputy members.

Pursuant to Section 179 (1) Sentence 1 AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting. The resolutions of the Annual General Meeting shall be adopted by a simple majority of the votes cast unless otherwise required by law or by the provisions of the Articles of Association, and, if the law requires a capital majority in addition to a majority of votes, by a simple majority of the share capital represented (Section 133 AktG, Article 15 (1) of the Articles of Association). Pursuant to Article 11 (2) of the Articles of Association, the

Supervisory Board is authorised to adopt amendments to the Articles of Association that only affect their wording. In addition, the Supervisory Board was authorised to amend the wording of Article 4 of the Articles of Association, which, among other things, specifies the amount and division of the share capital, in accordance with the respective utilisation of the authorised capital or after the expiry of the authorisation period.

Authorisation of the Board of Directors, particularly with regard to the possibility of issuing or repurchasing shares:
Pursuant to Article 4 (4) of the Articles of Association, with the consent of the Supervisory Board, the Board of Directors is authorised to increase the Company's share capital until May 2, 2023 by a total nominal amount of up to EUR 2,217,529.00 by issuing a total of up to 2,217,529 new shares on one or several occasions against cash contributions and/or contributions in kind (authorised capital 2018). The authorisation may be used in partial amounts.

With the consent of the Supervisory Board, the Board of Directors is authorised to exclude shareholders' subscription rights in the case of capital increases against contributions in kind, in particular in order to issue new shares in the context of business combinations or in the context of the acquisition of companies, parts of companies, or interests in companies, including the increase of existing interests, or of other assets eligible for contribution or claims to the acquisition of assets, including claims against the Company or its Group companies. The Board of Directors is further authorised, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders when issuing new shares for the purpose of implementing a Scrip Dividend, whereby the shareholders are given the option of contributing their dividend entitlement in whole or in part as a contribution in kind to subscribe to new shares in the Company.

In the case of capital increases against cash contributions, the shareholders shall generally be granted a subscription right to the new shares. The shares may be underwritten by at least one credit institution or a company operating pursuant to Section 53 (1) Sentence 1 or Section 53b (1) Sentence 1 or (7) KWG with the obligation to offer them to the shareholders for subscription. However, with the consent of the Supervisory Board, the Board of Directors is also authorised to exclude shareholders' statutory subscription rights in the event of capital increases:

a) to exclude any fractional shares from the subscription rights,

b) in order to grant holders of bonds with conversion or option rights or with conversion or option obligations issued or to be issued by the Company or by its Group companies within the meaning of Section 18 AktG subscription rights to new no-par value registered shares of the Company to protect them against dilution to the extent to which they would be entitled after exercising the conversion or option rights or after fulfilling conversion or option obligations, or

c) in the case of cash capital increases, if the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed and the notional interest of the shares issued against cash contributions in accordance with or in mutatis mutandis application of Section 186 (3) Sentence 4 AktG with the exclusion of shareholders' subscription rights during the term of this authorisation does not exceed a total of 10 percent of the share capital, neither at the time this authorisation becomes effective nor at the time it is exercised. This 10 percent limit of the share capital shall include:

// treasury shares sold during the term of this authorisation in mutatis mutandis application of Section 186 (3) Sentence 4 AktG under the exclusion of shareholders' subscription rights and
// shares issued or to be issued to service bonds with conversion or option rights or obligations, if and to the extent that the bonds are issued during the term of this authorisation in mutatis mutandis application of Section 186 (3) Sentence 4 AktG under exclusion of shareholders' subscription rights.

With the consent of the Supervisory Board, the Board of Directors is authorised to determine the further specifications of the share rights and the conditions of the share issue.

The above authorisation takes into account that it was partially exercised in the reporting period on the occasion of the Scrip Dividend.

By resolution of the Annual General Meeting of May 14, 2019, the Board of Directors was authorised, with the consent of the Supervisory Board, to issue bearer and/or registered bonds with warrants and/or convertible bonds (collectively “bonds”) with or without a limited term in a total nominal amount of up to EUR 500,000,000 once or several times in partial amounts until May 13, 2024 and to grant or impose on the holders or creditors (hereinafter also “holders”) of the bonds with warrants option rights or obligations and on the holders of convertible bonds conversion rights or obligations for no-par value registered shares of GRENKE AG (hereinafter also referred to as “GRENKE shares”) with a notional interest in the share capital of up to EUR 4,500,000 in total in accordance with the terms and conditions of these bonds. The respective terms and conditions may also provide for mandatory conversions at the end of the term or at other times, including the obligation to exercise the option or conversion right. Bonds may also be issued against contributions in kind.

In addition to euros, the bonds may also be issued in the legal currency of an OECD country, limited to the corresponding euro equivalent. The bonds may also be issued by a GRENKE AG Group company within the meaning of Section 18 AktG in which GRENKE AG directly or indirectly holds a 100 percent interest (hereinafter “subsidiary”). In this case, the Board of Directors is authorised, with the consent of the Supervisory Board, to assume the guarantee for the bonds on behalf of GRENKE AG and to grant or impose option or conversion rights or obligations on the holders of the bonds for new no-par value registered shares of GRENKE AG.

The Board of Directors was also authorised, among other things, to exclude shareholders' subscription rights to the bonds under certain conditions and within defined limits with the consent of the Supervisory Board. Subscription rights may be excluded under these defined conditions, among other things, in the case of issuing bonds against contributions in kind, in particular in the context of business combinations and the acquisition of companies, and in the case of issuing bonds against cash consideration at an issue price that is not significantly lower than the theoretical market value of the bond.

To service the bonds issued under the above authorisation, the Annual General Meeting on May 14, 2019 also resolved to conditionally increase GRENKE AG's share capital by up to a nominal amount of EUR 4,500,000.00 by issuing up to 4,500,000 new no-par value registered shares (Conditional Capital 2019).

No use was made of the new authorisation to issue bonds with warrants and/or convertible bonds in the reporting period.

The authorisation to acquire and use treasury shares resolved by the Annual General Meeting on May 12, 2015 expired on May 11, 2020 without being utilised.

By resolution of the Annual General Meeting of August 6, 2020, the Company was authorised until the end of August 5, 2025 to acquire treasury shares for any permissible purpose in the amount of up to 5 percent of the share capital existing at the time of the resolution of the Annual General Meeting or, if this amount is lower, of the share capital existing at the time of the exercise of the authorisation and to use them for all legally permissible purposes. Among other things, the shares may be used, with the consent of the Supervisory Board, in the context of business combinations and the acquisition of companies or sold to third parties for cash at a price that is not significantly lower than the stock exchange price at the time of the sale, excluding the shareholders' subscription rights. In this case, the total of the shares sold may not exceed 10 percent of the respective share capital of the Company. The amount of the share capital at the time this authorisation becomes effective or – if the amount is lower – the amount of the share capital at the time this authorisation is exercised shall be decisive for the calculation of the 10 percent limit. If during the term of this authorisation until its utilisation, other authorisations to issue or sell shares of the Company or to issue rights that enable or oblige the subscription of shares of the Company are exercised, and the subscription right is excluded pursuant to or in accordance with Section 186 (3) Sentence 4 AktG, this shall be included in the aforementioned 10 percent limit. The acquired shares may also be used to service issued convertible bonds and/or bonds with warrants or to implement a Scrip Dividend. The treasury shares may also be cancelled.

No use was made of the new authorisation to acquire own shares in the reporting period.

Compensation agreements of the Company with the members of the Board of Directors or employees in the event of a takeover bid:

In the event of a takeover bid, there are no compensation agreements with the members of the Board of Directors or employees.

Significant agreements of the Company subject to a change of control:

Further disclosures in accordance with GAS 20 K211 (conditions of a change of control in the event of a takeover bid) are omitted, as the corresponding disclosures would be likely to cause a significant disadvantage to the Company.

9. Corporate governance statement

The corporate governance statement required under Sections 289f and 315d HGB is summarised for GRENKE AG and the GRENKE Consolidated Group. In the corporate governance statement, the Board of Directors and the Supervisory Board also report on the Company's corporate governance (Principle 22 of the DCGK).

The Board of Directors and the Supervisory Board of GRENKE AG are committed to responsible and transparent management and control of the Company with a view to increasing its enterprise value in the long term. To this end, the Board of Directors and the Supervisory Board consider the role of the Company in society and the resulting social responsibility, as well as social and environmental factors, as relevant parameters in their planning, assess the potential impact of these parameters on the corporate strategy and the operating business, and address them accordingly.

9.1. Declaration of Conformity pursuant to Section 161 AktG

The DCGK, as the standard of the German corporate governance system for good and responsible corporate governance, contains recommendations and suggestions for the management and supervision of German listed stock corporations. GRENKE AG complies with the recommendations of the DCGK in the current version of December 16, 2019 with individual, justified exceptions. The Board of Directors and the Supervisory Board have dealt in detail with compliance with the DCGK and jointly and unanimously adopted the following Declaration of Conformity on January 25, 2021.

2021 DECLARATION OF CONFORMITY

of the Board of Directors and Supervisory Board with the DCGK in accordance with Section 161 AktG

The Board of Directors and Supervisory Board of GRENKE AG declare in accordance with Section 161 AktG:

I. Declaration of Conformity with the DCGK in the version dated February 7, 2017

Since the last Declaration of Conformity was submitted on January 21, 2020, GRENKE AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated February 7, 2017 ("DCGK 2017"), published in the German Federal Gazette on April 24, 2017, with the following justified deviations:

In determining the total remuneration of the individual members of the Board of Directors, the Supervisory Board ensured that it was commensurate with the performance and duties of the respective member of the Board of Directors and the Company's situation. The appropriateness of the remuneration of the Board of Directors is regularly reviewed by the Supervisory Board. In deviation from the recommendation in **Article 4.2.2 (2) DCGK 2017,** the Board of Directors' remuneration was considered relative to the remuneration of the senior management but not relative to the remuneration of the workforce as a whole when assessing the Board of Directors' remuneration.

In deviation from the recommendation in **Article 4.2.3 (4) DCGK 2017,** the contracts of the sitting members of the Board of Directors do not stipulate a severance payment cap because the Board of Directors' service contracts are generally concluded solely for the duration of the term of appointment and cannot be terminated for cause. Early termination of a Board of Directors' contract without good cause can therefore not be made unilaterally, but only by mutual consent. Board of Directors' contracts do not contain any severance payment rules that are linked to corporate events, particularly to a change of control.

The recommendation set forth in **Article 4.2.5 (3) and (4) DCGK 2017** was not followed. Specifically, the model tables of the DCGK for reporting the remuneration of the Board of Directors were not used. The individualised remuneration for each member of the Board of Directors is presented in a transparent manner and pursuant to statutory provisions in the remuneration report, which forms part of the combined management report for the 2019 financial year. The Supervisory Board and the Board of Directors are of the opinion that an additional or alternate presentation of the remuneration components of the individual members of the Board of Directors is unnecessary for reasons of shareholder interests or transparency.

According to the recommendations contained in **Article 5.1.2 and 5.4.1 DCGK 2017,** both the composition of the Board of Directors and the proposals for the election of Supervisory Board members should take into consideration a still to be specified age limit, among other things. A set age limit has not yet been established, however, for the period referred to.

According to **Article 5.3.3 DCGK 2017,** the Supervisory Board shall form a nomination committee consisting exclusively of shareholder representatives who propose suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. The Supervisory Board of GRENKE AG consists of a total of six members to be elected exclusively by the shareholders. The Supervisory Board does not consider the formation of a further committee necessary. The Company considers the transparency of the selection procedure as desired by the Commission in Article 5.3.3 DCGK 2017 as guaranteed even without a corresponding committee. The recommendation in Article 5.3.3 was therefore not followed.

According to **Article 5.4.1 DCGK 2017,** a standard limit for the length of membership on the Supervisory Board shall also be specified. Such a limit has not yet been set in the period referred to.

II. Declaration of Conformity with the DCGK entered into force on March 20, 2020

The new version of the DCGK dated December 16, 2019 ("DCGK 2020") entered into force upon its publication in the German Federal Gazette on March 20, 2020. GRENKE AG complies with the applicable recommendations of the new version, with the exception of the following justified deviations, and will continue to comply with them in the future:

The DCGK 2020 recommends an age limit for members of the Board of Directors and Supervisory Board in **Recommendations B.5 and C.2.** The Supervisory Board has now set a fixed age limit for the appointment of members to the Board of Directors and the election of members to the Supervisory Board, which will also be stated in the corporate governance statement. Hence, GRENKE AG already complies with these recommendations and will continue to do so in the future.

According to **Recommendation D.1** DCGK 2020, the Supervisory Board shall adopt Rules of Procedure and make them available on the Company's website. The Supervisory Board has had Rules of Procedure for many years. However, the publication of these Rules of Procedure was not previously required. In the future, the Supervisory Board's Rules of Procedure will also be published on the Company's website.

In **Recommendation D.5,** the DCGK 2020 recommends that the Supervisory Board form a nomination committee composed exclusively of shareholder representatives and who will nominate suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting for the election of Supervisory Board members. The Supervisory Board of GRENKE AG consists, in total, of only six members, who are to be elected exclusively by the shareholders. As explained above, the Supervisory Board does not consider the formation of an additional committee to be necessary. The Company considers the transparency of the selection process and the proper selection desired by the Commission under Recommendation D.5 DCGK 2020 to be ensured in every respect and without restriction, even in the absence of a corresponding committee. As a result, Recommendation D.5 DCGK 2020 has not been followed.

New remuneration system

In consideration of the provisions of the Act Implementing the Second Shareholders' Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie – ARUG II) and with the revised DCGK 2020, the recommendations for the remuneration system have been significantly modified by the new recommendations G.1 to 18. GRENKE AG's current remuneration guidelines already comply with these amended recommendations to a large extent. Notwithstanding this, the Supervisory Board has dealt extensively with the new recommendations for remunerating members of the Board of Directors to ensure that it complies with these recommendations to the greatest possible extent while, at the same time, keeping in mind the Company's distinct characteristics. The Supervisory Board plans to adopt the remuneration system after in-depth consultation and, as prescribed by the transitional provision of Section 26j of the Introductory Law of the Stock Corporation Act (Einführungsgesetz zum Aktiengesetz – EGAktG), submit this remuneration system to the Company's shareholders for resolution at the Annual General Meeting in 2021.

The following deviations currently exist:

In **Recommendation G.3,** the DCGK 2020 recommends using a suitable peer group made up of other companies and disclosing the composition of this peer group when assessing the customary nature of the total remuneration of the members of the Board of Directors. In assessing the customary nature of the remuneration of the Board of Directors in the past, the Supervisory Board already carried out a so-called peer group comparison, although the disclosure of the peer group's composition was not required. However, the criteria for the formation of the peer group will be disclosed in the future.

In **Recommendation G.4,** the DCGK 2020 recommends an internal company comparison to assess the customary nature of the remuneration of the Board of Directors by taking into account the Board of Directors' remuneration relative to the remuneration of the senior management and the workforce as a whole. This comparison should also include the development of the remuneration over time. These criteria were previously taken into account in assessing the remuneration of the Board of Directors in relation to senior management but not in relation to the workforce.

In **Recommendation G.10,** the DCGK 2020 recommends that variable remuneration be granted primarily in the form of shares or share-based remuneration, whereby the members of the Board of Directors should not be allowed to dispose of the long-term variable amounts granted until a period of four years has passed. The granting of share-based remuneration subject to multi-year payment restriction periods already forms a focus of the variable remuneration of the Board of Directors of GRENKE AG, although this does not necessarily always predominate.

In **Recommendation G.11, Sentence 2,** the DCGK 2020 recommends the possibility to reclaim variable remuneration in justified cases (a so-called clawback clause). The current remuneration system does not provide for such a possibility for members of the Board of Directors. The Supervisory Board will examine the possibility of a corresponding modification.

In **Recommendation G.12,** the DCGK 2020 recommends adhering to the agreed vesting periods in the event of a termination of the contract of a member of the Board of Directors, among other events. This is not entirely the case when it comes to share-based remuneration.

In **Recommendation G.13, Sentence 1,** the DCGK 2020 recommends that payments to a member of the Board of Directors in the event of the premature termination of the member's contract should not exceed the value of two years' remuneration (severance payment cap). In deviation from this, the contracts of the current members of the Board of Directors do not provide for a so-called severance payment cap, as Board of Directors' contracts are routinely concluded for the duration of the appointment period only and cannot be terminated with due notice. The premature termination of a member of the Board of Directors' contract without good cause can therefore not be effected unilaterally, but only by mutual agreement. The Board of Directors' contracts do not contain any rules on severance payments linked to corporate events, specifically a change of control.

Baden-Baden, January 30, 2021

GRENKE AG

On behalf of the Board of Directors Antje Leminsky	On behalf of the Supervisory Board Prof Ernst-Moritz Lipp

The Declaration of Conformity is also available on GRENKE AG's website in the Investor Relations section under Corporate Governance.

9.2. Consolidated Group management and supervision

GRENKE AG is a stock corporation under German stock corporation law. The Company has three corporate bodies: the Board of Directors, the Supervisory Board and the Annual General Meeting. The respective duties and powers of the corporate bodies are essentially derived from the law, the Company's Articles of Association, and the Rules of Procedure of the Board of Directors and the Supervisory Board.

The Board of Directors and the Supervisory Board work closely together for the benefit of the Company. The Board of Directors informs the Supervisory Board regularly, promptly, and comprehensively about all issues relevant to GRENKE AG and the GRENKE Consolidated Group regarding the implementation of corporate strategy, planning, business development, the financial position and results of operations, and significant business risks and opportunities. Material decisions are subject to the approval of the Supervisory Board. The Rules of Procedure of the Board of Directors list a catalogue of such transactions requiring approval. In accordance with GRENKE AG's Articles of Association, the Board of Directors is appointed by the Supervisory Board.

9.2.1. Board of Directors

Pursuant to Article 5 (1) of the Articles of Association, the Board of Directors of GRENKE AG consists of at least two members. In the 2020 financial year, the Board of Directors of GRENKE AG consisted of four members. By resolution of December 7, 2020, the Supervisory Board resolved to appoint Isabel Rösler as a member of the Board of Directors with effect from January 1, 2021. On February 8, 2021, the Supervisory Board complied with Mark Kindermann's request to terminate his contract prematurely and resign from his Board of Directors mandate and all other Consolidated Group mandates. Mark Kindermann's resignation was preceded by a hearing letter from BaFin expressing criticism of internal audit procedures and procedural weaknesses in the area of compliance. Over the past several years, both areas were under Mr Kindermann's responsibility. In the course of his resignation, the areas of responsibility of the Board of Directors' members were reorganised and resolved by the Board of Directors and the Supervisory Board on February 10, 2021. The Board of Directors' Chair Antje Leminsky took over the Personnel Department, while the main administrative functions of the back office were transferred to Chief Risk Officer Isabel Rösler. Chief Financial Officer Sebastian Hirsch was given responsibility for Consolidated Group Accounting. As a result, the number of Board of Directors' members returned to four.

The Board of Directors manages the Company independently and in the interest of the Company. It is responsible for the operational management and implementation of the Company's strategic orientation as well as compliance with the principles of corporate policy. In addition, it prepares the annual financial statements of GRENKE AG, the quarterly statements and the Consolidated Group's half-year and annual financial statements and informs the Supervisory Board regularly and comprehensively about the Company as a whole through Board of Directors' reports and meeting documents.

GRENKE AG's corporate strategy is developed by the Board of Directors and implemented by the Board of Directors in an ongoing exchange with the Supervisory Board. Questions regarding strategy and its implementation, planning, business development, the risk situation, compliance, and the financial and earnings position, as well as strategic and operational business risks and their management are the subject of Supervisory Board meetings and individual discussions with the Chair of the Supervisory Board, who reports directly to the Supervisory Board on these discussions.

The Supervisory Board has issued Rules of Procedure for the Board of Directors, which include the ability to reserve consent for the allocation of business areas as well as rules for cooperation both within the Board of Directors and between the Board of Directors and the Supervisory Board. The business areas in corporate management assigned to the individual Board of Directors' members are divided among the Board of Directors' members along their respective competence profiles.

Assignment according to the schedule of responsibilities as of December 31, 2020*

Antje Leminsky Chair of the Board of Directors (CEO)	**Sebastian Hirsch** Chief Financial Officer (CFO)	**Gilles Christ** Member of the Board of Directors	**Mark Kindermann** Member of the Board of Directors
Strategy	Controlling	Brand Management	Administration
IT	M + A	Sales	Personnel
Credit Centre Leasing and Factoring	Treasury/ Corporate Finance	Franchise System	Accounting
Internal Audit	Legal		Quality Management
Risk Controlling	Taxes		Internal Services
	Investor Relations		Disposals
			Property and Facility management

*As a result of the appointment of Isabel Rösler as a new ordinary member of the Board of Directors, the schedule of responsibilities was amended as of January 1, 2021. Ms Rösler was given responsibility for the areas of Quality Assurance, Data Protection, Compliance, Money Laundering Prevention, Risk Controlling and Reporting as of January 1, 2021.

Due to the resignation of Mark Kindermann on February 8, 2021, the areas of responsibility of the Board of Directors were reassigned by the Supervisory Board on February 10, 2021. The current areas of responsibility can be found in the list above.

Assignment according to the schedule of responsibilities as of February 10, 2021:

Antje Leminsky Chair of the Board of Directors (CEO)	**Sebastian Hirsch** Chief Financial Officer (CFO)	**Gilles Christ** Member of the Board of Directors	**Isabel Rösler** Chief Risk Officer (CRO)
Group Strategy	Controlling	Brand Management	Risk Management
Internal Audit	M + A	Sales	Compliance
IT	Treasury/ Corporate Finance	Services	Corporate Credit
Process Management	Law		Administration
Personnel	Accounting/ Taxes		Data Protection
	Investor Relations		
	Property and Facility Management		

Further information on the personal backgrounds of the members of the Board of Directors of GRENKE AG, their other mandates, if any, and the current allocation of business areas can be found on the GRENKE website at www.grenke.com. GRENKE AG provides information on the fundamental features of the Board of Directors' remuneration system and the individualised remuneration of the Board of Directors' members in the remuneration report in section 5

The individual members of the Board of Directors shall, in principle, manage the business area assigned to him or her independently. Measures and transactions in a business division that are of particular importance and scope for the Company require the prior consent of the entire Board of Directors. The same applies to such measures and transactions for which the Chair or another member of the Board of Directors requires the prior adoption of a resolution by the Board of Directors.

In addition to the areas of responsibility assigned to her, Chair of the Board of Directors (CEO) Antje Leminsky coordinates the work of the Board of Directors.

An age limit for Board of Directors' members was not explicitly set in the 2020 financial year. On January 25, 2021, the Supervisory Board decided to set an age limit for Board of Directors' members to no more than 60 years of age at the time of appointment.

The members of the Board of Directors are liable to pay damages to the Company in the event of a culpable breach of the duty of care.

9.2.2. Supervisory Board

In accordance with Article 7 (1) of the Articles of Association, the Supervisory Board of GRENKE AG consists of six members. All members were elected by the Annual General Meeting. Because Wolfgang Grenke suspended his Supervisory Board mandate effective September 21, 2020, the Supervisory Board has been acting with five (active) members provisionally since that date.

All members of the Supervisory Board, with the exception of Wolfang Grenke and Claudia Krcmar, are considered independent by the Supervisory Board. Prof Ernst-Moritz Lipp is considered independent by the Supervisory Board because, despite having been a member of the GRENKE AG Supervisory Board since May 2003, he fulfils all other definition parameters of independence, regardless of the term of his mandate, and is also to be classified as independent due to his personality and curriculum vitae, as well as his financial independence. In particular, Prof Ernst-Moritz Lipp has given no cause for doubt as to the dutiful and proper fulfilment of his duties on the Supervisory Board, nor is it expected that a material and not merely temporary conflict of interest will arise from his long tenure. In the opinion of the Supervisory Board, four is an adequate number of independent shareholder representatives. These representatives are currently Prof Ernst-Moritz Lipp, Dr Ljiljana Mitic, Florian Schulte and Jens Rönnberg.

Further information on the personal backgrounds of the members of GRENKE AG's Supervisory Board (including their respective length of service on the Supervisory Board) can be found on GRENKE's website at www.grenke.com. GRENKE AG provides information on the fundamental features of the Supervisory Board's remuneration system and the individualised remuneration of the members of the Supervisory Board in the remuneration report in section 5.

The central task of the Supervisory Board is to advise and supervise the Board of Directors in its management of the company, especially with regard to corporate strategy and fundamental corporate decisions. The Supervisory Board is involved in all decisions of fundamental importance to the Company made by the Board of Directors and specifies reservations for approval for such transactions in the Rules of Procedure of the Board of Directors, insofar as these are not already reflected in the Articles of Association. The

Supervisory Board also votes on transactions with related parties as defined by Section 111a (1) Sentence 2 AktG, to the extent that these require prior approval by law. The Supervisory Board is also responsible for appointing and dismissing members of the Board of Directors, as well as for reviewing the annual and consolidated financial statements, the combined management report of GRENKE AG and the GRENKE Consolidated Group, and the proposal for the appropriation of unappropriated surplus. It also adopts the annual financial statements of GRENKE AG and approves the consolidated financial statements.

In the 2020 financial year, the Board of Directors informed the Supervisory Board in detail and comprehensively about the Consolidated Group's economic situation, strategic planning, and relevant current events in regular ordinary and extraordinary meetings. In addition, the Chair of the Supervisory Board maintained a close exchange with the Board of Directors on day-to-day business and reported directly on the discussions to the full Supervisory Board. An essential part of these briefings were the regular reports on new business, sales, digitalisation, the development of costs, and refinancing. In the context of this year's COVID-19 pandemic, the Board of Directors' measures for overcoming the associated challenges were also a permanent part of the discussions with the Supervisory Board. The Board of Directors coordinated closely with the Supervisory Board on the strategic development of the Consolidated Group and, together with the Supervisory Board, addressed issues of risk management, compliance, risk provisioning, the internal control system, and internal audit. To further strengthen the latter area, CEO Antje Leminsky was additionally entrusted with the area of responsibility of Internal Audit as of October 29, 2020. In addition, the Supervisory Board appointed Isabel Rösler as Chief Risk Officer (CRO) by resolution of December 7, 2020.

The Supervisory Board of GRENKE AG meets quarterly. When necessary, extraordinary meetings and telephone conferences are also held and resolutions are passed outside of meetings. The Supervisory Board also receives regular reports from Internal Audit, Compliance and Risk Controlling.

The Chair of the Supervisory Board is Prof Ernst-Moritz Lipp. The Chair of the Supervisory Board speaks with individual members of the Board of Directors on a regular basis and as required. In his role as Chair of the Supervisory Board, Prof Ernst-Moritz Lipp coordinates the work of the Supervisory Board and represents its interests in public. This role includes the willingness to hold discussions with investors on issues relevant to the Supervisory Board.

A more detailed presentation of the work of the Supervisory Board, as well as a list of the members of the Supervisory Board and a list of the respective individual attendance at meetings, can be found in the Report of the Supervisory Board.

A competence profile was developed by the Supervisory Board for the entire Board. This profile defines goals regarding the individual composition of the Supervisory Board. Diversity is an integral part of this profile. Proposals of the Supervisory Board to the Annual General Meeting are always evaluated and selected in accordance with the objectives and competence requirements set out in Section 3 below. The Supervisory Board and the Audit Committee regularly assesses their own activities. The basis of this self-assessment is a comprehensive, company-specific questionnaire, which was developed on the basis of consulting companies and is adapted annually to the current circumstances. In it, various relevant topics of the Supervisory Board's activities, such as the exchange of information, committee work, quality of cooperation, work input, and independence, are dealt with extensively. The evaluation of the respective fields of activity of the Supervisory Board is carried out anonymously, both quantitatively and qualitatively, and in each case also according to time spent. The evaluation is carried out in aggregated form, the results are then discussed in detail in the plenary session and suggestions for improvement are recorded for each subject area and incorporated into the work of the committees. The evaluation of activities was carried out at the Supervisory Board meeting on November 23, 2020 by the Chair of the Audit Committee Florian Schulte. With its composition of proven experts in the areas of finance, accounting, corporate planning, controlling, accounting, risk management, auditing, compliance, IT, and human resources, the Supervisory Board of GRENKE AG fulfils the established competence profile and has the necessary knowledge, skills and professional experience to properly perform its duties.

As agreed, the auditor shall inform the Supervisory Board without delay of all relevant material findings and events that come to the auditor's attention during the audit. In addition, the auditor shall inform the Supervisory Board and make a note in the audit report if facts are discovered during the performance of the audit that show a misstatement in the Declaration of Conformity with the DCGK issued by the Board of Directors and the Supervisory Board.

An age limit for Supervisory Board members as well as a regular limit for the length of membership on the Supervisory Board were not explicitly defined in the 2020 financial year. On January 25, 2021, the Supervisory Board resolved to limit the length of service on the Supervisory Board to a maximum of 12 years and to set an age limit for Supervisory Board members of no more than 70 years old at the time of election.

For the efficient performance of its duties, the Supervisory Board has formed an Audit Committee, a Personnel Committee, and a Strategy Committee and has delegated certain powers to these committees accordingly in its Rules of Procedure. In accordance with these powers, topics and resolutions are prepared in the committees and subsequently dealt with in the plenary meeting of the Supervisory Board. The chairs of the committees report to the full Supervisory Board on the work of the respective committee.

A list of the respective committee members and committee chairs, the respective individual attendance at committee meetings, and details on the work of the committees can be found in the Report of the Supervisory Board.

The members of the Supervisory Board are liable to pay damages to the Company in the event of a culpable breach of the duty of care.

9.2.2.1 Audit Committee

Pursuant to Section 4 (3) of the Rules of Procedure of the Supervisory Board, the Audit Committee shall have at least two members, at least one of whom must be independent and have expertise in the field of accounting or auditing.

In the 2020 financial year, the Audit Committee was composed of the following members with extensive knowledge in the areas of accounting, auditing, corporate planning, risk management, and compliance: Florian Schulte (Chair), Prof Ernst-Moritz Lipp (member until February 3, 2020 and interim member for Wolfgang Grenke as of September 30, 2020), Wolfgang Grenke (mandate suspended as of September 21, 2020), and Jens Rönnberg (as of February 3, 2020).

The Audit Committee Chair Florian Schulte has extensive knowledge and experience in the application of accounting principles and internal control procedures due to his many years as a managing director, CEO and member of the board of directors of renowned companies and organisations, and as a consultant for corporate finance and strategy. He is sufficiently familiar with the audit of the financial statements. Florian Schulte is independent of the GRENKE Consolidated Group and chairs the Audit Committee.

The Audit Committee supports the Supervisory Board in fulfilling its monitoring duties with regard to the accuracy of the annual and consolidated financial statements of GRENKE AG, compliance with legal and statutory requirements in the GRENKE Consolidated Group, the qualification and performance of the external auditor, and the internal control functions. It coordinates the tendering process for the auditor to be elected at the Annual General Meeting and determines the focal points of the audit. It also reviews the fee agreement with the auditor.

As part of the duties of the Supervisory Board, the Audit Committee also monitors the accounting process, the effectiveness of the internal control system, the risk management system, internal audit, and compliance management and takes into account any findings of the auditor on the aforementioned topics. The Audit Committee regularly receives corresponding reports from the Board of Directors of the Consolidated Group.

9.2.2.2. Personnel Committee

Pursuant to Section 5 (2) of the Rules of Procedure of the Supervisory Board, the Personnel Committee shall consist of at least two members.

In the 2020 financial year, the Personnel Committee consisted of two members until February 3, 2020 and three members thereafter. These members are Prof Ernst-Moritz Lipp, Dr Ljiljana Mitic (as of February 3, 2020), Wolfgang Grenke (mandate suspended as of September 21, 2020) and Jens Rönnberg (in the interim for Wolfgang Grenke as of September 30, 2020). Until his mandate was suspended, Wolfgang Grenke chaired the Personnel Committee. Since the suspension of Mr Grenke's mandate, the Personnel Committee has been acting without a chair.

The Personnel Committee deals with strategic aspects of personnel planning as well as the conclusion, amendment, and termination of employment contracts with the members of the Board of Directors and authorised representatives.

Furthermore, the Personnel Committee, together with the Board of Directors, deals with long-term succession planning for the Board of Directors as well as the search for suitable candidates for appointment as Board of Directors' members and submits proposals to the Supervisory Board in this regard. Both internal and external candidates are considered. The long-term succession planning is based on the corporate strategy and the existing diversity concept. The diversity concept is explained in more detail in Section 3 of this statement. The Committee also prepares the approval of contracts with Board of Directors' members for the Supervisory Board, especially with regard to their remuneration. Furthermore, variable remuneration for Consolidated Group executives is submitted to the Committee for approval.

9.2.2.3. Strategy Committee

The Strategy Committee deals with fundamental issues of corporate direction and strategy. The tasks of the Strategy Committee include the development of proposals for strategy and strategic management, the critical appraisal of the Board of Directors' recommendations on business, risk, and IT strategy, and the preparation of the strategy meetings of the Supervisory Board and Supervisory Board meetings with agenda items of strategic relevance.

According to Section 6 (2) of the Rules of Procedure of the Supervisory Board, the Strategy Committee shall consist of at least two members.

In the 2020 financial year, the Strategy Committee was composed of Wolfgang Grenke and Prof Ernst-Moritz Lipp until September 21, 2020. A Committee chair was not appointed. After Wolfgang Grenke suspended his Supervisory Board mandate on September 21, 2020, a replacement was not appointed to the Strategy Committee. For the time being, the full Supervisory Board is entrusted with the tasks of the Strategy Committee.

9.2.3. Annual General Meeting

The Annual General Meeting of shareholders shall pass resolutions in the cases stipulated by law and in the Articles of Association. These specifically include the election of shareholder representatives to the Supervisory Board, the discharge of the members of the Board of Directors and Supervisory Board, amendments to the Articles of Association, the appropriation of profits, and capital measures. The Annual General Meeting can only decide on management issues if the Board of Directors so requests.

9.3. Targets for the representation of women, diversity concept and competence profile

Diversity and equal opportunity are integral parts of the selection process for managers and employees at GRENKE AG.

The target for the proportion of women managers that was set by the Board of Directors for the two management levels below the Board of Directors for the 2020 financial year was a minimum of 30 percent. This quota was achieved in the 2020 financial year.

For the 2021 financial year, the Board of Directors has determined that the gender-specific target of at least 30 percent in each of the two management levels below the Board of Directors shall be maintained until December 31, 2021.

With women comprising around 50 percent of the total workforce, the gender ratio for the Consolidated Group is largely balanced.

Once a year, the Supervisory Board receives a report from the Board of Directors on the development of family-friendly measures such as financial support, support for childcare, flexible work models, and location-independent workplaces, as well as the consideration of gender diversity when filling management positions.

The target set by the Supervisory Board for the 2020 financial year for the representation of women executives was a minimum of 25 percent on the Board of Directors and a minimum of 33 percent on the Supervisory Board. Both targets were met in the 2020 financial year. For the 2021 financial year, the target set by the Supervisory Board for the representation of women on the Board of Directors is unchanged at 25 percent and for the Supervisory Board at 33 percent. These targets are minimum limit requirements.

The following diversity aspects are taken into account when composing the Board of Directors:

The decision of the Supervisory Board on filling a position on the Board of Directors is always based on the Company's best interest, taking into account all circumstances of the individual case. In the view of the Supervisory Board, the essential criteria for selecting members of the Board of Directors are their personal suitability and professional qualifications, in particular.

When considering which personality would best complement the Board of Directors as a body, the Supervisory Board pays particular attention to the following principles:

The composition of the Board of Directors shall be balanced in terms of age structure so that the body's ability to act is guaranteed at all times.

The composition of the Board of Directors shall meet the requirements of the German "Act for the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector" (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst).

With regard to their educational and professional backgrounds, the members of the Board of Directors must be able to fulfil the duties of proper management according to the law, the Articles of Association and, the Rules of Procedure. Furthermore, they should essentially have the following background:

// Sustainable management experience in an international context
// Extensive experience in IT management (digitalisation)
// Comprehensive knowledge of the requirements and interrelationships of the capital market
// Sound knowledge of financial management and risk management
// Profound knowledge of accounting according to International Financial Reporting Standards (IFRS) and HGB

The objectives pursued are as follows:

A balanced composition of the Board of Directors with regard to its age structure allows appointed members of the Board of Directors to contribute as many years of professional and life experience as possible while maintaining diversity. This corresponds to our understanding of consistency and sustainability, as well as to innovation and dynamism, for the Company's continued success.

By taking gender diversity into account in the composition of the Board of Directors, the Supervisory Board fulfils the legal requirements and, at the same time, sets an example for related aspiration to achieve an increase in the proportion of women in management positions.

Also, by considering the different professional and educational backgrounds in the composition of the Board of Directors, the Supervisory Board fulfils the obligation under the law, the Articles of Association and, the Rules of Procedure to ensure that the tasks and duties incumbent on this body can be properly fulfilled. Furthermore, this ensures that all changes in our business environment, which are fundamentally in an international context, as well as all effects of cultural, demographic, and social change that affect us in our everyday business, are analysed and evaluated from different perspectives.

The implementation of the objectives for the composition of the Board of Directors is achieved through a close, permanent exchange between the Supervisory Board and the Board of Directors on all important issues concerning the fate and development of the Company. In the course of this exchange, the Supervisory Board regularly checks whether the competences of the individual Board of Directors' members meet the requirements of their areas of responsibility. This also includes checking whether the number of members of the Board of Directors and their responsibilities are adequate for the Company's growth and complexity. The Supervisory Board decides on the staffing of the Board of Directors and the securing of personnel succession planning, as well as on the schedule of responsibilities for the Board of Directors.

The Supervisory Board of GRENKE AG shall be composed in such a way as to ensure qualified advice to and supervision of the Board of Directors.

The following diversity aspects are taken into account for the composition of the Supervisory Board:

The composition of the Supervisory Board shall meet the requirements of the German "Act for the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector".

The members of the Supervisory Board should be able to fulfil the legal obligations associated with this task based on their educational and professional backgrounds and, at the same time, be able to devote the time required to perform this activity. In addition to the high character requirements in the sense of personality competence, professional competence, and economic experience, as well as a corresponding objective ability to judge, are all decisive qualities for the individual members of the Supervisory Board. The competence profile of the members of the Supervisory Board is essentially based on the following background:

// Sustainable management experience in an international context
// Comprehensive knowledge of the requirements and interrelationships of the capital market
// Sound knowledge of financial management (financing and controlling)
// Profound knowledge of accounting according to IFRS and HGB
// Extensive experience in IT management (digitalisation and transformation)
// Experience in strategy and sales management

The objectives pursued in line with the diversity concept for the composition of the Supervisory Board are therefore as follows:

In order to fulfil its role as a supervisory and control body, the Supervisory Board should be able to provide an accurate assessment of the current development and future orientation of the Company. Therefore, the goal is to staff the Supervisory Board in such a way as to ensure the qualified control and advice, as required by AktG and the DCGK.

In the 2020 financial year, the Supervisory Board was composed in such a way that the required knowledge and experience were comprehensively represented by the entirety of the Supervisory Board members. Thus, this body was able to deal with and evaluate the issues relevant to decision-making in a qualified manner. It was also able to make its decisions for effective supervision and control from an objective standpoint.

The diversity concept is implemented for the Supervisory Board through election proposals to the Annual General Meeting and for the Board of Directors through the appointment of Board of Directors' members by the Supervisory Board.

Curricula vitae of all Supervisory Board and Board of Directors' members are published on the Company's website and provide information on their relevant knowledge, skills, and experience. These CVs are updated annually.

9.4. Remuneration of the Board of Directors and Supervisory Board

Information and explanations on the remuneration of the Board of Directors and Supervisory Board can be found in the remuneration report in section 5.

9.5. Securities transactions subject to reporting requirements (Directors' Dealings)

Persons who perform management duties at GRENKE AG and persons closely related to them are required by law to disclose any trading in GRENKE AG shares or related financial instruments if the value of the transactions reaches or exceeds the threshold of EUR 20,000 in a calendar year. GRENKE AG ensures the required notifications and publications in accordance with Article 19 (2) and (3) of the Market Abuse Regulation (MAR) and publishes them equally on its website www.grenke.com/investor-relations/corporate-governance/notifiable-securities.

9.6. Shareholdings of the Board of Directors and Supervisory Board

As of December 31, 2020, the shareholdings of Board of Directors and Supervisory Board members amounted to 19,728,038 shares (corresponding to 42.43 percent of the shares issued).

The shareholding of the Grenke family's investment company, Grenke Beteiligung GmbH & Co. KG, amounted to 18,989,984 shares. This corresponded to 40.84 percent of the shares issued as of December 31, 2020.

9.7. Transparency and shareholder information

Announcements of GRENKE AG that are relevant to the capital market are published in the German Federal Gazette (Bundesanzeiger). Furthermore, the Company uses a variety of channels to comprehensively inform investors and the public about business developments and relevant events. GRENKE AG maintains insider lists in accordance with Article 18 of the Market Abuse Regulation (MAR). The persons concerned have been informed of the legal obligations and sanctions in the event of any violations. GRENKE AG's measures to inform the capital market are described in detail in the “Share and Investor Relations” chapter of the Annual Report starting on page 20.

9.8. Responsible Corporate Governance

The topic of responsible corporate governance includes the areas of compliance, money laundering prevention, corporate governance, data protection and information security. Due to the high importance for customer trust and trust in the capital market, which have far-reaching relevance for business success, a separate chapter in the non-financial statement of the annual report is dedicated to this topic (see section 4.2 "Responsible corporate governance").

9.9. Controlling and risk management

As part of risk management, the Board of Directors and all employees involved should be enabled to consciously manage risks and take advantage of opportunities. GRENKE AG is subject to the Minimum Requirements for Risk Management (MaRisk) defined by the Deutsche Bundesbank and the German Federal Financial Supervisory Authority (BaFin) as well as the Banking Supervisory Requirements for IT (BAIT). A detailed report on the topic of risk management as well as the respective responsibilities can be found in the management report in the chapter “Report on Risks, Opportunities, and Forecasts” section 7.

9.10. Accounting, auditing and financial reporting

In accordance with Sections 315 (5) and 298 (2) HGB, the management report of the GRENKE Consolidated Group and the management report of GRENKE AG are combined in a single presentation. Any deviations are explained in detail in the management report of GRENKE AG.

The GRENKE Consolidated Group’s consolidated financial statements for the financial year from January 1, 2020 to December 31, 2020 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union and, for the Company, in accordance with German commercial law (HGB). GRENKE AG has also observed and applied the provisions of Section 315a HGB.

After the review of the Supervisory Board, the adopted annual financial statements and the approved consolidated financial statements are published within four months of the end of the financial year. For the 2020 financial year, the Annual General Meeting on August 6, 2020 again elected KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the auditor of the annual financial statements and the consolidated financial statements. The auditor also performs the audit review of financial reports during the year to the extent that this occurs.

Further information on the subject matter and scope of the audit of the annual financial statements pursuant to Section 317 HGB, as well as on the tasks of the Audit Committee, can be found in the Report of the Supervisory Board starting on page 11.

10. Management Report of GRENKE AG

In the following management report, the development of GRENKE AG (the “Company”) in the 2020 financial year is discussed in addition to the information reported on the GRENKE Group. The Company’s financial statements are prepared in accordance with HGB provisions. In terms of the economic environment and sector trends, there were no material differences to report that would have affected the Company’s development alone.

10.1 Corporate judiciary framework, affiliation to the Consolidated Group

GRENKE AG was created in 1997 under the former name GRENKELEASING AG. Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien (the “KGaA”) was also formed in the same year. Both companies represent a structural business separation, with GRENKE AG serving as the operating company and the KGaA as the holding company. Using a two-level model, the operating company rents leased assets from the holding company and then leases these assets to sub-lessees. GRENKE AG holds an indirect interest of 100 percent in the KGaA, and a control and profit transfer agreement is in effect. Together with the consolidated subsidiaries and structured entities of GRENKE AG under IFRS, these form the GRENKE Group.

Overview of branches and subsidiaries

In addition to its head office in Baden-Baden, the Company has branches in Berlin, Bielefeld, Bremen, Cologne, Dortmund, Dresden, Düsseldorf, Erfurt, Freiburg, Frankfurt am Main, Hamburg, Hanover, Heilbronn, Kassel, Kiel, Kieselbronn, Leipzig, Magdeburg, Mannheim, Mönchengladbach, Munich, Neu-Ulm, Nuremberg, Potsdam, Regensburg, Rostock, Saarbrücken, and Stuttgart. It also holds 100 percent of the shares in GRENKE Service AG, Baden-Baden, GRENKEFACTORING GmbH, Baden-Baden, GRENKE BANK AG, Baden-Baden, and GRENKE digital GmbH, Karlsruhe. The new subsidiary, GRENKE BUSINESS SOLUTIONS GmbH & Co. KG, founded in the first quarter of 2019, is the sales company of GRENKE AG. General partner of GRENKE BUSINESS SOLUTIONS GmbH & Co. KG is the subsidiary GRENKE Management Services GmbH, Baden-Baden/Germany, which is also wholly owned by GRENKE AG.

As of the end of the 2020 financial year, GRENKE AG held 100 percent of each of the following entities outside of Germany:

Investments outside of Germany

Entity	Registered office
GRENKELEASING GmbH	Vienna/Austria
GRENKELEASING AG	Zurich/Switzerland
GRENKEFACTORING AG	Basel/Switzerland
GRENKELEASING s.ro.	Prague/Czechia
GRENKE ALQUILER S.L.	Barcelona/Spain
GRENKELEASING ApS	Herlev/Denmark
Grenkefinance N.V.	Vianen/Netherlands
GRENKE LIMITED	Dublin/Ireland
GRENKE FINANCE PLC	Dublin/Ireland
GRENKE LOCATION SAS	Schiltigheim/France
GRENKE Locazione S.r.l.	Milan/Italy
GRENKELEASING AB	Stockholm/Sweden
Grenke Leasing Ltd.	Guildford/UK
GRENKELEASING Sp. z o.o.	Poznan/Poland
GRENKELEASING Magyarország Kft.	Budapest/Hungary
GRENKE LEASE Sprl	Brussels/Belgium
Grenke Renting S.R.L.	Bucharest/Romania
GRENKE RENTING S.A.	Lisbon/Portugal
GRENKELEASING Oy	Vantaa/Finland
GRENKELEASING s.ro.	Bratislava/Slovakia
GRENKELOCATION SARL	Munsbach/Luxembourg
GRENKELEASING d.o.o.	Ljubljana/Slovenia
GRENKE RENT S.L.	Madrid/Spain
GRENKE Kiralama Ltd. Sti.	Istanbul/Turkey
GRENKE Renting Ltd.	Sliema/Malta
GC Locação de Equipamentos LTDA	São Paulo/Brazil
GRENKE Locação de Equipamentos LTDA	São Paulo/Brazil
GC Leasing Middle East	Dubai/UAE
GRENKE Hrvatska d.o.o.	Zagreb/Croatia

10.2. Net assets, financial position, and results of operations

The annual financial statements of GRENKE AG as of December 31, 2020 were prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act in conjunction with HGB and AktG provisions in conjunction with the German Ordinance on Accounting Policies for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

Selected key figures from the income statement and statement of financial position

EURK	2020	2019
Income from leases	615'959	572'294
Expenses from leases	363'432	346'345
PROFIT FROM LEASES	**252'527**	**225'949**
Net interest income	–10'895	–7.405
Other operating income	54'136	55'110
General and administrative expenses	102'651	96'076
Staff cost	25'131	25'701
Depreciation and impairment	202'005	177'860
NET PROFIT	**–25'168**	**38'471**

EURK	2020	2019
Cash reserve	203'001	100'001
Investments in associated companies	483'858	527'221
Leased assets	592'733	538'305
Property, plant and equipment	20'827	22'969
Receivables from banks	73'418	74'643
Receivables	30'685	44'338
Equity	420'059	473'227
Subordinated liabilities	200'000	200'000
Bank liabilities	8'717	1'946
Payables	26'641	37'240
Accruals and deferrals	512'993	452'848
Total assets	1'463'247	1'373'663

10.2.1 Results of operations

GRENKE AG's income is dominated by the two functional areas of the operating lease business and the holding function.

The profit from leases increased by 12 percent to EUR 252.5 million in the reporting year (previous year: EUR 225.9 million) following the rise in new business volume in previous years. Net interest income amounted to EUR –10.9 million after EUR –7.4 million in the previous year. In addition to the interest portions included in the lease-purchase contracts, which are forwarded to the KGaA in the context of the two-level model, interest expenses also include expenses from interest on the cash pool account with the subsidiary GRENKE FINANCE PLC, Dublin, as well as accrued interest from outstanding AT1 bonds. Interest on subordinated liabilities from AT1 bonds amounted to EUR 13.4 million, compared with EUR 9.7 million in 2019. The year-on-year change in net interest income is primarily attributable to the AT 1 bonds, as the last AT1 bond was not issued until December 5, 2019, and interest was paid for the full year for the first time in 2020. Total interest expenses stem primarily from the financing of leased assets, from which the leasing income is generated.

Current income from investments in associated companies increased to EUR 95.9 million in the reporting year after EUR 55.0 million in the previous year. Income from profit and loss transfer agreements decreased to EUR 3.9 million after EUR 10.6 million in the previous year, specifically as a result of the profit of GRENKE BANK AG of EUR 5.5 million that was not transferred in the reporting year (previous year: EUR 9.5 million). This was offset by expenses of EUR 3.5 million (previous year: EUR 3.2 million) from the transfer of losses from subsidiaries. Other operating income decreased slightly in the reporting year to EUR 54.1 million (previous year: EUR 55.1 million).

The recognition of commission income amounting to EUR 6.7 million (previous year: EUR 6.3 million) resulted from the reclassification of income from warranties invoiced to subsidiaries and franchisers. In the previous year, this item was reported under other operating income; the previous year's figure has been adjusted accordingly to ensure comparability. Commission expenses rose to EUR 15.7 million in the reporting year (previous year: EUR 14.2 million).

Despite the cost savings initiated due to the coronavirus pandemic, general and administrative expenses increased by EUR 6.6 million to EUR 102.7 million. This rise was mainly due to higher consulting and audit costs in connection with the short-seller report published in September 2020. Total staff costs of EUR 25.1 million were slightly lower than the previous year's figure of EUR 25.7 million.

Depreciation, amortisation, and impairment of intangible assets and property, plant, and equipment increased from EUR 177.9 million in the previous year to EUR 202.0 million, mainly as a result of a higher level of leased assets. Write-downs and impairments on receivables and certain securities and additions to loan loss provisions in the lending business increased from EUR 4.9 million in the previous year to EUR 6.3 million.

Impairments and write-downs on the carrying amounts of investments in associated companies in the reporting year totalled EUR 92.0 million. The write-downs are due to higher discount rates applied in the measurement of investments as well as currency effects and the general decline in new business due to the coronavirus pandemic.

Overall, the result from ordinary business activities in the 2020 financial year amounted to EUR –22.3 million, compared with EUR 49.2 million in the previous year. After a tax expense of EUR 2.9 million (previous year: EUR 2.7 million), the net loss for the year was EUR 25,168k (previous year: net profit of EUR 38,471k).

10.2.2 Report on financial position and net assets

The Company's total assets increased by 7 percent to EUR 1,463.2 million as of December 31, 2020 (previous year: EUR 1,373.7 million). The increase resulted from several items: the cash reserve held as balances with central banks increased to EUR 203.0 million from EUR 100.0 million in the previous year. With the increased liquidity, GRENKE AG ensures it meets the regulatory requirements for liquidity at the Consolidated Group level.

Leased assets increased by 10 percent to EUR 592.7 million compared to EUR 538.3 million in the previous year. This rise was due in part to the Company's repurchase of leased assets from the KGaA in several tranches in the year under review (EUR 73.9 million; previous year: EUR 31.3 million). These assets serve as collateral for lease receivables sold. While property, plant, and equipment decreased from EUR 23.0 million at the end of the previous financial year to EUR 20.8 million, receivables from customers also fell to EUR 30.7 million (previous year: EUR 44.3 million). This decline was due to an increase from EUR 35.0 million to EUR 46.8 million in lease-purchase receivables sold to GRENKE BANK AG, which are netted against receivables from customers. The decrease in investments in associated companies from EUR 527.2 million to EUR 483.9 million was due to the aforementioned increase in impairments.

Receivables from banks decreased to EUR 73.4 million as of December 31, 2020, from EUR 74.6 million in the previous year.

Accruals and deferrals increased by 13 percent to EUR 513.0 million (previous year: EUR 452.8 million). The majority of this item continued to relate to deferrals from forfeiting instalments of lease contracts, which increased from EUR 421.2 million to EUR 484.7 million in the financial year. While liabilities to banks increased to EUR 8.7 million (previous year: EUR 1.9 million) as of the reporting date, liabilities to customers fell by 28 percent to EUR 26.6 million, compared with EUR 37.2 million at the end of the previous financial year. This resulted mainly from a decrease in lease-purchase liabilities under the two-level model with the KGaA from EUR 32.9 million in the previous year to EUR 21.8 million in the reporting year.

The Company's other liabilities increased by 38 percent to EUR 281.5 million (previous year: EUR 204.0 million). This item included mainly liabilities to associated companies. At EUR 200.0 million, subordinated liabilities were unchanged from the previous year and included the issued AT1 bonds of GRENKE AG, which are accounted for as equity for regulatory purposes and under IFRS. GRENKE AG has not made use of the option to repay the first issued AT1 bond in the amount of EUR 50 million as of March 31, 2021. Therefore, this subordinated liability remains in place, and the interest rate will be reset for a further five years on March 31, 2021 in accordance with the bond terms.

The Company's equity decreased to EUR 420.1 million (previous year: EUR 473.2 million). As a result, the equity ratio equalled 28.7 percent as of the December 31, 2020 reporting date (previous year: 34.5 percent).

In the reporting year, an amount of EUR 30 million was withdrawn from the other retained earnings to be added to the balance sheet profit of the year 2020.

10.2.3 Liquidity and refinancing

GRENKE AG's high level of cash and cash equivalents and broadly diversified refinancing structure enabled it to meet its payment obligations at all times in the past financial year. GRENKE AG's total liquidity as of the reporting date amounted to EUR 226.4 million and included balances at central banks (EUR 203.0 million) and receivables from banks due on demand (EUR 23.4 million). Thus, 15.5 percent (previous year: 9.1 percent) of the total assets are available as liquidity.

GRENKE BANK AG is the Company's direct refinancing partner. GRENKE AG regularly sells lease receivables to GRENKE BANK AG to finance its business. Additional financing was provided in the context of cash pooling through the Group's internal clearing account. The net balance as per the reporting date was EUR 6.1 million (previous year: EUR 84.1 million).

Private placements can also be carried out directly or indirectly by the wholly-owned subsidiary GRENKE FINANCE PLC, Dublin/Ireland. A total of 3 new bonds were issued in the reporting year. The nominal volumes amounted to EUR 210 million and HKD 300 million. In return, bonds with a volume of EUR 273.0 million were redeemed. The Irish subsidiary also has access to 7 revolving loan facilities with a combined volume of EUR 300 million and a money market facility of EUR 35.0 million. This money market facility and two of the revolving loan facilities can also be utilised by other subsidiaries and franchise companies.

There are also 7 ABCP programmes Groupwide with a potential total volume of EUR 947.8 million and GBP 150.0 million. Under these programmes, GRENKE FINANCE PLC, the KGaA and GRENKE Leasing Ltd. UK, have the right to sell receivables to the programmes for a specified period or use the programmes to obtain refinancing. GRENKE AG and GRENKE FINANCE PLC also have the ability to issue commercial paper up to a total of EUR 750.0 million with maturities between 1 and 364 days. As per the reporting date of December 31, 2020, the commercial paper programme had been utilised up to an amount of EUR 0 million (previous year: EUR 226.5 million).

As of December 31, 2020, value-added taxes from the advance returns for the months of October to December 2020 were deferred for a total amount of EUR 12.4 million. Repayment will be made during the months of April through June 2021.

10.3 Overall statement on the company's business performance and financial position

From the perspective of the Board of Directors, GRENKE AG's business development in financial year 2020 was satisfactory despite the challenges posed by the Covid-19 pandemic and the short-seller report as well as in comparison to the general economic development in Germany.

With the intensified focus of the sales organisation, the further expansion of digital offers, the entry into the US market, and the initiated integration of the franchise model, the course has been set for GRENKE's future growth. Thanks to a steadily solid equity base, the Board of Directors believes that the Consolidated Group is also well equipped for this financially.

10.4 Two-level model

Under the two-level model, the lease items of the new business are partially rented from the KGaA. The KGaA's rent receivables are sold to financial institutions via structured entities as part of three ABCP programmes or locally to two savings banks (forfeited). The underlying contractual agreements secure financing for new business, even if volumes increase.

10.5 Dividends

The Board of Directors and the Supervisory Board propose a dividend of EUR 0.26 per share for the 2020 financial year at the Annual General Meeting. In the previous year, the Company distributed a dividend of EUR 0.80 per share.

10.6 Employees

In the reporting year, the number of full-time employees (excluding the Board of Directors) was virtually unchanged at 342 (previous year: 340). The staff turnover rate dropped to 7.3 percent (previous year: 11.9 percent). The staff turnover rate among the management and senior executives continued to be at a lower level.

10.7 Report on risks, opportunities, and forecasts

10.7.1 Risks and opportunities

The risk and opportunities described for the Consolidated Group also largely apply to the Company. However, the German domestic market continues to play a special and more important role for the Company than for the Consolidated Group as a whole. The Company is not exposed to currency risk because it does not enter into cross-border transactions with countries outside the eurozone.

10.7.2 Report on forecasts and outlook

The Board of Directors expect that the Covid-19 pandemic, which continues to be prevalent, and the associated economic restrictions will continue to make for a challenging market environment in the 2021 financial year. As a result, considerable volatility is to be expected in the economy as a whole and on the capital markets. The extent to which this will affect business activities and earnings cannot be reliably estimated at present.

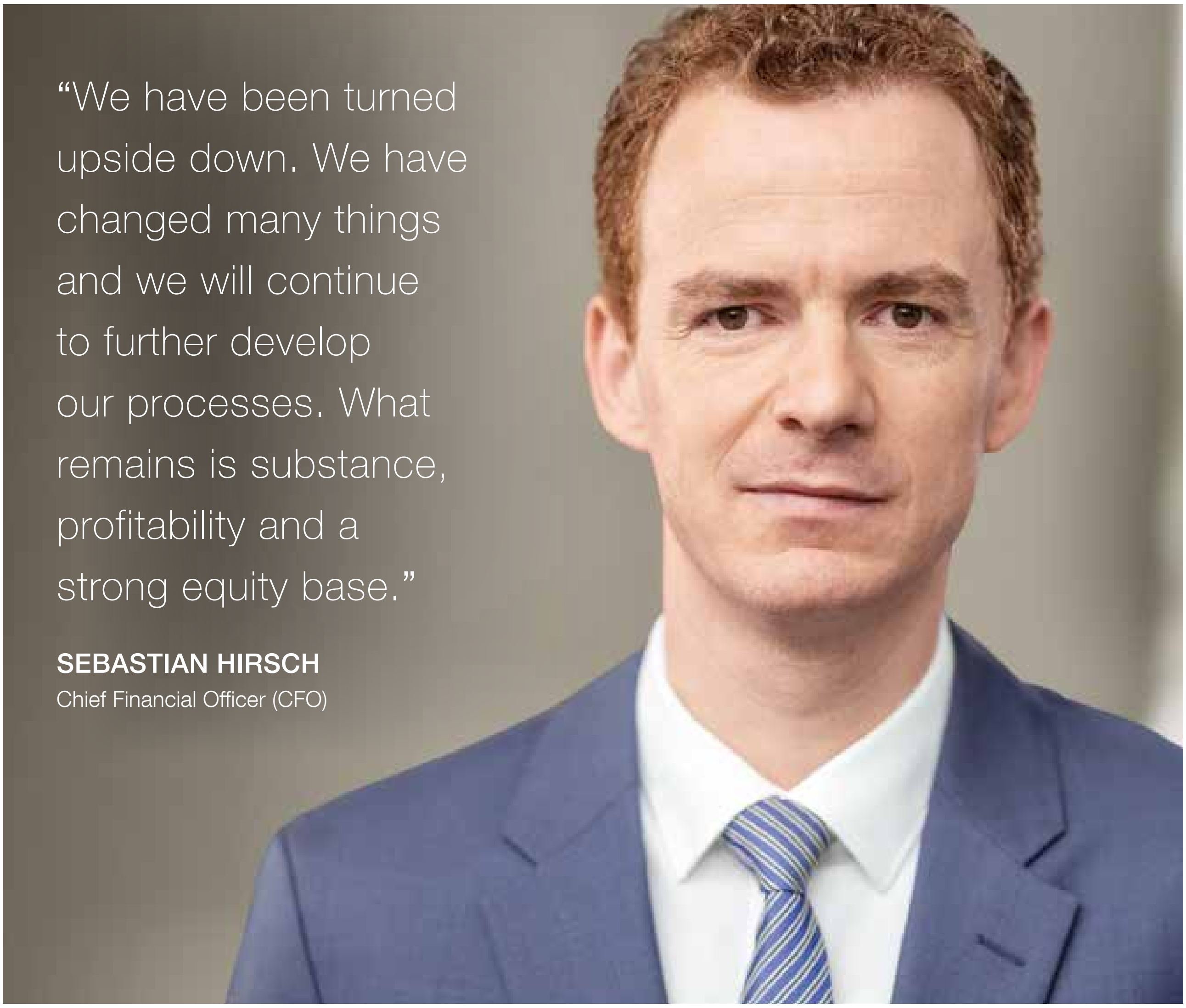
The Board of Directors of GRENKE AG therefore expects the volume of new leasing business to be comparable to that of financial year 2020. In the medium term, the Board of Directors assumes that the volume of new leasing business in 2019 can be achieved again. In addition, the Board of Directors plans to acquire the remaining franchise companies by the middle of the 2022 financial year.

The Board of Directors plans to be able to report a net profit for GRENKE AG in the 2021 financial year, depending on the level of income from investments and profit transfers from the subsidiaries.

Details on the Consolidated Group's development can be found in the section "Report on Forecasts and Outlook" in the combined management report.

Baden-Baden, May 14, 2021

The Board of Directors



SCOPE OF RESPONSIBILITY:

Accounting / Taxes, Controlling, Treasury / Corporate Finance, M&A, Investor Relations, Legal, Property and Facility Management

SOLID EQUITY RATIO AND FINANCIAL STRENGTH

Equity ratio

16.3%

The GRENKE Group maintained its solid equity base in financial year 2020.

Loss rate

2.3%

Despite the pandemic-related challenges, the loss rate held steady at an average of 2.3 percent over the year.

PROFITABILITY

Contribution margin 2

18.4%

RATING CONFIRMED

BBB+ Standard & Poors

CONSOLIDATED FINANCIAL STATEMENTS

for the 2020 financial year

Consolidated income statement

EURk	Note	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019
			adjusted[1]
Interest and similar income from financing business	4.1	470'520	438'429
Expenses from interest on refinancing and deposit business	4.1	63'418	56'928
NET INTEREST INCOME		**407'102**	**381'501**
Settlement of claims and risk provision	4.2	202'434	136'591
Of which, impairment losses		192'457	131'568
NET INTEREST INCOME AFTER SETTLEMENT OF CLAIMS AND RISK PROVISION		**204'668**	**244'910**
Profit from service business	4.3	118'049	106'199
Profit from new business	4.4	43'053	55'118
Gains(+)/losses (–) from disposals	4.5	–5'432	–6'562
INCOME FROM OPERATING BUSINESS		**360'338**	**399'665**
Staff costs	4.6	119'780	120'825
Depreciation and impairment	4.7	28'871	30'443
Selling and administrative expenses (not including staff costs)	4.8	81'629	78'279
Other operating expenses	4.9	11'337	10'043
Other operating income	4.10	6'396	6'599
OPERATING RESULT		**125'117**	**166'674**
Result from investments accounted for using the equity method		–400	–237
Expenses/income from fair value measurement		–723	–309
Other interest income		2'188	1'822
Other interest expenses		11'010	5'175
EARNINGS BEFORE TAXES		**115'172**	**162'775**
Income taxes	4.13	26'732	29'437
NET PROFIT		**88'440**	**133'338**
of which total comprehensive income attributable to ordinary shareholders and hybrid capital holders of GRENKE AG		93'666	140'570
of which total comprehensive income attributable to non-controlling interests		–5'226	–7'232
Earnings per share (basic/diluted in EUR)	4.14	1.86	2.89
Average number of shares outstanding	4.14	46'398'814	46'353'918

1 Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).
2 Interest and similar income calculated according to the effective interest method EUR 6,775k (previous year: EUR 5,681k).

Consolidated statement of comprehensive income

EURk	Note	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019
			adjusted[1]
NET PROFIT		**88'440**	**133'338**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS IN FUTURE PERIODS			
Appropriation to / reduction of hedging reserve	7.3	501	–2'186
thereof: income tax effects		–72	312
Change in currency translation differences		–3'151	2'422
thereof: income tax effects		0	0
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS IN FUTURE PERIODS			
Equity instruments (IFRS 9)		–241	60
thereof: income tax effects		0	0
Appropriation to / reduction of reserve for actuarial gains and losses	5.15	–195	–565
thereof: income tax effects		36	137
OTHER COMPREHENSIVE INCOME		**–3'086**	**–269**
TOTAL COMPREHENSIVE INCOME		**85'354**	**133'069**
of which total comprehensive income attributable to ordinary shareholders and hybrid capital holders of GRENKE AG		89'609	140'675
of which total comprehensive income attributable to non-controlling interests		–4'255	–7'606

[1] Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).

Consolidated statement of financial position

EURk	Note	Dec. 31, 2020	Dec. 31, 2019	Jan. 01, 2019
			adjusted[1]	adjusted[1]
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5.1	944'733	445'978	338'828
Derivative financial instruments that are assets	7.3	5'074	946	1'874
Lease receivables	5.2	2'066'352	1'952'386	1'612'513
Other current financial assets	5.3	161'757	148'605	111'582
Trade receivables	5.4	6'384	7'747	6'479
Lease assets for sale		24'095	27'628	20'062
Tax assets		22'214	27'455	27'493
Other current assets	5.5	176'512	324'193	282'290
TOTAL CURRENT ASSETS		**3'407'121**	**2'934'938**	**2'401'121**
NON-CURRENT ASSETS				
Lease receivables	5.2	3'569'940	3'823'263	3'164'487
Derivative financial instruments that are assets	7.3	2'442	1'492	1'842
Other non-current financial assets	5.3	120'767	96'650	82'336
Investments accounted for using the equity method		4'523	4'923	4'910
Property, plant and equipment	5.6	86'646	85'531	63'433
Right-of-use assets	5.10	47'680	52'872	41'966
Goodwill	5.7	43'629	46'008	50'128
Other intangible assets	5.8	23'829	24'856	25'477
Deferred tax assets	5.9	23'110	25'334	18'131
Other non-current assets		2'094	2'075	1'401
TOTAL NON-CURRENT ASSETS		**3'924'660**	**4'163'004**	**3'454'111**
TOTAL ASSETS		**7'331'781**	**7'097'942**	**5'855'232**

[1] Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).

Consolidated statement of financial position

EURk	Note	Dec. 31, 2020	Dec. 31, 2019	Jan. 01, 2019
			adjusted[1]	adjusted[1]
LIABILITIES AND EQUITY				
LIABILITIES				
CURRENT LIABILITIES				
Financial liabilities	5.11	1'868'140	1'738'467	1'538'724
Lease liabilities	5.10	11'647	11'768	9'542
Derivative liability financial instruments	7.3	4'534	8'506	1'406
Trade payables		38'638	42'377	34'830
Tax liabilities		6'660	3'089	10'711
Deferred liabilities	5.14	32'313	30'580	27'903
Other current liabilities	5.12	82'476	35'833	34'796
Deferred lease payments	5.13	28'800	29'552	28'355
TOTAL CURRENT LIABILITIES		**2'073'208**	**1'900'172**	**1'686'267**
NON-CURRENT LIABILITIES				
Financial liabilities	5.11	3'941'970	3'941'509	3'107'867
Lease liabilities	5.10	36'754	41'809	32'890
Derivative liability financial instruments	7.3	20'765	7'445	1'557
Deferred tax liabilities	5.9	60'219	58'665	42'258
Pensions	5.15	5'736	5'128	4'348
Other non-current liabilities		26	0	0
TOTAL NON-CURRENT LIABILITIES		**4'065'470**	**4'054'556**	**3'188'920**
EQUITY	5.16			
Share capital		46'496	46'354	46'354
Capital reserves		298'019	289'314	289'314
Retained earnings		675'200	626'098	530'428
Other components of equity		–1'507	2'550	2'445
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF GRENKE AG		**1'018'208**	**964'316**	**868'541**
Additional equity components[2]		200'000	200'000	125'000
Non-controlling interests		–25'105	–21'102	–13'496
TOTAL EQUITY		**1'193'103**	**1'143'214**	**980'045**
TOTAL EQUITY AND LIABILITIES		**7'331'781**	**7'097'942**	**5'855'232**

[1] Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).
[2] Including AT1 bonds (hybrid capital), which are reported as equity under IFRS.

Consolidated statement of cash flows

	EURk	Jan. 1, 2020 to Dec. 31, 2020	Jan. 1, 2019 to Dec. 31, 2019
			adjusted[1]
	EARNINGS BEFORE TAXES	**115'172**	**162'775**
	NON-CASH ITEMS CONTAINED IN NET PROFIT FOR THE PERIOD AND RECONCILIATION TO CASH FLOW FROM OPERATING ACTIVITIES		
+	Amortization / depreciation	28'871	30'443
−/+	Profit / loss from the disposals of equipment and intangible assets	−50	−81
−/+	Investment income	8'821	3'353
−/+	Other non-cash effective income / expenses	91	3'908
+/−	Increase / decrease in other provisions	2'341	3'457
−	Additions of lease receivables	−2'082'344	−2'913'629
+	Payments by lessees	2'318'717	2'080'205
+	Disposals / reclassifications of lease receivables at residual carrying values	296'888	296'617
−	Interest income from lease receivables	−457'101	−425'727
+/−	Increase in other receivables from lessees	28'393	−11'550
+/−	Currency translation differences	34'804	−24'565
=	Change in lease receivables	139'357	−998'649
+	Additions of liabilities from the refinancing of lease receivables	1'123'549	2'152'993
−	Payment of annuities to refinancers	−1'485'150	−1'323'847
−	Disposal of liabilities from the refinancing of lease receivables	−173'080	−52'925
+	Interest expense from lease liabilities	54'390	52'168
+/−	Currency translation differences	−38'294	15'004
=	Change in liabilities from the refinancing of lease receivables	−518'585	843'393
+/−	Increase / decrease in liabilities from deposit business	650'916	192'498
	CHANGES IN OTHER ASSETS / LIABILITIES		
−/+	Increase / decrease in other assets	110'211	−100'914
−/+	Increase / decrease in lease assets from operating leases	−2'299	−15'978
+/−	Increase / decrease in deferred lease payments	−752	1'197
+/−	Increase / decrease in other liabilities	52'530	21'841
=	**CASH FLOW FROM OPERATING ACTIVITIES**	**586'624**	**147'243**
−/+	Taxes paid / received	−10'615	−28'442
−	Interest paid	−11'010	−5'175
+	Interest received	2'188	1'822
=	**NET CASH FLOW FROM OPERATING ACTIVITIES**	**567'187**	**115'448**
−	Purchase of equipment and intangible assets	−17'280	−22'423
−/+	Acquisition of subsidiaries (net of cash acquired)	0	−390
−	Payments for the acquisition of associated entities	0	−250
+	Proceeds from sale of equipment and intangible assets	758	1'523
=	**CASH FLOW FROM INVESTING ACTIVITIES**	**−16'522**	**−21'540**
+/−	Raising / repayment of bank liabilities	−2'193	554
−	Repayment of lease liabilities	−12'192	−11'169
+	Net proceeds from hybrid capital	0	73'714
−	Interest coupon payments on hybrid capital	−10'664	−9'375
−	Dividend payment	−28'236	−37'083
=	**CASH FLOW FROM FINANCING ACTIVITIES**	**−53'285**	**16'641**

Consolidated statement of cash flows

	CASH FUNDS		
	Cash on hand and balances with banks	445'978	338'828
–	Bank liabilities from overdrafts	–73	–3'133
=	**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**	**445'905**	**335'695**
+/–	Change due to currency translation	1'379	–339
=	**CASH FUNDS AFTER CURRENCY TRANSLATION**	**447'284**	**335'356**
	CASH FUNDS AT THE END OF PERIOD		
	Cash on hand and balances with banks	944'733	445'978
–	Bank liabilities from overdrafts	–69	–73
=	**CASH AND CASH EQUIVALENTS AT THE END OF PERIOD**	**944'664**	**445'905**
	CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	497'380	110'549
	Net cash flow from operating activities	567'187	115'448
+	Cash flow from investing activities	–16'522	–21'540
+	Cash flow from financing activities	–53'285	16'641
=	**TOTAL CASH FLOW**	**497'380**	**110'549**

[1] Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).

Consolidated statement of changes in equity

EURk	Share capital	Capital reserves	Retained earnings / Consolidated net profit	Hedging reserve	Reserve for actuarial gains / losses
EQUITY AS OF JAN. 1, 2020	**46'354**	**289'314**	**626'098**	**–2'193**	**–1'393**
Net profit			93'666		
Other comprehensive income				501	–195
TOTAL COMPREHENSIVE INCOME			**93'666**	**501**	**–195**
Dividend payment in 2020 for 2019			–37'083		
Capital increase (shares issued from Scrip Dividend)	142	8'705			
Interest coupon payment for hybrid capital (net)					
Interest coupon for hybrid capital (net)			–7'481		
Change in scope of consolidation					
EQUITY AS OF DEC. 31, 2020	**46'496**	**298'019**	**675'200**	**–1'692**	**–1'588**
EQUITY AS OF JAN. 1, 2019 (AS REPORTED)	**46'354**	**289'314**	**615'512**	**–7**	**–828**
Adjustments[1]			–85'084		
EQUITY AS OF JAN. 1, 2019 (ADJUSTED)	**46'354**	**289'314**	**530'428**	**–7**	**–828**
Net profit[1]			140'570		
Other comprehensive income[1]				–2'186	–565
TOTAL COMPREHENSIVE INCOME[1]			**140'570**	**–2'186**	**–565**
Dividend payment in 2019 for 2018			–37'083		
Interest coupon payment for hybrid capital (net)					
Interest coupon for hybrid capital (net)			–6'531		
Issue of hybrid capital			–1'088		
Costs of issuing hybrid capital			–198		
EQUITY AS OF DEC. 31, 2019	**46'354**	**289'314**	**626'098**	**–2'193**	**–1'393**

[1] Previous year's figures adjusted (see Note 2.3 in the notes to the consolidated financial statements).

Currency translation	Revaluation for equity instruments (IFRS 9)	Total equity attributable to shareholders of GRENKE AG	Additional equity components	Non-controlling interests	Total equity
3'781	**2'355**	**964'316**	**200'000**	**−21'102**	**1'143'214**
		93'666		−5'226	88'440
−4'122	−241	−4'057		971	−3'086
−4'122	**−241**	**89'609**		**−4'255**	**85'354**
		−37'083			−37'083
		8'847			8'847
			−7'481		−7'481
		−7'481	7'481		
				252	252
−341	**2'114**	**1'018'208**	**200'000**	**−25'105**	**1'193'103**
−719	**2'295**	**951'921**	**125'000**		**1'076'921**
1'704		−83'380		−13'496	−96'876
985	**2'295**	**868'541**	**125'000**	**−13'496**	**980'045**
		140'570		−7'232	133'338
2'796	60	105		−374	−269
2'796	**60**	**140'675**		**−7'606**	**133'069**
		−37'083			−37'083
			−6'531		−6'531
		−6'531	6'531		
		−1'088	75'000		73'912
		−198			−198
3'781	**2'355**	**964'316**	**200'000**	**−21'102**	**1'143'214**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2020 financial year

1. General Information

GRENKE AG is a stock corporation with its registered office located at Neuer Markt 2, Baden-Baden, Germany. The Company is recorded in the commercial register at the local court of Mannheim, Section B, under HRB 201836. GRENKE AG is the parent company of the GRENKE AG Group ("the GRENKE Group"). GRENKE AG is also a listed parent company trading on an organised market as defined by Section 2 (11) of the German Securities Trading Act (WpHG).

The GRENKE Group conducts financing business and is a partner for mainly small and medium-sized enterprises. Its products and services range from leasing to factoring and include various payment transaction services as well as a deposit business for private customers.

The consolidated financial statements of GRENKE AG as of December 31, 2020 (the "consolidated financial statements") include the financial statements of GRENKE AG, its subsidiaries and consolidated structured entities. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and the supplementary regulations applicable under German commercial law in accordance with Section 315e (1) HGB.

The consolidated financial statements of GRENKE AG take into account all of the standards and interpretations applicable in the EU for the 2020 financial year.

The consolidated financial statements were prepared in euro (EUR). Unless stated otherwise, all figures are rounded and stated in thousands of euro (EURk). The accounting policies applied correspond with those of the previous year. Exceptions are listed in Note 2.1–3 and relate to changes resulting from the mandatory adoption of new or amended accounting standards, the first-time adoption of IFRS 9 for hedging relationships, and adjustments.

Disclosures in accordance with IFRS 7 "Financial Instruments: Disclosures" on the nature and extent of risks arising from financial instruments are contained in the section "Report on Risks, Opportunities and Forecasts" in the management report and are an integral part of the consolidated financial statements.

The COVID-19 Pandemic

The global economy was significantly impacted by the COVID-19 pandemic in the 2020 financial year. These conditions also affected the GRENKE Group's consolidated financial statements. GRENKE responded by forming working groups that addressed the possible effects of the pandemic on the business segments and decided on appropriate measures. In this context, deferral agreements were concluded with customers, the majority of which had expired on December 31, 2020.

For further information on the current effects of the pandemic, please refer to the disclosures in the group management report and the supplementary disclosures under the section entitled "Lease receivables".

The consolidated financial statements were prepared by the Board of Directors on May 18, 2021, submitted to the Supervisory Board for review and approval, and released for publication.

2. Accounting changes

2.1 First-time adoption, revised and new accounting standards

The following amendments to standards whose adoption was mandatory as of the 2020 financial year had no or only an immaterial effect on GRENKE AG's consolidated financial statements:

- Amendment to the references to the IASB's Framework for Financial Reporting
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" regarding the "Definition of Materiality"
- Amendments to IFRS 3 "Business Combinations"
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – IBOR Reform
- Amendments to IFRS 16 "Leases" in connection with corona-related lease concessions

AMENDMENTS TO THE REFERENCES TO THE IASB FRAMEWORK FOR FINANCIAL REPORTING

The previous conceptual framework from the year 2010 was replaced by the framework published in March 2018. The principles of financial reporting were restructured, partially revised and supplemented. The main changes concern specifically the definition, recognition and measurement of assets and liabilities and the distinction between profit or loss for the period and other comprehensive income. The framework itself was applicable immediately and therefore did not have a specific deadline for first-time adoption.

As a result of the changes to the conceptual framework, several references within individual standards and interpretations were changed. The IASB issued a statement entitled "Amendments to References to the Conceptual Framework" in order to update the references to the current version. There were no significant effects on the consolidated financial statements of GRENKE AG.

AMENDMENTS TO IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS" AND IAS 8 "ACCOUNTING POLICIES; CHANGES IN ACCOUNTING ESTIMATES AND ERRORS" REGARDING THE "DEFINITION OF MATERIALITY"

The amendment published on October 31, 2018, provides a more precise and uniform definition of the materiality of financial statement information. At the same time, there is a harmonisation of the differing definitions of materiality contained in the conceptual framework and in the standards (IAS 1 and IAS 8) themselves. The amendments have no material impact on the consolidated financial statements.

AMENDMENTS TO IFRS 3 "BUSINESS COMBINATIONS"

An amendment to IFRS 3 was published on October 22, 2018 that clarifies how a business is defined. The amendment is intended to resolve the adoption issues that have increasingly arisen in the past in connection with the assessment of whether an entity has acquired a business or a group of assets. The amended definition clarifies that a business operation is a group of activities and assets that includes a minimum of one input and one process focused on providing outputs of goods and services to customers. The reference to cost reduction has been eliminated. Alternatively, an optional concentration test as part of the new regulations shall facilitate the simplified identification of the business operations. The amended definition was adopted into EU law on April 21, 2020. These amendments have no material impact on GRENKE AG's reporting.

AMENDMENTS TO IFRS 9 "FINANCIAL INSTRUMENTS", IAS 39 "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" AND IFRS 7 "FINANCIAL INSTRUMENTS: DISCLOSURES" – IBOR REFORM

The IASB amendments to IFRS 9, IAS 39 and IFRS 7 published on September 26, 2019, concluded the first phase of the project "IBOR Reform and its Effects on Financial Reporting". The amendments address accounting issues in the run-up to the transition to alternative benchmark interest rates and are aimed at continuing existing hedge accounting relationships. The amendments relate specifically to certain simplifications in connection with the rules on hedge accounting.

// In assessing the probability that a planned transaction will occur, it must be assumed that the reform will not change the interest rate reference parameter underlying the hedged cash flows.
// In assessing whether a hedging relationship is effective, an unchanged benchmark interest rate is also to be assumed.
// If a non-contractual benchmark component is hedged, the determination of the separately identifiable risk component required at the inception of the hedge is sufficient.

An exception to the retrospective assessment under IAS 39 was also introduced and applies only to the hedging relationships that are directly affected (underlying transaction or hedging instrument). It allows hedge accounting to be continued even if the hedging relationship is no longer effective. A further simplification is provided with regard to the criterion of separate identifiability in macro hedging: If a hedged underlying transaction within a macro hedge was designated as such, this assessment does not need to be renewed at a later date. Furthermore, the effects of the changes on the hedging relationships must be explained in the notes. The amendments have no impact on the consolidated financial statements of GRENKE AG as no hedging relationships influenced by reference interest rates are designated in hedge accounting.

AMENDMENTS TO IFRS 16 “LEASES” IN CONNECTION WITH CORONA-RELATED LEASE CONCESSIONS

On May 28, 2020, the IASB amended IFRS 16 “Leases” (“COVID-19-Pandemic Related Lease Concessions”). The amendment relates to the accounting effects of concessions granted in the COVID-19 pandemic. The objective of the amendment is to provide lessees with relief from applying the contract modification requirements of IFRS 16. The practical expedients explicitly do not apply to lessors, as the IASB considers the complexity of the amendments and the procedural possibilities of implementation to be less critical for lessors. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. The standard amendment was endorsed by the EU on October 9, 2020. The amendment has no material impact on GRENKE AG’s consolidated financial statements, as GRENKE specifically acts as a lessor, to whom the amendment does not apply.

2.2 First-Time Adoption of IFRS 9 for Hedge Accounting

The GRENKE Group applied IFRS 9 for hedge accounting for the first time as of July 1, 2020. The regulations of IFRS 9 align hedge accounting more closely with risk management activities than the previously applied IAS 39.

The GRENKE Group applied the hedge accounting regulations of IAS 39 to cross currency swaps. These are swaps that hedge the variability of cash flows of a recognised foreign currency liability. These hedges qualify as continuing hedges under IFRS 9. The first-time adoption of IFRS 9 has no material impact on the GRENKE Group's financial position.

As of October 1, 2020, the GRENKE Group applied hedge accounting in accordance with IFRS 9 for selected forward currency contracts for the first time. Due to the designation of existing transactions, the expenses for currency translation differences reported in the consolidated income statement under other operating expenses increased by EUR 77k. The appropriation to / reduction of the hedging reserve reported in the consolidated statement of comprehensive income increased by EUR 77k. The selected forward currency transactions are reported as cash flow hedges in accordance with IFRS 9 as of December 31, 2020.

2.3 Adjustments in Accordance with IAS 8

In the financial year, various adjustments were made retrospectively in accordance with IAS 8.42. These adjustments can be summarised as follows: equity decreased by EUR 100,155k (–9.3 percent) as of January 1, 2019, of which retained earnings decreased by EUR 88,351k and non-controlling interests decreased by EUR –13,496k. Total comprehensive income for the year 2019 decreased by EUR 8,671k (–6.1 percent) and net cash flow from operating activities for the 2019 financial year increased by EUR 6,149k (+5.6 percent). In the tables, a distinction is made for the adjustments between business transactions from previous years (adjustments 1–3) and one business transactions from 2019 (adjustment 5).

A voluntary accounting change was also made in this context (adjustment 4).

The various adjustments to the consolidated statements of financial position, the 2019 consolidated statement of comprehensive income and the 2019 consolidated cash flow statement are explained below and presented in the tables.

2.3.1 Adjustments as of January 1, 2019

EURk	Published consolidated statement of financial position Dec. 31, 2018[1]	Adjustments (1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	333'626	5'202	0	0
Derivative financial instruments that are assets	1'874	0	0	0
Lease receivables	1'570'755	37'888	0	–16'318
Other current financial assets	160'430	–48'848	0	0
Trade receivables	7'666	–1'187	0	0
Lease assets for sale	16'586	21	0	0
Tax assets	27'488	5	0	0
Other current assets	280'457	2'377	0	0
TOTAL CURRENT ASSETS	**2'398'882**	**–4'542**	**0**	**–16'318**
NON-CURRENT ASSETS				
Lease receivables	3'126'784	37'703	0	0
Derivative financial instruments that are assets	1'842	0	0	0
Other non-current financial assets	82'692	–356	0	0
Investments accounted for using the equity method	4'910	0	0	0
Property, plant and equipment	85'326	731	0	0
Right-of-use assets	0	1'894	0	0
Goodwill	106'584	–54'456	–2'000	0
Other intangible assets	41'913	–16'436	0	0
Deferred tax assets	15'997	1'638	0	0
Other non-current assets	1'230	171	0	0
TOTAL NON-CURRENT ASSETS	**3'467'278**	**–29'111**	**–2'000**	**0**
TOTAL ASSETS	**5'866'160**	**–33'653**	**–2'000**	**–16'318**

[1] As published in the Annual Report 2019 as a result of the retrospective first-time adoption of IFRS 16.

	Voluntary accounting change		
Total adjustments	(4) Lease classification	First-time adoption of IFRS 16 for lessees	Adjusted consolidated statement of financial position Jan. 1, 2019
5'202	0	0	338'828
0		0	1'874
21'570	20'188	0	1'612'513
–48'848	0	0	111'582
–1'187	0	0	6'479
21	3'455	0	20'062
5	0	0	27'493
2'377	0	–544	282'290
–20'860	**23'643**	**–544**	**2'401'121**
37'703	0	0	3'164'487
0	0	0	1'842
–356	0	0	82'336
0	0	0	4'910
731	–22'243	–381	63'433
1'894	0	40'072	41'966
–56'456	0	0	50'128
–16'436	0	0	25'477
1'638	275	221	18'131
171	0	0	1'401
–31'111	**–21'968**	**39'912**	**3'454'111**
–51'971	**1'675**	**39'368**	**5'855'232**

EURk	Published consolidated statement of financial position Dec. 31, 2018[1]	Adjustments (1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
LIABILITIES AND EQUITY				
LIABILITIES				
CURRENT LIABILITIES				
Financial liabilities	1'520'095	18'629	0	0
Lease liabilities	0	462	0	0
Derivative liability financial instruments	1'406	0	0	0
Trade payables	28'156	6'674	0	0
Tax liabilities	10'688	23	0	0
Deferred liabilities	27'545	358	0	0
Other current liabilities	30'348	4'818	0	0
Deferred lease payments	24'724	3'631	0	0
TOTAL CURRENT LIABILITIES	**1'642'962**	**34'595**	**0**	**0**
NON-CURRENT LIABILITIES				
Financial liabilities	3'092'431	15'436	0	0
Lease liabilities	0	1'499	0	0
Derivative liability financial instruments	1'557	0	0	0
Deferred tax liabilities	47'103	6	0	–3'247
Pensions	4'348	0	0	0
Non-current provisions	105	–105	0	0
TOTAL NON-CURRENT LIABILITIES	**3'145'544**	**16'836**	**0**	**–3'247**
Equity				
Share capital	46'354	0	0	0
Capital reserves	289'314	0	0	0
Retained earnings	616'257	–73'363	–2'000	–12'988
Other components of equity	729	1'775	0	–83
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF GRENKE AG	**952'654**	**–71'588**	**–2'000**	**–13'071**
Additional equity components	125'000	0	0	0
Non-controlling interests	0	–13'496	0	0
TOTAL EQUITY	**1'077'654**	**–85'084**	**–2'000**	**–13'071**
TOTAL LIABILITIES AND EQUITY	**5'866'160**	**–33'653**	**–2'000**	**–16'318**

[1] As published in the Annual Report 2019 as a result of the retrospective first-time adoption of IFRS 16.

	Voluntary accounting change		
Total adjustments	(4) Lease classification	First-time adoption of IFRS 16 for lessees	Adjusted consolidated statement of financial position Jan. 1, 2019
18'629	0	0	1'538'724
462	0	9'080	9'542
0	0	0	1'406
6'674	0	0	34'830
23	0	0	10'711
358	0	0	27'903
4'818	0	–370	34'796
3'631	0	0	28'355
34'595	**0**	**8'710**	**1'686'267**
15'436	0	0	3'107'867
1'499	0	31'391	32'890
0	0	0	1'557
–3'241	–1'604	0	42'258
0	0	0	4'348
–105	0	0	0
13'589	**–1'604**	**31'391**	**3'188'920**
0	0	0	46'354
0	0	0	289'314
–88'351	3'267	–745	530'428
1'692	12	12	2'445
–86'659	**3'279**	**–733**	**868'541**
0	0	0	125'000
–13'496	0	0	–13'496
–100'155	**3'279**	**–733**	**980'045**
–51'971	**1'675**	**39'368**	**5'855'232**

2.3.1.1 Adjustments according to IAS 8.42

The adjustments relate to the following matters:

(1) Scope of consolidation

GRENKE has reassessed its criteria for defining the scope of consolidation as defined by IFRS 10 for previously unconsolidated franchise companies. Originally, in accordance with IAS 27 in the version applicable prior to January 1, 2014, it was assumed that control over the relevant activities lay with the franchisees, meaning that control lay with the shareholders, as the criterion of voting rights was classified as decisive for the assessment of control. A reassessment of the power of control over the relevant activities of these companies, which specifically includes the sale of lease and factoring contracts and their refinancing, led to the conclusion that GRENKE AG had not merely established franchise relationships with property rights, but could largely control and determine these activities and was additionally exposed to variable returns as a result. Due to this reassessment, the franchise companies are now considered controlled entities and must therefore be fully consolidated. As a result, the currently 13 existing franchise companies have now been retroactively included in GRENKE AG's scope of consolidation from the beginning of business operations. The primary changes in the balance sheet are the presentation of lease and factoring receivables on the assets side and the financial liabilities from the refinancing of the operating business of these companies with banks on the liabilities side. Another significant change was a decrease in loans to these companies, which are now intra-group loans and must therefore be consolidated, within other financial assets. All effects from the consolidation of the currently existing franchise companies are allocated to the item "Non-controlling interests" in equity due to the lack of shareholdings of GRENKE AG.

The reassessment of the scope of consolidation in accordance with IFRS 10 also affects the presentation of the previous acquisitions of franchise companies. All acquisitions of former franchise companies as from January 1, 2014 were corrected retrospectively. There was no need to correct the acquired franchise companies consolidated prior to this date, as they were already fully consolidated before the application of IFRS 10. As a result of the retrospective full consolidation as from the commencement of business operations, the acquisitions by GRENKE were accounted for as transactions with non-controlling interests: IFRS 3 is not applicable. The difference between the non-controlling interests disposed of at carrying amounts and the purchase prices paid by GRENKE is recognised directly in retained earnings. The goodwill, intangible assets and other assets and liabilities recognised in the previous purchase price allocation were thus eliminated, reducing equity. The adjustments are shown in the table above. One of the non-controlling shareholders is an associated company and thus a related party. Shares in franchise companies amounting to EUR 56,401k were acquired from this associated company to date.

(2) Purchase price allocation

Furthermore, there was a correction of an error in the initial purchase price allocation of the Portuguese cash-generating unit/franchise company acquired in the 2012 financial year. A component of the purchase price was finally considered as an amount not relevant to acquisition costs and therefore not to be allocated to the acquisition cost. As a result of the adjustment, the goodwill for this unit and retained earnings were reduced by EUR 2,000k as of January 1, 2019.

(3) Impairment

In addition, a correction of the impairment on Level 3 lease receivables, was made retrospectively as of January 1, 2019. Portions of the impairment have previously not been discounted using the initial internal interest rate of the lease but instead using a current market interest rate. Furthermore, an adjustment was made to individual assumptions of the impairment model for Level 3 lease receivables, particularly with regard to the consideration of overpayments, which also led to a retrospective adjustment.

Overall, the two adjustments have led to a reduction in lease receivables of EUR 16,318k, deferred tax liabilities of EUR 3,247k, retained earnings of EUR 12,988k and, due to currency translation, in other components of equity of EUR 83k.

2.3.1.2 Voluntary accounting change

(4) Lease classification

As part of the adjustments, a voluntary accounting change was also made for the conversion of so-called "subsequent leases", which were previously presented as operating leases and are now treated as finance leases. The change is a consequence of the elimination of the option in IFRS 16 to present these contracts as operating leases subsequent to the original lease term. As no contract modification occurs in the so-called subsequent lease phase after the basic lease term, IFRS 16 provides for the continuation of finance lease accounting. This change reduced property, plant and equipment as of January 1, 2019 by EUR 22,243k, as operating leases were previously reported therein. The contracts will now continue to be reported under lease receivables, which increased by EUR 20,188k. In addition, due to reclassification, "Lease assets for sale" also increased by EUR 3,455k, so that net of the increase in deferred tax assets of EUR 275k and the decrease in deferred tax liabilities of EUR 1,604k, equity increased by EUR 3,279k, of which retained earnings increased by EUR 3,267k and other components of equity by EUR 12k. Due to this change in presentation, there will be shifts in the items interest income and losses from disposals in the income statement from the 2019 financial year onwards.

2.3.1.3 First-time adoption of IFRS 16 for Lessees

The column "First-time adoption of IFRS 16 for Lessees" in the reconciliation statement of financial position as of January 1, 2019 is necessary to present the modified retrospective approach from the first-time adoption of the IFRS 16 standard in the previous year (excluding the effects from the retrospectively consolidated franchise companies, cf. [1] and [2]). This is not a correction in accordance with IAS 8.42. We also refer to our disclosures in the notes to the 2019 consolidated financial statements of GRENKE AG in section 2.1.5 "First-time adoption of IFRS 16".

2.3.2 Adjustments in the 2019 financial year

(3) Impairment

The issue explained in Note 2.3.1.1 resulted in an increase in the settlement of claims and risk provision of EUR 2,148k in the 2019 financial year. Net of income tax effects of EUR 534k, the net profit decreased by EUR 1,614k. Accordingly, lease receivables decreased by a total of EUR 18,466k and equity by EUR 14,685k, taking into account the cumulative income tax effect on deferred tax liabilities.

(5) Goodwill

The goodwill of the cash-generating unit Poland was not affected by the retrospective adjustment due to the changes in the scope of consolidation explained above as the unit was acquired prior to January 1, 2014. Nevertheless, there was a correction of the goodwill in the 2019 financial year under IAS 8.42 and an impairment of EUR 4,162k resulting from the incorrect application of the reporting date principle based on the use of new business planning. This correction reduced the Consolidated Group’s net profit and total comprehensive income by this same amount. It also had an impact on earnings per share and the corresponding items in the consolidated statement of financial position. The specific changes are shown in the table that follow. For further information, please refer to the comments in Note 5.7.5.

Effect on the consolidated statement of financial position (increase / decrease) as of December 31, 2019

EURk	Published consolidated statement of financial position Dec. 31, 2019	Adjustment of previous financial years		
		(1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	434'379	11'599	0	0
Derivative financial instruments that are assets	946	0	0	0
Lease receivables	1'901'181	47'872	0	–18'466
Other current financial assets	252'504	–103'899	0	0
Trade receivables	9'272	–1'525	0	0
Lease assets for sale	24'038	21	0	0
Tax assets	27'450	5	0	0
Other current assets	322'680	1'513	0	0
TOTAL CURRENT ASSETS	**2'972'450**	**–44'414**	**0**	**–18'466**
NON-CURRENT ASSETS				
Lease receivables	3'744'735	78'528	0	0
Derivative financial instruments that are assets	1'492	0	0	0
Other non-current financial assets	96'650	0	0	0
Investments accounted for using the equity method	4'923	0	0	0
Property, plant and equipment	109'092	797	0	0
Right-of-use assets	50'315	2'557	0	0
Goodwill	106'555	–54'345	–2'000	0
Other intangible assets	37'899	–13'043	0	0
Deferred tax assets	21'967	2'762	0	0
Other non-current assets	1'404	671	0	0
TOTAL NON-CURRENT ASSETS	**4'175'032**	**17'927**	**–2'000**	**0**
TOTAL ASSETS	**7'147'482**	**–26'487**	**–2'000**	**–18'466**

Voluntary accounting change		Adjustment for 2019 financial year	
(4) Lease classification	Total	(5) Goodwill	adjusted consolidated statement of financial position Dec. 31, 2019
0	445'978	0	445'978
0	946	0	946
21'799	1'952'386	0	1'952'386
0	148'605	0	148'605
0	7'747	0	7'747
3'569	27'628	0	27'628
0	27'455	0	27'455
0	324'193	0	324'193
25'368	**2'934'938**	**0**	**2'934'938**
0	3'823'263	0	3'823'263
0	1'492	0	1'492
0	96'650	0	96'650
0	4'923	0	4'923
–24'358	85'531	0	85'531
0	52'872	0	52'872
0	50'210	–4'202	46'008
0	24'856	0	24'856
605	25'334	0	25'334
0	2'075	0	2'075
–23'753	**4'167'206**	**–4'202**	**4'163'004**
1'615	**7'102'144**	**–4'202**	**7'097'942**

EURk	Published consolidated statement of financial position Dec. 31, 2019	Adjustment of previous financial years (1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
LIABILITIES AND EQUITY				
LIABILITIES				
CURRENT LIABILITIES				
Financial liabilities	1'716'313	22'154	0	0
Lease liabilities	12'148	–380	0	0
Derivative liability financial instruments	8'506	0	0	0
Trade payables	35'890	6'487	0	0
Tax liabilities	3'059	30	0	0
Deferred liabilities	30'219	361	0	0
Other current liabilities	31'583	4'250	0	0
Deferred lease payments	23'634	5'918	0	0
TOTAL CURRENT LIABILITIES	**1'861'352**	**38'820**	**0**	**0**
NON-CURRENT LIABILITIES				
Financial liabilities	3'924'353	17'156	0	0
Lease liabilities	38'679	3'130	0	0
Derivative liability financial instruments	7'445	0	0	0
Deferred tax liabilities	61'676	2'445	0	–3'781
Pensions	5'128	0	0	0
Non-current provisions	99	–99	0	0
Other non-current liabilities	0	0	0	0
TOTAL NON-CURRENT LIABILITIES	**4'037'380**	**22'632**	**0**	**–3'781**
EQUITY				
Share capital	46'354	0	0	0
Capital reserves	289'314	0	0	0
Retained earnings	712'672	–68'904	–2'000	–14'602
Other components of equity	410	2'067		–83
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF GRENKE AG	**1'048'750**	**–66'837**	**–2'000**	**–14'685**
Additional equity components[1]	200'000	0	0	0
Non-controlling interests	0	–21'102	0	0
TOTAL EQUITY	**1'248'750**	**–87'939**	**–2'000**	**–14'685**
TOTAL LIABILITIES AND EQUITY	**7'147'482**	**–26'487**	**–2'000**	**–18'466**

[1] Including AT1 bonds (hybrid capital), which are reported as equity under IFRS

Voluntary accounting change		Adjustment for 2019 financial year	
(4) Lease classification	Total	(5) Goodwill	adjusted consolidated statement of financial position Dec. 31, 2019
0	1'738'467	0	1'738'467
0	11'768	0	11'768
0	8'506	0	8'506
0	42'377	0	42'377
0	3'089	0	3'089
0	30'580	0	30'580
0	35'833	0	35'833
0	29'552	0	29'552
0	**1'900'172**	**0**	**1'900'172**
0	3'941'509	0	3'941'509
0	41'809	0	41'809
0	7'445	0	7'445
–1'675	58'665	0	58'665
0	5'128	0	5'128
0	0	0	0
0	0	0	0
–1'675	**4'054'556**	**0**	**4'054'556**
0	46'354	0	46'354
0	289'314	0	289'314
3'094	630'260	–4'162	626'098
196	2'590	–40	2'550
3'290	**968'518**	**–4'202**	**964'316**
0	200'000	0	200'000
0	–21'102	0	–21'102
3'290	**1'147'416**	**–4'202**	**1'143'214**
1'615	**7'102'144**	**–4'202**	**7'097'942**

Effect on the consolidated income statement (increase / decrease) for the 12 months ended December 31, 2019

EURk	Published consolidated income statement Jan. 1, 2019 to Dec. 31, 2019	Adjustment of previous financial years (1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
Interest and similar income from financing business[1]	423'631	12'167	0	0
Expenses from interest on refinancing and deposit business	54'693	2'235	0	0
NET INTEREST INCOME	**368'938**	**9'932**	**0**	**0**
Settlement of claims and risk provision	125'926	8'629	0	2'148
of which, impairment losses	121'137	8'395	0	2'148
NET INTEREST INCOME AFTER SETTLEMENT OF CLAIMS AND RISK PROVISION	**243'012**	**1'303**	**0**	**–2'148**
Profit from service business	101'661	3'165	0	0
Profit from new business	54'253	1'825	0	0
Gains(+) / losses (–) from disposals	–2'241	–279	0	0
INCOME FROM OPERATING BUSINESS	**396'685**	**6'014**	**0**	**–2'148**
Staff costs	115'800	5'025	0	0
Depreciation and impairment	28'732	–2'451	0	0
Selling and administrative expenses not including staff costs)	74'879	3'400	0	0
Other operating expenses	10'571	146	0	0
Other operating income	7'596	–998	0	0
OPERATING RESULT	**174'299**	**–1'104**	**0**	**–2'148**
Result from investments accounted for using the equity method	–237	0	0	0
Expenses / income from fair value measurement	–309	0	0	0
Other interest income	1'726	96	0	0
Other interest expenses	4'779	396	0	0
EARNINGS BEFORE TAXES	**170'700**	**–1'404**	**0**	**–2'148**
Income taxes	28'640	1'369	0	–534
NET PROFIT	**142'060**	**–2'773**	**0**	**–1'614**
Ordinary shareholders and hybrid capital holders of GRENKE AG	142'060	4'459	0	–1'614
Non-controlling interests	0	–7'232	0	0
Earnings per share (basic/diluted in EUR)	2.92	0.10	0.00	–0.04
Average number of shares outstanding	46'353'918	46'353'918	46'353'918	46'353'918

[1] Interest and similar income calculated according to the effective interest method EUR 5,681k (previous year: EUR 6,014k).

Voluntary accounting change		Adjustment for 2019 financial year	
(4) Lease classification	Total	(5) Goodwill	adjusted consolidated income statement Jan. 1, 2019 to Dec. 31, 2019
2'631	438'429	0	438'429
0	56'928	0	56'928
2'631	**381'501**	**0**	**381'501**
–112	136'591	0	136'591
–112	131'568	0	131'568
2'743	**244'910**	**0**	**244'910**
1'373	106'199	0	106'199
–960	55'118	0	55'118
–4'042	–6'562	0	–6'562
–886	**399'665**	**0**	**399'665**
0	120'825	0	120'825
0	26'281	4'162	30'443
0	78'279	0	78'279
–674	10'043	0	10'043
1	6'599	0	6'599
–211	**170'836**	**–4'162**	**166'674**
0	–237	0	–237
0	–309	0	–309
0	1'822	0	1'822
0	5'175	0	5'175
–211	**166'937**	**–4'162**	**162'775**
–38	29'437	0	29'437
–173	**137'500**	**–4'162**	**133'338**
–173	144'732	–4'162	140'570
0	–7'232	0	–7'232
0.00	2.98	–0.09	2.89
46'353'918	46'353'918	46'353'918	46'353'918

Effect on the consolidated statement of comprehensive income (increase / decrease) for the 12 months ended December 31, 2019

EURk	Published consolidated statement of comprehensive income Dec. 31, 2019	Adjustment of previous financial years (1) Scope of consolidation	(2) Purchase price allocation	(3) Impairment
NET PROFIT	**142'060**	**–2'773**	**0**	**–1'614**
Change in currency translation differences	2'360	–82	0	0
OTHER COMPREHENSIVE INCOME	**–331**	**–82**	**0**	**0**
TOTAL COMPREHENSIVE INCOME	**141'729**	**–2'855**	**0**	**–1'614**
Ordinary shareholders and hybrid capital holders of GRENKE AG	141'729	4'751	0	–1'614
Non-controlling interests	0	–7'606	0	0

Voluntary accounting change		Adjustment for 2019 financial year	
(4) Lease classification	Total	(5) Goodwill	adjusted consolidated statement of comprehensive income Dec. 31, 2019
–173	**137'500**	**–4'162**	**133'338**
184	2'462	–40	2'422
184	**–229**	**–40**	**–269**
11	**137'271**	**–4'202**	**133'069**
11	144'877	–4'202	140'675
0	–7'606	0	–7'606

Effect on the consolidated statement of cash flows (increase / decrease) for the 12 months ended December 31, 2019

EURk		Reported Consolidated Statement of Cash Flows Jan. 1, 2019 to Dec. 31, 2019	Adjustments	Jan. 1, 2019 to Dec. 31, 2019
	EARNINGS BEFORE TAXES	**170'700**	**–7'925**	**162'775**
	NON-CASH ITEMS CONTAINED IN EARNINGS AND RECONCILIATION TO CASH FLOW FROM OPERATING ACTIVITIES			
+	Depreciation and impairment	28'732	1'711	30'443
– / +	Profit / loss from the disposal of property, plant, and equipment and intangible assets	–81	0	–81
– / +	Net income from non-current financial assets	2'455	898	3'353
– / +	Other non cash-effective income / expenses	5'446	–1'538	3'908
+ / –	Increase / decrease in deferred liabilities, provisions, and pensions	3'448	9	3'457
+	Additions to lease receivables	–948'377	–50'272	–998'649
+	Change in refinancing liabilities	839'126	4'267	843'393
+ / –	Increase / decrease in liabilities from deposit business	192'480	18	192'498
– / +	Increase / decrease in loans to franchisees	–61'594	61'594	0
	INCREASE / DECREASE IN OTHER ASSETS / LIABILITIES			
– / +	Increase / decrease in other assets	–96'978	–3'936	–100'914
– / +	Increase / decrease in lease assets from operating leases	–15'864	–114	–15'978
+ / –	Increase / decrease in deferred lease payments	–1'090	2'287	1'197
+ / –	Increase / decrease in other liabilities	22'346	–505	21'841
=	**CASH FLOW FROM OPERATING ACTIVITIES**	**140'749**	**6'494**	**147'243**
– / +	Income taxes paid / received	–28'397	–45	–28'442
–	Interest paid	–4'779	–396	–5'175
+	Interest received	1'726	96	1'822
=	**NET CASH FLOW FROM OPERATING ACTIVITIES**	**109'299**	**6'149**	**115'448**
	CASH FLOW FROM INVESTING ACTIVITIES	**–21'406**	**–134**	**–21'540**
	CASH FLOW FROM FINANCING ACTIVITIES	**16'161**	**480**	**16'641**
	CASH FUNDS AT BEGINNING OF PERIOD			
	Cash in hand and bank balances	333'626	5'202	338'828
–	Bank liabilities from overdrafts	–3'112	–21	–3'133
=	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	**330'514**	**5'181**	**335'695**
+ / –	Change due to currency translation	–262	–77	–339
=	**CASH FUNDS AFTER CURRENCY TRANSLATION**	**330'252**	**5'104**	**335'356**
	Cash funds at end of period			
	Cash in hand and bank balances	434'379	11'599	445'978
–	Bank liabilities from overdrafts	–73	0	–73
=	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**	**434'306**	**11'599**	**445'905**
	CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD (=TOTAL CASH FLOW)	**104'054**	**6'495**	**110'549**
	Net cash flow from operating activities	109'299	6'149	115'448
+	Cash flow from investing activities	–21'406	–134	–21'540
+	Cash flow from financing activities	16'161	480	16'641
=	**TOTAL CASH FLOW**	**104'054**	**6'495**	**110'549**

In the consolidated statement of cash flows, the main portion of the change in operating cash flow is due to the inclusion of the franchise companies.

2.4 Accounting standards and interpretations already published but not yet implemented

2.4.1 Recently published accounting pronouncements but not yet implemented

The IASB has published additional amended standards or interpretations, the adoption of which will only become mandatory at a later date. Several of these standards have already been endorsed by the EU. Voluntary early adoption is expressly permitted by these standards. GRENKE AG does not make use of this option. These standards will be implemented in the consolidated financial statements at the time of mandatory adoption. The effects on GRENKE AG's consolidated financial statements are being examined. These amendments are not expected to have a material impact on the reporting in GRENKE AG's consolidated financial statements.

Accounting Standard or Interpretation	Title	Publication IASB	First-time adoption IASB	Adopted by EU
IFRS 4	Amendments to IFRS 4 "Insurance Contracts" Extension of the Temporary Exemption from the Application of IFRS 9	Jun. 25, 2020	Jan. 01, 2021	yes (Dec. 15, 2020)
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2	Aug. 27, 2020	Jan. 01, 2021	yes (Jan. 13, 2021)
IFRS 16	Amendments to IFRS 16 "Leases" in connection with corona-related rental concessions	Mar. 31, 2021	Apr. 01, 2021	no
IAS 1	Amendments to IAS 1 "Presentation of Financial Statements" on the classification of liabilities	Jan. 23, 2020 and July 15, 2020	Jan. 01, 2023	no
IFRS 3, IAS 16, IAS 37	Amendments to IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and Annual Improvements to IFRSs 2018-2020	May. 14, 2020	Jan. 01, 2022	no
IFRS 17	IFRS 17 "Insurance Contracts"	Jun. 25, 2020	Jan. 01, 2023	no
IAS 1	Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements"	Feb. 12, 2021	Jan. 01, 2023	no
IAS 8	Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	Feb. 12, 2021	Jan. 01, 2023	no

Amendments to IFRS 4 "Insurance Contracts" Extension of the Temporary Exemption from the Application of IFRS 9.

The IASB published an amendment to IFRS 4 on June 25, 2020, extending the existing option for the deferred initial application of IFRS 9 to the new effective date of IFRS 17.

Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2

As part of the Interbank Offered Rates Reform (IBOR Reform), the IBOR reference rates and the EONIA were replaced by other reference rates called Risk-Free Rates (RFR). The changes herald phase 2 of the project on the possible impact of the reform of the Interbank Offered Rate ("IBOR") on financial reporting. The amendments serve to implement specific issues when the reference rate has been replaced by an RFR reference rate. According to the original regulations on hedge accounting, the pending changes to the reference interest rates would have resulted in the termination of hedging relationships in many cases. With the amendments to IFRS 9 and IAS 39, continuation is achieved despite existing uncertainties regarding reference interest rates, as, for example, the "highly probable criterion" is always considered to be met.

Amendments to IFRS 16 "Leases" in connection with corona-related rental concessions.

The IASB issued "Coronavirus Pandemic-Related Lease Concessions after June 30, 2021 (Amendment to IFRS 16)" on March 31, 2021, extending the effective date of the May 2020 amendment to the standard by one year.

Amendments to IAS 1 “Presentation of Financial Statements” on the classification of liabilities.

In January 2020, IAS 1 “Classification of Liabilities as Current or Non-current” was published. The amendments to IAS 1 clarify that the classification of liabilities as current or non-current should be based on the entity’s rights at the reporting date to defer settlement of the liability for at least twelve months after the end of the reporting period. If such rights exist, the liability is classified as non-current, otherwise it is classified as current. The classification is independent of management’s expectations and possible events after the balance sheet date. The classification therefore does not depend on the expectations of whether an entity will exercise its right to defer settlement of an obligation. On July 15, 2020, the IASB deferred first-time adoption of the amendment by one year for financial years beginning on or after January 1, 2023.

Amendments to IFRS 3 “Business Combinations”, IAS 16 “Property, Plant and Equipment”, IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and Annual Improvements to IFRSs 2018–2020

Several limited IFRS amendments including the omnibus of annual improvements, 2018–2020 cycle, which makes amendments to IFRS 1 “First-time Adoption of IFRS”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture” and an example of IFRS 16 “Leases”, were published by the IASB on May 14, 2020, with an effective date of January 1, 2022.

The amendments to IFRS 3 update the reference to the IFRS framework concept. IFRS 3 is also supplemented by the provision that an acquirer must apply these regulations instead of the framework concept when identifying assumed obligations within the scope of IAS 37 or IFRIC 21. The rules for accounting for business combinations were not changed in terms of content.

Under the amendment to IAS 16, entities will no longer be permitted to deduct revenue from the sale of goods produced while bringing an item of property, plant and equipment to the location and condition intended from the cost of that item of property, plant and equipment. Instead, these proceeds are to be recognised on the income statement together with the cost of the property, plant and equipment.

The amendment to IAS 37 specifies which costs an entity should consider when assessing whether a contract is onerous or loss-making and focuses on costs that are directly related to the contract (directly related cost approach). Costs related to the performance of contracts for the supply of goods or services include both the directly attributable (incremental) costs of fulfilling the contract and overhead costs that relate directly to contract performance activities. General administrative costs are not directly related to the contract and are therefore not included in the contract performance costs unless the contract explicitly provides for charging to the customer.

The annual improvements to the omnibus amendment standard (2018–2020 cycle) relate to minor amendments to IFRS 1 "First-time Adoption of IFRS", first-time adoption by a subsidiary, an accompanying example to IFRS 16 "Leases" and the significance of tax effects on fair value measurement in IAS 41 "Agriculture". In addition, IFRS 9 "Financial Instruments" was amended, according to which only costs and fees paid by the entity to the creditor and vice versa are to be taken into account in the 10 percent present value test before derecognition of financial liabilities. Costs or fees paid to other third parties may not be included.

IFRS 17 “Insurance Contracts”

The new accounting standard IFRS 17 “Insurance Contracts” published on May 18, 2017 will replace standard IFRS 4. The new standard is not only relevant for insurance companies but affects all companies that issue insurance contracts within the scope of the standard. IFRS 17 pursues the goal of consistent, principles-based accounting for insurance contracts and provides for the measurement of insurance liabilities at the current settlement value instead of historical acquisition costs. On June 25, 2020, the IASB published amendments to the standard. The amendments are a collection of numerous selective adjustments. On March 18, 2020, the IASB also decided to postpone the mandatory adoption of the standard to financial years beginning on or after January 1, 2023. The amendments are to be applied for the first time as of January 1, 2023. Adoption by the EU is still pending.

Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 “Making Materiality Judgements”

The amendments to IAS 1 require entities to present only their “material” accounting policies in the notes (previously, it was “significant” accounting policies). To be material, the accounting policy must be related to significant transactions or other events and be event-driven (for example, a change in policy). The amendments are thus intended to help improve the disclosures on accounting policies. Accompanying this, the guidance of IFRS Practice Statement 2 was adjusted accordingly.

Amendment to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

The amendments to IAS 8 clarify the distinction between changes in accounting policies and changes in accounting estimates. For this purpose, it is defined that an accounting estimate always relates to a measurement uncertainty of a financial figure on the financial statements. This distinction is important because changes in estimates are applied prospectively to transactions and other events from the date of the change in estimate, while changes in accounting policies are generally applied retrospectively to past transactions and other past events.

3. General Accounting Policies

3.1 Composition of the Consolidated Group

The Consolidated Group consists of GRENKE AG and 56 consolidated entities (previous year: 55), of which 6 (previous year: 6) are consolidated structured entities, and 13 are consolidated franchise companies without equity investments (previous year: 12). The Consolidated Group holds either directly or indirectly a 100 percent equity interest in 38 (previous year: 38) of the entities controlled by the Consolidated Group. Of the consolidated structured entities, 4 (previous year: 4) are held by third parties and 3 concern parts of investees (silos). Furthermore, 3 associated entities (previous year: 3) not material for the GRENKE Group have been included in the consolidated financial statements using the equity method. The consolidated financial statements contain all assets and liabilities as well as all expenses and income of GRENKE AG and of the Consolidated Group companies it controls (the “GRENKE Group”) after eliminating all material intra-group transactions. Uniform accounting principles are applied Consolidated Group-wide to the consolidated financial statements.

All intra-Group receivables and liabilities, as well as expenses and income resulting from transactions between companies included in the consolidated financial statements, are eliminated as part of the consolidation of liabilities, expenses and income. Gains or losses incurred in the Group from intercompany transactions are also eliminated. Affiliated entities are consolidated as of the date control is assumed by the GRENKE Group and are no longer consolidated as of the date that control ceases. For more information, please refer to the schedule of shareholdings in Note 10.

3.1.1 Subsidiaries

Subsidiaries are entities in which the Consolidated Group holds either a direct or indirect interest and over which GRENKE AG exerts control. Control exists when GRENKE AG’s existing rights give it the ability to direct the relevant activities of the subsidiary (power of disposition) and, in doing so, is exposed to variable returns and there is a link between this power of disposition and the amount of return. To determine whether an entity should be consolidated, a number of control factors need to be considered. These include an examination of

// the purpose and design of the entity,
// the relevant activities and how they are determined,
// whether the Consolidated Group has rights giving it the ability to direct the relevant activities,
// whether the Consolidated Group has risk exposure or rights to variable returns; and
// whether the Consolidated Group has the ability to use its power in a manner that affects the amount of returns.

Structured entities are entities in which voting or similar rights are not the dominant factors in determining control, for example, when voting rights only relate to administrative tasks and the relevant activities are governed by contractual agreements.

For the consolidated franchise companies, voting rights and comparable rights are not the dominant factors in determining control. These companies are controlled specifically due to the ability to determine the relevant activities.

3.1.2 Associated Entities

Associated entities are entities whose financial and business decisions can be significantly influenced by the Consolidated Group, but the Consolidated Group cannot control or jointly control the entities’ decision-making processes. Significant influence typically exists when there is an interest in the associated entities’ voting rights of 20 percent to 50 percent.

Associated entities are accounted for in the consolidated financial statements using the equity method and initially recognised at acquisition cost.

The share of profit and loss of the associated entity following its acquisition or establishment is recognised in the consolidated income statement, and the share in any earnings-neutral changes in equity is directly recognised in the Consolidated Group’s equity. Goodwill arising from the acquisition of an associated or jointly controlled entity is included in the carrying amount of the investment (less accumulated impairment losses). As a result, there is no separate goodwill impairment test carried out.

3.2 Foreign Currency Translation

The separate financial statements of the foreign Consolidated Group companies are translated into euros using the functional currency concept. The functional currency of all foreign business enterprises is the respective national currency. The assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated into euros at the closing rate on the reporting date. The income and expenses of these subsidiaries are translated at the average rate for the financial year. The translation differences that result are recognised as a separate component of equity. When a foreign operation is sold, the cumulative amount recognised in equity for this foreign operation is released in profit and loss.

Transactions in a currency that differs from the functional currency of a subsidiary are first translated into the functional currency at the prevailing spot rate on the day of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing rate on each reporting date. The translation differences that result are recognised through profit and loss. Non-monetary items denominated in a foreign currency are carried at historical exchange rates.

Currency translation was based on the following key exchange rates:

	Closing rate Dec. 31, 2020	Average rate 2020	Closing rate Dec. 31, 2019	Average rate 2019
GBP	0.8990	0.8897	0.8508	0.8778
HUF	363.89	351.25	330.53	325.30
CHF	1.0802	1.0705	1.0854	1.1124
SEK	10.0343	10.4848	10.4468	10.5891
TRY	9.1131	8.0547	6.6843	6.3578
DKK	7.4409	7.4542	7.4715	7.4661

3.3 Leases

3.3.1 The Consolidated Group as Lessor

Leases are defined as agreements in which the lessor transfers the right to the lessee to use an identifiable asset for an agreed time period in exchange for the payment of consideration for an agreed time period. Whether an agreement can be considered as a lease or containing a lease depends on the economic substance of the agreement at the beginning of the agreement. For the lessor, leases are to be classified as either operating leases or finance leases.

3.3.1.1 Finance Leases

In the case of finance leases, all of the significant risks and rewards of legal ownership are transferred from the lessor to the lessee.

Finance leases are initially recognised in the statement of financial position as of the date they are available for use (upon the issue of the lease's letter of acceptance) as lease receivables at an amount equal to the net investment, which represents the sum of outstanding lease payments and non-guaranteed residual values of the existing lease agreements, discounted at the interest rate underlying the lease. Lease payments as of the date of the lease's availability for use are divided into interest payments and principal payments in such a manner that they reflect a periodic rate of return for the receivable. Initial direct costs incurred in connection with the conclusion of the contract, e.g. reseller commissions, are taken into consideration when calculating the net investment value. The capitalisation of initial direct costs is recorded in profit from new business. This item also includes portions of revenue from lease down payments, which is the fee paid by the lessee for the use of the lease object during the period from the transfer of the object until the issuance of the lease acceptance letter. Service fees for making the lease object available for use are also a component of the profit from new business.

3.3.1.2 Operating Leases

Operating leases are leases in which the GRENKE Group does not transfer all the significant risks and rewards of ownership of the asset to the lessee. Initial direct costs incurred in the negotiation and conclusion of an operating lease are added to the carrying amount of the lease asset. These amounts are depreciated together over the term of the lease agreement until the residual value is reached. When determining the term of a lease, extension periods are taken into account in addition to the non-cancellable basic term, provided that the exercise of the underlying extension options is considered sufficiently certain. At the GRENKE Group, the term of a lease is therefore generally determined by the non-cancellable basic term.

Contingent rents are recognised as income in the period in which they are generated. Operating lease assets are typically recorded in the statement of financial position as property, plant and equipment based on the type of asset (see Note 5.6). Revenue from lease instalments and significant portions of depreciation on lease assets are recognised on a straight-line basis in the profit from service business.

3.3.1.3 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 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 not due until a later date but before the lease's termination. Parts of these deferral agreements are based on statutory moratoriums. According to GRENKE's assessment, the agreed deferrals have not led to any change in the scope of a lease or the consideration for a lease. Therefore, the payment changes are treated as a non-substantive contract amendment (modification). The interest rate underlying the lease is continued unchanged for the calculation of the net investment in the lease. The deferred lease receivables are regularly reviewed by the appointed working group. 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 with the repayment of the outstanding lease instalments.

In addition, deferral agreements were also concluded with customers in the lending business. Here, the debtor 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 met to justify a modification.

3.3.2 The Consolidated Group as Lessee

In the case of a lease contract in accordance with IFRS 16, the lessee is generally obliged to capitalise a right-of-use and to recognise a corresponding lease liability.

An agreement constitutes a lease within the meaning of IFRS 16 if it entitles the holder to use an underlying asset for a specified period of time in return for the payment of a fee. The existence of a lease therefore requires not only an identified asset but also the right of the customer to derive the economic benefit from its use and to decide on its use.

The only exceptions to the recognition are the so-called “short-term” and “low-value” leases, which the GRENKE Group does not recognise as a right-of-use and lease liability despite the existence of a leasing relationship. Instead, the lease payments for these agreements are recognised as an expense over the term of the lease. “Short-term” leases are leases with a maximum term of twelve months and that do not include purchase options. “Low-value” leases are leases where the underlying asset is of minor value. In the GRENKE Group, an initial value of no more than EUR 4,500 is taken as a basis for determining leases for low-value assets.

Where contracts contain both leasing and non-leasing components, only the leasing components are recognised as rights-of-use and lease liabilities in accordance with IFRS 16. The first-time measurement of lease liabilities recognised in accordance with IFRS 16 is at the present value of the lease payments not yet made.

When determining the lease payments, in addition to the non-terminable basic term, extension periods are also taken into account, provided that the exercise of the underlying extension option is deemed sufficiently certain. The GRENKE Group uses the lessee's respective incremental borrowing rate to discount the cash flows. In subsequent measurement, the lease liabilities are carried at amortised cost using the effective interest method. The interest incurred in the financial year is recognised as an expense in the item other interest expenses. Lease liabilities are gradually reduced by the repayment portions included in the lease payments. A revaluation of the lease liability (and a corresponding adjustment of the related right-of-use) is to be carried out if the future lease payments resulting from the underlying agreement change. This may be due to contract adjustments or renegotiations of contracts as well as changes in estimates with regard to the expected exercise of termination or renewal options.

The initial recognition of the associated rights-of-use is based on the valuation of the lease liabilities. Based on the amount of the lease liability, the amount of the right-of-use is determined by additionally capitalising all lease payments made at or before the asset's availability for use, as well as initial direct costs and estimated costs for deconstruction obligations. Lease incentives received are to be subtracted. In subsequent measurement, the right-of-use recognised is amortised over its useful life and, if necessary, impaired in accordance with IAS 36 "Impairment of Assets". The amortisation of the rights-of-use is included in the item depreciation and impairment.

3.4 Measurement of Fair Values

The GRENKE Group measures derivative financial instruments at their fair value. Additionally, the fair values of financial instruments measured at cost are presented in Note 7.4.

The fair value is the amount that would be obtained from the sale of an asset in an arm's length transaction between market participants at the valuation date as part of an orderly business transaction under current market conditions or the amount to be paid for the transfer of a liability. Fair value measurement assumes that the transaction leading to the sale of the asset or the transfer of the liability takes place on the asset's principal market or the principal market for the transfer of the liability or, if such a principal market is not available, on the most favourable market for the asset or the transfer of the liability.

Fair value is determined for a certain point in time and by applying those assumptions that representative market participants would take into consideration in pricing. With respect to pricing, it is assumed that market participants act in their own best economic interest.

When measuring the fair value of non-financial assets, the respective market participant's ability to generate an economic benefit is taken into account through the greatest and best use of the asset or through the sale of the asset to another market participant who finds the greatest and best use of the asset.

The GRENKE Group uses observable market data, as far as possible, for determining the fair value of an asset or a liability. The fair values are assigned to different levels of the fair value hierarchy based on the input parameters used in the valuation methods:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Measurement procedures in which all input factors that have a significant effect on the recognition of fair value are directly or indirectly observable

Level 3: Measurement procedures that use input factors that have a significant effect on the fair value recognised and are not based on observable market data

If the input factors used to determine the fair value of an asset or a liability can be assigned to different levels of the fair value hierarchy, then the fair value measurement is assigned entirely to the level in the fair value hierarchy that corresponds to the lowest input factor material for the overall measurement.

The GRENKE Group recognises reclassifications between the different levels of the fair value hierarchy at the end of the reporting period in which the change has occurred. In the reporting year, there were no reclassifications among the three levels of the measurement hierarchy.

3.5 Financial Instruments

3.5.1 Categories of Financial Instruments

The GRENKE Group classifies financial assets and liabilities in the following categories pursuant to the provisions of IFRS 9:

Financial assets:

// Amortised Cost (AC)
// Fair Value OCI without Recycling (FVOCIoR)
// Fair Value P&L (FVPL)

Financial liabilities:

// Amortised Cost (AC)
// Fair Value P&L (FVPL)

Pursuant to the provisions of IFRS 7, the GRENKE Group divides the IFRS 9 items into the following categories:

Financial assets:

// Cash and cash equivalents
// Lease receivables
// Other financial assets (factoring receivables, receivables from the lending business, other financial assets)
// Trade receivables
// Other investments
// Derivative financial instruments without hedging relationship
// Derivative financial instruments with hedging relationship

Financial liabilities:

// Financial liabilities (liabilities from the deposit business, liabilities from the refinancing of lease receivables and bank liabilities)
// Trade payables
// Derivative financial instruments without hedging relationship
// Derivative financial instruments with hedging relationship
// Financial guarantees and irrevocable credit commitments

3.5.2 Financial Assets

IFRS 9 Categories

IFRS 9 differentiates financial assets into debt instruments, derivatives and equity instruments. The classification of financial assets into measurement categories is determined based on the business model and the contractual cash flow characteristics of the financial asset (so-called “SPPI”; Solely Payment of Principal and Interest).

The business model employed for the administration and management of the financial assets determines how the future cash flows from the financial assets should be realised and represents the strategic decisions of persons holding key positions in the Company. The assessment of the business model does not depend on the management’s intended use of an individual asset; instead, the decision on the classification is made at a portfolio level. The method in which the cash flows within the respective business model are realised is crucial for the assessment of the business model in accordance with IFRS 9. Next to the strategic objectives of the management, the Consolidated Group observes several other factors when defining the business model, such as how the performance within the respective portfolio is measured and which persons holding key positions in the Company this should be reported to. In addition to taking into account the risks affecting the portfolio’s performance and the portfolio’s financial assets, special attention is paid to how the market and credit risks are managed, as well as how the executives in this department are remunerated. It follows that the description of the business model is not the decisive factor in making the assessment but, instead, the actual management. Consequently, the determination of the business model is not done arbitrarily but is based on observable facts and actual circumstances.

IFRS 9 provides for three business models:

// the achievement of cash flows by collecting the contractual cash flows (the “Hold” business model),
// the generation of cash flows through the receipt of contractual cash flows and the sale of financial assets (the “Hold and Sell” business model), and
// in the case of financial assets that do not qualify for either the “Hold” or “Hold and Sell” business models (the “Sell” business model).

In addition to the business model requirement, a review of the contractual cash flow characteristics ("SPPI") must also be carried out, which requires that the contractual terms of the relevant financial instrument result in payments consisting exclusively of interest and principal at predetermined dates in the context of a traditional credit relationship. In contrast to the business model assessment, the individual contract specification of each financial instrument should be considered individually. The business model is assigned on a portfolio basis, while the SPPI criterion must always be reviewed for each individual financial instrument assigned to the "Hold" or "Hold and Sell" business models.

IFRS 9 provides for the following four types of subsequent measurement of financial assets:

// Measurement at amortised cost (AC)
// Measurement at fair value through OCI with recycling (FVOCImR)
// Measurement at fair value through OCI without recycling (FVOCIoR)
// Measurement at fair value through P&L (FVPL)

Finance lease receivables are recognised in accordance with IFRS 16 (see Note 3.3.) Finance lease receivables, however, are subject to the provisions of IFRS 9 for derecognition and impairment.

Financial assets are allocated to the measurement categories upon initial recognition. Reclassifications are only permissible in the event of a change in the business model that results in a significant impact on the business processes. Where appropriate, reclassifications are made prospectively as of the first day of the first reporting period following the change in the business model. No reclassifications took place during the reporting periods.

Financial Assets at Amortised Cost

Debt instruments are accounted for at amortised cost when the contractually agreed payment characteristics consist solely of principal and interest payments ("SPPI criterion") on the outstanding principal and are recognised within the scope of a business model whose objective is to hold financial assets in order to collect the contractual cash flows of the financial asset.

The initial measurement in the measurement category is at fair value plus any additional and individually allocable transaction costs which, in the case of financial assets, increase the fair value. This, however, excludes trade receivables with no significant financing components, which are measured at their transaction price. After their initial recognition, financial assets in the category "financial assets at amortised cost" are measured at amortised cost using the effective interest method less any impairment. Amortised cost includes all discounts and premiums paid upon acquisition and includes all fees that are an integral part of the effective interest rate, including transaction costs. Impairment is tested based on the expected credit loss model under IFRS 9, which stipulates the recognition of impairment through profit and loss based on expected future credit losses. Please refer to Note 3.5.5. Financial assets measured at amortised cost are recognised as of the settlement date.

At the GRENKE Group, financial assets in the category "at amortised cost" include the line items "cash and cash equivalents", "other financial assets" and "trade receivables". The item cash and cash equivalents in the consolidated statement of financial position comprises cash on hand and balances at banks and central banks with a maturity of less than three months. Current account liabilities are deducted from cash and cash equivalents in the statement of cash flows.

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The fair value measurement through comprehensive income with recycling (FVOCImR) is applied to financial assets whose cash flows also comply with the SPPI criterion and have been assigned to the "Hold and Sell" business model. GRENKE does not hold any instruments that are assigned to the "Hold & Sell" business model and therefore does not make use of this classification.

Equity instruments that comply with the definition of equity under IAS 32 do not fulfil the cash flow condition due to a lack of contractual payment entitlements in terms of interest and credit repayments and are therefore to be measured at fair value through profit or loss. There is the option (OCI option) of designating equity instruments that are not intended to be traded as "at fair value through other comprehensive income". GRENKE applies this option and classifies its 15 percent investment in Finanzchef24 GmbH as FVOCI without recycling (FVOCIoR). As a result, all changes in fair value are presented in other comprehensive income, no impairment losses are recognised in profit or loss, and no gains or losses are reclassified to profit or loss upon disposal. This alternative presentation is chosen to ensure that volatility in a start-up company's fair value measurement is not recognised in the income statement. Financial assets at fair value through other comprehensive income are measured at fair value upon acquisition.

Financial Assets at Fair Value Through Profit and Loss (FVPL)

The measurement at fair value with changes recognised in profit or loss is compulsory if either the financial instrument has not been allocated to a portfolio of the other aforementioned business models (AC, FVOCImR, FVOCIoR) or if its cash flows do not meet the SPPI criterion.

The subsequent measurement at amortised cost is not possible for derivatives since they do not regularly meet the SPPI criterion. Derivatives are always to be measured at fair value through profit or loss provided they are not in a hedging relationship (hedge accounting). The GRENKE Group does not hold any financial assets at fair value through profit or loss as of the reporting date except for derivatives. Derivative financial instruments held by the GRENKE Group that are not in a hedging relationship are solely used to hedge interest rate and currency risk. Changes in the fair value of these derivatives are recorded under "expenses / income from fair value measurement" or, in the case of derivatives used to hedge currency risk, under "other operating expenses" and "other operating income".

In order to avoid accounting mismatches resulting from the classification of a financial asset at amortised cost or at fair value through other comprehensive income, the financial asset may be irrevocably classified as measured at fair value through profit or loss. The utilisation of this option is limited under IFRS 9. GRENKE is not currently applying the fair value option.

Modification of Financial Assets

In the case of modifications that affect the contractual cash flows of financial assets, the Consolidated Group must examine whether this poses a substantial or non-substantial modification of the contractual cash flows. This assessment is done by taking an overall view of the qualitative and quantitative circumstances. An example of a qualitative indicator is a change of debtor. A quantitative criterion that leads to a substantial modification of the contract is if the discounted present value of the cash flows of the new contractual terms differs by at least 10 percent from the discounted present value of the remaining cash flows of the original debt instrument. A substantial modification results in the derecognition of the original agreement and the recognition of a new financial asset. The date of the initial recognition of the new financial asset is the date of the modification. In the case of a non-substantial modification, the asset is not derecognised, and the difference between the respective carrying amounts is recognised in profit or loss.

3.5.3 Financial Liabilities

Financial Liabilities at Amortised Cost

Financial liabilities are initially recognised at fair value, net of transaction costs. In subsequent periods, they are recognised at amortised cost. The deducted transaction costs and any debt discounts are amortised over the lease term in profit and loss using the effective interest method.

Refinancing liabilities, which result from the sale of the lease receivables to the respective refinancing party, are recognised at the present value of the payments yet to be made to the refinancing party. The originally agreed interest rate is used as the discount rate for fixed interest loans. Upon repayment, regular payments are split into an interest portion and a principal component. The interest portion is recognised as an expense from interest on refinancing.

A financial guarantee is a contract that contains an obligation for the guarantor to make payments that compensate the guarantee holder for a loss that arises because a given debtor fails to meet his or her payment obligations on time and according to the terms of the debt instrument.

Liabilities from financial guarantees are initially recognised at fair value. The fair value typically corresponds to the net present value of the consideration received in return for the provision of the financial guarantee. In the case of marketable contracts, the fair value of a financial guarantee at the time of conclusion of the contract is usually the value of the obligation and, therefore, zero (net method). Subsequently, the measurement is made at the higher of amortised cost or the amount of the provision that must be recognised in the event of an imminent claim.

Financial liabilities are measured at amortised cost using the effective interest method under IFRS 9, except when they are financial liabilities measured at fair value.

Financial liabilities at Fair Value

The GRENKE Group did not hold any financial assets at fair value through profit or loss as of the reporting date except for derivatives. Derivative Financial Instruments held by the GRENKE Group are solely used to hedge interest rate and currency risk. Changes in the fair value of derivatives are recorded under "expenses / income from fair value measurement" or, in the case of derivatives used to hedge currency risk, under "other operating expenses" and "other operating income".

In order to avoid accounting mismatches resulting from the classification of a financial asset or a financial liability that would otherwise result from the measurement of assets or liabilities or the recognition of gains or losses on a different basis, the financial asset or financial liability may be irrevocably classified upon initial recognition as measured at fair value through profit or loss. GRENKE is not currently applying the fair value option.

Embedded Derivatives

Embedded derivatives are derivatives that are embedded in primary financial instruments. In accordance with IFRS 9, only derivatives that are embedded in financial liabilities and non-financial basic contracts are separated. According to IFRS 9, financial assets are assessed as a whole, with the result that there is no longer any separate accounting between the basic instrument and the embedded derivative. Instead, financial assets are classified in accordance with the business model and contract terms.

Presentation as a separate line item is only required when the following three conditions are met:

// The economic characteristics and risks of the embedded derivative are not closely related to those of the basic contract
// A standalone derivative with the same conditions as the embedded derivative meets the definition of a derivative
// The original financial liability is not measured at fair value through profit or loss

In this case, the embedded derivative to be separated is recognised at fair value. Measurement changes are recognised in profit or loss under financial assets and liabilities measured at fair value through profit or loss. By contrast, the accounting and measurement of the basic contract follow the rules of the assigned category of the financial instrument.

3.5.4 Derivative Financial Instruments with Hedging Relationship

The GRENKE Group uses derivative financial instruments to hedge and manage interest rate and foreign currency risks. These are interest rate swaps, cross currency swaps and foreign currency forward contracts.

IFRS 9 differentiates between three types of hedging relationships: fair value hedges, cash flow hedges and hedging the net investment in a foreign business operation. The GRENKE Group employs cash flow hedges only. These serve to avoid one-sided earnings effects for derivatives used to hedge the risk of changes in future cash flows. The GRENKE Group accounts for interest rate derivatives to hedge variable cash flows in addition to derivative financial instruments to hedge currency risk under hedge relationships (hedge accounting). The interest rate swap contracts are offset against the variable cash flows of the underlying bond and private placement transactions, as well as against the variable cash flows of the underlying ABCP and ABS refinancing transactions. The currency swaps (cross currency swaps) are offset against variable cash flows of the underlying bond and private placement transactions in foreign currencies. The forward currency contracts are offset against the variable cash flows from the granting of foreign currency loans and the purchase of receivables in foreign currencies. The Consolidated Group recognises changes in the fair value of interest rate and currency swaps and forward currency transactions relating to the effective portion of the hedging relationship in other comprehensive income (hedging reserve) while taking deferred taxes into consideration. The ineffectiveness is recognised in profit and loss. For more information, please refer to Note 7.3.

Derivative financial instruments are recognised at fair value at the time of acquisition. Subsequent measurement is also at fair value. The fair value is derived from the discounted future cash flows, which are adjusted for the counterparty risk. Future variable-rate cash flows are estimated on the basis of future interest rates (based on observable yield curves at the end of the reporting date). Fixed and variable-rate cash flows are discounted at future interest rates and translated using the exchange rates at the end of the reporting period. Forward currency contracts are used to hedge spot rate risk. The forward price elements of these contracts are immaterial and are recognised in the income statement.

Hedge accounting requires documentation at the beginning of the hedging relationship that should identify the hedge and the hedged underlying transaction, the nature of the risk being hedged and the way in which the Company assesses whether the hedging relationship meets the requirements for hedge effectiveness. In addition, the risk management objectives and strategies must be explained. The GRENKE Group assesses hedge effectiveness both at the inception of the hedging relationship and on an ongoing basis. As soon as the conditions for hedge accounting are no longer met, the derivative is measured at fair value with changes in value recognised in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative net gain or loss previously recognised in the consolidated statement of comprehensive income is reported in the consolidated statement of income.

3.5.5 Impairment of Financial Assets and Provisions for Off-balance Sheet Liabilities

At each reporting date, the GRENKE Group determines the impairment on financial assets or a group of financial assets based on a model of expected credit losses in accordance with the requirements of IFRS 9. The grouping and determination of non-performing lease receivables and for overdue receivables are based on processing categories (see Notes 3.18.2 and 3.18.3).

The impairment provisions under IFRS 9 are applied to debt securities measured at amortised cost or fair value through other comprehensive income (FVOCI), lease receivables under IFRS 16 “Leases” and off-balance-sheet obligations such as loan commitments and financial guarantees. Equity instruments are not subject to the impairment requirements of IFRS 9.

Level Assignment

The standard provides for a determination of expected credit losses based on a three-step approach. Under the general approach, the loss from expected loss events during the next year (12M ECL) is already recognised as a risk provision upon acquisition (Level 1). If there has been a significant deterioration in the credit risk since the first-time recognition but no credit impairment, the risk provision is recognised at the level of the expected credit losses over the entire remaining contractual life (Lifetime Expected Loss – LT ECL) (Level 2). If there is credit impairment, the risk provisioning must also be set in the amount of the losses expected over the remainder of the entire contract period on the basis of the estimated, expected future cash flows of the asset (LT ECL) (Level 3). The financial assets remain at Level 2 or 3 as long as the conditions for these levels are met; otherwise they will be reassigned to an appropriate lower level.

Financial assets are generally recognised in Level 1 upon initial recognition. An exception to this is financial instruments whose credit is already considered impaired at the time of the acquisition of the transaction (“Purchased or Originated Credit-Impaired Financial Assets – POCI”). These are not assigned to any of the three levels but instead treated and reported separately. The GRENKE Group does not hold any financial instruments classified as POCI as of the reporting date. In addition, Level 1 includes all transactions that have a low credit default risk. Low credit default risk exists in cases where the external credit rating is in the range of investment grade. The GRENKE Group applies this low credit risk exemption to the ABCP loans reported under other financial assets.

For financial instruments classified as POCI, no impairment or provision is recognised at the time of acquisition. The measurement is at fair value. In the subsequent measurement, the risk provisioning corresponds to the accumulated change in the LT ECL since the time of acquisition. A financial instrument classified as a POCI remains in this approach until it is derecognised, i.e. there is no transfer to another level. The GRENKE Group does not hold any financial instruments classified as a POCI.

In addition to the general approach (three-stage model), IFRS 9 provides for a simplified procedure for trade receivables and contract assets as well as for lease receivables falling within the scope of IFRS 16. Under the simplified procedure, it is not necessary to track the change in credit risk. Instead, expected losses are to be recognised as a risk provision in the amount of the expected losses over the entire term (LT ECL) – both upon initial recognition and at each subsequent reporting date. The assets are transferred to Level 3 once credit is impaired. An option exists to apply this simplified procedure to those trade receivables and contract assets that contain a material financing component, as well as for lease receivables. The GRENKE Group uses the simplified procedure for factoring receivables and trade receivables. The exercise of the option was waived for determining risk provisions for lease receivables. Therefore, the general approach and classification of lease receivables in three stages applies. The financial assets remain at Level 3 as long as the conditions for this level are met, otherwise they will be reassigned to an appropriate lower level.

For Level 1 and Level 2 financial assets, the GRENKE Group calculates interest income using the effective interest method on the gross carrying amount (i.e. without deduction of expected credit losses). The interest income on Level 3 financial assets is determined using the effective interest method at amortised cost (i.e. the gross carrying amount less risk provisioning).

Significant Increase in Credit Risk and Credit Impairment

Determining a significant increase in credit risk is necessary to establish the timing of the transition between Level 1 and Level 2 as defined above. Defining credit impairment is relevant to the timing of the transition to Level 3. The GRENKE Group assesses a significant increase in credit risk since initial recognition and defines credit impairment on the basis of appropriate and comprehensible information. The information used is adapted to the circumstances of the respective portfolio and is explained below:

// Lease receivables: The GRENKE Group expects a significant deterioration in the credit quality of lease receivables when contractually agreed payments are more than 30 days past due or when the estimated probability of loss has deteriorated in a comparable manner as was observed in past 30-day-overdue cases. This is the case when the estimated probability of loss for the remaining term has almost doubled by a factor of 1.98 compared to the estimated probability of loss for the same period based on the information available at the conclusion of the contract Creditworthiness is impaired if contractually agreed payments are more than 90 days overdue, the contract has been terminated by us, or at least one of the two conditions was not met as of the measurement date but was met within the three preceding months. The GRENKE Group usually terminates a lease contract as soon as the second lease instalment lapses. For terminated receivables, the expected value of the claim for damages is recognised.

// Factoring receivables: The GRENKE Group applies the simplified procedure for factoring receivables. Therefore, outstanding receivables are included in Level 2 as long as they are not classified as credit-impaired. Credit is impaired when the impaired receivables are overdue for more than 90 days and are not in an internal loss class. An internal loss class is assigned to factoring receivables of processing classes 2 to 7 (see Note 3.18.2). Otherwise, they will be considered credit-impaired and will be considered in Level 3.

// Loan receivables: The GRENKE Group expects a significant deterioration in the credit quality of loan receivables when payments are delayed for more than 30 days or the receivable is transferred internally to a special watch list. The criteria for this are, for example, performance disruptions, negative notifications of the credit agency, significant deterioration in economic conditions and abnormalities in bookkeeping. Receivables that, among others, are delayed for more than 90 days or are in reorganisation or settlement are considered to be credit-impaired (Level 3).

// Trade receivables: The GRENKE Group applies this simplified impairment model to these receivables. As a result, outstanding receivables are included in Level 2 as long as they are classified as credit-impaired. Credit is impaired when receivables are not more than 90 days past due, or there is an objective indication of credit impairment. An objective indication, for example, could be the default or delinquency of a debtor, indications of bankruptcy and other features that indicate a reduction in the expected payments of the debtor.

// Cash and cash equivalents and ABCP loans: The assessment of whether credit risk has significantly deteriorated and the determination of credit impairment for these receivables is based on credit ratings, which are determined by observing published external credit ratings.

3.5.6 Derecognition of Financial Assets and Liabilities

Derecognition of Financial Assets

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised along with the related impairment when the requirements have been met. The GRENKE Group derecognises financial assets when its contractual rights to cash flows have expired or the risks and rewards associated with the contractual rights are transferred to a buyer. When the GRENKE Group transfers its contractual rights to receive the cash flows of an asset to the buyer, but the opportunities and risks are not transferred, then the receivable is not derecognised, but instead a financial liability is recognised in the same amount.

An impairment also represents a derecognition. This is usually the case at the GRENKE Group when, after reasonable assessment, it can no longer be assumed that the contractual cash flows of a financial asset can be realised in whole or in part. This is the case, for example, if legal proceedings are terminated or, in the case of lease transactions, the asset is disposed

Derecognition of Financial Liabilities

Financial liabilities are derecognised if the contractual obligation underlying the liability is discharged or definitively expires. If an existing financial liability is exchanged for another financial liability of the same lender with substantially different terms, or if the terms of an existing liability are changed substantially, then such an exchange or change is treated as a derecognition of the original liability and recognition of a new liability. A criterion that leads to a material change in the contract is when the discounted present value of the cash flows of the new contract conditions deviates by at least 10 percent from the discounted present value of the remaining cash flows of the original debt instrument. The difference between the corresponding carrying amounts is recognised in profit and loss.

3.6 Lease Assets for Sale

Lease assets for sale are recognised at their recoverable amount on the basis of historical figures. Appropriate measurement is ensured through the use of maturity bands. The sale proceeds calculated using this approach are netted against the expenses that are still incurred until the sale in order to correspond to the net realisable value.

3.7 Property, Plant and Equipment

Property, plant and equipment are recognised at acquisition costs net of accumulated depreciation and impairment. Financing costs are capitalised when the necessary requirements are met. Property, plant and equipment are depreciated on a straight-line basis over their expected economic life. When property, plant and equipment are sold or retired, their cost and accumulated depreciation are derecognised, and any gains or losses resulting from their disposal are recognised in the income statement as other operating income or expenses.

Depreciation rates are based on the following estimated economic lives of assets:

Office buildings	25 – 33 years
OPERATING AND OFFICE EQUIPMENT:	
IT hardware	3 years
Leasehold improvements	10 years
Other (office equipment)	3 – 20 years

The useful life and depreciation method for the respective property, plant and equipment are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant, and equipment.

3.8 Goodwill

Goodwill resulting from acquisitions is initially measured at cost, which is the excess of the purchase price over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity as of the date of acquisition.

Goodwill is not subject to scheduled amortisation. Following initial recognition, goodwill is tested for impairment at least once a year (a so-called “impairment test”) to prove it is not impaired (the “impairment-only approach”). If there are indications that goodwill might be impaired, further tests must be conducted in addition to the mandatory annual impairment test. In subsequent periods, goodwill is recognised at cost less accumulated impairment.

The impairment test for goodwill is carried out on the basis of cash-generating units. In the Leasing and Factoring segments, these units are equivalent to the business activities in the respective regions (countries) and typically correspond to the legal entities. This cash-generating unit represents the lowest level at which goodwill is monitored internally.

The recoverable amount is the higher of the fair value less selling costs and the value-in-use of the cash-generating unit. If one of these amounts exceeds the carrying amount, then it is not always necessary to determine both amounts. The recoverable amount of each of the cash-generating units is determined based on a value-in-use calculation using cash flow projections. The cash flows of the five-year detailed planning phase are based in principle on financial plans approved by management for a period of three years and supplemented by two additional years. In the case of valuations in the Leasing segment, the five-year detailed planning phase is supplemented by a four-year ramp-up phase using the sustainable growth rate in order to achieve a steady state. For further explanations on the impairment testing of goodwill in the 2020 financial year, please refer to Note 5.7.

3.9 Other Intangible Assets

3.9.1 Licences, Software

Purchased licences and software are capitalised at amortised cost. The acquisition costs include the purchase price plus directly attributable costs necessary to prepare the asset for its intended use. The acquisition costs are reduced by scheduled amortisation on a straight-line basis over their expected economic life that, according to a standalone assessment, is usually either 3 or 5 years.

3.9.2 Internally Generated Intangible Assets (Development Costs)

An intangible asset developed as part of a single project is only recognised if the GRENKE Group is able to prove the technical feasibility of completing the intangible asset for internal use or sale and also prove the intention to complete the intangible asset and use or sell it. In addition, the asset's generation of future economic benefits, the availability of resources to complete the asset and the ability to measure the expenditure attributable to the intangible asset during its development must exist.

Internally generated intangible assets are measured at cost. The cost comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended. The capitalised amounts are amortised on a straight-line basis over the period during which the project is expected to generate revenue or during which the software can probably be amortised. Based on the technical developments expected in the future, the economic life is assumed to be 5 to 6 years, depending on the development project.

3.9.3 Customer Relations / Dealer Networks

Customer relations / dealer networks acquired in a business combination are measured at fair value upon initial recognition. The fair value of customer relations / dealer networks is based on a net present value method by applying the residual value method. Customer relations and dealer networks are amortised on a straight-line basis over their economic life of 7 years.

3.9.4 Non-Competitive Clauses

Non-competitive clauses contractually acquired in a business combination are recognised at fair value upon acquisition. The fair value is determined based on a net present value method, an excess profit method. Non-competitive clauses are subject to scheduled amortisation over the contractually agreed useful life, which is typically 1 to 3 years.

3.10 Impairment of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognised in profit and loss as soon as the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value-in-use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal.

Internally generated intangible assets are tested once annually for impairment during the period in which they have not yet been used.

Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and its disposal at the end of its useful life. The recoverable amount is estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

The carrying amounts of goodwill are tested in order to assess the probability of continuing future benefits in accordance with the rules described in Note 3.8. Impairment is recognised in profit and loss if the recoverable amount is lower than the carrying amount of the respective cash-generating unit. If the reason for an impairment recorded in a prior period ceases to apply, an impairment loss must be reversed. Exceptions to this rule exist only for impairment of goodwill, the reversal of which is expressly prohibited.

3.11 Equity

According to IAS 32, the hybrid bonds issued by GRENKE AG are to be fully classified as equity and reported under additional equity components. The bonds are recognised at their nominal amount and are to be allocated to core capital according to CRR / CRD 4. The share in net profit attributable to hybrid bondholders is only attributed to them once there is a legally enforceable right to distribution. Discounts and the cost of issuance of hybrid bonds reduce equity, whereas premiums increase equity, each net of deferred taxes and recorded under retained earnings.

3.12 Provisions

Provisions are carried at their probable settlement amount if a present obligation (legal or constructive) exists for the GRENKE Group due to an event occurring before the end of the reporting period, and it is probable that the settlement of the obligation will lead to an outflow of resources embodying economic benefits, and if a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In addition, any provisions for off-balance-sheet obligations such as loan commitments and financial guarantees must be recognised in accordance with the impairment requirements of IFRS 9 (see Note 3.5).

3.13 Pensions and Other Post-Employment Benefits

Defined benefit plans relate to benefits following the end of employment and are based on direct benefit commitments for which the amount of the benefit is determined and dependent on factors such as age, remuneration, and time employed. The provision recognised for defined benefit plans in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of the plan assets. Current and past service costs for benefits following the end of employment are recorded under staff costs. Interest expenses resulting from defined benefit obligations and interest income on plan assets are recorded as net interest expenses under other interest income. Past service costs resulting from plan adjustments are directly recognised in profit and loss.

The present value of the defined benefit obligation is calculated annually by an independent actuarial expert using the projected unit credit method of discounting the forecasted future cash outflows using the interest rate of industrial bonds of excellent credit standing. The industrial bonds are denominated in the currency of the payment amounts, and their terms match those of the pension obligations. The calculation takes the current market interest rate into particular account as well as forecasts of future salary and pension increases in addition to biometric assumptions.

In accordance with Swiss law, the Consolidated Group has set up a defined benefit pension plan in Switzerland, which requires that contributions be made to separately administered funds. The obligation under the defined benefit plans is calculated using the projected unit credit method. In addition, there is a defined benefit pension plan for employees of GRENKE BANK AG, which were acquired in the acquisition of Newman & Co. AG. These benefits are not financed by funds.

The underlying pension plans relate to both final salary and flat salary pension plans. Actuarial gains and losses, for example, due to adjustment of the discount rate, are recognised as other comprehensive income in equity.

The amount to be recognised as an asset or a liability under a defined benefit plan is the total of the present value of the defined benefit obligation less the fair value of the plan assets out of which the obligations are to be settled directly.

Contributions to defined contribution plans are recognised as an expense when the employees have rendered services. These expenses include contributions to statutory pension schemes and, specifically, direct insurance premiums. The GRENKE Group primarily uses defined contribution plans.

3.14 Taxes

3.14.1 Actual Tax Assets and Tax Liabilities

Actual tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. They are calculated based on the tax rates and tax laws applicable as of the end of the reporting period.

3.14.2 Deferred Tax Liabilities and Deferred Tax Assets

Deferred tax liabilities are calculated using the liability method. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of an asset or a liability for financial reporting purposes and its tax base.

Deferred tax assets for previously non-utilised tax-loss carryforwards are recognised to the extent that it is probable that taxable profit will be available in the future to utilise these carryforwards. Deferred tax assets and liabilities are recognised on the basis of tax rates anticipated for the period in which the temporary differences will reverse. For this purpose, tax rates are used which are applicable as of the end of the reporting period or will be applicable in the near future.

Deferred taxes relating to items that are recognised directly in equity are recognised in shareholders' equity and not in the income statement. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity at the end of the reporting period expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets or liabilities in the consolidated statement of financial position.

3.14.3 Value-Added Tax

Revenue, expenses, and assets are recognised net of VAT, with the following exceptions:

// the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the VAT is recognised as part of the acquisition costs of the asset or as part of the expense item
// the stated receivables and liabilities include VAT

The net VAT recoverable from or payable to the tax authorities is stated under other receivables or liabilities in the consolidated statement of financial position.

3.14.4 Trade Tax

In calculating the trade income for the German Consolidated Group companies GRENKE AG, GRENKE Investitionen Verwaltungs KGaA, and GRENKEFACTORING GmbH, Section 19 GewStDV was applied since the 2008 assessment period and charges and similar amounts relating directly to financial services as defined by Section 1 (1a) sentence 2 of the KWG were not added. For GRENKE BANK AG, Section 19 GewStDV is applied in a relevant manner for banks.

3.15 Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to the ordinary shareholders of GRENKE AG by the weighted-average number of shares outstanding during the financial year. Diluted earnings per share are calculated on the assumption that all potentially dilutive securities and share-based compensation plans have been converted or exercised.

3.16 Revenue from Contracts with Customers

The GRENKE Group acts as a principal and recognises income when it fulfils a performance obligation by transferring a promised good or service to a customer. The transfer is deemed to have occurred when the customer has obtained control over this asset.

The prerequisite for this is that the following criteria are met in identifying the contract with the customers: the contracting parties agreed to the contract; the corresponding rights to the goods or services to be transferred can be determined; the payment terms can be identified; the contract has an economic substance and the receipt of the consideration is probable.

The GRENKE Group is required to identify the performance obligations for each contract. When identifying the contractual performance obligations, any commitment to supply a good or to provide a service under a contract with a customer must first be identified. If goods and services from a contract have been identified, there is then an assessment as to whether these goods and services should be considered separate service obligations or whether certain services should be deferred from the overall package of services.

In determining the transaction price, the GRENKE Group estimates the fee based on the identified customer contract that can be claimed in exchange for the goods or services supplied. The variable purchase price components, fees to customers, non-cash consideration as well as material financing components are taken into account when determining the transaction price.

The transaction price is to be allocated to the individual performance obligations of the contract identified. The GRENKE Group allocates the transaction price generally on the basis of the individual selling prices. Individual selling prices are the prices at which a good or service would be sold separately at the time the contract begins or at the time the contract is concluded. Contracts that contain multiple performance obligations are referred to as multi-component contracts. When the actual individual selling prices are not immediately apparent, they are then estimated by the GRENKE Group. The individual selling price estimate takes into account all available information and uses as many observable parameters as possible. Estimates are calculated based on the market price as part of the adjusted market assessment approach.

The GRENKE Group takes into account all separately recognised benefit obligations of the relevant customer contract that were previously identified within the framework of the allocated transaction prices. Revenue is recognised either at a single point in time or over the period of time that the performance obligation is fulfilled.

A contract liability is recognised when the customer renders a payment or the payment becomes due (whichever event occurs first) before the Consolidated Group has transferred the respective goods or services to the customer and the Consolidated Group has an unconditional right to a certain consideration before transferring a good or a service to the customer. Contract liabilities are recognised as revenue once the Consolidated Group has met its contractual obligations or has transferred control over the respective goods or services to the customer.

3.16.1 Revenues from Service and Protection Business

Revenue from service and protection business are reported under the profit from service business. The lease assets must be included under the group insurance policy of the GRENKE Group unless the lessees themselves insure the lease asset. For this service, the lessee will be charged fees on an annual basis that are recognised as revenue. The lessee's payments are made in advance at the beginning of the respective calendar year or, in the case of newly concluded contracts, at the beginning of the lease term during the year. Deferred income from contracts with customers in the service and protection business is presented as contractual liabilities under the item deferred lease payments. When recognising the revenue from service and protection business, the performance obligation over a certain period of time can be said to be fulfilled, meaning the income must also be realised over this period. Income is realised by means of output-based methods, under which revenue is determined on a straight-line basis over time.

3.16.2 Sale of Leased Assets

The sale of lease assets relates to lease assets from contracts that have exhausted their basic lease term, defective lease contracts or mutually agreed early termination. Revenue from the sale of lease assets is recognised when GRENKE fulfils a performance obligation by transferring the promised good to a customer. The transfer occurs when the customer obtains control over this asset. The Consolidated Group recognises the revenue at a certain point in time.

Revenue from sales after the end of the basic lease term or due to the mutually agreed early termination of the contract is recognised in gains / losses from disposals, sale proceeds from defective lease contracts are recognised in the line item “settlement of claims and risk provision”.

3.16.3 Right-of-Use Fees

Right-of-use fees (licence fees and franchise fees) are recognised on an accrual basis in accordance with the economic substance of the underlying contract. These performance obligations are fulfilled and recognised as revenue over a period of time. Revenue is realised by means of output-based methods, under which revenue is determined on a straight-line basis over time.

3.16.4 Service Fees for Making Lease Assets Available for Use

Service fees for making the lease asset available for use are recognised at the point in time when the performance obligation has been fulfilled.

3.16.5 Commission Income from the Banking Business

Commission income from banking business consists primarily of account fees and is usually charged or invoiced on a quarterly basis. These performance obligations are fulfilled over a period of time. Income is realised by means of output-based methods, under which revenue is determined on a straight-line basis over time.

3.16.6 Revenue from Reminder Fees

Revenue from reminder fees is realised when due payment obligations are paid. The GRENKE Group fulfils its performance obligation at the payment date. Income is, therefore, recognised at a certain point in time.

3.16.7 Other Revenue to Lessees

Other revenue to lessees, such as those for an additional print out of the invoice, are realised at the time the invoice is issued or the performance obligation is fulfilled.

3.16.8 Interest Income

Interest and similar income from financing business are recognised using the effective interest method. An exception is interest-like fees such as factoring fees, which are realised at the time of invoice.

3.17 Accounting Judgements

In applying the accounting policies, the senior management has made the following judgements that substantially influence the recognition and amounts in the financial statements. This does not include those decisions involving estimates.

3.17.1 Principles of Consolidation

When deciding whether to consolidate an entity, the following control factors, among others, are evaluated: the purpose and design of the entity; the relevant activities and how they are determined; whether the Consolidated Group’s rights give the ability to direct the relevant activities; whether the Consolidated Group has risk exposure or rights to variable returns; whether the Consolidated Group can use its power to influence its returns.

When voting rights are decisive, the Consolidated Group is said to have control over an entity where it holds, directly or indirectly, more than half of the voting rights. This is the case unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities.

In determining control, potential voting rights are also considered if they are deemed as substantial.

The Consolidated Group gives a similar assessment on the existence of control where it does not control the majority of the voting rights but has the practical ability to unilaterally direct the relevant activities. This may arise in circumstances where the size and dispersion of the voting rights of the shareholders give the Consolidated Group the power to direct the activities of the investee.

Moreover, when assessing whether to consolidate an entity, the possibility to control parts of the investee as a fictitious separate entity, a so-called "silo", is also considered.

If any facts or circumstances indicate changes in one or more of the control factors listed in IFRS 10, the Consolidated Group reviews the adequacy of previous decisions. The Consolidated Group reassesses the consolidation status on an annual basis. This includes changes in decision-making rights, changes in contractual arrangements, changes in the financing, ownership or capital structure, as well as changes triggered by an event that was anticipated in the original contractual agreements.

3.17.2 Consolidation of Structured Entities

For refinancing, the Consolidated Group uses various structured entities in the form of asset-backed commercial paper programmes ("ABCP programmes").

Control over the investee as a fictitious separate entity (so-called "silo" structure) was determined for the structured entities, ABCP programmes of Coral Purchasing Limited, Kebnekaise Funding Limited, and Opusalpha Purchaser Limited. Although this concerns so-called multi-sellers in which banks create securitisation vehicles to give customers access to specific portfolios of assets and provide market liquidity through the securitisation of the financial assets, this financing structure opens up a further form of refinancing for the Consolidated Group and thus provides it with the corresponding benefits. The GRENKE Group does not have the power to exercise influence over the trust or the management of structured entities.

A significant activity over the term of these programmes is the selection of the receivables to be transferred. Furthermore, the initial selection of the receivables for each silo is defined according to specific selection criteria. In the event of a default of receivables, the settlement is managed by the GRENKE Group. The opportunities and risks of the receivables of the silos remain in the GRENKE Group. In the case of revolving receivables purchases or sales, the variable returns may be affected in such a manner that the part of the investee is controlled as a fictitious separate entity.

At FCT GK 2 and FCT GK 4, shares of the funds are held by two subsidiaries and are included in consolidation. The shares that are directly and indirectly held by the Consolidated Group are an indication for the inclusion in the scope of consolidation, but not the decisive criteria since all assumptions contained in IFRS 10 must be met for consolidation. FCT GK 2 is included in the scope of consolidation since all control factors are met, and the Consolidated Group controls the entity by having the power to direct the relevant activities, having the right of variable returns, as well as having the power to affect the amount of the returns. In contrast to FCT GK 2 and FCT GK 4, there are no participating interests in the case of FCT GK 3 (all other parameters are identical). As with FCT GK 2 and FCT GK 4, consolidation is based on control criteria and not ownership because voting rights or similar rights are not the decisive criteria for determining control. For FCT GK 2, FCT GK 3 and FCT GK 4, control is to be confirmed, which results in a consolidation requirement.

As of December 31, 2020 and December 31, 2019 and during both years, the GRENKE Group did not hold any interests where it did not have the controlling influence. Therefore, there were no significant restrictions due to protection rights in favour of these shareholders.

3.17.3 Consolidation of franchise companies

The GRENKE Group has used franchise agreements to facilitate its expansion strategy in the Leasing and Factoring segments in new markets. To this end, franchise companies were founded in the local markets by financial investors, with the respective managing director also holding shares in the franchise company. In the case of the franchise's positive business development, the GRENKE Group could acquire the company after approximately four to six years based on a pre-emptive right. Due to the success of this strategy, an increasing number of former GRENKE employees have been recruited as managing directors and shareholders in recent years. Through the franchise agreements concluded, GRENKE grants rights that are intended to protect the franchise brand. In a typical franchise agreement, the franchisor is granted certain decision-making rights with regard to the franchisee's business activities. Generally, the franchisor's rights do not restrict the ability of third parties to make decisions that have a significant impact on the franchisee's return on investment. Similarly, the franchisor's rights under franchise agreements do not necessarily give the franchisor the ability to direct activities that have a material impact on the franchisee's return. A distinction must be made between the present ability to make decisions that materially affect the franchisee's return and the ability to make decisions that protect the franchise brand. The franchisor does not have control over the franchisee if third parties have existing rights that give them the present ability to direct the franchisee's relevant activities. By entering into the franchise agreement, the franchisee has made a unilateral decision to conduct its business in accordance with the terms of the franchise agreement but on its own account. Fundamental decisions, such as the choice of legal form and financial structure of the franchisee, may be dominated by parties other than the franchisor and may significantly affect the franchisee's return. The lower the level of financial support provided by the franchisor and the lower the franchisor's risk exposure to the franchisee's return fluctuations, the greater the likelihood that the franchisor will only have protective rights. A certain degree of management's judgement is required in assessing whether or not franchise agreements and the accompanying objective control of the relevant activities of the franchise companies preclude a relationship requiring consolidation.

3.17.4 Leasing – The Group as Lessor

Right-of-use fees (licence fees or franchise fees) are recognised on an accrual basis in accordance with the economic substance of the underlying contract. These performance obligations are fulfilled over a period of time and revenue is recognised accordingly. Output-based methods are used here, in which the revenue is determined on a straight-line basis over time.

3.17.5 Leasing – The Group as Lessee

The GRENKE Group, in its role as lessee, makes assessments affecting the amount of lease liabilities and rights-of-use recognised in the statement of financial position under IFRS 16. Such assessments concern, for example, the determination of appropriate incremental borrowing rates for discounting the expected cash flows and the determination of the lease term.

The determination of the lease's term is subject to discretion, as the property agreements concluded regularly include extension and termination options for flexibility purposes that are to be included in the determination of the lease's term when there is sufficient certainty that these options will be exercised. In assessing the existence of sufficient certainty, the GRENKE Group takes into account all of the facts and circumstances that give it an economic incentive in its role as lessee to exercise or not exercise the extension or termination option.

3.17.6 Impairment of Financial Assets

For information on discretionary decisions with regard to Level transfers, credit impairment and other discretionary decisions made in determining the impairment of financial assets, please refer to the explanations in Note 3.5.5.

3.18 Use of Assumptions and Estimates

In preparing the consolidated financial statements, assumptions and estimates have been made that have affected the recognition and carrying amounts of assets, liabilities, income, expenses, and contingent liabilities.

Assumptions and estimates generally relate to the Consolidated Group-wide uniform determination of the useful lives of assets; the measurement of provisions; the impairment of receivables; the recognition of realisable residual values of lease assets; and the determination of parameters for assessing the ongoing value of intangible assets and other non-financial assets as well as the probability of future tax benefits. In individual cases, the actual amounts may differ from the assumptions and estimates. Any changes will be recognised in profit and loss as and when better information becomes available.

The key uncertainties in relation to estimates and the associated disclosure requirements are described in the sections that follow.

3.18.1 Assumptions Made in Impairment Tests for Measuring Existing Goodwill

The cash flows used to measure goodwill under the discounted cash flow method are based on current business plans and internal plans. This involved making assumptions as to the future development of income and expenses. Assumptions as to the future growth rates of the respective cash-generating unit were made on the basis of historical figures and past income and expense patterns that were projected into the future. These estimates and the underlying methodology may have a significant impact on the values determined. If significant assumptions differ from actual figures, impairments may have to be made in the future in profit and loss. For further information on the assumptions made, please refer to Note 5.7.

3.18.2 Determination of Impairment for Lease Receivables

Current lease receivables (so-called "performing lease receivables") are generally to be measured in accordance with the provisions of IFRS 16. Additionally, appropriate risk provisions as defined by IFRS 9 must be taken into account. The GRENKE Group uses the Expected Credit Loss (ECL) model to determine the expected loss and thus the risk provisions. The ECL is calculated as a multiplication of the three parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EaD). This standard formula for determining the expected loss takes into account the probability of failure (PD), the maximum possible loss on failure (EaD), and ultimately the actual loss (LGD). Depending on whether the twelve-month period or the total residual term is considered, different models are used to estimate the parameters taking into account the period under consideration.

The individual parameters are described in the following:

// PD: The default probability model is determined using a recognised mathematical statistical method. The model weighs input variables and, based on this weighting, calculates an estimated probability of default. Variables from three areas are included in our PD models. These are customer-specific variables, contract-specific variables and variables that reflect the observed payment behaviour of the lessee. Macroeconomic variables are included in our models in the form of country-specific parameters that are based on the respective country risk. Countries for which there is insufficient data to calculate a separate PD are summarised. In addition, various scenarios for the development of macroeconomic variables are considered. The aim here is to obtain forward-looking information on gross domestic product and the unemployment rate in the individual countries. The probabilities of the possible developments of macroeconomic variables are taken from a survey of professional forecasters published by the ECB. The final impact on the PD, and thus the risk provisioning within the individual scenarios, is determined using internal data. The final weighting of the PD derived from the internal data within the individual macroeconomic scenarios with their probability of occurrence according to the ECB expert survey results in the final PD that is decisive for risk provisioning.

// EaD: We calculate the EaD for lease receivables as the sum of the outstanding instalments and the IFRS residual value at the date of the loss. Since the time at which the loss event occurs is unknown at the reporting date, an estimate is made about the distribution of loss events during the observation period based on past experience and considered in our EaD model. Discounting takes place at the internal interest rate of the lease contract concerned.

// LGD: The LGD models reflect the past loss experience and determine how why high the level of losses will be as a quota of estimated EaD. For countries with insufficient data for the determination of LGDs, average values of the GRENKE Group are used.

The ECL model, including the input parameters and sub models, is validated at least once a year or based on the occasion and updated if necessary.

Risk provision on deferred leases A two-step procedure with country-specific factors was chosen to determine the additional risk provision. First, an increase factor was determined. This increase factor forms an additional risk provision in order to be prepared for an increase in deferral amounts due to further Corona waves in 2021. The factor is country-specific and results from an estimate of the increase in three different scenarios, which are again weighted using the country-specific probability of occurrence of these scenarios.

Second, a country-specific insolvency ratio was calculated similarly to the first step. This factor is a country-specific insolvency ratio and results from an estimate of the insolvency ratio on deferral agreements in three different scenarios, which are in turn weighted using the country-specific probability of occurrence of these scenarios. The exposure of the deferral agreements, including the increase factor, is valued at the value retention rate of processing category 6 provided for insolvency cases (please refer to the explanation of the processing classes) and compared to the risk provision already recognised in accordance with IFRS 9. This value is multiplied by the country-specific insolvency ratio and results in the second effect. Both effects are then added together and form the additional risk provision for deferral agreements.

Terminated lease contracts or contracts in arrears (so-called "non-performing lease receivables") are also to be measured in accordance with the provisions of IFRS 16, taking the appropriate impairment pursuant to IFRS 9 into consideration. The amount of impairment is determined using percentages and processing categories. Percentages are calculated using statistical methods, which include both payments as well as expected payments. They are reviewed once a year for validity using backtesting. Processing statuses are grouped together in processing categories that are set up with respect to risk.

The following table lists the processing categories in the leasing business:

Category	Description
0	Current contract not in arrears
1	Current contract in arrears
2	Terminated contract with service instalment agreement
3	Terminated contract (recently terminated or court order for payment applied for)
4	Legal action (pending or after objection to court payment order)
5	Order of attachment issued / Debt-collecting agency commissioned
6	Statement in lieu of oath (applied for or issued) and insolvency proceedings instituted but not completed
7	Derecognised
8	Being settled (not terminated)
9	Discharged (completely paid)

The processing categories 2 to 7 are allocated to Level 3 because the contracts have been terminated due to defaults in payment and are thus credit-impaired. The impairment rates range between 25 percent and 100 percent. The processing categories 0 and 1 are impaired in the context of current lease receivables.

3.18.3 Determination of Impairment for Factoring Receivables

Current factoring receivables are measured at amortised cost. Appropriate risk provisions within the meaning of IFRS 9 must be taken into account. The GRENKE Group uses the "Expected Credit Loss" (ECL) model to determine the expected loss and thus the risk provisions, as is the case for lease receivables.

In the following, we describe the individual parameters:

// PD: The default probability model is determined using a recognised mathematical statistical method. The model weighs input variables and, based on this weighting, calculates an estimated probability of default. Our PD models include variables that provide information on the customer, the debtor and the receivable, as well as the current overdue status.

// EaD: The EaD is defined for factoring receivables as the outstanding amount as of the date of default. Since factoring receivables have a fixed due date, there are virtually no or only very limited estimation uncertainties about the amount and the time of outstanding receivables subject to potential default.

// LGD: The LGD models reflect the past loss experience and determine how why high the level of losses will be in the future as a quota of estimated EaD. LGDs are determined at the country level. For countries where there is no sufficient underlying data for determining the LGDs, the LGD determined for Germany is used.

The ECL model, including the input parameters and sub models, is validated at least once a year or based on the occasion and updated if necessary.

Factoring receivables in arrears are recognised at amortised cost less appropriate bad debt allowances. The amount of bad debt allowances is determined using percentages and processing categories. Percentages are calculated using statistical methods. Processing statuses are grouped together in processing categories.

The following table illustrates the processing categories in the factoring business:

Category	Description
0	Receivables waiting to be processed
1	Receivables due and not due before debt collection measures
2	Receivables due in own debt collection
3	Receivables due being processed by third-party debt collection and / or with payment being serviced in instalments
4	Receivables due directly before or after applying for a default notice
5	Receivables due directly before or after action is filed
6	Receivables due from insolvent debtor
7	Derecognised receivables
8	Fully paid receivables

Impairment is assumed for categories 2 to 7 due to defaults in payment, whereby recoverability consistent with the processing category is assumed. The allowance rates range between 2 percent and 100 percent. The processing categories 0 and 1 undergo impairment as part of the current factoring receivables. The allowance rates are determined on the basis of past experience and statistical methods and projected into the future.

3.18.4 Determination of Impairment from the Lending Business (Risk Provision)

Receivables from the lending business are carried at amortised cost. Appropriate risk provisions within the meaning of IFRS 9 must be taken into account. The GRENKE Group uses the Expected Credit Loss (ECL) model to determine the expected loss and thus the risk provisions, as is the case for lease receivables. The following sub-portfolios are to be distinguished for the lending business: start-up loans, microcredits and other loans. The microcredit receivables are fully guaranteed by the German microcredit fund (Mikrokreditfonds Deutschland) to ensure the recognition of an LGD of zero and no loan loss provisions for this portfolio.

For the remaining two portfolios, the individual parameters of the ECL model are defined as follows:

// PD: The default probability model is determined based on the past experience of losses. In addition, early warning information is included by means of the use of a monthly updated corporate quick-rating process, which in addition to customer information analyses the payment behaviour. Furthermore, various scenarios for the development of macroeconomic variables are taken into account. The aim here is to obtain forward-looking information on gross domestic product and the unemployment rate in the individual countries. The probabilities of the possible developments of macroeconomic variables are taken from a survey of professional forecasters published by the ECB. The final impact on the PD, and thus the risk provisioning within the individual scenarios, is determined using internal data. The final weighting of the PD derived from the internal data within the individual macroeconomic scenarios with their probability of occurrence according to the ECB expert survey results in the final PD that is decisive for risk provisioning.

// EaD: We calculate the EaD for receivables from the lending business as the balance of outstanding receivables. Since the time at which the loss event occurs is unknown at the reporting date, an estimate is made about the future distribution of loss events during the observation period based on past experience and considered in our EaD model.

// LGD: The LGD models reflect the past loss experience and determine how why high the level of losses in the future will be as a quota of estimated EaD. LGDs are determined separately for each portfolio.

The ECL model, including the input parameters and sub models, is validated at least once a year or based on the occasion and updated if necessary.

3.18.5 Determination of Impairment for Trade Receivables

Trade receivables are measured at amortised cost. Appropriate risk provisions within the meaning of IFRS 9 must be taken into account. The GRENKE Group uses the “Expected Credit Loss” (ECL) model to determine the expected loss and thus the risk provisions, as is the case for lease receivables.

The individual parameters are described below:

// PD: The probability of default model is determined using expert estimates based on internal information.

// EaD: The EaD is defined for trade receivables as the outstanding amount as of the date of default. Since trade receivables have a fixed due date, there are virtually no or only very limited estimation uncertainties about the amount and the time of the outstanding receivables subject to a possible default.

// LGD: The LGD models reflect the past loss experience and determine how high the level of losses will be in the future as a quota of estimated EaD. For trade receivables, the LGD was based on an expert estimate that also includes regulatory requirements.

Trade receivables that are credit-impaired are assigned to Level 3 of the IFRS 9 Impairment Model. The amount of the impairment loss is based on the processing categories in the leasing business and is determined on a case-by-case basis. Based on past experience, a 100 percent impairment loss is already recognised in some countries for all receivables that are more than six months past due.

The ECL model is validated on an ad hoc basis and at least once a year and updated if necessary.

3.18.6 Consideration of Estimated Residual Values at the End of the Lease Term to Determine the Present Value of Lease Receivables

Non-guaranteed (estimated) residual values are taken into account when determining the present value of the lease receivables in accordance with the definition in IFRS 16. The residual values estimated at the end of the contract period are determined according to the expiration groups of the respective lease contract and include the expected subsequent business and the expected proceeds from disposals at the end of the term, based on historical experience. For additions as of January 1, 2020, residual values amounted to between 5.5 percent and 15.5 percent of the acquisition cost (previous year: as of January 1, 2019, between 3.0 percent and 17.0 percent).

The estimated residual values are best determined on the basis of statistical analyses. If the post-transaction recoverable amount is lower than expected (from the sale and so-called subsequent lease), the existing lease receivables are impaired. However, an increase in the recoverable amount remains unrecognised.

3.18.7 Recognition of Lease Assets for Sale at Estimated Residual Values

The measurement of lease assets for sale is based on the average sales proceeds per age group realised in the past financial year in relation to the original cost. Lease assets for sale are measured at historical residual values, taking their actual saleability into account. As of the end of the reporting period, the residual values used amounted to between 2.5 percent and 16.1 percent of the historical cost (previous year: between 2.7 percent and 16.5 percent). If a sale is considered unlikely due to the condition of the asset, the asset is impaired in profit and loss.

3.18.8 Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities, not derived from information on active markets, are determined using a valuation model. The input parameters of these models are based on observable market data, if possible. If this is not possible, determining fair values requires a certain degree of judgement. This judgement relates to input parameters such as liquidity risk, credit risk, and volatility. Changes regarding the assumptions of these input parameters may have an effect on the recognised fair value of financial instruments. If observable prices and parameters are available, they are to determine the fair value that in turn avoids the large-scale use of estimates.

3.18.9 Recognition and Measurement of Deferred Taxes on Tax-Loss Carryforwards

Deferred tax assets are recognised for all unused tax-loss carryforwards to the extent to which it is likely that taxable income will be available. This means that the tax-loss carryforwards may, in fact, be used. Determining the amount of the deferred tax assets requires considerable use of judgement on the part of the management with regard to the expected occurrence and level of the future taxable income, as well as to the future tax planning strategies.

3.18.10 Recognition and Measurement of Actual Tax Assets and Tax Liabilities

Due to the complexity of tax legislation, taxpayers and local tax authorities may have varying constructions and interpretations of the tax laws. This can lead to subsequent tax payments for prior financial years. Tax provisions are recognised in the event that the amounts stated in the tax declarations are not likely to be realised (uncertain tax items). The amount is determined from the best estimate of the anticipated tax payment. Tax receivables from uncertain tax items are recognised when probable and adequately ensured they can be realised. The assumptions are based on the management’s assessment of the amount of uncertain tax items.

3.19 Categorisation as current and non-current

The Consolidated Group classifies assets and liabilities on the statement of financial position into current and non-current assets and liabilities. The residual term or the date of expected realisation or settlement is defined as current if there is less than one year between the reporting date and the due date. Financial instruments without contractual maturities, cash on hand, demand deposits, and actual income taxes are generally categorised as “current”. Deferred tax assets and liabilities are classified as non-current assets or liabilities.

4. Selected Notes to the Income Statement

4.1 Net Interest Income

4.1.1 Interest and Similar Income from Financing Business

Interest and similar income from the financing business break down as follows:

EURk	2020	2019
Interest income from leasing business	457'101	425'727
Interest and similar income from factoring business	8'215	8'862
Interest income from bank's lending business	5'204	3'840
TOTAL	**470'520**	**438'429**

4.1.2 Interest Expenses from Refinancing and Deposit Business

Interest expenses from the refinancing and deposit business break down as follows:

EURk	2020	2019
Interest expenses from refinancing	54'309	51'796
Interest expenses from deposit business	9'109	5'132
TOTAL	**63'418**	**56'928**

4.2 Settlement of Claims and Risk Provision

Expenses for the settlement of claims and risk provision break down as follows:

EURk	2020	2019
SETTLEMENT OF CLAIMS AND RISK PROVISION IN LEASING BUSINESS	**189'225**	**131'156**
Impairment leasing business	181'305	127'314
modification loss that did not result in derecognition (interest)	3'828	0
Settlement of claims and other risk provision in leasing business	3'654	3'419
Depreciation of terminated operating leases	373	296
Expenses from disposal of residual carrying amounts under operating leases	65	127
SETTLEMENT OF CLAIMS AND RISK PROVISION IN THE BANK'S LENDING BUSINESS	**11'183**	**2'343**
Impairment in bank's lending business	9'358	1'575
Other settlement of claims and risk provision in lending business	1'825	768
SETTLEMENT OF CLAIMS AND RISK PROVISION IN FACTORING BUSINESS	**1'002**	**1'685**
Impairment factoring business	770	1'272
Other settlement of claims and risk provision in factoring business	232	413
SETTLEMENT OF CLAIMS AND RISK PROVISION TRADE RECEIVABLES	**1'024**	**1'407**
Impairment trade receivables	1'024	1'407
TOTAL	**202'434**	**136'591**
thereof impairment	192'457	131'568

4.3 Profit from Service Business

This item contains income and expenses from the service and protection business, the processing of property insurance policies within the scope of the leasing business, as well as income and expenses from operating leases. The income and expenses from the service business break down as follows:

EURk	2020	2019
Revenue from service and protection business	126'571	112'320
Expenses from service and protection business	8'600	7'764
PROFIT FROM SERVICE AND PROTECTION BUSINESS	**117'971**	**104'556**
Revenue from operating leases	19'759	18'037
Depreciation of lease assets from operating leases	19'681	16'394
PROFIT FROM OPERATING LEASES	**78**	**1'643**
TOTAL	**118'049**	**106'199**

4.4 Profit from New Business

The profit from new business is comprised as follows:

EURk	2020	2019
Capitalised initial direct costs	26'714	34'042
Revenue from lease down payments	10'974	14'160
Service fees for making lease assets available for use	5'037	6'900
	324	0
Other	4	16
PROFIT FROM NEW BUSINESS	**43'053**	**55'118**

Based on the calculations specific to the lease agreement, mainly the initial direct costs, revenue from lease down payments and service fees for making lease assets available for use are recorded in the profit from new business. Initial direct costs include primarily commissions paid to resellers, bonus payments, variable remuneration components and other initial direct costs incurred in connection with the conclusion of the lease. The presentation of capitalised initial direct costs is on a gross basis, which means the costs incurred are still included within the corresponding items of the income statement. Since the 2020 financial year, net commission income from the lending and factoring business has been reported in the profit from new business. In the prior year, it was reported under other operating income (Note 4.10) and other operating expenses (Note 4.9).

4.5 Gains (+) / Losses (-) from Disposals

EURk	2020	2019
Capital losses from disposal after end of the basic lease term	−8'003	−9'330
Capital gains / losses from the mutually agreed early dissolution of contracts	2'571	2'768
PROFIT	**−5'432**	**−6'562**

After the change in the presentation of the so-called subsequent business, the losses from disposals consist solely of losses from the termination of lease contracts after the agreed basic lease term and gains / losses from the premature mutual termination of contracts. The income components of the subsequent business, which were previously shown as income from subsequent leases in this line item, are now reported as interest and similar income from the financing business within the framework of finance leases.

4.6 Staff Costs

In the reporting year, GRENKE Group's headcount (not including the Board of Directors) averaged 1,891 employees (previous year: 1,804). Additionally, the Consolidated Group employed 75 trainees (previous year: 70).

Number of employees	2020	2019
NUMBER OF EMPLOYEES		
Europe	1'784	1'708
of which in Germany	727	672
of which in France	187	180
of which in Italy	206	212
Other countries	107	96
GRENKE CONSOLIDATED GROUP	**1'891**	**1'804**

The average number of employees (excluding the Board of Directors) based on full-time equivalents was 1,937 (previous year: 1,838).

Staff costs consisted of the following:

EURk	2020	2019
Salaries	98'622	99'815
Social security and pension expenses	21'158	21'010
TOTAL	**119'780**	**120'825**

Government grants due to the COVID-19 pandemic in the amount of EUR 979k were netted in staff costs. The grants are due to the utilisation of short-time allowance, reduction of social security contributions and other grants in various countries. Comparability with the previous year is therefore limited.

For the existing defined benefit pension plans, a net pension expense totalling EUR 733k (previous year: EUR 523k) was recognised under staff costs for the 2020 financial year. Staff costs also included EUR 1,346k (previous year: EUR 1,478k) for the employee participation programme of the French subsidiary.

Expenses by category were as follows:

EURk	2020	2019
Staff costs	119'780	120'825
Own work capitalised	2'506	2'114
TOTAL STAFF COSTS	**122'286**	**122'939**

4.7 Depreciation, Amortisation and Impairment

EURk	2020	2019
Other intangible assets	7'577	7'666
Operating and office equipment	5'861	6'239
Goodwill	2'169	4'162
Office buildings	836	727
Rights-of-use	12'428	11'649
TOTAL	**28'871**	**30'443**

With regard to expenses from impairment of property, plant and equipment, goodwill and other intangible assets, please refer to Notes 5.6 through 5.8. With regard to the amortisation of rights-of-use capitalised as lessee in accordance with IFRS 16, please see Note 5.10.

Expenses by category were as follows:

EURk	2020	2019
Depreciation, amortisation and impairment	28'871	30'443
Depreciation and amortisation of operating leases recorded in the profit from service business	19'681	16'394
Depreciation and amortisation of operating leases recorded in the risk provisions of the leasing business	373	296
TOTAL DEPRECIATION / AMORTISATION	**48'925**	**47'133**

4.8 Selling and Administrative Expenses (Not Including Staff Costs)

Selling and administrative expenses are divided into the following categories:

EURk	2020	2019
Operating expenses	19'578	22'488
Consulting and audit fees	27'151	14'900
Distribution costs (excl. commissions and bonuses)	13'207	18'229
Administrative expenses	14'758	13'643
Other taxes	3'397	3'370
IT project costs	3'223	5'240
Remuneration of the Supervisory committees	315	409
TOTAL	**81'629**	**78'279**

IT project costs that are not capitalised as development costs occur as a result of the involvement of external expertise, particularly for process optimisation projects of the central and standardised IT processes.

Expenses by category were as follows:

EURk	2020	2019
Selling and administrative expenses	81'629	78'279
Expenses from the service and protection business	8'600	7'764
Commissions and bonuses paid to dealers and recorded in profit from new business	43'837	63'106
TOTAL SELLING AND ADMINISTRATIVE EXPENSES	**134'066**	**149'149**

4.9 Other Operating Expenses

Other operating expenses break down as follows:

EURk	2020	2019
Currency translation differences	6'966	6'900
Revenue deductions	2'193	1'118
Capital losses from the disposal of operating and office equipment	4	12
Commission expenses from banking business and factoring business	0	715
Other items	2'174	1'298
TOTAL	**11'337**	**10'043**

Commission expenses for the banking and factoring business in the amount of EUR 1,475k (previous year: EUR 715k) is reported in the profit from new business starting with the 2020 financial year (Note 4.4).

4.10 Other Operating Income

Other operating income breaks down as follows:

EURk	2020	2019
Revenue from overdue payment fees	1'605	1'679
Maintenance revenues	0	128
Commission income from banking business	0	711
Other revenue from lessees	949	823
Revenue from the disposal of merchandise	76	419
Change in inventory	–107	–183
Prior-period income	843	1'282
Insurance compensation	5	16
Rental income	104	113
Capital gains from the disposal of non-current assets	54	93
Reversal of other provisions	132	147
Income from providing bank accounts	401	298
Other items	2'334	1'073
TOTAL	**6'396**	**6'599**

4.11 Revenue from Contracts with Customers

The following table shows revenue from contracts with customers (IFRS 15):

EURk	TZ.	Segment	2020	2019
REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)				
Gross revenue from service and protection business (service business)	4.3	Leasing	126'571	112'320
Service fee for making lease assets available for use	4.4	Leasing	5'037	6'900
Revenue from reminder fees	4.10	Leasing	1'587	1'656
Revenue from reminder fees	4.10	Factoring	18	23
Other revenue from lessees	4.10	Leasing	949	823
Disposal of lease assets	4.2 / 4.5	Leasing	156'791	166'365
Commission income from banking business	4.10	Bank	324	711
TOTAL			**291'277**	**288'798**

Commission income from banking business in the amount of EUR 1,799k (previous year: EUR 711k) is reported in the profit from new business starting with the 2020 financial year (Note 4.4).

4.12 Revenues and Other Revenue

The following table shows revenue from contracts with customers (IFRS 15) and other revenue (IFRS 9, IFRS 16):

TEUR	2020	2019
REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)	**291'277**	**288'798**
OTHER REVENUE (IFRS 9, IFRS 16)		
Interest and similar income from financing business	470'520	438'429
Revenue from operating leases	19'759	18'037
Portions of revenue from lease down payments	10'974	14'160
TOTAL	**792'530**	**759'424**

4.13 Income Taxes

EURk	2020	2019
Current taxes	19'427	20'858
Corporate and trade taxes (Germany)	420	–75
Foreign income taxes	19'007	20'933
Deferred taxes	7'305	8'579
Germany	3'054	4'467
International	4'251	4'112
TOTAL	**26'732**	**29'437**

Current taxes include tax expenses of EUR 523k from prior years (previous year: tax benefits of EUR 471k).

4.13.1 Reconciliation of the Average Effective Tax Rate to the Expected Tax Rate

The reconciliation of the expected applicable tax rate of GRENKE AG to the effective tax rate based on earnings before taxes (100 percent) is as follows:

Applicable tax rate	2020	2019
Trade tax	14.02%	14.51%
Corporate income tax	15.00%	15.00%
Solidarity surcharge (5.5% of corporate income tax)	0.83%	0.83%
EXPECTED AVERAGE TAX RATE GRENKE AG	**29.85%**	**30.34%**
Non-deductible expenses	3.59%	0.54%
Changes due to foreign taxes	–6.02%	–10.24%
Effective changes in tax rates	–0.89%	–0.34%
tax-free income	1.14%	0.86%
Effect of non-tax deductible goodwill impairment	0.56%	0.78%
Utilisation of non-capitalised loss carryforwards	–1.54%	–0.45%
Back payments and tax refunds from previous years	0.45%	–0.29%
Tax credits	–3.20%	–2.84%
Other	–0.73%	–0.28%
EFFECTIVE AVERAGE TAX RATE FOR THE CONSOLIDATED GROUP	**23.21%**	**18.08%**

4.14 Earnings Per Share

The profit attributable to the shareholders of GRENKE AG in the amount of EUR 86,185k (previous year: EUR 134,039k) is the basis for the calculation of both diluted and basic earnings per share. There was no dilutive effect in the 2020 financial year or in the previous year. Earnings per share for the reporting year amounted to EUR 1.86 (previous year: EUR 2.89).

Shares	2020	2019
Shares outstanding at beginning of period	46'353'918	46'353'918
Average number of shares outstanding at end of period	46'398'814	46'353'918
Shares outstanding at end of period	46'495'573	46'353'918

EURk	2020	2019
Net profit attributable to GRENKE AG ordinary shareholders	86'185	134'039
Net profit attributable to GRENKE AG hybrid capital holders	7'481	6'531
Profit / loss attributable to non-controlling interests	–5'226	–7'232
NET PROFIT	**88'440**	**133'338**

5. Selected Notes to the Statement of Financial Position

5.1 Cash and Cash Equivalents

EURk	Dec. 31, 2020	Dec. 31, 2019
Bank balances	233'467	233'788
Balances at central banks	711'248	212'166
Cash in hand	18	24
TOTAL	**944'733**	**445'978**

For the purposes of the statement of cash flows, cash and cash equivalents break down as follows:

EURk	Dec. 31, 2020	Dec. 31, 2019
Cash and cash equivalents as per the statement of financial position	944'733	445'978
Less current account liabilities	69	73
CASH AND CASH EQUIVALENTS AS PER THE STATEMENT OF CASH FLOWS	**944'664**	**445'905**

5.2 Lease Receivables

The following table shows the maturity of non-discounted lease payments from leases that were classified as finance leases upon their inception.

EURk	Dec. 31, 2020	Dec. 31, 2019
Lease payments outstanding under finance leases as of reporting date		
Up to 1 year	2'122'920	2'069'124
1 to 2 years	1'600'895	1'612'813
2 to 3 years	1'065'734	1'129'123
3 to 4 years	576'385	663'864
4 to 5 years	197'380	274'304
More than 5 years	36'468	44'622
TOTAL	**5'599'782**	**5'793'850**
+ non-guaranteed residual values	741'047	723'910
GROSS INVESTMENT	**6'340'829**	**6'517'760**
– unrealised (outstanding) finance income	726'320	792'288
NET INVESTMENT	**5'614'509**	**5'725'472**

The reconciliation of gross investment contains only current contracts as of the end of the reporting period. The following adjustments must be made in order to reconcile the net investment with the carrying amount of lease receivables reported in the statement of financial position:

EURk	Dec. 31, 2020	Dec. 31, 2019
CHANGES IN LEASE RECEIVABLES FROM CURRENT CONTRACTS		
RECEIVABLES AT BEGINNING OF PERIOD	**5'725'472**	**4'738'373**
+ Change during the period	–110'963	987'099
LEASE RECEIVABLES (CURRENT + NON-CURRENT) FROM CURRENT CONTRACTS AT END OF PERIOD	**5'614'509**	**5'725'472**
CHANGES IN LEASE RECEIVABLES FROM TERMINATED CONTRACTS/ CONTRACTS IN ARREARS		
GROSS RECEIVABLES AT BEGINNING OF PERIOD	**434'939**	**339'087**
+ Additions to gross receivables during the period	148'498	149'351
– Disposals of gross receivables during the period	57'568	53'499
GROSS RECEIVABLES AT END OF PERIOD	**525'869**	**434'939**
TOTAL GROSS RECEIVABLES (CURRENT AND TERMINATED)	**6'140'378**	**6'160'411**
IMPAIRMENT AT BEGINNING OF PERIOD	**384'762**	**300'460**
+ Additions of accumulated impairment during the period	119'324	84'302
IMPAIRMENT AT END OF PERIOD	**504'086**	**384'762**
Lease receivables (carrying amount, current and non-current) at beginning of period	5'775'649	4'777'000
LEASE RECEIVABLES (CARRYING AMOUNT, CURRENT AND NON-CURRENT) AT END OF PERIOD	**5'636'292**	**5'775'649**

As a result of risk management and a highly diversified contract and lessee portfolio, the lease receivables have a diversified risk structure with regard to credit risk. In the majority of cases (98 percent), the GRENKE Group remains the legal owner of the lease assets, which are used as collateral for the lease receivables. There is also a low amount of bank guarantees (EUR 6.6 million) as well as guarantees and warranties from third parties for 3 percent of the lease receivables based on the carrying amount. The risk concentration of the lease receivables results from the underlying receivables. The risk concentration of lease receivables is determined on the basis of the main geographical areas in which revenues are generated with external customers. The three countries Germany, France and Italy account for a total of 63.8 percent (previous year: 64.4 percent) of the gross volume of lease receivables. The total amount of the risk position per risk concentration country is shown in the overview below. The following overview also shows the gross receivables broken down into the default risk rating categories for lease receivables as defined in the GRENKE Group and the level of impairment for lease receivables for each IFRS 9 impairment level. The impairment and the definition of the default risk rating category are based on the approach described in Note 3.18.

EURk	Level 1	Level 2	Level 3	Total
GERMANY				
Categories 0, 8: Low risk	1'173'324	36'646	0	1'209'970
Categories 1, 8: Higher risk	0	4'624	8'300	12'924
Categories 2-7: Doubtful receivables	0	0	40'966	40'966
TOTAL GROSS RECEIVABLES GERMANY	**1'173'324**	**41'270**	**49'266**	**1'263'860**
FRANCE				
Categories 0, 8: Low risk	1'071'814	92'838	0	1'164'652
Categories 1, 8: Higher risk	0	10'332	40'768	51'100
Categories 2-7: Doubtful receivables	0	0	94'312	94'312
TOTAL GROSS RECEIVABLES FRANCE	**1'071'814**	**103'170**	**135'080**	**1'310'064**
ITALY				
Categories 0, 8: Low risk	967'007	144'194	0	1'111'201
Categories 1, 8: Higher risk	0	12'991	89'145	102'136
Categories 2-7: Doubtful receivables	0	0	130'955	130'955
TOTAL GROSS RECEIVABLES ITALY	**967'007**	**157'185**	**220'100**	**1'344'292**
OTHER COUNTRIES				
Categories 0, 8: Low risk	1'785'651	137'850	0	1'923'501
Categories 1, 8: Higher risk	0	31'779	76'670	108'449
Categories 2-7: Doubtful receivables	0	0	190'212	190'212
TOTAL GROSS RECEIVABLES OTHER COUNTRIES	**1'785'651**	**169'629**	**266'882**	**2'222'162**
TOTAL CONSOLIDATED GROUP				
Categories 0, 8: Low risk	4'997'796	411'528	0	5'409'324
Categories 1, 8: Higher risk	0	59'726	214'883	274'609
Categories 2-7: Doubtful receivables	0	0	456'445	456'445
TOTAL GROSS RECEIVABLES CONSOLIDATED GROUP	**4'997'796**	**471'254**	**671'328**	**6'140'378**
Impairment	65'728	53'835	384'523	504'086
CARRYING AMOUNT	**4'932'068**	**417'419**	**286'805**	**5'636'292**

Gross lease receivables declined slightly in the 2020 financial year by an amount of EUR 20,033k, or 0.3 percent. The development of the various IFRS 9 levels shows a contrasting trend. While a decrease of EUR 285,187k (5.4 percent) was recorded for gross lease receivables in Level 1 at the Consolidated Group level, gross lease receivables in Level 2 and Level 3 increased at Consolidated Group level. The increase in Level 2 amounted to EUR 79,105k (20.2 percent), and the increase in Level 3 to EUR 186,049k (38.3 percent). The development of gross lease receivables is primarily a result of the COVID-19 pandemic and the related decline in global economic output. An analysis of the individual countries shows that the decline in gross lease receivables was particularly due to the countries that were hit harder than average by the pandemic. For the GRENKE Group, these countries included its two core markets of France and Italy.

In France, gross lease receivables fell by EUR 52,113k (3.8 percent) compared to the previous year, while a decline of EUR 42,724k (3.1 percent) was recorded in Italy. The decline in economic performance in Germany was rather small in comparison to the rest of Europe. This is also reflected in the GRENKE Group's figures. In the German market, there was an increase in gross lease receivables of EUR 48,289k (4.0 percent), resulting primarily from an addition of EUR 45,217k (4.0 percent) in Level 1 gross lease receivables.

EURk	Level 1	Level 2	Level 3	Total
GERMANY				
Categories 0, 8: Low risk	1'128'107	36'760	0	1'164'867
Categories 1, 8: Higher risk	0	5'111	5'501	10'612
Categories 2-7: Doubtful receivables	0	0	40'092	40'092
TOTAL GROSS RECEIVABLES GERMANY	**1'128'107**	**41'871**	**45'593**	**1'215'571**
FRANCE				
Categories 0, 8: Low risk	1'172'643	71'282	0	1'243'925
Categories 1, 8: Higher risk	0	14'684	23'709	38'393
Categories 2-7: Doubtful receivables	0	0	79'859	79'859
TOTAL GROSS RECEIVABLES FRANCE	**1'172'643**	**85'966**	**103'568**	**1'362'177**
ITALY				
Categories 0, 8: Low risk	1'139'679	94'149	0	1'233'828
Categories 1, 8: Higher risk	0	22'652	22'740	45'392
Categories 2-7: Doubtful receivables	0	0	107'796	107'796
TOTAL GROSS RECEIVABLES ITALY	**1'139'679**	**116'801**	**130'536**	**1'387'016**
OTHER COUNTRIES				
Categories 0, 8: Low risk	1'842'554	108'120	0	1'950'674
Categories 1, 8: Higher risk	0	39'391	44'061	83'452
Categories 2-7: Doubtful receivables	0	0	161'521	161'521
TOTAL GROSS RECEIVABLES OTHER COUNTRIES	**1'842'554**	**147'511**	**205'582**	**2'195'647**
TOTAL CONSOLIDATED GROUP				
Categories 0, 8: Low risk	5'282'983	310'311	0	5'593'294
Categories 1, 8: Higher risk	0	81'838	96'011	177'849
Categories 2-7: Doubtful receivables	0	0	389'268	389'268
TOTAL GROSS RECEIVABLES CONSOLIDATED GROUP	**5'282'983**	**392'149**	**485'279**	**6'160'411**
Impairment	47'437	44'576	292'749	384'762
CARRYING AMOUNT	**5'235'546**	**347'573**	**192'530**	**5'775'649**

The following table shows an overview of changes in impairment for current and non-current receivables for financial years 2020 and 2019:

EURk	Level 1	Level 2	Level 3	Total
IMPAIRMENT AS OF JAN. 1, 2020	**47'437**	**44'576**	**292'749**	**384'762**
Newly extended or acquired financial assets*	19'090	10'274	19'947	49'311
Reclassifications				
to Level 1	5'444	–4'404	–1'040	0
to Level 2	–4'596	10'490	–5'894	0
to Level 3	–3'927	–17'140	21'067	0
Change in risk provision due to change in level	–4'201	8'964	81'331	86'094
Mutual contract dissolution or payment for financial assets (without derecognition)	–19'444	–13'428	–24'176	–57'048
Change in contractual cash flows due to modification (no derecognition)	19'303	12'533	9'670	41'506
Change in category in processing losses			17'936	17'936
Change in models/risk parameters used in ECL calculation	3'122	–920	15'537	17'739
Derecognition of financial assets	–43	–478	–40'210	–40'731
Currency translation and other differences	–502	–430	–4'673	–5'605
Accrued interest	4'045	3'798	2'279	10'122
IMPAIRMENT AS OF DEC. 31, 2020	**65'728**	**53'835**	**384'523**	**504'086**
thereof impairment on non-performing lease receivables	0	0	323'043	323'043
thereof impairment on performing lease receivables	65'728	53'835	61'480	181'043

* The values stated in Levels 2 and 3 relate to lease receivables newly extended in the financial year that were allocated at their time of acquisition to Level 1 but were reallocated to another level during the financial year.

Risk provisions for lease receivables increased by a total of EUR 119,324k (31.0 percent) in the 2020 financial year. An increase in risk provisions can be observed in all three levels with the strongest increase of EUR 91,774k (31.4 percent) in Level 3. This increase essentially resulted from higher gross receivables in this level and the updating or adjustment of the model parameters.

GRENKE concluded deferral agreements in the 2020 financial year to support its customers during the corona pandemic (see Note 3.3.1.3). As of December 31, 2020, the deferral period had already ended for the majority of these agreements. However, some of the repayments of the deferred amounts were not yet due or have not yet been made. In order to take into account the higher risk of loss on these agreements, an additional risk provision of EUR 41,506k was recognised for these agreements in the 2020 financial year. This amount is shown in the impairment table under “Change in contractual cash flows due to modification (no derecognition)”.

EURk	Level 1	Level 2	Level 3	Total
IMPAIRMENT AS OF JAN. 1, 2019	**45'010**	**31'242**	**224'208**	**300'460**
Newly extended or acquired financial assets*	27'046	18'762	26'055	71'863
Reclassifications				
to Level 1	5'112	–3'525	–1'587	0
to Level 2	–4'205	11'333	–7'128	0
to Level 3	–2'500	–9'219	11'719	0
Change in risk provision due to change in level	–4'119	2'501	61'411	59'793
Mutual contract dissolution or payment for financial assets (without derecognition)	–18'689	–11'484	–12'168	–42'341
Change in contractual cash flows due to modification (no derecognition)	0	0	0	0
Change in category in processing losses	0	0	14'195	14'195
Change in models/risk parameters used in ECL calculation	–3'757	2'827	8'601	7'671
Derecognition of financial assets	–58	–433	–34'993	–35'484
Currency translation and other differences	212	134	585	931
Accrued interest	3'385	2'438	1'851	7'674
IMPAIRMENT AS OF DEC. 31, 2019	**47'437**	**44'576**	**292'749**	**384'762**
thereof impairment on non-performing lease receivables	0	0	267'619	267'619
thereof impairment on performing lease receivables	47'437	44'576	25'130	117'143

* The values stated in Levels 2 and 3 relate to lease receivables newly extended in the financial year that were allocated at their time of acquisition to Level 1 but were reallocated to another level during the financial year.

Sensitivity Analysis

EURk	Change	Change in risk provision
Change in discount rate	Increase of 1 %-point	931
Change in discount rate	Decrease of 1 %-point	–958
Change in proportion of overdue customers	Increase of 50% in cases overdue 30 to 90 days	2'400
Change in proportion of overdue customers	Decrease of 50% in cases overdue 30 to 90 days	–3'411
Change in proportion of overdue customers	Increase of 20% in cases overdue >=90 days	6'985
Change in proportion of overdue customers	Decrease of 20% in cases overdue >=90 days	–1'421

A one-percentage-point interest rate increase in the discount rate of the value retention rates for lease receivables would increase the impairment losses by EUR 1,115k. A one-percentage-point decrease in the interest rate, would result in a decline in impairment losses of EUR 958k.

If our customers' expected payment behaviour deteriorated to the extent that as of the reporting date, we would observe 50 percent more cases with 30 to 90 days overdue, we would be required to increase our risk provisions by around EUR 2,400k based on our total receivables as of December 31, 2020. In contrast, risk provisions would be reduced by EUR 3,411k based on the level of receivables as of the reporting date if our customers' expected payment behaviour improved to such an extent that we would observe 50 percent fewer cases with 30 to 90 days overdue per the reporting date.

Alternatively, if the payment behaviour of lessees deteriorated to the extent that we would observe 20 percent more non-terminated cases with 90 or more days overdue, we would have to increase risk provisions by around EUR 6,985k based on our total receivables as of December 31, 2020. Risk provisions would be reduced by EUR 1,421k based on the level of receivables as of the reporting date if we would observe 20 percent fewer cases of non-terminated lease receivables with 90 or more days overdue.

If the country risk in the three major markets – Germany, France and Italy – were to increase, resulting in an increase in the average probability of default in these countries of 10 percent, this would lead to an increase in risk provisions of EUR 6,348k, based on the lease receivables portfolio as of December 31, 2020. A reduction in the country risks in the three markets and an associated 10 percent lower probability of default on average would lead to a reduction in the risk provisions of EUR 5,835k, taking into account the lease receivable portfolio as of December 31, 2020.

A renewed decline in GDP in Italy would lead to an increase in risk provisions of EUR 8,012k, taking into account the lease receivable portfolio as of December 31, 2020. A global recovery in GDP and associated GDP growth of more than 2 percent in all countries would lead to a reduction in risk provisions of EUR 6,351k, taking into account the level of lease receivables as of December 31, 2020.

5.3 Other Financial Assets

EURk	Dec. 31, 2020	Dec. 31, 2019
OTHER CURRENT FINANCIAL ASSETS		
Instalments collected before end of month	796	824
ABCP-related loans	13'957	15'357
Receivables from factoring business	53'582	67'728
Receivables from refinancers	43'781	12'395
Loans (bank)	48'849	52'219
Other	792	82
TOTAL OTHER CURRENT FINANCIAL ASSETS	**161'757**	**148'605**
OTHER NON-CURRENT FINANCIAL ASSETS		
ABCP-related loans	12'594	17'882
Loans (bank)	102'909	73'263
	0	0
Other investments	5'264	5'505
Other	0	0
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**120'767**	**96'650**
TOTAL FINANCIAL ASSETS	**282'524**	**245'255**

The ABCP-related loans include predominantly liquidity reserves that are required to be granted to the sponsor of the programme as collateral for the refinancing volumes under the respective agreements. These loans are based on the refinancing volume and the origin of the receivables refinanced through the structured entities.

Factoring receivables contain traditional factoring services focused on small-ticket factoring. Deductibles amounting to EUR 1,739k (previous year: EUR 1,712k) serve as collateral that is agreed upon with individual factoring clients at the beginning of each year. Collateral as of December 31, 2020 was utilised in the amount of EUR 41k (previous year: EUR 64k).

As of the end of the reporting period, the receivables from the lending business of GRENKE BANK AG include receivables from granting business start-up loans in the amount of EUR 33,894k (previous year: EUR 35,309k). Total receivables from the lending business of EUR 151,758k (previous year: EUR 125,482k) also include receivables from granting microcredits in the amount of EUR 63,952k (previous year: EUR 24,095k), promotion loans of EUR 26,693k (previous year: EUR 28,178k) and other commercial loans of EUR 23,777k (previous year: EUR 23,024k). Interest income is recognised as such under net interest income.

The other investments under non-current financial assets contain the interest in Finanzchef24 GmbH in the amount of EUR 5,264k (previous year: EUR 5,505k). Finanzchef24 GmbH did not pay a dividend in the 2020 financial year.

The maximum credit risk without taking into account collateral, credit deterioration systems and other tools are limited to the carrying amount of the other financial assets.

The following overview shows the gross receivables broken down into the credit risk rating categories of other financial assets as defined in the GRENKE Group and the impairment for other financial assets for each IFRS 9 impairment level. The other investment amounting to EUR 5,264k is not reported in the following tables. The impairment and the definition of the default risk rating category are based on the approach described in Note 3.18.

EURk	Level 1	Level 2	Level 3	Simplified method	Total
Low risk	216'105	5'577	0	49'763	271'445
Doubtful receivables	0	0	21'684	0	21'684
TOTAL GROSS RECEIVABLES	**216'105**	**5'577**	**21'684**	**49'763**	**293'129**
Impairment	4'421	973	10'216	259	15'869
CARRYING AMOUNT	**211'684**	**4'604**	**11'468**	**49'504**	**277'260**

EURk	Level 1	Level 2	Level 3	Simplified method	Total
Low risk	160'217	5'753	0	63'404	229'374
Doubtful receivables	0	0	18'937	0	18'937
TOTAL GROSS RECEIVABLES	**160'217**	**5'753**	**18'937**	**63'404**	**248'311**
Impairment	1'388	409	6'605	159	8'561
CARRYING AMOUNT	**158'829**	**5'344**	**12'332**	**63'245**	**239'750**

The following overview shows changes in impairment for other financial assets:

EURk	Level 1	Level 2	Level 3	Simplified method	Total
IMPAIRMENT AS OF JAN. 1, 2020	**1'388**	**409**	**6'605**	**159**	**8'561**
Newly extended or acquired financial assets*	244	23	2'154	259	2'680
Reclassifications					
to Level 1	268	–175	–93	0	0
to Level 2	–75	249	–174	0	0
to Level 3	–59	–160	223	–4	0
Change in risk provision due to change in level	–152	193	2'257	0	2'298
Payments for financial assets (without derecognition)	–363	–70	–835	–153	–1'421
Change due to changed status in legal proceedings	0	0	171	0	171
Change in contractual cash flows due to modification (no derecognition)					
Change in models/risk parameters used in ECL calculation	3'170	504	794	0	4'468
Derecognition of financial assets	0	0	–832	–1	–833
Currency translation and other differences	0	0	–54	–1	–55
IMPAIRMENT AS OF DEC. 31, 2020	**4'421**	**973**	**10'216**	**259**	**15'869**

* The values stated in Levels 2 and 3 relate to lease receivables newly extended in the financial year that were allocated at their time of acquisition to Level 1 but were reallocated to another level during the financial year.

Risk provisions for other financial assets increased by EUR 7,308k (85 percent) in the financial year. The increase results from a year-on-year increase in risk provisions for receivables from the lending business by EUR 6,579k (123 percent). Risk provisions for receivables from the factoring business increased by EUR 729k (23 percent).

Risk provisions for receivables from the lending business increased in all three levels. The increase amounted to EUR 3,033k (218 percent) in Level 1, EUR 565k (138 percent) in Level 2 and EUR 2,982k (84 percent) in Level 3. The increase in risk provisioning is mainly the result of level reclassification, an associated increase in risk and a change in risk parameters. Furthermore, an additional risk provision of EUR 3,101k was recognised in the 2020 financial year for contracts that were not in default but unusual due to their rating or for other reasons. This additional impairment had an impact on all levels under IFRS 9 and is intended to reflect the pandemic-related increase of the credit risk of small and medium-sized enterprises.

The increase in risk provisions for receivables from the factoring business is mainly due to an increase in Level 3 receivables and largely a result of the increase in receivables from customers.

EURk	Level 1	Level 2	Level 3	Simplified method	Total
IMPAIRMENT AS OF JAN. 1, 2019	**541**	**178**	**5'149**	**133**	**6'001**
Newly extended or acquired financial assets*	546	107	1'467	163	2'283
Reclassifications					
to Level 1	42	–35	–7	0	0
to Level 2	–56	70	–14	0	0
to Level 3	–39	–52	105	–14	0
Change in risk provision due to change in level	–11	151	1'098	0	1'238
Payments for financial assets (without derecognition)	–61	–30	–516	–120	–727
Change due to changed status in legal proceedings	0	0	94	0	94
Change in contractual cash flows due to modification (no derecognition)	0	0	0	0	0
Change in models/risk parameters used in ECL calculation	426	20	–313	0	133
Derecognition of financial assets	0	0	–459	0	–459
Currency translation and other differences	0	0	1	–3	–2
IMPAIRMENT AS OF DEC. 31, 2019	**1'388**	**409**	**6'605**	**159**	**8'561**

* The values stated in Levels 2 and 3 relate to lease receivables newly extended in the financial year that were allocated at their time of acquisition to Level 1 but were reallocated to another level during the financial year.

5.4 Trade Receivables

Trade receivables of EUR 6,384k (previous year: EUR 7,747k) mainly relate to receivables from resellers and third parties resulting from the disposal of lease assets, of which EUR 4,723k (previous year: EUR 3,328k) was more than three months past due. Of total trade receivables, an amount of EUR 4,359k (previous year: EUR 4,934k) is impaired.

The maximum credit risk without taking into account collateral, credit assessment systems and other tools are limited to the carrying amount of the trade receivables.

The following overview shows the gross receivables broken down into the default risk rating categories for trade receivables and risk provisions for trade receivables as defined in the GRENKE Group. The impairment and the definition of the default risk rating category are based on the approach described in Note 3.18.

Dec. 31, 2020			
EURk	**Simplified method**	**Level 3**	**Total**
Low risk	1'779	--	1'779
Doubtful receivables	--	8'964	8'964
TOTAL GROSS RECEIVABLES	**1'779**	**8'964**	**10'743**
Impairment	118	4'241	4'359
CARRYING AMOUNT	**1'661**	**4'723**	**6'384**

Dec. 31, 2019			
EURk	**Simplified method**	**Level 3**	**Total**
Low risk	4'559	--	4'559
Doubtful receivables	--	8'122	8'122
TOTAL GROSS RECEIVABLES	**4'559**	**8'122**	**12'681**
Impairment	140	4'794	4'934
CARRYING AMOUNT	**4'419**	**3'328**	**7'747**

5.5 Other Current Assets

EURk	Dec. 31, 2020	Dec. 31, 2019
VAT receivables	144'577	298'809
Orders in progress	4'790	4'935
Prepaid expenses	7'033	5'397
Prepayments	3'106	5'588
PAYMENT CLEARING ACCOUNTS	3'098	4'557
Amounts in transit	589	2'087
Insurance claims	804	659
Creditors with debit balances	727	672
Merchandise	379	487
Current advances	6	44
Other items	11'403	958
TOTAL	**176'512**	**324'193**

Other items mainly include advance purchase price payments made to franchise shareholders in the amount of EUR 10,534k (previous year: EUR 0k).

5.6 Property, Plant and Equipment

5.6.1 Overview for the 2020 Financial Year

EURk	Land and buildings	Assets under construction	Operating and office equipment	Leased assets from operating leases	Total
ACQUISITION COSTS JAN. 1, 2020	**24'365**	**5'689**	**50'022**	**71'212**	**151'288**
Currency translation differences	0	0	–480	–5'717	–6'197
Additions	266	5'889	4'493	22'353	33'001
Of which additions in the context of a business combination	0	0	0	0	0
Disposals	0	0	392	10'203	10'595
Reclassifications	5'929	–5'929	0	0	0
ACQUISITION COSTS DEC. 31, 2020	**30'560**	**5'649**	**53'643**	**77'645**	**167'497**
ACCUMULATED DEPRECIATION AND IMPAIRMENT JAN. 1, 2020	**9'301**	**0**	**30'789**	**25'667**	**65'757**
Currency translation differences	0	0	–221	–2'398	–2'619
Additions to depreciation	836	0	5'861	20'054	26'751
Additions to impairment	0	0	0	0	0
Disposals of depreciation	–57	0	439	9'594	9'976
Reclassifications	0	0	0	938	938
ACCUMULATED DEPRECIATION AND IMPAIRMENT DEC. 31, 2020	**10'194**	**0**	**35'990**	**34'667**	**80'851**
NET CARRYING AMOUNTS DEC. 31, 2020	**20'366**	**5'649**	**17'653**	**42'978**	**86'646**

5.6.2 Overview for the 2019 Financial Year

EURk	Land and buildings	Assets under construction	Operating and office equipment	Leased assets from operating leases	Total
ACQUISITION COSTS JAN. 1, 2019	**24'263**	**1'873**	**41'934**	**46'339**	**114'409**
Currency translation differences	0	0	158	–1'411	–1'253
Additions	102	3'816	11'361	32'668	47'947
Of which additions in the context of a business combination	0	0	0	0	0
Disposals	0	0	3'431	6'384	9'815
Reclassifications	0	0	0	0	0
ACQUISITION COSTS DEC. 31, 2019	**24'365**	**5'689**	**50'022**	**71'212**	**151'288**
ACCUMULATED DEPRECIATION AND IMPAIRMENT JAN. 1, 2019	**8'574**	**0**	**27'493**	**14'909**	**50'976**
Currency translation differences	0	0	92	–492	–400
Additions to depreciation	727	0	6'239	16'690	23'656
Additions to impairment	0	0	0	0	0
Disposals of depreciation	0	0	3'035	5'440	8'475
Reclassifications	0	0	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENT DEC. 31, 2019	**9'301**	**0**	**30'789**	**25'667**	**65'757**
NET CARRYING AMOUNTS DEC. 31, 2019	**15'064**	**5'689**	**19'233**	**45'545**	**85'531**

Pursuant to the GRENKE Group's business model, lease assets from operating leases consisted mainly of operating and office equipment.

Depreciation on lease assets is recorded in the line items profit from service business (see Note 4.3) and settlement of claims and risk provision (see Note 4.2).

The following table shows the maturities of the non-discounted lease payments from leases that were classified as operating leases:

EURk	Dec. 31, 2020	Dec. 31, 2019
LEASE PAYMENTS OUTSTANDING UNDER OPERATING LEASES AS OF THE REPORTING DATE		
Up to 1 year	21'733	21'118
1 to 2 years	14'972	13'939
2 to 3 years	9'187	8'345
3 to 4 years	4'013	5'112
4 to 5 years	1'044	1'824
More than 5 years	90	35
TOTAL	**51'039**	**50'373**

5.7 Goodwill

5.7.1 Overview and Development

EURk	2020	2019
ACQUISITION COST		
As of Jan. 1	51'324	51'282
Foreign currency translation effects	–210	42
Acquisitions and adjustments to first-time consolidation	0	0
As of Dec. 31	51'114	51'324
ACCUMULATED AMORTISATION FROM IMPAIRMENT		
As of Jan. 1	5'316	1'154
Impairment loss of the fiscal year	2'169	4'162
As of Dec. 31	7'485	5'316
CARRYING AMOUNTS		
As of Jan. 1	46'008	50'128
AS OF DEC. 31	**43'629**	**46'008**

In the 2020 financial year, there were no additions to goodwill due to acquisitions. Due to the retrospective changes in the scope of consolidation described in Note 2.3, the goodwill for those franchise companies whose acquisition took place as of January 1, 2014 no longer applies. The carrying amounts of the remaining goodwill as of December 31, 2020 are therefore allocated to the following cash-generating units:

EURk	Dec. 31, 2020	Dec. 31, 2019
Portugal	26'472	26'472
Spain	5'015	5'015
Finland	3'410	3'410
Factoring Germany	2'698	2'698
United Kingdom (UK)	1'885	1'993
Romania	1'240	1'262
Medical technology	1'229	1'229
Hungary	797	877
Italy	504	504
GRENKE Service	379	379
GRENKE Bank	0	1'581
Slovakia	0	588

5.7.2 Recoverability

GRENKE tests goodwill for impairment annually. The key parameters for determining the recoverable amount based on the value-in-use are the future expectations with regard to the development of new business and profitability. The scheduled impairment test was carried out as of June 30, 2020. We would like to point out that the previous year's figures were partially adjusted, as the changes in the scope of consolidation led to a retrospective reduction in the number of cash-generating units.

The basic assumptions in the Leasing segment used to determine the recoverable cash flows in the respective units in the five-year detailed planning phase were based on growth rates in new business in the individual cash-generating units of between 5.0 percent and 30.0 percent (previous year: between 5.0 percent and 25.0 percent). The forecast of new business development has proven to be stable in the period before the COVID-19 pandemic. The forecast parameters available on the market are not of suitable quality for forecasting due to the special business orientation in the Consolidated Group, as these focus only on the entire leasing market, which is massively influenced by real estate, capital goods and vehicle leasing. Therefore, the forecasts for new business development in the detailed planning phase are based on the past experience of the Consolidated Group. For cash flows after the detailed planning phase, a growth rate below the growth of the nominal gross domestic product was generally applied, calculated from the inflation expectation and half of the expected growth of the real gross domestic product of the respective country; however, at least 1.0 percent (previous year: 1.0 percent).

The discount rates of the cash-generating units were between 8.3 percent and 12.5 percent (previous year: between 6.1 percent and 12.0 percent). The discount rate shown reflects a cost of equity after taxes. The calculation of the discount factors is based on the CAPM (Capital Asset Pricing Model), taking into account a risk-free interest rate of 0.0 percent (previous year: 0.2 percent), a market risk premium of 7.5 percent (previous year: 7.5 percent) and a beta factor of 1.19 (previous year: 0.94) for the cash-generating units in the Leasing segment. In the factoring segment, a beta factor of 1.11 (previous year: 0.78) was used; in the banking segment, the beta factor was 1.15 (previous year: 0.94). As of October 1, 2020, an additional impairment test was carried out in accordance with IAS 36 as GRENKE intends to change the date on the annual additional impairment to October 1, 2020 going forward. The determination of the recoverable cash flows in the respective units in the five-year detailed planning phase was based on growth rates in new business in the individual cash-generating units of between –38.6 percent and 47.5 percent. The discount factors of the cash-generating units were between 8.5 percent and 12.5 percent, taking into account the risk-free interest rates of 0.0 percent and –0.1 percent, a market risk premium of 7.5 percent as well as a beta factor of 1.24 for the cash-generating units in the Leasing segment. A beta factor of 1.14 was used in the Factoring segment.

In the context of the impairment test as of October 26, 2020, the GRENKE Group identified an impairment of EUR 2,169k, which was determined on the basis of the value-in-use and resulted in a full impairment of the goodwill of the cash-generating units GRENKE Bank (EUR 1,581k) and Slovakia (EUR 588k). The cash-generating unit GRENKE Bank primarily represents the financing activities of GRENKE Bank, while the cash-generating unit Slovakia includes the Slovakian leasing business. The recoverable amount of the cash-generating unit GRENKE Bank of EUR 342,110k was determined using a discount rate of 9.0 percent (previous year: 7.2 percent). In addition to increased risk costs, the main reason for the impairment was therefore the higher discount rate, which is due to an increase in the beta factor to 1.20 compared to 0.94 in the previous year. The impairment loss was allocated to the Banking business segment. The calculation of the recoverable amount of the cash-generating unit Slovakia (EUR –10,476k) was based on a discount rate of 9.7 percent (previous year: 8.4 percent). The reason for the impairment was a deterioration in the outlook for returns of the cash-generating unit, which is also related to the economic developments in the wake of the COVID-19 pandemic. The impairment loss was allocated to the Leasing business segment. There were no other impairment losses in the 2020 financial year. The impairments reported as of September 30, 2020 for the units Brazil, Turkey, Factoring Switzerland and Poland for the 2020 financial year are obsolete for the first three cash-generating units due to the retroactive changes in the scope of consolidation. For the unit Poland, a retrospective adjustment was made in accordance with IAS 8, see Note 5.7.5.

5.7.3 Significant Goodwill

The goodwill of the cash-generating units Portugal (EUR 26,472k) and Spain (EUR 5,015k) is significant compared to the total carrying amount of goodwill. The recoverable amount of the two cash-generating units, to each of which no intangible assets with indefinite useful lives are allocated, was determined on the basis of the value-in-use. The main assumptions of the parameters used and their calculation approach correspond to the procedure explained in Note 5.7.2, which is valid for all cash-generating units operating in the Leasing segment. Cash flows are planned in accordance with the procedure described in Note 3.8.

The measurement of the Portugal cash-generating unit in the course of the scheduled impairment test as of June 30, 2020 was based on a discount rate of 10.2 percent (previous year: 9.0 percent), new business growth rates in the five-year detailed planning phase of between 5.0 percent and 11.0 percent (previous year: between 5.0 percent and 9.9 percent) and a growth rate in the ramp-up phase and perpetuity of 1.0 percent (previous year: 1.0 percent). For the impairment test as of October 1, 2020, the following values were used for these parameters: 10.3 percent (discount rate), –21.3 percent to 26.2 percent (new business growth rate during the detailed planning phase) and 1.0 percent (growth rate in the ramp-up phase and perpetuity).

The measurement of the Spain cash-generating unit in the course of the scheduled impairment test as of June 30, 2020 was based on a discount rate of 10.2 percent (previous year: 9.0 percent), new business growth rates in the five-year detailed planning phase of between 15.0 percent and 22.0 percent (previous year: between 25.0 percent and 25.0 percent) and a growth rate in the ramp-up phase and perpetuity of 2.6 percent (previous year: 1.0 percent). For the impairment test as of October 1, 2020, the following values were used for these parameters: 10.4 percent (discount rate), –11.0 percent to 15.0 percent (new business growth rate during the detailed planning phase) and 2.4 percent (growth rate in the ramp-up phase and perpetuity).

5.7.4 Sensitivity of Assumptions Made

The recoverable amount of a cash-generating unit, where the major value drivers are cash flows and the discount rate, is sensitive to changes in the discount rate. The discount rate is largely determined by the risk-free interest rate, a market risk premium, and a beta factor for systematic risk. Specific features with regard to countries, financial structure, and currencies were taken into consideration. These parameters are based on external sources of information. Therefore, fluctuations in the components stated above may affect the discount rate.

As part of the validation of the recoverable amounts determined for the cash-generating units, the significant value drivers of each unit are reviewed annually. In this context, the relevant determinants used for the discounted cash flow modelling – discount rate, new business growth and default risk – were subjected to a sensitivity test. Scenario calculations were also performed to determine the extent to which changes in estimates regarding the further course of the COVID-19 pandemic could influence the recoverable amount of the cash-generating unit.

The changes in the parameters between the impairment tests had an impact on the recoverability of individual cash-generating units (see Note 5.7.2). In addition to the effects of the COVID-19 pandemic on new business growth and default risk, an increase in discount rates was recorded for most cash-generating units, which resulted primarily from an increase in the beta factor.

The management is of the opinion that realistic changes in the key assumptions for the implementation of the impairment tests in the Consolidated Group do not in principle lead to a further significant impairment, although the overall economic environment and thus the estimates regarding the further new business and return developments of the cash-generating units are associated with additional uncertainties due to the COVID-19 pandemic.

5.7.5 Adjustments According to IAS 8 for the Cash-Generating Unit Poland

For the cash-generating unit Poland, an adjustment was made in the 2020 financial year in accordance with IAS 8, according to which the corresponding goodwill would already have had to be fully impaired in the 2019 financial year in the course of the annual impairment test. Therefore, an impairment of EUR 4,162k was retroactively recognised for the goodwill attributable to the cash-generating unit Poland for the 2019 financial year.

The cash-generating unit Poland represents the Polish leasing business. The impairment was caused by significant declines in the growth rates of new business and a related deteriorating outlook for returns. For an explanation of the reasons behind the retrospective recognition of impairment in accordance with IAS 8, please refer to Note 2.3. The adjusted recoverable amount for the cash-generating unit Poland for the 2019 financial year of EUR 3,634k was determined on the basis of the value-in-use; the calculation was based on a discount rate of 10.5 percent (2018: 9.2 percent). The impairment loss was allocated to the Leasing business segment.

5.8 Other Intangible Assets

5.8.1 Overview for the 2020 Financial Year

EURk	Development costs	Software licences	Customer relations / non-competitive clauses	Total
ACQUISITION COSTS AS OF JAN. 1, 2020	**25'749**	**12'636**	**23'544**	**61'929**
Currency translation differences	0	–50	0	–50
Additions	4'826	1'807	0	6'633
Disposals	0	45	0	45
Reclassifications	0	0	0	0
ACQUISITION COSTS AS OF DEC. 31, 2020	**30'575**	**14'348**	**23'544**	**68'467**
ACCUMULATED AMORTISATION AS OF JAN. 1, 2020	**9'745**	**10'027**	**17'301**	**37'073**
Currency translation differences	0	–54	0	–54
Additions	4'346	1'496	1'735	7'577
Disposals	0	–42	0	–42
Reclassifications	0	0	0	0
ACCUMULATED AMORTISATION AS OF DEC. 31, 2020	**14'091**	**11'511**	**19'036**	**44'638**
NET CARRYING AMOUNTS AS OF DEC. 31, 2020	**16'484**	**2'837**	**4'508**	**23'829**

5.8.2 Overview for the 2019 Financial Year

EURk	Development costs	Software licences	Customer relations / non-competitive clauses	Total
ACQUISITION COSTS AS PER JAN. 1, 2019	**19'952**	**11'449**	**23'583**	**54'984**
Currency translation differences	0	3	–39	–36
Additions	5'797	1'348	0	7'145
Disposals	0	164	0	164
Reclassifications	0	0	0	0
ACQUISITION COSTS AS PER DEC. 31, 2019	**25'749**	**12'636**	**23'544**	**61'929**
ACCUMULATED AMORTISATION AS PER JAN. 1, 2019	**6'484**	**8'354**	**14'669**	**29'507**
Currency translation differences	0	0	–37	–37
Additions	3'261	1'736	2'669	7'666
Disposals	0	63	0	63
Reclassifications	0	0	0	0
ACCUMULATED AMORTISATION AS PER DEC. 31, 2019	**9'745**	**10'027**	**17'301**	**37'073**
NET CARRYING AMOUNTS DEC. 31, 2019	**16'004**	**2'609**	**6'243**	**24'856**

Additions in the area of "Customer relations / Non-competitive clauses" are entirely due to the acquisitions completed in the financial year and in previous years.

5.9 Deferred Tax Assets and Deferred Tax Liabilities

The deferred tax assets and liabilities are distributed over the following items:

	Statement of financial position		Income statement	
EURk	Dec. 31, 2020	Dec. 31, 2019	2020	2019
DEFERRED TAX ASSETS				
Tax-loss carryforwards	17'075	21'398	3'593	–11'125
Lease receivables	6'843	3'574	–3'817	7'924
Liabilities	19'393	15'400	–3'993	4'580
Pensions	976	1'001	–11	–318
Others	23'034	24'397	5'191	34'127
TOTAL	**67'321**	**65'770**	**963**	**35'188**
DEFERRED TAX LIABILITIES				
Lease receivables	49'745	51'217	–9'002	7'806
Intangible assets	6'267	6'726	–459	46
Liabilities	5'732	3'821	10'799	–44'074
Others	42'686	37'337	5'004	9'613
TOTAL	104'430	99'101	6'342	–26'609
DEFERRED TAX EXPENSE/(INCOME)			**7'305**	**8'579**
DEFERRED TAX LIABILITIES, NET	**37'109**	**33'331**		
REPORTED IN THE STATEMENT OF FINANCIAL POSITION AS FOLLOWS AFTER OFFSETTING:				
DEFERRED TAX ASSETS	**23'110**	**25'334**		
DEFERRED TAX LIABILITIES	**60'219**	**58'665**		

In the 2020 financial year, EUR 35k in deferred tax liabilities were released directly in equity (previous year: recognition of deferred tax liabilities of EUR 449k). These are a result of the recognition of the cash flow hedge reserve and the recognition of actuarial losses or gains. In addition, there was a reduction of EUR 101k (previous year: EUR 0k) of deferred tax liabilities directly in equity as part of the capital increase.

The tax rate increased from 18.08 percent to 23.21 percent, mainly due to higher non-deductible expenses and changes in tax rate differences on foreign income.

No deferred tax assets were recognised for tax-loss carryforwards of EUR 52,811k (previous year: EUR 44,325k). Of the unrecognised tax-loss carryforwards, EUR 11,312k will expire until 2037. Expenses decreased by EUR 0k (previous year: EUR 149k) due to the recognition of previously unrecognised tax losses, EUR 11,026k (previous year: EUR 561k) were due to changes in the tax rate and EUR 0k (previous year: EUR 8k) to the derecognition of previously recognised temporary differences and capitalised tax-loss carryforwards. The Company did not recognise any deferred tax liabilities in the 2020 or 2019 financial years for the accumulated results of its subsidiaries. The distribution of dividends by the Consolidated Group to the shareholders did not have any income tax consequences in 2020 or 2019.

5.10 Leases – the Group as Lessee

In its role as lessee, the GRENKE Group accounts for numerous lease contracts.

5.10.1 Rights-Of-Use

In the consolidated statement of financial position, the GRENKE Group capitalised the rights-of-use granted to it under the underlying leases. The following overview shows the categorisation and development of the rights-of-use:

Overview for the 2020 Financial Year:

EURk	Properties	Vehicles	Other	Total
Acquisition costs as of Dec. 31, 2020	80'922	9'226	714	90'862
thereof additions in 2020	4'195	2'787	24	7'006
Accumulated depreciation as of Dec. 31, 2020	38'049	4'703	430	43'182
thereof additions in 2020	9'515	2'814	99	12'428
NET CARRYING AMOUNTS AS OF DEC. 31, 2020	**42'873**	**4'523**	**284**	**47'680**

Overview for the 2019 Financial Year:

EURk	Properties	Vehicles	Other	Total
Acquisition costs as of Dec. 31, 2019	82'590	8'257	640	91'487
thereof additions in 2019	11'199	3'070	0	14'269
Accumulated depreciation as of Dec. 31, 2019	34'482	3'798	335	38'615
thereof additions in 2019	9'206	2'350	93	11'649
NET CARRYING AMOUNTS AS OF DEC. 31, 2019	**48'108**	**4'459**	**305**	**52'872**

The lease contracts in the “Properties” category consist of office and parking space rental contracts from the sales and administrative branches. The “Vehicles” category includes vehicle lease contracts for employees of the GRENKE Group. The rights-of-use in the “Other” segment concern advertising space contracts, an IT computer centre and franking machines.

Most of the vehicle leases have a term of 3 years (previous year: 3 years), while the office leases have contractually fixed terms of between 2 and 12 years (previous year: between 2 and 12 years). There are also extension options for the office rental agreements of between 1 and 6 years (previous year: between 1 and 6 years). Please refer to Note 3.17.4 for information on the GRENKE Group’s discretionary power to include these extension options when determining the lease term in accordance with IFRS 16. The structure and terms of office lease contracts are based on the individually negotiated contractual agreements. Generally, there are no special restrictions or commitments outside of the extension and termination options mentioned.

5.10.2 Lease Liabilities

As of December 31, 2020, lease liabilities amounted to EUR 48,401k (previous year: EUR 53,577k).

Interest expenses for the recognised lease liabilities for the GRENKE Group as lessee amounted to EUR 624k in the 2020 financial year (previous year: EUR 677k). The repayment volume of lease liabilities in the 2020 financial year totalled EUR 12,192k (previous year: EUR 11,169k). For a maturity analysis of the expected cash outflows from lease liabilities carried as liabilities, please refer to Note 7.2 "Maturity of Financial Obligations".

5.10.3 Additional Information and Effects

The additional effects of IFRS 16 on the GRENKE Group as the lessee are summarised in the following table:

EURk	2020	2019
Expenses for short-term leases	2	573
Expenses for of low-value leases	0	2
Expenses for variable lease payments not included in the measurement of lease liabilities	0	0
Income from the subleasing of rights-of-use	115	94
Gains or losses from sale and leaseback transactions	0	0

The total cash outflow for leases in the current financial year amounted to EUR 12,816k (previous year: EUR 12,421k).

Leases that the GRENKE Group had already entered into as a lessee but which have not yet commenced could lead to future cash outflows of EUR 235k (previous year: EUR 845k). From extension and termination options not included in the measurement of the lease liabilities, future cash outflows could decrease by EUR 3,755k (previous year: EUR 7,868k) compared to the current assumptions used in the calculation of lease liabilities.

5.11 Current and Non-Current Financial Liabilities

5.11.1 Overview

The GRENKE Group's financial liabilities consist of current and non-current financial liabilities:

EURk	Dec. 31, 2020	Dec. 31, 2019
CURRENT FINANCIAL LIABILITIES		
Asset-based	377'174	403'798
Senior unsecured	565'099	779'413
Committed development loans	106'442	83'122
Liabilities from deposit business	819'356	469'869
thereof current account liabilities	4'200	6'300
Other bank liabilities	69	2'265
thereof current account liabilities	69	73
TOTAL CURRENT FINANCIAL LIABILITIES	**1'868'140**	**1'738'467**
NON-CURRENT FINANCIAL LIABILITIES		
Asset-based	429'334	512'943
Senior unsecured	2'648'647	2'830'280
Committed development loans	142'036	177'761
Liabilities from deposit business	721'953	420'525
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**3'941'970**	**3'941'509**
TOTAL FINANCIAL LIABILITIES	**5'810'110**	**5'679'976**

The GRENKE Group structures the split of its financial liabilities in the same manner as reported to bond and capital market participants to ensure a uniform presentation. Asset-based financial liabilities include liabilities in connection with ABCP programmes and sales of receivables to external credit institutions. Senior unsecured financial liabilities include primary unsecured debt instruments.

Liabilities from the deposit business comprise deposits of customers of GRENKE BANK AG. The total current liabilities totalling EUR 819,356k (previous year: EUR 469,869k) include an amount of EUR 158,494k (previous year: EUR 111,590k) of deposits payable on demand. For the other deposits consisting of restricted and fixed term deposits, corresponding terms have been arranged.

Bank liabilities are the liabilities arising from the use of operating credit lines (overdraft borrowings). As of the reporting date, these credit lines were utilised in the amount of EUR 69k (previous year: EUR 73k).

Current and non-current lease receivables totalling EUR 1,045,211k (previous year: EUR 1,087,159k) have been assigned to the refinancing institutions to secure the liabilities stemming from the refinancing of the leasing business. Each item of collateral is assigned until the outstanding receivable on the lease has been settled. The collateral is then reassigned. The items of collateral for assigned receivables are marked so that they may be clearly distinguished from non-assigned receivables.

The volume of non-current financial liabilities with remaining maturities of 1 to 5 years or more as of December 31, 2020 is as follows:

EURk	Year	Total amount	1 to 5 years	More than 5 years	Secured amount
TYPE OF LIABILITY					
ASSET-BASED	2020	429'334	428'501	833	429'334
	Vorjahr	512'943	511'706	1'237	512'943
SENIOR UNSECURED	2020	2'648'647	2'254'728	393'919	0
	Vorjahr	2'830'280	2'117'056	713'224	0
COMMITTED DEVELOPMENT LOANS	2020	142'036	140'795	1'241	142'036
	Vorjahr	177'761	175'537	2'224	177'761
LIABILITIES FROM DEPOSIT BUSINESS	2020	721'953	714'744	7'209	0
	Vorjahr	420'525	415'525	5'000	0

The refinancing sources and thus the main categories of financial liabilities are explained in more detail below.

5.11.2 Asset-Based

5.11.2.1 Structured Entities

The following consolidated structured entities were in place as of the balance sheet date: Opusalpha Purchaser II Limited (HeLaBa), Kebnekaise Funding Limited (SEB AB), CORAL Purchasing (Ireland) 2 DAC (DZ Bank), FCT "GK"-COMPARTMENT "G 2" (UniCredit), FCT "GK"-COMPARTMENT "G 3" (HSBC), FCT "GK"-COMPARTMENT "G 4" (HeLaBa). In the following, the consolidated structured entities initiated as asset-backed commercial paper (ABCP) programmes are further explained.

5.11.2.2 ABCP Programmes

The GRENKE Group had several asset-backed commercial paper programmes (ABCPs) with a total volume of EUR 947,802k (previous year: EUR 947,802k) and GBP 150,000k (previous year: GBP 150,000k) as of the end of the reporting period.

EURk	Dec. 31, 2020	Dec. 31, 2019
Programme volume in local currency		
EURK	947'802	947'802
GBPk	150'000	150'000
Programme volume in EURk	1'114'648	1'124'107
Utilisation in EURk	804'519	860'064
Carrying amount in EURk	709'626	761'560
thereof current	321'680	334'040
thereof non-current	387'946	427'520

The ABCP programmes grant GRENKE Finance Plc., Grenke Investitionen Verwaltungs KGaA and GRENKE Leasing Ltd. UK the right to refinance or to sell receivables to the respective programmes for a certain period of time. The cap on the purchase volume is determined by the volume of the programme, which is normally backed by the organising bank in the form of a liquidity commitment in the corresponding amount. The carrying amount is calculated using the effective interest method, whereby incurred transaction costs are amortised over the term of the underlying refinancing package.

The structured entities are refinanced by issuing commercial papers, usually with a term of one month, on a revolving basis. The interest on the commercial papers is based on one-month Euribor. This is a floating interest rate. The structured entities manage the interest rate risk (fixed-rate lease receivables versus floating-rate refinancing) with interest rate hedges (interest rate swaps).

There is no currency risk in ABCP refinancing as only euro transactions and euro-based leases – and for Great Britain, GBP transactions and GBP-based leases – are involved.

The maturities of the individual ABCP programmes can be found in the following table:

ABCP programmes	Sponsor	Laufzeit bis
Opusalpha Purchaser II Limited	HeLaBa	April 2022
Kebnekaise Funding Limited	SEB AB	Oktober 2021
Kebnekaise Funding Limited	SEB AB	Juni 2022
CORAL PURCHASING Limited	DZ-Bank	April 2020
CORAL PURCHASING Limited II	DZ-Bank	Dezember 2021
FCT “GK”-COMPARTMENT “G 2”	UniCredit	April 2023
FCT “GK”-COMPARTMENT “G 3”	HSBC	März 2025
FCT “GK”-COMPARTMENT “G 4”	HeLaBa	Juni 2022

In the current financial year, the receivables sold from CORAL PURCHASING Limited were refinanced or transferred to CORAL PURCHASING Limited II.

5.11.2.3 Sale of Receivables Agreements

Sale of receivables agreements are currently in place with Stadtsparkasse Baden-Baden Gaggenau, Sparkasse Karlsruhe, the Commerzbank subsidiary mBank S.A., Deutsche Bank Brazil, as well as with Norddeutsche Landesbank for receivables in the UK.

All such agreements represent refinancing of lease contracts with matching maturities. For this purpose, individual lease contracts with similar maturities are grouped together, and lease receivables for the same maturities are sold.

Derecognition of receivables does not take place because the sale of the receivables is not without recourse. The present value of the related liabilities as of the end of the reporting period was EUR 96,295k (previous year: EUR 153,457k) and generally coincided with the value of the receivables sold.

EURk	Dec. 31, 2020	Dec. 31, 2019
Programme volume in local currency		
EURk	20'000	20'000
GBPk	100'000	100'000
PLNk	0	80'000
BRLk	185'000	185'000
Programme volume in EURk	160'257	197'298
Utilisation in EURk	96'295	153'457
Carrying amount in EURk	96'295	153'457
thereof current	54'963	68'621
thereof non-current	41'332	84'836

5.11.2.4 Residual Loans

The residual loans serve in part to finance the residual amounts of lease contracts for which the payment instalments were sold in the context of the sale of receivables.

EURk	Dec. 31, 2020	Dec. 31, 2019
Carrying amount	587	1'724
thereof current	531	1'137
thereof non-current	56	587

5.11.3 Senior Unsecured Financial Liabilities

The following table provides an overview of the carrying amounts of the individual refinancing instruments:

EURk	Dec. 31, 2020	Dec. 31, 2019
Bonds	2'662'498	2'764'192
thereof current	338'819	336'652
thereof non-current	2'323'679	2'427'540
Promissory notes	394'844	431'587
thereof current	119'046	92'449
thereof non-current	275'798	339'138
Commercial paper	0	226'500
Revolving credit facility	101'235	136'987
thereof current	52'065	73'385
thereof non-current	49'170	63'602
Money market trading	16'063	11'770
thereof current	16'063	11'770
thereof non-current	0	0
Overdrafts	13'438	19'310
Accrued interest	25'668	19'347

The following table shows the refinancing framework of the individual instruments:

EURk	Dec. 31, 2020	Dec. 31, 2019
Bonds EURk	5'000'000	3'500'000
Commercial paper EURk	750'000	750'000
Revolving credit facility EURk	300'000	330'000
Revolving credit facility PLNk	100'000	100'000
Revolving credit facility CHFk	20'000	20'000
Revolving Credit Facility TCLP	20'250'000	20'250'000
Revolving credit facility THRk	125'000	125'000
Money market trading EURk	35'000	35'000

5.11.3.1 Bonds

Unless stated otherwise, three-month Euribor is the reference interest rate for floating-rate bonds, debentures, and private placements. The discounts and the initial expenses directly corresponding to the transaction concerned are reversed over the term of the debt securities using the effective interest method.

In principle, all debentures are bullet debt securities and are subject to the condition of a stable rating. In the event of a rating downgrade by Standard & Poor's, the agreed interest rate would be contractually adjusted (increased). As a downgrade is not expected, no hedge has been concluded to date.

5.11.3.2 Debt Issuance Programme

The relevant terms and conditions for bonds issued through the debt issuance programme are as follows:

	Term		Interest coupon	Carrying amount Dec. 31, 2020	Carrying amount Dec. 31, 2019	Nominal amount Dec. 31, 2020	Nominal amount Dec. 31, 2019
Description	From	To	Percent p.a.	EURk	EURk	EURk	EURk
Euro bond	Apr. 27, 2015	Apr. 27, 2020	0.73	0	29'988	0	30'000
Euro bond	May. 21, 2015	Apr. 27, 2020	0.93	0	19'993	0	20'000
Euro bond	Dec. 04, 2015	Oct. 05, 2020	1.375	0	119'872	0	120'000
Euro bond	Jan. 21, 2016	Jan. 21, 2026	2.616	25'935	25'922	26'000	26'000
Euro bond	Mar. 09, 2016	Apr. 09, 2021	1.5	174'967	174'833	175'000	175'000
Euro bond	Jun. 15, 2016	Jun. 15, 2021	0.875	20'000	20'000	20'000	20'000
Euro bond	Nov. 29, 2016	Feb. 02, 2022	1.125	280'000	280'305	280'000	280'000
Euro bond	Mar. 03, 2017	Mar. 03, 2022	1.041	19'991	19'983	20'000	20'000
Euro bond	Mar. 14, 2017	Apr. 06, 2020	0.7	0	42'989	0	43'000
Euro bond	Mar. 14, 2017	Mar. 09, 2020	0.729	0	39'997	0	40'000
Euro bond	Jul. 06, 2017	Jul. 06, 2021	0.738	24'992	24'977	25'000	25'000
Euro bond	Jul. 06, 2017	Jul. 06, 2021	0.695	34'989	34'967	35'000	35'000
Euro bond	Sep. 07, 2017	Oct. 07, 2022	0.875	199'492	199'202	200'000	200'000
Euro bond	Nov. 20, 2017	Feb. 17, 2020	0.17	0	9'999	0	10'000
Euro bond	Dec. 05, 2017	Dec. 05, 2024	0.97	14'983	14'979	15'000	15'000
Euro bond	Mar. 28, 2018	Apr. 05, 2023	1	266'538	266'380	267'000	267'000
Euro bond	May. 11, 2018	Mar. 19, 2021	0.02	19'988	19'919	20'000	20'000
Euro bond	May. 15, 2018	May. 15, 2025	1.423	54'916	54'897	55'000	55'000
Euro bond	May. 22, 2018	Jan. 20, 2021	0.02	20'000	19'937	20'000	20'000
Euro bond	Aug. 28, 2018	Aug. 28, 2024	1.048	29'955	29'943	30'000	30'000
Euro bond	Nov. 16, 2018	Oct. 05, 2023	1.5	299'082	298'749	300'000	300'000
Euro bond	Dec. 12, 2018	Feb. 17, 2020	0.14	0	10'000	0	10'000
Euro bond	Jan. 28, 2019	Jan. 28, 2022	0.957	9'994	9'988	10'000	10'000
Euro bond	Jan. 29, 2019	Jan. 29, 2029	2.237	11'472	11'469	11'500	11'500
Euro bond	Feb. 26, 2019	Apr. 05, 2024	1.625	299'260	299'163	300'000	300'000
Euro bond	Apr. 16, 2019	Apr. 16, 2029	2.04	19'959	19'954	20'000	20'000
Euro bond	Apr. 25, 2019	Apr. 25, 2024	1.131	19'974	19'966	20'000	20'000
Euro bond	May. 15, 2019	May. 15, 2026	1.287	29'931	29'919	30'000	30'000
Euro bond	May. 27, 2019	Nov. 27, 2024	1.015	49'913	49'846	50'000	50'000
Euro bond	Jul. 12, 2019	Jul. 12, 2021	Euribor 3M + 0,65%	19'989	19'966	20'000	20'000
Euro bond	Oct. 09, 2019	Oct. 09, 2026	0.681	26'451	26'443	26'500	26'500
Euro bond	Oct. 10, 2019	Oct. 10, 2022	0.244	9'993	9'989	10'000	10'000
Euro bond	Nov. 12, 2019	Jan. 09, 2025	0.625	299'087	299'019	300'000	300'000
Euro bond	Mar. 04, 2020	Feb. 15, 2030	0.819	9'963	0	10'000	0
Euro bond	Apr. 09, 2020	Jul. 09, 2025	3.95	198'932	0	200'000	0

In 2020, a total of two new EUR bonds with a total nominal volume of EUR 210,000k were issued. The conditions of the bonds issued in euros are shown in the table above.

Seven bonds with an aggregated nominal volume of EUR 273,000k were redeemed in the financial year as scheduled.

In addition, existing bonds denominated in foreign currencies are presented in table form below. The CHF bond in the amount of CHF 70,000k was repaid on schedule in the current financial year. In 2020, a total of one new HKD bond with a total nominal volume of HKD 300,000k was issued.

	Term		Interest coupon	Carrying amount Dec. 31, 2020	Carrying amount Dec. 31, 2019	Nominal amount Dec. 31, 2020	Nominal amount Dec. 31, 2019
Description	From	To	Percent p.a.	EURk	EURk	In foreign currency	In foreign currency
CHF bond	Sep. 15, 2017	Sep. 15, 2020	0.45	0	64'446	0	70'000'000
JPY bond	Jul. 02, 2019	Jul. 02, 2029	0.95	55'152	57'176	7'000'000'000	7'000'000'000
HKD bond	Sep. 13, 2019	Sep. 13, 2029	2.844	52'371	56'932	500'000'000	500'000'000
JPY bond	Sep. 20, 2019	Sep. 20, 2022	0.5	7'896	8'182	1'000'000'000	1'000'000'000
SEK bond	Oct. 11, 2019	Oct. 10, 2021	0.65	24'902	23'903	250'000'000	250'000'000
HKD bond	Mar. 11, 2020	Mar. 11, 2030	2.5	31'431	0	300'000'000	0

5.11.3.3 Promissory Notes (PN)

The terms and conditions for the promissory notes denominated in euro are listed in the following table:

	Term		Interest coupon	Carrying amount Dec. 31, 2020	Carrying amount Dec. 31, 2019	Nominal amount Dec. 31, 2020	Nominal amount Dec. 31, 2019
Description	From	To	Percent p.a.	EURk	EURk	EURk	EURk
EUR PN	Dec. 06, 2010	Jun. 30, 2020	4.85	0	750	0	750
EUR PN	Dec. 06, 2010	Jun. 30, 2020	4.85	0	750	0	750
EUR PN	Dec. 21, 2012	Dec. 21, 2020	2.8	0	1'000	0	1'000
EUR PN	Apr. 29, 2016	Apr. 29, 2026	2.35	10'980	10'976	11'000	11'000
EUR PN	Oct. 20, 2016	Oct. 20, 2026	1.702	19'954	19'946	20'000	20'000
EUR PN	Jan. 05, 2017	Jan. 05, 2020	0.77	0	20'000	0	20'000
EUR PN	Jan. 24, 2017	Jan. 24, 2022	1.058	9'995	9'990	10'000	10'000
EUR PN	Feb. 23, 2017	Feb. 23, 2027	2.083	19'952	19'944	20'000	20'000
EUR PN	Jul. 18, 2017	Jul. 18, 2020	0.63	0	25'000	0	25'000
EUR PN	Sep. 01, 2017	Sep. 01, 2021	0.654	10'000	10'000	10'000	10'000
EUR PN	Nov. 20, 2017	Nov. 20, 2020	0.521	0	10'000	0	10'000
EUR PN	Feb. 05, 2018	Feb. 05, 2021	0.62	25'000	25'000	25'000	25'000
EUR PN	Feb. 05, 2018	Feb. 05, 2021	0.626	10'000	10'000	10'000	10'000
EUR PN	Feb. 14, 2018	Feb. 14, 2028	2.13	5'000	5'000	5'000	5'000
EUR PN	Feb. 14, 2018	Feb. 14, 2028	2	4'990	4'989	5'000	5'000
EUR PN	Feb. 14, 2018	Feb. 14, 2028	1.979	9'969	9'965	10'000	10'000
EUR PN	Feb. 26, 2018	Feb. 26, 2021	0.65	10'000	10'000	10'000	10'000
EUR PN	Apr. 24, 2018	Apr. 24, 2028	1.865	4'967	4'963	5'000	5'000
EUR PN	Apr. 24, 2018	Apr. 24, 2028	1.865	39'719	39'702	40'000	40'000
EUR PN	Jul. 06, 2018	Jul. 06, 2023	0.82	9'986	9'984	10'000	10'000
EUR PN	Jul. 06, 2018	Dec. 15, 2027	1.773	4'986	4'984	5'000	5'000
EUR PN	Jul. 25, 2018	Jul. 25, 2022	0.68	10'000	10'000	10'000	10'000
EUR PN	Aug. 15, 2018	Aug. 15, 2023	0.92	8'000	8'000	8'000	8'000
EUR PN	Sep. 03, 2018	Sep. 03, 2021	0.47	10'000	10'000	10'000	10'000
EUR PN	Sep. 04, 2018	Sep. 04, 2022	0.69	20'000	20'000	20'000	20'000
EUR PN	Nov. 15, 2018	Nov. 15, 2021	0.95	30'000	30'000	30'000	30'000
EUR PN	Jan. 25, 2019	Jan. 25, 2029	2.282	9'968	10'000	10'000	10'000
EUR PN	Mar. 29, 2019	Mar. 29, 2022	0.78	10'000	10'000	10'000	10'000
EUR PN	Mar. 19, 2020	Jan. 05, 2023	0.96	19'000	0	19'000	0

The terms and conditions for the promissory notes denominated in foreign currencies are listed in the following table:

	Term		Interest coupon	Carrying amount Dec. 31, 2020	Carrying amount Dec. 31, 2019	Nominal amount Dec. 31, 2020	Nominal amount Dec. 31, 2019
Description	From	To	Percent p.a.	EURk	EURk	In foreign currency	In foreign currency
CHF-PN	Mar. 07, 2017	Mar. 07, 2022	0.81	9'252	9'203	10'000'000	10'000'000
PLN-PN	Sep. 25, 2017	Sep. 25, 2020	3.5	0	2'349	0	10'000'000
GBP-PN	Dec. 15, 2017	Dec. 15, 2020	2.34	0	17'511	0	15'000'000
DKK-PN	Jul. 06, 2018	Jul. 06, 2021	0.37	3'494	6'960	26'000'000	52'000'000
SEK-PN	Jul. 06, 2018	Jul. 06, 2021	0.64	2'990	5'743	30'000'000	60'000'000
SEK-PN	Oct. 08, 2018	Oct. 08, 2021	0.84	3'588	6'892	36'000'000	72'000'000
PLN-PN	Oct. 16, 2018	Oct. 16, 2021	3.18	8'773	9'397	40'000'000	40'000'000
DKK-PN	Apr. 08, 2019	Apr. 08, 2022	0.88	8'064	13'384	60'000'000	100'000'000
CHF-PN	Sep. 17, 2019	Sep. 17, 2024	0.275	9'251	9'205	10'000'000	10'000'000
CHF-PN	Sep. 07, 2020	Sep. 07, 2023	0.8975	27'717	0	30'000'000	0
CHF-PN	Sep. 09, 2020	Sep. 09, 2025	0.97	9'249	0	10'000'000	0

All repayments in the financial year were made on schedule.

5.11.3.4 Commercial Paper

The GRENKE Group has the option of issuing commercial paper of up to a total volume of EUR 750,000k with a term of between 1 and 364 days. As of December 31, 2020, EUR 0k (previous year: EUR 226,500k) of the commercial paper programme was utilised.

5.11.3.5 Revolving Credit Facility

TThe GRENKE Group has the ability to borrow short-term funds with maturities of typically one month at any time through 7 revolving credit facilities with a total volume of EUR 300,000k (part of which may be utilised in Swiss franc, Danish krone, Swedish krona and the British pound). These facilities are available to GRENKE Finance Plc., Dublin / Ireland, with a portion also available to GRENKELEASING AG, Zurich, Switzerland, GRENKELEASING AB Stockholm / Sweden, GRENKELEASING ApS, Herlev / Denmark and GRENKELEASING Ltd., Guildford / Great Britain. GRENKELEASING AG, Zurich, Switzerland, also has a further loan facility available with a total volume of CHF 20,000k. There is also an additional facility with SEB AB that gives GRENKELEASING Sp.z.o.o. access to short-term funds at any time up to a volume of PLN 100,000k and a fixed maturity of three years. Grenke Hrvatska d.o.o., Zagreb / Croatia has a facility with Raiffeisenbank Austria with a volume of up to HRK 125,000k and a fixed term of two and a half or three years. In addition, there is a facility in the amount of TCLP 20,250,000 for GC Rent Chile SpA for revolving loan facilities.

These facilities are available from Deutsche Bank AG, DZ Bank AG, HSBC Trinkaus & Burkhardt AG, Norddeutsche Landesbank, SEB AG, Landesbank Hessen-Thüringen and Commerzbank AG.

As of December 31, 2020, the revolving credit facilities were utilised in the amount of PLN 76,000k, GBP 30,000k, DKK 7,000k, HRK 85,000k, CLP 18,480,000k and CHF 10,000k (previous year: EUR 45,000k, PLN 73,000k, GBP 23,000k, DKK 23,000k, HRK 70,000k and CHF 13,000k).

5.11.3.6 Money Market Trading

GRENKE Finance Plc., Dublin / Ireland, GRENKELEASING AG, Zurich, Switzerland, Grenke Leasing Ltd. (UK), GRENKELEASING Magyarország Kft, Budapest, Hungary, GC Faktoring Polska Sp.z.o.o., Poznan, Poland, GF Faktor Zrt., Budapest, Hungary and GRENKELEASING Sp.z o.o, Poland have a non-committed money market facility guaranteed by GRENKE AG totalling EUR 35,000k from Bayerische Landesbank.

As of December 31, 2020, these credit lines were utilised in an amount of CHF 6,000k and GBP 3,500k and PLN 30,000k (previous year: CHF 11,500k and PLN 5,000k).

5.11.4 Committed Development Loans

There are various collaborations in the form of global loans between the GRENKE AG and the development banks Kreditanstalt für Wiederaufbau (KfW), NRW Bank, Thüringer Aufbaubank and the ILB Investitionsbank des Landes Brandenburg. These collaborations facilitate the integration of public funding in GRENKE AG's lease financing. The funding is available to regional investment projects of commercial enterprises and self-employed professionals with an annual turnover of up to EUR 500 million.

The following table shows the carrying amounts of the development loans utilised at the individual development banks:

EURk	Dec. 31, 2020	Dec. 31, 2019
Europäische Investitionsbank	9'775	0
NRW.Bank	55'896	69'439
Thüringer Aufbaubank	3'552	4'104
Investitionsbank Berlin	1'467	3'006
KfW	176'443	182'555
Landeskreditbank Baden-Württemberg	1'345	1'778
Accrued interest	0	1
TOTAL DEVELOPMENT LOANS	**248'478**	**260'883**

5.11.5 Reconciliation of Financial Liabilities from Financing Activities in the Statement of Cash Flows

EURk	Dec. 31, 2020	Dec. 31, 2019
BANK LIABILITIES (EXCLUDING OVERDRAFTS)		
Opening balance	2'192	1'639
Currency translation	0	0
Cash-effective change	–2'192	553
Closing balance	0	2'192
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	**0**	**2'192**

5.12 Other Current Liabilities

EURk	Dec. 31, 2020	Dec. 31, 2019
Value-added tax	30'714	12'464
Debtors with credit	20'334	13'642
Clearing accounts with companies	5'063	3'563
Liabilities for salaries	1'529	1'289
Outstanding charges from refinancers	1'741	215
Contributions to social security	1'285	1'200
Wages / church tax	861	778
Customer payments being settled	1'143	1'005
Liabilities from car leases	283	326
Deferred income	154	166
Liabilities from security deposits	131	194
Amounts in process	1'292	0
Liabilities from other taxes	387	207
Other	17'559	784
TOTAL	**82'476**	**35'833**

In the reporting year, the line item "Other" mainly includes liabilities from SEPA clearing accounts against third parties in the amount of EUR 14,369k.

5.13 Deferred Lease Payments

The line item deferred lease payments contains contractual liabilities of EUR 6,078k (previous year: EUR 5,917k). These liabilities are the result of payments received for services in the service and protection business for the subsequent year. The contractual liabilities recorded as of December 31, 2020 will be recognised as revenue in the following year.

5.14 Deferred Liabilities

The following items are shown under the item deferred liabilities:

EURk	Dec. 31, 2020	Dec. 31, 2019
Consulting services	6'266	2'564
Personnel services	7'485	7'186
Other costs	18'562	20'830
TOTAL	**32'313**	**30'580**

Other costs consist largely of deferred liabilities for outstanding invoices and reseller bonuses.

All deferred liabilities are short-term in nature.

5.15 Pensions

5.15.1 Defined Benefit Plans

The provisions for pensions relate to the compulsory funded retirement benefit plans (endowment insurance) with supplementary payment obligation on the part of the employers in Switzerland for GRENKELEASING AG, Zurich and GRENKEFACTORING AG, Basel, and the pension obligations from final salary and flat salary pension plans in Germany for GRENKE BANK AG, Baden-Baden. A total net pension expense of EUR 733k (previous year: EUR 523k) was recognised for existing pension plans in the 2020 financial year.

The weighted-average duration of the predominant share of the pension obligations amounts to 18.6 years (previous year: 18.6 years).

5.15.1.1 Pensions in Germany

The pension obligations of GRENKE BANK AG relate to direct and vesting pension commitments made in the past and predominantly for former employees.

The pension provisions were calculated on the basis of the following parameters:

EURk	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.50%	0.80%
Estimated future pension increases	1.50%	1.50%
Mortality tables applied*	"Heubeck-Richttafeln 2018 G"	"Heubeck-Richttafeln 2018 G"

* Source: Prof Klaus Heubeck

The development of the defined benefit obligations was as follows:

EURk	2'020	2'019
CHANGE IN DEFINED BENEFIT OBLIGATIONS		
DEFINED BENEFIT OBLIGATIONS AT BEGINNING OF PERIOD	**1'861**	**1'781**
Interest expense	15	28
Current service cost	0	0
Benefits paid	–82	–60
Actuarial gains and losses recognised in equity	64	112
Past service costs resulting from amend- ments to plan	0	0
DEFINED BENEFIT OBLIGATIONS AT END OF PERIOD	**1'858**	**1'861**

5.15.1.2 Pensions in Switzerland

According to the Swiss Occupational Pension Act (BVG), every employer must grant pensions to entitled employees after termination of employment. The GRENKE Group maintains defined benefit plans (capital-based) in Switzerland that are managed by trusts and independent of the Company.

The external expert opinion is based on the following actuarial assumptions:

EURk	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.20%	0.30%
Estimated future salary increases	1.50%	2.00%
Estimated future pension increases**	0.00%	0.00%
Mortality tables applied	BVG 2015	BVG 2015

** A pension adjustment of 0 percent is assumed, as no pensions are currently paid to employees.

Based on the actuarial report, the following income and expenses were recognised:

EURk	Dec. 31, 2020	Dec. 31, 2019
Service cost	733	523
Interest expense	21	56
Income from interest on plan assets	12	34

The assets are invested in a collective insurance agreement with a life insurance company by way of a follow-up agreement with the BVG pension fund (Professional Pension Act). With this form of full insurance, the life insurer assumes the risk, meaning a shortfall in coverage cannot occur.

As of December 31, 2020, the provision for pensions recognised under non-current liabilities amounted to EUR 3,878k (previous year: EUR 3,267k). The amount consisted of a calculated present value of obligations (DBO) of EUR 7,762k (previous year: EUR 7,197k), a fair value of plan assets of EUR 3,884k (previous year: EUR 3,930k) and an actuarial loss of EUR 182k (previous year: EUR 623k).

EURk	2'020	2'019
CHANGE IN DEFINED BENEFIT OBLIGATIONS		
DEFINED BENEFIT OBLIGATIONS AT BEGINNING OF PERIOD	**7'197**	**6'004**
Interest expense	21	56
Current service cost	733	523
Benefits paid	223	205
Contributions of the participants of the plan	–526	–236
Actuarial gains and losses recognised in equity	84	681
Past service cost	0	–289
Currency translation differences from foreign plans	30	253
DEFINED BENEFIT OBLIGATIONS AT END OF PERIOD	**7'762**	**7'197**
CHANGE IN PLAN ASSETS	0	0
FAIR VALUE OF PLAN ASSETS AT BEGINNING OF PERIOD	**3'930**	**3'437**
Expected return	12	34
Employer's contributions	324	292
Contributions of the participants of the plan	223	205
Benefits paid	–526	–236
Actuarial gains and losses recognised in equity	–98	58
Currency translation differences from foreign plans	19	140
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	**3'884**	**3'930**

The actuarial gains and losses included in the revaluation of defined benefit obligations result from the following:

EURk	Dec. 31, 2020	Dec. 31, 2019
Changes in demographic assumptions	0	0
Changes in financial assumptions	42	692
Experience-based gains/losses	42	–11
TOTAL	**84**	**681**

Experience-based adjustments to plan assets amounted to EUR –98k (previous year: EUR 58k). Employer contributions for the subsequent period are estimated at EUR 337k.

5.15.1.3 Sensitivity Analysis

A change in the assumptions above applied to determine the DBO as of December 31, 2020 and December 31, 2019 would increase or decrease the DBO as follows:

	Change in assumptions in percentage points	Increase in assumptions Change in DBO in EURk	Decrease in assumptions Change in DBO in EURk
DEC. 31, 2020			
Discount rate	0.25	–957	–64
Future salary increases	0.25	–451	–601
Future pension increases	0.25	61	–58
DEC. 31, 2019			
Discount rate	0.25	–428	462
Future salary increases	0.25	77	–75
Future pension increases	0.25	58	–56

In calculating the sensitivity of the DBO for the relevant actuarial assumptions, the same method was used for the calculation of the recognised obligation.

5.15.2 Defined Contribution Plans

Defined contribution plans represent an additional part of the occupational pension schemes within the Consolidated Group. Under defined contribution plans, the entity pays contributions to public or private pension insurance schemes voluntarily or on the basis of statutory or contractual requirements. The entity does not have any other benefit obligations beyond the contribution payments.

The current contribution payments are recognised as an expense for the respective year. In 2020, they amounted to a total of EUR 5,386k (previous year: EUR 5,264k) and had mainly comprised contributions to the statutory pension insurance scheme in Germany. Going forward, the level of expenses primarily depends on the development of the underlying pension insurance schemes.

5.16 Equity

5.16.1 Share Capital

For the details on changes in equity, please refer to the consolidated statement of changes in equity.

On August 6, 2020, the Annual General Meeting of GRENKE AG resolved to carry out a capital increase as part of the Scrip Dividend. The share capital was therefore increased by EUR 141,655 to EUR 46,495,573 divided into 46,495,573 no-par value shares, making partial use of the authorised capital resolved at the Annual General Meeting on May 3, 2018. Each no-par value ordinary share has a notional interest in the share capital of EUR 1. All shares are fully paid-in and have the same rights and obligations. Each share is entitled to one vote at the Annual General Meeting and accounts for the shareholders' proportionate share in the Company's net profit.

5.16.2 Authorised Capital

On May 3, 2018, the Annual General Meeting adopted a resolution authorising the Board of Directors, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions up to a nominal amount of EUR 4,400k (Authorised Capital). This can be undertaken by issuing new shares in return for cash and/or contribution in kind until May 2, 2023. Authorised capital amounted to EUR 2,218k as of December 31, 2020.

5.16.3 Contingent Capital

On May 14, 2019, the Annual General Meeting adopted a resolution authorising the Board of Directors, with the consent of the Supervisory Board, to increase the Company's share capital up to a nominal amount of EUR 4,500k (Contingent Capital) until May 13, 2024 by issuing new shares against contribution in cash or in kind. The creation of contingent capital is linked to the authorisation of the Board of Directors, with the consent of the Supervisory Board, to issue on one or more occasions, bearer and/or registered bonds with warrants and/or convertible bonds up to a total nominal amount of EUR 500,000k. No bonds with warrants and/or convertible bonds have been issued from contingent capital to date.

5.16.4 Authorisation to Acquire Treasury Shares Pursuant to Section (1) no. 8 AktG

The Company was granted authorisation to acquire treasury shares until August 5, 2025 by the Annual General Meeting of August 6, 2020 in accordance with Section 71 (1) No. 8 AktG. The Company has not made use of this authorisation.

5.16.5 Unappropriated surplus

On August 6, 2020, the Annual General Meeting adopted the resolution on the appropriation of GRENKE AG's unappropriated surplus for financial year 2019 in the amount of EUR 44,435,570.41. The Annual General Meeting approved the proposal of the Board of Directors and the Supervisory Board, resolving to appropriate the unappropriated surplus as follows:

Eur	2019
2019 Unappropriated surplus	44'435'570.41
Distribution of a dividend of EUR 0.80 per share for a total of 46,353,918 shares	37'083'134.40
Profit carried forward (to new account)	7'352'436.01

For the past financial year 2020, the Board of Directors will propose to the Annual General Meeting the distribution of a dividend of EUR 0.26 per share. This distribution is not recognised as a liability as of December 31, 2020.

5.16.6 Reserves

The capital reserves of EUR 298,019k (previous year: EUR 289,314k) result primarily from GRENKE AG's IPO in April 2000 and the capital increases in February 2013, May 2014, May 2016, June 2018 and September 2020. In addition to GRENKE AG's retained earnings, retained earnings include the retained earnings and results of the subsidiaries and consolidated structured entities included in the consolidated financial statements.

5.16.7 Additional Equity Components

On July 22, 2015, GRENKE AG issued an unsecured, subordinated hybrid bond (non-cumulative, indefinite Additional Tier 1, known as an AT1 bond or hybrid capital) with a nominal volume of EUR 30,000k and an interest coupon of 8.25 percent. The interest payments for this bond are based on the bond's nominal value and are fixed for the period from the day of issuance until the first possible early redemption day. Thereafter, the interest rate will be redetermined for periods of five years each. Interest payments can be omitted in full or in part, are non-cumulative and at the issuer's discretion. Interest payments in subsequent years will not be increased to make up for any omitted interest payments occurring in prior years. The bonds have an indefinite maturity and are therefore not subject to a limited term. The bonds can be called by GRENKE AG with effect as of the first possible early redemption day and thereafter at five-year intervals. The first possible date for early redemption is March 31, 2021. The bonds can also be called prematurely, subject to certain conditions. The investors' right to call the bonds is excluded. The bonds are subject to the terms and conditions detailed in the respective prospectus, which include – among others – that GRENKE AG can call the bonds only in full and not in part, to the extent certain regulatory or tax reasons exist. Any premature call of the bonds requires the prior approval of the relevant regulatory authority. The redemption and nominal amount of the bonds may be reduced upon the occurrence of a triggering event. Should GRENKE Group's Tier 1 core capital ratio fall below 5.125 percent, this would constitute such a triggering event. In the case of a triggering event, the bonds may be appreciated, subject to certain conditions.

On December 20, 2016, the bond with an unchanged coupon of 8.25 percent was increased by a nominal EUR 20,000k. The change in market interest rates since the first issue resulted in an additional premium of EUR 600k. The entire hybrid bond in the amount of EUR 50,000k was not called on the first possible date of March 31, 2021. Therefore, the AT1 bond is extended by a further five years until March 31, 2026. The new interest coupon is 7.33 percent.

On September 27, 2018, GRENKE AG issued a further unsecured subordinated hybrid bond with a nominal volume of EUR 75,000k and an interest coupon of 7.0 percent. The terms are otherwise identical to the AT1 bond issued on July 22, 2015.

The first possible early redemption date is March 31, 2023. Transaction costs of EUR 1,425k were offset directly against retained earnings.

On December 5, 2019, GRENKE AG issued a further unsecured subordinated hybrid bond with a nominal volume of EUR 75,000k and an interest coupon of 5.375 percent. The terms are otherwise identical to the AT1 bonds issued on July 22, 2015 and September 27, 2018.

The first possible early redemption date is March 31, 2026. Transaction costs of EUR 1,286k were offset directly against retained earnings.

On March 31, 2020, GRENKE AG made a scheduled payment of EUR 10,663,680 to the hybrid capital investors (previous year: EUR 9,375,000).

5.16.8 Other components of equity

Other components of equity include the hedge reserve, in which the recognition directly in equity of derivatives designated as hedges is shown; the reserve for actuarial gains/losses, in which the change in value directly recognised in equity of the defined benefit plans is shown; the currency translation from the translation of the financial statements of entities in foreign currency; as well as the revaluation reserve from equity instruments (IFRS 9), in which the change in value directly in equity of other investments recognised at fair value is shown (FVOCImR).

5.16.9 Non-controlling interests in equity

Non-controlling interests are reported in the consolidated statement of financial position as an equity component but separately from equity attributable to GRENKE shareholders. Consolidated net profit or loss attributable to non-controlling interests is presented separately in the consolidated income statement. Changes in the ownership interest in subsidiaries without loss of control are recognised as transactions between equity providers and recognised directly in retained earnings.

6. Changes in the Scope of Consolidation

6.1 Changes in the Scope of Consolidation

6.1.1 CORAL and CORAL II

In the second quarter of 2020, the contracts with CORAL Purchasing Limited were terminated early and the structured entity was deconsolidated. CORAL Purchasing (Ireland) 2 DAC was included and consolidated for the first time in the second quarter of 2020. This structured entity has been included in the GRENKE Group as part of a silo structure.

6.1.2 Franchise Companies

In the first quarter of 2020, the newly founded franchise company GC Leasing AZ LLC was included in the scope of consolidation.

6.2 Further Changes and Disclosures

There were no other changes in the financial year.

7. Disclosures on Financial Instruments

7.1 Additional Information on Financial Instruments

EURk	Measurement category	Carrying amount Dec. 31, 2020	Valuation according to IFRS 9: At fair value directly in equity	Valuation according to IFRS 9: At fair value through profit and loss	Valuation according to IFRS 9: Amortised cost	Valuation according to IFRS 16
FINANCIAL ASSETS						
Cash and cash equivalents	AC	944'733			944'733	
Derivative financial instruments with positive fair value without hedging relationship	FVPL	4'212		4'212		
Derivative financial instruments with positive fair value with hedging relationship	n.a.	3'304	3'304			
Lease receivables	n.a.	5'636'292				5'636'292
Trade receivables	AC	6'384			6'384	
Other investments	FVOCIoR	5'264	5'264			
Other financial assets	AC					
thereof receivables from the factoring business	AC	53'582			53'582	
thereof receivables from the lending business	AC	151'758			151'758	
thereof other financial assets	AC	71'920			71'920	
AGGREGATED CATEGORIES						
	AC	1'228'377			1'228'377	
	FVPL	4'212		4'212		
	FVOCIoR	5'264	5'264			
	n.a.	5'639'596	3'304			5'636'292
FINANCIAL LIABILITIES						
Financial debt						
thereof liabilities from the refinancing of lease receivables	AC	4'268'732			4'268'732	
thereof liabilities from the deposit business	AC	1'541'309			1'541'309	
thereof bank liabilities	AC	69			69	
thereof bank liabilities	AC	38'638			38'638	
Derivative financial instruments with negative fair value without hedging relationship	FVPL	11'676		11'676		
Derivative financial instruments with negative fair value with hedging relationship	n.a.	13'623	13'623			
AGGREGATED CATEGORIES						
	AC				5'848'748	
	FVPL			11'676		
	n.a.		13'623			

Abbreviations:
FVPL: Financial assets and financial liabilities measured at fair value through profit and loss.
FVOCIoR: Financial assets measured at fair value through OCI without recycling.
AC: Financial assets and financial liabilities measured at amortised cost.
n. a.: Not applicable/no category according to IFRS 7.8.

EURk	Measurement category	Carrying amount Dec. 31, 2020	Valuation according to IFRS 9: At fair value directly in equity	Valuation according to IFRS 9: At fair value through profit and loss	Valuation according to IFRS 9: Amortised cost	Valuation according to IFRS 16
FINANCIAL ASSETS						
Cash and cash equivalents	AC	445'978			445'978	
Derivative financial instruments with positive fair value without hedging relationship	FVPL	2'410		2'410		
Derivative financial instruments with positive fair value with hedging relationship	n.a.	28	28			
Lease receivables	n.a.	5'775'649				5'775'649
Trade receivables	AC	7'747			7'747	
Other investments	FVOCIoR	5'505	5'505			
Other financial assets	AC					
thereof receivables from the factoring business	AC	67'728			67'728	
thereof receivables from the lending business	AC	125'482			125'482	
thereof other financial assets	AC	46'540			46'540	
AGGREGATED CATEGORIES						
	AC				693'475	
	FVPL			2'410		
	FVOCIoR		5'505			
	n.a.		28			5'775'649
FINANCIAL LIABILITIES						
Financial debt						
thereof liabilities from the refinancing of lease receivables	AC	4'787'317			4'787'317	
thereof liabilities from the deposit business	AC	890'394			890'394	
thereof bank liabilities	AC	2'265			2'265	
thereof bank liabilities	AC	42'377			42'377	
Derivative financial instruments with negative fair value without hedging relationship	FVPL	13'309		13'309		
Derivative financial instruments with negative fair value with hedging relationship	n.a.	2'642	2'642			
AGGREGATED CATEGORIES						
	AC				5'722'353	
	FVPL			13'309		
	n.a.		2'642			

BAbbreviations:
FVPL: Financial assets and financial liabilities measured at fair value through profit and loss.
FVOCIoR: Financial assets measured at fair value through OCI without recycling.
AC: Financial assets and financial liabilities measured at amortised cost.
n. a.: Not applicable/no category according to IFRS 7.8.

Net gains and losses as of Dec. 31, 2020

EURk	Currency translation	Interest	Impairment	From disposal	Net profit
Financial assets (at amortised cost)	–6'467	0	–131'260	–58'711	–196'438
At fair value through profit and loss	12'995	–723	0	–622	11'650
Financial liabilities (at amortised cost)	–9'690	0	0	0	–9'690

Net gains and losses as of Dec. 31, 2019

EURk	Currency translation	Interest	Impairment	From disposal	Net profit
Financial assets (at amortised cost)	4'446	0	–79'130	–53'332	–128'016
At fair value through profit and loss	–11'546	–309	0	0	–11'855
Financial liabilities (at amortised cost)	–153	0	0	0	–153

Total interest income calculated according to the effective interest method amounted to EUR 6,775k (previous year: EUR 5,681k). Total interest expenses for financial assets and financial liabilities not measured at fair value through profit and loss was EUR 11,010k (previous year: EUR 5,175k). For equity instruments classified as FVOCIoR, the loss recognised in other comprehensive income amounted to EUR 241k (previous year: gain of EUR 60k).

Net gains from lease receivables are comprised of interest income, profit from new business, and profit from disposals. They amount to EUR 494,709k (previous year: EUR 474,282k). Net gains and losses from financial instruments recognised at fair value through profit and loss include not only the changes in fair value (for forward exchange contracts shown as the effect from the currency translation and interest hedges as interest effect) but also the results from accrued interest and from the early disposal resulting from an early sale.

7.1.1 Financial Risk Strategy

For qualitative and quantitative information on default, liquidity, and market risks, please refer to the combined group management report and management report of GRENKE AG.

7.2 Maturity of Financial Obligations

The table below shows the maturities of the earliest possible non-discounted contractual cash flows of the financial obligations at the end of the reporting period of the most recent and the previous financial years. Some amounts do not match the amounts shown in the statement of financial position as they relate to undiscounted cash flows.

As of Dec. 31, 2020

EURk	Due on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years
TYPE OF LIABILITY					
Refinancing liabilities	0	239'884	753'398	2'945'746	424'654
Liabilities from deposit business	158'494	138'324	522'538	714'744	7'209
Bank liabilities	69	0	0	0	0
Lease liabilities	0	3'458	9'594	28'610	9'809
Other liabilities	0	82'457	19	26	0
Trade payables	0	38'638	0	0	0
Irrevocable credit commitments	4'708	0	0	0	0
Derivative financial liabilities	0	1'142	3'392	7'401	13'364
TOTAL	**163'271**	**503'903**	**1'288'941**	**3'696'527**	**455'036**

As of Dec. 31, 2019

EURk	Due on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years
TYPE OF LIABILITY					
Refinancing liabilities	0	419'460	781'866	2'897'370	741'835
Liabilities from deposit business	111'549	134'645	223'674	415'525	5'000
Bank liabilities	73	2'192	0	0	0
Lease liabilities	0	3'361	9'501	30'734	12'942
Other liabilities	0	35'833	0	0	0
Trade payables	0	42'377	0	0	0
Irrevocable credit commitments	4'504	0	0	0	0
Derivative financial liabilities	0	3'049	5'457	7'445	0
TOTAL	**116'126**	**640'917**	**1'020'498**	**3'351'074**	**759'777**

With respect to the disclosures on liquidity risk management, please refer to the explanations in the combined group management report and management report.

7.3 Derivative Financial Instruments

7.3.1 Fair Value and Nominal Volume

The nominal volumes and fair values of the derivative financial instruments are shown in the following tables. In accordance with internal guidelines, the nominal volumes of the derivative financial instruments correspond to the volume of the underlying transactions hedged with the derivative financial instruments.

Derivative Financial Instruments with Positive Fair Value

EURk	Dec. 31, 2020		Dec. 31, 2019	
	Nominal volume	Fair value	Nominal volume	Fair value
DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP				
Interest rate derivatives	0	0	50	28
Cross currency swaps	23'208	1'764	0	0
Foreign currency forward contracts	166'513	2'069	0	0
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP	**189'722**	**3'833**	**50**	**28**
DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP				
Interest rate derivatives	389'794	351	609'967	380
Foreign currency forward contracts	55'343	3'332	109'359	2'030
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP	**445'137**	**3'683**	**719'326**	**2'410**
TOTAL	**634'859**	**7'516**	**719'376**	**2'438**

Derivative Financial Instruments with Negative Fair Value

EURk	Dec. 31, 2020		Dec. 31, 2019	
	Nominal volume	Fair value	Nominal volume	Fair value
DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP				
Cross currency swaps	176'106	13'623	162'328	2'642
Foreign currency forward contracts	248'498	8'458	0	0
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP	**424'604**	**22'081**	**162'328**	**2'642**
DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP				
Interest rate derivatives	198'033	1'356	251'897	696
Foreign currency forward contracts	63'593	1'862	344'922	12'613
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP	**261'626**	**3'218**	**596'819**	**13'309**
TOTAL	**686'230**	**25'299**	**759'147**	**15'951**

7.3.2 Components of the Hedging Reserve in the Consolidated Statement of Comprehensive Income

The following table shows the hedging gains and losses that were recognised in the hedging reserve within the consolidated statement of comprehensive income in the reporting period. The amounts reclassified to the income statement are also shown.

EURk	2020	2019
PROFITS/LOSSES IN THE FINANCIAL YEAR		
Cross currency swaps	−9'167	−2'641
Foreign currency forward contracts	−7'763	0
Interest rate derivatives	−27	42
RECLASSIFIED TO THE INCOME STATEMENT		
Cross currency swaps	9'690	104
Foreign currency forward contracts	7'840	0
Interest rate derivatives	0	−3
TOTAL GAINS/LOSSES RECOGNISED IN HEDGING RESERVE	**573**	**−2'498**

The amounts reclassified are reported under "other operating expenses" or "other operating income" in the item "currency translation differences". The reclassifications relate, on the one hand, to the change in the fair value of the hedged item. This change would affect profit or loss without the reclassification. On the other hand, the costs of the hedge are reclassified to the income statement on a time proportion basis. The cumulative change in the fair value of the hedged bonds in foreign currency (cross currency swap) amounted to EUR 9,843k. The cumulative change in the fair value of the hedged foreign currency loans (foreign currency forward contracts) amounted to EUR 7,448k.

7.3.3 Use and Measurement

7.3.3.1 Business Model

As a small-ticket IT leasing company, GRENKE Group offers lease contracts to B2B customers for mobile IT assets, among others. The lease portfolio, i.e. all lease contracts in their entirety, has fixed contractual terms over the duration of each individual contract. Upon conclusion of the contract, both the periodical payments as well as the interest rate used to calculate the payments are set out. Neither of the parties can subsequently amend these terms. GRENKE Group only dissolves or agrees to dissolve contracts prematurely (repurchase, exchange option, termination, etc.) if the lessee bears the potential loss (i.e. due to lost interest). Each derivative contract has an underlying economic transaction with a corresponding contrarian risk position. Contracts are only concluded with credit institutions having an investment grade rating. Therefore, and due to the diversification of our contract partners, the maximum credit risk is of minor importance and is limited to the carrying amount. Please refer to the combined group management report and management report, and particularly to the risk report and the report on the financial position and net assets for qualitative and quantitative disclosures regarding default risk, liquidity risk, and market risks. Please refer to the Notes to the Consolidated Statement of Financial Position for more information.

7.3.3.2 Hedging Policy

Derivatives are used when, and only when, underlying contracts must be hedged. Underlying contracts are the contractual obligations entered into by GRENKE Group in order to achieve its objectives. The Treasury department is not a separate profit centre. The use of derivatives is limited to hedging the profits of GRENKE Group to the extent stipulated in the Company's Articles of Association.

Items are largely hedged in terms of volume or amount, with various instruments being used. The choice of instrument is always a management decision based on the risk profile, i.e. the potential income associated with the risk in question.

7.3.3.3 Measurement

Since the derivatives used are so-called OTC derivatives rather than standardised, listed financial instruments, recognised measurement models are used for calculating fair values. The necessary parameters for measurement, such as interest rates, yield curves, and foreign exchange spot and forward rates, can be observed on the market at all times and may be accessed via external sources of information.

7.3.4 Currency Risk Management

GRENKE Group is exposed to currency risks as a result of its international activities and the growing significance of its international markets. Derivatives are used to mitigate or eliminate these risks.

Forward exchange contracts were and are used to hedge the cash flows from the refinancing of the international subsidiaries. The GRENKE Group finances the lease receivables generated by the subsidiaries in the corresponding foreign currencies and receives payments in those currencies over the term of the underlying lease contracts. GRENKE Bank and GRENKE Finance Plc. also granted foreign currency loans to subsidiaries. The fair values of the forward exchange contracts are recorded under financial instruments with positive fair value and financial instruments with negative fair value. As of the end of the reporting period, there were asset and liability forward exchange contracts, leading to their disclosure as assets as well as liabilities (see Note 7.3.1). Some of the forward exchange transactions are designated as hedging instruments as defined by IFRS 9.

The following table provides information on the maturity of the nominal volumes and the hedged average rate for the forward exchange transactions with a hedging relationship as defined by IFRS 9.

EURk	Maturity of the nominal volumes as of Dec. 31, 2020			
EUR Purchase	Up to 1 year	1 to 5 years	More than 5 years	Hedged average rate
AUD	18'875	32'390	–	1.70
CAD	50'387	2'636	–	1.56
CHF	19'864	11'630	–	1.08
CLP	5'127	–	–	877.74
DKK	20'730	52'046	–	7.44
GBP	83'382	–	–	0.90
PLN	789	–	–	4.44
SEK	30'469	64'456	–	10.59
SGD	21'818	–	–	1.53
USD	–	412	–	1.21

Cross currency swaps were used to hedge the foreign currency risk of four foreign currency bonds issued in the 2019 financial year and one foreign currency bond issued in the 2020 financial year (HKY, JPY and SEK) as well as the resulting interest payments. The hedged item is reported under current and non-current financial liabilities (see Note 5.11.3.2). The cross currency swaps are designated as hedging relationships within the meaning of IFRS 9. The five existing cross currency swaps have proven to be effective. The changes in fair value were recognised in other comprehensive income. Exchange gains and losses from the translation of the foreign currency bonds at the spot rate as of December 31, 2020 were recognised in the income statement (see Note 7.3.2).

The following table provides information on the maturity of the nominal volumes, the hedged average rate and the hedged average interest rates (arithmetic mean):

	Maturity of the nominal volumes as of Dec. 31, 2020		
EUR Purchase	Up to 1 year	1 to 5 years	More than 5 years
CROSS CURRENCY SWAPS (EUR : HKD)			
Nominal volume	809	3'603	96'919
Hedged average rate	8.6	8.6	8.6
Average interest rate	0.97%	0.97%	0.97%
CROSS CURRENCY SWAPS (EUR : JPY)			
Nominal volume	1'000	12'291	61'394
Hedged average rate	121.27	121.27	121.62
Average interest rate	1.52%	1.64%	1.67%
CROSS CURRENCY SWAPS (EUR : SEK)			
Nominal volume	23'208	–	–
Hedged average rate	10.81	–	–
Average interest rate	0.31%	–	–

For information on exchange rate sensitivity, please refer to the detailed explanations on market price risk in the risk report contained in the combined group management report.

7.3.5 Interest Rate Risk Management

The interest rate risk for GRENKE Group's operations results mainly from the sensitivity of its financial liabilities to changes in market interest rates. GRENKE Group endeavours to limit the impact of such risks on interest expense and net interest income by employing appropriate derivatives.

Issuing bonds and contracting interest rate swaps are elements of implementing a financing strategy under which GRENKE Group separates refinancing from interest rate hedging in order to obtain maximum flexibility for optimising its refinancing activities. The risks (variable cash flows) which may result are hedged by appropriate interest rate derivatives.

The variable refinancing of the ABCP transaction is economically hedged by the employment of interest rate swaps. From the perspective of the GRENKE Group, these are receiver swaps. A fixed interest rate is exchanged for a floating-rate interest.

In the past, interest rate swaps were also designated as hedging instruments in accordance with IAS 39 if the corresponding requirements were met. As all interest rate derivatives classified as hedge accounting were due in 2020, the clean value (excluding accrued interest) was reclassified from other comprehensive income to the income statement (see Note 7.3.2).

For information on sensitivities, please refer to the statements on market price risks, which are explained in detail in the risk report of the combined group management report and management report of GRENKE AG.

7.3.6 Effectiveness of the Hedging Relationship

IFRS accounting requires documentation and risk assessment when using derivative financial instruments. In particular, the appropriation and the critical term match between the hedged item and the hedging instrument form the basis for a successful hedging relationship in terms of effectiveness. By using derivatives to hedge foreign currency bonds and loans to Consolidated Group companies in foreign currencies, the GRENKE Group applies hedge accounting in accordance with IFRS 9. The efficiency of hedging relationships required by IFRSs is in line with the GRENKE Group's intention that only risks from designated underlying transactions are hedged by derivatives and that derivatives are not entered into at any time for speculative reasons.

The effectiveness tests for the individual financial derivatives, insofar as a hedging relationship is accounted for in accordance with IFRS 9, are performed prospectively on the basis of the critical term match method when the hedge is designated for the first time and at the end of each quarter. The documentation of each hedging relationship describes the underlying transaction, the hedged risk, the hedging relationship, the strategy, the hedging instrument as well as the effectiveness assessment and names the contract partner.

Foreign currency cash flows are the basis for the forward currency contracts and cross currency swaps. These foreign currency cash flows are determined by contractually fixed payment dates in foreign currency. The foreign currency denominated cash flows form the basis for the forward currency contracts and the cross currency swaps. The hedging can be categorised as highly effective, as only the actual cash flows are hedged and never a higher amount. The dates of the funding and the currency hedging coincide to ensure the best possible economic hedge of the cash flow risk.

The hedging relationships between the cross currency swaps and the foreign currency bonds have proven to be highly effective. The material contractual terms of the hedging instrument and the hedged item match. The hedging relationships between the foreign currency loans to Consolidated Group companies and the forward exchange contracts with hedging relationship have proven to be highly effective.

For all derivatives for which hedge accounting has been applied, the material contractual terms between the hedged item and the hedging instrument match. The credit risk of the counterparty to the hedging instrument is not dominant, so the hedge is prospectively considered to be highly effective.

7.4 Fair Value of Financial Instruments

7.4.1 Fair Value of Primary Financial Instruments

The following table presents the carrying amounts and fair values of financial assets and financial liabilities by category of financial instruments that are not measured at fair value. The table does not contain information on the fair value of financial assets and financial liabilities if the carrying amount represents an appropriate approximation to the fair value.

EURk	Fair value 2020	Carrying amount 2020	Fair value 2019	Carrying amount 2019
FINANCIAL ASSETS				
Lease receivables	6'341'277	5'636'292	6'511'828	5'775'649
Other financial assets	288'512	277'260	239'751	239'750
thereof factoring receivables	53'582	53'582	67'728	67'728
thereof receivables from the lending business	163'010	151'758	125'483	125'482
thereof other financial assets	71'920	71'920	46'540	46'540
FINANCIAL LIABILITIES				
Financial liabilities	5'672'117	5'810'110	5'756'040	5'679'976
thereof refinancing liabilities	4'095'744	4'268'732	4'853'046	4'787'317
thereof liabilities from the deposit business	1'576'304	1'541'309	900'729	890'394
thereof bank liabilities	69	69	2'265	2'265

This includes the following line items in the statement of financial position: cash and cash equivalents, trade receivables and trade payables. All primary financial instruments are assigned to Level 2 of the fair value hierarchy except for exchange-listed bonds that are included in refinancing liabilities and assigned to Level 1 of the fair value hierarchy and the other investment that is assigned to Level 3 of the fair value hierarchy. As of the reporting date, the carrying amount of exchange-listed bonds was EUR 2,662,498k (previous year: EUR 2,764,192k), and their fair value amounted to EUR 2,498,603k (previous year: EUR 2,827,286k). All primary financial assets are measured at amortised cost (AC) except for lease receivables, which are measured in accordance with IFRS 16, and other investments, which are allocated to the FVOCIoR measurement category and are therefore measured at fair value. Financial liabilities are also measured at (amortised) cost.

7.4.2 Fair Value of Derivative Financial Instruments

At the end of the reporting period, all derivative financial instruments, which include interest rate derivatives (interest rate swaps), forward exchange contracts and cross currency swaps, are recognised at fair value in the GRENKE Group. All derivative financial instruments are assigned to Level 2 of the fair value hierarchy.

EURk	Fair value 2020	Carrying amount 2020	Fair value 2019	Carrying amount 2019
FINANCIAL ASSETS				
DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP				
Interest rate derivatives	0	0	28	28
Cross-currency swaps	1'764	1'764	0	0
Forward exchange derivatives	2'069	2'069	0	0
DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP				
Interest rate derivatives	351	351	380	380
Forward exchange derivatives	3'332	3'332	2'030	2'030
TOTAL	7'516	7'516	2'438	2'438
FINANCIAL LIABILITIES				
DERIVATIVE FINANCIAL INSTRUMENTS WITH HEDGING RELATIONSHIP				
Interest rate derivatives	0	0	0	0
Cross-currency swaps	13'623	13'623	2'642	2'642
Forward exchange derivatives	8'458	8'458	0	0
DERIVATIVE FINANCIAL INSTRUMENTS WITHOUT HEDGING RELATIONSHIP				
Interest rate derivatives	1'356	1'356	696	696
Forward exchange derivatives	1'862	1'862	12'613	12'613
TOTAL	25'299	25'299	15'951	15'951

The GRENKE Group uses so-called OTC derivatives ("over-the-counter"). These are directly concluded with counterparties having at least investment grade status. Thus, there are no quoted market prices available.

Fair values of forward exchange contracts and interest rate derivatives are determined based on valuation models that include observable input parameters. Forward exchange contracts are measured on the basis of a mark-to-market valuation model. The fair value of interest rate derivatives is determined on the basis of the net present value method. The input parameters applied in the valuation models are derived from market quotes. Interest rates with matching maturities in the traded currencies are used for forward exchange contracts, and interest rates are used for interest rate derivatives. To obtain the fair value of such OTC derivatives, the determined amounts are multiplied with the counterparty's credit default swaps (CDS) with matching maturities that are observable on the market or their own credit risk using what is known as the "add-on method", including the coupons.

The predominant portion of cash flows of these hedges is expected to impact the net profit over the next two years.

7.4.3 Measurement Methods and Input Parameters Used

The following table presents the measurement methods used and the input parameters and assumptions applied to determine the fair values:

Category and Level	Measurement method	Input factors
FAIR VALUE HIERARCHY LEVEL 1		
Listed bonds	n. a.	Quoted market price as of the reporting date
FAIR VALUE HIERARCHY LEVEL 2		
Other financial assets	Present value of estimated future cash flows	Available interest rates at comparable conditions and residual terms using the counterparty's credit risk
Financial liabilities (liabilities refinancing of lease receivables, promissory notes and bank liabilities)	Present value of estimated future cash flows	Available interest rates at comparable conditions and residual terms using the own credit risk (Debt Value Adjustment [DVA])
Forward currency contracts / Cross currency swaps	"Mark-to-market Present value of estimated future cash flows"	Available interest rates in the traded currencies at comparable conditions and residual terms using the own counterparty risk DVA (Debt Value Adjustment) or the counterparty's credit risk CVA (Credit Value Adjustment) derived from available credit default swap (CDS) quotes
Interest rate derivatives	Present value of estimated future cash flows	Available interest rates at comparable conditions and residual terms using the own counterparty risk DVA (Debt Value Adjustment) or the counterparty's credit risk CVA (Credit Value Adjustment) derived from available credit default swap (CDS) quotes
FAIR VALUE HIERARCHY LEVEL 3		
Other investments (investment in Finanzchef24 GmbH)	"Discounted cash flow model Present value of estimated future cash flows"	Business plan of Finanzchef24 GmbH to determine future cash flows; sustainable growth rate of future cash flows; parameters to determine the discount rate (in particular, risk-free interest rate, market risk premium, beta factor, adjustment factors)

The development of the fair value of the investment in Finanzchef24 GmbH assigned to Level 3 of the fair value hierarchy is shown in the following table. The scheduled valuation process of the investment, which is allocated to the category FVOCI without recycling (FVOCIoR), is carried out annually on the basis of the updated business plan submitted by Finanzchef24 GmbH.

EURk	2020	2019
Fair value at start of period (Jan. 1)	5'505	5'445
Gains and losses recognised in profit and loss for the period	0	0
Gains and losses recognised in other comprehensive income for the period	–241	60
Fair value at end of period (Dec. 31)	5'264	5'505

A discount rate (weighted average cost of capital, WACC) of between 12.8 percent and 14.6 percent (previous year: between 8.0 percent and 9.6 percent) and a sustainable growth rate of future cash flows of 2.6 percent (previous year: 2.0 percent) were used as significant unobservable input factors in determining the fair value of the investment in Finanzchef24 GmbH. An increase (a decrease) in the discount rate by 1 percentage point would lead to a decrease (an increase) in the fair value of EUR –781k (EUR+969k) (previous year: EUR –940k, EUR+1,311k). An increase (a decrease) in the sustainable growth rate by 0.5 percentage points would lead to an increase (a decrease) in the fair value of EUR +151k (EUR –139k) (previous year: EUR +245k, EUR –215k).

7.5 Transfers of Financial Assets

The following table lists transferred financial assets not derecognised and the corresponding liabilities at their respective carrying amount and fair value for which the contractual right to cash flows from these financial assets was transferred.

EURk	Carrying amount	Carrying amount of corresponding liability	Fair value	Fair value of corresponding liability	Net position
TRANSFERRED LEASE RECEIVABLES DEC. 31, 2020	**113'628**	**96'295**	**123'943**	**96'285**	**17'333**
From sale of receivable agreements	113'628	96'295	123'943	96'285	17'333
TRANSFERRED LEASE RECEIVABLES DEC. 31, 2019	**175'568**	**153'457**	**193'988**	**162'724**	**22'111**
From sale of receivable agreements	175'568	153'457	193'988	162'724	22'111

For more information, please see the explanations on sales of receivables agreements under Note 5.11.2.3.

7.6 Modified financial assets

The net investment of the deferred leases in impairment Levels 2 and 3 prior to the start of the deferrals amounted to EUR 106,421k, and the modification loss amounted to EUR 1,054k. As of the reporting date, net investments of EUR 2,040k of the aforementioned contracts had already been reclassified to Level 1.

8. Segment Reporting

8.1 Description of Reportable Segments

GRENKE Group's reporting on the development of its segments is aligned with its prevailing organisational structure within the GRENKE Group ("management approach". Thus, operating segments are divided into Leasing, Banking, and Factoring based on the management of the Company's segments, which enables the key decision-maker, the Board of Directors of GRENKE AG, to assess the performance of the segments and make decisions about the allocation of resources to the segments. Separate financial information is available for the three operating segments.

The GRENKE Group's segment reporting was expanded in the 2020 financial year to include a breakdown of internal and external operating income. This takes into account the overall increase in the importance of transactions between the segments, particularly in the area of refinancing. In addition, a review of intra-Group non-interest expenses was carried out in the 2020 financial year. The identified intra-Group transactions are reported in the column "Consolidation and Other" within the segment reporting. The previous year's values were adjusted accordingly.

8.1.1 Leasing

The Leasing segment comprises all of the activities that are related to the Consolidated Group's business as a lessor. The services offered consist of the provision of financing to commercial lessees, rental, service, protection and maintenance offerings, as well as the disposal of used equipment.

The GRENKE Group's leasing business focuses primarily on the small-ticket leasing of IT products, such as PCs, notebooks, servers, monitors, peripheral devices, software, telecommunication and copier equipment, medical devices as well as other IT products. Nearly all leases concluded provide for full cost recovery.

8.1.2 Banking

The Banking segment comprises the activities of GRENKE BANK AG (GRENKE Bank) as a financing partner particularly to small and medium-sized companies (SMEs). In the context of cooperating with a variety of federal government and state development banks, GRENKE Bank offers business start-up financing. In addition, GRENKE Bank provides development loans to SMEs and self-employed professionals who want to finance new business purchases through lease financing. GRENKE Bank also offers investment products such as fixed deposit products to private and business customers via its website. The bank's business is focused primarily on German customers. In addition to business with external customers, GRENKE BANK AG's activities also include the internal refinancing of the GRENKE Group's Leasing segment through the purchase of receivables and the issuance of loans.

8.1.3 Factoring

In the Factoring segment, GRENKE offers traditional factoring services with a focus on small-ticket factoring. Within non-recourse factoring, the segment offers both notification factoring, where the debtor is notified of the assignment of receivables, and non-notification factoring, where the debtor is not notified accordingly. In addition, the segment also offers receivables management without a financing function (non-recourse factoring); where the customer continues to bear the credit risk. Internal operating income results in particular from internal refinancing.

8.2 Segment Data

The accounting policies employed to gather segment information are the same as those used for the consolidated financial statements (see Note 3). Intra-group transactions are performed at standard market prices.

The Board of Directors of GRENKE AG is the responsible body for assessing the performance of the GRENKE Group.

In addition to the growth of new business in the Leasing segment (total acquisition costs of newly acquired leased assets), the Board of Directors has determined the deposit volume for GRENKE Bank and the gross margin for the Factoring segment as key performance indicators. The performance components of the segments are presented in the management report in the section entitled "GRENKE Group's Business Performance – Results of Operations". The other measures include, in particular, segment operating income, non-interest expenses, segment result before other financial result, as well as staff costs, selling and administrative expenses, and depreciation and amortisation. Other financial result and tax expense/income are the main components of the consolidated statement of income that are not included in the individual segment information.

The segment income of the individual segments is composed as follows:

// Leasing – Net interest income after settlement of claims and risk provision, profit from service business, profit from new business and gains/losses from disposals
// Banking – Net interest income after settlement of claims and risk provision
// Factoring – Net interest income after settlement of claims and risk provision
// The non-cash items represent impairment losses

The segment assets include the assets required for operations. Segment liabilities correspond to liabilities attributable to the respective segment.

Segment assets and liabilities do not take into account tax positions.

The column "Consolidation and Other" includes inter-segment transactions.

EURk	Leasing Segment		Bank Segment	
	2020	2019	2020	2019
OPERATING INCOME				
External operating income	367'638	399'836	–13'527	–5'618
Internal operating income	–53'688	–39'205	54'503	39'891
TOTAL OPERATING INCOME	**313'950**	**360'631**	**40'976**	**34'273**
thereof non-cash items	181'615	124'689	9'358	1'575
NON-INTEREST EXPENSES				
Staff costs	110'285	111'902	4'249	3'954
Depreciation/amortisation and impairment	26'394	29'669	2'436	731
Selling and administrative expenses	75'825	73'272	4'971	4'226
SEGMENT RESULT	**111'999**	**156'653**	**17'581**	**14'471**
Result from companies accounted for using the equity method	–98	–68	–302	–169
Other financial result				
EARNINGS BEFORE TAXES ACCORDING TO CONSOLIDATED INCOME STATEMENT	**111'901**	**156'585**	**17'279**	**14'302**
As of December 31				
SEGMENT ASSETS	**6'732'015**	**6'803'130**	**2'252'866**	**1'502'738**
thereof investments accounted for using the equity method	322	420	4'201	4'503
SEGMENT LIABILITIES	**5'735'910**	**5'839'159**	**1'968'804**	**1'332'069**

The previous year's figures in the segment reporting were adjusted as part of the new structure of the segment report.

8.3 Information on Regional Segments

The main geographical areas at a country level in which operating income is generated with external customers are Germany, France and Italy. All other countries are summarised in "Other countries". Operating income and non-current assets are presented for the countries shown.

Operating income includes net interest income and non-interest income, the geographical breakdown of which is based on the customer contracts in the subsidiary's location. Non-current assets include other intangible assets, property, plant and equipment, rights-of-use and other assets based on the location of the subsidiary. In previous years, non-current assets also included long-term lease receivables. As part of the new structure of segment reporting, long-term lease receivables will not be reported in the future.

EURk	Germany		France	
	2020	2019	2020	2019
EXTERNAL OPERATING INCOME (JANUARY TO DECEMBER)	**78'890**	**99'149**	**84'302**	**88'095**
NON-CURRENT ASSETS (AS OF DECEMBER 31)	**56'603**	**57'928**	**17'503**	**12'462**

Factoring Segment		Consolidation & Other		Consolidated Group	
2020	2019	2020	2019	2020	2019
6'227	5'447	0	0	360'338	399'665
–815	–686	0	0	0	0
5'412	**4'761**	**0**	**0**	**360'338**	**399'665**
1'484	1'972	0	0	192'457	128'236
5'871	5'446	–625	–477	119'780	120'825
924	847	–883	–804	28'871	30'443
3'189	3'210	–2'356	–2'429	81'629	78'279
–4'496	**–4'412**	**33**	**–38**	**125'117**	**166'674**
0	0	0	0	–400	–237
		–9'545	–3'662	–9'545	–3'662
–4'496	**–4'412**	**–9'512**	**–3'700**	**115'172**	**162'775**
77'248	**86'744**	**–1'775'672**	**–1'347'459**	**7'286'457**	**7'045'153**
0	0	0	0	4'523	4'923
75'135	**69'227**	**–1'708'050**	**–1'347'481**	**6'071'799**	**5'892'974**

Italy		Other countries		Group	
2020	2019	2020	2019	2020	2019
55'996	46'199	141'150	166'222	360'338	399'665
12'673	15'515	73'470	79'429	160'249	165'334

9. Other Disclosures

9.1 Capital Management

9.1.1 Economic Capital

The primary goal of the GRENKE Group's capital management is to ensure that its credit rating is maintained in order to support its operations and safeguard liquidity, as well as to maintain risk-bearing capacity at all times within the requirements placed on the Consolidated Group by the Minimum Requirements for Risk Management.

The GRENKE Group monitors its capital, among other things, using the equity ratio, i.e. the ratio of its equity according to the statement of financial position to total assets. In accordance with the Consolidated Group guidelines, we aim for an equity ratio of 16 percent as in the previous year. In addition, the Consolidated Group's determination of maximum risk-bearing capacity, and its risk-limiting system through the limiting of risk positions, the safeguarding and monitoring of economic capital is guaranteed.

Operating income consists of the same items as those explained above for operating segment income. Non-current assets comprise non-current lease receivables, property, plant and equipment, rights-of-use, goodwill, other intangible assets and other non-current assets.

9.1.2 Regulatory Capital

As a financial services provider and parent company of the banking group, GRENKE AG must meet the equity requirements of banking groups under Section 10a KWG in conjunction with Section 25ff of EU Regulation No. 575/2013 (Capital Requirement Regulation – CRR).

The regulatory scope of consolidated companies of GRENKE AG is determined by the Consolidated Group's scope of consolidation. The solvency of the banking group is also measured based on the affiliation with the Consolidated Group. Equity is calculated in the context of the COREP reporting (Common Solvency Ratio Reporting) under Section 72ff CRR.

For the presentation of equity, please refer to the combined group management report and the management report.

The return on capital in accordance with Section 26a (1) sentence 4 of the German Banking Act (KWG) is 1.2 percent.

9.2 Contingent Liabilities and Other Financial Obligations

Irrevocable credit commitments from the loan business amounted to EUR 4,708k (previous year: EUR 4,504k) and included unutilised limited overdrafts and unutilised loan commitments for the risk concentration country of Germany. This amount also represents the maximal credit risk.

Obligations for the construction of office buildings amounted to EUR 615k as of December 31, 2020 (previous year: EUR 5,783k).

The Company has financial obligations related to rent, building maintenance and lease contracts. Lease contracts for leased branch offices and company vehicles are generally recognised as rights-of-use and lease liabilities in the statement of financial position.

The following table contains the other financial obligations that were not recognised as lease liabilities under IFRS 16 because the underlying contracts did not contain a lease as defined by IFRS 16 or the exemptions were utilised for short-term leases and low-value leases. The presentation also includes obligations from leases that the GRENKE Group had already entered into as lessee as of the reporting date but have not yet started.

EURk	Dec. 31, 2020	Dec. 31, 2019
RENT, MAINTENANCE, AND LEASE OBLIGATIONS NOT RECOGNISED AS LEASE LIABILITIES IN STATEMENT OF FINANCIAL POSITION		
Due in subsequent year	4'584	2'780
Due in 1 to 5 years	7'445	2'353
Due after 5 years	0	60
TOTAL	**12'029**	**5'193**

Under three agreements on the sale of receivables of GRENKE Investitionen Verwaltungs KGaA to secure all receivables of the holding company (Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien) from the operating company, the operating company (GRENKE AG) assigns to the holding company the following from lease contracts with end lessees (sublease contract) for leasing assets which are the subject of a purchase agreement between the operating company and the holding company:

All receivables, claims and rights arising from these sublease contracts, including any claims from extended leases following the expiry of the original lease term, any claims for compensation payments, residual values, and payment of a purchase price from the sale of the respective lease asset. Claims from credit and property insurance from the sublease contract are also assigned as are any claims from repurchase obligations on the part of suppliers of lease assets or of third parties. The buyer of the receivables acquires the equitable lien on the lease assets underlying the receivables purchase agreement.

With the notice of July 27, 2009, GRENKE AG submitted a Letter of Commitment in accordance with Section 5 (10) of the Statute of the Deposit Protection Fund to the Association of German Banks (Bundesverband deutscher Banken e.V.). With this notification, GRENKE AG has waived any claim against the Association of German Banks that would be in favour of GRENKE BANK AG.

GRENKE AG has issued a letter of comfort as of the December 31, 2020 reporting date for the following entities:

// GRENKELEASING Magyarország Kft., Hungary
// GRENKELEASING Sp.z.o.o., Poland
// GRENKELEASING Oy, Finland
// GRENKELEASING s.r.o., Czechia
// GRENKE Renting Ltd., Malta
// GC Leasing Middle East FZCO, United Arab Emirates (UAE)
// GRENKEFACTORING AG, Basel/ Switzerland
// Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien, Germany
// GRENKEFACTORING GmbH, Germany

The purpose of the letter of comfort provided by GRENKE AG for Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien and GRENKEFACTORING GmbH is the use of the waiver rule pursuant to Section 2a (1) KWG in conjunction with Article 7 CRR and with Section 2a (5) KWG by the respective subsidiary.

9.3 Tax Audits

The tax audit for Grenke Investitionen Verwaltungs KGaA for the financial years 2005 to 2009 was completed in 2018. As at the reporting date, there is still one disputed matter in which GRENKE has a different position vis-à-vis the tax authorities. For the measurement of uncertain tax positions from the disputed matter, the most probable value was recognised as a tax receivable.

In April 2018, the audit instructions for the period from January 2012 to December 2017 were established for GRENKE BANK AG. The tax audit started on June 26, 2018 and encompasses insurance taxes. As of the reporting date, one matter is in dispute where GRENKE takes a different position vis-à-vis the tax authorities. For the measurement of the uncertain tax positions arising from the disputed matter, the most probable value was recognised as a tax provision.

In July 2018, the audit instructions for the period from January 2012 to December 2017 were established for GRENKE AG. The tax audit started on August 14, 2018 and encompasses insurance taxes. No final conclusions were available as of the end of the reporting year.

In addition, some of the tax audits that began in 2019 in Austria, Switzerland, Italy, Belgium and other countries have been completed. To the extent that final conclusions were available, the most probable amounts were recognised in the consolidated financial statements.

9.4 Consulting and Audit Fees

The expenses related to the audit fee are comprised as follows:

EURk	2020	2019
Audit services	5'343	848
Other assurance services	116	157
TOTAL	**5'459**	**1'005**

Of the total fee, EUR 96k (previous year: EUR 217k) concerned prior periods.

9.5 Related Party Disclosures

Third parties are considered to be related when one party controls GRENKE AG, has joint control over GRENKE AG, or has the power to exercise considerable influence over its business or operating decisions. Related parties of the GRENKE Group include persons in key positions, their family members and entities controlled by these persons, subsidiaries and associated companies of GRENKE AG, as well as entities that exercise a considerable influence.

Transactions with other associated companies and subsidiaries

Transactions of GRENKE AG with its subsidiaries are related party transactions. In the event that the transaction is eliminated in the course of consolidation, no disclosure is required. Transactions of the GRENKE Group with associated companies are to be disclosed as related party transactions.

Liabilities to associated companies resulted from GRENKE Bank's deposit business. GRENKE Bank had received deposits of EUR 574k (previous year: EUR 430k) from associated companies as of the December 31, 2020 reporting date. Interest expenses of EUR 0k (previous year: EUR 1k) also arose. In addition, there are receivables from loans in the amount of EUR 600k (previous year: EUR 0k). Interest income amounted to EUR 15k (previous year: EUR 0k).

There were no reportable transactions with subsidiaries in the 2020 or 2019 financial year. The subsidiaries include thirteen franchise companies. Option contracts exist for these companies, as well as for the sales agency in Norway, which allow the GRENKE Group to acquire them. None of these purchase options was exercised in the reporting year. In December 2020, GRENKE AG and the financial investors of the franchise companies entered into a memorandum of understanding in which the parties agreed that GRENKE acquire the shares of all franchise companies by December 31, 2021. In return, GRENKE AG received a power of attorney to exercise voting rights for the shares for the 2021 financial year. The entire process of acquiring the franchise companies is expected to be completed in 2022.

Transactions with Persons in Key Positions

Persons in key positions are people who have direct or indirect authority and responsibility for planning, directing, and overseeing the activities of the GRENKE Group. Persons in key positions were exclusively sitting members of the Board of Directors and Supervisory Board of GRENKE AG and their close family members.

In the course of its ordinary business activities, GRENKE BANK AG provides services to related parties in key positions and their close family members. As of the reporting date, GRENKE Bank received deposits of EUR 10,726k (previous year: EUR 9,314k) from persons in key positions and their close family members. The related interest expense amounted to EUR 32k (previous year: EUR 26k). Credit card accounts not yet settled showed a balance of EUR 13k (previous year: EUR 27k) with a credit card limit of EUR 316k (previous year: EUR 216k) to related persons in key positions as of the reporting date. No further loans were extended to this group of persons during the reporting period.

There was also a consultancy agreement with a member of the Supervisory Board. The consulting expenses for the 2019 and 2018 financial years in the amount of EUR 270k were reimbursed in the 2020 financial year. The consultancy agreement was terminated in 2020. In addition, income of EUR 8k (previous year: EUR 0k) arose with persons in key positions from the on-charging of data line costs and the sale of goods. As of the reporting date, there are receivables of EUR 1k (previous year: EUR 0k) from these transactions. The GRENKE Group incurred expenses of EUR 2k (previous year: EUR 0k) from transactions with persons in key positions.

Board of Directors:

The following table presents the total remuneration of the members of the Board of Directors in accordance with Section 314 (1) no. 6 and IAS 24.17. A detailed description of the basic features of the remuneration system for the members of the Board of Directors and the Supervisory Board and an individualised presentation of the remuneration in accordance with the provisions of DRS 17 is presented in the remuneration report as part of the group management report. Short-term benefits include, among other things, customary benefits in kind.

EURk	2020	2019
Short-term benefits	1'721	2'145
Pension benefits	9	9
Other long-term benefits	0	0
Share-based remuneration	0	653
TOTAL	**1'730**	**2'807**

Supervisory Board:

The remuneration (including fringe benefits) of the Supervisory Board of GRENKE AG at the Consolidated Group level totalled EUR 290k (previous year: EUR 377k). Remuneration for Supervisory Board activities is set out in GRENKE AG's Articles of Association. The remuneration is categorised as a short-term benefit in accordance with IAS 24.17.

Transactions with Other Related Parties

Other related parties include subsidiaries and joint ventures of persons in key positions or their close family members. Other related parties include persons who have been declared as related parties due to the economic content of the relationship in accordance with IAS 24.10.

Liabilities to other related parties result from GRENKE Bank AG's deposit business. GRENKE Bank AG received deposits of EUR 2,888k (previous year: EUR 694k) from other related parties as of the reporting date of December 31, 2020. Interest expenses of EUR 170k (previous year: EUR 0k) arose. Income from other related parties in the amount of EUR 203k (previous year: EUR 236k) mainly results from rental income and the charging on of leased line costs, licence costs and other costs. The asset items amounting to EUR 6,207k (previous year: EUR 41k) result mainly from the aforementioned business transactions, and, in the reporting year, from advance payments for the companies GC Leasing Ontario Inc, GC Crédit-Bail Québec Inc, GC Rent Chile S.p.A. and GF Faktor Zrt. As part of these prepayments, payments of EUR 4,457k were also made to the other shareholders (other related parties) of the aforementioned companies. In addition, the GRENKE Group incurred expenses with related parties in the amount of EUR 1,582k (previous year: EUR 1,405k). These are mainly interest expenses from loans. The corresponding liability item amounts to EUR 5,128k as of the reporting date of December 31, 2020 (previous year: EUR 4,290k).

9.6 Board of Directors and Supervisory Board

The Board of Directors of GRENKE AG consisted of the following members in the 2020 financial year:

// Antje Leminsky, graduate business administration, Baden-Baden, Germany, Chair of the Board of Directors
// Gilles Christ, MBA, Wissembourg, France
// Sebastian Hirsch, M.A., Sinzheim, Germany
// Mark Kindermann, graduate business administration, Bühl, Germany (until February 8, 2021)

The members of the Board of Directors represent GRENKE AG jointly with another member of the Board of Directors or with an authorised signatory.

Memberships in other statutory supervisory boards and memberships in comparable domestic and foreign supervisory bodies are listed below:

Antje Leminsky is on the Supervisory Board of GRENKE BANK AG, Baden-Baden, Testo SE & Co. KGaA, Lenzkirch, and Testo Management SE, Lenzkirch.

Gilles Christ is on the Supervisory Board of GRENKE Service AG, Baden-Baden.

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

Mark Kindermann is on the Supervisory Board of Grenkefinance N.V., Vianen/Netherlands (until February 8, 2021), and of GRENKE BANK AG, Baden-Baden (until February 8, 2021).

In accordance with the Articles of Association, the Supervisory Board of GRENKE AG consists of six members. In financial year 2020, the Supervisory Board comprised the following members:

// Prof Dr Ernst-Moritz Lipp, Baden-Baden, Chairman, Professor of International Finance and Managing Director of ODEWALD & COMPAGNIE Gesellschaft für Beteiligungen mbH, Berlin
// Wolfgang Grenke, Sinzheim, Deputy Chairman (mandate suspended since September 21, 2020), businessman and Managing Director of WGW Investment GmbH, Vienna

// Jens Rönnberg, Mainz, Interim Deputy Chairman (since October 1, 2020), self-employed auditor/tax consultant
// Claudia Krcmar, Baden-Baden, Managing Director of AMPIT GmbH, Sinzheim
// Dr. Ljiljana Mitic, Munich, independent management consultant
// Florian Schulte, Baden-Baden, Managing Director of S.K. Management- und Beteiligungs GmbH, Baden-Baden

The term of office of Jens Rönnberg and Claudia Krcmar ends at the end of the Annual General Meeting that decides on their discharge for the 2021 financial year. The term of office of Prof Dr Ernst-Moritz Lipp and Wolfgang Grenke ends at the end of the Annual General Meeting that decides on their discharge for the 2022 financial year. The term of office of Dr Ljiljana Mitic and Florian Schulte ends at the end of the Annual General Meeting that decides on their discharge for the 2023 financial year.

Memberships in other statutory supervisory boards, as well as memberships in comparable domestic and foreign supervisory bodies, are listed below:

Prof Dr Ernst-Moritz Lipp is also Chairman of the Supervisory Board of GRENKE BANK AG, Baden-Baden.

Wolfgang Grenke is Chair of the Supervisory Board of GRENKE Service AG, Baden-Baden, Chair of the Supervisory Board of KSC GmbH & Co. KGaA, Karlsruhe, and a member of the Supervisory Board of GRENKE BANK AG, Baden-Baden. He is also Chairman of the Board of Directors of GRENKELEASING AG, Zurich/Switzerland, and GRENKE Factoring AG, Basel/Switzerland. As of September 21, 2020, Wolfgang Grenke suspended his mandates within the GRENKE Group until the allegations regarding any conflicts of interest have been fully resolved.

Dr Ljiljana Mitic is a Non-Executive Director of Computacenter plc, London, Great Britain.

Florian Schulte is Deputy Chair of the Supervisory Board of Softline AG, Leipzig, and a member of the Supervisory Board of Upside Beteiligungs AG, Grünwald.

9.7 Disclosures on Notifications pursuant to Section 33 (1) WPHG

As part of our investor relations work, we provide comprehensive information on developments in the Company. GRENKE also makes extensive use of the Internet for reporting purposes; the voting rights notifications that have been received are published at https://www. https://www.grenke.com/investor-relations/grenke-share/voting-rights in accordance with Section 40 of the German Securities Trading Act.

Notified reportable shareholdings in the 2020 financial year:

Allianz Global Investors GmbH, Frankfurt/Main, Germany, notified us on March 24, 2020 pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the 3 percent threshold on March 20, 2020 and amounted to 3.06 percent (corresponding to 1,417,540 voting rights) on that date.

Union Investment Privatfonds GmbH, Frankfurt/Main, Germany, notified us on April 2, 2020 pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the threshold of 3 percent on March 31, 2020 and amounted to 3.17 percent (corresponding to 1,469,181 voting rights) on that date. On April 21, 2020, Union Investment Privatfonds GmbH, Frankfurt/Main, Germany, notified us pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, fell below the threshold of 3 percent on April 17, 2020 and amounted to 2.99 percent (corresponding to 1,386,701 voting rights) on that date.

On September 21, 2020, Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, Germany, notified us pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the threshold of 3 percent on September 17, 2020 and amounted to 3.24 percent (corresponding to 1,506,881 voting rights) on that date. On September 23, 2020, Jupiter Fund Management PLC, London, United Kingdom, notified us pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the threshold of 5 percent on September 16, 2020 and amounted to 5.67 percent (corresponding to 2,637,655 voting rights) on that date. Furthermore, on September 23, 2020, it notified us pursuant to Section 33 (1) WpHG that its share of voting rights had fallen below the threshold of 5.0 percent on September 17, 2020. On this day, the share of voting rights amounted to 3.91 percent (corresponding to 1,816,536 voting rights). On September 24, 2020, we were notified that its share of voting rights had fallen to 3.18 percent (corresponding to 1,478,307 voting rights) on September 18, 2020. In a notification dated September 25, 2020, it was announced pursuant to Section 33 (1) WpHG that the voting rights had fallen below the threshold of 3 percent on September 22, 2020. On this day, the share of voting rights amounted to 2.76 percent (corresponding to 1,283,430 voting rights). On October 8, 2020, Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt/Main, Germany, notified us pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the threshold of 3 percent of voting rights on October 1, 2020 and amounted to 3.01 percent (corresponding to 1,399,038 voting rights) on that date. On October 9, 2020, Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt/Main, Germany, notified us pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, fell below the threshold of 3 percent on October 6, 2020 and amounted to 2.89 percent (corresponding to 1,343,638 voting rights) on that date. Axxion S.A., Grevenmacher, Luxembourg, notified us on December 24, 2020 pursuant to Section 33 (1) WpHG that its share of voting rights in GRENKE AG, Baden-Baden, Germany, exceeded the threshold of 3 percent on December 21, 2020 and amounted to 3.03 percent (corresponding to 1,408,923 voting rights) on that date.

9.8 Events after the Reporting Date

Amendment agreements were concluded with various creditors of promissory notes due to the delayed presentation of the audited consolidated financial statements for the 2020 financial year. As a result, promissory notes amounting to EUR 148 million were repaid early to the creditors. In one special case, the loan amount of the promissory notes due in 2021 was deposited as a credit with the creditor. There were no other significant events after the reporting date.

9.9 Declaration pursuant to Section 161 AKTG

The Board of Directors and the Supervisory Board of GRENKE AG issued the declaration pursuant to Section 161 AktG and made it permanently available to shareholders on the Company's website (www.grenke.de/en/investor-relations/corporate-governance/).

10. Overview of the GRENKE Group's Schedule of Shareholdings Pursuant to Section 313 (2) HGB

	Registered Office	Equity interest Dec. 31,2020 in %[1]
GERMANY		
GRENKE Service AG	Baden-Baden	100
Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien	Baden-Baden	100
GRENKE BANK AG	Baden-Baden	100
GRENKEFACTORING GmbH	Baden-Baden	100
GRENKE Business Solutions GmbH Co. KG	Baden-Baden	100
GRENKE MANAGEMENT SERVICES GmbH	Baden-Baden	100
GRENKE digital GmbH	Karlsruhe	100
INTERNATIONAL		
GRENKELEASING s.r.o.	Prague/Czechia	100
GRENKE ALQUILER S.L.	Barcelona/Spain	100
Grenkefinance N.V.	Vianen/Netherlands	100
GRENKE RENT S.L.	Madrid/Spain	100
GRENKELEASING AG	Zurich/Switzerland	100
GRENKELEASING GmbH	Vienna/Austria	100
GRENKELEASING ApS	Herlev/Denmark	100
GRENKE LIMITED	Dublin/Ireland	100
GRENKE FINANCE PLC	Dublin/Ireland	100
GRENKE LOCATION SAS	Schiltigheim/France	100
GRENKE Locazione S.r.l.	Milan/Italy	100
GRENKELEASING AB	Stockholm/Sweden	100
GRENKE LEASE Sprl	Brussels/Belgium	100
Grenke Leasing Ltd.	Guildford/United Kingdom	100
GRENKELEASING Sp. z o.o.	Poznan/Poland	100
GRENKELEASING Magyarország Kft.	Budapest/Hungary	100
Grenke Renting S.R.L	Bucharest/Romania	100
GRENKE RENTING S.A.	Lisbon/Portugal	100
GRENKELEASING s.r.o.	Bratislava/Slovakia	100
GRENKELEASING Oy	Vantaa/Finland	100
GRENKELOCATION SARL	Munsbach/Luxembourg	100
GRENKEFACTORING AG	Basel/Switzerland	100
GRENKELEASING d.o.o.	Ljubljana/Slowenia	100
GRENKE Kiralama Ltd. Sti.	Istanbul/Turkey	100
GRENKE RENTING LTD.	Sliema/Malta	100
GC Locação de Equipamentos LTDA	São Paulo/Brazil	100
GRENKE Locação de Equipamentos LTDA	São Paulo/Brazil	100
GC Leasing Middle East FZCO	Dubai/UAE	100
GRENKE Hrvatska d.o.o.	Zagreb/Croatia	100
FCT „GK"-COMPARTMENT „G2"	Pantin/France	100[2]
FCT „GK"-COMPARTMENT „G3"	Pantin/France	0[2]
FCT „GK"-COMPARTMENT „G4"	Pantin/France	100[2]
Opusalpha Purchaser II Limited	Dublin/Ireland	0[2]
Kebnekaise Funding Limited	St. Helier/Jersey	0[2]
CORAL PURCHASING (IRELAND) 2 DAC	Dublin/Ireland	0[2]

GF Faktor Zrt.	Budapest/Hungary	0[2]
GC Factoring Limited	London/United Kingdom	0[2]
GC Crédit-Bail Québec Inc.	Montréal/Canada	0[2]
GC Leasing Ontario Inc.	Toronto/Canada	0[2]
GL Leasing British Columbia Inc.	Vancouver/Canada	0[2]
GC Rent Chile SpA	Santiago de Chile/Chile	0[2]
GC Lease Singapore Pte Ltd	Singapore/Singapore	0[2]
GC Factoring Ireland Limited	Dublin/Ireland	0[2]
GC LEASING MELBOURNE PTY LTD	Melbourne/Australia	0[2]
GC LEASING SYDNEY PTY LTD	Sydney/Australia	0[2]
GC Faktoring Polska Sp.z.o.o.	Poznan/Poland	0[2]
SIA GC Leasing Baltic	Riga/Latvia	0[2]
GC Leasing AZ LLC	Phoenix/USA	0[2]
ASSOCIATED ENTITIES		
viafintech GmbH	Berlin	25,01[3]
finux GmbH	Kassel	33,03[3]
CTP Handels- und Beteiligungs GmbH	Vienna/Austria	0[3]

	Registered Office	Equity interest Dec. 31,2020 in %	Net profit in EURk	Equity in EURk
OTHER INVESTMENTS				
Finanzchef24 GmbH	Munich	15	– 1.448[4]	– 244[4]

1 Control is based on a majority of voting rights unless otherwise stated
2 Control is based on contractual agreements to steer main business activities
3 Significant influence is based on contractual agreements and/or legal circumstances
4 Figures are according to most recently available financial statements (under local GAAP)

COUNTRY-BY-COUNTRY-REPORTING 2020

Foreword

In accordance with Article 89 of the 2013/36/EU Directive (CRD IV), which was transposed into German law in the form of Section 26a KWG in conjunction with Section 64r (15) sentence 1 KWG, the GRENKE AG Consolidated Group ("the GRENKE Group") is required to provide a country-by-country breakdown of information on the company names, type of business activity, geographical location, revenue, number of employees in full-time equivalents, profit or loss before taxes, taxes on profit or loss and public subsidies received.

Disclosures

In this report, the GRENKE Group is publishing the required disclosures as of December 31, 2020. This includes the disclosures required as of the reporting date for all companies included in the scope of consolidation in the context of full consolidation under commercial law, which is identical to the regulatory scope of consolidation. The geographical allocation is based on the legal domicile of the companies.

The management and actions of the GRENKE Group are based on the standards of the German Corporate Governance Code. Additional principles of proper management of the Consolidated Group are set out in detail in the annual financial report. This report distinguishes between leasing, factoring and banking/refinancing activities within the Consolidated Group. The Leasing segment represents the most significant segment for the GRENKE Group and includes all transactions related to the Consolidated Group's leasing activities. Depending on local circumstances, this may also include the leasing of movable goods. Commercial customers primarily lease IT products such as printers, copiers, telecommunications products and software with a net purchase value of EUR 500 or more. The Factoring segment includes traditional factoring services, such as the purchase of receivables for immediate payment. The focus of this segment is on small receivable amounts. The Banking segment includes the activities of GRENKE BANK AG, which primarily contributes to the Consolidated Group's refinancing through the bank's deposit business and purchase of receivables. In cooperation with development banks, it also provides and processes loans for business start-up financing and microcredits for small and medium-sized enterprises (SMEs). In addition, GRENKE BANK AG operates its own leasing business through a branch in Norway, as well as its own factoring business in Italy and Portugal. In the refinancing area, a broad range of refinancing instruments is also provided by subsidiaries and securitisation companies that are consolidated without capital participation under supervisory and commercial law.

In the refinancing area, a broad range of refinancing instruments is also provided by subsidiaries and securitisation companies that are consolidated without capital participation under supervisory and commercial law.

The definition of revenue is based on the following items on the income statement in accordance with IFRS:

- // Net interest income excluding the settlement of claims and risk provision (impairment, risk provisions)
- // Profit from service business
- // Profit from new business
- // Gains (+) and losses (-) from disposals
- // Other operating income including intra-group income
- // Other interest result including intra-group interest result

1. Reporting

The following overview lists all domestic and foreign companies, including the company name, registered office and type of business activity in accordance with Section 26a (1) sentence 2 point 1 KWG.

Country	Entity	Registered Office	Business activity/ segment
EU COUNTRIES			
Belgium	GRENKE LEASE Sprl	Brussels	Leasing
Denmark	GRENKELEASING ApS	Herlev	Leasing
Germany	GRENKE BANK AG	Baden-Baden	Banking/Refinancing
	GRENKEFACTORING GmbH	Baden-Baden	Factoring
	GRENKE Investitionen Verwaltungs KGaA	Baden-Baden	Leasing/Refinancing
	GRENKE AG	Baden-Baden	Leasing
	GRENKE Service AG	Baden-Baden	Sonstiges
	GRENKE digital GmbH	Karlsruhe	Sonstiges
	GRENKE Business Solutions GmbH & Co. KG	Baden-Baden	Leasing
	GRENKE MANAGEMENT SERVICES GmbH	Baden-Baden	Leasing
Finland	GRENKELEASING Oy	Vantaa	Leasing
France	GRENKE LOCATION SAS	Schiltigheim	Leasing
	FCT „GK“-COMPARTMENT „G2“	Pantin	Refinancing
	FCT „GK“-COMPARTMENT „G3“	Pantin	Refinancing
	FCT „GK“-COMPARTMENT „G4“	Pantin	Refinancing
Ireland	GRENKE LIMITED	Dublin	Leasing
	GRENKE FINANCE PLC	Dublin	Leasing/Refinancing
	GC Factoring Ireland Limited	Dublin	Factoring
	Opusalpha Purchaser II Limited	Dublin	Refinancing
	CORAL PURCHASING (IRELAND) DAC	Dublin	Refinancing
Italy	GRENKE Locazione S.r.l.	Milan	Leasing
	GRENKE BANK AG Branch Italy	Milan	Factoring
Croatia	GRENKE Hrvatska d.o.o.	Zagreb	Leasing
Latvia	SIA GC Leasing Baltic	Munsbach	Leasing
Luxembourg	GRENKELOCATION SARL	Munsbach	Leasing
Malta	GRENKE RENTING LTD.	Sliema	Leasing
Netherlands	Grenkefinance N.V.	Vianen	Leasing
Austria	GRENKELEASING GmbH	Vienna	Leasing
Poland	GRENKELEASING Sp.z.o.o.	Poznan	Leasing
	GC Faktoring Polska Sp.z.o.o.	Poznan	Factoring
Portugal	GRENKE RENTING S. A.	Lisbon	Leasing
	GRENKE BANK AG – Sucursal em Portugal	Lisbon	Factoring
Romania	Grenke Renting S.R.L.	Bucharest	Leasing
Sweden	GRENKELEASING AB	Stockholm	Leasing
Slovakia	GRENKELEASING s.r.o.	Bratislava	Leasing
Slovenia	GRENKELEASING d.o.o.	Ljubljana	Leasing
Spain	GRENKE ALQUILER S.L.	Barcelona	Leasing
	GRENKE RENT S.L.	Madrid	Leasing
Czech Republic	GRENKELEASING s.r.o.	Prague	Leasing
Hungary	GRENKELEASING Magyarország Kft.	Budapest	Leasing
	GF Faktor Zrt.	Budapest	Factoring

THIRD COUNTRIES			
Australia	GC LEASING MELBOURNE PTY LTD	Melbourne	Leasing
	GC LEASING SYDNEY PTY LTD	Sydney	Leasing
Brazil	GC Locação de Equipamentos LTDA	São Paulo	Leasing
	GRENKE Locação de Equipamentos LTDA	São Paulo	Sonstiges
Chile	GC Rent Chile SpA	Santiago de Chile	Leasing
Jersey	Kebnekaise Funding Limited	St. Helier	Refinancing
Canada	GL Leasing British Columbia Inc.	Vancouver	Leasing
	GC Leasing Ontario Inc.	Toronto	Leasing
	GC Crédit-Bail Québec Inc.	Montréal	Leasing
Norway	GRENKE BANK AG BRANCH NORWAY	Lysaker	Leasing
Switzerland	GRENKELEASING AG	Zurich	Leasing
	GRENKEFACTORING AG	Basel	Factoring
Singapore	GC Lease Singapore Pte Ltd	Singapur	Leasing
Turkey	GRENKE Kiralama Ltd. Sti.	Istanbul	Leasing
United Arab Emirates	GC Leasing Middle East FZCO	Dubai	Leasing
United Kingdom	Grenke Leasing Ltd	Guildford	Leasing
	GC Factoring Limited	London	Factoring
United States of America	GC Leasing AZ LLC	Phoenix	Leasing

Country-specific disclosures pursuant to Section 26a (1) sentence 2 points 2–6 KWG follow below. Disclosures are provided on a country-by-country basis according to the IFRS conversion and before inter-group transfers.

Country	Number of employees (full-time equivalents[1])	Revenues (EUR millions)	Earnings before taxes (EUR millions)	Income taxes (EUR millions)[2]	Public subsidies received (EUR millions)
EU COUNTRIES					
Belgium	24	8.2	0.8	0.6	0
Denmark	29	6.9	−1.0	−0.1	0
Germany	740	188.7	22.8	3.6	0
Finland	33	3.3	−1.4	−0.1	0
France	178	45.0	18.4	6.0	0
Ireland	56	241.9	56.7	8.0	0
Italy	207	118.7	9.7	6.5	0
Croatia	16	2.4	−0.5	0.1	0
Latvia	4	0.2	−0.1	0.0	0
Luxembourg	3	0.5	0.0	0.0	0
Malta	4	0.3	−0.3	0.0	0
Netherlands	35	4.0	−0.6	−0.1	0
Austria	21	6.1	1.0	0.1	0
Poland	46	3.4	−2.3	−0.4	0
Portugal	60	6.6	1.0	0.3	0
Romania	25	1.7	0.2	0.0	0
Sweden	22	5.8	−1.2	−0.1	0
Slovakia	10	1.0	−0.4	−0.1	0
Slovenia	11	0.8	−0.3	0.0	0
Spain	75	15.0	2.6	1.0	0
Czech Republic	8	0.8	−0.3	0.3	0
Hungary	22	1.4	−0.1	0.1	0
THIRD COUNTRIES					
Australia	19	4.3	−1.2	−1.5	0
Brazil	35	6.0	0.4	0.3	0
Chile	14	2.5	−0.2	0.0	0
Jersey		2.9	0.0	0.0	0
Canada	17	4.0	−0.3	−0.8	0
Norway	3	1.5	0.5	0.0	0
Switzerland	40	13.5	1.4	−0.5	0
Singapore	7	0.2	−3.7	−0.2	0
Turkey	12	0.3	−1.6	−0.3	0
United Arab Emirates	13	2.4	0.8	0.0	0
United Kingdom	77	30.7	6.0	1.0	0
United States of America	3	0.0	−0.4	0.0	0

1 Excluding employees on maternity and parental leave but including executives and trainees
2 Figures include deferred taxes

The return on capital was 1.2 percent according to Section 26a KWG (1) sentence 4.

INDEPENDENT AUDITOR'S REPORT

To GRENKE AG, Baden-Baden

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of GRENKE AG, Baden-Baden, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of the Company and the Group (combined management report) of GRENKE AG for the financial year from 1 January to 31 December 2020.

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

The combined management report contains cross-references that are not required by law. In accordance with German legal requirements, we have not audited the cross-references specified in the appendix to the independent auditor's report or the information to which the cross-references refer.

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

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

// the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion regarding the combined management report does not extend to the content of the components of the combined management report specified in the appendix to the independent auditor's report. The combined management report contains cross references that are not provided for by law. Our audit opinion does not extend to the cross references specified in the appendix to the independent auditor's report or the information to which the cross-reference refer.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

Following the allegations made public by Viceroy Research LLC, Wilmington, Delaware, USA, in the role of a short seller in September 2020, GRENKE AG's financial reporting as at the immediately subsequent reporting date has a particularly indicative effect from the perspective of the capital market and other key stakeholders. GRENKE AG's management is aware of this. In this situation it is particularly important that the judgements required for accounting and measurement purposes are not influenced by considerations that are not appropriate. Not least, there is also uncertainty due to the COVID-19 pandemic.

The key audit matters presented below contain manifestations of the risk of misstatements in the financial statements presented here in the introduction, which we address in greater detail in connection with the specific circumstances.

Existence of lease receivables and interest income from the leasing business

In respect of the accounting, recognition and measurement policies relevant to lease income, please refer to the disclosures in the notes to the consolidated financial statements in Section 3.3 'Leases', Section 3.16 'Revenue from contracts with customers', Section 4.1 'Net interest income' and Section 5.2 'Lease receivables'.

The Financial Statement Risk

In financial year 2020, lease receivables from finance leases amounted to EUR 5,636.3 million and interest income from the leasing business to EUR 457.1 million. Requirements for the recognition of interest income from the leasing business in accordance with IFRS 16 include the transfer substantially of the risks and rewards from finance leases to the customer.

Leasing is the core business of the GRENKE Group; lease income and lease receivables therefore make up a significant share of the statement of financial position and income statement.

There is the risk that the recognised lease receivables do not exist and that the recognition of interest income from the leasing business is not consistent with actual performance and therefore is not presented correctly in the financial statements.

Our audit approach

Based on our risk assessment and evaluation of the risk of material misstatement in financial reporting due to misstatements and violations, we based our audit opinion on both control-based as well as largely on extensive substantive audit procedures. In determining the nature and scope of the required audit procedures and evidence, we also took into account our findings regarding the effectiveness of the overarching IT controls and the external allegations made by Viceroy Research LLC as indicators of an increased risk of material misstatement.

In respect of the existence of lease receivables and interest income, we conducted an assessment of the methods, procedures and control mechanisms used and first evaluated the design, setup and effectiveness of the internal controls for order acceptance, the transfer of the leased asset to customers, and invoicing as well as, in particular, controls concerning the definition and review of the correct or actual time of service performance or the transfer of risks and rewards. In addition, we evaluated to what extent controls implemented in respect of contract initiation and revenue recognition can be overridden by management. To this end, we also involved the auditors of the consolidated subsidiaries.

As part of the audit focus on risk assessment, we drew a sample from the population of all active leases and lease purchase agreements across the Group as at 31 August 2020 and obtained contract confirmations. In addition, we obtained further contract confirmations from the population of all leases and lease purchase agreements of the GRENKE Group as at 31 December 2020. We performed alternative audit procedures for contract confirmations for which we had obtained no answer. We reviewed the incoming payments to the bank accounts of the six most significant companies for all lease payments as at 1 July, 1 August and 1 October 2020. In this regard, the return debits were also reviewed on a sample basis. At the date of the risk assessment and in performing the substantive audit procedures as at the reporting date, we evaluated the existence of lease receivables using the contractual basis, which consists of leases, the accompanying customer handover certificates, external delivery records and/or dealer invoices as well as incoming payments to bank accounts. In addition, we analysed manual lease and lease purchase income entries during the financial year at the level of the Parent Company according to suitable criteria (e.g. users, dates of entry) as well as manual consolidation entries at group level to identify conspicuous entries.

Our observations

The procedure set up within the Group to ensure the existence of lease receivables and that interest income from leases is recognized consistently with the applicable accounting policies is appropriate.

Measurement of impairment losses on non-performing receivables from finance leases

In respect of the accounting and measurement policies applied for non-performing receivables from finance leases, please refer to the disclosures in the notes to the consolidated financial statements under Section 3.18.2 'Determination of impairment for lease receivables' and in Section 5.2 'Lease receivables'.

The Financial Statement Risk

The consolidated financial statements of GRENKE AG recognise non-performing receivables from terminated finance leases of EUR 525.9 million after impairment losses on receivables of EUR 323.0 million. GRENKE AG applied the provisions set forth in IFRS 9 taking into consideration the lifetime expected credit losses to measure non-performing receivables.

Judgement must be exercised by management for the measurement of impairment losses on non-performing receivables from terminated finance leases. This includes selecting the model used for calculating the loss rates of the terminated receivables by determining recoverability rates (ratio of the total of discounted payments received to the entry balance in the respective processing class), the other estimation parameters used in the model and any adjustments to the model due to findings from model validations. These judgements are subject to uncertainty, which can be amplified by the effects of the COVID-19 pandemic.

In addition, calculating impairment loss allowances is highly complex and depends on a high degree of expertise and specialist knowledge from a limited number of employees and decision-makers.

There is the risk for the consolidated financial statements that the calculation of impairment loss allowances is not carried out in an appropriate manner or is based on inappropriate assumptions, an inappropriate database or inappropriate application of the valuation model and, as a result, the impairment loss is reported in an incorrect amount.

Our audit approach

As part of our risk assessment and evaluation of the risk of material misstatement in financial reporting due to misstatements and violations, we conducted a test of design and an evaluation of the methods, procedures and control mechanisms. By inspecting policies and work instructions, conducting interviews and reviewing the defined methods including their implementation, we gained a comprehensive understanding of the calculation of impairment losses on receivables from terminated lease contracts. In addition, we conducted a test of operating effectiveness at the level of the Parent Company. In response to the risk of material misstatement in financial reporting due to violations, we also reviewed the appropriateness of the debt collection process at the parent company level. Due to the ineffectiveness of controls, in particular general IT controls, identified in the course of the test of operating effectiveness, our opinion is based solely on extensive substantive audit procedures. In determining the nature and scope of the required audit procedures and evidence, we also took into account our findings regarding the effectiveness of the overarching IT controls and the external allegations made by Viceroy Research LLC as indicators of an increased risk of material misstatement.

With the involvement of our specialists, we performed the following audit procedures in particular.

We analysed the general suitability of the valuation model used by GRENKE AG to determine the recoverability rates and the suitability of the estimation parameters that are incorporated into the procedure.

In doing so, we investigated whether the key estimation parameters for calculating the recoverability rates have been calculated in a manner that is methodologically correct and mathematically accurate and have been correctly incorporated into the model to determine recoverability rates on non-performing receivables from leases and lease purchase agreements. In addition, we verified the annual validations of the recoverability rates.

We examined and reperformed the preparation of the recoverability rates at the individual transaction level on a sample basis to determine how these are derived for the calculation of the relevant data from the cash flows and balances recorded in the accounts. The recorded cash flows and variables were compared with the contractual basis. The determination of processing classes (payment status of the lease and lease purchase agreements) and the assignment of non-performing receivables to the processing classes was checked for accuracy on a sample basis.

Our observations

The valuation model for non-performing lease and lease purchase receivables is therefore appropriate and consistent with the applicable accounting policies under commercial law. The estimation parameters were appropriately derived. Not all of the key components of the internal control system are appropriate or effective.

Impairment testing of goodwill

In respect of the accounting and measurement policies applied, please refer to the disclosures in the notes to the consolidated financial statements under Section 3.8 'Goodwill'; for the related disclosures on judgements exercised by management and on sources of estimation uncertainties please refer to the disclosures in Section 3.18 'Use of assumptions and estimates' and for disclosures on goodwill please refer to Section 5.7 'Goodwill'.

The financial statement risk

As at 31 December 2020, goodwill amounted to EUR 43.6 million.

Goodwill is tested for impairment annually at the level of the cash-generating units. In the leasing segment this cash-generating unit generally refers to the business volume represented in the respective sales regions (countries), and usually corresponds to the legal entities.

Calculation of the fair value is complex and, as regards the assumptions made, is dependent largely on estimates and assessments of the Company. This applies particularly to the estimate of future business and earnings performance of the cash-generating units for the next five years and long-term growth rates as well as the determination of the discount rates. The COVID-19 pandemic has had a considerable influence on this year's market conditions and has increased uncertainty regarding the measurement of goodwill.

There is the risk for the consolidated financial statements that, in this strained period both in economic terms as well as regarding the Company's reputation, goodwill is reported in an incorrect amount.

Our audit approach

As part of our risk assessment and evaluation of the risk of material misstatement in financial reporting due to misstatements and violations, we conducted a test of design and an evaluation of the methods, procedures and control mechanisms. On the basis of the information obtained in our audit, we evaluated for which goodwill a need for impairment had already been identified and where indications of further impairment exist. Our opinion is based largely on extensive substantive audit procedures.

With the involvement of our valuation experts, we evaluated the appropriateness of significant assumptions and the valuation model of the Company. To this end, we discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning. We reconciled the growth rates recorded in the respective valuation models for the planning years with the group planning adopted by management. We also evaluated the consistency of the assumptions using external market assessments as well as other external data sources.

Further, we confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations for a deliberate sample of value drivers.

We compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data. To account for forecast uncertainty, particularly in light of COVID-19, we then examined reasonably possible changes in the discount rate, in the expected cash flows or in the long-term growth rate on goodwill (sensitivity analysis) by calculating alternative scenarios and comparing these with the Company's valuation results. To ensure the mathematical accuracy of the valuation models utilised, we recalculated the Company's calculations based on elements selected on the basis of risk.

Our observations

The process underlying impairment testing amounts of goodwill is therefore appropriate and consistent with the accounting policies.

The approach as well as the assumptions and parameters used by the Company are therefore appropriate. Not all of the key components of the internal control system are appropriate or effective.

Full identification of related parties and business relationships with related parties from the perspective of financial reporting

For the disclosures on related parties, please refer to the Section 9.5 'Related party disclosures' in the notes.

The Financial Statement Risk

In the case of related party transactions, there is a high risk with regard to recognising these transactions in full and determining the economic substance of the transactions and their terms and conditions. The design of the internal control system, including the financial reporting system, must therefore be adequate and effective also in respect of related party transactions. Accordingly, the corresponding requirement under Section 111a (2) sentence 2 of the AktG [Aktiengesetz: German Stock Corporation Act] in conjunction with IAS 24 applies to GRENKE AG with effect from 1 January 2020.

Related parties are relevant for the financial statement audit, as existing relationships or transactions with related parties can have a direct impact on financial reporting. In addition, transactions with related parties may be motivated by personal motives rather than the usual commercial considerations, which could have potential indirect consequences for financial reporting. Furthermore, audit evidence is assigned a higher degree of reliability if it has not been produced or prepared by related parties.

If there are indications of any circumstances that increase the risk of misstatements and violations in relation to related parties beyond the expected scope or that indicate that such misstatements and violations may have occurred, the auditor is required to expand the audit procedures beyond the customary scope or to perform additional or other audit procedures. We have classified the allegations of the lack of transparency expressed by Viceroy Research LLC with regard to links between related parties and GRENKE AG for business reasons, together with other findings from our audit procedures, as indication of increased audit risks.

Therefore, it was of particular relevance for our audit that the internal control system ensures that related parties and relevant business relationships between related parties and GRENKE AG are fully identified and that these parties and business relationship are named in full respectively become fully known based on audit evidence otherwise obtained.

Our audit approach

Based on our risk assessment and evaluation of the risk of material misstatement in financial reporting due to misstatements and violations, we based our audit opinion largely on extensive substantive audit procedures. In the course of the audit, we expanded the nature and scope of our audit procedures by deploying forensic specialists. Forensic aspects that required retracing included key issues that extended beyond the reporting year and the prior year.

Specifically, we performed the following audit procedures:

We conducted an assessment of the methods, procedures and control mechanisms and initially evaluated the design and setup of internal controls in respect of the identification of related parties, the identification and authorisation of related party transactions as well as the evaluation of the arm's length conditions of these transactions. We interviewed the Board of Directors and Supervisory Board as well as other relevant senior executives within the Company on related parties and transactions conducted with such parties and evaluated committee minutes. We checked the completeness and accuracy of requests and responses sent by the Company to related parties in key management positions regarding disclosures on transactions and engagements. We also obtained confirmations from lawyers.

We received and reviewed a list of related parties prepared by the Company. Our audit resulted in findings that indicate other related parties that have not been identified respectively analysed by the internal control system. To counter the risk of incomplete information due to violations in the documents provided, we conducted forensic investigative procedures in the form of background research on key people and companies going beyond ordinary professional practice. We examined email correspondence and account movements in the accounts maintained by GRENKE BANK AG as well as other business connections of selected persons.

We also compared the analysis of business relationships with identified related parties of GRENKE BANK AG conducted by GRENKE BANK AG for GRENKE AG with the information provided in the queries and investigated deviations. Confirmations of transactions were obtained from selected – in particular newly identified – related parties. Similarly, we evaluated the state of knowledge and preliminary findings from other external audits that were accessible to us.

We examined the findings obtained in the course of the expanded audit overall in terms of their impact on GRENKE AG's financial reporting and assessed their implementation.

Our observations

The internal control system for identifying related parties and business relationships with these parties was not effective in all key aspects. By means of the audit procedures conducted in response to the risks identified regarding complete identification of related parties and business relationships with these parties during the audit, we obtained audit evidence that is sufficient and appropriate to serve as a basis for our audit opinion. Based on the findings obtained in the audit, consequences for financial reporting were therefore appropriately derived and implemented.

Completeness of the consolidated group with regard to franchise companies

For the relevant disclosures on the consolidated group, please refer to Section 2.3 'Adjustments in accordance with IAS 8' and Section 10 'Overview of the GRENKE consolidated group's schedule of shareholdings pursuant to Section 313 (2) HGB' in the notes to the consolidated financial statements.

The Financial Statement Risk

Due to a wide range of contractual relationships with franchise companies, the GRENKE Group has a complex group structure.

The assessment of whether there is a requirement to consolidate franchise companies pursuant to IFRS 10 requires significant judgement as many factors (potential voting rights, relevant activities, power, variable returns and the connection between power and variable returns) need to be assessed using in-depth analyses. This includes contractual rights, cash flows from contracts, contractual relationships with third parties and shareholders, the nature and scope of financing and guarantees granted and a comprehensive economic assessment. There is also the risk that not all information required for a proper overall assessment is retained and properly communicated and that, as a result, this information is not appropriately taken into account in the preparation of the financial statements and for the purposes of the audit.

There is the risk for the consolidated financial statements that, due to undisclosed relationships between the parties involved or incorrect use of judgement in assessing the factors to be taken into account according to IFRS 10, individual companies that require consolidation (in particular franchise companies) are not taken into account when determining the consolidated group and required disclosures in the notes are omitted. We have classified the allegations expressed by Viceroy Research LLC regarding the completeness of the consolidated group, together with findings from other audit procedures, as indication of increased audit risks.

Our audit approach

Based on our risk assessment and evaluation of the risk of material misstatement in financial reporting due to misstatements and violations, we based our audit opinion largely on extensive substantive audit procedures. In the course of the audit, we expanded the nature and scope of our audit procedures by deploying forensic specialists. Forensic aspects that required retracing included key issues that extended well beyond the reporting year and the prior year.

We largely performed the following audit procedures:

Based on the findings obtained in the past, we conducted an updated assessment of the consolidation requirement in accordance with IFRS 10. We evaluated the internal memoranda of GRENKE AG on the analysis of consolidation in light of new findings and analysed the franchise, option, guarantee and credit agreements between the GRENKE Group and the franchise companies to determine whether they substantiate power, variable returns and whether the connection between these two attributes is relevant for consolidation.

In addition, we assessed the external expert opinions and preliminary findings from other external audits regarding a potential consolidation requirement that were made available to us during the audit and discussed the assessments contained therein with the authors. Furthermore, we interviewed the Board of Directors and Supervisory Board of GRENKE AG as well as other persons familiar with the franchise system. We analysed the cash flows between the franchise companies with their investees and GRENKE AG. As new documents and findings obtained during the audit gave rise to significant doubt regarding information received at an earlier date, we analysed the email correspondence of selected individuals for indications of the exercise of factual power with the help of our forensic specialists and conducted background research.

To review the implementation of changes to the consolidated group in financial year 2020, we exclusively conducted substantive audit procedures.

Our observations

The internal control system for assessing a consolidation requirement for franchise companies was not effective in all key aspects. By means of audit procedures performed by us during the audit, we obtained audit evidence that was sufficient and appropriate to provide a basis for our audit opinions. Based on the findings obtained, consequences for financial reporting were appropriately derived and implemented by GRENKE AG.

Other Information

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

The other information also comprises the other parts of the annual report.

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

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

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

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

// otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

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

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, "16-05-2021-12-36_xbrl_file.zip" (SHA256-Hashwert: d577ebf4cbcbacfa0e8f547d80d80f4ba50fd9aa1f0ff2f2232e8144354793ad) und "JALA.xhtml" (SHA256-Hashwert: ae60422dc28df11cf97b491817b5b5051fd515478007ecc79816ba9de33fc535), and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

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

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

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

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

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

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

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

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

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

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

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

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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Annual General Meeting on 6 August 2020. We were engaged by the Supervisory Board on 18 September 2020. We have been the auditor of GRENKE AG since financial year 2018.

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

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

- // Reasonable assurance pursuant to ISAE 3000 involving specific audit procedures on leases of GRENKE AG in Q4 2019 and Q1 2020
- // Agreed-Upon Procedures Report pursuant to ISRS 4400 on agreed-upon procedures on leases of GRENKE AG in Q2 and Q3 2020
- // Issue of comfort letter for the update of the EUR 5,000,000,000 debt issuance programme.
- // Issue of a comfort letter for the hybrid bond of EUR 75,000,000.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christian Bauer.

Frankfurt am Main, May 17, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Orginal German version signe by:]

gez. Bauer
Wirtschaftsprüfer

gez. Göller
Wirtschaftsprüfer

Appendix to the Independent Auditor´s Report: unaudited components and cross-refences of the combined management report

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

// the corporate governance statement contained in the combined management report in section 9 and

// the non-financial statement contained in section 4 of the combined management report.

The following cross-references in the combined management report that are not required by law and the information to which the cross-references refer, have not been audited by us:

// In the introduction to the combined management report: www.grenke.de/unternehmen/investor-relations/berichte-und-praesentationen

// In section 2.7.5 "LIQUIDITY" of the combined management report https://www. grenke.de/unternehmen/investor-relations/fremdkapital/emittierte-anleihen

// In section 9.5 "SHARE TRANSACTION OF GOVERNING BODIES" of the combined management report: www. grenke.de/unternehmen/investor-relations/corporate-governance/meldepflichtige-wertpapiere

// In section 1.3 "MANAGEMENT SYSTEM" depicted key performance indicators.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge, and in accordance with the applicable reporting standards, the financial statements give a true and fair view of the net assets, financial position and results of operations of the Consolidated Group and the management report of the Company and the Consolidated Group conveys a true and fair view of business performance, including financial performance and the position of the Consolidated Group, and describes the main opportunities and risks relating to the Consolidated Group's anticipated development.

Baden-Baden, May 17, 2021

Antje Leminsky
Chair of the Board of Directors (CEO)

Gilles Christ
Member of the Board of Directors

Sebastian Hirsch
Chief Financial Officer (CFO))

Isabel Rösler
Chief Risk Officer (CRO)

ANNUAL FINANCIAL STATEMENTS

ANNUAL FINANCIAL STATEMENTS 2020

of GRENKE AG (HGB) Excerpts

GRENKE AG´s complete Annual Financial Statements (HGB) are available at www.grenke.de/unternehmen/investor-relations/berichte-und-downloads.

ANNUAL FINANCIAL STATEMENTS OF GRENKE AG

FOR FISCAL YEAR 2020

GRENKE AG's Income Statement for the period from January 1 to December 31, 2020

	EUR	2020	2019
1.	Income from leases	615'959'505.57	572'293'967.53
2.	Expenses from leases	363'432'461.83	346'344'646.72
3.	Interest income from	7'300'507.08	7'707'770.24
	a) Lending and money market transactions	7'300'507.08	7'707'770.24
	thereof: Negative interest income from lending and money market transactions	1'242'709.60	335'344.05
4.	Interest expenses	18'195'099.08	15'113'221.17
	thereof: Positive interest income from lending and money market transactions	1'242'709.60	335'344.05
5.	Current income from	95'912'916.02	55'000'000.00
	c) Investments in associated companies	95'912'916.02	55'000'000.00
6.	Income from profit transfer agreements	3'897'233.74	10'584'090.51
7.		6'668'229.00	6'337'261.00
8.	Commission expenses	15'700'109.72	14'222'953.22
9.	Other operating income	54'136'375.04	55'109'776.67
10.	General and administrative expenses	102'651'339.13	96'075'536.95
	a) Staff costs		
	aa) Wages and salaries	21'726'914.30	22'611'254.05
	ab) Social security contributions and expenses for pensions and other employee benefits, thereof: for pensions EUR 86,540.16 (previous year: EUR 91,376.88)	3'404'088.24	3'089'750.78
	b) other administrative expenses	77'520'336.59	70'374'532.12
11.	Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	202'004'931.90	177'859'897.90
	a) on lease assets	197'534'070.81	172'411'339.37
	b) on intangible assets and property, plant and equipment	4'470'861.09	5'448'558.53
12.	Other operating expenses	2'474'861.34	169'736.27
13.	Write-downs and impairments on receivables and securities as well as additions to loan loss provisions in the lending business	6'263'354.26	4'866'444.18
14.	Write-downs and impairments on other investments, investments in associated companies and securities treated as fixed assets	91'995'529.81	0.00
15.	Expenses from the transfer of losses	3'472'945.58	3'178'194.89
16.	**RESULT FROM NORMAL BUSINESS ACTIVITY**	**−22'315'866.20**	**49'202'234.65**
17.	Extraordinary expenses	0.00	7'981'601.11
18.	Extraordinary result	0.00	−7'981'601.11
19.	Income taxes	420'166.78	−75'298.11
20.	Other taxes	2'432'111.25	2'825'128.55
21.	**NET PROFIT**	**−25'168'144.23**	**38'470'803.10**
22.	Profit carryforward from previous year	7'352'436.01	5'964'767.31
23.		30'000'000.00	0.00
24.	**UNAPPROPRIATED SURPLUS**	**12'184'291.78**	**44'435'570.41**

GRENKE AG's Statement of financial position as per December 31, 2020

	EUR	31.12.2020	31.12.2019
1.	Cash reserves	203'000'785.21	100'001'125.51
	a) Cash on hand	785.21	1'125.51
	b) Cash deposit at central banks		
	thereof: at Deutsche Bundesbank EUR 203,000,000.00 (previous year: EUR 100,000,000.00)	203'000'000.00	100'000'000.00
2.	Receivables from credit institutions	73'418'199.19	74'642'586.06
	a) due on demand	23'418'199.19	24'642'586.06
	b) other receivables	50'000'000.00	50'000'000.00
3.	Receivables from customers	30'685'519.34	44'337'943.60
4.	Investments in associated companies	483'858'099.18	527'220'743.66
	a) in banks	256'272'355.82	236'272'355.82
	b) in financial services institutions	7'934'042.59	7'934'042.59
	c) others	219'651'700.77	283'014'345.25
5.	Lease assets	592'733'289.44	538'304'724.42
6.	Intangible assets	1'842'591.00	1'760'350.00
	b) Paid concessions, commercial property rights and similar rights and assets, as well as licenses to such rights and assets	1'842'591.00	1'760'350.00
7.	Property, plant and equipment	20'826'623.15	22'969'416.79
8.	Other assets	44'313'959.02	37'805'239.78
9.	Prepaid expenses	12'567'912.03	26'620'627.47
	TOTAL ASSETS	1'463'246'977.56	1'373'662'757.29

GRENKE AG's Statement of financial position as per December 31, 2020

	EUR	31.12.2020	31.12.2019
1.	Liabilities to banks	8'717'124.85	1'946'354.87
	a) repayable on demand	8'130'057.28	222'361.97
	b) with agreed term or notice period	587'067.57	1'723'992.90
2.	Liabilities to customers	26'640'558.79	37'239'606.19
	b) other liabilities		
	ba) repayable on demand	4'845'018.40	4'353'867.62
	bb) with agreed term or notice period thereof: to financial services institutions: EUR 21,795,540.39 (previous year: EUR 32,885,738.57)	21'795'540.39	32'885'738.57
3.	Other liabilities	281'472'204.90	204'032'707.46
4.	Accruals and deferrals	512'992'505.70	452'847'665.31
5.	Provisions	13'365'210.02	4'369'398.41
	b) tax provisions	15'829.54	55'766.47
	c) other provisions	13'349'380.48	4'313'631.94
6.	Subordinated liabilities	200'000'000.00	200'000'000.00
7.	Equity	420'059'373.30	473'227'025.05
	a) Subscribed capital	46'495'573.00	46'353'918.00
	b) Capital reserves	304'277'711.09	295'335'739.21
	c) Retained earnings		
	ca) legal reserves	5'089.87	5'089.87
	cc) statutory reserves	48'353.78	48'353.78
	cd) other retained earnings	57'048'353.78	87'048'353.78
	d) Unappropriated surplus	12'184'291.78	44'435'570.41
	TOTAL LIABILITIES AND EQUITY	**1'463'246'977.56**	**1'373'662'757.29**
1.	Contingent liabilities		
	b) Liabilities from guarantees and indemnity agreements	10'330'168'321.19	9'150'348'558.89

CALENDER OF EVENTS

May 21, 2021 // Annual report 2020

July 02, 2021 // New business figures Q2 2021

July 2021 // Annual General Meeting

August 2021 // Financial report for the 2nd quarter and first half-year of 2021

October 05, 2021 // New business figures Q3 2021

DISCLAIMER

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Imprint

Publisher:	The Board of Directors of GRENKE AG
Editorial:	GRENKE AG, Investor Relations
Design, layout & typesetting:	SPARKS CONSULTING GmbH, Munich
Status:	May 17, 2021

Disclaimer

Figures in this Annual Report are usually presented in EURk and EUR millions. Rounding differences may occur in individual figures compared to the actual EUR amounts. Such differences are not significant in character due to their nature. For reasons of easier readability, gender-specific language is generally avoided, and the respective terms apply equally to all genders to ensure equal treatment.

This Annual Report is published in German and English. The German version shall prevail.

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