ProCredit HOLDING

WHY RESPONSIBLE BANKING MATTERS TO US

Impact Report 2020

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This Impact Report covers the period from 1 January to 31 December 2020.
This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option.

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FOREWORD BY THE CHAIRPERSON OF THE SUPERVISORY BOARD

These introductory words are a simple attempt to come to terms with our identity, with our reality and our visions. This also includes being clear and unequivocal about where, as an institution with development at its core, our practices may differ from others in mainstream banking.

We are committed to being a responsible bank with a moral compass, guided by development-oriented principles. But, in order to do this, we also depend on the market – i.e. our shareholders – to appreciate these principles and rally behind us.

A number of social rating agencies intermediate between the market and us, evaluating our impact. How realistic are their assessments? What benchmarks and instruments do they have at their disposal? How ideological are they and what is their bias? These questions come up again and again in this report, and they are subjected to critical scrutiny.

I have chosen to highlight a few points that clearly exemplify the ideological distortion of such seemingly neutral and seemingly factual evaluations.

Under the heading of human capital, I discuss our training activities and the values they impart, as well as the topic of salary and salary differentials. I also address the question of how to evaluate the leadership of a company (the CEO principle). And last but not least, the role of women in our company.

In addition to the topic of "human capital" – although we prefer to speak of our employees, colleagues or staff – there are other areas such as environmental impact or good governance that need to be examined for their ideological ballast. These points would definitely go beyond the scope of a foreword, but they are addressed in the main text.

Although we regard the concept of "human capital" as problematic because it reduces labour to its contribution to the production function, we agree that investing time and money in our people is the most important way to reproduce the company and its culture.

We now have just over 3000 employees. All of them speak English, at a skill level which we have helped to build up in hundreds of courses over the last 20 years. For 15 years we have been teaching many of them in our own Academy in the Odenwald, 100 km south of Frankfurt. In addition to numerous specialist courses run by our own local managers in our 11 banks, we offer a one-year course in Germany at the Academy for 100 people each year. This allows us to gain a first impression of the social and banking knowledge of the candidates and helps us to assess which of them have which particular abilities and interests. From these candidates, we ultimately select around 40 colleagues for a three-year training programme, with a focus on history and culture on the one hand and more bank-related technical subjects on the other. If you would like to know more about the curriculum and content, please visit the respective pages[1] > on our website.

Our entire top management level has already attended this Academy. The same is true for a large proportion (83%) of the upper middle manager level, and for 77% of the next level below them.

The costs for the full 4-year training programme amount to about EUR 100,000 per person.

We think that the company and its employees are geared for long-term development. We have built sustainable structures that indicate permanence, interconnectedness, solidarity and a certain "esprit de corps" among our employees.

How is it possible that a certain rating company, which otherwise comes to a good overall rating of AA, gives us the lowest marks in the area of "human capital", citing as one of the reasons the fact that we do not have any bonus systems for employees and managers? Other rating agencies complain that we don't have a union and still others that we lose too many staff. None of these neoliberal or social-democratic

[1] https://procredit-holding.com/procredit-worldwide/procredit-academy/

critics address the Academy, let alone the content of the courses taught there, all of which is published and accessible. I suspect it would be too much to read and think about. The rating agencies have automated and standardised their processes to such a degree that they avoid discussions about substantive questions. Instead, their methodologies drive banks to pursue the kind of sustainability that can be achieved by "ticking the box". According to that methodology, paid-up membership of the UN Global Compact is valued more highly than our spending millions on our Academy. This is particularly problematic when it comes to rating sustainability, which addresses areas that are difficult to standardise. Sustainability must be defined in its respective context, while still following clear principles.

The partially established sustainability rating scene prefers to take the easy option, and loves simple answers that can be read and evaluated by artificial intelligence. That's why some banks have already started hiring social rating consultants who know exactly what key terms banks need to address in order to push up their ratings.

First of all, I would like to clarify a few things about the level of our salaries in absolute terms:

We pay our salaried managers in Germany a maximum of EUR 200,000 p.a. gross. This corresponds to a net monthly salary of approximately EUR 9,000 to EUR 11,000. EUR 200,000 gross is the limit. We believe this is comparable to other professions who demonstrate their importance to society on a daily basis, and thus appropriate.

We pay our manager colleagues in Eastern Europe and Latin America, at a close approximation, between EUR 4,000 and EUR 6,000 net, very good salaries for the respective societies.

According to our information, the remuneration we pay our managers is at the bottom end of the range of salaries and bonuses generally awarded in the countries in which we operate – but it is still extremely rare for a manager to leave us for another bank. So we must be offering something that goes beyond mere monetary incentives. Perhaps it is respect, dignity, participation, and creative involvement?

Now I would like to address the issue of bonuses or monetary incentives, whether for managers or employees, one of the darlings of social rating agencies, it seems.

We don't believe in this story, which is usually entertained and spread by managers themselves. A recent study by a Harvard professor would seem to disprove the link between bonuses and performance. The study found that although Sweden's biggest bank, Svenska Handelsbanken AB, does not pay its managers and credit staff bonuses, it has only a fraction of the loan losses that its competitors report.

Standard neoclassical theory postulates that work means suffering and that if you want to get more out of employees you have to pay them extra to go the extra mile. We do not share this value judgment. Yes, work can sometimes involve suffering, but most of the time it is fun and means fulfilment and a sense of purpose. It gives us space for creativity and an identity, in terms of both our individual careers and the nature of our company as a social group.

Of course, salary is important, which is precisely why we prefer to pay our employees properly rather than – as is often the case at quite a few of our competitor banks – boosting a low base salary with a performance-related element.

We see our managers and employees as professionals, but also as social actors who do not want to be atomised but rather identify with a common cause; who want to co-operate instead of just compete; whose performance and results are sometimes dependent on the luck of a particular situation. It is this image of humanity and the profoundly interesting ethical positions associated with it that we also discuss time and again with our young colleagues.

In principle, it is a matter of striking a balance between serving the common good, as expressed in the utilitarianism of Jeremy Bentham, and the principled, individualistic positions of Immanuel Kant. These are not trivial considerations; rather, they require independent thinking and an ongoing critical examination of one's own ideals, principles and goals. John Rawls, a modern moral philosopher and the last representative of the philosophical Enlightenment, formulated a wonderful synthesis for this. He endows individuals with sovereign power and far-reaching rights, but also imputes to them a sensitivity to the needs of the community. Moreover, Rawls was the first philosopher who took the classical and neoclassical assumptions of individuals being rational and responsible at all times and adapted this view to actual living reality. It is not true that people have everything under control; rather, they are dependent on colleagues, the context or chance.

And by the way, the ability to weigh up such considerations as part of a corporate culture is not something you acquire in a two-day webinar or by reading the Code of Conduct. It requires serious and substantial examination, both in daily practice in the company and in long-term training programmes, like the ones we have been organising successfully for the past 15 years.

Not all may share these views. Again, our intent is to be clear and unequivocal about our practices and where they may diverge from others. These practices have enabled us to deliver development impact and financial sustainability consistently over decades – this is what attracts our specific staff and investors. We may not be for everyone.

It is easy to get caught up in another culture war at our company. I'm referring to the CEO fetish. Some banking regulators in our countries of operation occasionally force us to designate a specific CEO of our bank there. We have to comply with this. We just don't take it very seriously. We don't have a CEO in the holding company in Frankfurt, and we don't want one. And that's the way it is in most of our banks. We are convinced that a joint board of 3 to 5 persons with different responsibilities is an appropriate management structure for our banks. We also want to live and apply democracy – and that always means discussion – at our various levels. We are convinced that our collective leadership culture also promotes efficiency.

We are not alone in rejecting an overly hierarchical organisation and replacing it with increasingly flat hierarchies. There is also growing evidence that this increases productivity. Instead of the clear rules of a career ladder, it's more about networking and teamwork.

Now let's go into the gender issue. 48% of our top management positions are held by women. Most of them have been with the company for 13 years. We have attached great importance to a balanced gender ratio for nearly three decades, long before the discussion arose in German society about the absence of women at the top of DAX-listed companies. That's why we also make sure that we have a similar balance of upper middle managers, from whom we occasionally recruit new top managers. Of course women are paid the same as men.

One final point, which seems to me to be of particular importance to understanding the group better, is our almost complete rejection of the consumer credit market. This may mean that we miss out on some income, but it also means that we often avoid considerable credit risk problems. And even more than this, we have no intention of becoming part of a culture that promotes empty consumerism, with all of its associated negative consequences – ranging from overindebtedness to environmental degradation.

Dr Claus-Peter Zeitinger

Chairman of the Supervisory Board, ProCredit General Partner AG and ProCredit Holding AG & Co. KGaA

LETTER FROM THE MANAGEMENT BOARD

On behalf of ProCredit, we hope that you will find our Impact Report stimulating and thought-provoking. Besides giving a comprehensive overview of our achievements in the environmental and social area for the past year, this report aims to reinforce some of the key principles and values at the very heart of our institution that we believe differentiate us from others. We do this for the benefit of our investors, clients and staff.

As you read these pages, please keep in mind that they are not written by a public relations agent or by an ESG consultant. We did not delegate it to others: we wrote this report ourselves, and we live by it. Several senior colleagues gave their direct contribution to specific sections of this report. Their various styles and perspectives are a testimony to the diversity of backgrounds and experiences in our institution, and hopefully give a sense of who we are and what we stand for, individually and as a group.

Since the foundation of ProCredit three decades ago, we combine the desire to have a lasting impact on our clients, our society and our environment with an approach that is in the commercial interest of our shareholders. We do this by analysing the conflicts and trade-offs between these multiple goals, and consequently pursue activities where the value creation for all stakeholders, over the longer term, is aligned. We feel that over the years our approach and understanding of what "development" means for us and what is our role to play has changed from a general "giving access to finance to the underbanked" to a more structured and critical engagement with the real economy, particularly in the areas of innovation and technology, which we believe reflects better the challenges of this century.

Finding the right balance between development and economic success is not always straightforward. We are a bank, and in the world of finance, the words "price" and "value" are interchangeable. We feel that the prevailing opinion of most participants in the capital market is that the ultimate goal of any company is to maximise shareholder value, by which they mean more profit and a higher share price. So, we need to be loud and clear about this point: maximising profit is not our guiding principle. We want to be a bank that is commercially successful while being decent, and to show that capital can also be used for the betterment of the many, not for the enrichment of the few.

Since its creation, our banking group has produced positive financial results for its shareholders in every year of its existence. This includes the years of the financial crisis between 2007 and 2010, when much, if not all, of the financial sector's previous gains, be it from subprime lending or other risky practices, were wiped out. Our ability to deliver solid, steady results throughout the economic cycle is the result of our business model and our uncompromising attitude towards risk. In the long run we believe that this approach offers investors a very stable and straightforward path towards value creation.

Thus, even in 2020, this most difficult year for financial institutions anywhere in the world, our performance was solid throughout. We grew our loan portfolio by almost 10%, mostly in long-term investment loans and "green" loans, and our deposit base by 13%. At the same time, we recorded a return on equity of 5.3%. Clearly, our financial performance was affected by the consequences of the pandemic, particularly with regard to credit risk costs. But overall our portfolio quality is proving robust, which we believe is a consequence of our close and proactive client relations and bodes well for the survival of our SME clients in the wake of the pandemic. Good loan portfolio quality and green finance are covered in detail in this Impact Report as central pillars of an approach which combines long-term value creation for clients, the environment and shareholders.

Money is probably one of humankind's greatest inventions, as it is instrumental in creating wealth and abundant resources. However, many societies have turned the instrument into the ultimate objective. We feel that economic success, personal enrichment and, allow us the use of the word, greed is, beyond a certain point, unhealthy for institutions, societies and for the environment in which we live. It degrades our quality of life as a community as it speaks to the worst instincts in us.

Being true to these ideas means abstaining from profit-generating activities that we deem socially or environmentally harmful. We almost exclusively finance businesses, production and innovation rather than fuelling unsustainable consumption. High-margin consumer lending is very attractive from a financial point of view. We have the banking licence, the technology, the channels and the means to do what most other banks often do: profit on poor, vulnerable people. We choose not to do so, and focus instead on business lending, which contributes more structurally to the improvement of our economies, while promoting a prudent use of credit for families who want to build their long-term assets. For decades we have been one of the leading lenders to agricultural producers in our markets of operation, even when everyone else told us that these businesses were too risky. Why bother with complicated cash flows and technological maps when lending to private individuals is so much more lucrative? We have stopped financing producers of single-use plastics altogether, going far beyond the recommendation of the European Union and "best practices" in the financial service industry.

Furthermore, we believe that banks have the responsibility to be prudent in allocating capital to companies and individuals. This is particularly true because finance is procyclical. When the economic cycle is on the up, asset prices increase, and banks are tempted to take on more risk. As euphoric sentiments drive the appetite of investors further, managers are asked to push business even harder, which reinforces the cycle and ultimately sets the stage for the next disaster. This characteristic of the capital markets is well known, despite the efforts of regulators to rein in the worst instincts of bankers. The smart investors are considered those who manage to leave the party before the authorities arrive on the scene, while the rest are left to deal with a huge hangover. Too often when profit piles in, managers take home their personal rewards, but when a misdeed is committed, it is their company that pays the fine. Profit is private while losses are public. When the economy turns the other way, the opposite happens: banks pull back, when instead courage is needed to support clients and businesses. Scoring cards stop being effective when calibrated against anomalous data and banks pull the brakes on lending, reinforcing the cycle in the opposite direction. We are prudent in good times, even moderating the "animal spirit" of our clients, but we stand by them when things get tough. While banks reined in most lending activities in 2020 due to the Coronavirus outbreak, we continued support for our clients throughout, providing long-term investment loans or short-term emergency liquidity. We are able to do this because we approach every single client individually, assessing their risk profile on the basis not only of a quantitative analysis but using our qualitative assessment of the individual and of the circumstances. The effort we make in getting to know our clients personally pays off across economic cycles. The prosperity, or the survival, of a company, does not depend only on its financial strength, but mostly on the resilience of its staff, its managers, its owners and on their sound judgment. The decisions a company takes in difficult times can determine its success or its demise, and working closer with our clients allows us to align our expectations and our strategies with theirs.

We have the same approach to clients as we have towards our staff: to solve complex problems in difficult circumstances, we work together, as partners, with mutual respect and with a sense of shared responsibility. Our unique approach to banking would not be possible without our strong underlying internal culture, which is not defined or guaranteed by our mission statement but lives in the hearts and minds of our employees, who define, build and shape it every day through their thoughts and their actions. We believe that companies are defined by their people, not by their mission statements. That is the basis of our community, of our *res publica*, where we emphasise a shared sense of ownership and responsibility for everything we stand for. If we were to replace all the employees of a typical bank with the employees of other financial institutions, we believe we would likely still get, more or less, a similar company in the end. Not with ProCredit: our identity as a group is determined by the collective identities of the individuals working in it together with their sense of belonging to a community. Lose one, lose the other.

Shaping that identity is also our common responsibility, managers *in primis*. It starts with the criteria we use to select our staff and it continues in our training programme. To see this, one needs to look no further than our Academy curriculum. We are often asked why we spend so much effort and time in teaching history, religion, ethics and philosophy in our Academy programmes. Indeed, this is unique, we don't know of any other bank whose training curriculum is based on the teaching of Greek philosophy or the French Revolution. But in ProCredit this is central to our effort to build a shared understanding of our values. By so doing we want to broaden the minds of our managers and lead them to self-reflect on the way they conduct themselves.

It is generally expected of managers to be strong, decisive, self-assured: men (as usually they are men) who have the last word. For us, instead, building self-confidence in managers means making them aware of their limits and of their biases. Managers shape the institution they lead via the decisions they take every day, some small, some big. We believe that these decisions tend to be more effective if broadly shared and shaped by the whole team, not just by its leaders. History shows to our managers that life is often much more complicated and coloured than they imagined. It helps them appreciate the fallacy of blind self-conviction and how brittle systems created on the shoulders of strong leaders are. We want our managers to be humble, to think before they act, to consult their colleagues, to build consensus before setting a course, to bring everyone on board and to lead by example. We entrust them with a great responsibility: that of contributing to shaping and nurturing our common culture. Most of our senior managers are also teachers in our Academy. Another lesson from history is that institutions, countries, empires rise and fall with the people who stand behind them, and the values that they embody. Our staff and our managers are protagonists in shaping their and our collective destiny.

We emphasise the study of humanities in our Academy also because we value people who are intellectually curious and open-minded, outward-looking and not obsessed with themselves in splendid isolation. Everyone, including managers need to be reminded of their fallibility. They will inevitably make mistakes, and the best they can do is to be self-critical and constructive in facing up to them and learn how to avoid them next time around. Instead of installing a sense of moral and intellectual superiority, we teach our colleagues to think carefully, to listen, to weigh different opinions, even when they run counter to their set of beliefs. We encourage them to reach out to others, to seek open feedback and to strive to construct a common narrative which, in the long run, will add to our shared set of values and to our common identity.

We also teach them to value knowledge and to be modest. Our Academy in the Odenwald is comfortable but spartan. In fact, it looks more like a modern version of a mediaeval monastery than a bank's training centre, with the difference that instead of inculcating dogmas we teach critical and independent thinking, and we provoke intensive and loud discussions. We do not want our managers to be motivated by luxury and status. We do believe that a fair and decent remuneration is important and that it must make sense in relation to the greater social picture of which we are a part. We see in our societies the ever-growing gap between the super-rich and everyone else. This creates resentment and frustration and it ultimately erodes the bonds of a community. We live in the era of stellar CEOs, paid multiples above the median salary of their employees, isolated in their C-suites in ivory towers. When we are confronted with the criticism that we cannot attract the best talent if we do not pay what markets demand, we answer that we would gladly forgo the brightest and the most ambitious in exchange for those for whom a sense of belonging is more important; those for whom money is, as it is for us, a means to an end, not an end in itself. Those who value purpose at work, responsible and empowered to shape their future and that of their institution.

We think many of our clients identify with this philosophy, as do many of our investors. If nothing else, right or wrong, it is our choice to be different. We understand it is a proposition not everyone would subscribe to. But those who do, tend to be much more committed, motivated and engaged, which not only creates positive results, but, in the end, makes it fun to be part of our story.

Management Board, ProCredit General Partner AG

Sandrine Massiani Dr. Gabriel Schor Dr. Gian Marco Felice

Our Approach
Green Finance
Our Staff
Supplement

OUR SOCIALLY RESPONSIBLE APPROACH

For us at ProCredit, long-term sustainable economic development is our raison d'être and we tailor our business behaviour towards achieving this goal.

94% of our loan portfolio is to SMEs

During the COVID-19 crisis, our business portfolio grew by 10%, even though overall business lending in our countries decreased by about 4%

Manufacturing and agriculture account for about 45% of our business loan portfolio

Prudent credit risk management

Consistently lower non-performing loans than local banking sector

All-inclusive qualitative and quantitative assessment of each client

Share of credit-impaired loans only 2.6% as of end of 2020

Linking ethics with governance

Equitable remuneration approach – no systematic use of bonuses

Qualified and experienced board members

No CEOism, but discussion and discourse between management and staff

ECONOMIC DEVELOPMENT

by Marcel Zeitinger

When investors look at our financial reports they typically stumble: ProCredit is neither a story of steep growth nor a story of high returns. For some it is hard to come to terms with the fact that a bank operating in Eastern Europe and South America features only linear growth and rather moderate rates of return, while other banks achieve two-digit returns on equity at the height of the economic cycle and acquire institutions across countries to boost their balance sheet.

For us at ProCredit, long-term sustainable economic development is the raison d'être and we subject our business behaviour to achieving this goal. At times, this means forgoing easy profit due to our prudent approach or curbing risky investment aspirations of our clients. From outside this may well be perceived as dull and dogmatic. From the inside, it is exciting and fulfilling. We identify as a development-oriented group of commercial banks – a notion that begs the question: How do we contribute to economic development and what do we mean by it?

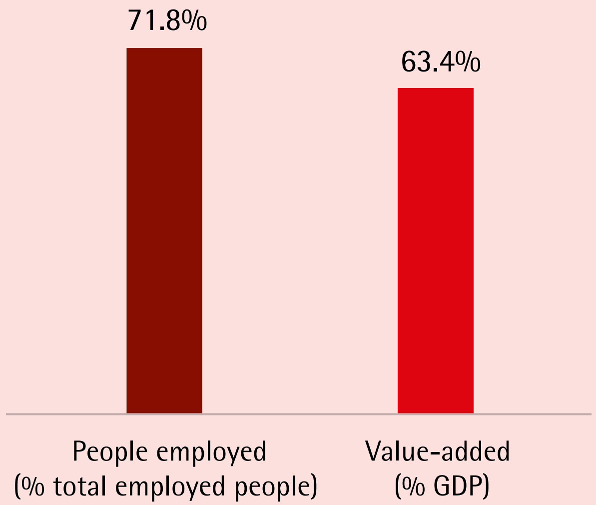
The dominant narrative of development finance runs that financial inclusion and access to financial services will bring economic growth. On the back of this narrative, large numbers of banking branches and ATMs are often construed as "impact", as they supposedly foster economic activity and productivity. Along the same narrative, microfinance is regarded as a panacea for reaping a country's untapped economic potential. We do not subscribe to this view, as we ourselves used to be a microfinance bank with all the good intentions that come with it. Many years ago, we consciously took the decision to get off this pathway, precisely because we saw the impact of our actions diminish. We had come to realise that in today's financial markets it is no longer a question of access to financial services – especially not in our often overbanked countries of operation – but rather about the right way of doing finance. We had further understood that it is often not the masses of informal microentrepreneurs that drive economic development but rather innovative, transparent and tax-paying small and medium-sized enterprises undertaking investments that ultimately drive economic growth. Hence, we devote our full energy to providing the credit instruments that are best suited to what we view as the backbone of the economy: SMEs.

Our business focus is underlined by our simple balance sheet – 94% of our loan portfolio is to SMEs. When we scrutinise the balance sheets of our competitors, we see that typically half of their loan portfolios are classified as "retail", of which again a relatively large share consists of high-margin consumer loans. The remaining half logically consists of loans to businesses. Yet here too we see a fundamental difference from what we do, as these business loans are predominantly directed towards larger corporates.

We are convinced that the impact of supporting SMEs is significantly more meaningful than that of financing corporates. The technological leap is often greater and raises the labour productivity of a more numerous workforce, since SMEs tend to employ the vast majority of people in our countries of operation, while at the same time accounting for a large share of value-added (see next page). On the local level, the efficiency achieved results in lower prices for the final consumer. On the international level, these efforts increase the international competitiveness of domestic, innovative firms as well as pushing exports, substituting imports and lowering the structural imbalances in trade. As we typically operate in small open economies, this results in reduced external dependency, greater economic resilience, stronger internal growth and in the generation of formal employment for the local population.

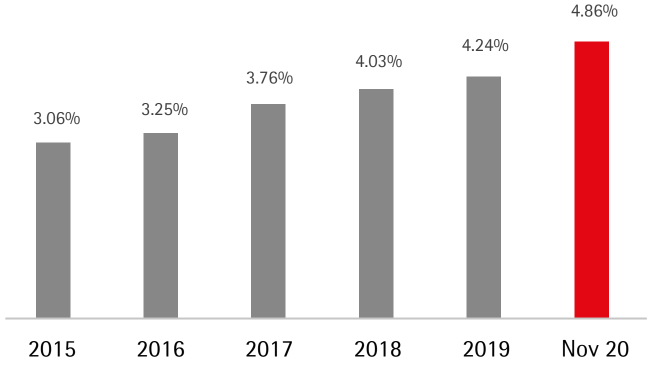
In recent years, many other financial institutions have focused either on uncollateralised consumer lending or artificially increasing their balance sheets through the acquisition of financial institutions. Meanwhile, we have grown organically year-by-year and noticeably expanded our market share in the business segment (see right figure). In doing so, we have become one of the pivotal SME financing banks in our countries of operation.

SMEs' importance in our countries of operation (average)



Source: European Commission (2020), SME SBA Factsheets 2019 (excluding Ecuador, Germany). Georgia: OECD (2019), Access to Green Finance for SMEs in Georgia, Green Finance and Investment, OECD Publishing, Paris.

ProCredit business loan portfolio market share (average)



Excluding Ecuador and Germany. Sources: See below[2]
Reference year: 11/2020

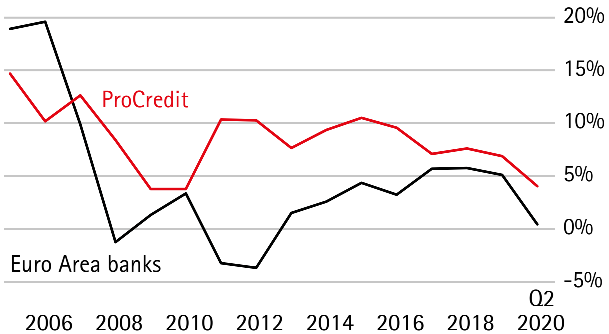
Apart from the focus on SMEs that is essential for the economic development of a country, our long-term and sustainable way of doing business differentiates us markedly from other financial institutions in the region. As economies expand, investors' expectations for returns are raised and the risk appetite increases. This often leads to loosened lending standards, which destabilise the credit markets down the line. When crisis is looming and liquidity is tight, credit lines are called off and cross-border loans deleveraged, leaving businesses out in the rain. Our approach is a much more long-term one. We do not compromise on our lending standards in order to push margins and we continue to finance our clients' working capital and investments in times of economic hardship. In Ukraine we intensified our operations in the last decade, when other institutions cut back amid the unfolding political and economic crisis. In Greece, we opened our doors to SMEs in 2015 when the international investment community turned away during the Euro crisis. During the recent COVID-19 crisis, our business portfolio in our 12 countries of operation grew by 10%, while at the same time the business lending in our countries of operation decreased slightly at a rate of -4% (Source: central banks). This behaviour exemplifies our long-term investment horizon as well as our sense of responsibility as a bank.

With the focus on economic development and SMEs comes a natural quest for efficiency in our operations. We invest heavily in the capacities and capabilities of our staff in order to deliver the best services to our business clients alongside being fully devoted to automation and digitalisation. This explains why we now feature a slim network of outlets and a streamlined base of highly professional and dedicated staff. Other banks continue to rely on their legacy of massive physical infrastructure and large numbers of sales staff in order to reach out to clients. Queues, waiting numbers and over-the-counter cash withdrawals are still at the heart of their everyday operations. We think that in order to drive economic development and positive change in our countries of operation, it is pivotal for us to invest in state-of-the-art technology and deliver it directly to all our clients.

2 Bank of Albania (2021), Central Bank of Bosnia and Herzegovina (2021), Bulgarian National Bank (2021), National Bank of Georgia (2021), Central Bank of the Republic of Kosovo (2021), National Bank of the Republic of North Macedonia (2021), National Bank of Moldova (2021), National Bank of Romania (2021), National Bank of Serbia (2021), National Bank of Ukraine (2021)

Our view on economic development is not so very different from the current laudable policy commitments towards SMEs; the only difference is that we live it and depend on it. Most of our profit derives from the interest on our loans to business clients and the transparent fees we charge. Other financial institutions fuel their balance sheets with government bonds, with deals struck through non-performing loan sales and by the consolidation of profits from opaque, affiliated fast-consumer lending or leasing entities. Our time horizon and business behaviour do not yield erratic and exorbitant profit figures, but rather a reasonable, steady positive return on equity throughout the economic cycle (see figure below).

Profitability ProCredit group vs Euro Area banks



Source: ECB Data Warehouse (2020)
(Q2 2020 latest available figures from ECB)
Reference year: Q2/2020

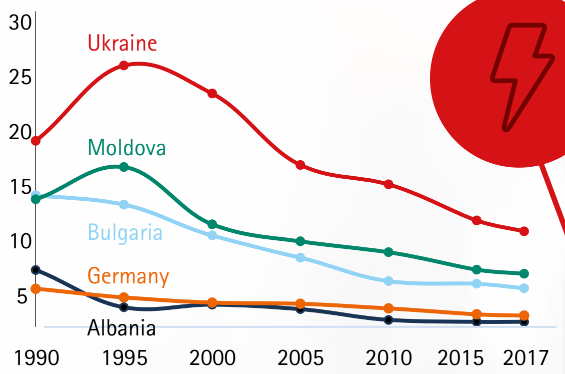
However, providing finance does not by itself lead to growth and economic development as it is so often argued by the financial community. The financial crises around the world have rightly challenged this notion of a finance-growth nexus and exposed the pitfalls of this specific hypothesis. Not only excessive risk-taking but overhyping the role of finance in economic development currently contributes to a trajectory of "financialisation" of the world economy. It is often forgotten that Schumpeter, to whom the finance-growth notion is attributed, not only argued for the growth- and entrepreneurship-enhancing role of finance. He also warned against credit being directed to consumptive purposes or to innovations in financial markets, where the effect on economic development is ambiguous at best. As a financial institution, we are conscious of our place in the economic system and only provide those services to our clients that they need. We do not risk the soundness of our institution by juggling with financial assets, nor do we engage in consumer finance to any significant extent. Banks are only one part of the set of institutions that are necessary for economic development. By providing finance to the real rather than the FIRE (Finance, Insurance, Real Estate) part of the economy, we strive to contribute to sustainable development. The fact that manufacturing and agriculture account for about 45% of our business loan portfolio is a case in point.

We recognise the overt dilemma between this objective of economic development and the challenge of ecological sustainability. One of the ways we address it is by increasingly focusing on our green loan portfolio. Building up specialised teams and knowledge in the banks and ProCredit Holding has helped us to grow the share of our green loans in our total loan portfolio to almost 20%. No other bank in our markets focuses on green finance to such an extent. Moreover, green loans financed by our competitors are typically singular large-scale projects. We concentrate – concomitantly with our business focus – on small- and medium-scale projects. We believe that they will bring a more diverse, balanced and community-engaging green transformation to the countries we operate in.

The outcome of the "economic development versus ecological sustainability" discussion depends on the global future development and the willingness to acknowledge and adhere to planetary boundaries. In following our approach to sustainable economic development, we attempt to avoid contributing to a further transgression of the thresholds set by these natural boundaries. We do so by challenging ourselves and our clients every day, through our internal environmental systems and credit risk policies. Hence, for us, sustainable economic development is a complex, day-to-day issue that involves a long-term view, a focus on SMEs, formal and decent employment, a-cyclical and selective lending behaviour, a growing attention to green technologies and renewables as well as the acknowledgment of social and planetary boundaries. This is what excites us, and we believe that it is far from dull.

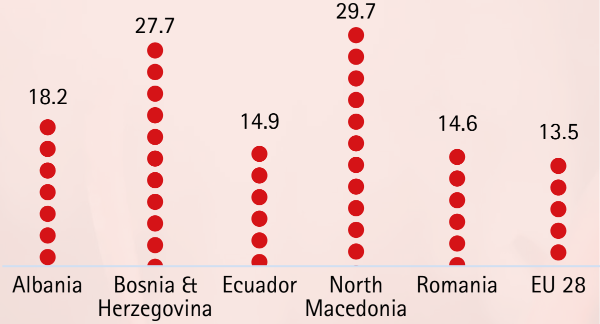
SUSTAINABILITY CONTEXT

Energy intensity per unit of GDP



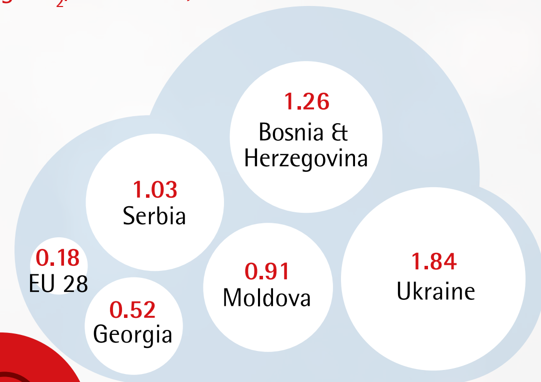
Reference year: 2017

Air pollution
(PM2.5; mean annual exposure in mcg/m³)



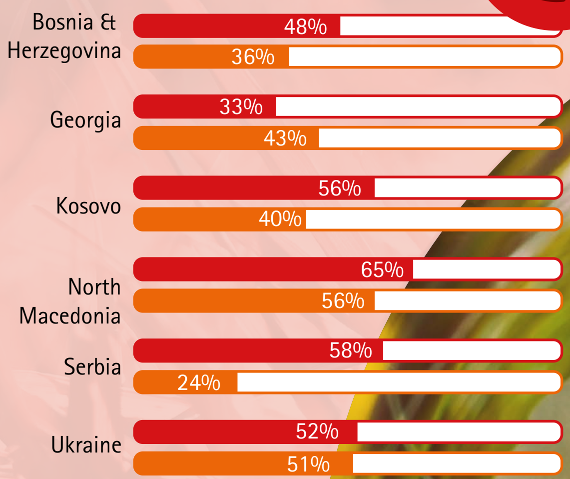
Reference year: 2017

CO_2 emissions per unit of GDP
(kg CO_2/2015 USD)



Reference year: 2018

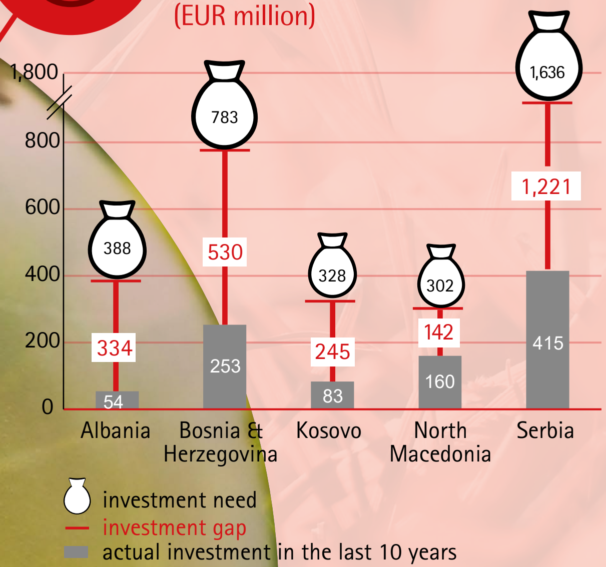
Renewable energy and climate sector readiness



Degree of implementation in the renewable energy sector
Degree of implementation in the climate sector

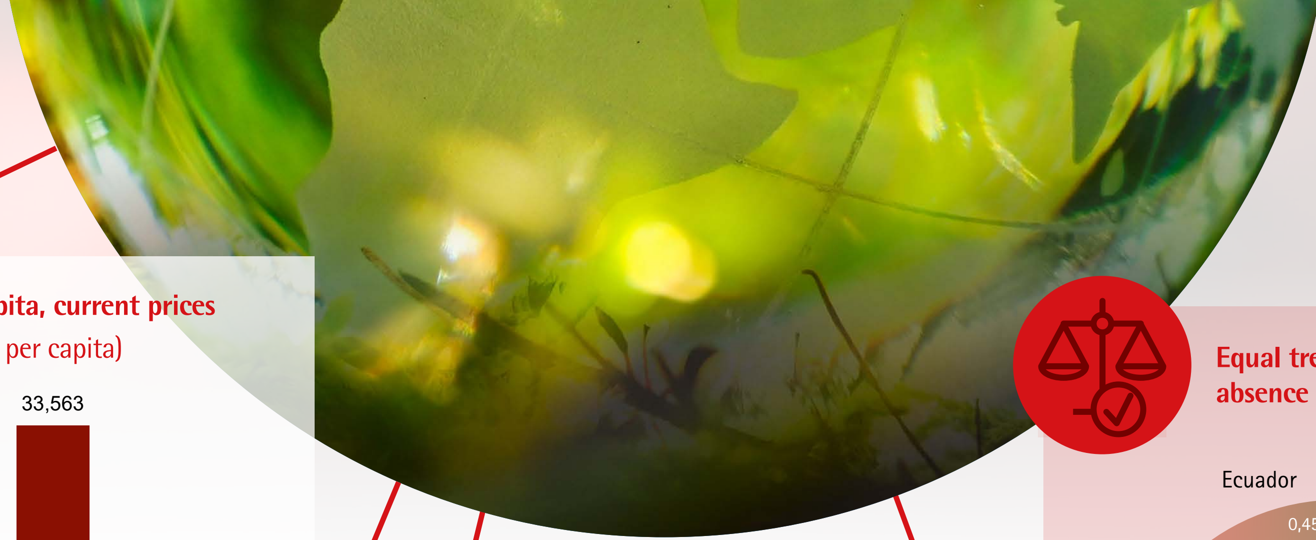
Reference year: 2020

Investment gap in energy efficiency in building programmes
(EUR million)

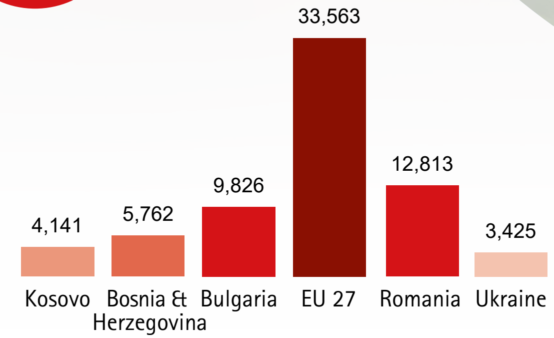


Reference year: 2020

In the infographic, we show data for selected countries of operation to provide an overview and illustrate the situation. All data sources and reference dates can be found on > pages 81f.

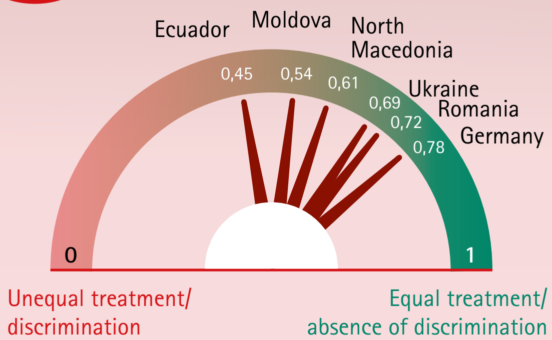


GDP per capita, current prices
(U.S. dollars per capita)



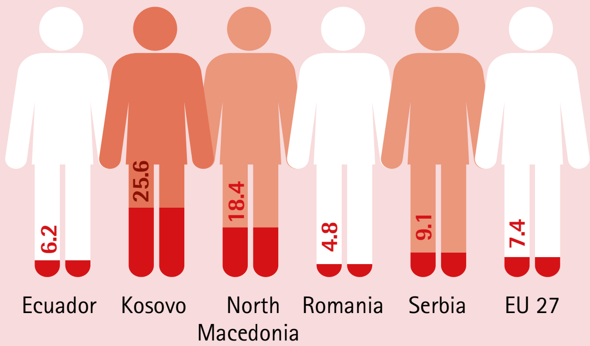
Reference year: 2020

Equal treatment and absence of discrimination



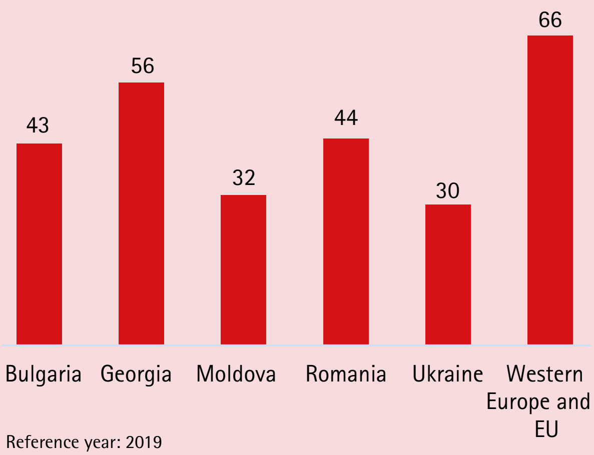
Side note: The responses are captured in terms of likelihood meter.
Reference year: 2019

Unemployment rate
(% of total labour force)



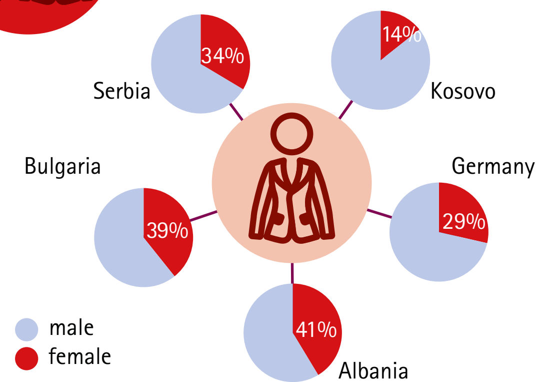
Reference year: 2020 (excluding Kosovo: 2019)

Transparency International Corruption Perceptions Index
(0= highly corrupt, 100= very clean)



Reference year: 2019

Female share of employment in managerial positions



Reference year: 2019

In the infographic, we show data for selected countries of operation to provide an overview and illustrate the situation. All data sources and reference dates can be found on > pages 81f.

OUR APPROACH TO CLIENTS

by Gian Marco Felice

In the past few years, we have witnessed an increased importance of the topic of social and environmental responsibility. For ProCredit, which since its beginning cares more about the moral dimension of its actions rather than their financial return, this can only be good news. But together with the exponential growth of words such as "responsible", "ethical" and "sustainable" in companies' impact reports the world over, there is rising fear that behind the façade a certain amount of "greenwashing" (or "moral washing") is taking place.

Particularly for banks, this is a surprising turn of events. You must forgive us if we are under the impression that when they are not busy overpaying themselves with fat bonuses, or rigging the system (Libor, anyone?), or speculating with someone else's money, or closing both eyes on money laundering, bankers are still mostly busy driving profit as hard as possible, masking their true objective behind the occasional charity or donation. In fact, our impression is that with every year that passes, the gap between the ever more grandiose proclamations filling banks' impact reports and their practices grows ever wider and we are left with a bitter smell of hypocrisy in the air.

In judging the impact banks have on society and on the environment, the most relevant question to ask, in our view, is: what type of activities do banks finance? In other words: where does the money go? Answering this question often reveals an open secret: in our countries of operation financial institutions might like to say they are socially responsible, and they support the real economy, production and innovation but, in fact, the data shows that they are very much engaged in the high-margin business of consumer lending, often in the form of aggressive sub-prime lending to vulnerable people. Across the banking industry in Eastern Europe, roughly half of the loans granted by financial institutions fuel private consumption, often in the form of instant cash loans or revolving credit cards. Together with the practice of overcharging clients, many of whom are financially illiterate and struggle to understand the full cost of borrowing at double digit rates, they contribute to creating a debt trap which forces people to repay loans with loans. The focus on consumer lending has existed since Western European banks entered the market in the early 2000s, and since then they have become more and more sophisticated at it. At first, we were used to seeing armies of sales agents stationed in shopping malls or on street stalls financing everything, under the title "buy your dreams in instalments" and now we are getting used to digital channels backed by credit scoring algorithms. They surely found fertile ground among the low-income citizens of Eastern European countries, who went from the deprivations imposed by communism to the full adoption of the consumeristic Western economic model which, instead of promoting savings and the long-term prudent accumulation of family assets, entice people to a culture of "enjoy now, pay later," even when it is clearly beyond their means.

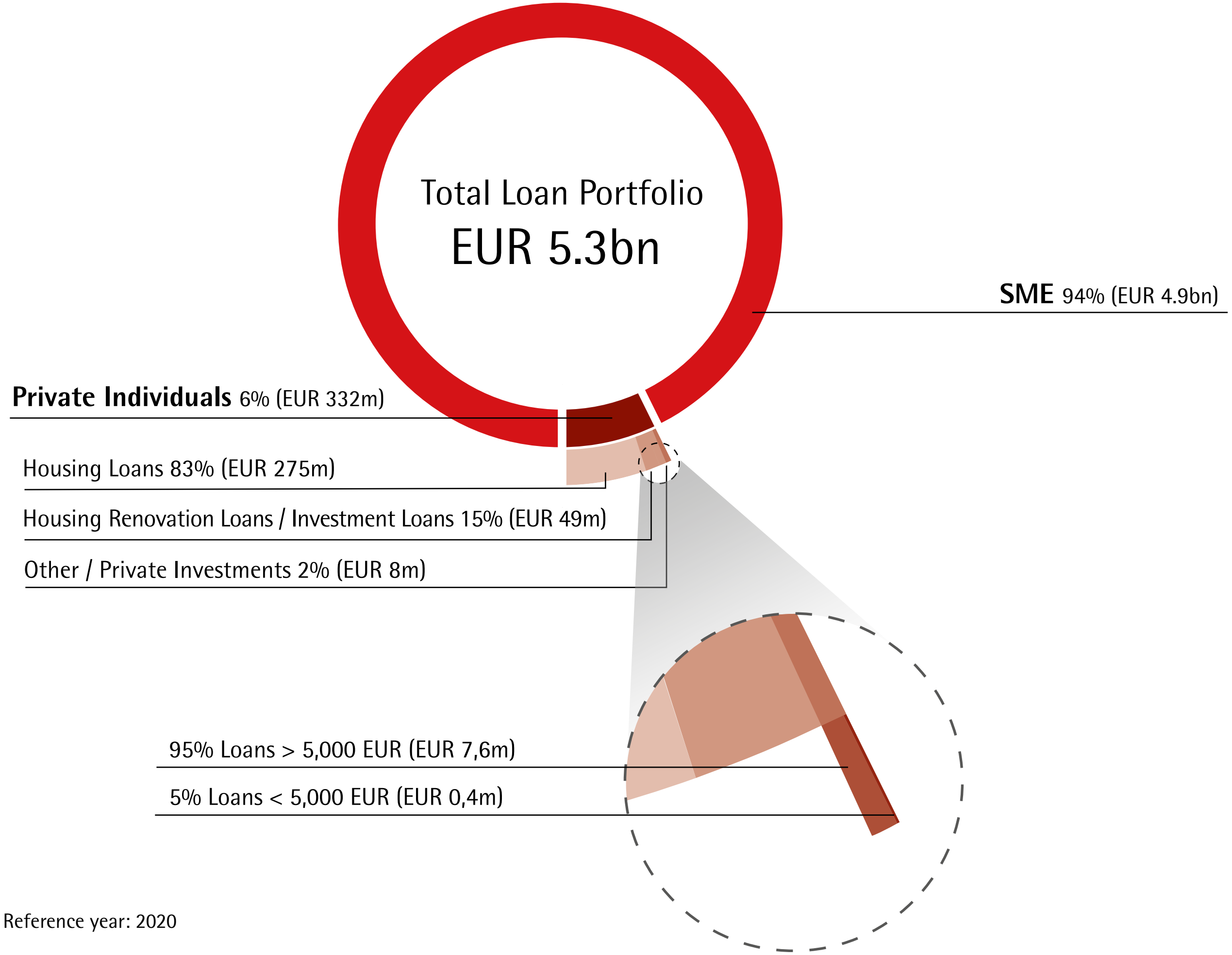
Instead of partaking in this lucrative but morally questionable practice, we continue to focus on our core business: lending to small and medium-sized companies (SMEs), which are the backbone of the economy and are, on aggregate, their biggest employer.

Our results clearly show where our money goes: 94% (or EUR 4.9bn) of our portfolio goes into SME financing. The rest, that is 6% (or EUR 332m) is lending to private individuals. Furthermore, of this amount, 98% (or EUR 324m) are housing loans or housing renovation loans (not mortgage loans, in the sense that we finance the purchase of first houses for residency; we do not disburse cash on the back of real estate collateral). Finally, the remaining EUR 8m finances private investment, for instance electric or plug-in hybrid cars, small PV installations on private roofs or better house insulation. We also provide to our core clients a small overdraft facility (FlexFund) which usually corresponds to twice their salary, to improve their liquidity in the face of unexpected events. Thus, as as the diagram on the right shows, only EUR 0.4m, or 0.01% of our total loan portfolio is composed of consumer instalment loans (that is, loans with exposures below EUR 5,000).

These results differentiate us from almost every other competitor in our markets of operation.

This was not always so. We also succumbed to the temptation of driving our profit higher by disbursing consumer loans with high interest rates, sometimes under the disguise of microloans to entrepreneurs. We learned from those mistakes and we took the painful actions needed to deleverage from these higher yielding assets, losing income, clients and

Consumer loans – only a tiny fraction of ProCredit's lending activities



Reference year: 2020

staff along the way. This transformation has not been painless, but sacrifices are often needed to do what is right. In this process we have radically changed our approach to clients, our use of technology and finally, and most important, our staff.

Starting with our clients, we seek to be a *Hausbank* for both our SME clients and for our core private clients, meaning that we take a long-term view on our relationship and we want to be the main, and preferably, the only bank with whom the client works. We want to be central for the client but at the same time, the client is central to us. We insist on individualised business and risk assessment for each client, both to better understand how our services best fit his or her needs, but also to make sure that the client borrows responsibly, both in the sense of assessing the debt capacity and in understanding the purpose of the loan. This individual assessment and approach to clients has a cost for us, but it is not by chance that ProCredit consistently reports better loan portfolio quality than its peers, particularly when viewed across longer economic cycles. This was again evident during the ongoing crisis induced by the spread of the COVID-19 pandemic. In 2020 our cost of risk stood at 57 basis points, better than our peer group and better than the overall banking system.

Beyond the tsunami of socially responsible commitments, this is a trade-off most banks are unwilling to make. For us, instead, it is an integral part of our mission statement: profit maximisation is not our primary objective and we are a "development-oriented commercial bank": as the statement says, "development" comes before "commercial". We compensate for the additional cost that our quality approach naturally brings by using technology to increase efficiency in our front- and back-office operations. Our clients perform transactions only via digital channels and we have moved all cash exchange, deposit, and withdrawal transactions to machine-only 24/7 zones, so that we no longer perform any manual operations in our front office. In the last decade, we invested significantly in improving our technology (our IT budget tripled in this period) and we developed our own proprietary digital platform to automate processes and enhance productivity. Measured by assets per employee, we systematically rank first in all our countries of operation. Our transparent service fits on top of our electronic platform. This is particularly true for private clients, who can access all services within a single monthly subscription fee. Thus, no hidden charges, unexpected fees or limitations to service: our model is simple to understand, and our price list for private individuals occupies two pages only, written in large characters. It puts our clients in control of their finances, bringing the (true) value of technology to them. Of course, our offer is not for everyone. It does incentivise active usage of our services by those clients who really consider us their *Hausbank*. In this, we are selective: we are not a bank for everyone. This is even more visible from our exclusion criteria when it comes to our assessment of the creditworthiness of a potential borrower. We insist on a relatively high minimum salary of EUR 500 as a strict eligibility criterion. We believe that, below this amount, in our countries of operation, lending cannot be financially profitable if done responsibly. This is sub-prime territory, where disposable income is stretched, and work is often precarious. Instead of fuelling unsustainable consumption we prefer to promote a culture of saving.

While technology is the bedrock of our strategy, it is the quality of the staff that makes the difference. We don't outsource acquisition to sales agents and pay them a commission for every client they bring in. We, as an institution, take full responsibility for the loans we originate, and we believe that our employees need to do the same. Having qualified employees means a significant investment in our internal training programme to improve their ability to master both the quantitative and the qualitative skills needed for our business model to work.

Finally, we keep our risk on our books, in a transparent way. It is true that the heydays of securitisation are long gone (the indiscriminate use of this tool by banks during the last global financial crisis saw to that), but we see how competitors often set up separate consumer lending vehicles which are below the regulators' radar and not visible to the broader public. The scale of the activities related to pure consumer lending becomes clearer once these vehicles are fully consolidated in the group's financials, although this brings a level of visibility only at the parent company level, not for the local subsidiary.

Our results demonstrate our focus on supporting the real economy, production, and innovation in a prudent and sustainable way. If we were really interested in driving profit at all cost, we would do what others do: we would busy ourselves in disbursing lots of consumer loans while, once per year, taking a small break in order to write our impact report.

TECHNOLOGY AND INNOVATION

by Gian Marco Felice

8 DECENT WORK AND ECONOMIC GROWTH

In June 2019, the Economist published an article titled "Numbers game: A brief history – and future – of credit scores". It describes how extensively numerical algorithms are used by financial institutions in developed economies to automate credit decisions and how this is now being adopted in emerging economies as well.

Technology is ever more central to the development of banks' operations, and this is true for ProCredit as well. And it makes sense, as automation and digitalisation improve the customer's experience while, at the same time, reducing costs for the bank. But there is also a darker side to the ever more ubiquitous use of technology, particularly in the way that financial institutions use software and data to process credit decisions irresponsibly and knowingly put their clients at risk while profiting from it. Nowhere is this more visible that in the area of consumer lending.

As the article in the Economist points out, there is nothing particularly new about the use of algorithms fed with financial information, such as income, assets, repayment history, used by financial institutions to score borrowers with respect to their creditworthiness. Over time this data has been further combined with some basic private information, such as age, education, occupation and residency. The first use of a data-driven approach to lending originated decades ago in the United States and it has been used by banks primarily in selling credit card products to the broader public. From the purely financial prospective, this approach has been particularly effective in assessing on a statistical level the creditworthiness of so-called "sub-prime" borrowers, e.g., those who live at the margin of the economy and have a precarious income and no assets (sometimes even to those also known as NINJA clients: "no income, no job, no assets"). By now most banks operating in Eastern Europe have adopted this approach and use it to an even more devastating effect. As a recent development, these very same institutions have doubled down on this approach and have introduced more detailed non-financial information in their algorithms, powered by machine learning, which has added urgency to the question: is what banks do morally defensible?

This topic is ever more relevant to Eastern European markets with their large pool of potential sub-prime customers who are also financially illiterate. Since the end of communism, Eastern European countries have made progress towards increasing the basic income of their citizens and their financial literacy, but on both measures, they are still significant below those of developed economies. Average incomes are still rather low, and many ordinary people live at the edge of subsistence. Moreover, labour markets in Eastern Europe are very flexible, resembling more the Anglo-Saxon freewheeling capitalist model rather than that of Western European social democracies, making many of these low-income jobs precarious. If this were not enough, banks typically adopt very aggressive marketing tactics on the back of a weak consumer protection framework which allow them to maintain a low level of transparency in disclosing the real cost of their products. All of this creates conditions in which many economically marginalised people do not have the financial competences and knowledge to fully understand the risks associated with overindebtedness and the very high cost of effective interest rates, making them particularly vulnerable to the predatory behaviour of lenders.

The technology underpinning aggressive consumer lending is based on credit scoring algorithms and automated decision making. The principle is: if the target group is homogeneous enough, you can automate lending decisions based on a few standard indicators plus past experience, knowing, and this is the point, that a certain percentage of your loans will default, but accepting these losses, even building them into the models by increasing the effective interest rate and by making the distribution side very efficient, which means avoiding having to pay qualified staff to peer into each individual decision but rather delegate it to a computer code. Add to that a few marketing tricks and aggressive financial rewards for the bankers responsible and you have the standard consumer lending model based on credit scoring. To a certain extent, modern technology can facilitate and improve decision-making: learning more about the clients' transaction history together with a broader, data-driven portfolio analysis is useful in mitigating risk, but when a credit institution delegates individual lending decisions to an algorithm, that is at best an abdication of responsibility and at worst a recipe for future disaster, for the bank and for its clients, particularly when economic conditions deteriorate.

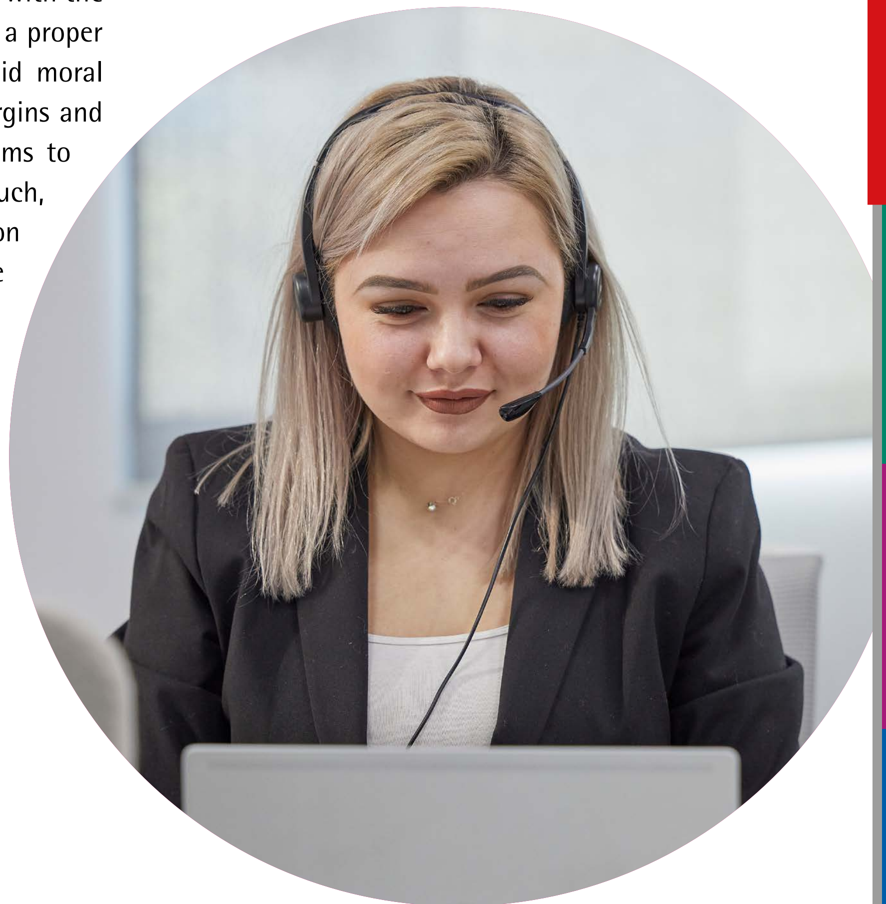
ProCredit is different: we are a socially responsible bank, which means that our decisions are not driven only by profit, but we care about how our actions impact our clients. One of our core values is that a financing operation is done in the best interest of the client and of the bank equally. We don't want to enter into a loan agreement with a client assuming a priori a given in-built probability that the client will default and compensate for these expected losses on an aggregate level by charging exorbitant interest rates. Bankruptcy destroys lives, and banks need to manage credit risk in such a way as to try their best to avoid this outcome for every borrower. Of course, we know that sometimes things don't go as planned in life and a client goes insolvent, but when that happens, we must never forget that this is a personal as much as a financial tragedy. No one wishes that; no one should put individual clients at risk of defaulting by overindebting them simply to drive profit. Doing so might be financially right, but to us it is morally wrong. Unfortunately, as history shows again and again, banks can make more money if they lower their moral standards, and, much too often, they do just that.

So much for the past and present: now a look at the future of "innovation", with the introduction of non-financial data and machine learning algorithms into the credit scoring models. First, a look at how it works in practice. As we saw, traditionally, most of the algorithms used by financial institutions to determine the creditworthiness of individual clients are based on financial information used to classify them into standardised groups. But in the last few years this has taken on a new dimension thanks to the rise of social networks, as more and more individuals interact on the Internet with each other, communicate and leave personal information which can be mined, sold and finally used to assess the character of an individual and thus his potential willingness to repay his obligations. This personal data is often not very coherent and not very structured as it consists of social media posts, chat messages, emails, pictures, videos and documents which cannot be easily aggregated and analysed in the same systematic way as financial data traditionally can. So here comes the use of artificial intelligence, particularly in the form of machine learning, which is nothing else than algorithms designed to determine patterns hidden deep inside the data. Thus, based on a specific behaviour of an individual and based on a particular group of individuals who have a similar social behaviour, the targeted client is grouped into that behavioural pattern and judged accordingly. Banks know that these algorithms are designed to get it "mostly right", which means that many clients will either have access to credit when perhaps they would otherwise not have, or vice versa, clients who might qualify for a loan are denied access even before anyone really talks to them. For banks, these clients are just collateral damage; what is important is that, overall, the system generates more profit.

Besides the obvious objections and concerns one can have on the topic of data privacy and security in this whole process, at ProCredit we reject the basic tenet of this approach: clients are people, not anonymous targets. It is legitimate for a bank to increase efficiency and to automate processes, but not to the detriment of clients, particularly when the principles of individual solvency and privacy are at stake. Banks have a responsibility to extend credit prudently and with the best interests of the client in mind. Instead, too often banks fill their impact reports with empty words on social responsibility while driving profit at all cost, disrespectful of the collateral damage this inflicts on individuals, particularly the most vulnerable, who happen to be at the losing end of this deal.

ProCredit makes a wide use of technology and in our countries of operation we are at the forefront of innovation. For many years our strategy has been based on a direct banking approach, and today we can proudly say that we have abolished basically all over-the-counter cash-based transactions from our front offices and that all our clients bank with us digitally (mostly a unique position in our markets). We are in the process of digitalising all the other non-financial transactions, such as customer identification (which, by the way, uses machine learning technology) and contract signing via qualified digital signatures, so our clients won't have to travel to the few branches we maintain to perform a low-value transaction. By "low-value" we mean not the monetary value of the transaction itself (we can digitally sign contracts worth millions of euros or process large payments online), but rather we refer to the human value behind the numbers. We want to hear our clients' stories, we want to understand their plans and their capacity to realise them, we want to know the people behind those stories, and we need to understand how we can best fit our services to those needs so that, together, we will be successful.

At the heart of our approach to banking is the conviction that, despite the widespread use of technology, it is still trust which underpins the relationship between a bank and its clients. Trust is assessed by taking a value judgment on the quality of the people behind the numbers. Doing so does not require artificial intelligence, but rather much more of the human type, delivered by staff with the skills and the information needed to make a proper credit assessment and sustained by a solid moral foundation. Perhaps this means lower margins and forgone profit, but in a world which seems to ascribe to technology an almost magical touch, we believe the magic is for once to give up on easy profit made on the back of vulnerable people and to call it for what it is: a morally bankrupt system.



STOCK TRADING ON ELECTRONIC PLATFORMS – WHAT THE FUTURE BRINGS

by Gian Marco Felice

Many banks in developed economies facilitate equity trading for their retail clients. In Eastern Europe, capital markets are still not very developed, but we nonetheless look with anxiety to the moment when this will change. In the west, we grew accustomed to the emergence of a new investor profile: day traders, ordinary people, that is, who buy and sell shares of companies using the electronic banking platforms of financial institutions.

While acknowledging the benefit of making the capital market accessible to a broader public (democratising capitalism), it must be done with care: equity valuation is not a straightforward exercise, and the level of risk undertaken by private investors is not always understood by all. It is difficult to ignore the impression that high frequency day trading is less about rational investment and more about speculation.

But there is another form of speculation that has taken off in recent years which, instead, seems to be indistinguishable from pure and simple gambling: trading in stock options (see, for instance, The Economist, "Beware of the power of retail investors" 10 September 2020, or "Why everyone is now an option trader", 16 January 2021). Once the realm of institutional investors, trading in stock options has become the norm for many ordinary people. These plain vanilla financial derivatives give the right to the holder of the contract to buy (call option) or sell (put option) a certain stock at a certain price at a predetermined time in the future. Since the contract gives its holder the right, but not the obligation, to buy (or sell) the underlying stock, it has a price. So, for instance, for a fee of, say, EUR 1 you can acquire the right to buy a stock of a company in, again say, 6 months' time, at a predetermined price, called the strike price. Come six months, if the actual market price at which the stock is trading is higher than the strike price, the owner of the contract will exercise his right to buy the stock for a price lower than that of the market, thus pocketing the difference. If the price of the stock is, instead, below the strike price (a situation usually referred to as being "out of the money"), he will choose not to do anything and simply loses the premium he paid to enter the contract in the first place. If you still feel at a loss in understanding the mechanics of these financial objects, do not feel lonely: even the most basic forms of stock options are not so straightforward. Just to mention that the economists who came up with the valuation formula for such contracts, Fischer Black, Myron Scholes and Robert Merton, received the Nobel Prize in Economics in 1997 for their discovery. But what it boils down to is this: even in its simplest form a stock option is, in fact, nothing else than a highly leveraged bet. It is a bet because if you end up being out of the money, you end up with nothing. Compare this to the scenario in which you, instead, decide to buy the underlying stock directly, which makes you earn more if the price goes up or lose if it goes down, but either way you still have the stock in your hands. In other words, you have an investment. In the case of a stock option, you either win a lot or lose everything. Which brings us to the second point: these bets are highly leveraged. In the example above, where a client enters a call option contract for EUR 1, imagine that the strike price for a stock is set at EUR 20 while the market price ends up being even a few euros above the strike come the maturity date. Imagine that it is EUR 25. The pay-out of the option is the difference between the actual market price and the strike price, that is, EUR 5 in our example. You pay EUR 1 and receive a pay out of EUR 5. In other words, a 500% leverage.

If this was not disconcerting enough, consider the latest fashion. The gamification of retail trading by fintech companies. These are apps designed to engage the client by making the whole experience of investing feel like a game. The objective is to lure you into a mindset where you stop understanding the border between fiction and reality and become addicted to the game. This state of affairs has finally started to attract the attention of regulators. Witness the legal action launched by the financial regulator in Massachusetts (USA) against the fintech company Robinhood, accused of aggressively marketing its services without having the best interests of its customers at heart (The Financial Times, "Robinhood faces legal action against the gamification of investing", 16 December 2020).

The trial will eventually determine if this behaviour is criminal under the law, but regardless of the legal outcome, we find it totally irresponsible. It reduces investment to gambling in a casino. It tempts individuals with lottery-like pay-outs. It then fosters addiction by making the whole experience feel like a game. Finance legitimises gambling by making it look sophisticated, respectable and smart: it is one thing to tell yourself you are wasting your money (and your time) at the roulette table, but it is quite another to tell everyone else you are a sophisticated investor, an option trader.

Before it was banks, now it's fintechs. The temptation of driving profit by exploiting other people's vulnerabilities, while calling it progress and individual empowerment, is just too high. Being responsible and just doing what is decent is too much to ask of bankers and financiers who award themselves multiples of a worker's salary in stock options every year while gambling away the trust of their clients and of our society.

PRUDENT CREDIT RISK MANAGEMENT

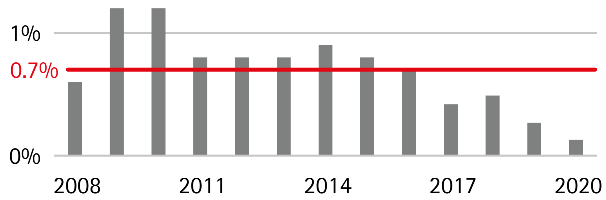
by Sandrine Massiani

Credit risk is much more than a financial topic left to invisible technical experts: it is an integral part of our social and responsible approach to banking with our clients. Our approach to credit risk is based on a complete and individualised assessment of each of our clients, without any exception. We do not rely on scoring systems, nor on algorithms to identify risks that mostly come from wrong decisions taken by human beings.

Behind each balance sheet, profit and loss statement and cash flow projection, there are entrepreneurs who have invested their money, their time, and very often a significant part of their life in their business. Once we have established a transparent and long-term relationship with our clients, like in a marriage, we accompany them not only in good times but also and especially in more difficult times. Even in our competitive markets (not to say aggressive when it comes to acquiring business clients) we never go the easy way to simply please our clients and/or cash in on rapid growth, but instead we constantly strive to find the most appropriate financing structure and identify potential issues well before they materialise, even if it means saying No to clients. During the COVID-19 crisis, we preferred to engage in intensive dialogue to find structural solutions with our clients rather than too easily "giving in to the populistic siren songs".

The facts speak for themselves: we can look back on a decades-long history of successful credit risk management in which the ProCredit banks have consistently outperformed their local banking sectors in terms of non-performing loans.

Average net write-offs of ProCredit banks



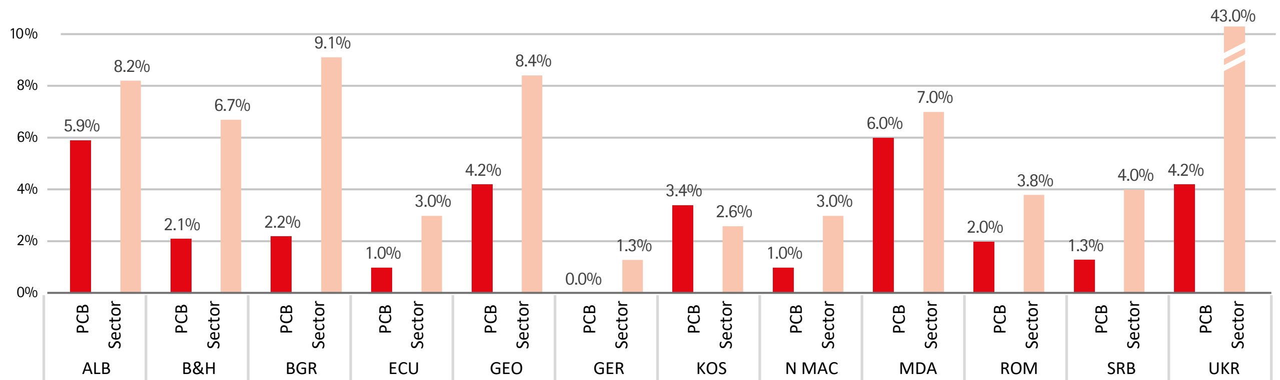
Reference year: 2020

A holistic approach to credit risk management

While more and more financial institutions (they are not the only ones) rely on large sets of data and analytical tools to define credit scoring systems to guide their decisions on different subsets of clients (see the previous section on Technology and Innovation), our approach to credit risk relies primarily on (1) a strong focus on SMEs and (2) our fully individualised in-depth knowledge of our clients.

We have also invested (and continue to do so) in technology and software to ensure full system support for our teams of business client advisers and credit risk experts to keep track of their relationship with the clients, store and analyse past and current financial

Non-performing loan portfolio of ProCredit banks in comparison to local banking sector



Reference year: 2020
Source: Data for different countries may be subject to different NPL definitions. Within each country these definitions are generally consistent, allowing the comparison between the ProCredit banks and their respective local banking sector.

data, and prepare cash flow and investment projections according to different types of scenario. Our teams are highly qualified in financial mathematics and analysis, and use state-of-art assessment methodologies and risk classification models. All this goes without saying and is a *conditio sine qua non* of our existence as an SME bank in our countries of operation.

The core of the matter is that none of our credit risk experts would ever delegate the power to assess and design the most appropriate financing structure to a template or a software tool, regardless of its level of sophistication. The point is that assessing credit risk is much more than a number-crunching exercise. It means going beyond ratios and numbers by questioning them, understanding their limitations, and connecting all the dots of situations which invariably combine unique features that cannot be fully standardised. It therefore requires a full understanding of a client, who is ultimately an entrepreneur with a vision and a team but also with doubts and weaknesses. Our approach to credit risk is therefore "all-inclusive". It includes all aspects that make clients what they are, what they have been and what they can be. Our credit risk teams engage in understanding inside out the client's business model, its organisational structure, its ownership structure, the composition and experience of its management team, its market positioning, its vision for the future and values, its awareness of its own impact on social and environmental issues. And this is true not only for our larger clients (which are also not corporate clients) but for simply all of our business SME clients. As a matter of fact, qualitative aspects represent 40% of our risk classification assessment, which is in strong contrast to traditional banks. If these aspects do not look strong enough, they cannot be compensated for solely by strong financials, strong debt repayment capacity or strong collateral. In other words, steady financials and proven debt repayment capacity are necessary conditions, but they are not sufficient.

We support our clients through-the-cycle. In the last financial crisis, we saw that many banks stopped financing our shared clients and asked them to pay back their credit lines without an individual assessment. For those of them who were not affected by the financial downturn, this behaviour actually caused severe problems.

When the economic cycle is up and the temptation to invest opportunistically in different businesses is high, we also learn to say no if we think that the risks of the project outweigh the benefits for the company. Also, if we do not see a long-term vision in the business or project – for example, if an SME client intends to buy real estate for speculative reasons – we do not support them. We might lose clients because of this prudent approach, but over time we also gain the trust of those clients who appreciate our prudent and responsible assessment. The long-term interests of our clients are at the heart of our *Hausbank* approach. This is also the foundation of our strict and holistic assessment of credit risk.

Assessing economic risk is only one part of the process: our E&S assessment

Another important consideration is the mitigation of environmental and social risks (E&S) that may arise as a consequence of the activities we finance. There are certain practices that we simply refuse to support. We exclude any relationship with clients engaged in economic activities that are incompatible with our ethical values, such as manufacturing or trading in weapons, narcotics, gambling, underground mining, bitcoin-related services, surrogacy services and the like, even if those activities are legal. But we do not stop there. After screening against the Exclusion List, clients are analysed according to a group-wide environmental risk categorisation system based on international standards. All business loan clients are assessed for their social performance. With regard to environmental performance, each business loan client is assigned to a low, medium or high environmental risk activity. While low-risk activities can only have a minimal or limited impact on the environment and society, the adverse effects of medium-risk activities can usually be mitigated by applying relatively simple strategies. In contrast, high-risk activities may be severely detrimental to their surroundings and require stricter, more sophisticated mitigation action. The outcome of this analysis is reflected in the credit risk opinion. It also serves to identify potential for improving our clients' performance in economically sound ways. Be they simple or more complex, welcome or not, these mitigation measures are discussed with the client and are an integral part of the long-term relationships with the clients.

Strict governance of the lending processes and high quality of our credit risk teams

We have years of experience in assessing and monitoring the development of SMEs in our countries of operation. We have put in place robust lending, specially tailored for the profile of our SME clients. We have also developed specific assessment approaches for sectors such as agriculture as well as for renewable energy project finance. In addition, all ProCredit banks apply the high standards for credit risk management imposed by the German banking supervisory authority BaFin.

Our key organisational principles in credit risk

- Strict separation of front and back office functions up to the management level applied for risk-relevant operations
- Intensive analysis of the debt capacity and repayment capacity of borrowers, taking into account expected future cash flows
- Detailed documentation of the risk assessment and other measures conducted during the lending processes
- Credit decisions taken by credit committees whose members' experience and expertise are regularly verified
- Strict limitation of unsecured credit operations, requirements for solid collateral (preferably real estate and financial guarantees) combined with regular assessment of collateral values
- Early identification of risks based on qualitative and quantitative risk features
- Strict monitoring of repayment of credit exposures
- Comprehensive set of asset quality indicators and regular reviews to monitor the quality of the loan portfolio in line with international best practices in the area of credit risk reporting
- Strict standards for intensified management of problem loans once higher risks are detected

In contrast to the practice at many other banks, ProCredit staff from both our business departments and our credit risk departments visit our clients regularly. Some might argue that this approach is too labour-intensive and costly. However, we offset these assessment costs by fully digitalised banking transactions with those clients and strong system support for analysis. Our experience is that it is appreciated by the clients, it provides an opportunity for fruitful exchanges with them, and it allows us ultimately to better interpret specific situations, monitor developments and identify potential risks at an early stage.

Our business and credit risk staff receive intensive training, when they first take up their position but also throughout their professional development. We also encourage our business client advisers and credit risk experts to rotate between business and risk in order to fully understand and experience all processes and perspectives. This includes group-wide credit risk assessment training provided in 2-week blocks, but also specialised seminars on specific topics as well as the opportunity to participate in a 12-month staff exchange programme with the Group Credit Risk Management team located in Frankfurt. This latter option is unique to us and illustrates both the depth of training and spirit of co-operation within the group. In the last 5 years, 21 colleagues from the credit risk departments in our ProCredit banks have participated in this exchange programme and another 5 are planned to join in 2021. Our credit risk teams in the banks are extremely experienced: they have been with us for 8 years on average. The large majority of the heads of credit risk and branch managers have graduated from or are currently attending the ProCredit Management Academy.

We strongly believe in (and therefore benefit from) the exchange of experiences and reflections on the (good and bad) experiences we are making in our countries of operation. This is especially true in the area of credit risk assessment and management. In that context, the role of the Group Credit Risk Management team located in Frankfurt is not limited to designing group policies and standards and analytical tools. Rather, one of its key functions is to provide practical support and advice to the banks' credit risk teams by drawing in a systematic and structured way the lessons learned and best practices from all countries. In 2020, the team in Frankfurt was strengthened by the creation of a new "country specialist" position. The country specialists who came to Frankfurt were selected from among the leading credit risk experts at their respective banks, and therefore have intimate knowledge of their respective local markets. Whereas in the past, PCH's support for the banks' credit risk management was based on individual cases, the country specialists now oversee the whole ProCredit portfolio of their country. This new arrangement has led to a further improvement in communication and the quality of decision-making, together with the banks, despite the steady increase in portfolio size and of course the restrictions and additional complexity caused by the pandemic crisis. Furthermore, the Renewable Energy Project Finance team has been strengthened to support and co-ordinate the banks' activities in this fastest growing category of green finance. Key support is also provided to the group in the areas of loan portfolio analysis and credit risk quantification by fully committed professionals. Here again, open and structured communication between teams, in-depth and prudent risk assessment and clear ethical guidelines are key to successful credit risk management.

Our approach to the COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in March 2020 in our countries of operation, credit risk has undoubtedly increased everywhere and our markets are no exception. The sudden and deep impact on the economies has also directly confronted banks with the need to re-assess their own responsibilities and their ways of dealing with uncertainty. At ProCredit, we immediately chose to (1) stay close to our clients and (2) be cautious and transparent in applying any government measures such as moratoria and state guarantees.

Thanks to our close relationship with our business clients, the manageable size of each business client adviser's portfolio of clients (on average 50 loan clients per BCA) as well as the speed at which the remote working mode has been implemented throughout the group, all clients had been contacted within a couple of weeks at the very onset of the crisis. Very quickly, while other banks were still busy trying to sort themselves out and reluctant to take decisions, our teams were already taking practical steps to accompany our clients and even acquiring new ones.

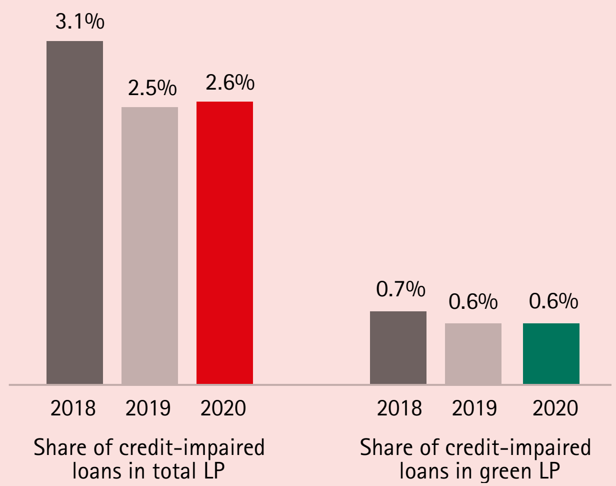
The governments in our countries of operation quickly imposed strict lockdown measures at the beginning of the crisis to minimise the health crisis. The large majority of them also allowed or even imposed moratoria for business and private clients. The terms and conditions of those moratoria varied from country to country regarding eligibility criteria and duration of the suspension of the payment schedule. In line with our conservative DNA, we took a rather strict approach by first allowing "only" a 3-month moratorium (or 6 months for potentially more affected sectors) and implemented it group-wide thanks to the huge commitment of all teams on the ground. Even though local approaches to moratoria were sometimes more flexible (e.g. until end of year or for 12 months), we chose to invest time in transparently explaining to our clients, one by one, the costs and risks of suspending their repayment schedule longer than would really be appropriate. At the same time, without waiting for the end of the moratorium period, all teams focused strongly on categorising and monitoring (more frequently when relevant) our loan portfolio quality, which resulted in decisions on additional short-term financing but also downward reclassification of exposures and even proactive restructuring decisions (rather than blindly extending moratoria measures beyond what is appropriate). As a matter of fact, our business clients have proven to have the resources, agility and resilience to react appropriately in this time of crisis, giving us confidence that together we can find the best way to support them, in both the short and the long term. A remarkable feature of our loan portfolio development in 2020 is that, in spite of our stricter requirements for investment loans in COVID times, investment loans continue to account for the same share of our loan portfolio as in 2019. This reflects the quality of our clients, their sustainability and long-term vision.

Results so far speak for themselves: the share of credit-impaired loans has remained stable over the course of this very peculiar year and stands at 2.6% of the total loan portfolio as of December 2020. After reaching 36% of our total loan portfolio in May 2020, the loan portfolio under moratoria was less than 2% at year end. At the same time, we restructured 1.5% of our loan portfolio in 2020, mostly to allow for difficulties due to the COVID-19 pandemic. We are confident that those clients will overcome their difficulties and we will continue to stay close to them.

In the context of reactivated moratoria measures by the European regulators to support the economies confronted with a persistent COVID-19 virus in early 2021, in line with the EBA (European Banking Authority) regulations, we will continue to apply moratoria only when it makes sense, and strive to find the most appropriate financing solutions to accompany our clients. We will not shy away from taking difficult decisions when necessary and from reflecting transparently the potential risks that we identify within our loan portfolio. We are convinced that this transparent way of dealing proactively with potential risks is beneficial for our clients and for us. We are aware that in some of the banking sectors where we operate we are likely to see banks delaying their monitoring or restructuring decisions "until we know more", and that this will lead to misty loan portfolio quality indicators and untransparent loan loss provisioning movements in the coming period. Nonetheless, we will stick to our German categorical approach.

This prudent credit risk approach and transparent reflection of our loan portfolio monitoring will continue to be our highest priority in 2021 to ensure that we give the best possible support to our clients.

Loan portfolio quality development



Reference year: 2020

GOVERNANCE

by Christian Edgardo Dagrosa

"Good governance" defines a notion that is difficult, if not impossible, to achieve in totality. Governance is the process of decision-making as well as the subsequent processes of implementing these decisions. All these processes must adhere to the prevailing legal and self-imposed boundaries, which describes nothing else but the concept of compliance. Clearly, there can be diverging opinions on what constitutes the attribute "good". Over the past years, there have been various regulatory efforts to strengthen governance and compliance cultures in companies. In our regulatory context, the German Minimum Requirements for Risk Management (MaRisk) and the German Corporate Governance Code are some of the more prominent examples.

In 2009, the United Nations (UN) defined principles of good governance which, though designed more for the socio-political sphere, are just as relevant for the private sector as they are for the public sector. These principles state that people should have representation and participation so they can voice their opinion. It states that rules and laws be impartially enforced and be rooted in human rights laws, that decisions be taken in the best interests of the community by finding consensus between differing interests. Good governance ensures that people be treated equally and that communities are inclusive, that institutions be able to produce results that meet the needs of the community. It also dictates that organisations be held accountable for their actions, that information be made accessible in a transparent way understandable to the public; and that organisations and institutions serve all stakeholders.

At first sight, these principles reveal little that is new to any society founded on democratic values. They should be easy to subscribe to for all of us. However, they also stand in conflict with a widely embraced economic theory, that everyone is best served as long as they seek to maximise their own benefits. Thus, for some, it is hard to come to terms with "meeting the needs of the community", if these needs stand in the way of your own interests. This mindset is commonly found in the financial sector, which makes banks and financial institutions a particularly interesting case study for governance and compliance.

One does not have to go back far in history to find examples where the actions or inactions of financial institutions stand at odds with "good governance". Investigations and litigations on the infamous "cum-ex scandal" are in full process as we write this text. The intrigues behind this case implicate some of Europe's largest and most prestigious banks as well as law, audit and consulting firms from many countries. Today, these companies hide behind the argumentation that the laws on "dividend stripping" and "cum-cum transactions" were not clear and that therefore their acts were not illegal. There is little remorse and little understanding for the public outcry over the EUR 55 billion lost in tax revenues. "Cum-ex" is by far not the only example. The Libor scandal, the manipulation of gold markets or the reckless gamble on derivatives with public funds are all very recent events that have put fraud and the ethical vacuum within the financial sector on public display. It would be wrong, even outright negligent, to explain away these events with "a few rotten apples". It is also clear that the companies in question most likely possess extensive compliance and audit functions, that formally fulfil all regulatory requirements. In our view, the root cause for fraudulent behaviour in the financial industry is not a question of regulation, but culture and values. There is systematic danger within the financial sector, which is perpetuated by promises of high returns and bonuses. With such a mindset, questions of compliance and good governance can become secondary and even bypassed.

Linking ethics with governance

ProCredit's approach to ensuring good governance and building a compliance function that translates into a compliance culture is deeply rooted in the mindset of its founders, managers and employees. The application of a canon of values which is naturally reflected in our internal principles and rules and which takes account of social conditions and ethical principles is an integral part of how we ensure "good governance". In our view, ethical values do not originate with legislation, but in the best case are merely incorporated into it. We do not solely rely on regulation to tell us that certain businesses and transactions are indefensible. Rather, we base our assessments of our clients and other stakeholders primarily on the reality of their social and ethical impact. From a business perspective, this approach has had a clearly stabilising effect over the years in the difficult overall environment our banks operate in. We do business in countries where forms of organised crime, corruption, bribery, tax fraud and capital flight are unfortunately widespread. In this environment, political, economic and social development is visibly hampered, as public funds can be depleted by informality diluting their intended impact. The financial sector is too often a conduit of such illegal financial flows.

We do not support the conventional view that financial crime and money laundering are victimless and therefore trivial offences. The fight against financial crime is often understood exclusively in terms of compliance, i.e. as a burden imposed from outside by the legislator that simply makes business more difficult and prevents higher profits. Many entrepreneurs have learned how to shift their profits offshore and structure their businesses so as to avoid paying any taxes. This could simply not happen without the negligence or outright support of banks. We believe that it is not enough to address the problem of money laundering with categories such as "legal" and "illegal" and merely pay lip service to them. In spite of the complex regulatory apparatus around it, money laundering continues to be a very important global problem. Sensational cases like the Panama Papers, the murder of Daphne Caruana Galizia in Malta and the death of Sergei Leonidovich Magnitsky in solitary confinement have not nearly received the attention and scrutiny they deserve. These events also underline that money laundering is rarely a problem of individual misconduct, but that it is firmly built into the systems of the global financial sector.

We see great social impact in contributing to a banking culture that works towards dismantling these systems. One in which white collar crime is not viewed through a different lens than other crime and where banks, as the gatekeepers of financial transactions, do not hide behind the technicalities of legal definitions and regulatory requirements. We strive to be much more than just compliant with existing laws. We embrace the social responsibility that comes with being a bank and continue to loudly and unequivocally call out attempts at theft or financial fraud by any of our stakeholders. It is this attitude that usually in itself discourages money launderers from attempting to do business with us in the first place and thereby stops financial crime before it even gets any air to breathe.

Many of our customers trade goods and services internationally and are thereby already subject to a heightened risk of money laundering activities. We make a point of not allowing ourselves to serve as partners for businesses that disguise their ownership and engage in improperly complex transactions in connection with such activities. We regularly reject such payments, even though – when viewed in isolation – they are neither illegal nor do they give rise to any suspicion of money laundering. The automated monitoring systems that we, just like any other bank, employ, usually do not catch these transactions. Nonetheless, these systems are often viewed as sufficient by regulators. We regularly part company with clients who display odd transaction patterns or whose ownership structures cannot be fully clarified. Exclusive or covert business relationships simply do not have any place in our way of doing business.

During 2020, we analysed some 50 million monetary transactions for money laundering risks. Around 112,000 of these transactions were subjected to a more rigorous scrutiny by our AML colleagues, as they displayed certain conspicuous features. In some 180 cases, we were unable to rule out impropriety and consequently closed around 260 accounts. The suspected predicate offences to money laundering are predominantly in the area of tax offences. However, occasionally, they also involve suspected fraud or corruption. Only in a few cases did we suspect a connection with organised crime, drug trafficking or human trafficking. Overall, ProCredit banks cooperated with the authorities in around 2,300 investigations in 2020. We are convinced that these numbers would be significantly larger if our AML procedures did not rest on our very careful client selection processes and our reputation in our markets for a zero-tolerance approach. All our clients are continuously screened against international blacklists and sanctions lists. This ensures that criminal actors or sanctioned persons are identified in the very same moment they seek to establish a business relationship with us. In addition, we maintain our own blacklist of some 1,000 natural and legal persons who we refuse to offer banking services to. Individuals or entities who are active in certain economic sectors, particularly those showing a high susceptibility for money laundering practices, do not even get the opportunity to enter into a business relationship with us. In this way, our customer approval process goes far beyond what regulators and laws require of us. For us, turning down lucrative business relationships in order to maintain integrity is part of our everyday business.

A stakeholder-based approach to governance

Since its foundation, ProCredit has always strived to ensure that its actions and its impacts are in the interest of all its stakeholders – investors, clients, employees, as well as in the best interests of society and the environment. We firmly believe that the relation with our stakeholders can be mutually beneficial, as long as neither party works to maximise their own benefits at the expense of others. We value building deeper bonds with our clients and strive to establish long-term business relations – we want to be our client's *Hausbank*. For us, the nature of this relationship means stability – steady business growth and reasonable financial returns. For our clients, it means gaining a reliable financing partner who will extend support also in very difficult times.

Much like with our clients, we highly value our staff and seek to establish long-term relations with each of them. Such relations are not achieved through short-term monetary incentives, but by aligning the company's mission and goals with the interests and ideals of our employees. Our staff selection process and intensive training programmes are therefore firmly integrated in our compliance management system. From the very beginning of their career, ProCredit employees learn that egocentric ambition and selfish profit-seeking behaviour, even in the guise of the supposed "good of the company", is not tolerated. By finding and building on these common values, we create bonds with our staff that do not only rely on remuneration. For our staff, we offer fulfilment and empowerment in the workplace, a role in a purposeful organisation that goes well beyond that of a small cog in a big machine. At the same time, we have throughout our history always enforced a zero-tolerance approach towards misconduct.

For our investors, we want to deliver long-term sustainable returns while making a real positive impact on society and the environment. With our business activities, we want to promote sustainable economic development, decent job creation, innovation and entrepreneurship. We impose strict selection criteria on our clients to make sure that their operations are aligned with our policies and have a positive socio-environmental impact. This sometimes implies saying "no" to potential business relations due to our ethical principles, which otherwise would certainly create short-term benefits for us. In the long run, however, it also means mitigating risk and ensuring stable and reasonable returns for our shareholders.

Our approach towards compliance and governance is based on building these strong bonds with stakeholders and a constant reflection of our impact. Its moral and ethical foundations are articulated in our Code of Conduct, which is available on > our website[3]. We acknowledge that a code of conduct is just a document – a document that can be replicated and superficially appropriated. Only by living it do we make sure that it becomes more than just a document, a moral constitution that is meaningful to stakeholders and holds the power to influence the way people think and act.

To make sure that our Code of Conduct is lived, our employees are firmly engaged in its development. We use the word "development" consciously and have a discourse on our Code of Conduct with all our employees every year. This discourse creates awareness amongst staff and also ensures that there is a fresh exchange of ideas and ideals that keep the Code of Conduct up-to-date in the context of contemporary society. As a banking group which operates across multiple borders, the Code of Conduct is vital in ensuring that, in spite of the diversity within our staff – which we cherish and foster – everyone fully identifies with the core values and ethical principles, which, over the past two decades, have been central to bringing our operations to where they are today.

[3] https://procredit-holding.com/about-us/business-ethics-and-environmental-standards/corporate-values/

Addressing the rating agencies

As we reflect on the scandals that the financial industry has produced over the past years, we embrace the increasing efforts some investors and organisations are making to analyse key aspects of companies' ESG performance. The awareness for ESG topics has undoubtedly increased over the past years and we feel that 2020 has been a particularly important year in that regard. We welcome this development as it may have a more profound effect on how banks approach topics of governance than any type of regulation. In particular, we enjoy the conversations with investors who have taken the time to work through our Impact Report and appreciate the at times controversial content-based discussions with them. As awareness amongst investors increases, a new generation of rating agencies has emerged and developed approaches towards scoring ESG performance that at times produce rather unexpected results. It is certainly neither convincing nor intuitive to see precisely those institutions that were and are implicated in recent financial scandals receive positive scores in the field of "governance". While we acknowledge the difficulties of developing constructive frameworks for ESG analysis as well as unified standards for quantifying performance, we find that the prevailing rating systems lack profundity from context and thereby can miss the mark in certain areas. We support the continued development of ESG ratings, to achieve profound and objective ESG assessments that are able to look past the façade of companies and guide investors towards truly sustainable investments.

When reading the German Corporate Governance Code one will find numerous recommendations on defining short- and long-term variable remuneration components for managers. Clearly, the Code has identified excessive and arbitrary bonuses as detrimental to good governance. Nonetheless, we find that these recommendations do not go nearly far enough; the Code basically presupposes the necessity of bonus systems for managers rather than fundamentally questioning their existence. On the contrary, as a company that rejects the systematic use of bonuses, we do not formally comply with certain of the Code's recommendations and therefore found ourselves, until recently, in the situation of having to justify our equitable remuneration approach. On the other hand, other companies' remuneration schemes, that are based on million-euro salaries for managers and complex bonus schemes, are in formal compliance with the Code. In 2019, the average variable remuneration of German DAX management board members exceeded their fixed remuneration by more than 100%, in MDAX companies by close to 50% in 2019, according to recent studies.

In our view, there is little evidence that bonuses, particularly in the financial world, are aligned with principles of good governance. They rather amplify self-serving behaviours of individuals, often turning out to be not only unethical but occasionally also criminal. In the greater picture, this self-serving behaviour has been shown to destabilise the financial sector and was a major contributing factor to the last financial crisis. Though we do not wish to deny that bonus systems may work in the specific context of some institutions, we reject the notion that they inherently belong to the design of how organisations should be run.

Much like positioning bonus systems as a natural component of management remuneration, the Code also presupposes that there should be a chairperson of the management board – or CEO – an individual with whom the chairperson of the supervisory board should be in regular contact to discuss issues of strategy, planning, business development, risk and compliance. The notion that such discussions would happen practically bilaterally between two individuals resonates with those who believe that strong and effective leadership can only be exerted by a single person. At ProCredit, we find that decisions are best taken through discussion and discourse, weighing up different arguments brought forward by qualified personnel with varying qualifications and diverse viewpoints. We find the idea that this approach would come at the expense of accountability – probably the best and worst argument in favour of "CEOism" – not to be true to our operations. At our ProCredit Academy, we prepare our managers and future managers for these discussions by organising discourse and contentious debates, thereby sharpening their ability to develop and articulate thought-provoking arguments that are not based on a self-centric world view. We talk about our Academy extensively in other sections, but clearly it represents a crucial element of our governance approach.

Besides not having a CEO or paying bonuses, our approach towards governance is also commonly criticised for our absence of an audit committee at the group level. Needless to say, we take our audit function very seriously. Of our total staff of 3,261, 69 are auditors. Every bank has its own independent audit department. On the level of ProCredit Holding, we have a Group Audit function, which helps coordinate the efforts in the banks and also serves as an agent of exchange of best practice between the institutions. Naturally, every ProCredit bank also has an audit committee, in which managers, supervisory board members and audit specialists participate. The ProCredit Holding Supervisory Board receives reports and presentations on all material audit matters on a quarterly basis – they are, effectively, the group's audit committee. From our own experience, audit matters are dealt with more effectively when they are discussed in the wider context of our banking group, including business, operational, financial and ethical aspects, rather than in isolation by a committee that is solely focused on audit. As of 2021, the German Banking Act (KWG) obliges us put in place committees dedicated to the areas of risk, audit, nomination and remuneration at the level of the Supervisory Board of ProCredit Holding. We comply with these requirements by assembling these committees with the very same people that form our Supervisory Board, with some members formally taking the respective chairs.

We have also been questioned with regard to the perceived lack of independence of the ProCredit Holding Supervisory Board. The underlying notion is that oversight is best performed by people who have a degree of distance from the organisation they are supposed to oversee. We believe such oversight can only be exercised when the board member has a profound knowledge of the company they are to supervise. It goes without saying that every board member of ProCredit Holding is independent according to prevailing German law. However, the Corporate Governance Code puts into question the independence of board members who have served for more than 12 years.

Our banks' supervisory boards are usually made up of ProCredit managers and a few external specialists who have known us for many years and whose values we know are well aligned with ours. Where prescribed by local regulation, we also have external board members. In our view, the quality of oversight goes hand in hand with a person's degree of personal, emotional involvement and commitment to bringing our institutions forward. Even though we respect the work of our external board members, we typically find this sort of commitment most pronounced among our own ranks.

What applies to the banks also applies to the holding company, which ultimately is the face of the ProCredit group. Dr Zeitinger has been the chairperson of the Supervisory Board of ProCredit Holding since 2008. As its founder, he has unquestionably been instrumental in shaping the moral and intellectual foundations of the group today. In his role as chairperson he continues to be strongly involved with the banks as well as the ProCredit Academy and is a vital discussion partner for ProCredit Holding's Management Board in key strategic questions. It seems highly doubtful that there could a person more qualified to perform oversight over the group, especially given that no-one knows the group and its staff better than he does. The notion that now that he has served for more than 12 years on the Supervisory Board of ProCredit Holding he might no longer be able to independently supervise the company goes against common sense. True decision-making power lies with the Management Board of the company, which over the past 12 years has displayed regular and healthy rotation among its members.

Other Supervisory Board members include people who have been nominated by the core shareholders, who are also the co-founders of the group. It is only appropriate that they contribute to the oversight of the group and make sure that it remains true to its purpose. One of these core shareholders is ProCredit Staff Invest – an investment vehicle for ProCredit employees. We find it only fitting that this organisation has called for Petar Slavov to represent it on the ProCredit Holding Supervisory Board – a person who has spent the larger part of his long professional career with ProCredit.

At all times, we embrace challenges from externals, be it on our way of governance or other business practices. We cherish provocative ideas and regularly integrate them into our own discussions. At the same time, we believe that "good governance" should primarily be judged in the context of actual performance – business and financial performance, but also ESG performance. Performing strongly in only one of these areas while neglecting another is never sustainable in the long run. Over the past two decades, our group has demonstrated great consistency and solidity in all three areas and proven its ability to respond and adapt to turbulent environments. 2020 has unquestionably been a turbulent year in which our comprehensive sustainable approach has once again been highlighted by our ability to expand our business, support our clients in need, grow our green loan portfolio and deliver a solid financial return for our investors. We believe our results, and transparency around them, are the best measures of our impact as well as the true quality of our governance. We would welcome a more profound debate over governance within the financial sector and consider it a compliment to be viewed as "a little different" than other financial institutions.

GREEN FINANCE

In order to credibly convince our clients to reflect on the broader social and environmental impact of their operations, we must first demonstrate that our own activities are ethical and sustainable.

Green Loan Portfolio development in 2020

- Around EUR 1bn or 18.7% of our total loan portfolio
- More than 40% of total LP growth
- Approx. 7,000 green investments

Implementation of the ProCredit Plastic Strategy

- Phase-out of single-use plastic in our own operations
- Phase-out of lending to producers of single-use plastic

Financing energy communities in Greece

- Construction of 116 photovoltaic parks with a total capacity of 94.4MW
- Power provision to approximately 50,000 households

GREEN FINANCE IN A DEVELOPMENT CONTEXT

by Patrick Zeitinger

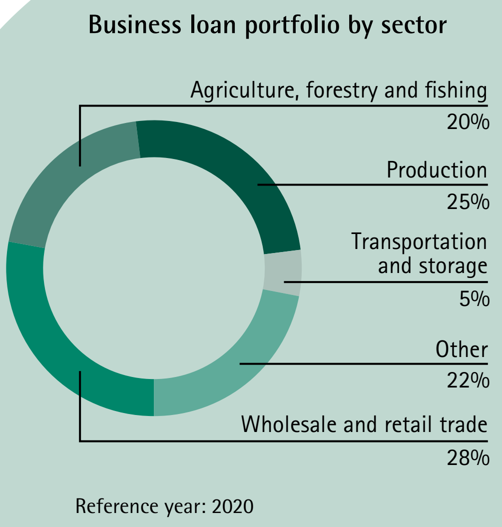
Green Finance is en vogue. Almost every major financial institution has in the meantime proclaimed some ambitious targets in the areas of green finance and ESG standards.

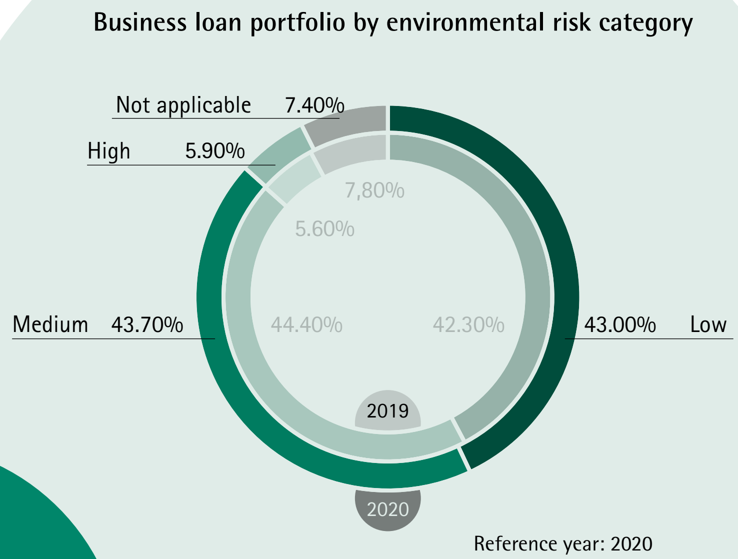
Mainstream banks, such as Deutsche Bank trending the hashtag #PositiveImpact, or JP Morgan Chase proudly announcing its newly adopted Paris-aligned financing commitment, are not shy in publicising via all marketing channels their efforts to finance positive environmental and social impact. This section aims to define our green finance profile, contrasting it against the often superficial and decontextualised Anglo-Saxon interpretation of the term. In short, we believe that our environmental impact needs to be assessed within the context of development banking in transition economies. For us, green finance does not mean maximising the number of green products or achieving CO_2-neutrality by buying offset certificates, but rather by a thorough and holistic institutionalisation of the topic. Green finance at ProCredit means considering the environmental and social impact of every single aspect of our operations, and sensitising, politicising and motivating our own staff. It means not shying away from the complexity of the matter, even and especially when it conflicts with some of our other goals: driving economic development, growing our loan portfolio and generating financial returns for our shareholders. We believe that only by being a showcase example of a business that operates ethically and sustainably within the respective national context can we convincingly persuade our clients to follow us in reflecting upon the impact of their operations. Only by leading the way in our respective markets and by constantly educating ourselves can we be the advisers our clients need on their way to a sustainable future.

Managing environmental and social (E&S) risks in South Eastern and Eastern Europe and Latin America

As explained in the sections on Economic Development and Our Approach to Clients, we believe that our mission is best served by financing the SME segment, and especially manufacturing and agricultural businesses. However, we are aware that these sectors pose a medium-to-high environmental risk, as their operations are resource-, energy- and land-intensive.

It is unfortunate to see that our exposure to these important industries leads to a low rating in terms of "Financing Environmental Impact" by important ESG rating agencies such as MSCI ESG. It becomes clear that such rating agencies fail to differentiate between environmental risk and environmental impact and additionally are unable to account for systemic environmental risks that are caused by other banks' consumer lending practices. Their focus is on whether an institution successfully mitigates ESG risks, and additional activities that aim at improving our environmental impact are not considered. By upholding high ESG requirements and deliberately promoting green finance to clients with medium to high environmental risks, we can actually achieve a significant net positive environmental impact. For essential industries such as agricultural production and for the majority of the manufacturing sector in our countries of operation the inherent conflict between economic growth and environmental impact is an inconvenient truth that cannot and should not be avoided. Therefore, instead of avoiding ESG risks by refusing to finance SMEs in those sectors, we confront the identified environmental and social risks of our SMEs head-on, even if this necessitates rolling up our sleeves and engaging with the complexity involved.





To address these complex E&S risks efficiently, we have developed a three-layered approach:

- **Filtering: Exclude SMEs with unsustainable business models from financing.** By applying our Exclusion List, we ensure that – among many other environmentally and socially harmful activities – we do not finance any coal mining or fossil fuel power plants.

- **Assessment: Score the remaining clients according to their business activity in environmental risk categories and conduct tailored E&S risk assessments depending on the assigned category.** High risk clients are assessed by specially trained Environmental Risk Officers (EROs) and for all loans above EUR 750,000 an on-site inspection by an ERO is required (in addition to the visit by the business client adviser).

The assessment is done using an industry-specific form and supported by industry-specific guidance notes. Identified risks are discussed in the credit committee and, if the credit decision is positive, are addressed via individual loan covenants.

- **Portfolio-based prioritisation: Define focal areas for intensified activity aimed at systematically enhancing our E&S impact.** Every year we choose to focus our efforts on an industry that makes up an important part of our high risk portfolio or on an environmental topic that affects a relevant share of our portfolio. This process involves the carrying out of research by us and our strategic consultancy partner IPC, data collection on the part of our clients, and discussions among the responsible managers and environmental specialists during our bi-annual Green Finance seminars. One of our focal areas is plastic production and its impact on the environment and on human health. To mitigate the negative impact of plastic production, we have developed a strategy to reduce the production and use of plastic (ProCredit Plastic Strategy)[4]. The implementation was started by conducting internal training sessions and taking measures to reduce our direct plastic footprint and continued by also including our indirect plastic footprint through the plastic producers in our portfolio.

[4] https://procredit-holding.com/wp-content/uploads/2019/12/Plastic-strategy.pdf

IN PRACTICE

THE PROCREDIT PLASTIC STRATEGY: A DIFFERENTIATED APPROACH TO COMPLEX E&S RISKS

To illustrate this quite unique and important process, it helps to zoom in on a very concrete example from our day-to-day business. In 2020, we leapfrogged other financial institutions, which are still busy discussing the first steps towards divesting from the fossil fuel industry, and finalised our strategy for lending to plastic producing clients. Combating plastic pollution is one of the greatest challenges of our times. The production of plastic is increasing exponentially and most of the waste ends up either in landfills or, through uncontrolled dumping, in the environment, where it will remain for centuries to come. This challenge is much more significant in countries with a weak waste management infrastructure and low environmental literacy, as is the case in our countries of operation. It is widely recognised as an extremely urgent environmental issue, yet it has not been addressed in any meaningful way by the banking world. We realised that we needed to address this subject not only by taking > internal measures[5] (all our offices are free of single-use plastic) and by organising clean-up and educational events in our neighbourhoods, but also by acknowledging the impact resulting from our lending to plastic producing clients.

Plastic, however, is a complex issue. The environmental downside of plastic needs to be seen in relation to its role in our economy, where it is currently a necessary and irreplaceable input for any kind of product. Our new strategy takes account of this dilemma by differentiating between three categories of plastic producers and by devising respective lending strategies:

The ProCredit Plastic Strategy: Lending to plastic producers

Plastic product categorisation	Our respective lending strategy
Blacklist: All types of plastics that will be banned by the EU from 3 July 2021 pursuant to EU Directive 2019/904 (mostly replaceable single-use plastic)	**Blacklist:** No more financing of these companies unless the client has a convincing business plan to phase out the blacklisted product within a short period
Greylist: All other types of single-use items that present high environmental impact if not disposed of properly, especially packaging, bottles, foils and also microplastics	**Greylist:** **New clients:** No financing **Existing clients:** Clients are required to follow and continuously improve sustainable practices, i.e. reducing waste by substituting single-use plastic with biodegradable products, or by adopting recycling methods and taking responsibility for collecting their products after use
Whitelist: Plastic products with a long lifetime, for which no alternatives exist or the alternatives would have higher environmental impact	**Whitelist:** Our banks will continue to finance these clients, but will still discuss with them the options for sustainable plastic production and support them in any steps towards sustainability they decide to take

[5] https://procredit-holding.com/downloads/#environmental

In very concrete terms, we make the financing of our plastic producing clients conditional on their environmental performance. In our loan contracts we include specific covenants that enforce the measures agreed upon and allow us to track the performance of our clients.

Most of our clients producing plastic products are aware of their negative environmental impact and are willing to collaborate with us to reduce the plastic waste in the environment. We discuss the topic openly with our clients by first explaining our strategy, then suggesting product-specific measures to mitigate their negative environmental impact and finally defining a sustainable business plan with measurable targets. The agreed-upon measures and targets are then included in the covenants in our loan contracts. We are aware that, especially in our countries of operation, legislation does not necessarily support this transition. However, we want our clients to be the front runners to enable this transition and push governments and business in this direction.

Such covenants typically cover the following topics:

- Phasing out "blacklist" products
- Gradually increasing the share of recycled materials from local sources
- Phasing in bio-degradable or bio-based materials
- Increasing recyclability by changing product designs, adding watermarking or changing to high recycling value material
- Introducing take-back mechanisms or requiring contributions to local waste collection

One might argue that we are going too far by including such covenants in our loan contracts and that it should not be the role of a bank to become an expert on plastic products. We would respond that this is fully in line with our *Hausbank* way of banking. As the long-term strategic partner of our clients, we advise them not only on financial matters but also on environmental and social topics. When we see unsustainable business practices and informality, which are common in our markets of operation, we neither ignore these problems nor necessarily exclude these clients from financing. Instead, we engage with them in a dialogue and if we see a willingness to improve and become more formal and sustainable we are glad to finance the transition.

Unlike neoclassical economic theory, we acknowledge that there exists an inherent conflict between economic growth and environmental sustainability.

Example of a greylist client: Kivo, Kosovo

To reduce both costs and their ecological footprint, Kivo invested in a recycling plant which produces recycled granulates.

Serbia's polluted
Lake Potpecko

An environmental specialist from ProCredit Bank North Macedonia discusses the problem of plastic with local schoolchildren.

However, we believe that this conflict is dialectically resolved time and time again in the interplay between profit-seeking capital investments into new technologies and evolving regulatory and competitive requirements. In our countries of operation, where regulation is typically weak and its enforcement insufficient, we, as a sustainable development-oriented bank, often need to step into the role of mediator between our client's business interests, existing standards and international best practice.

One needs to see our plastic lending strategy in this context: as an attempt to reconcile the need for plastic as an input for production with the desirability of adhering to international best practice (inspired by EU regulation in this case). In practice it means convincing our clients of the environmental and economic benefits of the sustainable alternative. In those cases where the sustainable alternative contradicts the business model or there simply is no interest on the client side, we decide to exit from financing. Clearly, this goes far beyond what would be sensible only from a simple risk-based perspective and it does have economic costs for us in the short run. However, this is in line with our business model of being a long-term partner and adviser of our clients without compromising with respect to our environmental and social impact through lending.

Why green finance is more than green lending

Our plastic strategy is just one illustration of how we manage the E&S impact of our lending activities. When banks write about green finance, they typically reduce the topic to use-of-proceeds financing and refinancing products in the form of green loans and green bonds. They would not connect the E&S impact of lending and their internal environmental management performance with their provision of green financial products. This compartmentalisation is convenient as it creates space for inconsistency and does not close the door to those areas that are incompatible with the goals of green finance but generate relevant profit. We believe that a bank can only credibly sell green products and issue green bonds after considering the impact of all lending operations and taking an honest look at its own ecological footprint and drawing the necessary consequences.

The Fridays for Future generation will not hesitate to point out the hypocrisy of bankers proclaiming climate-aligned financing, yet continuing to fuel the fracking industry; flying business class from all around the world to green finance conferences in fully air-conditioned 5-star hotels without apparent consideration of their carbon emissions, resource consumption or waste creation.

For us, green finance is a holistic approach that encompasses all three areas of environmental sustainability that financial institutions like ours touch upon: the impact of our own operations, the impact of all our lending operations and the impact of our green lending. Our objection to the artificial separation between green lending and E&S risk assessment is shared by the main regulatory attempt to standardise green finance, the EU Taxonomy for Sustainable Activities, which is still under development.

We do our best to advocate for a transition towards a sustainable future by setting an example and acting as role model and enabler in our respective countries of operation. While there still remain many areas for improvement, we believe that there is a fundamental difference between an internally driven holistic approach to green finance and the simple addition of a new business department responsible for green lending coupled with the purchase of carbon offset certificates and a new marketing campaign.

Internal environmental management

Our approach is based on processes and procedures that help us to systematically reduce our direct environmental footprint.

Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.

Management of environmental and social risk in lending

We recognise our responsibility for our client's environmental and social (E&S) impact.

In order to mitigate E&S risks and assess the potential E&S impact of investments financed, a thorough E&S assessment is an integral part of our credit risk analysis.

Green lending

We aim to have a positive environmental impact by promoting green investments in our countries of operation.

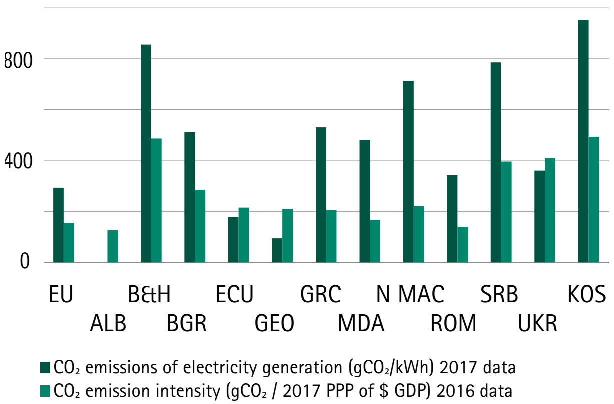
We support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energy or environmental protection.

Given our dedication to green finance, we have often been questioned for not yet being carbon neutral in our operations whereas other banks such as Deutsche Bank report having achieved carbon neutrality in 2013. The reason for this is twofold. On the one hand, we are reluctant to purchase carbon offset certificates due to their limited verifiability – in the long run we want to purchase certificates only from local projects that we fully oversee. On the other hand, we are operating in markets with an extremely high carbon emission intensity. Especially the energy and transport sectors are still very serious polluters, and alternatives are often not available. As a consequence, we have always sought to be the first mover in the market and to push the boundaries gradually but relentlessly.

What do we mean by pushing the boundaries? Let us have a look at Serbia, a country that still relies heavily on coal and, in international comparison, lags considerably behind with respect to regulations enabling investments in energy efficiency and renewable energy. In 2017 we started to engage in discussions with the state-owned electric utility company with the desire to purchase certified green electricity from them. It took us more than a year of discussions with different departments and connected companies including the transmission system operator before they eventually agreed to introduce guarantees of origin enabling us to purchase electricity from renewable sources. We were their first customer.[6] Also in 2017, to further decarbonise our operations, we applied for permits to install a rooftop PV system for self-consumption on our head office even though there was no regulation for this process in place. We joined forces with our clients who shared the same desire and pushed the responsible authorities for the regulations to be amended. After a long back and forth, during which we needed to be adamant about our integrity, we eventually succeeded in connecting a 40kW PV rooftop system in 2020 and also built the country's first PV-powered electric vehicle charging station.[7] We were not the first ones in the country to connect a rooftop PV system: many others before us simply ignored the regulation and went ahead. For us, however, it was a political statement to fight for the right to generate our own electricity sustainably, and we believe that the results from this endeavour cannot be measured only in terms of our (slightly) reduced CO_2 footprint. Would we do it again? We certainly would. As a matter of fact, we are currently fighting the same battle in Kosovo, the country hosting Europe's dirtiest coal power plants, where we are even considering the option of building our own utility-scale PV plant just to compensate our emissions locally.

For other banks, such political fights would be considered a waste of resources. They would never be on the top of the list when weighing the costs and benefits of different potential measures to reduce the institution's ecological footprint. No sustainability consultant would even dare to propose that the bank's top management should engage in lengthy direct discussions with utilities and authorities in order to potentially reduce the CO_2 emissions by a few tonnes per year. For us, however, such fights reinforce our identity. They are symbolic in nature and have systemic effects that are impossible to quantify. In addition, they have made us known in our markets as a company that is truly committed to sustainability. This becomes visible when we are invited to sustainability conferences in our countries of operation not because we are a bank that provides green loans but because we are a business leader in terms of sustainability.

CO_2 intensity: EU average and our markets



Reference year: 2020

6 https://balkangreenenergynews.com/procredit-bank-is-first-buyer-of-green-energy-with-guarantees-of-origin-in-serbia/

7 https://balkangreenenergynews.com/procredit-bank-installs-solar-panels-on-main-office-building-in-belgrade/

DEVELOPING OUR UNIQUE SME GREEN LENDING APPROACH

7 AFFORDABLE AND CLEAN ENERGY · 8 DECENT WORK AND ECONOMIC GROWTH · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Contrary to many other banks, who simply add a new business department, hire a sustainability consultant and purchase the best available technology, institutionalising green finance within ProCredit was not done overnight. Instead it has been an evolution that has been going on for most of our existence.

Environmental management and green achievements

2003 - 2006

FIRST GREEN LOANS granted for energy efficiency and renewable energy investments in 2006

ENVIRONMENTAL EXCLUSION LIST introduced group-wide in the banks' Codes of Conduct in 2006

2008-2011

ENVIRONMENTAL MANAGEMENT Introduction of a group-wide comprehensive 3-pillar approach to EM

EM policy and EM Unit at each bank

In 2010, first environmental courses at the ProCredit Academies

2012-2014

Start of semi-annual group-wide **GREEN SEMINARS**

First Group Environmental Steering Committee meeting

2015 - 2017

GREEN FINANCE APPROACH fully implemented

All ProCredit banks apply the entire green lending and environmental and social risk management concept

All ProCredit institutions certified under ISO 14001 or EMAS

Positive **ESG RATING** by MSCI and oekom research (now: ISS ESG)

2018 - 2019

FIRST GREEN BOND placement for emerging countries with IFC for green investments by SMEs

Publication of first group **IMPACT REPORT** following GRI Standards

2020

Introduction of the **PLASTIC STRATEGY**

Continuous **EDGE CERTI-FICATION** of head office buildings

Timeline

1980

ORIGIN
Origin of ProCredit with IPC: Consulting of financial institutions in developing countries

1997-1998

First microfinance bank in Bosnia and Herzegovina founded as a greenfield bank

Foundation of **IMI** (now ProCredit Holding)

2003 - 2006

BANKING GROUP
In 2003, creation of ProCredit as a banking group with key shareholders IPC (investment arm has been transferred to Zeitinger Invest), DOEN, KfW, IFC and ProCredit Staff Invest

ProCredit ACADEMY

In 2006 establishment of the ProCredit Academies in recognition of the need to develop and integrate local middle and senior managers

PROCREDIT HOLDING
Consolidation of ownership in ProCredit Holding and subsequent investment grade rating since 2004

2008-2011

SME FINANCE
In 2008, move from a product-oriented microfinance provider to positioning as the "Hausbank" for SMEs

BANKING LICENCE IN GERMANY
In 2009 implementation of German regulatory standards

2012-2014

Introduction of group-wide **APPROACH TO HR**

SUPERVISION
by German banking authorities (BaFin and Deutsche Bundesbank)

2015 - 2017

LISTING
of ProCredit Holding shares on Prime Standard of Frankfurt Stock Exchange

GROUP CODE OF CONDUCT
replaces local banks' versions

2018 - 2019

PROCREDIT DIRECT
Digital banking approach for private clients fully implemented

FIRST CAPITAL INCREASE
as a listed company (10% of share capital)

2020

GUARANTEE AGREEMENTS
with EIB

PV PROJECT
financing energy communities in Greece

Specijal Produkt, Skopje, North Macedonia
Bakery and confectionary

We issued our first green loans in 2006 within an EBRD-sponsored energy efficiency programme followed by similar KfW-sponsored programmes. Due to continued demand after their expiration, we decided to continue the offer of energy efficiency loans and began to develop our own green lending methodology. It allows us to determine the eligibility of green investments and to calculate their impact. Developing our own approach was necessary as there was no industry standard for green lending that we could have adopted. Consequently our methodology is still being revised and enlarged on a regular basis. Until today there is still no harmonised definition for the kinds of lending that can be considered "green", which makes any intercompany comparison difficult if not impossible. Fortunately, the European Union has taken up the fight against greenwashing and is currently developing the EU Taxonomy for Sustainable Activities. As this is a major endeavour which will take years to finalise and become fully integrated, there is still a need for our own green lending methodology.

Our green lending approach is embedded within our wider green finance institutional framework, which has been developed together with the consulting company IPC in which ProCredit has its origin. Apart from definitions of what qualifies as "green", the framework also includes a green governance structure, which consists of an environmental department in each of our banks and our holding company that reports directly to management. The environmental departments are responsible for implementing and continuously developing the group's environmental management system (EMS) and approach as well as supporting business and credit risk departments with respect to the environmental and social impact of lending and green lending. This support entails regular training measures for all staff members on green finance topics. In addition, each of our institutions has an Environmental Committee, chaired by a management board member, which meets every quarter and oversees the development of the EMS and implementation of the green strategy.

Green lending at ProCredit is separated into three distinct categories:

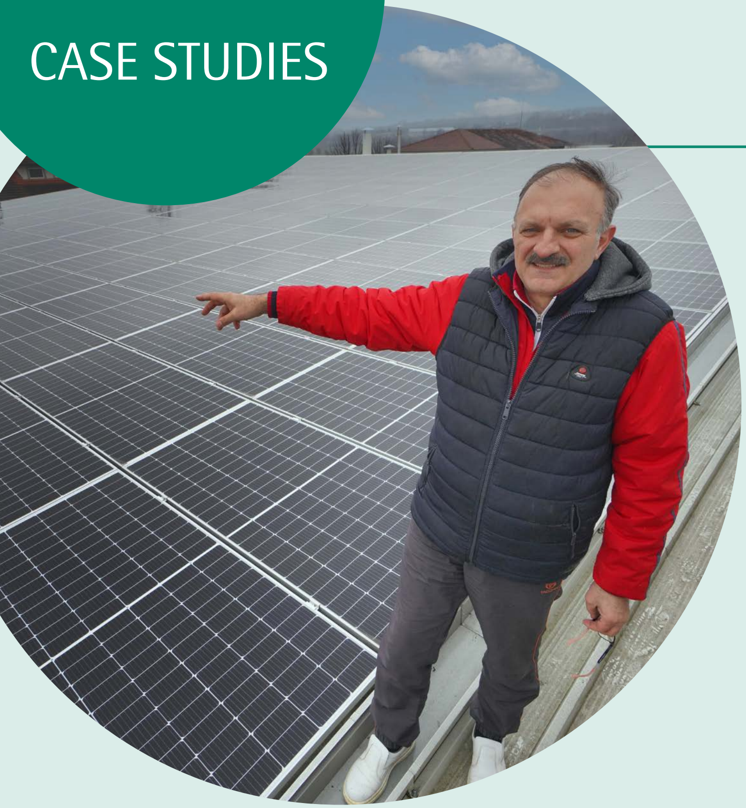
Energy efficiency (EE) investments that reduce energy usage at least by 20%.

Renewable energy (RE) investments into distributed or utility-scale RE generation systems.

Other environmentally friendly investments (GR) such as in waste management or organic agriculture.

Cromex, Prijedor, Bosnia and Herzegovina
Manufacture and processing of metal goods

CASE STUDIES



Renewable energy (RE)

Petković, Paraćin, Serbia

Retailer of meat and meat products

Petković strives to produce and process meat of the highest quality in terms of hygienic and toxicological safety. The company consistently applies the most efficient quality management strategies, and is constantly working to improve process performance. ProCredit supported the client in the installation of a 202.5kW PV system. By self-generating 13% of the client's electricity consumption, the investment has significantly lowered the company's electricity bills.

Energy efficiency (EE)

KyivESCO, Kiev, Ukraine

Energy services provider

Since 2016, KyivESCO has been supporting local authorities and private businesses interested in investing in energy services. It acts as a system integrator for energy efficient modernisation, making it a role model in terms of utility cost reduction. The savings achieved with equipment financed by ProCredit are paying off the loan, while the final client enjoys better heating performance. Improved performance has cut building heating costs by 40% on average. Combining modern technology with efficient energy management reduces not only energy costs but also the release of pollutants.

Other environmentally friendly investments (GR)

ECOBULPACK, Sofia, Bulgaria

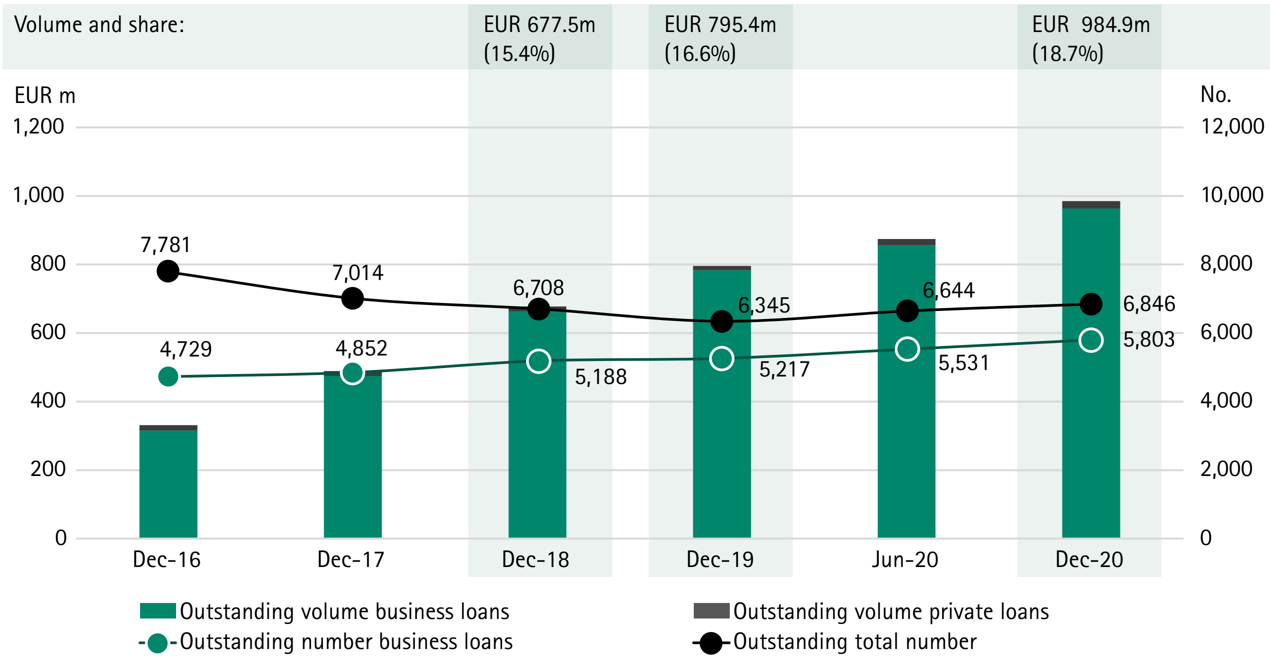
Waste sorting

Ecobulpack and its subsidiaries invest in waste sorting facilities, including a paper processing installation. The company applies the circular economy model in waste management and operates one of the region's most advanced waste glass sorting installation. ProCredit financed investments in two highly automated lines for sorting and processing separately collected paper, plastic, metal and glass packaging waste, as well as mixed household waste.

Our green lending approach has been continuously re-defined based on our experiences over the years and currently reflects our best practice based on 15 years of experience in green SME lending in our countries of operation. Over the last decade, the current ProCredit institutions (excluding discontinued operations) have disbursed green loans to SMEs totalling EUR 1.8bn, and as of the end of 2020, the outstanding green loans made up close to EUR 1bn or 18.7% of our total loan portfolio.

With close to 20% of our portfolio allocated to green investments, ProCredit is clearly performing well in international comparison. However, what is unique about this portfolio is not its share relative to the total but instead the segment to which it is disbursed. Many banks have set themselves targets in terms of volumes of green loans to be disbursed within a certain time period; however, these targets are typically achieved by financing large-scale green projects (real estate, energy, infrastructure) and not by lending to SMEs. Even our direct but much larger Austrian-based competitor in SME finance, which reports in its 2019 sustainability report[8] a "sustainable portfolio" of EUR 2.28bn (around 2.5% of their loan portfolio), has almost all of it invested in large-scale projects (69% in real estate and 13% in renewable energy), with only a minor share (around EUR 400 million) assigned to other segments, including both SME and corporate. In contrast, more than 80% of our green portfolio is allocated to SMEs. The remainder consists of renewable energy project finance.

Green LP development



Reference year: 2020

When speaking about the impact of green lending, typically the discussion is reduced to volumes. While we agree that there is a need for large volumes to finance the transition to a more sustainable economy, we believe that our impact, specifically due to our focus on green SME lending, stems largely from the number of loans disbursed. Rather than continuing business as usual while using singular and large green loans as a marketing tool, the current ProCredit banks have, in the last decade alone, disbursed around 14,000 green loans to SMEs with an average size of around EUR 130,000. The long history and significant scale of our green lending operations is unique in our markets and we believe that the data we have accumulated over the years will provide valuable insights that could help to unlock the potential for small-scale green finance not only in our countries of operation but also in other developing and emerging markets.

[8] https://www.rbinternational.com/en/who-we-are/sustainability/sustainability-report.html – 2019 Sustainability Report

TAILORED PROJECT FINANCE FOR THE LOCAL ENERGY TRANSITION

There is no doubt that renewable energy is the future. The question is not whether it will become the main source of energy generation but rather whether it will do so fast enough to prevent the worst consequences of climate change. Luckily, the falling costs of generation technologies coupled with enabling regulation in many parts of the world have spurred investments in this segment in the last decade. Unfortunately, most of our countries of operation have not yet embarked on the journey to modern renewables (wind, solar and some biogas) but are still mostly relying on traditional technologies such as coal power and hydropower. In many of these markets, there is a lack of enabling regulation and insufficient investment in the grid to support an energy transition.

On top of these institutional, policy-related and regulatory barriers to investment, the local banking sectors lack experience in financing renewable energy (RE) projects. RE project finance requires specialised knowledge in the areas of technical and legal assessment as well as in financial modelling and credit risk assessment. Small local banks typically lack the internal capacities to assess such projects and, as a consequence, typically only offer to finance RE projects as part of their SME or corporate finance business line. This means that they do not rely on the project's predicted future cash flows but rather on historical analysis of the related existing businesses. International banking groups, on the other hand, have typically centralised their project finance teams in their parent company and follow an international project finance approach based on a thorough assessment including external studies and, in many cases, export credit agency (ECA) insurance cover. Both approaches have their deficiencies. While the local banks will provide rapid financing without many questions asked, they are unable to predict and verify the long-term cash flows of the projects, and consequently provide poorly structured investment loans with maturities that are too short. Financing based on related businesses rather than the projects themselves also leads to a reduced total amount of capital provided to the energy transition.

International project finance is well equipped to predict long-term cash flows and to provide adequately structured long-term debt. However, the downside of this approach is that high transaction costs are incurred in the assessment phase. On the one side, expensive external studies and large volumes of internal resources are required; and on the other side, the assessment processes can take years, especially when there is distrust in the local offtake scheme and ECA cover is required. In addition, there typically are high requirements with regard to the eligibility of investors and significant equity requirements. As a consequence, only a very small number of local investors will have access to international project financing, making this form of finance mostly available to international investors.

The consequence of this situation is a lack of bankable projects and insufficient availability of capital to the local economy to finance the energy transition. The clients of local banks will only invest in RE projects if the expected returns exceed the returns of alternative investments in their existing business, while specialised investors with access to international project finance typically come from developed countries with the goal of benefiting from the high local feed-in tariffs and extracting the dividends to their home country. This situation in combination with an unpredictable and externally-driven regulatory regime has caused boom and bust cycles of RE investments, visible in Romania and Bulgaria and just recently in Ukraine. High feed-in tariffs attract local and international investments but fail to establish a local specialised industry. Once the attractive tariffs are gone, capital soon goes elsewhere.

In contrast, ProCredit aims to foster local and sustainable development, so our approach to RE project finance is different. As in our SME finance, we do not mind spending more time than others on the assessment of our clients. We have found a way to efficiently provide finance to small-scale projects based on their projected cash flows. While the risks in some markets do not allow for non-recourse lending (additional SME guarantees or collateral can be required), we are still basing every project finance decision on the cash flows of the project itself, and provide long-term financing (up to 18 years). Although many of our RE project finance clients also have an SME that is banking with us, this is not a requirement to receive financing. We have developed a credit technology that still makes use of the key assessment aspects of international project finance while being efficient regarding the transaction costs and processing time. By streamlining our processes we have moved from processing times in our more experienced banks (loan application to disbursement) of 8-9 months in the beginning to only around 3-4 months on average in more recent projects. We have both developed internal capacities and engaged in strategic partnerships with local experts.

This conception of RE project finance goes in line with our philosophy on green SME finance: what matters is not only the volume but also the number of projects we finance. Project finance makes up around 90% of our RE portfolio and has a significant impact on the locally-driven energy transition while providing our clients with a secure source of income. The remainder are mostly small-scale rooftop photovoltaic installations for our SME clients. Here too we believe that each additional rooftop PV system that we finance is helping to convince at least one more family or one more company of the benefits of the energy transition.

In 2020 we also financed one larger project, with an output of around 95 MW, which by size could have qualified for international project finance (investment costs above EUR 70m). However, this project is not the usual utility-scale project of a large corporate or international project developer but instead it is the joint effort of hundreds of families in the agricultural area of Agrinio, Greece, where the local agricultural cooperative has established 6 separate energy communities. Energy communities, also referred to as energy cooperatives, offer an alternative to a corporate-driven energy transition. Whereas energy communities played a major role in the early days of German wind power, today larger energy projects are typically owned by capital market players such as pension and other investment funds. While it is important that capital markets channel their funds into the energy transition, locally-owned RE projects have the additional development impacts of community engagement and income diversification especially in low-income rural economies that are highly dependent on agricultural production.

Unfortunately, energy communities typically do not qualify for commercial international project finance due to their lack of creditworthiness to mitigate construction risks. As a consequence, when we discussed with the major European development banks the possibility of co-financing such energy communities, the response was always the same: insufficient creditworthiness of the investors. Despite the unwillingness of development banks to support us in this regard, we went ahead based on a financially solid project and around 100 personal guarantees from small-scale farmers from the region. As Greek legislation requires every page of the loan contract to be signed by each guarantor, it took us three days to collect the around 3,600 signatures required. In the meantime, the project has been successfully built and is awaiting connection to the grid. The project has received attention from NGOs such as Greenpeace as well as from the Greek government as it is a pioneering project that sets an example for other energy communities in the country.

Greece is a positive example for what can be achieved with respect to the energy transition with a set of enabling policies. We are witnessing the introduction of similar best practice policies throughout the whole region as they are being promoted by European institutions working on establishing a Pan-European energy market based on a high share of variable renewable energy.

There is significant untapped potential for renewable energy generation in our markets. By building up capacities and institutionalising our RE project finance approach now, we aim to become the financing partner of the drivers of the local energy transition in South Eastern and Eastern Europe.

CASE STUDY

Signing of the energy communities' loan contracts

GREEN FINANCE PROJECTS IN AGRINIO, GREECE

ProCredit Bank Bulgaria financed six Greek energy communities through its branch in Thessaloniki. They were set up by more than 220 local farmers and other residents from the region, constructing 116 photovoltaic parks and an electrical substation with an installed capacity of 94.4MW. This corresponds to total investments of more than EUR 70 million and will provide the local economy with a stable source of income for at least 20 years.

The initiative came from the Agricultural Cooperative "**Union of Agrinio**", a pioneer in making the Greek energy transition more regional and participatory.

Making use of the additional capacity of the new electrical substation, a separately financed biogas plant will also be connected to the grid. Combining different generation technologies and recycling regional waste and nutrients are key elements of the circular economy model.

The energy communities will provide clean energy to approximately 50,000 households, and represent a sustainable investment for the Greek families that have devoted their savings to the energy transition. Supporting this initiative is in line with ProCredit's Green Finance Strategy, which focuses on promoting socially and environmentally beneficial investments. The added renewable energy capacity will support the region in becoming independent of electricity from coal-fired power station.

Photovoltaic plants in the Agrinio area

Biogas and PV plant
in the Agrinio region

OUR STAFF

Through dialogue and training, we ensure that our staff consistently stand by our values, defending together our ethical approach to banking and our concept of what it means to be a citizen in today's society.

Diversity is our reality, not something we need to promote

- Our cultural diversity is a treasured asset
- 30+ nationalities at our HQ in Germany
- Around 50% of our senior and middle managers are women

We believe and invest in people

- 106 hours of training per employee in 2020
- Recruitment never stopped during the pandemic and onboarding activities continued online

The safety of our staff is paramount

- Seamless transition to remote working
- Strict prevention measures in our offices and network throughout the year
- All group meetings continued online

OUR STAFF

by Sandrine Massiani

While many would refer to this section as Human Capital Development, we want to talk about our staff and the way we work together.

Our way of dealing with people is unique and does not accommodate everyone: we believe more in people and dialogue than in positions, titles and bonuses. This approach is the result of (1) constant reflections and exchange of (good and bad) experiences and (2) a categorical belief in the values of the Enlightenment: freedom and reason. We believe in democracy and knowledge. We live it daily through constant discussions and high investment in our staff. Our state of mind is best illustrated by the painting by Delacroix "La liberté guidant le peuple"...and the fact that the flag is held by a woman is not to be overlooked.


Source: Alamy Ltd, UK

When we recruit future colleagues, we onboard them and share with them our philosophical approach and business vision. We show them the way we work together, how we invest in their personal development, how we provide feedback, how we decide on remuneration and why we part company with those who do not fit. These are the key aspects that shape our group and its development.

Our ability to make a significant development impact depends entirely on the quality and dedication of our employees. We are proud to have teams of highly professional and motivated colleagues in all our institutions. We are also proud of having established with them a common vision based on strong ethical values, a clear business approach and, on top, the desire to always question both our own practices and the perceived market "best practices".

"La liberté guidant le peuple" is a scene from one of the many barricades in Paris during the July revolution of 1830 provoked by Charles X, King of France. In this painting, which refers both to Greek Antiquity and to the French Revolution, Delacroix illustrates the entire population of Paris rising up together against despotism to defend their freedom and the values of the Revolution: **"Liberté, Egalité, Fraternité".**

ETHICAL VALUES AND WORKING ENVIRONMENT

We are small. It is not enough to make us beautiful but it allows us to be fully consistent with our values and offer to our staff a stimulating working environment

We pride ourselves on having developed an approach towards staff that does not rely primarily on monetary compensation. Our institutions and teams are small. We work hard and each of us is expected to fully contribute. At the same time, our colleagues are also exposed to and learn from a strong culture of direct communication and exchange of experiences between colleagues within and between ProCredit institutions. Being accountable and responsible might be challenging and at times painful but in the end it is always rewarding when difficulties are shared and values are respected. At ProCredit, diversity and fairness are not set as objectives but are the reality due to the simple fact that we do not see our employees as belonging to a category (men or women, young or old, black or white, Christian or Muslim, Ukrainian or German), but simply as people, each with a unique personality and history. Our group Code of Conduct derives its foundations from the fundamental principle of human dignity and calls for a strong sense of personal responsibility from each of our staff.

We are small

Our institutions are small. Our banks have between 100 and 400 staff, which is significantly lower than our competitors in our countries of operation. We know our staff by their first name. Our middle managers have on average less than 10 team members working with them. We are often compared to very large institutions which need to conduct large scale surveys (sometimes even anonymously) to take the pulse of their institutions. We obviously do not need to engage in those survey-type polls or questionnaires that can by design only give one level of (aggregated) answers, often superficial, or biased snapshots of institutions. We rather have the luxury of being able to easily reach all our staff and engage in constant dialogues with them. It is indeed more difficult to summarise the outcome of these exchanges in quantitative results or statements that can easily be put in graphs and compared with so-called peer institutions, but they are much more structural and forward-looking.

We have flat hierarchies and simple structures. Direct cooperation and dialogue between our specialists, middle managers and top managers are our daily reality. Nobody can hide behind hierarchical levels. Given our small size, this is the best (and only) way to serve our clients with the high quality requirements we have. This is also how we can reach efficiency and quality levels that are significantly higher than the market average. Most of our managers and key staff have graduated from our Academy programme and therefore speak the same language, both literally and figuratively, and this creates a huge pool of experiences and expertise to draw from. This is a huge opportunity for each of our colleagues to learn and develop. At the same time, being part of smaller teams and thereby taking more responsibility on one's shoulders is challenging and can be at times painful. In this context, this gives us the opportunity, but also the duty, to define clear objectives and strategies that are fully consistent throughout the group and equally implemented in each of our institutions by our staff.

Another core difference is that we do not believe in the commonly praised – and too often formally required – figure of the (generally male) CEO. First of all, the success of an institution does not depend on one person but on the efforts and engagement of the whole staff. Second, to rely on an individual decision-maker of last resort might be more a sign of internal inefficiency or disagreements than one of good governance. Third, a CEO title is very often associated with special benefits or even approaches (such as the so-called CEO equity pay remuneration principle) – advantages that we consider neither necessary nor appropriate. We rather promote management teams made up of 3 to 5 colleagues who are jointly responsible for their decisions and their institutions. When it comes to the management of our institutions and of our staff, formal majority rules are simply not enough. We strive for common decisions and a shared sense of responsibility on the basis of open discussions (if they are heated, all the better) between peers.

Our Code of Conduct – our responsibility

Being compliant is not enough

Our Code of Conduct[9] is much more than a catalogue of actions to be "in compliance" and that needs to be signed every year as one of many formal employee declaration forms. While very often codes of conduct define "how to do things right", our Code of Conduct helps to assess "what are the right things to do".

Our Code of Conduct is rooted in the key principles that constitute the ProCredit *res publica* and translates them into the daily reality and environment in which we work and take decisions. It defines the "ethical compass" against which individual actions of our staff but also broader developments within the group can be gauged. It requires each of us to think and question our actions according to strict self-imposed ethical principles (this is the German touch of the Kantian categorical imperative[10]) and a strong sense of social and environmental responsibility, as defined in our mission statement.

We extensively address ethical issues with all our staff

Our Code of Conduct only makes sense if it is not only read and signed but also actively understood by all our staff. That is why we plan annual sessions with all staff of the group to address and discuss the key elements of our ethical compass. During these sessions, employees are challenged to express their ethical standpoints in their own words – and sometimes actions. Each year, the approach to these discussions takes a different angle.

In 2020 for example, we have watched together the recording of the speech by Emmanuel Macron at the memorial service for Samuel Paty, the French teacher murdered in October 2020 for encouraging freedom of expression, and provoked discussions by asking questions on the following topics:

- On freedom of speech and opinion vs freedom of religion
- On knowledge (education, role of teachers and the Academy) versus ignorance
- On the Enlightenment (freedom and reason) versus obscurantism and fundamentalism
- On the connection between the political concept of "Republic" invoked by President Macron and the ProCredit *res publica* mentioned in our Code of Conduct

Many observers would question why we spend time and energy talking about freedom of speech, the Enlightenment period and the Republic. The answer is simple: we take our role as managers, colleagues, professional partners, family members and members of our society very seriously – the personal responsibility of our staff does not end with being in compliance with internal rules.

[9] To download a copy of the Code of Conduct from our website, go to: https://procredit-holding.com/wp-content/uploads/2020/07/Code_of_Conduct_202006.pdf

[10] Best known under its first formulation "Act only according to that maxim whereby you can, at the same time, will that it should become a universal law", i.e. an absolute, unconditional requirement that must be obeyed in all circumstances and is justified as an end in itself.

We have zero tolerance for intolerance

Relationships with colleagues, clients and third parties should be based on mutual respect, avoiding any form of discrimination based on ethnicity, gender, religion, origin, sexual orientation, or age. We have a zero tolerance policy regarding any form of unethical behaviour, and every employee is expected to speak out and to report any fraudulent or unethical behaviour, including complaints regarding unfair treatment. We offer an open and transparent working environment, so nobody can claim a lack of appropriate communication channels as an excuse for not reporting or not taking action when they observe unlawful, fraudulent or unethical behaviour. We believe in dialogue and strive to ensure open communication, even in difficult situations. Staff members can also report their concerns through various channels of communication and available whistleblowing procedures. Multiple channels are explicitly available for speaking out. Breaches are met with dismissal.

Diversity: our reality, not something we need to promote

Discrimination on the basis of ethnic origin is distressingly common in many Eastern and South Eastern European countries, which have a turbulent history of ethnically motivated conflict that still reverberates today. We take a firm stand against such divides by fostering close co-operation between colleagues belonging to different cultural groups and nationalities. As a banking group with many years' engagement in different countries and drawing on different and complex cultural backgrounds, the acceptance of cultural diversity has become a simple fact for us. This results not from a planned development to reach a set of predefined targets, but simply from the recognition that each individual deserves respect as a human being. This is a categorical imperative. In our approach to recruitment, training, remuneration, assessment, we never put colleagues into categories but simply look at them as individuals.

One reflection of diversity is the composition of the staff at the group's headquarters in Germany, where no fewer than 30 countries of origin are represented. In this respect, ProCredit has reversed the typical relationship between Western European banks and their Eastern European subsidiaries. Instead of seconding a Western manager to run the Eastern subsidiary, ProCredit has all its banks outside of Germany managed by citizens of the local region.

Since 2014, ProCredit has also operated an international exchange programme, whereby qualified employees of the ProCredit banks are invited to spend one year at ProCredit Holding. In addition to the social benefit of broadening the participants' horizons and enhancing their professional skills, the programme benefits both sides in an operational sense: it helps to strengthen the parent company's understanding of the subsidiaries' local environment; and it strengthens the bank staff's understanding of the group as a whole, and of their bank's role within it.

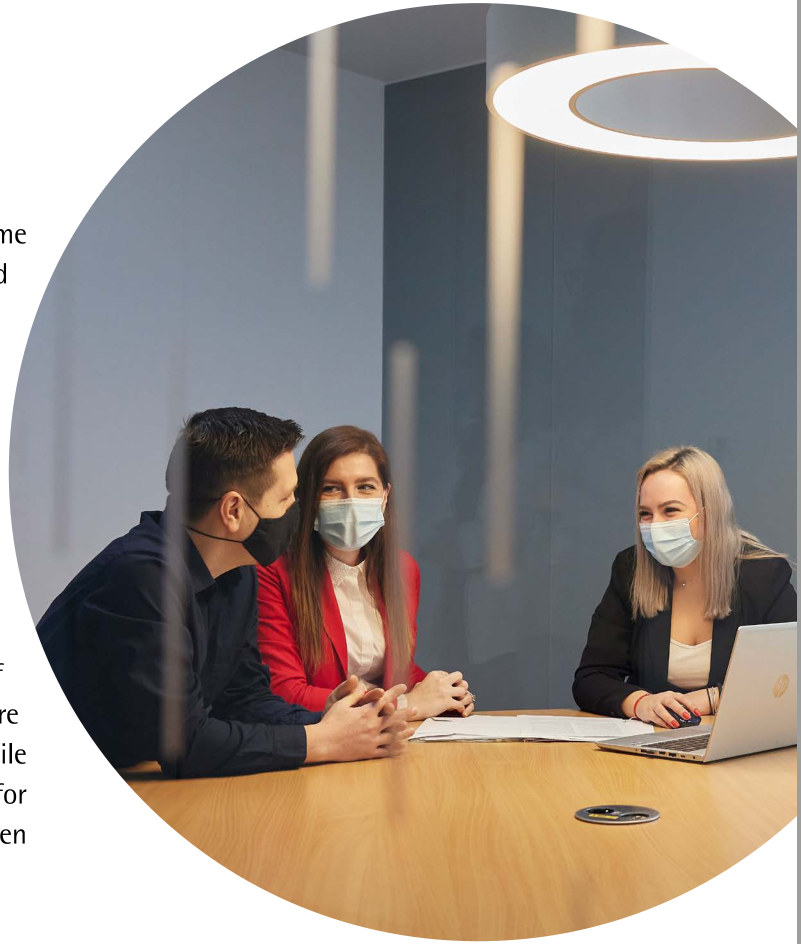
Gender diversity

Nowadays, the progress made to fight against discrimination on the basis of gender is very often evidenced by (slowly) increasing percentages of females in management and other senior positions in private companies and government institutions. At ProCredit, we will not be able to show any progress because women already occupy half of the management and key positions within the group. 44% of all management board members across the group are women and the large majority of them are mothers. Among our senior middle managers, 80 out of 140 colleagues are women. This situation is NOT the result of a planned strategy developed to achieved some quantitative objectives that could create an appealing façade for stakeholders, but the mere result of close individual development and promotion decisions regarding individual colleagues (as opposed to categories of colleagues).

When comparing the representation of women and men in key positions of the group, such as middle managers, business client advisers or credit risk analysts, the outcome is clear for us: there is no gender predominance in any of our key positions. Our group is thereby a perfect case study for inclusion and diversity, and refutes the common and widespread views on supposed gender-specific qualities for such positions. All customer-related positions, because they include acquisition and customer relationship responsibilities, are challenging and analytical. Back office positions in payment or credit administration teams remain, however, predominantly occupied by women at ProCredit, as is also the case in the banking industry as a whole. This explains why overall 61% of our staff are women. It was even more pronounced some years ago, when more processes were still manual. There are objectively more women candidates for these positions than men. As for all positions, but for those in particular, we are attentive to the colleagues' aspirations and to find the best match between capacities and expectations for them.

We are also proud to report that the average time spent with ProCredit for middle managers and holders of key positions is exactly the same for men and women. In concrete terms, this means that women were fully able to keep their professional development going while managing their maternity leave. On this point, it is worth noting that we do not have more part-time contracts for women than for men in our countries of operation. As a matter of fact, we only have an insignificant number of part-time contracts in our banks. This is often interpreted as a lack of flexibility. We see it differently: women can and are empowered to come back to work full-time while being mothers. Having more part-time contracts for mothers simply perpetuates a model in which women bear most of the parenthood responsibility.

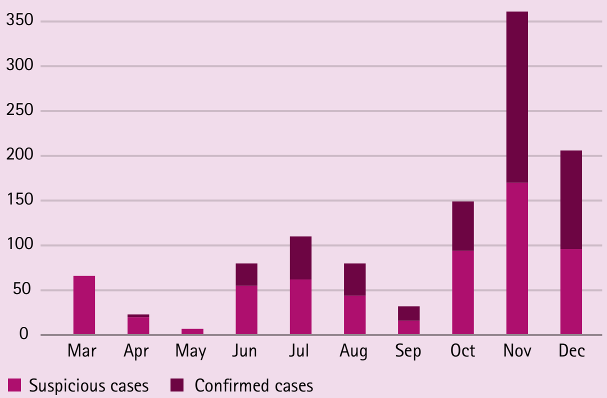
Last but certainly not least on the topic of gender, let us consider the gender pay gap. In line with our policy against discrimination of any kind, gender plays absolutely no part in our promotion or salary decisions. There is no salary difference between men and women in comparable positions in our group. This is a logical consequence of our deeply engrained assessment of individual performance, independently of any other considerations. Again, more than a goal, this is a fact.



A secure working environment despite COVID-19

The outbreak of the COVID-19 pandemic obviously posed a dramatic risk to the health and safety of our employees and clients. All of the ProCredit institutions responded extremely quickly, setting up dedicated COVID-19 task forces at group and bank level, and instructing staff to work from home as much as possible. This was facilitated by the secure IT infrastructure that was already in place, enabling employees to log into the banks' systems from remote locations, and by the high sense of engagement and solidarity among our staff. Our banks were thus able to apply stricter and faster stay-at-home regimes than those enforced by the authorities. Our approach was not utilitarian but categorical in that case: we do not compromise on the safety of our staff and clients.

Monthly development of COVID-19 cases in the group



Reference year: 03/2020

During periods when the rate of infection was lower, the employees' return to company premises was extremely cautious, and organised largely on a voluntary basis. Rotation systems were put in place, so that only half of each department's team was present in the office at any one time, while the other half continued to work from home. Those who chose to return to the office followed strict rules regarding hand hygiene, social distancing, frequent ventilation and mask-wearing.

International travel was completely suspended, a particularly severe constraint on a group like ours whose business approach normally relies so heavily on in-person meetings, group-wide residential training and intensive exchange between colleagues working in different countries. Yet the transition to online media was seamless. Systematic co-ordination and information-sharing at the group level, supported by the pre-existing technical infrastructure, meant that communication across the group was hardly disrupted. Board meetings, AGMs and other conferences were held online, and were attended remotely by even larger numbers than would normally have been physically present.

Thanks to the precautionary measures taken and the responsible behaviour of all, we succeeded in minimising the impact of COVID-19 on our employees, even at the peak of the pandemic in November 2020, as shown in the graph on the left.

However, two of our dear colleagues, Alfredo Catari (51) and Vladica Ivanović (34) lost their battle against COVID-19. We are greatly saddened, and would like to pay special tribute to them here.

† Alfredo Catari (51)

† Vladica Ivanović (34)

FAIR RECRUITER AND EMPLOYER

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

Our approach to recruitment is open to everyone who wants and can. We are not looking for specific skills to fill specific positions but for people who fit our way of life and share a common sense of purpose. When we meet with candidates, beside the ability to think logically we look at their philosophy, understanding of democracy, willingness and capacity to participate in dialogue, engage and contribute. We take recruitment very seriously.

Both as recruiter and employer we follow strict self-imposed principles that leave no room for any types of class-based privileges, nor shady bypasses based on either favouritism or discrimination. It also leaves no room (and is no fun!) for self-centered salary-driven individuals. We pay no bonuses. Instead we offer a proper all-inclusive salary according to a transparent and straightforward salary structure that combines intensive training, internal promotion and, even more importantly, a long-term view for our staff. The soundness of our approach is best illustrated by the long average time our employees stay in our institutions, and by a turnover rate which is largely in our hands.

Our approach to recruitment

In many of our countries of operation, job opportunities are rare and in the race for employment, personal connections often count more than ability or qualifications. Perceiving that they do not have a fair chance in the local labour market, many talented people turn their sights abroad. This "brain drain" is a serious threat to the sustainable development of emerging economies.

In contrast to connection-based hiring practices or cases where being recruited goes hand in hand with contracting a loan towards an influential staff member of the company, which are typical in our countries of operation, ProCredit's recruitment process stands out for its fairness and openness. It is also demanding. We assess every candidate on the basis of who they are, not who they know. Even those who do not make it appreciate this merit-based approach.

We are only interested in candidates who share our values and development-oriented vision, have high ethical standards and a strong sense of personal responsibility, and are willing to learn and to contribute to the ProCredit "common good", i.e. servicing our clients with professionalism and respect, engaging in a democratic, free, open and green working environment and society.

We hire people, not skills

That is why, at a time when more and more employers tend to outsource parts of this essential process to external companies, and even to artificial intelligence, we have designed a rigorous six-step selection procedure, which is standardised across all banks of the group and involves not only our HR teams, but also key colleagues and the top managements of our institutions. In addition to a series of individual interviews, shortlisted applicants take part in group discussions, which are very revealing in terms of the candidates' willingness and ability to share and articulate their views, to listen respectfully to others, and to work together towards a common goal.

We are selective

Less than 3% of the total number of original applicants are invited to join the unique ProCredit Onboarding Programme. The programme serves a dual purpose: on the one hand, it provides the participants with valuable knowledge that they will need as fully fledged ProCredit employees. On the other hand, it gives both sides of the employment relationship ample opportunity to judge whether the "marriage" will work. The programme aims to offer a clear impression of what it will be like to work for ProCredit, so that they can make an informed decision on whether or not to stay. It also includes a full week on ethics and philosophy, during which participants debate about the moral perspectives of how relationships should – or should not – be defined and how ethics and justice influence – or not – our decisions. Another key distinguishing feature of the Onboarding Programme is that it does not prepare newcomers for a specific position. It rather prepares all of them to fully understand and discuss the business philosophy of the group. During this programme, ProCredit managers have the chance to gauge whether or not the newcomers will fit. We typically experience a turnover rate between 25 and 30%.

We believe in diversity and achieve it organically

We hire among a wide variety of educational backgrounds, including from scientific or humanities subjects, without an exclusive focus on economics or finance. We are convinced that people with different backgrounds and experiences approach given situations in their own individual way. Together they form a diverse, open-minded and resourceful pool of innovative, outside-the-box thinkers that gives us the ability to solve problems or design strategies in very unique ways. "I never thought I would be working for a bank" is not an unusual remark in our banks.

This way, we allow a lot of young graduates, including those with little or no professional experience, to enter the labour market and start their professional engagement.

Recruitment and onboarding in the COVID-19 context

We are very proud to have been able in 2020 to pursue, and even increase, our recruitment activities and to continuously enrol our new colleagues to the Onboarding Programme without delays.

In the first few uncertain months of the pandemic, most companies froze their recruitment activities, which meant that in some instances ProCredit was among the very few employers still hiring. We were determined to continue our recruitment, because the ProCredit banks' demand for staff had increased, but also because we felt from the very beginning that our positioning as a stable employer and digital bank would be an asset during the crisis. As a matter of fact, in 2020, we experienced an increase in both the number and the quality of applicants who were attracted by our openness to "non-bankers" and our commitment to keep everyone safe.

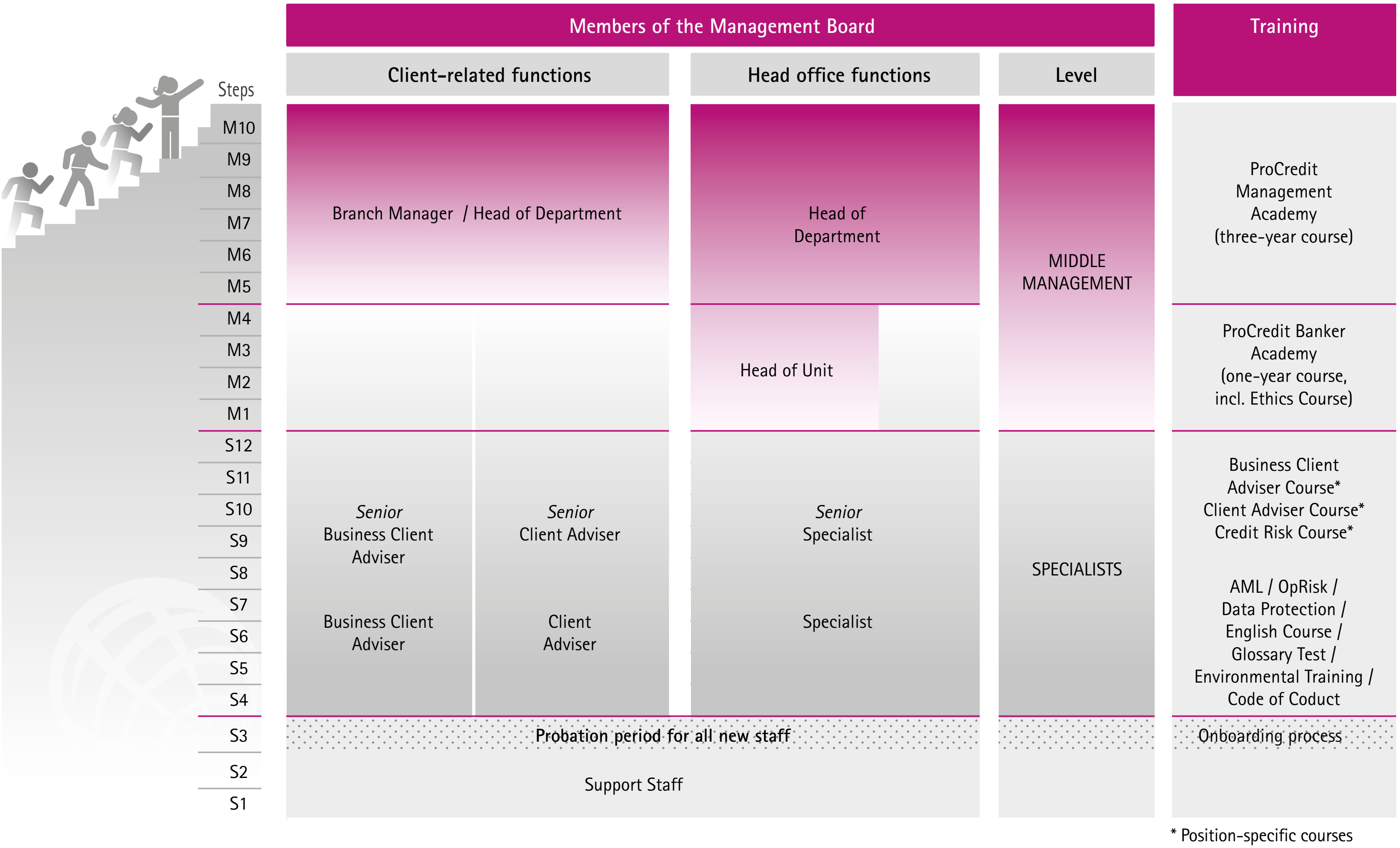
As with all of our training courses, the online version of the Onboarding Programme has been challenging. For example, organisers have not been able to observe the participants' behaviour outside the classroom, which in the real-world residential version of the programme often provides crucial insights into their willingness to be team players and to adhere to our ethical principles. The on-the-job training, which forms the second half of the programme, has also taken place remotely, making it much harder to integrate the newcomers. Nonetheless, thanks to the inventiveness of our staff and their readiness to share experiences, there has been a constant improvement in quality, and some of the valuable lessons learned will be carried over into the post-pandemic world of in-person training. Newcomers have also adapted very well to the so-called new working reality.

The challenge of a fair salary structure

We are regularly asked why we pay no bonuses. Very often, the next questions are then: How do you motivate your staff? How do you make sure your managers act in the interest of the company?

In opposition to the standard practice in the financial industry, we indeed do not grant short-term performance-related monetary bonuses as a means to incentivise our staff. We believe (and we have made our own experience around 20 years ago) that the prospect of a bonus based on what are, by definition, restricted quantitative targets such as "number of products sold" or "branch profitability", creates a false incentive to sell products that clients may not need or to make decisions that boost short-term results, but invite unwanted risk in the long-term view. This is diametrically opposed to our responsible way of banking.

ProCredit's group-wide salary structure



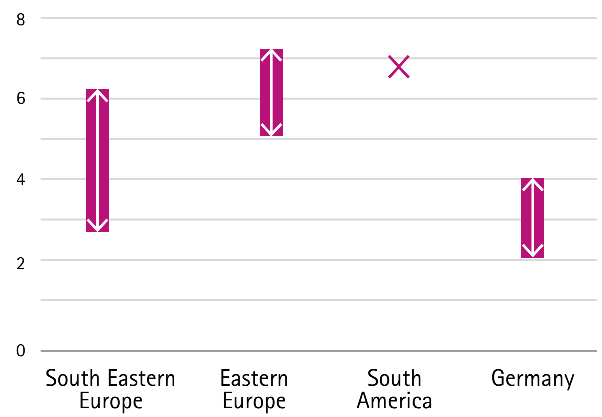
Second, bonuses encourage staff to see their colleagues as rivals, rather than as members of the same team. Third, we do not regard personnel costs as a variable to be adjusted in harder times or simply to boost our RoE. Clearly, employees can partake in the success of the company by investing in shares. However, we consider it a fundamental principle of human dignity that workers receive fair compensation for their work, regardless of companies' short-term circumstances. Fourth, we dare to think about our colleagues as more complex individuals with their history, sensitivity, sense of purpose and dreams, whose behaviour and performance cannot be guided by a simple binary function towards a set of targets. We believe much more in a respectful relationship with our colleagues based on open communication, development options, clear job descriptions, long-term commitment, shared values and sense of purpose. We offer proper salaries to take the issue of money off the table and allow our staff to concentrate on their work.

Also in opposition to so-called best practices, derived from a fascinating set of literature about what the principle of the "CEO pay" should be, we do not have a specific approach to remuneration for our top managers and simply apply the same principle of "no bonus" as for all our staff. The remuneration of ProCredit Holding Management and the banks' management boards does not include any contractually agreed variable components. Their compensation is set by the respective Supervisory Boards.

In the context of over-inflated pay for CEOs, the salaries of our managers are fully reasonable and also in reasonable proportion to the salaries received by our employees. In no ProCredit institution does the average pay of the managers exceed the average pay of the other staff by a factor of more than 4. This is obviously a clear contrast to the very steep salary structures of other banks. It is also a clear illustration of how we conceive and wish to contribute a certain idea of social justice in societies in which it is difficult to find a logical link between salary levels and the role of key actors. Our focus on fairness in terms of salary is further reflected by the low ratio of the highest salary level (including management board members) compared to the median salary across our institutions, which ranges from 2 to 7.2.[11]

[11] Annual compensation ratio as defined by the GRI, i.e. ratio between the highest and the median salary levels.

Range of annual compensation ratios per region in 2020



Reference year: 2020

ProCredit Staff Invest (PCSI) – our employee stock ownership plan (ESOP)

PCSI was set up 20 years ago as an investment vehicle to enable staff members to acquire shares in PCH. The long-term commitment of our managers and key staff is reflected today in their participation in PCSI, which holds approximately 3.0%[12] of the group's capital. PCSI is one of the five core shareholders of PCH as it holds a stake in ProCredit General Partner, which is responsible for the management of PCH and oversees the management and performance of the group. It also entitles staff members to a role in strategic decision-making through their representative's membership of the PCH Supervisory Board. PCSI has indeed the right to nominate one of the six Supervisory Board members of PCH. PCSI invests its entire capital in shares of PCH and has no other business purposes.

What staff turnover really means

Staff turnover rates are often checked by externals and pointed out as a reflection of inefficiency, additional costs and bad management. Even though those assumptions might prove to be true in some cases, one needs to analyse in more depth before being able to assess whether a specific attrition rate is problematic or not. Any comparison with "industry standards" is in the best case superficial and very often wrong.

[12] According to the voting rights notifications as of 3.12.2019

It is simply false to assume that our turnover rate incurs higher costs or is indicative of inefficiencies. We assess our new colleagues very closely during their first year in the group. This is a period during which the new colleagues and the teams can gauge whether there is indeed a fit for a long-term cooperation. During the first 6 months of the Onboarding Programme, the turnover rate is expectedly higher (it ranges typically between 25 and 30%). It is essential to spend time and energy during the Onboarding Programme and the probation period in order to avoid the frustration and costs of a delayed decision. In our mind, true long-term inefficiencies are incurred when time, effort and energy are spent on developing people that have not been able to convince their employer in their first six months on he job. That is the reason why we look at our staff turnover after this first year of onboarding.

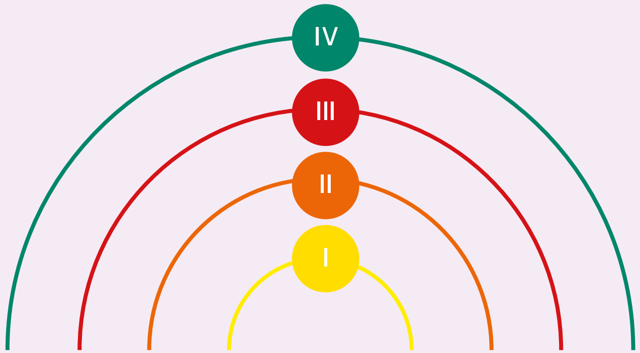
We also make a point of continuously assessing the performance and "fit" of our staff and do not blindly rely on their number of years in the company. As an agile and innovative employer, we acknowledge that some of our staff (a tiny minority) might fatigue, and in these cases we part ways. It is a normal phenomenon, which we do experience, but only occasionally.

Our turnover rate of 8% in 2020 illustrates the adequacy of our recruitment process and staff assessment and is fully compensated by our active and ongoing recruitment.

STAFF DEVELOPMENT

We believe in people and invest a lot in them. We are committed to a humanistic view of the world, a strong belief in knowledge and science as well as a high degree of emotional intelligence. This is what we expect from our staff and what therefore constitutes the pillars of our approach to training and to staff assessment.

Levels of training at ProCredit



Level IV ProCredit Management Academy
Three-year course at ProCredit Academy, preparing selected staff for greater leadership responsibility.

Level III ProCredit Banker Academy
One-year course at ProCredit Academy combining humanities and banking topics. Serves to identify staff with strong management potential.

Level II Specialist courses & workshops
In-depth training in the technical skills needed for specific positions, plus regional and group-level seminars. Regular courses in spoken and written English, the group's working language.

Level I ProCredit Onboarding Programme
6-month integration programme covering all aspects of our development-oriented banking approach, including social and environmental aspects.
Mix of classroom and on the-job training.

When it comes to training, we do not concentrate only on the "happy few" but have developed a comprehensive training continuum for all our staff in which our own Academy in Germany has played a central and unique role ever since it was established in 2006. In the last 10 years, all our new colleagues have been onboarded through our 6-month programme. Today they represent 24% of all staff. All our employees have at least a B1 level of English after years of investment in English courses by our teams of teachers. Last but not least, 15% of our total staff have graduated from or are currently participating in the Management Academy.

Our training curriculum is closely linked to our staff assessment system which views our staff not only as some moving parts of a banking machine but as individuals with their own personal and professional growth path. We consciously refrain from summarising the outcome of our staff assessment with survey-like ratings or even colours, as is often the case in large companies, but rather we focus on establishing an open and comprehensive dialogue and agree on concrete development steps with each of our staff.

Our training approach is comprehensive

It starts on the first day at ProCredit with the 6-month Onboarding Programme[13] for all newcomers in our banks. Specialist job-specific courses as well as group-wide courses on topics that are relevant to all of our employees are offered on a regular basis. The Academy[14] enrols 100 new participants each year to the Banker Academy and 40 to the Management Academy programmes. The Academy also holds regular English language courses, supplementing the banks' local support for their staff's efforts to develop their proficiency in English.

[13] Reference to the brochure on the Onboarding programme available on > our website: https://procredit-holding.com/downloads/#human

[14] Reference to the brochure on the Academy available on > our website: https://procredit-holding.com/downloads/#human

We train people not to enable them to perform predefined tasks but to think how to assess a situation, find solutions and make decisions in new situations in line with our humanistic and scientific view of the world. Half of the curriculum at the Academy is about humanities. This might seem absurd and a waste of time. It would indeed be – but only if one forgets our individual responsibility (even though we work in a bank!) towards the societies we live in.

Reading between the lines of the curriculum, however, the Management Academy programme is designed to promote a strong cadre of managers, whose shared experience of three intensive years of study and collaboration in a close-knit residential setting has forged durable bonds of friendship and respect that stretch across the whole group. The value of these relationships is reflected in open discussion of policy issues, swift and efficient decision-making, and smooth, concerted implementation in all ProCredit institutions.

Since the launch of the Academy in 2006, there has been a massive shift of attitude among participants, which testifies to the impact of our approach. For example, ethnically coloured interpretations of history have given way to objective critical reflection, and staff from different countries collaborate on projects with no sign of the tensions that characterise dealings between their respective governments.

ProCredit Management Academy Programme – Year 2

Block I	Block II	Block III	Block IV	Block V	Block VI	Block VII
Building Effective Arguments	Introduction to Law	Our Resources – Energy and Waste	The ProCredit Approach to Staff Development	Credit Risk	The Internal Control System	Introduction to Economic Theories I
Rome: The Republic	Rome: The Principate	Understanding the Dark Ages: Civilisations of the early Mediaeval World	Contradictions of the Intellectual World of the Middle Ages	The High Middle Ages: Transformation, Crisis and Renewal	Renaissance and Reformation	New Horizons: European Expansion and the New Transatlantic World Economy

Our training methodology is demanding and unique

This training continuum is not only an opportunity for the participants. It also requires strong commitment and a lot of work. Our trainings are not conducted in the conventional classroom style, prevalent in many of our countries of operation, where the teachers talk, students take notes and imitate. In our trainings, participants are active and work in teams, give presentations and participate in debates and discussions. A key objective of many of these trainings is not only to learn “things” but to learn “how to think” based on reason, knowledge and respect, and to think in an “emancipated” way, i.e. freed from preconceived categories and unquestioned theories. This is best illustrated by the wide variety of the humanities courses provided in the Academy, which take participants through intensive values-based discussions and ethical dilemmas and consider the history of religions and of key civilisations or important philosophies from Plato, Aristotle, Locke and Kant to Rawls.

We invest a lot of time and money

The teachers are managers and experienced staff of our banks and of ProCredit Holding and Quipu, who take time from their other duties to transmit their

ProCredit Academy in Fürth, Germany

experiences and share their lessons learned with the colleagues. At ProCredit Academy, we have a team of core teachers in (political science, history, anthropology, English, mathematics) who are fully dedicated to designing and teaching the staff of the group. Even without taking into account the transport costs and time of our own managers and key staff in training, our training costs amounted to EUR 6.1m in 2020. More importantly even, in spite of the challenges related to the pandemic and the suspension of the ProCredit Academy programmes from March 2020, 356,000 hours of training were provided in 2020 to the colleagues in the ProCredit banks, which represents 106 hours of training per employee.

Holistic staff assessment

In many companies, annual staff assessment has transformed very often into a (boring and hated) routine of yearly questionnaires to be filled in by direct supervisors and ends up putting employees into grades, categories or colours that are then used to decide on salaries and/or promotions. Staff assessment is one of the most difficult aspects of management. We have chosen to focus on our employees and their personality, to listen to them, to consider their overall contribution to ProCredit and not merely to instrumentalise and observe them in their role or in terms of the more or less efficient execution of their duties.

Our staff assessment system comprises two interconnected layers: bi-annual feedback talks with the direct supervisor, and annual staff conversations with a senior manager. Feedback talks with direct supervisors provide employees with the department-specific view of their performance and prospects. Staff conversations with a senior manager complement the department-specific view by providing the broader institutional view. At both levels, the aim is to review the individual's performance, in both quantitative and qualitative terms. The assessment also covers their expectations and motivation, as well as their contribution to the working atmosphere, to projects and more generally to the "common good" at ProCredit. It is a genuine two-way exchange in which employees are encouraged to express their thoughts, ideas, impressions and concerns.

This system is a vital factor for the continuity of our HR management in a working environment characterised by a high degree of flexibility and mobility. It also enables the banks to recognise promising staff members and to plan individualised development paths for them, aligning their expectations with those of their banks. In cases where the ambitions and expectations of our colleagues are not in line with the management's perceptions, this is addressed openly. Respecting the human dignity of our employees does not mean all-embracing kindness and vague references to a positive future, but openness and honesty, which includes also discussing limits, beyond which the "Peter Principle" kicks in.

COVID-19 and staff development

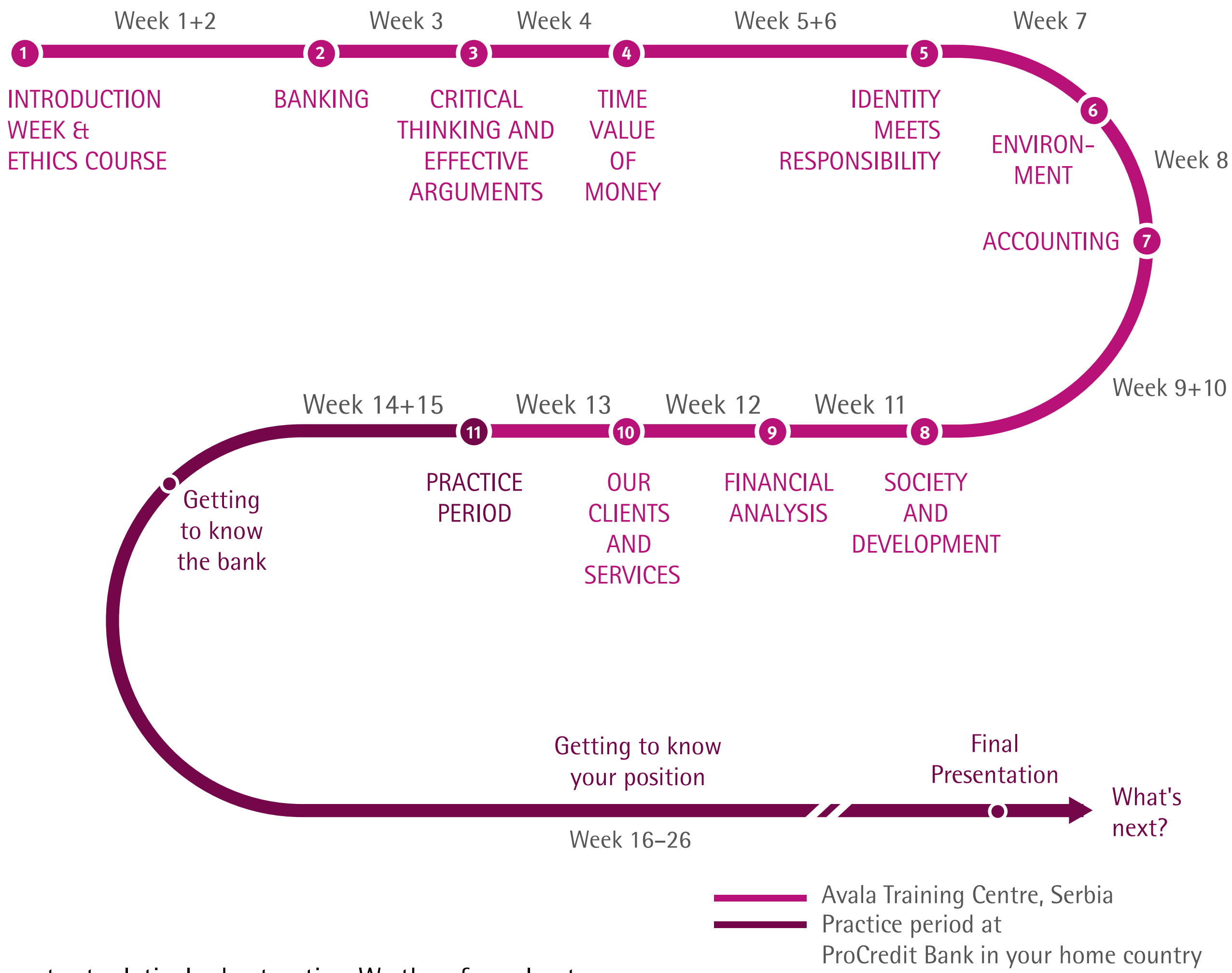
At all levels of our training continuum, we were pushed to adopt online methods quickly, and learned many valuable lessons in both technological and organisational terms.

The Onboarding Programme (see Figure next page) quickly moved online. None of the content was lost and more people were trained than ever before. Specialised training also went online. ProCredit Holding teams organised numerous webinars in 2020, which, as well as allowing large numbers of employees to participate live, also enabled many more to benefit from recorded versions. Thus, our special-topic training was not slowed down by COVID-19 – on the contrary, it actually helped to accelerate the spread of knowledge in some cases and included even more participants than a physical meeting would have allowed. Already in April, ProCredit's language instructors began offering online English courses. The radical reorganisation of the concept, especially to compensate for the absence of opportunities to use English outside the classroom, yielded many valuable insights for other training courses.

Given the importance of in-person interaction in a shared physical location for the Academy's underlying objectives, the group decided to suspend the regular Banker Academy and Management Academy programmes for a year. Instead, resources were devoted to developing expertise in the application of online media through the creation of specially tailored courses on topical subjects, such as conspiracy theories, populism and climate change. Building on the experience thus gained, the Academy curricula resumed in 2021, albeit initially in an online format until it is safe for all to reopen the doors of our wonderful facility in the Odenwald region of Germany.

Overall, COVID-19 dealt a severe blow to our training ambitions, but in our efforts to overcome it we discovered even more opportunities for enhancing our impact in the future. Even after the pandemic recedes and face-to-face teaching becomes possible again, ProCredit will continue to offer some training online, especially in cases where it makes economic and environmental sense to form groups of partici-

Onboarding Programme – a chronological overview



pants at relatively short notice. We therefore plan to consolidate the lessons learned in 2020 to create a uniform training platform and an array of standard tools that can be used in conjunction with the group's general communication and collaboration platform based on MS Teams and Office 365.

SUPPLEMENTARY INFORMATION

PROCREDIT AT A GLANCE

General operational information

The parent company of the group, ProCredit Holding AG & Co. KGaA (ProCredit Holding), is headquartered in Frankfurt, Germany and controls 100% of shares in all the ProCredit banks. ProCredit Holding has been licensed by the German Federal Financial Supervisory Authority (BaFin) as the superordinated company of the group.

The main functions of ProCredit Holding vis-à-vis its subsidiaries are strategic guidance and supervision, and the provision of equity and debt financing. It is responsible for ensuring that all reporting, risk management and compliance obligations required under German banking regulations are met, particularly in relation to risk management and the prevention of money laundering, fraud and the financing of terrorism. To this end, ProCredit Holding sets the overall policy guidelines and standards regarding all key areas of banking operations and it ensures that all ProCredit institutions have appropriate organisational structures and procedures in place that reflect these policies. Specifically, it ensures that controlling, risk management and compliance systems are in place across the group, and that they are in line with the principles and standards set forth in BaFin's policy document, the "Minimum Requirements for Risk Management" (MaRisk).

At the end of 2020, the institutions comprising the ProCredit group are primarily the 12 legally independent ProCredit banks, ProCredit Holding, the ProCredit Academy in Fürth, Germany, and the 100%-owned IT subsidiary Quipu.

Structure of the ProCredit group

ProCredit Holding AG & Co. KGaA

Quipu GmbH – IT service provider

12 ProCredit banks

ProCredit Academy GmbH – training centre

Governance structure and committees

The legal form of ProCredit Holding is a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA). The general partner is ProCredit General Partner AG, an independent company owned by the core shareholders (Zeitinger Invest GmbH, KfW, DOEN Participaties BV, IFC and ProCredit Staff Invest GmbH & Co. KG). These core shareholders, who also own the majority of the shares in ProCredit Holding and share a commitment both to development impact and to commercial success, have guided the activities of the group since its foundation and make a material contribution to the success of the ProCredit group. Please visit our > ProCredit Holding website for more information.

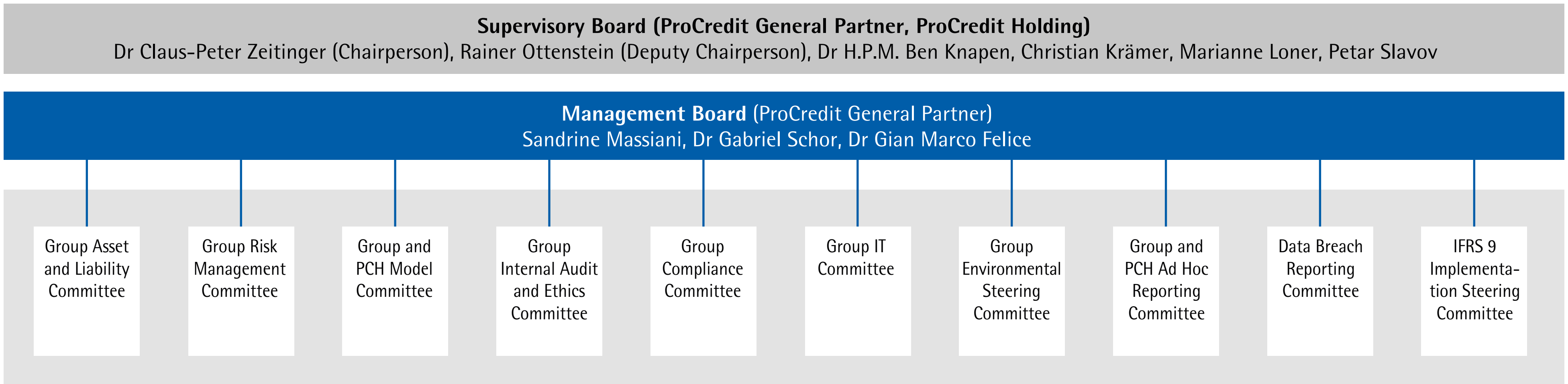
Under the KGaA structure described above, ProCredit General Partner AG is responsible for managing ProCredit Holding. The Supervisory Boards of ProCredit General Partner AG and ProCredit Holding comprise the same six individuals. The Supervisory Board has determined that insofar as possible all members should have a good understanding of and interest in development finance and sustainability. This enables them to actively oversee and contribute to impact-related aspects of group performance. In line with the new banking law, in early 2021, the Supervisory Board appointed a Risk and Audit Committee, a Remuneration Control Committee, and a Nomination Committee.

The individuals appointed by the Supervisory Board to the Management Board of ProCredit General Partner are also the managers of ProCredit Holding. That is why, in this report, we refer to the "Management Board" of ProCredit General Partner AG, but to the "Management" of ProCredit Holding, even though in practice they are the same. The Management reports regularly to the Supervisory Board on the business, risk and IT strategies of the group and on their implementation. Impact and sustainability aspects of the ProCredit group's performance are integrated into the business, risk and IT strategies.

All members of the Supervisory Board aim to act as independent members within the provisions of the German Stock Corporation Act and the CGC.

The Management Board has set up specialist committees, such as the Group Risk Management Committee, Group Compliance Committee, and Group IT Committee. The committees support and advise the Management with regard to monitoring and steering the development of all ProCredit institutions and defining the overarching policies to be implemented by them. Our Group Environmental Steering Committee, for example, is chaired by a member of Management and defines the strategy with respect to green finance, sustainability and impact reporting.

Governance structure and committees



Target clients and main financial services

Target clients

Private clients

- Entrepreneurs and salary receivers, people with regular income
- Private clients who want frequent and easy access to high-quality, comprehensive and convenient banking services via ProCredit Direct

SMEs

- Sustainable business models and formalised structures
- Focused on agriculture, manufacturing, environmentally sound investments and regionally active in our countries of operation

FINANCIAL SERVICES

Modern channels for banking services

- Electronic banking
- Mobile banking
- Card payments and other card services
- Contact Centre

Lending

Private clients

- Housing loans
- Investment loans
- Overdrafts (FlexFund)

SMEs

- Full range of business loans – investment and working capital loans
- Green loans
- Liquidity management and documentary business

Accounts and savings

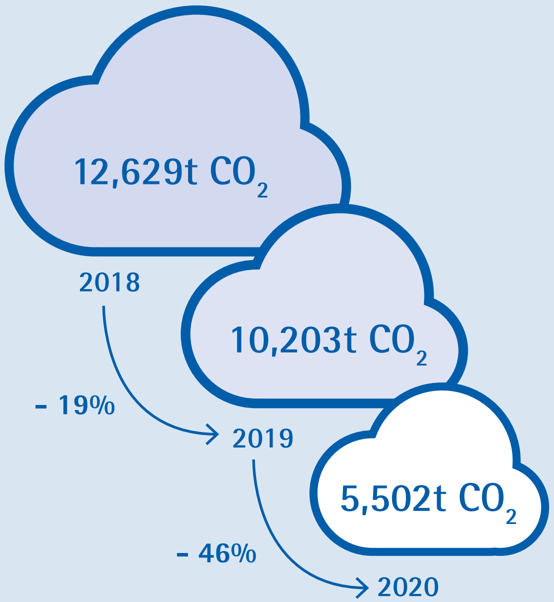
- Current accounts
- Flexible savings (FlexSave)
- Term deposit accounts

Sustainability goals and achievements

In 2018, the ProCredit group set itself specific medium-term goals. Here we report on our progress towards those goals.

CARBON NEUTRALITY

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



Our carbon footprint was further significantly reduced this year, but this was partly due to the pandemic, especially the almost total absence of international travel. Nonetheless, we have continued to systematically implement measures to reduce our own carbon footprint. We have continued greening our premises by investing in energy efficient equipment, sourcing renewable energy and changing our car fleet from conventional fuel to mainly electric and (plug-in) hybrid vehicles. Additionally, we are ambitious in reducing indirect emissions by avoiding the use of plastic materials on our premises too. In this context, we organised specific awareness training across all banks, conducted plastic inventory assessments in order to understand our actual plastic footprint, and defined best practices which we disseminated in guidance leaflets for our colleagues in order to systematically avoid plastic in the office.

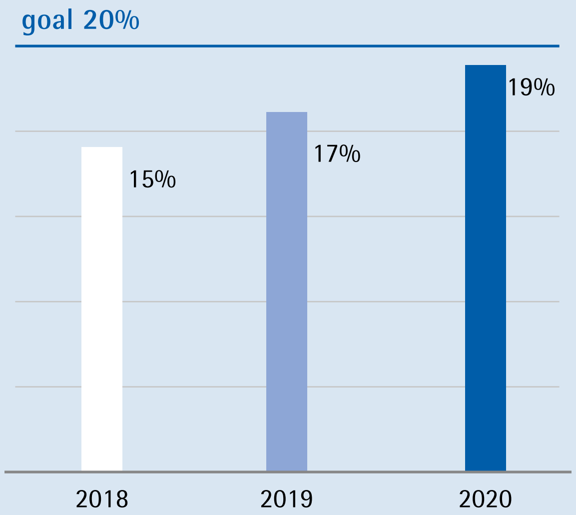
In the coming years certain measures which were only introduced as response to the pandemic in 2020 will remain in place after the pandemic subsides, e.g. a ban on domestic flights where feasible, and increased use of teleconferencing and online training methods compared with pre-crisis levels.

Specific achievements as of end-2020:

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

20% GREEN LOANS

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



We are already very close to achieving this goal: the share of green loans in our portfolio has been rising continuously since 2015, and we expect to reach the 20% threshold already next year, even though our criteria are becoming stricter and the overall volume of lending is increasing.

Specific achievements as of end-2020:

- Size of green loan portfolio: EUR 985m
- Growth of green loan portfolio in 2020: 24%
- Green investment loans as a share of total investment loans: 24%
- Main focus: Energy efficiency and renewable energy, especially photovoltaics (see Tailored RE project finance, >p. 46ff)

STAFF COMPETENCE

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

Specific achievements as of end-2020:

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

Courses on environmental and social topics have always formed a key component of our long-term training programmes – the Onboarding Programme, the Banker Academy and the Management Academy. They also feature prominently in the materials used in our English language courses. In addition, all ProCredit institutions hold regular training sessions dedicated to environmental awareness and various aspects of environmental and social risk assessment, operational risk, information security risk and the corporate values embodied in our Code of Conduct.

Given that discursive and interactive formats in a classroom setting are such a prominent part of our training methodology, COVID-19 presented a huge challenge to ProCredit's staff capacity building in 2020. Nonetheless, thanks to the inventiveness of our trainers and the technological infrastructure we had – or put – in place, we were able to adapt some of our programmes to digital formats, and thus continued to make steady progress towards this goal.

Progress in terms of environmental competence can be seen, for example, in the excellent results of our green lending operations. A year-on-year comparison of the content of our annual Green Seminars also shows that the topics are becoming increasingly complex, which reflects the rising level of expertise of our staff in the banks.

MATERIALITY AND IMPACT REPORTING

Reporting approach

This report presents the ProCredit group's impact on economic, environmental and social sustainability in our countries of operation in 2020. The group consists of ProCredit Holding AG & Co. KGaA, the 12 ProCredit banks worldwide, ProCredit Academy GmbH and Quipu GmbH. GRI Standards in terms of content and quality have been applied throughout.

Stakeholder inclusiveness and **materiality** were assured by conducting a materiality assessment, described more in detail on > p. 73, in which staff, clients, and shareholders as well as management of ProCredit Holding and ProCredit banks were actively engaged.

The **sustainability context** is outlined on > pages 13f, providing the benchmarks against which we gauge our performance. This context is monitored continuously by the management of the banks and the ProCredit group at national, regional and group-wide level.

To ensure **completeness**, we regularly review and supplement the range of indicators we use to measure our impact (see our performance indicators > pages 81ff).

Accuracy: Audited information is used whenever available, and all sources are correctly referenced. We describe in detail the measurement methodology for our data collection and the bases used for our calculations.

Balance: We strive to weigh our achievements against the corresponding risks, allow for differences across the group, and acknowledge the challenges that we have identified but have not yet been able to address satisfactorily.

Clarity: We aim for clear communication, supporting our statements with graphics where appropriate, systematising key information in overview tables and providing transparent explanations of the complex data included in the report.

Comparability: We place our impact in context by stating it in relation to comparable data from previous years, other companies in our "peer group", and other relevant benchmarks. Comparison with past performance is also facilitated by the fact that this report follows a similar performance indicators structure as our Impact Reports for previous years, downloadable from the > ProCredit Holding website.

Reliability: This report contains information from ProCredit publications that are subject to independent external review, including the > Annual Report, and the Environmental Statement for the four ProCredit institutions based in Germany, which is reviewed as part of the EMAS certification process.

Timeliness: Every effort has been made to report the most recent data available as of the publication date.

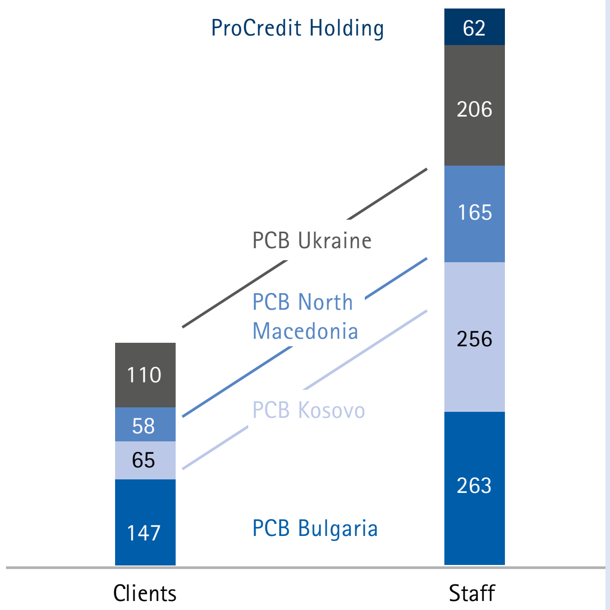
Stakeholder engagement and materiality analysis

To ensure that the ProCredit group continues to address the sustainability concerns of our internal and external stakeholders, we use every employee workshop, every discussion with clients and every shareholders' meeting as an opportunity to exchange views that enable us to fine-tune our sustainability approach. In addition to this ongoing review, we conduct a detailed survey among a range of stakeholders at least every three years to verify that the topics covered in the Impact Report are still the most important ones.

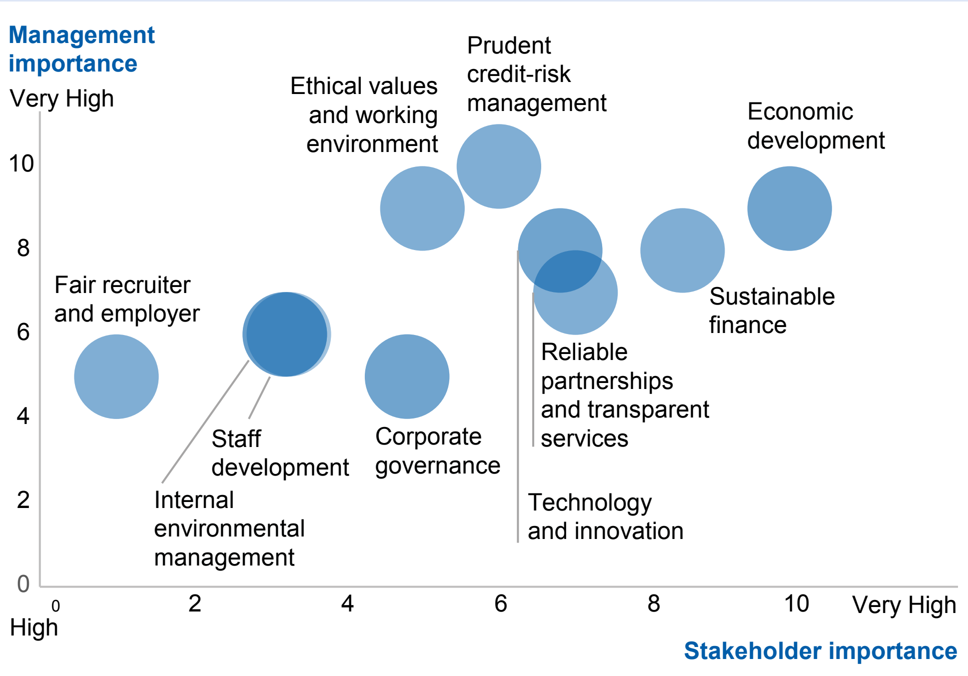
Although 2020 is the third year following the initial stakeholder engagement, we decided, in view of the highly exceptional circumstances that prevailed this year, to limit the survey to a reassessment of the previously identified material topics and not to consider the inclusion of entirely new topics – apart from the handling of the pandemic, of course. A number of new aspects were raised during the discussion with management, which are discussed in this report under the rearranged headings.

As in the past, the 2020 stakeholder engagement consisted of three stages. First a workshop was held at which 8 managers from ProCredit Holding and the ProCredit banks discussed and assessed the material topics facing the group and rated their relative importance. In this context, it was also agreed to engage with the closest stakeholder groups, namely clients, staff and shareholders. Then an online survey among four banks was conducted, to which a total of 380 clients (including 253 business clients) and 952 staff members responded, plus 62 staff members of ProCredit Holding. Six shareholders were also polled. These shareholders are Zeitinger Invest, KfW, DOEN, IFC, EBRD and ProCredit Staff Invest. All participants were asked to select and rank their key material topics. Finally, the results were consolidated in a materiality matrix.

Number of stakeholders consulted – clients and staff



We consulted a total of 380 clients and 952 employees, representing ProCredit institutions of different sizes in different regions.



1. Management engagement workshop

- May 2020
- 8 participants
- Brainstorming on new topics to include plus rating and re-formulation of existing key sustainability (material) topics

2. Stakeholder engagement

- July-September 2020
- Ranking the importance of key material topics by staff, shareholders and clients

3. Materiality matrix

- Combined display of material topic ranking based on management and stakeholder engagement

We mapped our material topics according to their importance for our business (management evaluation) and the stakeholders' perception of their importance. A direct comparison with the 2017 assessment is not possible as we grouped together some of the topics that were considered separately in 2017. However, issues such as economic development, sustainable finance, reliable partnerships and transparent services clearly remained a top priority. In this report we even enhanced the aspects we addressed under each material topic. It is to highlight that despite the ranking all of these topics are of high importance to us.

Methodological note:
Management engagement:
A total of 8 participants evaluated the importance of the different topics on a scale from 1 to 5 (1=Not important 5=Very important). For each topic, two importance levels were assigned, one considering the short-term scenario (the pandemic situation), the other considering the long-term scenario (assuming the pandemic is over). The rating was conducted using Microsoft Forms. Based on the average score each material topic received, we rated the topics from 10 to 1, with 10 being the highest (most important) rate. All topics were found to be relevant to management, and the scores were very close. Indeed, some topics received the same score and hence the same rate. For the purpose of compiling the materiality matrix, the scores for the short-term scenario were used.
Stakeholder engagement:
Survey participants were asked to select the five most important topics out of the 10 topics presented and rank the five chosen topics according to their importance (1 being the most important rank) for the short-term and long-term scenario, respectively. In order to rate the material topics per stakeholder group, considering not only the ranking received but also the number of people who selected the topic, a weighted score per stakeholder group was calculated for each of the material topics. According to their score the material topics were rated from 10 to 1, with 10 being the highest (most important) rate. The combined rating for the three stakeholder groups was achieved by weighting the shareholders rate at 20% and the clients and staff rates at 40% for each material topic. For the materiality matrix, the scores for the short-term scenario were used. The survey was conducted via SurveyMonkey.

SDGs, MATERIAL TOPICS AND TARGETS

As in last year's report, we established a direct link between our key material topics and the selected SDGs and their respective targets. The matching is based on our own understanding of our areas of impact and their specific contribution to the SDGs while also taking into consideration relevant guidance documents provided by the UN Global Compact and GRI.

SDG and related material topic(s)	Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
5 GENDER EQUALITY **Staff development** **Fair recruiter and employer**	END DISCRIMINATION AGAINST WOMEN AND GIRLS 5.1 End all forms of discrimination against all women and girls everywhere	*"Embedding the principle of gender equality in policies and processes for both employees and governing bodies throughout its operations and supply chains, including recruitment, remuneration/benefits, training, promotion, and development reviews. Paying equal remuneration, including benefits, for work of equal value."* • Transparent performance management and long-term career perspective, taking the personal and family situation of individuals into account. Clearly structured staff recruitment approach defined in the ProCredit Group Human Resources Policy. • The broad-based 3-year programme of the Management Academy actively fosters women in its spirit of active learning, solidarity, friendliness, values and principles. • Transparent salary structure with fixed salaries which are defined in the Group Human Resources Policy • 0 incidents of reported discrimination in 2020. • At the ProCredit banks in Eastern Europe and Latin America, which are comparable in terms of organisation and the functions contained therein, the salary ratios of woman to men listed below can be observed for the following positions: - Members of the management boards: -2.0% - Middle managers: -2.4% - Business client advisors: 2.1% - Credit risk specialists: -3.6%
Ethical values and working environment	ENSURE FULL PARTICIPATION IN LEADERSHIP AND DECISION-MAKING 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	*"... Including proactively recruiting and appointing women to managerial and executive positions..."* • Females account for 47% of the management board members in the ProCredit banks and for 44% in the whole group. • The average number of consecutive years for female management board members is 12.2 years, compared to 12.0 years for male management board members, demonstrating that women in leading positions are encouraged to stay long-term.

Relevant Business actions according to GRI and UNGC: An analysis of the goals and targets (2017)
• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

SDG and related material topic(s)	Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
7 AFFORDABLE AND CLEAN ENERGY **Environmental management** **Sustainable finance**	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	*"...Monitoring and reporting on the amount of energy produced, purchased and consumed, according to source. Supporting new business models to deliver sustainable and renewable energy..."* • Energy consumption within the organisation (60% of electricity from renewable energy sources) • Installed renewable energy capacity at own premises (399.8 kWp) • RE projects in loan portfolio (174.7 MW installed capacity)
	7.3 By 2030, double the global rate of improvement in energy efficiency	*"...Reducing energy consumption in own operations e.g. through energy efficient technologies, obtaining sustainability certification for buildings. Creating new business models to deliver energy efficiency technologies..."* • Total energy intensity (5,488.1 kWh/employee) • Total energy consumption reduced by -18% between 2018 and 2020. • EE promoted through green loan products (595.2 EUR m EE loans), pushing industry standards forward with min. of 20% energy savings for eligibility
8 DECENT WORK AND ECONOMIC GROWTH **Technology and innovation**	8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	*"...Increasing economic productivity through co-developing technology with start-ups and investing in innovation and technology which responds to local needs..."* • Continuous development of the Direct Banking strategy: Digitalisation of financial and non-financial services • By end of April 2020 79% of employees equipped for working from home; from July 2020, all employees are equipped for working from home
Economic development	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services	*"...Encouraging the formalisation and growth of SMEs, including through access to financial services and not doing business with companies that are not legally registered..."* • Significant indirect economic impact through promoting SMEs in transition economies
Sustainable finance **Environmental management**	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead	*"...Responsibly influencing consumer and consumption patterns and promoting sustainable consumption and lifestyles through, for instance, product development and marketing. Applying sustainability aspects to suppliers, not only to reduce the cost of supply but also to simultaneously implement efficiency measures and reduce the environmental footprint in the supply chain. Improving the efficiency of use of energy, water, (raw) materials and other resources..."* • Annual selection of green topics with marketing activities in order to address clients, employees and the general public across all ProCredit countries • Printing paper use reduced by -26%, water use reduced by -21% compared to 2019 • Development of sustainable procurement guidelines including definition of what a sustainable supplier is

Relevant Business actions according to GRI and UNGC: An analysis of the goals and targets (2017)
• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

SDG and related material topic(s)	Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
Fair recruiter and employer	 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	*"...Establishing a zero-tolerance policy towards all forms of violence in the workplace and preventing sexual harassment. Ensuring non-discrimination in recruitment, remuneration and working status. Paying at a minimum the living wage. Paying wages adequate to satisfy the basic needs of employees and their families, and maintaining regular payment of wages..."* • New employee hires from all age groups and no significant differences in turnover rates across gender • Key principles of what constitutes the ProCredit 'res publica' institutionalised through Code of Conduct • Entry level salaries paid are significantly above minimum wage for job entry levels (ratio of 164%) • The Group Human Resources Policy ensures a transparent salary structure with fixed salaries
Prudent credit risk management	 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms	*"...Developing policies and procedures in order to address incidences or suspected incidences throughout business activities, and incorporating these in the codes of conduct around acceptable employee behaviour and the recruitment and procurement process..."* • Exclusion List forbids establishing a business relationship with clients or suppliers which engage in activities involving harmful or exploitative forms of forced labour/harmful child labour • Review of human rights compliance complemented by compliance with Exclusion List (by suppliers and clients alike)
Ethical values and working environment	 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	*"...Implementing policies committing to freedom of association and collective bargaining, health and safety, no discrimination, combating workplace violence and rights awareness among workforce and share those values with all stakeholders. Building screening mechanisms and ensuring consistent practices in own supply chains..."* • Code of Conduct (including rigid Exclusion List) as ethical compass publicly accessible to all stakeholders • All potential suppliers subject to a screening process to make sure they meet all of our environmental and social criteria and the core values laid out in our Code of Conduct • All employees have the opportunity to receive English classes. The international environment with a huge range of different country backgrounds promotes inclusion and diversity amongst staff. • ProCredit institutions provide a range of different benefits to their employees, e.g. sponsoring or subsidising private health insurance costs, sport events or public transport.

Relevant Business actions according to GRI and UNGC: An analysis of the goals and targets (2017)
• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

SDG and related material topic(s)	Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE **Economic development** **Sustainable finance**	INCREASE ACCESS TO FINANCIAL SERVICES AND MARKETS 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	*"...In this context, working with the public sector and local organisations to build up networks ensuring financial inclusion and equal access for SMEs, smallholders, and business led by the vulnerable. Providing innovative financing mechanisms like green bonds and impact investing to foster a sustainable domestic economy..."* • Promotion of the InnovFin SME Guarantee facility financed by the EU • Issue of first green bond for emerging countries with IFC to promote green investments by SMEs • Financing energy communities
Sustainable finance	UPGRADE ALL INDUSTRIES AND INFRASTRUCTURES FOR SUSTAINABILITY 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	*"...Innovating and/or investing in energy efficiency in buildings, road safety equipment, autonomous vehicles, smart metering, water and sanitation infrastructure, timber buildings and additive manufacturing, GHG reduction..."* • ProCredit promotes investments in energy and resource efficiency, renewable energies and environmental protection • ProCredit invests in greening its premises following the green building standard scheme EDGE
10 REDUCED INEQUALITIES **Economic development**	PROMOTE UNIVERSAL SOCIAL, ECONOMIC AND POLITICAL INCLUSION 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status IMPROVED REGULATION OF GLOBAL FINANCIAL MARKETS AND INSTITUTIONS 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	*"...Respecting internationally recognised principles standards and frameworks such as human rights. Complying with national and international financial regulations and ensuring that all interactions with other parties (including suppliers) are compliant with such laws. Adopting best practice where laws in an individual country are less stringent than those of other operating countries. Adhering to international standards as a minimum requirement and identifying ways to go further..."* • By pursuing international standards and best practices that often go beyond the requirements of local regulations (for instance when it comes to environmental and social risk management, procurement practices and internal environmental management), the ProCredit group contributes significantly to change in our regions of operation. Specifically, ProCredit's business activities contribute to stimulating the GDP of less-developed European countries and to reducing inequality in our countries of operation in comparison to Western Europe.

Relevant Business actions according to GRI and UNGC: An analysis of the goals and targets (2017)
• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

SDG and related material topic(s)	Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
12 RESPONSIBLE CONSUMPTION AND PRODUCTION **Sustainable finance** **Environmental management**	12.2 By 2030, achieve the sustainable management and efficient use of natural resources	*"...Understanding sustainable management and resource efficiency in all operations, products and services. Establishing and maintaining proactive environmental management systems. Establishing measurable objectives and/or targets for improved environmental performance and resource utilisation. Regularly tracking and reporting energy, water and materials consumed and treated in business operations and improving efficiency by reusing/recycling..."* • Promotion of green financial products • Regular certification of environmental management systems in all institutions following EMAS (German entities) or ISO 14001 (banks)
Environmental management	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	*"...Implementing circular business models such as using renewable, bio-based or fully recyclable inputs, recovering resources, extending product lifecycle. Tracking and reporting waste generated by type, treatment and disposal destination..."* • Plastic waste reduced by 19% compared to 2019 • 100% use of either certified or recycled paper in all ProCredit institutions • Development of group-wide strategy and Exclusion List to reduce the production and use of plastic
13 CLIMATE ACTION **Sustainable finance**	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	*"...Identifying risks and opportunities caused by climate change. Investing in environmental protection and improving the resilience to environmental hazards and resource scarcity throughout operations and the supply chain. Setting science-based GHG reduction targets in line with the goals of the Paris Agreement..."* • 18.7% of green loans in our total loan portfolio – of which almost 98% are loans to the SME sector (31 Dec. 2020) • Sustainability objective in the medium term: Become carbon neutral by 2023 • 267,210 tCO_2 of carbon emissions avoided in green portfolio via investment in EE, RE and other environmentally friendly projects (2020) • Analysis to identify and evaluate climate risks in lending is ongoing
Environmental management	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	*"...Raising awareness and understanding among clients, investors and employees about climate change and natural disaster reduction through, for instance, providing training and educational activities, and having a clear communication strategy around risks, goals and the associated benefits. Communicating transparently to help identify the resources needed in the business' corporate climate policies, adaptation strategies and environmental investments..."* • Specific green training for specialist staff, general green training for all staff • Regular eco newsletter to all staff • Total of 13,353 hours of environmental training.

Relevant business actions according to GRI and UNGC: An analysis of the goals and targets (2017)
• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

SDG and related material topic(s)		Target associated	Selection of relevant business actions/indicators which contribute to meeting the target
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	**Corporate governance**	(PROMOTE THE RULE OF LAW AND ENSURE EQUAL ACCESS TO JUSTICE) 16.3 Promote the rule of law at the national and international levels and ensure equal access to justice for all	*"...Respecting the rule of law by respecting human rights and universal principles, not engaging in corruption, and not fuelling conflict. Modelling responsible conduct in the business' corporate values, policies and processes and throughout the business' value chain, doing no harm and implementing robust management procedures. Establishing strategies that incorporate business compliance, legitimacy and license to operate. Reviewing codes of conduct and standards of behaviour, implementing internal and external mechanisms for reporting unlawful behaviour, having appropriate escalation methods, and disclosing information on legal compliance systems (including information on sanctions for noncompliance with laws and regulations about human rights)..."* • 0 incidents of non-compliance with environmental laws and regulations • 0 incidents on non-compliance with social/economical laws and regulations
		(COMBAT ORGANIZED CRIME AND ILLICIT FINANCIAL AND ARMS FLOWS) 16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime	*"...Complying with domestic and international law and frameworks regarding arms, financial conduct and crime. Using audited annual reporting (both financial and non-financial) to ensure transparency of activities and identifying and eliminating any illicit flows..."* • All ProCredit institutions apply German and EU regulatory standards, local AML regulations as well as international best-practice methods for the prevention of money laundering and other financial crimes • Exclusion List clearly forbids financing activities involving production or trade of weapons and munitions • Audited financial and non-financial reports available online: https://www.procredit-holding.com/downloads/
		(SUBSTANTIALLY REDUCE CORRUPTION AND BRIBERY) 16.5 Substantially reduce corruption and bribery in all their forms (DEVELOP EFFECTIVE, ACCOUNTABLE AND TRANSPARENT INSTITUTIONS) 16.6 Develop effective, accountable and transparent institutions at all levels	*"...Developing policies and programs to effectively address all forms of corruption. Understanding anti-bribery and corruption governance expectations from stakeholders and prohibiting bribery in any form whether direct or indirect. Providing capacity to develop effective, accountable and transparent institutions..."* • All banks operate specialised software systems to identify financial crime • 3,276 people trained (course content: financial crime risk and anti-money laundering) • Anti-corruption policies publicly available via Code of Conduct • Group-wide Code of Conduct training and updates • 100% of client accounts screened against financial crime risks (including corruption risks) • Number of significant risks related to corruption identified in 2020: 38
	Reliable partnerships and transparent services	(ENSURE PUBLIC ACCESS TO INFORMATION AND PROTECT FUNDAMENTAL FREEDOMS) 16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements	*"...Not misrepresenting nor omitting information about deceptive, misleading, fraudulent or unfair practices and providing sufficient information for consumers to make informed decisions. Preventing violation of consumer privacy, including security breaches, for business involved in collecting personal data from consumers..."* • Total number of data related client complaints received in 2020: 9

Relevant Business actions according to GRI and UNGC: An analysis of the goals and targets (2017)

• Relevant indicators and facts underpinning the business actions taken by the ProCredit group

PERFORMANCE INDICATORS

Our Socially Responsible Approach

Sustainability context

Indicator	Ref. year	Albania	Bosnia & Herzeg.	Bulgaria	Ecuador	Georgia	Kosovo	North Maced.	Moldova	Romania	Serbia	Ukraine	EU 28	Germany
Air pollution (PM2.5; mean annual exposure in mcg/m3) [1]	2017	18.2	27.7	19.1	14.9	22.2	n/a	29.7	16.3	14.6	24.7	20.3	13.5	12.0
Unemployment (% of total labour force) (modelled ILO estimate) [1]	2020	11.7	16.9	5.7	6.2	12.1	25.6	18.4	4.7	4.8	9.1	9.5	7.4*	4.3
Energy efficiency investment needs in all types of buildings in WB6 2011-2020 (EUR million) [2]	2020	388	783	n/a	n/a	n/a	328	302	n/a	n/a	1,636	n/a	n/a	n/a
Energy efficiency investments in all types of buildings in WB6 2010-2020 (EUR million) [2]	2020	54	253	n/a	n/a	n/a	83	160	n/a	n/a	415	n/a	n/a	n/a
Investment gap in energy efficiency in building programmes (EUR million) [2]	2020	334	530	n/a	n/a	n/a	245	142	n/a	n/a	1,221	n/a	n/a	n/a
Degree of implementation in the renewable energy sector (%) [3, 4]	2020	59	48	n/a	n/a	33	56	65	58	n/a	58	52	n/a	n/a
Degree of implementation in the climate sector (%) [3, 4]	2020	40	36	n/a	n/a	43	40	56	43	n/a	24	51	n/a	n/a

* EU27
** Western Europe & European Union

Indicator	Ref. year	Albania	Bosnia & Herzeg.	Bulgaria	Ecuador	Georgia	Kosovo	North Maced.	Moldova	Romania	Serbia	Ukraine	EU 28	Germany
Energy intensity per unit of GDP (SDG 7.3) MJ/USD (2011 PPP) [5]	1990	7.6	46.6	14.5	3.5	13.6	n/a	5.4	14.1	9.8	7.0	19.4	n/a	5.9
	1995	4.2	8.9	13.6	3.7	14.4	n/a	6.9	17.0	8.3	10.2	26.3	n/a	5.1
	2000	4.5	7.6	10.8	4.0	8.4	n/a	6.4	11.8	6.5	9.5	23.8	n/a	4.7
	2005	4.1	6.7	8.8	3.3	5.8	n/a	6.3	10.3	5.3	8.3	17.2	n/a	4.6
	2010	3.1	7.5	6.6	3.5	5.0	n/a	5.1	9.3	4.2	6.7	15.5	n/a	4.1
	2015	2.9	6.7	6.4	3.6	5.8	n/a	4.2	7.7	3.3	6.1	12.2	n/a	3.6
	2017	2.9	6.9	6.0	3.5	5.6	n/a	4.2	7.3	3.0	6.1	11.2	n/a	3.5
CO_2 emissions per unit of GDP (kg CO_2/2015 USD) [5]	2018	0.3	1.3	0.7	0.4	0.5	1.1	0.7	0.9	0.3	1.0	1.8	0.2	0.2
Transparency International Corruption Perceptions Index Score (0 = highly corrupt. 100 = very clean) [6]	2019	35	36	43	38	56	36	35	32	44	39	30	66	80
GDP per capita. current prices (USD per capita) [7]	2020	4.898	5.762	9.826	5.316	4.405	4.141	6.019	4.268	12.813	7.497	3.425	33.563	45.466
SDG indicator 5.5.2 - Female share of employment in managerial positions (%) [8]	2019	41.3	25.4	39.3	37.1	n/a	14.3	28.2	n/a	34.2	33.6	n/a	n/a	28.6
Equal treatment and absence of discrimination (0 = Very unlikely. 1 = Very likely) [9]	2019	0.6	0.6	0.6	0.5	0.6	n/a	0.6	0.5	0.7	0.6	0.7	n/a	0.8

Data sources and notes on methodology:

[1] World Development Indicators 2020 (last updated 16 Dec. 2020). available online at: https://databank.worldbank.org/source/world-development-indicators (accessed on 22 Feb. 2021). For unemployment data. national estimate from 2019 was used for Kosovo in absence of modelled ILO estimate.

[2] WB6 Energy Transition Tracker - compiled and calculated by the Energy Community Secretariat. available online at www.energy-community.org (accessed on 25 Jan. 2021)

[3] Annual Implementation Report 2020. Energy Community Secretariat. available online at www.energy-community.org (accessed on 25 Jan. 2021)

[4] The implementation assessment is based on a system of performance indicators. The overall implementation score for each Contracting Party and overall (average) implementation score for the Energy Community is calculated based on the sectoral indicators. All of the values are rounded to percentages between 0% and 100%. where 100% implies full implementation.

[5] International Energy Agency data browser. available online at https://www.iea.org/regions/europe. Reference year 2017. (accessed 22 Feb. 2021)

[6] Transparency International: Corruption Perceptions Index 2019. available online at: https://www.transparency.org/cpi2018 (accessed 25 Jan. 2021)

[7] International Monetary Fund. available online at: https://www.imf.org/external/datamapper/profile/WEOWORLD (accessed 25 Jan. 2021)

[8] ILOSTAT. SDG labour market indicators (ILOSDG) available online at https://ilostat.ilo.org/topics/sdg/ (25 Jan. 2021)

[9] The World Bank (2020), GovData360, available online at https://govdata360.worldbank.org/ (accessed on 22 Feb. 2021).

Our approach to clients

For details see > page 32 and >Annual Report 2020

Total number of client complaints received by type and origin

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Total number of client complaints received	814	705	107	144	54	65	6	4	981	**918**
Number of these complaints that resulted (or are highly likely to result) in a court case	44	38	1	4	0	0	0	0	45	**42**
Number of complaints related to data protection	3	6	1	3	0	0	0	0	4	**9**
of which from customers	3	4	1	3	0	0	0	0	4	**7**
of which from regulatory bodies	0	2	0	0	0	0	0	0	0	**2**
Total number of identified leaks, thefts, or losses of customer data	0	0	0	2	0	1	0	0	0	**3**

Source: AML database
Audited: No

Technology and innovation

Automation of transactions

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Total number of transactions	2,849,760	**2,944,295**	971,727	**977,281**	130,640	**134,174**	4,250	**4,941**	3,956,377	**4,060,691**
of which:										
Electronic transactions via e-banking	49.2%	50.4%	58.1%	60.3%	34.5%	35.4%	94.9%	93.8%	51.0%	**52.3%**
POS transactions	31.2%	32.5%	27.7%	26.8%	16.2%	19.0%	0.0%	0.0%	29.8%	**30.6%**
ATM operations (incl. drop box)	17.2%	15.2%	12.0%	9.6%	46.3%	42.9%	0.0%	0.0%	16.8%	**14.7%**
Standing order transactions	0.5%	0.4%	0.0%	0.0%	2.6%	2.4%	0.0%	0.0%	0.4%	**0.4%**
Transactions using paper payment orders	1.9%	1.5%	2.0%	3.2%	0.3%	0.3%	5.1%	6.2%	1.9%	**1.8%**
Transactions performed at cash desk	0.1%	0.0%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%	**0.0%**

Source: PCH Operational Statistics
Audited: No
For 2019, only continuing business operations are presented

Governance

Compliance and banking regulations

Indicator	Total	
	2019	**2020**
Incidents of non-compliance with regulations and/or voluntary codes involving product/service information and labelling, as well as marketing communications, including advertising, promotion, and sponsorship		
Incidents of non-compliance resulting in a fine or penalty	None	
Incidents of non-compliance with regulations resulting in a warning		
Incidents of non-compliance with voluntary codes		
Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations as well as laws and/or regulations in the social and economic area		
Total monetary value of significant fines (>EUR 100,000)	None	
Total number of non-monetary sanctions		
Cases brought through dispute resolution mechanisms		
Number of legal actions pending or completed during the reporting period involving anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant		
Number of legal actions	None	
Description of these actions		

Source: Risk Event Database: extracts for the Compliance Function
Audited: No

Financial crime prevention

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Staff trained on financial crime risks										
ProCredit Onboarding Programme participants	10	24	0	53	0	15	18	0	28	**92**
Specialists	1,922	1,578	165	1,269	192	256	55	52	2,334	**3,155**
Managers	9	6	0	23	3	0	0	0	12	**29**
Accounts closed or client relationships terminated due to risk of financial crime										
Number of accounts closed	107	98	33	107	30	54	8	2	178	**261**
Number of client relationships ended	27	35	8	21	7	5	6	0	48	**61**

Source: AML database
Audited: No
Every single customer and every single international payment made by customers of ProCredit banks is screened against certain sanctions lists and certain watch lists (or black lists).
Furthermore, all account movements to/from customer bank accounts are subject to AML monitoring activities.

Total number of operations assessed for fraud-related events (including risks related to corruption)

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Number of processes assessed	47	47	47	47	47	47	47	47	47	**47**
Number of scenarios evaluated [1]	151	162	151	162	151	162	151	162	151	**162**
Number of significant risks related to corruption identified through the fraud risk assessment[2]	23	24	8	11	0	0	4	3	35	**38**

Source: Fraud Risk Assessments from year 2019 and 2020, Group Operational and Fraud Risk Assessment User Manual 2020_Vers 2.1_October 2020
Audited: No
Risk assessment reports are approved by each institution after being reviewed by the Group Operational Risk Unit, after which they are included in the Group Annual Operational Risk Reports.
[1] All scenarios defined at group level must be assessed by each of the institutions. If a scenario is deemed not applicable, the reason for non-applicability must be provided in writing.
[2] The data entered for 2020 are the preliminary result of banks' assessments.

Risk awareness trainings

Indicator	South Eastern Europe	Eastern Europe	South America	Germany	Total
	2019-2020	2019-2020	2019-2020	2019-2020	**2019-2020**
Number of staff trained in risk awareness (including operational risk as well as fraud and information security awareness)	1,588	679	212	625	**3,104**

Source: Risk Awareness Training overviews from banks for years 2019 and 2020
Audited: No
The Group Operational Risk Management Policy requires all institutions to conduct risk awareness trainings. Training can take place in different formats (classroom or one-to-one training with direct outreach at least to key staff or via train-the-trainer webinars as a replacement due to the COVID-19 pandemic or self-study via e-learning platform). The risk awareness training may as well be combined with other training topics.

Supply chain

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Total number of sustainable suppliers	n/a	340	n/a	96	n/a	45	n/a	161	n/a	**642**
Share of sustainable suppliers (%)	n/a	40.0%	n/a	23.8%	n/a	36.3%	n/a	48.8%	n/a	**37.6%**

Source: iEMS Tool (in-house developed online platform for data collection)
Audited: No
As the ProCredit Academy building was closed for most of the year due to the COVID-19 pandemic, interactions with suppliers were negligible; therefore, the academy did not conduct an in-depth screening.

International principles, standards and memberships

Main international principles and standards followed by ProCredit institutions

Environmental principles and standards:
- CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)
- Convention on Biological Diversity (CBD)
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance (Ramsar Convention)
- Eco-Management and Audit Scheme (EMAS)
- ISO 14001:2015
- IUCN Guidelines on Protected Areas
- World Heritage Convention
- Montreal Protocol

Social principles and standards:
- European Convention on Human Rights (1950)
- IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour
- ILO Declaration on Fundamental Principles and Rights at Work (1998)
- Universal Declaration of Human Rights (1948)
- UN Convention Against Corruption (2005)
- Principles for Responsible Banking (PRB) UNEP FI

- Entrepreneurs for future. Declaration to operate according to Paris 2015 climate contract

Environmental and social standards:
- IFC Performance Standards
- EBRD Performance Requirements

Information security principles and standards:
- 3-D Secure Security Requirements
- ISO 20000-1:2011
- ISO 27001:2013
- PCI DSS
- PCI Card Production
- PCI PIN Security

Quality management standard
- ISO 9001:2015

Memberships of individual ProCredit banks related to sustainability
All ProCredit banks are members of the banking association in their respective countries, and the majority are members of at least one of the relevant chambers of commerce (e.g. national, German or international).
Other exemplary memberships of individual ProCredit banks:
- Supervisory Board of NALED (National Alliance for Local Economic Development) (ProCredit Bank Serbia)
- Environment Protection Committee - Business Association of Georgia (ProCredit Bank Georgia)
- European Business Network for Corporate Social Responsibility (ProCredit Bank Kosovo)
- Macedonian Energy Forum (ProCredit Bank Macedonia)
- Protocolo de Finanzas Sostenibles del Ecuador and UN Global Compact (Banco ProCredit Ecuador)

Membership fees

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Annual expenditures for membership fees (EUR)	83,653	**65,129**	43,904	**44,672**	40,839	**48,081**	0	**5,294**	168,395*	**163,176**

Source: Report based on data collected via questionnaire from all institutions.
Audited: No
Data received from PCB Ecuador was in USD. It was converted to EUR using the exchange rate 1 USD = 0.82 EUR.
*Differences between the 2019 data given here and the data published in last year's report are due to updates and regular data quality checks.

Green finance

Environmental performance indicators

General data

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Staff[1]	No	1,641	1,704	657	689	230	249	556	501	3,205	3,084	**3,143**	2%
Area	m^2	52,470	48,654	19,228	18,348	6,956	6,898	15,284	16,241	98,365	93,938	**90,142**	-4%

Energy

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total energy consumption within organisation	MWh	11,078.1	10,056.3	5,074.4	4,684.8	839.1	747.1	2,322.6	1,758.1	20,913.7	19,314.2	**17,246.3**	-11%
	GJ	39,881.3	36,202.9	18,267.8	16,865.2	3,020.6	2,689.5	8,361.5	6,329.0	75,289.2	69,531.2	**62,086.5**	-11%
Relative energy consumption[1]	kWh/FTE	6,751.5	5,901.6	7,727.5	6,800.3	3,645.5	3,003.1	4,175.5	3,510.4	6,524.6	6,262.9	**5,488.1**	-12%
	kWh/m^2	211.1	206.7	263.9	255.3	120.6	108.3	152.0	108.2	212.6	205.6	**191.3**	-7%
	kWh/1000 EUR loan portfolio	3.6	2.6	4.7	4.3	2.9	2.3	41.5	33.2	4.8	4.0	**3.3**	-18%
	kWh/1000 EUR deposits	3.6	2.8	5.7	5.2	6.0	4.3	10.0	6.4	5.5	4.5	**3.5**	-21%
Non-renewable fuel consumed	MWh	2,319.1	1,840.7	1,663.0	1,530.2	100.8	56.0	690.9	563.4	5,570.8	4,773.8	**3,990.2**	-16%
Renewable fuel consumed	MWh	278.6	301.0	21.8	84.4	0.0	0.0	764.5	531.0	764.9	1,064.9	**918.8**	-14%
Purchased electricity	MWh	7,524.1	6,968.0	3,116.9	2,761.1	738.3	691.1	849.6	621.9	13,116.0	12,228.9	**11,042.1**	-10%
Purchased heating	MWh	956.3	946.7	272.7	309.1			17.7	41.8	1,462.0	1,246.7	**1,297.6**	4%
RE electricity produced and sold	MWh	0.0	0.0	0.0	0.0	0.0	0.0	65.1	69.6	53.9	65.1	**69.6**	7%

Building energy

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Own PV plants installed capacity	kWp	137.0	137.0	129.9	129.9	0.0	0.0	82.3	132.9	290.0	349.2	**399.8**	15%
Electricity production (fed into the grid, FiT)	MWh	0.0	0.0	0.0	0.0	0.0	0.0	65.1	69.6	53.9	65.1	**69.6**	7%
Electricity production (own consumption)	MWh	77.2	109.8	21.8	84.4	0.0	0.0	41.3	60.0	109.5	140.2	**254.3**	81%
Total energy consumption of buildings	MWh	9,356.2	8,760.6	4,253.4	3,936.6	734.0	687.6	2,152.4	1,627.8	17,498.7	16,496.0	**15,012.6**	-9%
	GJ	33,682.4	31,538.3	15,312.2	14,171.9	2,642.3	2,475.3	7,748.8	5,859.9	62,995.4	59,385.7	**54,045.4**	-9%
Electricity energy consumption	MWh	7,527.9	7,008.7	3,112.7	2,812.8	734.0	687.6	886.9	678.9	13,156.6	12,261.5	**11,188.0**	-9%
	GJ	27,100.5	25,231.3	11,205.6	10,126.1	2,642.3	2,475.3	3,193.0	2,443.9	47,363.6	44,141.5	**40,276.7**	-9%
Electricity from non-renewable energies	MWh	3,152.5	2,674.0	1,641.6	1,477.4	217.3	203.5	205.7	165.9	7,903.6	5,217.1	**4,520.8**	-13%
	GJ	11,348.8	9,626.6	5,909.8	5,318.5	782.1	732.7	740.7	597.2	28,453.1	18,781.4	**16,275.0**	-13%
Electricity from renewable energies	MWh	4,375.5	4,334.6	1,471.1	1,335.4	516.7	484.1	681.2	510.1	5,252.9	7,044.5	**6,664.3**	-7%
	GJ	15,751.7	15,604.7	5,295.9	4,807.6	1,860.2	1,742.6	2,452.3	1,836.4	18,910.5	25,360.1	**23,991.3**	-7%
Heating energy consumption	MWh	1,747.4	1,728.6	1,127.6	1,104.3	0.0	0.0	1,215.3	909.4	4,129.9	4,090.3	**3,742.2**	-9%
	GJ	6,290.7	6,222.8	4,059.3	3,975.4	0.0	0.0	4,375.0	3,273.8	14,867.5	14,725.0	**13,472.0**	-9%
Heating from non-renewable energies	MWh	1,544.5	1,533.7	1,111.4	1,086.3	0.0	0.0	491.6	437.6	3,454.1	3,147.5	**3,057.6**	-3%
	GJ	5,560.1	5,521.4	4,001.1	3,910.8	0.0	0.0	1,769.8	1,575.2	12,434.9	11,331.0	**11,007.4**	-3%
Heating from renewable energies	MWh	203.0	194.8	16.2	18.0	0.0	0.0	723.7*	471.8	675.7	942.8*	**684.6**	-27%
	GJ	730.6	701.4	58.2	64.6	0.0	0.0	2,605.2	1,698.6	2,432.6	3,394.0	**2,464.6**	-27%
Generators	MWh	80,888.7	22,203.8	13,111.0	19,538.5	0.0	0.0	50,208.2	39,488.2	212,298.5	144,207.9	**81,230.5**	-44%
	GJ	291.2	79.9	47.2	70.3	0.0	0.0	180.7	142.2	764.3	519.1	**292.4**	-44%

Transport

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Vehicle energy consumption	MWh	1,721.9	1,295.7	821.0	748.1	105.1	59.5	170.1	130.3	3,414.9	2,818.1	**2,233.7**	-21%
	GJ	6,198.8	4,664.6	2,955.6	2,693.3	378.3	214.1	612.4	469.1	12,293.8	10,145.1	**8,041.1**	-21%
Vehicles mileage	1000 km	3,517.7	2,670.5	1,258.7	1,195.6	144.6	97.2	211.0	177.3	5,649.4	5,131.9	**4,140.7**	-19%
Fuel efficiency	kWh/100 km	48.9	48.5	65.2	62.6	72.7	61.2	80.6	73.5	60.4	54.9	**53.9**	-2%
Share of (plug-in) hybrid and e-cars	%	68.8%	69.9%	58.5%	60.0%	81.8%	81.8%	20.0%	20.0%	58.1%	64.7%	**65.7%**	
All vehicles (average over the year)	No	233	217	66	65	11*	10	15	15	347	324	**307**	-5%
All vehicles (Dec)	No	218	209	65	65	11	11	15	15	332	309	**300**	-3%
Gasoline (Dec)	No	16	16	15	14	2	2	2	2	41	35	**34**	-3%
Diesel (Dec)	No	52	47	12	12	0	0	10	10	98	74	**69**	-7%
Electric (Dec)	No	62	58	12	13	5	5	3	3	90	82	**79**	-4%
Hybrid (Dec)	No	88	61	26	26	4	4	0	0	103	118	**91**	n/a[5]
Hybrid plug-in[5] (Dec)	No	n/a	27	n/a	0	n/a	0	n/a	0	n/a	n/a	**27**	n/a
Number of flights	No	4,978*	1,136	2,336*	486	1,617	409	2,996	572	12,141	11,927	**2,603**	-78%
Distance of flights	1000 km	5,002.6	1,114.1	3,402.6	675.8	4,021.5	584.1	5,754.5	900.6	18,119.1	18,181.2	**3,274.7**	-82%

CO_2 emissions

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total gross CO_2 emissions	tCO_2	4,860.9	3,360.9	2,002.0	1,311.4	1,264.0	293.6	2,076.2	535.6	12,628.9	10,203.0	**5,501.5**	-46%
Relative total gross CO_2 emissions[1]	tCO_2/employee	3.0	2.0	3.0	1.9	5.5	1.2	3.7	1.1	3.9	3.3	**1.8**	-47%
	tCO_2/EUR m loan portfolio	1.4	0.9	1.8	1.2	4.4	0.9	37.1	10.1	2.9	2.1	**1.0**	-51%
	tCO_2/EUR m deposits	1.6	0.9	2.2	1.5	9.1	1.7	8.9	2.0	3.3	2.4	**1.1**	-52%
Gross CO_2 emissions by scope													
Scope 1	tCO_2	570.9	448.1	433.8	438.1	25.1	14.0	171.0	134.7	1,479.1	1,200.8	**1,034.9**	-14%
Scope 2 location-based	tCO_2	4,777.5	4,467.9	765.0	706.5	132.0	123.6	738.7	691.4	6,989.6	6,413.3	**5,989.4**	-7%
Scope 2 market-based	tCO_2	3,010.8	2,647.6	765.0	706.5	132.0	123.6	167.4	144.1	6,224.1	4,075.2	**3,621.8**	-11%
Scope 3	tCO_2	1,279.2	264.7	803.2	166.7	1,106.8	156.1	1,737.8	256.8	4,925.8	4,927.0	**844.2**	-83%
Relative CO_2 emissions by scope													
Scope 1	tCO_2/employee	0.3	0.3	0.7	0.6	0.1	0.1	0.3	0.3	0.5	0.4	**0.3**	-15%
Scope 2 market-based	tCO_2/employee	1.8	1.6	1.2	1.0	0.6	0.5	0.3	0.3	1.9	1.3	**1.2**	-13%
Scope 3	tCO_2/employee	0.8	0.2	1.2	0.2	4.8	0.6	3.1	0.5	1.5	1.6	**0.3**	-83%
Gross CO_2 emissions by main origins													
Road travel	tCO_2	438.3	324.1	206.4	186.5	25.9	14.6	44.3	33.8	899.8	715.0	**558.9**	-22%
Air travel	tCO_2	1,279.2	264.7	803.2	166.7	1,106.8	156.1	1,737.8	256.8	4,925.8	4,927.0	**844.2**	-83%
Electricity	tCO_2	2,750.2	2,387.9	705.8	639.5	131.2	122.9	163.6	135.4	5,837.6	3,750.8	**3,285.7**	-12%
Heating	tCO_2	367.4	371.7	228.5	223.8			104.7	89.4	783.1	700.6	**684.9**	-2%
CO_2 emissions avoided through electricity produced, solar PV	tCO_2	34.9	55.9	7.9	13.2	0.0	0.0	43.1	52.5	85.8	85.9	**121.6**	42%
CO_2 emissions offset through compensation payments	tCO_2	66.1	68.9	0.0	0.0	0.0	0.0	191.5*	45.9	184.4	257.6	**114.8**	-55%

Water

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total water consumption	m^3	19,263.5*	13,492.5	10,609.3*	11,267.1	3,699.5*	3,178.0	12,034.0	7,913.3	43,498.8	45,606.3	**35,851.0**	-21%
Indoor water consumption	m^3	17,177.5*	12,258.5	9,140.3*	9,209.6	2,979.5*	2,458.0	11,896.0	7,024.3	39,526.8	41,193.3	**30,950.5**	-25%
Outdoor water use (irrigation)	m^3	2,086.0	1,234.0	1,469.0	2,057.5	720.0	720.0	138.0	889.0	3,972.0	4,413.0	**4,900.5**	11%
Relative indoor water consumption[1]	m^3/employee	11.7*	7.9	16.2*	16.4	16.1*	12.8	21.6	15.8	13.6	14.8	**11.4**	-23%
	m^3/m^2	0.4*	0.3	0.6*	0.6	0.5*	0.5	0.8	0.5	0.4	0.5	**0.4**	-60%
Water from public/private water utility	%	99.9%	100.0%	98.8%	94.5%	100.0%	100.0%	100.0%	100.0%	98.9%	99.7%	**98.3%**	
Water from rainwater collection	%	0.0%	0.0%	1.2%	0.8%	0.0%	0.0%	0.0%	0.0%	1.0%	0.3%	**0.3%**	

Printing paper

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total printing paper consumption	t	21.3	15.9	9.3	7.7	1.6	1.1	2.2	0.8	37.5	34.4	**25.4**	-26%
Relative printing paper consumption[1]	kg/employee	13.0	9.3	14.2	11.1	7.0	4.5	3.9	1.5	11.7	11.1	**8.1**	-27%
of which recycled or certified	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	

Waste

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total gross waste	t	120.0	189.3	59.6	45.8	10.8	7.7	79.4	44.7	498.0	269.8	**287.5**	7%
Relative total gross waste	t/employee	73.1	111.1	90.8	66.5	47.1	30.9	142.7	89.3	155.4	87.5	**91.5**	5%
Total paper waste[3]	t	66.5	144.7	21.9	6.9	1.6	2.4	15.5*	16.6	239.2	105.6	**170.7**	62%
% paper waste recycled	%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Total electronic waste[4]	t	13.7	1.8	0.1	0.1	3.5	0.0	1.0	0.9	17.6	18.3	**2.8**	-85%
% electronic waste recycled	%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**	
Total plastic waste	t	1.4	2.0	0.3	0.2	0.0	0.0	8.1	5.7	8.9	9.8	**7.9**	-19%
Total other waste[2]	t	38.3	40.8	37.3	38.6	5.7	5.2	54.8	21.5	232.3	136.1	**106.0**	-22%

Reusable electronic equipment

Indicator	Unit	South Eastern Europe		Eastern Europe		South America		Germany		Total			Change
		2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2018	2019	**2020**	**2020/2019**
Total reusable electronic equipment	t	4.8	4.0	0.2	0.0	0.0	0.0	0.3	0.2	38.4	5.3	**4.2**	-21%

Source: Collected via the iEMS Tool (online platform for data collection developed in-house). The source of the emission factors is the International Energy Agency (2019), Emission Factors and the Intergovernmental Panel on Climate Change (IPCC) 2006 Guidelines for National Greenhouse Gas Inventories. The reference year used for emission factors is 2017; however, for countries where 2018 estimates were available, the latest data was used. Market-based scope 2 emissions are based on individual emission factors depending on the specific contractual instrument applied (if available). The scopes were defined and compiled on the basis of the GHG protocol standards and guidance. Flight emissions are estimated via the web-based calculator atmosfair GmbH. The emission factor for Bio LPG is 0.0603kg CO_2eq and is based on the World LPG Association (WLPGA) report "Role of LPG and BioLPG in Europe" (2019). CO_2 emissions from biomass are not included in our gross emission calculation (we consider non-CO_2 emissions only, using a factor of 0.3g CO_2eq/MJ for the combustion of wood pellets according to the Renewable Energy Directive (RED II), Directive (EU) 2018/2001). Using the most conservative emission factor scenario for wood briquettes and pellets according to RED II (43g CO_2/MJ), CO_2 emissions for wood pellets totalled 85.9 tonnes of CO_2 in 2020 and 118.2 tonnes of CO_2 in 2019.

Audited: Partially through internal and external audits of the EMS.

For 2019 and 2018, only continuing business operations are presented.

*Any differences between the 2019 data shown here and the data published in last year's report are due to updates and regular data quality checks. Data values that differ by more than 10% at regional level and 5% at group level are marked with an asterisk. In Latin America, the average number of cars was corrected to reflect only continuing business operations. Numbers for flights were corrected in North Macedonia and Moldova. Heating emissions in Germany were reduced due to a retrospective update of the emission factor for Bio LPG at the ProCredit Academy, which was previously not reported separately from conventional LPG. This update also led to a corresponding increase in the renewable share of heating energy in Germany. Offset payments were conducted retrospectively in Germany and Bulgaria for 2019. Changes in water consumption are due to a revision of the calculation applied for the recording of indoor and outdoor water use. Paper waste at ProCredit Holding was restated due to extending the scope of the types of paper waste recorded. All changes in the absolute performance indicators are reflected in the corresponding relative performance indicators.

[1] For the environmental performance analysis, the average number of staff over the year is used (2020: Full-time equivalent (FTE), previous years: headcount). In other parts of the report, the number of staff at year-end (headcount) is used. NB: for 2020 we used the number of staff usually working for the outlet, irrespective of whether they were working from home or not.

[2] In 2020, the bank in Ecuador had its HO and several branches remodelled. The construction scrap waste was collected by a waste management company and sent to a foundry for recycling. This was around 1.6 t and (in the absence of an appropriate category) it has not been reported under "total other waste".

[3] There was an increase in total paper waste in 2020 which was mostly due to archive clean-ups at PCBs Albania and Serbia. Additional paper waste was also created at PCB Bulgaria due to head office renovation.

[4] Electronic equipment is replaced or recycled in bulk every other year, which unavoidably leads to strong increases or decreases.

[5] Starting from January 2020 we report plug-in hybrids separately. Previously plug-in hybrids were considered within the hybrid vehicle category.

Environmental and social risk management

Breakdown of outstanding loan portfolio (volume) by environmental risk category

Environmental risk category	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Low	42.1%	42.8%	39.5%	40.4%	56.8%	56.0%	33.4%	36.0%	42.3%	**43.0%**
Medium	43.1%	42.5%	51.8%	51.1%	27.0%	28.7%	64.9%	63.9%	44.4%	**43.7%**
High	5.1%	5.7%	5.4%	5.3%	12.0%	11.0%	1.7%	0.0%	5.6%	**5.9%**
Not applicable[1]	9.6%	9.0%	3.3%	3.2%	4.2%	4.2%	0.0%	0.0%	7.8%	**7.4%**

Breakdown of outstanding loan portfolio (number) by environmental risk category

Environmental risk category	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Low	22.8%	24.7%	38.2%	37.1%	61.8%	58.4%	34.1%	35.4%	27.1%	**28.4%**
Medium	24.8%	26.6%	40.7%	41.8%	22.9%	23.2%	62.4%	62.2%	26.6%	**28.3%**
High	1.8%	2.3%	4.3%	4.8%	6.9%	7.1%	3.5%	0.0%	2.4%	**2.9%**
Not applicable[1]	50.6%	46.4%	16.7%	16.3%	8.4%	11.4%	0.0%	2.4%	43.8%	**40.4%**

Source: Report based on data collected from all banks
Audited: No
[1] Loans to private clients

Analysis of the porfolio in terms of E&S risk

As at the end of 2020, the ProCredit group's loan portfolio amounted to EUR 5.2bn. Due to the distribution across different business activities, the portfolio can be broken down into the following categories with regard to the level of environmental risk:

- Low: 43%
- Medium: 44%
- High: 6%

The remaining 7% of the portfolio consists of loans to private clients, which are defined as having an insignificant environmental impact and are, therefore, not assigned to an environmental risk category.

In comparison to the previous year, the shares of loans classified in the respective categories remained fairly stable. Growth in the total loan portfolio was distributed proportionately across each of the environmental risk categories.

In the high environmental risk category, the most commonly financed activities include trade in hazardous materials and the manufacture of plastic products. These two account for about 62% of the total portfolio in this area, taking almost identical shares. Trade in hazardous materials typically includes not only trade in chemicals (such as agricultural chemicals and fertilisers) but also the operation of fuel stations and trade in automotive fuels. The manufacture of plastic products includes plastics and synthetic rubber in primary forms. The latter has been included in the high environmental risk class since 2019, in line with the ProCredit Plastic Strategy. The composition of the portfolio of top activities classified as being of high environmental risk has changed slightly compared to last year, mainly due to the phasing out of a number of clients engaged in plastic production, especially those making single-use plastic items. This trend is expected to continue in 2021.

The third sector categorised as having a high environmental risk is the chemical production industry. This typically includes pharmaceutical companies, producers of various household cleaning products and cosmetics. Hydro-electric power plants come next in terms of volume; financing this energy generation sub-sector is undertaken with great caution, and its share has decreased over the past two years.

A smaller share is taken by waste management activities, raw material extraction and the transport of hazardous materials. When properly handled, Waste management is an activity that we value due to its positive impact on the environment, especially in our countries of operation, where good waste management is either not very common or fails to come up to international best-practice standards.

ProCredit banks do not categorically exclude clients with business activities in high environmental risk sectors from financing. Instead, their environmental and social performance is thoroughly analysed to ensure that that none of the associated risks result in increased credit risk or lead to negative environmental and social impacts. The group's approach to assessing activities involving high environmental risk is revised regularly. We aim to set increasingly demanding requirements and ensure that all assessments are thorough, this includes the use of external assessments of adverse environmental and social impacts when financing larger exposures at both bank and group level.

In 2021, we will continue to place strict demands on our clients' environmental and social practices. We will focus on carrying out thorough assessments of our business clients, providing advice on better management of environmental and social risks, thereby contributing to the enforcement of environmental and social regulations and internationally accepted best practices in our countries of operation.

Green lending

Green loan portfolio

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Volume of green loans to business clients (EUR m, gross)	561.4	722.7	187.5	189.3	26.8	49.4	3.2	2.4	778.8	**963.8**
Number of green loans to business clients	3,651	4,083	1,346	1,391	216	325	4	4	5,217	**5,803**
Volume of green loans to private clients (EUR m, gross)	14.0	17.1	1.4	0.8	1.2	3.2	0.0	0.0	16.6	**21.2**
Number of green loans to private clients	960	864	149	129	19	50	0	0	1,128	**1,043**
Total volume of green loan portfolio (EUR m, gross)	575.3	739.9	188.9	190.1	28.0	52.6	3.2	2.4	795.4	**985.0**
Green loan portfolio as a share of total loan portfolio	17.1%	19.5%	17.3%	17.6%	9.7%	16.4%	5.7%	4.4%	16.6%	**18.7%**
Share of green investment loans in total investment loans (%)[1]	21%	25%	25%	26%	11%	18%	6%	5%	21%	**24%**
Total number of green loans	4,611	4,947	1,495	1,520	235	375	4	4	6,345	**6,846**

Source: Quarterly reports provided by all banks
Audited: preliminary
[1] Investment Loans: Loans with an initial maturity longer than 3 years

Green loan portfolio by investment category

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Energy Efficiency										
Volume (EUR m, gross)	394.4	437.3	123.9	118	20.2	37.5	3.2	2.4	541.7	**595.2**
Number of loans	3,488	3,559	1,091	1,077	184	254	4	4	4,767	**4,894**
Renewable Energies										
Volume (EUR m, gross)	68.4*	159.9	28.8	36.3	3.7	3.2	0.0	0.0	100.9*	**199.4**
Number of loans	195*	347	64	87	5	12	0	0	264*	**447**
Environmentally friendly projects										
Volume (EUR m, gross)	112.6*	142.7	36.1	35.7	4.1	11.9	0.0	0.0	152.8*	**190.3**
Number of loans	928*	1,041	340	356	46	109	0	0	1,314*	**1,506**

Source: Quarterly reports provided by all banks.
Audited: preliminary
*Differences between the 2019 data given here and the data published in last year's report are due to updates and regular data quality checks.

Green loan portfolio by sector (business clients)

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Green loan portfolio, by sector (EUR m, gross)										
Wholesale and trade	89.6	107.8	27.2	27.9	3.2	6.9	0.0	0.0	120.0	**142.7**
Agriculture, forestry and fishing	80.9	93.1	55.2	48.9	2.3	7.9	0.0	0.0	138.4	**149.9**
Production	200.1	226.6	45.8	45.2	13.5	17.2	2.6	1.9	262.0	**290.8**
Transportation and storage	38.0	28.4	11.6	8.9	0.1	0.1	0.0	0.0	49.7	**37.4**
Other economic activities	152.8	266.8	47.6	58.4	7.7	17.3	0.6	0.5	208.7	**343.0**

Source: CDB, adjusted to the presented values
Audited: 2019 yes, 2020 preliminary

Disbursed green loans

	2016	**2017**	**2018**	**2019**	**2020**
Volume of disbursed loans (EUR m)	170.5	270.3	307.7	411.6	477.0

Source: Figures for the first three years are from reports by banks, 2019 and 2020 are from CDB
Audited: No

Portfolio quality indicators for green loan portfolio

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Share of credit-impaired loans[1]	0.3%	0.3%	1.4%	0.9%	0.5%	3.6%	0.0%	0.0%	0.6%	**0.6%**

Source: Central Database Reports 2020
Audited: No
[1] Share of credit-impaired loans: Loans and advances to customers in Stage 3 (including accrued interest) as a percentage of the total volume of loans and advances to customers. Also referred to as share of defaulted loans.

Renewable energy projects in loan portfolio[1]

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Number of RE projects										
Solar	45	55	6	22	1	1	0	0	52	78
Hydro	10	13	1	1	0	0	0	0	11	14
Biomass	5	6	1	1	1	1	0	0	7	8
Total	60	**74**	8	**24**	2	**2**	0	**0**	70	**100**
Installed capacity (MW) of RE projects										
Solar	32.2	56.7	21.9	89.7	1.4	1.4	0.0	0.0	55.5	147.8
Hydro	15.0	16.4	0.3	0.3	0.0	0.0	0.0	0.0	15.3	16.6
Biomass	4.3	4.6	0.6	0.6	8.1	5.0	0.0	0.0	13.0	10.2
Total	51.5	**77.7**	22.8	**90.6**	9.5	**6.4**	0.0	**0.0**	83.8	**174.7**
Electricity generated (in MWh) of RE projects										
Solar	41,423.9	154,086.0	20,277.6	90,062.0	1,198.5	1,203.0	0.0	0.0	62,900.1	245,351.0
Hydro	34,032.8	29,288.0	1,313.1	1,174.0	0.0	0.0	0.0	0.0	35,345.9	30,462.0
Biomass	29,778.0	32,779.0	4,090.6	4,312.0	37,285.3	37,684.0	0.0	0.0	71,153.9	74,775.0
Total	105,234.7	**216,153.0**	25,681.3	**95,548.0**	38,483.8	**38,887.0**	0.0	**0.0**	169,399.9	**350,588.0**
tCO_2 emission avoided through RE projects										
Solar	19,368.4	71,589.0	7,328.3	32,603.0	214.3	215.0	0.0	0.0	26,911.0	104,407.0
Hydro	12,039.2	10,423.0	108.6	97.0	0.0	0.0	0.0	0.0	12,147.8	10,520.0
Biomass	20,396.0	21,194.0	1,981.9	2,089.0	6,666.6	6,738.0	0.0	0.0	29,044.5	30,021.0
Total	51,803.6	**103,206.0**	9,418.8	**34,789.0**	6,880.9	**6,953.0**	0.0	**0.0**	68,103.3	**144,948.0**

Impact reporting data of green loan portfolio including energy efficiency, renewable energy small-scale projects and green measures[1]

Total outstanding green loans (Dec. 2020)		Total outstanding green loans for which the impact is presented				
Volume (EUR m)	Number	EE, RE small-scale, GR loans (EUR m)	RE project finance operational loans (EUR m)	RE project finance under construction loans (EUR m)	% of total outstanding green loans (vol)*	% of total outstanding green loans (no)*
985	6,846	346	96	87	54%	33%

	2019	**2020**
Total disbursement (EUR m)	411.6	**477.0**
Total disbursement (No.)	1,989	**2,351**
% of total loans disbursed for which the impact is presented (vol)*	60%	**64%**
% of total loans disbursed for which the impact is presented (no)*	44%	**57%**

Impacts EE loans	2019	**2020**
No. of measures	651	**1,574**
Gross building area certified or assessed as green [m^2]	384,385.0	**695,028.0**
Energy saving (MWh/year)	25,522.9	**45,865.6**
tCO_2 avoided/year	89,421.0	**104,066.0**
Electricity saving (MWh/year)	39,089.6	**51,678.0**
Fuel saving (m^3/year)	545.3	**1,256.2**

Impacts small scale RE loans	2019	**2020**
No. of measures	48	**170**
tCO_2 avoided/year	4,601.0	**18,196.0**
Electricity saving (MWh/year)	1,615.9	**10,868.5**
Green electricity produced (MWh/year)	7,072.2	**21,805.6**
Installed capacity (MW)	5.0	**17.0**

Impacts GR loans	2019	**2020**
No. of measures	254	**593**
tCO_2 avoided/year	376.0	**376.0**
Electricity saving (MWh/year)	978.0	**978.0**
Total water savings (m^3/year)	116,941.0	**116,941.0**
No. of suppliers	156	**341**
No. of businesses providing sustainable certified products	46	**87**
No. of businesses engaged in recycling activity	31	**73**

Source: Data shown are derived from CO_2 calculation templates for standard and non-standard loans in line with the ProCredit Methodological Approach for Green Finance. RE data are accumulated data based on small-scale projects (usually for self-consumption), such as rooftop installations as well as biomass and geothermal heating systems. Project finance RE data are presented in a separate table (Renewable energy projects in loan portfolio) and use actual energy production data. Standard loan data are based on established baselines in countries for purchases from sustainable suppliers such as tractors, HVAC, electric motors, and cars. Figures for the building portfolio are based on energy passport data in comparison with the minimum requirements of each country. For sustainable certified products such as Bio Suisse organic, USDA organic, EcoCert, FSC a chain custody certificate is used. For recycling companies, there are different types such as: recycling of plastic, metal waste, waste paper or e-waste. For countries with no energy passport and/or energy code regulations (Serbia, Albania, Georgia, Kosovo), impact calculations are non-standard and based on comparisons with respective country baselines. Non-standard loans are based on energy assessments for specific loans by assessing the client's baselines based on energy audits or country specific technology benchmarks (usually used for assessment of production machines in category EE5.1).

Audited: No, but CO_2 templates and baselines were developed and supervised by our consulting company IPC GmbH

Note: A loan usually has multiple measures, therefore the number of measures is higher than the number of loans. The green outstanding portfolio with assessed impacts (54% of total green portfolio), includes 49 RE power plants still under construction in a number of countries (Greece, North Macedonia, Serbia, Ukraine) with a volume of EUR 87m, as well as 100 power plants already constructed/operational with a total outstanding volume of EUR 96m. The remainder of the RE portfolio consists of small-scale projects, the impacts of which are presented in this section based on their predicted production according to in-house RE yield calculations tools.

[1] Emission factors for 2018 were used for 2020 (IEA).

* The value includes RE projects under construction.

Our staff

Ethical values and working environment

Diversity of governance bodies and employees

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Total number of staff[1*]	1,601	**1,687**	651	**735**	228	**252**	643	**681**	3,123	**3,355**
Women	66%	66%	64%	65%	62%	60%	45%	45%	61%	61%
Men	34%	34%	36%	35%	38%	40%	55%	55%	39%	39%
Supervisory Board[2]										
Number	25	24	13	13	5	5	5	8	32	34
Women (%)	28%	38%	46%	38%	20%	0%	20%	13%	34%	35%
Men (%)	72%	63%	54%	62%	80%	100%	80%	88%	66%	65%
Age <30	0%	0%	0%	0%	20%	20%	0%	0%	3%	3%
Age 30-50	72%	67%	62%	62%	60%	60%	60%	13%	72%	65%
Age >50	28%	33%	38%	38%	20%	20%	40%	88%	25%	32%
Management Board										
Number	17	21	9	9	2	2	8	9	36	41
Women (%)	59%	43%	56%	56%	50%	50%	38%	33%	53%	44%**
Men (%)	41%	57%	44%	44%	50%	50%	63%	67%	47%	56%
Age <30	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Age 30-50	94%	95%	100%	100%	100%	100%	75%	78%	89%	93%
Age >50	6%	5%	0%	0%	0%	0%	25%	22%	11%	7%

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Middle Management										
Number	101	96	32	28	18	20	72	69	223	213
Women (%)	48%	48%	44%	50%	56%	60%	44%	51%	47%	50%
Men (%)	52%	52%	56%	50%	44%	40%	56%	49%	53%	50%
Age <30	4%	4%	0%	7%	0%	0%	1%	1%	2%	3%
Age 30-50	93%	93%	97%	89%	100%	100%	78%	75%	89%	87%
Age >50	3%	3%	3%	4%	0%	0%	21%	23%	9%	9%
Specialists										
Number	1,483	1,570	610	698	208	230	563	603	2,864	3,101
Women (%)	67%	67%	65%	66%	63%	60%	46%	44%	62%	62%
Men (%)	33%	33%	35%	34%	37%	40%	54%	56%	38%	38%
Age <30	21%	22%	26%	30%	23%	25%	22%	22%	22%	24%
Age 30-50	76%	75%	71%	66%	76%	74%	74%	73%	75%	72%
Age >50	3%	3%	3%	4%	1%	1%	4%	5%	3%	4%

Source: HR databases
Audited: No
[1] All staff, including management board members and staff in unconsolidated entities. Employee numbers are expressed as head count as at year-end.
[2] In the total, all SB members are counted only once, but persons who are SB members in more than one region are counted in each of the regions in which they serve.
* For 2019, only continuing business operations are presented.
** Females account for 47% of management board members in the ProCredit banks.

Information on employees

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**	Dec 2019	**Dec 2020**
Permanent / full-time										
Number of women	1,012	1,055	415	481	142	151	242	250	1,811	**1,937**
Number of men	526	546	236	254	86	101	325	347	1,173	**1,248**
Permanent / part-time										
Number of women	0	0	0	0	0	0	38	36	38	**36**
Number of men	0	0	0	0	0	0	6	7	6	**7**
Temporary / full -time										
Number of women	42	54	0	0	0	0	7	11	49	**65**
Number of men	21	32	0	0	0	0	17	18	38	**50**
Temporary / part-time										
Number of women	0	0	0	0	0	0	5	7	5	**7**
Number of men	0	0	0	0	0	0	3	5	3	**5**

Work from home readiness

	March	April	May	June	July	August	September	October	November	December
% of total employees equipped to work from home	n/a	79%	78%	92%	100%	100%	100%	100%	100%	100%
% of total employees working from home	n/a	68%	68%	54%	42%	43%	34%	38%	53%	49%

Source: COVID-19 Questionnaire
Audited: No
The number of employees working remotely decreased in Q3 2020, as employees of two PCBs had returned to their offices.

Fair recruiter and employer

Fair treatment and local representation in management positions

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Annual total compensation ratio (management board included)	2.8 - 6.3	2.8 - 6.3	5.9 - 6.4	5.1 - 7.2	7.3	6.4	2.2 - 3.9	2.1 - 4.1	2.2 - 7.3	**2.1 - 7.2**
Proportion of management board members hired from the local community*	100%	100%	100%	100%	100%	100%	60%	60%	94%	**90%**
Average ratio of entry level wage to local minimum wage[1]										
Women	136%	132%	254%	228%	150%	150%	204%	202%	165%	**164%**
Men	136%	132%	254%	228%	150%	150%	204%	202%	165%	**164%**
Number of reported incidents of discrimination	0	0	0	0	0	0	0	0	0	**0**

Source: HR databases
Audited: No
[1] The salary received after completion of the six-month Onboarding Programme is considered as the entry level wage. Quipu and the ProCredit Academy are not included in the analysis as they have no onboarding programme and they generally hire specialists with several years' experience; therefore, wages are negotiated individually and are usually well above the local minimum wage.
* For 2019, only continuing business operations are presented.

New employee hires, seniority and employee turnover

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
New employee hires										
Total (no.)	258	319	73	169	20	40	128	95	479	**623**
Total rate (%)	16%	19%	11%	24%	9%	17%	21%	14%	16%	**19%**
Women (no.)	166	189	40	111	13	19	63	41	282	**360**
Women rate (%)	16%	17%	10%	25%	8%	13%	23%	14%	15%	**18%**
Men (no.)	92	130	33	58	7	21	65	54	197	**263**
Men rate (%)	16%	23%	14%	24%	7%	22%	20%	15%	16%	**21%**
Age <30 (no.)	138	200	46	142	11	24	49	48	244	**414**
Age <30 rate (%)	43%	61%	29%	77%	15%	46%	42%	37%	37%	**60%**
Age 30-50 (no.)	114	117	26	27	9	16	69	44	218	**204**
Age 30-50 rate (%)	9%	25%	6%	6%	5%	9%	16%	9%	9%	**8%**
Age >50 (no.)	6	2	1	0	0	0	10	3	17	**5**
Age >50 rate (%)	13%	4%	5%	0%	0%	0%	24%	7%	15%	**4%**
No. of staff for which ProCredit was the first employer										
within total staff	336	414	173	191	64	69	91	86	600	**691**
Average seniority (in years), by gender										
Women in total staff	8.7	8.7	9.3	8.4	3.0	3.6	5.2	5.6	7.8	**7.8**
Men in total staff	7.8	7.6	8.2	8.0	3.0	3.2	5.0	5.1	6.7	**6.6**
Women in management board	13.2	11.1	14.0	13.8	2.0	3.0	18.8	15.1	13.7	**12.2**
Men in management board	8.4	9.5	15.3	16.3	11.0	12.0	15.6	14.0	12.3	**12.0**

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Employee turnover										
Total (no.)	198	140	53	69	26	12	51	50	328	**271**
Total rate (%)	12%	9%	8%	10%	11%	5%	9%	8%	11%	**8%**
Women (no.)	123	90	31	49	13	5	17	28	184	**172**
Women rate (%)	12%	8%	8%	11%	8%	3%	6%	9%	10%	**9%**
Men (no.)	75	50	22	20	13	7	34	22	144	**99**
Men rate (%)	13%	9%	9%	8%	12%	7%	10%	6%	12%	**8%**
Age <30 (no.)	35	44	12	17	10	3	17	15	74	**79**
Age <30 rate (%)	11%	13%	8%	9%	14%	6%	15%	11%	11%	**11%**
Age 30-50 (no.)	158	94	39	52	16	9	33	34	246	**189**
Age 30-50 rate (%)	13%	7%	8%	11%	8%	5%	8%	7%	11%	**8%**
Age >50 (no.)	5	2	2	0	0	0	1	1	8	**3**
Age >50 rate (%)	11%	4%	11%	0%	0%	0%	2%	2%	7%	**2%**

Source: Report based on data collected via questionnaire from all banks.
Audited: No
Staff turnover does not include parental leave or turnover during the first year (Onboarding Programme + six-month probation period).

Staff development

Staff development

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020***
Total hours in training	307,598	**220,186**	100,020	**82,024**	41,844	**34,889**	19,707	**18,879**	469,169	**355,978**
Average hours of training per year per employee										
Total	192	131	154	112	184	138	31	28	146	106
Women	175	77	143	113	153	128	30	29	136	104
Men	225	156	172	108	234	153	31	27	161	109
Management Board	150	26	130	29	74	48	75	68	169	39
Middle Management	217	54	228	37	154	141	40	41	167	55
Specialist	191	137	150	116	187	139	29	26	144	110
ProCredit Onboarding Programme										
Number of applicants	3,271	6,723	219	3,641	473	741	n/a	n/a	3,963	11,105
Number of selected applicants	117	205	31	108	14	15	n/a	n/a	162	328
Number of graduates	74	146	32	55	3	14	0	0	109	215
Share of graduates in total staff (%)	27%	31%	26%	30%	21%	23%	0%	0%	26%	24%
ProCredit Academy										
Total number of current staff graduated from or currently attending Banker and Management Academies	301	286	132	128	49	47	22	30	504	491
Share of current staff graduated from or currently attending Banker and Management Academies	19%	17%	20%	17%	21%	19%	4%	5%	17%	15%

Indicator	South Eastern Europe		Eastern Europe		South America		Germany		Total	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020***
Employee training on human rights policies or procedures and environmental aspects										
Total hours in Code of Conduct training	13,206	10,132	3,984	2,660	2,066	780	638	560	19,894	14,132*
Total hours in environmental training	7,796	7,734	2,920	2,607	588	2,512	888	500	12,292**	13,353*
Investment in training										
Annual investment in employee training (EUR m)									7.2	6.1
Annual investment in employee training per employee (EUR)									2,314	1,817

Source: HR databases
Audited: No
*Since March 2020, due to the pandemic, the ProCredit Academy programmes in Germany have been suspended until further notice; this accounts for the reduction in training hours between 2019 and 2020.
** Differences between the 2019 data given here and the data published in last year's report are due to updates and regular data quality checks.

OUR MATERIAL TOPICS –
MANAGEMENT APPROACH AND OVERVIEW

1. Material topic: Economic development

We contribute to an environmentally and socially sound economic development in the countries in which we operate. By providing responsible and sustainable financial services to small and medium enterprises, we support local business activities. Specifically, we work with companies that drive innovation through state-of-the-art investments and which strive to reduce their environmental impact. Our business clients, mostly active in the manufacturing, agricultural and service sectors, follow long-term business strategies, generate employment, and thereby form the backbone of the economies in our countries.

Chapter: > Our Socially Responsible Approach

Relevant policies, guidelines and strategies
- Mission Statement Group
- Business Strategy
- Risk Strategy

Associated guidelines, webpages or similar
- > Responsible banking for development
- > "Hausbank" for small and medium-sized businesses
- > Annual reports

Key contents
- Promote sustainable development in countries with transition and developing economies
- Providing the production sector, especially SMEs, with transparent and responsible financial services
- By means of support to SMEs, achieve the following:
  - In the local market: The generation of formal employment, technological innovation, competitive pressure and adoption of international best environmental practices
  - At country level: Promote social stability through increased economic resilience, stronger internal growth and promoting exports and fair trades

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- IFC Performance Standards
- EBRD Performance Requirements

Responsibilities

At group level:
- Supervisory Board; ProCredit Holding Management
- Group Risk Management Committee

At bank level:
- Management Teams
- Local Supervisory Boards

Purpose of the management approach

Contributing to an environmentally and socially sound economic development in the countries in which we operate.

Enhance positive impacts

2. Material topic: Corporate governance

Our responsible values, guidelines for action and organisational structures are designed to enable our employees to act responsibly in their daily work and foster our clients' trust in ProCredit's decisions. By opting for clear structures, procedures and standards, we avoid the need for a conventional top-down corporate environment. Flat hierarchies, timely and transparent communication flows, as well as small and focused teams, allow our banks to (re)act quickly and appropriately, both in everyday situations and in crises. In addition to fostering a culture of understanding and compliance among all staff members, we apply high standards, which often go beyond the local regulatory requirements. These and other values are documented in our Code of Conduct, which serves as an ethical compass for our staff and guides their behaviour and decision-making. In our countries of operation, we seek to lead by example: we set ourselves high standards of corporate governance and demand that our clients do the same.

Chapter: > Our Socially Responsible Approach

Relevant policies, guidelines and strategies
- Code of Conduct
- Exclusion List (see > Our Code of Conduct, pages 34f.)
- Anti-Money Laundering Policy
- Group Compliance Policy
- Group Internal Audit Policy
- Group Whistleblowing Policy
- Group Risk Management framework

Associated guidelines, webpages or similar
- > Code of Conduct
- Exclusion List (see > Our Code of Conduct, pages 34f.)
- > Prevention of money laundering and other financial crimes
- > Compliance management system

Key contents
- Transparent, stable legal and corporate governance structure
- An established whistle-blower system
- Ensuring that all reporting, risk management, AML and compliance obligations meet the requirement of German and European banking regulations
- All staff, as well as contracted suppliers, make a commitment to combat bribery and corruption through the Code of Conduct.
- All permanent staff are trained on ethical standards

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- EBRD Performance Requirements
- IFC Performance Standards

2.a Material topic: Capital market

Relevant policies, guidelines and strategies
- Group Accounting Policy
- Group Reporting and Data Management Policy
- Group Funding Policy
- Group Standards for full-time personnel
- PCH Standard on the process for capital increases and dividend payments

Associated guidelines, webpages or similar
- > Investor relations

Key contents
- Transparent, comprehensive reporting to capital market investors in line with Prime Standard FSE requirements and the German Corporate Governance Code
- Maintain an adequate level of equity and an optimal rate of return on the capital employed, at the same time achieve and maintain a high degree of orientation towards the target group (SMEs)
- All shares can be freely traded

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- EBRD Performance Requirements
- IFC Performance Standards

2.b Compliance and banking regulation

Relevant policies, guidelines and strategies
- Group Compliance Policy
- Group Reporting and Data Management Policy
- Group Internal Audit Policy
- Group Guidelines for Managing Client Complaints
- AML Policy
- Group Audit Standard on Follow-up Process
- Exclusion List
- Code of Conduct

Associated guidelines, webpages or similar
- > Risk management and internal controls
- > Internal audit
- > Compliance management system
- > Whistleblowing system

Key contents
- Apply high standards (may go beyond the regulatory requirements of our countries of operation)
- Foster a culture of understanding and compliance among all staff members
- Have an effective compliance function which supports and monitors our aspirations in the area of regulatory compliance
- Applying German banking regulations, in addition to local banking regulations, at all of our banks for the majority of their activities
- All compliance processes are checked by the group's Internal Audit teams

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- EBRD Performance Requirements
- IFC Performance Standards

2.c Complaint management

Relevant policies, guidelines and strategies
- Group Guidelines for Managing Client Complaints

Associated guidelines, webpages or similar
- > Whistleblowing system

Key contents
- Each ProCredit bank has a function responsible for handling client complaints, which includes ensuring proper documentation of the process.
- Annual report on the number and nature of complaints received by the bank.

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking

2.d Financial crime

Relevant policies, guidelines and strategies
- Group Risk Strategy
- AML Policy

Associated guidelines, webpages or similar
- > Risk management and internal controls
- > Disclosure reports (see Risk management)
- Exclusion List (see > Our Code of Conduct, pages 34f.)
- > Compliance management system

Key contents
- Address financial crime risks in an integral manner through undertaking selective staff recruitment and onboarding processes.
- Staff receive regular training courses on AML
- Employees and their relatives are not allowed to accept any kind of monetary or non-monetary benefit from any person or organisation seeking to influence our business decisions.
- Specialised software systems to identify financial crime
- Screening of potential customers against a set of around 700 different sanction lists, blacklists and watch list
- Every single customer and every single international payment transaction made by ProCredit bank customers is screened against certain sanctions and watch lists
- All account movements through customer bank accounts are subject to AML monitoring activities

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- UN Convention Against Corruption (2005)

2e Supply chain management

Relevant policies, guidelines and strategies
- Group Guidelines Sustainable Suppliers Code of Conduct

Associated guidelines, webpages or similar
- > Group Environmental Management Policy
- > Environmental management
- Exclusion List (see > Our Code of Conduct, pages 34f.)

Key contents
- Contracted suppliers must sign a declaration that they will comply with ProCredit group exclusion list.

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- EBRD Performance Requirements

2.f Relations with the community

Relevant policies, guidelines and strategies
- Group Guidelines for Managing Client Complaints
- AML Policy
- Exclusion List
- Code of Conduct

Associated guidelines, webpages or similar
- > Responsible banking for development
- > "Hausbank" for small and medium-sized businesses
- > Annual reports
- Exclusion List (see > Our Code of Conduct, pages 34f.)
- > Code of Conduct

Key contents
- Management board from own country's bank
- Staff development
- Payment above average
- Opportunities for young professional (Onboarding Programme/ first job)
- Stimulate the domestic market by supporting SMEs
- Stimulate green activities
- Promote sustainable practices through environmental and social assessments of clients and suppliers
- Support for social and environmental community events and organisations at each bank's country level.
- The staff are involved in voluntary activities inside their own countries of operations (support to charities, cultural and environmental events and activities)

(International) standards, principles and/or initiatives followed
- European Convention on Human Rights (1950)
- IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour
- ILO Declaration on Fundamental Principles and Rights at Work (1998)
- Universal Declaration of Human Rights (1948)
- UN Convention Against Corruption (2005)
- EBRD Performance Requirements
- IFC Performance Standards

Responsibilities

At group level:
- Supervisory Board;
  ProCredit Holding Management
- Group Internal Audit and Ethics Committee
- Group Compliance Committee
- Group Risk Management Committee
- Group Asset and Liability Committee
- Group and PCH Ad Hoc Reporting Committee
- Group environmental steering committee
- Group Anti-Money-Laundering and Compliance team

At bank level:
- Management Teams
- Local Supervisory Boards
- Anti-Money Laundering Officers
- Compliance Officers
- AML and Compliance teams
- Internal Audit teams
- Bank committees
  - Audit
  - Compliance
  - Risk
  - Asset & Liability

Purpose of the management approach

Defining responsible values, guidelines for action and organisational structures aimed at enabling our employees to act responsibly in their daily work and fostering our clients' trust in ProCredit's decisions.

Enhance positive impacts

3. Material topic: Internal environmental management

In order to minimise our environmental footprint, we continuously analyse and monitor the impacts resulting from our activities. We set objectives that are explicitly designed to reduce emissions by improving energy efficiency, promoting renewable energies, and reducing resource consumption. We set an example to companies in our countries of operation by putting green building standards into practice and having our efforts visibly certified. We regularly publicise our environmental achievements both internally and externally with a view to raising awareness among employees and clients alike.

Chapter: > Green Finance

Relevant policies, guidelines and strategies
- Group Environmental Management Policy
- Group Plastic Strategy
- Group Guideline Sustainable Suppliers

Associated guidelines, webpages or similar
- > Environmental standards
- > Our environmental management approach and results
- > Environmental management

Key contents
- An environmental management system (EMS) certified under ISO 14001 to collect and monitor the internal environmental impact, including EMAS for ProCredit institutions located in Germany. The inventory includes energy (electricity, heat and fuels) water and paper consumption, CO_2 emission for scope 1, 2 and 3 (only flights), CO_2 emission by origin, waste production and disposal.
- Commitment to reduce energy, water and paper consumption
- Commitment to reduce our overall carbon footprint in line with our mid-term goal to become carbon neutral.
- IT and office equipment should have the highest available eco-labels (Energy Star, Blue Angel, etc.)
- Our Greening ProCredit Premises Guide facilitates the implementation of efficient energy and resource use in ProCredit buildings.
- Part of the strategy to reduce CO_2 emissions is the use of renewable energies and energy efficiency practices in operational buildings. Persuading EDGE certification in PCB buildings.
- In process of replacing fossil-fuel-based fleet with electric and plug-in hybrid vehicles.
- Avoid utilising single-use plastic materials, applying the criterion to reduce the purchase and use of plastic office supplies and increase awareness about reducing plastic consumption and better management of plastic waste.
- Promoting the recycling of all waste including in countries where there is no public infrastructure for this.
- Environmental and social criteria (energy efficiency, environmentally friendly materials and packing, fair trade, local production, durability, ecologically certified food, etc.) are incorporated into procurement policies.

(International) standards, principles and/or initiatives followed
- Eco-Management and Audit Scheme (EMAS) for the German-based institutions
- ISO 14001 for all institutions outside Germany
- CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)
- Convention on Biological Diversity (CBD)
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance (Ramsar Convention)
- IUCN Guidelines on Protected Areas
- World Heritage Convention
- Montreal Protocol
- EDGE green building certification for head offices of PCB (BGR, GEO, N MAC)

Responsibilities
At group level:
- Group Environmental Steering committee
- PCH Group Environmental Management and Impact Reporting Unit
- Advisory support: through IPC GmbH

At bank level:
- Environmental Committees
- Environmental management units
- Environmental Officers

Purpose of the management approach
Minimising our own environmental footprint through continuous analysis and monitoring of the impacts resulting from our activities.

Mitigate negative impacts

4. Material topic: Technology and innovation

We promote digital transformation in our banking operations in order to deliver state-of-the-art, secure and convenient services to our clients, and maximise efficiency in our internal processes. By investing in and promoting the uptake of innovative and high-quality digital banking solutions, we strive to be a technological trailblazer in our countries of operation. At the same time, we continue to strengthen our defences against cyberattack to ensure a consistently secure and reliable banking environment both for our staff and for our clients.

Chapter: > Our Socially Responsible Approach

Relevant policies, guidelines and strategies
- Group Information Security Policy
- Group Internal Audit Policy
- Group IT Strategy
- Group Audit Standard on Follow-Up Process

Associated guidelines, webpages or similar
- > Modern banking services via electronic channels
- > About Quipu
- > Quipu website

Key contents
- Shift to digital transactions, giving our clients freedom to access our services at any time
- Almost 100% of transactions handled through automated systems, enhancing efficiency formality and transparency.
- Next step: digitalise all non-financial transactions
- Own IT service and software subsidiary: Quipu. To develop and quickly implement strategically important new IT solutions specific for ProCredit needs.
- Quipu is audited for compliance with related ISO standards and regulatory requirements (BAIT) on an annual basis.
- Quipu's processes are subject to Internal Auditing

(International) standards, principles and/or initiatives followed
- ISO 9001:2015
- ISO 20000-1:2018
- ISO 27001:2013
- PCI DSS
- PCI Card Production
- PCI PIN Security Requirements
- PCI 3DS Core Security Standard

Responsibilities
At group level:
- Group IT Committee
- Group Internal Audit and Ethics Committee
- Quipu GmbH
- Group Information Security Officer

At bank level:
- IT Steering Committees
- Information Security Officers

Purpose of the management approach
Promoting digital transformation in our banking operations in order to provide a state-of-the-art, secure customer experience, and maximise efficiency in our internal processes.

Enhance positive impacts

5. Material topic: Reliable partnerships and transparent services

We seek to build long-term reliable and stable partnerships with our business and private clients as their "Hausbank". Our well-trained staff take the time to analyse business models and investment ideas so that they are in a position to provide sound advice to small and medium enterprises, a client group that is still underserved in terms of appropriate financial services, particularly in the countries in which we operate. This approach contributes to sustainable development for our business clients and prevents them from becoming overindebted. In addition, we aim increasingly to support private individuals, including business owners, with transparent and well-structured account services, savings options and lending products, primarily via convenient and secure digital channels.

Chapter: > Our Socially Responsible Approach

Relevant policies, guidelines and strategies
- Mission Statement
- Group Business Strategy

Associated guidelines, webpages or similar
- > Who we are: ProCredit today
- > Annual reports / Fundamental information about the Group

Key contents
- Establish long-lasting and reliable partnerships with all our clients.
- Fair and transparent advice from our staff, through a no-bonus policy system for open accounts or loans.
- Focus on establishing relationships, providing the right services at the right time, and supporting a client's success over the long term.
- Great caution in issuing consumer loans to private households
- Focused on SMEs in agriculture, manufacturing, environmentally sound investments and regionally active in our countries of operation
- Policy of NO mass marketing or advertising our services and conditions aggressively to boost loans disbursement.
- A comprehensive "know your client" approach, assessing clients' economic and financial situations, their business potential and repayment capacity in order to provide appropriate financing and to avoid over-indebtedness.
- Transparent communication of interest rates, related costs, conditions and contractual clauses of our lending and saving products. Explaining the calculation methodology to clients.
- Efforts to keep or clients, staff, investors and supervisory authorities informed in a comprehensive and transparent manner through various published reports.
- The bank uses a range of methods in order to educate clients in financial literacy: website sections, emails, social media, participation in congress and campaigns, TV appearance, and even external financial training education in some cases (ECU), webinars (MkD)
- The Code of Conduct sets out our fair, reliable and transparent approach to our clients, including the honest communication of our service and products
- Our staff are instructed on consumer financial protection and product safety by means of annual ethics training
- Use of various channels by banks to gauge customer satisfaction (social media, telephone surveys, meetings, clients' applications to open or close accounts)

(International) standards, principles and/or initiatives followed
- IFC Performance Standards
- EBRD Performance Requirements

Responsibilities
At group level:
- Group Information Security Officer
- Information Security Working Group
- Group IT Committee

At bank level:
- Data Protection Officer
- Information Security Officer
- Data Breach Reporting Committee

Purpose of the management approach
Promoting long-term reliable and stable partnerships with our business and private clients as their "Hausbank".

Enhance positive impacts

Relevant policies, guidelines and strategies
- Group IT Strategy
- Group Risk Strategy
- Group Information Security Policy
- Group Card and Self-Service Zones Security Standard
- Group IT infrastructure Standard

Associated guidelines, webpages or similar
- > Risk management and internal controls
- > Data protection

Key contents
- Design of Information Security Management System is in line with International standards and subject to an external audit each year.
- Quipu's (group internal IT Service provider) information security management system is certified to ISO 27001:2013, which covers all key information security issues.
- Our staff are trained in data security and privacy
- Clients can demand rectification of their data

(International) standards, principles and/or initiatives followed
- 3-D Secure Security Requirements
- ISO 20000-1:2018
- ISO 27001:2013
- PCI DSS
- PCI Card Production
- PCI PIN Security Requirements
- PCI 3DS Core Security Standard
- GDPR

Responsibilities
- DPO
- ISO
- Risk officers

Purpose of the management approach
Promoting long-term reliable and stable partnerships with our business and private clients as their "Hausbank".

Enhance positive impacts

6. Material topic: Sustainable finance

We apply an economically, socially and environmentally inclusive approach to responsible finance. When evaluating the economic soundness of an investment, we take all possible negative environmental and social impacts into account. Our focus is on providing financial instruments that enable our client groups to realise innovative projects that are relevant for the local economies. Our green loans promote climate-friendly technologies that have a positive impact on the environment. We achieve our sustainable finance objectives by strictly applying our Exclusion List and maintaining a highly active dialogue with our clients.

Chapter: > Our Socially Responsible Approach, > Green Finance

Relevant policies, guidelines and strategies

- Mission Statement
- Group Business Strategy
- Group Environmental Management Policy
- Group Guideline Financing clients engage in plastic relate activities
- Group Plastic Strategy
- Group Standards for Managing the Environmental and Social Impact of Lending
- Group Credit Risk Management Policy and standards
- Group guidelines for green finance
- Group Standards for Financing Renewable Energy Projects
- Methodological approach to green lending at ProCredit

Associated guidelines, webpages or similar

- > Who we are: ProCredit today
- > Annual reports / Basic information about the group

Key contents

- To provide SMEs with responsible financial services.
- Supporting local production and agriculture
- Enhancing the local capacity for modernisation and innovation
- Assessing the environmental impact of business activities by means of various tools and guidelines, such as the Exclusion List and E&S Standards.
- Increasing and promoting financial services to encourage clients to develop their activities in an environmentally friendly manner, as well as to adopt energy-efficient technologies and renewable energy solutions.

(International) standards, principles and/or initiatives followed

- IFC Performance Standards
- EBRD Performance Requirements

6.a Green finance

Relevant policies, guidelines and strategies

- Group Environmental Management Policy
- Group Guidelines – Green Finance
- Group Standards for Financing Renewable Energy Projects
- Group guidelines for green finance
- Methodological approach to green lending at ProCredit

Associated guidelines, webpages or similar

- > Our Clients' Green Investments

Key contents

- Own technical eligibility criteria and principles for green lending, which are continuously revised to reflect the latest technology trends.
- Classification of green loans into three categories:
  - Energy-efficient equipment and processes (EE)
  - Renewable energy technologies (RE)
  - Environmentally friendly projects with a direct positive impact on the environment (GR)
- Distinguish between the baseline approach, the high impact approach and the best available technology approach.
- Development of a Green Bond
- Organisation of half-yearly group-wide green seminars for staff training purposes.

(International) standards, principles and/or initiatives followed

- IFC Performance Standards
- EBRD Performance Requirements

Responsibilities

At group level:

- Group Environmental Steering Committee
- Group Risk Management Committee
- PCH Group Environmental Management and Impact Reporting Unit
- Group Credit Risk Department
- Advisory support: through IPC GmbH

At bank level:

- Environmental Committees
- Risk Management Departments
- Environmental Management Units
- Environmental Officers
- Green finance co-ordinators
- Environmental Risk Officers

Purpose of the management approach

Putting into action our economically, socially and environmentally inclusive approach to responsible finance.

Enhance positive impacts

7. Material topic: Prudent credit-risk management

In our lending operations we strive to minimise potentially harmful economic, environmental and social impacts, e.g. by not allowing our clients to become overindebted and not financing ecologically unsound projects. We follow a differentiated and personalised approach to managing credit risk in order to support our clients throughout their economic cycles. We have developed and implemented robust processes for our lending operations, tailored specifically to the risk profile of our SME clients and manifested in our standardised group-wide policies. As environmental and social risks may turn into financial risk for the client and reputational risk for our banks, we consider effective E&S risk management to be indispensable for a sustainable credit institution.

Chapter: > Our Socially Responsible Approach, > Green Finance

Relevant policies, guidelines and strategies
- Group Credit Risk Management Policy
- Standards for Business clients-Small and Medium
- Standards for Business Very Small Clients
- Standards for Credit Facilities
- Standards for Private Clients
- Standards for Forborne Credit Exposures
- Standards for Borrower Units, Groups of Connected Clients, Counterparty Groups
- Standards for Credit Data quality Validation
- Standards for Financing Renewable Energy Projects
- Standards for Impairment of Loans and Advances to Customers
- Standards for Managing the Environmental and Social Impact of Lending

Associated guidelines, webpages or similar
- > Risk management and internal controls
- > Annual report / Risk Report
- > Disclosure report / Risk management

Key contents
- Minimise the risk of over-indebtedness through focus on SME profile clients and the portfolio quality.
- Reduce negative environmental and social impacts of investments through strict E&S risk and exclusion criteria into the credit analysis.
- All ProCredit banks apply the high credit risk standards imposed by the German banking supervisory authority BaFin.
- Extensive annual training to business and credit risk staff.
- Early warning indicators against potential over-indebtedness and insolvency.
  - The process for managing the E&S risk of lending includes: Screening all client against the Exclusion List
  - A predefined categorisation system based on international standards separating individual economic sectors into high, medium or low environmental risk.
  - Conduct an on-site individual E&S risk assessment, (depth depends on the environmental risk category and size of the exposure).
- Category A projects need an external environmental and social impact assessment (ESIA) and a watch list
- An assessment of the company's social, health and safety conditions is carried out for all business clients.
- The use of sector-specific assessment forms and guidance notes, which highlight the risks inherent in each sector.
- Review of legal compliance, management of land, waste, water, soil, emissions and hazardous substances, site safety and social integrity.

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking
- IFC Performance Standards
- EBRD Performance Requirements
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance (Ramsar Convention)
- IUCN Guidelines on Protected Areas
- World Heritage convention
- Montreal Protocol
- European Convention on Human Rights (1950)
- IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour
- ILO Declaration on Fundamental Principles and Rights at Work (1998)
- Universal Declaration of Human Rights (1948)
- UN Convention Against Corruption (2005)

Responsibilities

At group level:
- Group Risk Management Committee
- Group Environmental Steering Committee
- PCH Group Environmental Management and Impact Reporting Unit
- Group Credit Risk Department
- Advisory support: through IPC GmbH

At bank level:
- Environmental Committees
- Risk Management Departments
- Environmental Management Units
- Environmental Officerstee

Purpose of the management approach

Minimising potential negative impacts of lending operations, such as over-indebtedness of clients or the negative environmental and social impacts of the projects we finance.

Mitigate negative impacts

Relevant policies, guidelines and strategies
- Group Risk Strategy
- Exclusion List
- Code of Conduct
- Group Guideline on Environmental and Social Impact Assessment
- Standards for Managing Environmental and Social Impact of Lending

Associated guidelines, webpages or similar
- > Managing The Environmental And Social Risk of Lending
- > Environmental standards
- Exclusion List (see > Our Code of Conduct, pages 34f.)
- > Code of Conduct

Key contents
- All credit and investment banking operations require an ESIA
- Our credit policy includes a specific assessment of environmental issues (agriculture biodiversity, protected areas, forestry, energy production, plastic) at group level. A climate change assessment is currently under development.
- All ESIA standards and assessments are applied at group level.
- All our risk officers and staff receive training in managing the environmental and social risks of investments and procedures.

(International) standards, principles and/or initiatives followed
- IFC Performance Standards
- EBRD Performance Requirements
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance (Ramsar Convention)
- IUCN Guidelines on Protected Areas
- World Heritage convention
- Montreal Protocol
- European Convention on Human Rights (1950)
- IFC/MIGA Joint Policy Statement on Forced Labour and Harmful Child Labour
- ILO Declaration on Fundamental Principles and Rights at Work (1998)
- Universal Declaration of Human Rights (1948)
- UN Convention Against Corruption (2005)

Responsibilities

At group level:
- Group Risk Management Committee
- Group Environmental Steering Committee
- PCH Group Environmental Management and Impact Reporting Unit
- Group Credit Risk Department
- Advisory support: through IPC GmbH

At bank level:
- Environmental Committees
- Risk Management Departments
- Environmental Management Units
- Environmental Officerstee

Purpose of the management approach

Minimising potential negative impacts of lending operations, such as over-indebtedness of clients or the negative environmental and social impacts of the projects we finance.

Mitigate negative impacts

8. Material topic: Ethical values and working environment

We seek to promote a positive working environment characterised by diversity, flat hierarchies and open communication, with the aim of retaining key personnel on a long-term basis. We pride ourselves on having developed an approach to staff that does not solely rely on monetary compensation. Our ethical approach to banking is fundamental and fully integrated into our corporate culture. Among other things, we heavily promote independence and critical thinking, responsibility, gender equality and fairness among our staff. Assuring the health and safety of our employees is among our foremost priorities. Our corporate values are manifested in our Code of Conduct, and form the ethical compass of the ProCredit group.

Chapter: > Our Staff

Relevant policies, guidelines and strategies

- Code of Conduct
- Group HR Policy

Associated guidelines, webpages or similar

- > Our approach to staff
- > Human resources brochures
- > Code of Conduct
- Exclusion List (see > Our Code of Conduct, pages 34f.)

Key contents

- The Code of Conduct addresses the personal integrity, professionalism, social responsibility, open communication and transparency values that are expected from our staff.
- The principle of a fixed salary is designed to avoid short-term, opportunistic behaviour by staff
- The staff, depending on their country of operation, periodically attend different health and safety courses (first aid, health and safety at work, stress management, etc.), some general medical services are also available to them (access to doctors, social workers, etc.)
- COVID-19 measures in countries of operation include: facilities for working from home, personal protection equipment, tests, transport facilities, support of social workers, etc.
- Collective bargaining agreements: only in countries where the banking sector has trade unions (Romania)

(International) standards, principles and/or initiatives followed

- IFC Performance Standards
- EBRD Performance Requirements
- ILO Declaration on Fundamental Principles and Rights at Work (1998)

Responsibilities

At group level:

- Management board of PCH
- All employees of the group

At bank level:

- Management Teams
- HR Committees
- HR Teams

Purpose of the management approach

Promoting the creation of a positive working environment characterised by diversity, flat hierarchies and open communication, with the aim of retaining key personnel on a long-term basis.

Enhance positive impacts

9. Material topic: Fair recruiter and employer

To attract and retain the right employees, we have developed a transparent selection process complemented by fair internal promotion opportunities and remuneration. Fairness and openness are the key distinguishing features of our recruitment procedures. The candidates appreciate our merit-based approach, which treats every applicant in the same way, regardless of gender, origin or connections. In the same vein, we place great value on a transparent salary structure. We consciously refrain from offering short-term, performance-related bonuses, and ensure fair remuneration by capping the ratio between the highest and median salary levels.

Chapter: > Our Staff

Relevant policies, guidelines and strategies
- Group HR Policy

Associated guidelines, webpages or similar

- > Our approach to staff
- > Human resources brochures

Key contents
- A fair and transparent recruitment procedure
- Diversity: special focus on recruiting personal from non-financial backgrounds and diverse social groups.
- Transparent salary and promotion structure
- Employee stock ownership plan (ESOP) - ProCredit Staff Invest: investment vehicle to enable staff members to acquire shares in ProCredit Holding
- Staff have access to different non-compensation benefits depending to the country of operation (Job Ticket, company car sharing, health insurance, sport subscription service, accident insurance and/or pension plan)
- Part-time and home working possibilities to enable staff members to combine their careers with non-work activities, especially for the purposes of childcare or looking after dependents

(International) standards, principles and/or initiatives followed
- IFC Performance Standards
- EBRD Performance Requirements
- ILO Declaration on Fundamental Principles and Rights at Work (1998)

Responsibilities
At group level:
- Management board of PCH

At bank level:
- Management Teams
- HR Committees
- HR Teams

Purpose of the management approach
Ensuring a transparent selection process complemented by fair internal promotion and remuneration to attract and retain the right employees.

Enhance positive impacts

10. Material topic: Staff development

We develop staff capacity through comprehensive knowledge and skills training, regular performance reviews and clear career options. Our approach emphasises the importance of investing in ongoing personal and professional development. At ProCredit we support our employees by providing regular opportunities for dialogue and feedback, and by offering continuous training. Our professional development curricula include not only banking skills, but above all courses on humanities, encouraging our staff to reflect on their own values and role in society and to emancipate themselves from ready-made ways of thinking.

Chapter: > Our Staff

Relevant policies, guidelines and strategies
- Group HR Policy
- Standard for Staff Remuneration
- Guidelines for staff assessment

Associated guidelines, webpages or similar
- > Our approach to staff
- > ProCredit Onboarding Programme
- > The ProCredit Banker Academy
- > ProCredit Academy Brochure

Key contents
- Four training levels: Onboarding Programme, Specialist courses & workshops, ProCredit Banker Academy, ProCredit Management Academy.
- Various training programmes covering all employees
- Regular performance appraisals and feedback processes by means of meetings at manager and HR department level.

(International) standards, principles and/or initiatives followed
- UNEP FI/ Principles for Responsible Banking

Responsibilities

At group level:
- Management board of PCH

At bank level:
- Management Teams
- HR Committees
- HR Teams

Purpose of the management approach

Developing staff capacity through comprehensive knowledge and skills training, regular performance reviews and clear career options.

Enhance positive impacts

GRI CONTENT INDEX 2020

Disclosure	Page number/URL or comment	Material topic matched
GRI 102: GENERAL DISCLOSURES 2016		
ORGANISATIONAL PROFILE		
102-01 Name of organisation	> Website: ProCredit Holding and its role ProCredit at a glance > page 66	-
102-02 Activities, brands, products, and services	ProCredit at a glance > pages 66ff.	-
102-03 Location of headquarters	> Website: ProCredit worldwide	-
102-04 Location of operations	> Website: ProCredit worldwide	-
102-05 Ownership and legal form	> Website: ProCredit Holding and its role ProCredit at a glance > page 66	-
102-06 Markets served	ProCredit at a glance > pages 66ff. Sustainable finance > page 42ff. Our approach to clients > pages 15f.	-
102-07 Scale of organisation	> Annual Report 2020 Section: Key Figures of the Group.	-
102-08 Information on employees and other workers	Performance indicators > pages 102ff. Note: Employee numbers are expressed as the head count as at the end of year and include all persons who are in an employment relationship with a member of the ProCredit group and who are on the company payroll. Exchange staff are accounted for at the institution responsible for paying their salary. Self-employed persons or employees of suppliers of the ProCredit group are not included in these statistics.	-
102-09 Supply chain	The supply chain for the group primarily consists of suppliers of office materials and technical equipment, banking machinery and vehicles. Other links in the ProCredit group's supply chain include service companies such as consultancies, lawyers or auditors. Performance indicators > page 87	-

Disclosure	Page number/URL or comment	Material topic matched
102-10 Significant changes to the organisation and its supply chain	There have been no significant changes. i. The scope of countries of operations has not changed with respect to 2019. In 2020, the group continued to expand its banking business in eight countries in South Eastern Europe, three countries in Eastern Europe as well as Ecuador and Germany. The business model remains focused on providing banking services to small and medium sized enterprises and further building a market position as a modern and transparent direct bank for private individuals. ii. There have been no material changes in the capital structure of the group (shares are listed on the Frankfurt Stock Exchange). No material changes in significant shareholdings occurred in 2020 according to the last available voting right notifications. In 2020, ProCredit Holding bought the remaining minority shares in ProCredit Bank Ukraine and is now the sole shareholder of all ProCredit banks. iii. The group continues to work with a broad and well diversified base of funding providers, including banks and international financial institutions.	-
102-11 Precautionary principle or approach	Whenever new services or processes are introduced, a New Risk Assessment (NRA) is conducted. If the services or processes are environmentally relevant, the Environmental Coordinator or Environmental Unit of each institution is also involved in this assessment to ensure that the environmental impact is appropriately apraised and taken into account.	-
102-12 External initiatives	Performance indicators > page 88 Management approach to material topics > pages 110ff.	-
102-13 Membership of associations	Performance indicators > page 88 Management approach to material topics > pages 110ff.	-
STRATEGY		
102-14 Statement from senior decision-maker	Foreword by the chairperson of the Supervisory Board > page 2 Letter from the Management Board > page 5	-
ETHICS AND INTEGRITY		
102-16 Values, principles, standards, and norms of behaviour	> Our Code of Conduct Mission Statement (see > Our Code of Conduct, page 7) Ethical values and working environment > pages 52ff. Governance > page 29f.	-
GOVERNANCE		
102-18 Governance structure	ProCredit at a glance > page 66 Governance > pages 28f. In addition to the information above, in 2021 ProCredit Holding plans to establish a Risk & Audit Committee as well as a Nomination Committee in order to comply with the new requirements of the German Banking Act (KWG). Members of these committees will also be members of the Supervisory Board of ProCredit Holding.	-
102-24 Nominating and selecting the highest governance body	> Disclosure Report 2020. Section: Management Body Governance > pages 30ff.	-

Disclosure	Page number/URL or comment	Material topic matched
102-35 Remuneration policies	Fair recruiter and employer > pages 57ff. > Disclosure Report 2020. Section: Remuneration > Annual Report 2020. Section: Remuneration report for the management board and supervisory board > Impact Report 2019 > pages 58ff. The ProCredit group generally opposes contractual variable payments. Variable remuneration such as bonuses are only granted on an exceptional and very limited scale and are always determined on the basis of long-term commitment and performance. We see long-term commitment reflected in employees' adherence to our core values and objectives, which of course includes supporting sustainable economic development in our countries of operation and following the environmental and social guidelines laid out in our Code of Conduct. Termination payments: In line with regulatory requirements in the respective countries of operation. Clawbacks: Due to the remuneration structure, clawbacks are not applicable. Retirement benefits: No retirement benefits apply.	-
102-38 Annual total compensation ratio	Performance indicators > page 105	
STAKEHOLDER ENGAGEMENT		
102-40 List of stakeholder groups	Materiality and impact reporting > pages 72ff.	-
102-41 Collective bargaining agreements	In Romania, all employees are covered through collective bargaining agreements in accordance with the Law of Social Dialogue No 62/2011. This represents about 6.6% of the total employees of the ProCredit group. In general, it is not a common practice in our countries of operation for financial institutions and IT companies to have collective bargaining agreements.	-
102-42 Identifying and selecting stakeholders	Materiality and impact reporting > pages 72ff. During a management workshop, a joint decision was taken to engage ProCredit's closest stakeholders, namely shareholders, clients, and staff, in the form of an online survey as was carried out in 2017. The banks included in the survey represent ProCredit's varying degrees of size and regional coverage.	-
102-43 Approach to stakeholder engagement	Materiality and impact reporting > pages 72ff. We continually confer with stakeholders in direct discussions. Moreover, every three years stakeholders are systematically approached to give us their comments on key issues in an online survey.	-

Disclosure	Page number/URL or comment	Material topic matched
102-44 Key topics and concerns raised	Materiality and impact reporting > pages 72ff. Prudent credit risk management > pages 23ff. Ethical values and working environment > pages 52ff. This year's report places more emphasis on our main principles and the reasoning behind our approach to the aspects that we define as material. Another concern raised was a critical reflection of current sustainability rating approaches. Therefore, senior ProCredit staff included an account in the report detailing who we are and what we stand for, both individually and as a group. Clearly, the economic and social implications of the COVID-19 pandemic on our countries of operation were key concerns for us this year; to address the situation, we held intensive discussions with our staff and our clients throughout 2020. Also, notwithstanding the pandemic, our materiality assessment remained the same level as in previous years; this is because we would rather intensify our efforts within the defined scope of the areas covered.	-
REPORTING PRACTICE		
102-45 Entities included in the consolidated financial statements	Scope of Group Impact Report 2020: **South Eastern Europe:** ProCredit Bank (Bulgaria) E.A.D.,, ProCredit Bank S.A.(Romania), ProCredit Bank Sh.a (Albania), ProCredit Bank d.d. (Bosnia and Herzegovina), , ProCredit Bank Sh.a (Kosovo), ProCredit Bank A.D. (North Macedonia), , ProCredit Bank a.d. Beograd (Serbia) **Eastern Europe:** JSC ProCredit Bank (Georgia), BC ProCredit Bank (Moldova), JSC ProCredit Bank (Ukraine). **Germany:** ProCredit Holding AG & Co. KGaA (Germany), ProCredit Bank AG (Germany), ProCredit Academy GmbH (Germany), Quipu GmbH (head office in Frankfurt, Germany; as well as four subsidiaries in San Salvador, El Salvador; Skopje, Macedonia; Pristina, Kosovo; and Kiev, Ukraine; plus regional offices in Accra, Ghana; Bucharest, Romania; and Moscow, Russia). **South America:** Banco ProCredit S.A. (Ecuador). Excluded from the Group Impact Report, but included in the Annual Report: ProCredit Regional Academy Eastern Europe (North Macedonia). The details of each entity can be found in the > Annual Report	-
102-46 Defining report content and topic boundaries	Materiality and impact reporting > pages 72ff. Overview of material topics, related impacts and boundaries > page 141 The content of this report generally follows the different thematic areas of our 10 material topics, describing our positive impact and/or how we strive to avoid/mitigate negative impacts. The extraordinary circumstances surrounding the COVID-19 pandemic and its impact have also been taken into account.	-
102-47 List of material topics	Materiality and impact reporting > pages 72ff. verview of material topics, related impacts and boundaries > page 141	-
102-48 Restatements of information	Restatements were made due to updates and corrections for individual performance indicators (mainly related to internal environmental data). Significant restatements are marked with an asterisk (*). Please see ProCredit's performance indicators > pages 81ff. for more details.	-
102-49 Changes in reporting	For this report, certain material topic definitions were refined. Also, the number and types of disclosures have been streamlined, with the addition of some increasingly relevant factors while discontinuing those of lesser importance. Overall, however, there were no significant changes to the material topic definitions and boundaries used in the previous report.	-
102-50 Reporting period	Financial year 2020; figures for financial years 2018 and 2019 have been included for comparison purposes if relevant.	-

Disclosure	Page number/URL or comment	Material topic matched
102-51 Date of most recent report	March 2020	-
102-52 Reporting cycle	Annually	-
102-53 Contact point for questions regarding the report	Investor Relations Team: PCH.ir@procredit-group.com	-
102-54 Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option	-
102-55 GRI content index	GRI content index > page 124	-
102-56 External assurance	The report is not externally assured.	-
TOPIC SPECIFIC DISCLOSURES		
GRI 200: Economic performance		
GRI 202: Market presence 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Economic development > pages 10ff.	Economic development
103-2 The management approach and its components	Management approach to material topics > page 110 Economic development > pages 10ff.	Economic development
103-3 Evaluation of the management approach	Management approach to material topics > page 110 Economic development > pages 10ff.	Economic development
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Performance indicators > page 105 Significant locations of operations: refer to our four main regions of operation.	Economic development
202-2 Proportion of senior management hired from the local community	Performance indicators > page 105	Economic development

Disclosure	Page number/URL or comment	Material topic matched
GRI 203: Indirect economic impacts 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Economic development > pages 10ff.	Economic development
103-2 The management approach and its components	Management approach to material topics > page 110 Economic development > pages 10ff.	Economic development
103-3 Evaluation of the management approach	Management approach to material topics > page 110 Economic development > pages 10ff.	Economic development
203-2 Significant indirect economic impacts	Economic development > pages 10ff.	Economic development
GRI 205: Anti-corruption 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > pages 28ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Governance > pages 28ff.	Corporate governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Governance > pages 28ff. Corruption risks can result in losses on two levels, internally and for clients. All banks utilise specialised software systems to screen all transactions for signs of financial crime (supervised by the AML/Compliance unit at ProCredit Holding). In order to monitor corruption risks internally, the Group Operational Risk Management unit regularly scrutinises the incidents recorded in the risk event database; makes detailed analyses of the management summary reports for high risk events; analyses ad hoc escalations from all institutions and, where applicable, escalates them further to the PCH Management Board and/or the Group AML Officer and Group Audit department; regularly revises and consolidates the fraud Key Risk Indicators for all banks as well as the risk assessments and scenario analyses for all institutions; reviews the new risk approvals and outsourcing risk analyses performed by each institution. Moreover – if applicable at group level – performs new risk approvals and outsourcing risk analyses; prepares group annual reports; and reports regularly to the Group Risk Management Committee on the group operational risk profile. The Group Operational Risk Management unit undertakes all of these actions to make sure that adequate measures are taken in the event that risks materialise or potential risks are detected. In addition, risk awareness training is mandatory for each staff member at least every two years. The Group Operational Risk Management unit also coordinates the necessary insurance policies at group level.	Corporate governance

Disclosure	Page number/URL or comment	Material topic matched
205-1 Operations assessed for risks related to corruption	Governance > pages 26ff. Performance indicators > page 86 All defined scenarios and processes related to operations are assessed for potential risk of corruption. Each client account is also screened for financial crime risks of any kind, including corruption.	Corporate governance
205-2 Communication and training about anti-corruption policies and procedures	Corporate governance > pages 28ff. Performance indicators > page 87 See Code of Conduct training, training on financial crime risks and risk awareness training. 100% of employees and management board members receive training in anti-corruption policies and procedures. We communicate our anti-corruption policies to governance body members, employees and business partners publicly via our > Code of Conduct Business partners such as suppliers are obliged to adhere to our values by signing a declaration of compliance.	Corporate governance
GRI 206: Anti-competitive behaviour 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > pages 28ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Governance > pages 28ff.	Corporate governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Governance > pages 28ff.	Corporate governance
206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Performance indicators > page 85 No instances of non-compliance with laws and regulations have been identified.	Corporate governance
GRI 300: Environmental performance		
GRI 302: Energy 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Green finance > pages 35ff.	Internal environmental management
103-2 The management approach and its components	Management approach to material topics > pages 114 Green finance > pages 35ff. > Impact Report 2019 > pages 31ff. (online version)	Internal environmental management
103-3 Evaluation of the manage-ment approach	Management approach to material topics > pages 114 Green finance > pages 35ff. > Impact Report 2019 > pages 31ff. (online version)	Internal environmental management

Disclosure	Page number/URL or comment	Material topic matched
302-1 Energy consumption within the organisation	Performance indicators > page 89 Cooling energy for air conditioners is included under electricity consumption. Omission: Steam energy is not used at ProCredit premises.	Internal environmental management
302-3 Energy intensity	Performance indicators > page 89 The indicators only consider energy consumption within the organisation.	Internal environmental management
302-4 Reduction of energy consumption	Performance indicators > page 89 Energy reductions were impacted by the special circumstances of 2020. We also acknowledge that the additional energy used at our employees' residences whilst working from home has not been reflcted in the assessment.	Internal environmental management
GRI: 305: Emissions 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Green finance > pages 35ff.	Internal environmental management
103-2 The management approach and its components	Management approach to material topics > pages 114 Green finance > pages 35ff. > Impact Report 2019 > pages 31ff. (online version)	Internal environmental management
103-3 Evaluation of the management approach	Management approach to material topics > pages 114 Green finance > pages 35ff. > Impact Report 2019 > pages 31ff. (online version)	Internal environmental management
305-1 Direct (Scope 1) GHG emissions	Performance indicators > page 92 Consolidation approach for emissions: operational control. CO_2, CH_4 and N_2O gases are considered. Omission: Biogenic emissions are not considered, as the complexity of calculating them is disproportionate to the additional insights they would provide in this context.	Internal environmental management
305-2 Energy indirect (Scope 2) GHG emissions	Performance indicators > page 92 Consolidation approach for emissions: operational control. For purchased electricity CO_2 emissions are considered. For district heating, CO_2, CH_4 and N_2O gases are considered. Omission: Biogenic emissions are not considered, as the complexity of calculating them is disproportionate to the additional insights they would provide in this context.	Internal environmental management
305-3 Other indirect (Scope 3) GHG emissions	Performance indicators > page 92 Consolidation approach for emissions: operational control. Includes CO_2 emissions. Omission: Biogenic emissions are not considered, as the complexity of calculating them is disproportionate to the additional insights they would provide in this context.	Internal environmental management
305-4 GHG emissions intensity	Performance indicators > page 92	Internal environmental management

Disclosure	Page number/URL or comment	Material topic matched
305-5 Reduction of GHG emissions	Performance indicators > page 92 Emissions reductions were strongly affected by the specific circumstances of 2020 (i.e. no flights). We also acknowledge that the emissions at our employees' residences whilst working from home have not been reflcted in the assessment.	Internal environmental management
GRI 307 Environmental compliance 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > pages 28ff. Green finance > pages 35ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Green finance > pages 35ff. Governance > page 28ff. > Impact Report 2019 > pages 31ff. (online version)	Corporate governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Green finance > pages 35ff. Governance > page 28ff. > Impact Report 2019 > pages 31ff. (online version)	Corporate governance
307-1 Non-compliance with environmental laws and regulations	Performance indicators > page 85 No instances of non-compliance with laws and regulations have been identified. Significant fines and non-monetary sanctions are defined as those amounting to more than EUR 100,000.	Corporate governance
GRI 308 Supplier environmental assessment		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > page 28ff. Green finance > pages 35ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Green finance > pages 35ff. Governance > page 28ff.	Corporate governance

Disclosure	Page number/URL or comment	Material topic matched
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Green finance > pages 35ff. Governance > pages 28ff. Over the last two years, the ProCredit group has taken significant steps to expand the scope of its supply chain management. The most recent version of the Group Guidelines on Sustainable Suppliers provide clear criteria for selecting suppliers of products and services, and encourages the ProCredit banks to look beyond their direct suppliers to investigate the suppliers' respective supply chains wherever possible. All suppliers are expected to adhere to the core values of the ProCredit group. They are screened for compliance with our Exclusion List (see > Our Code of Conduct, page 34), and with all statutory environmental and social requirements, and are required to sign a declaration of compliance. This in itself raises their awareness of sustainability issues. However, the process goes far beyond these minimum standards to include other environmental and social indicators whenever possible and feasible. These are used to classify particularly sustainable suppliers (considering for instance the introduction of certified environmental management systems, sustainable waste management systems and packaging as well as policies and action to ensure equal opportunities amongst staff, to name just a few). To assist the banks in their procurement decisions, a group-wide Sustainable Supplier Screening and Assessment Tool has been developed, and members of each bank's Environmental Management unit sit on the tender committees. Support also comes from the Group Environmental Management team, offering additional advice and communicating best practices across the group.	Corporate governance
308-1 New suppliers that were screened using environmental criteria	Performance indicators > page 87	
GRI 400: Social performance		
GRI 401: Employment		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
103-2 The management approach and its components	Management approach to material topics > page 122 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
103-3 Evaluation of the management approach	Management approach to material topics > page 122 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
401-1 New employee hires and employee turnover	Performance indicators > page 106f. Note: The average number of employees during the respective period is calculated by averaging the year-end data specified in Disclosure 102-8. When computing new hire rates and turnover rates for specic sub-groups, the sub-group average is used as the denominator. "	Fair recruiter and employer

Disclosure	Page number/URL or comment	Material topic matched
GRI 404: Training and education 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Staff development > pages 61ff.	Staff development
103-2 The management approach and its components	Management approach to material topics > page 123 Staff development > pages 61ff.	Staff development
103-3 Evaluation of the management approach	Management approach to material topics > page 123 Staff development > pages 61ff.	Staff development
404-1 Average hours of training per year per employee	Performance indicators > page 108	Staff development
404-3 Percentage of employees receiving regular performance and career development reviews	Staff development > page 61	Staff development
GRI 405: Diversity and equal opportunity 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Ethical values and working environment > pages 52ff.	Ethical values and working environment
103-2 The management approach and its components	Management approach to material topics > page 121 Ethical values and working environment > pages 52ff.	Ethical values and working environment
103-3 Evaluation of the management approach	Management approach to material topics > page 121 Ethical values and working environment > pages 52ff.	Ethical values and working environment
405-1 Diversity of governance bodies and employees	Performance indicators > page 102	Ethical values and working environment
405-2 Ratio of basic salary and remuneration of women to men	SDGs material topic and targets > page 75	Ethical values and working environment

Disclosure	Page number/URL or comment	Material topic matched
GRI 406: Non-discrimination 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
103-2 The management approach and its components	Management approach to material topics > page 122 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
103-3 Evaluation of the management approach	Management approach to material topics > page 122 Fair recruiter and employer > pages 57ff.	Fair recruiter and employer
406-1 Incidents of discrimination and corrective actions taken	Performance indicators > page 105	Fair recruiter and employer
GRI 408: Child labour 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
408-1 Operations and suppliers at significant risk for incidents of child labour	In 2020 no operations were identified as having any significant risk for incidences of child labour. Our Exclusion List (see > Our Code of Conduct, page 34) categorically excludes sectors that are of high risk in this regard (i.e. exploitation in diamond mines, and underground mining in general). Moreover, the activities of all clients, suppliers and other counterparties are screened for exploitative forms of harmful child labour. No business relationship can be established with entities involved in child labour.	Prudent credit risk management, governance

Disclosure	Page number/URL or comment	Material topic matched
GRI 409: Forced or compulsory labour 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	In 2020 no operations were identified as having any significant risk for incidences of forced or compulsory labour. Our Exclusion List (see > Our Code of Conduct, page 34) categorically excludes sectors that are of high risk in this regard (i.e. exploitation in diamond mines, and underground mining in general). Moreover, the activities of all clients, suppliers and other counterparties are screened for forced or compulsory labour. No business relationship can be established with entities involved in forced or compulsory labour.	Prudent credit risk management, governance
GRI 412: Human rights assessment 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Prudent credit risk management > pages 23ff. Governance > pages 28ff.	Prudent credit risk management, governance
412-1 Operations that have been subject to human rights reviews or impact assessments	We are aware that in many of our countries of operation, violation of human rights is an issue (see for instance sustainability context, indicators of equal treatment and absence of discrimination). Therefore, we place particular importance on our values laid out in the Code of Conduct, which includes the strict application of our Exclusion List (see > Our Code of Conduct, page 34). Therefore, the business clients of all our banks are subject to a human rights review (social assessment).	Prudent credit risk management, governance
412-2 Employee training on human rights policies or procedures	Performance indicators > page 109 (Code of Conduct training) 100% of employees and management board members receive training in human rights policies and procedures.	Prudent credit risk management, governance

Disclosure	Page number/URL or comment	Material topic matched
412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All business clients of banks are subject to human rights screening and confirm that they are in compliance with local laws and our Exclusion List (see > Our Code of Conduct, page 34) when signing the loan agreement. Suppliers of all institutions must also sign a supplier declaration form, confirming that they adhere to all local laws as well as our Exclusion List (see > Our Code of Conduct, page 34).	Prudent credit risk management, governance
GRI 414: Supplier social assessment		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > pages 28ff. Green finance > pages 35ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Green finance > pages 35ff. Governance > pages 28ff. Over the last two years, the ProCredit group has taken significant steps to expand the scope of its supply chain management. The most recent version of the Group Guidelines on Sustainable Suppliers provide clear criteria for selecting suppliers of products and services, and encourages the ProCredit banks to look beyond their direct suppliers to investigate the suppliers' respective supply chains wherever possible. All suppliers are expected to adhere to the core values of the ProCredit group. They are screened for compliance with our Exclusion List (see > Our Code of Conduct, page 34), and with all statutory environmental and social requirements, and are required to sign a declaration of compliance. This in itself raises their awareness of sustainability issues. However, the process goes far beyond these minimum standards to include other environmental and social indicators whenever possible and feasible. These are used to classify particularly sustainable suppliers (considering for instance the introduction of certified environmental management systems, sustainable waste management systems and packaging as well as policies and action to ensure equal opportunities amongst staff, to name just a few). To assist the banks in their procurement decisions, a group-wide Sustainable Supplier Screening and Assessment Tool has been developed, and members of each bank's Environmental Management unit sit on the tender committees. Support also comes from the Group Environmental Management team, offering additional advice and communicating best practices across the group.	Corporate governance
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Green finance > pages 35ff.	Corporate governance
414-1 New suppliers that were screened using social criteria	Performance indicators > page 87	Corporate governance
GRI 417: Marketing and labelling 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Our approach to clients > page 15ff.	Reliable partnerships and transparent services, technology and innovation

Disclosure	Page number/URL or comment	Material topic matched
103-2 The management approach and its components	Management approach to material topics > pages 115ff. Our approach to clients > page 15ff.	Reliable partnerships and transparent services, technology and innovation
103-3 Evaluation of the management approach	Management approach to material topics > pages 115ff. Our approach to clients > page 15ff. In 2020, the group strengthened its safeguards against two major types of cyberattack. Firstly, it significantly tightened its protection against DDoS attacks, where systems are rendered inaccessible to legitimate users by overloading them with malicious service requests or traffic. Secondly, it implemented specific technological safeguards to improve the early detection and response to phishing attacks. Our banks' websites provide clients with general advice on how to recognise phishing attempts, and how to avoid becoming a victim of them. We also publish notifications to clients when specific phishing attacks become known. However, cybercriminals are using increasingly sophisticated methods, including the creation of extremely authentic-looking bogus copies of our e-banking sites. To combat this threat, in 2020 we implemented a Brand Protection Service, which enables us to identify fake sites at an early stage, before they start advertising themselves, and bring them down before they can be used to cause any financial damage. Our close-knit international group structure allows us to leverage various types of information and resources to respond to crises locally while learning the lessons and deploying preventive measures globally. While security solutions are powerful and must have weapons against cybercrime, the limit of their effectiveness remains the human factor. The quality, competence and awareness of the staff who work with IT solutions and data are areas in which ProCredit invests continuously.	Reliable partnerships and transparent services, technology and innovation
417-2 Incidents of non-compliance concerning product and service information and labelling	Performance indicators > page 85 No instances of non-compliance with laws and regulations have been identified.	Reliable partnerships and transparent services
417-3 Incidents of non-compliance concerning marketing communications	Performance indicators > page 85 No instances of non-compliance with laws and regulations have been identified.	Reliable partnerships and transparent services
GRI 418: Customer privacy 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Our approach to clients > pages 15ff. Technology and innovation > page 18ff.	Reliable partnerships and transparent services, technology and innovation

Disclosure	Page number/URL or comment	Material topic matched
103-2 The management approach and its components	Management approach to material topics > pages 115ff. Our approach to clients > page 15ff. Technology and innovation > page 18ff. ProCredit Holding and each of the subsidiaries have Information Security Officers, who are embedded into the group's risk management structures. They serve as a point of contact for all employees and stakeholders on information security aspects of the banks' operations. Potential or actual security events are reported immediately to local and group management so that timely corrective and preventive measures can be taken, they are also recorded and documented in the group-wide Risk Event Database for analysis. One of the cornerstones of our defence against data security risks is having well-trained staff bound by high ethical standards. Accordingly, information security is a key component of the Code of Conduct and risk management training provided to all employees. Data security is one of the many areas in which the ProCredit group derives major advantages from having its own in-house IT service provider. Special focus has been placed on incorporating mature data protection functions into all Quipu software following the introduction of GDPR. For example, implementation of the "right to be forgotten" – finding and deleting personal data upon the request of both customers and employees – is now a routine process. Moreover, Quipu software provides uniform standards of data protection, which means that ProCredit banks in non-EU countries also benefit from the same high level of security and privacy. Furthermore, Quipu developers collaborate closely with local DPOs to ensure that compliance with local laws is also given in cases where different rules apply. Clients who choose a digital, cashless bank obviously need to rely on the efficiency and security of card-based transactions. The Quipu Processing Centre, which handles card payments for the majority of ProCredit banks, is fully certified regarding security, quality management and IT service management standards. It is regularly audited for compliance with these standards as required by Visa and MasterCard.	Reliable partnerships and transparent services, technology and innovation
103-3 Evaluation of the management approach	Management approach to material topics > pages 115ff. Our approach to clients > page 15ff. Technology and innovation > page 18ff. In 2020 Quipu expanded its collaboration with third-party suppliers. To offset the risks associated with outsourcing, all potential suppliers are very closely assessed to ensure that personal data are processed in line with EU law (GDPR). The data centre provider that stores the majority of the group's data also serves numerous other German banks and is recognised as one of the safest in the world, providing the highest possible level of protection.	Reliable partnerships and transparent services, technology and innovation
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Performance indicators > page 83	Reliable partnerships and transparent services, technology and innovation
GRI 419: Socioeconomic compliance 2016		
103-1 Explanation of the material topic and its boundaries	Materiality and impact reporting > pages 72ff. Overview of our material topics, related impacts and boundaries > page 141 Governance > page 28ff.	Corporate governance
103-2 The management approach and its components	Management approach to material topics > pages 111ff. Green finance > pages 34ff. Governance > page 28ff.	Corporate governance

Disclosure	Page number/URL or comment	Material topic matched
103-3 Evaluation of the management approach	Management approach to material topics > pages 111ff. Green finance > pages 34ff. Governance > page 28ff.	Corporate governance
419-1 Non-compliance with laws and regulations in the social and economic area	Performance indicators > page 85 No instances of non-compliance with laws and regulations have been identified. Significant fines and non-monetary sanctions are defined as those in amounts above EUR 100,000.	Corporate governance
OTHER INDICATORS		
G4 Sector Disclosures: Financial Services		
FS03 Compliance with environmental and social requirements	Prudent credit risk management > pages 23ff. Green finance > pages 34ff. Performance indicators > page 85 Management approach to material topics > pages 119f.	Prudent credit risk management
FS04 Staff competency to implement environmental and social policies	Green finance > pages 34ff. Specific environmental and social risk training is provided for all staff engaged in E&S risk assessment at bank level. Moreover, specialised, in-depth group-wide training is provided for the environmental risk officers and environmental department employees. In 2020, 45 such specialists received a total of 1,800 training hours.	Prudent credit risk management
FS05 Interactions regarding environmental and social risks and opportunities	Green finance > pages 34ff. Governance > pages 28ff. Staff development > pages 61ff. Prudent credit risk management > pages 23ff. Management approach to material topics > page 119f.	Prudent credit risk management
FS06 Portfolio in business lines	Our socially responsible approach > page 10 Green finance > pages 34ff. Performance indicators > pages 97ff.	Sustainable finance
FS08 Share of green products	Green finance > pages 34 Performance indicators > pages 97ff.	Sustainable finance
FS09 Audit of E&S risk policies	Green finance > pages 34ff. Management approach to material topics > page 119f. Implementation of the E&S policy is scrutinised during the internal credit risk audit as well as during the internal EMS audit.	Prudent credit risk management
FS10 E&S issues of clients	Green finance > pages 36 Performance indicators > pages 95ff. Prudent credit risk management > pages 23ff. We discuss social issues with all business clients and, for those classified as having a medium or high E&S risk, we also discuss environmental issues. ProCredit has a total of 36,166 business clients.	Prudent credit risk management
FS15 Fair design and sale of financial products	Economic development > pages 10ff. Our approach to clients > pages 15ff. Prudent credit risk management > pages 25f.	Reliable and stable partnerships

Overview of our material topics, related impacts and boundaries

Material topic	ProCredit's impact	GRI boundary	Link between ProCredit and the impact
Economic development	Contributing to the economic development of the developing and transition countries in which we operate by providing responsible financial services to SMEs.	In the developing and transition countries where we operate, in particular for our SME clients and other counterparties as well as ProCredit's staff in each bank.	Contributes directly
Corporate governance	Guaranteeing accountability, fairness and transparency in relationships with stakeholders as well as enforcing measures to prevent corruption, bribery and money laundering.	In all countries where we operate, in particular affecting all kinds of stakeholders, including investors, clients and our employees.	Contributes directly
Internal environmental management	Minimising our own carbon footprint and resource consumption.	At our premises in all countries where we operate.	Causes directly
Technology and innovation	Promoting transparency as well as the elimination of fraud, bribery, dependence, and informality through innovative banking solutions.	In all countries where we operate, in particular affecting our stakeholders, such as clients and investors.	Contributes directly
Reliable partnerships and transparent services	Promoting long-term partnerships with our clients; promoting efficient, transparent and easily understandable account services, including proper data protection.	In all countries where we operate, in particular affecting our clients.	Causes directly
Sustainable finance	Encouraging the creation of responsible finance that is economically, socially and environmentally inclusive.	Overall enhancing the sustainable economic development in the countries where we operate, in particular affecting our clients through responsible financing of sustainable business solutions. Moreover, indirectly contributing to climate mitigation (by financing renewable/energy efficiency projects).	Contributes directly
Prudent credit risk management	Minimising the negative environmental and social impacts of the projects we finance.	In all countries where we operate, indirectly preventing the negative impacts of the portfolio on the environment and society.	Contributes directly
Ethical values and working environment	Promoting gender diversity, a flat hierarchy and open communication.	In all of our business units, most importantly affecting our staff.	Causes directly
Fair recruiter and employer	Ensuring a transparent selection process with fair internal promotion and remuneration to attract and retain the right employees.	In all of our business units, affecting all applicants and our staff.	Contributes directly
Staff development	Developing staff capacity through comprehensive knowledge and skills training, regular performance reviews and clear career options.	In all of our business units, affecting all our staff and indirectly our clients, who benefit from well-trained employees.	Causes directly

LIST OF ABBREVIATIONS

AG	Aktiengesellschaft (public limited company)
AGM	Annual General Meeting
AML	Anti-money laundering
ATM	Automated teller machine
B&H	Bosnia and Herzegovina
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
BAIT	Bankaufsichtliche Anforderungen an die IT (Supervisory Requirements for IT in Financial Institutions)
BCA	Business Client Adviser
bp	Basis points
CBD	Convention on Biological Diversity
CEO	Chief Executive Officer
CGC	German Corporate Governance Code
CITES	Convention on International Trade in Endangered Species
DAX	Deutscher Aktienindex (German stock index)
DNA	Deoxyribonucleic acid (core values)
DOEN	DOEN foundation (from Dutch doen = to do)
DPO	Data Protection Officer
E&S	Environmental and social
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECA	Export credit agency
ECB	European Central Bank
EDGE	Excellence in Design for Greater Efficiencies
EE	Energy efficiency
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EM	Environmental Management
EMAS	EU Eco-Management and Audit Scheme
EMS	Environmental Management System
EP	Exchange Programme
ERO	Environmental Risk Officer
ESG	Environmental, social and governance
ESIA	Environmental and social impact assessment
ESOP	Employee Stock Ownership Plan
FDI	Foreign Direct Investment
FI	Finance Initiative
FIM	Finance in Motion
FIRE	Finance, Insurance, Real Estate
FSSC	Food Safety System Certification
GDP	Gross domestic product
GDPR	EU General Data Protection Regulation
GEM	Group Environmental Management
GHG	Greenhouse gases
GJ	Gigajoules
GR	Other environmentally friendly investments
GRI	Global Reporting Initiative
GWh	Gigawatt hours
HDI	Human Development Index
HR	Human Resources
IEA	International Energy Agency
iEMS	internal Environmental Management System
IFC	International Finance Corporation
IFRS9	International Financial Reporting Standard 9
ILO	International Labour Organization
IMF	International Monetary Fund
IMI	Internationale Micro Investitionen AG
IPC	Internationale Projekt Consult GmbH
ISO	International Organization for Standardization
ISS	Institutional Shareholder Services Inc.
IUCN	International Union for Conservation of Nature
KfW	Kreditanstalt für Wiederaufbau
kg/pp	Kilogrammes per employee
KGaA	Kommanditgesellschaft auf Aktien (partnership limited by shares)
KWG	Kreditwesengesetz (German Banking Act)
kW	Kilowatt
kWh	Kilowatt hour
kWp	Kilowatt-peak
LED	Light-emitting diode
LP	Loan portfolio
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
MaSI	Mindestanforderungen an die Sicherheit von Internetzahlungen (Minimum Requirements for the Security of Internet Payments)
MDAX	Mid-Cap-DAX – Mid Cap stands for medium-sized companies
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MJ	Megajoules
MS	Microsoft
MSCI	Morgan Stanley Capital International
MSW	Municipal Solid Waste
MW	Megawatt
MWh	Megawatt hour
N MAC	North Macedonia
NINJA	Loans to individuals with no income no job and no assets
NPT	Nderrmarja Prodhuese Tregtare (Manufacturing and Trading Enterprise)
NPL	Non-performing loans
OeEB	Österreichische Entwicklungsbank (Development Bank of Austria)
PAR 30	Portfolio at Risk 30 days
PAR 90	Portfolio at Risk 90 days
PCA	ProCredit Academy
PCB	ProCredit Bank
PCH	ProCredit Holding
PCI	Payment Card Industry
PCI DSS	Payment Card Industry Data Security Standard
PCOP	ProCredit Onboarding Programme
PI	Private individuals
PM	Particulate matter (particle pollution)
PM2.5	Fine particulate matter
POS	Point of sale
PPP	Purchasing power parity
PSD2	EU's second Payment Services Directive
PV	Photovoltaic
RE	Renewable energy
RoE	Return on Equity
SB	Supervisory Board
SDG	Sustainable Development Goals
SEE	South Eastern Europe
SME	Small and medium-sized enterprise
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
USDA	United States Department of Agriculture
WB6	Western Balkans 6

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