



ESG EDGE



ProCredit
H O L D I N G

MSCI Rating:	AA
ESG Edge Score:	3.9

ProCredit Holding is a research client
of Edison Investment Research Limited



EDISON EDGE METHODOLOGY

Edison's ESG Edge analysis aims to move away from historical data and focus on forward-looking drivers and indicators. Our ESG Edge scores are derived in collaboration with our partner Rebalance and follow eight core sustainability reporting frameworks and guidelines in addition to the Cambridge Impact Framework. Our findings are summarised in this report to focus on key ESG drivers, transition opportunities and risks for ProCredit Holding.



ProCredit
H O L D I N G

Price	€3.50
Market cap	€206m
Total assets at end-March 2022	€8.2bn
Shares in issue	58.9m
Free float	38.7%
Code	PCZ
Primary exchange	Frankfurt Prime Standard
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(5.8)	(35.0)	(58.8)
Rel (local)	(6.3)	(32.4)	(54.5)
52-week high/low	€8.80	€3.30	

ESG Edge Scores (out of 5)

Environmental: 4.5

Social: 3.9

Governance: 3.9

Socio-political: 3.0

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INTRODUCTION

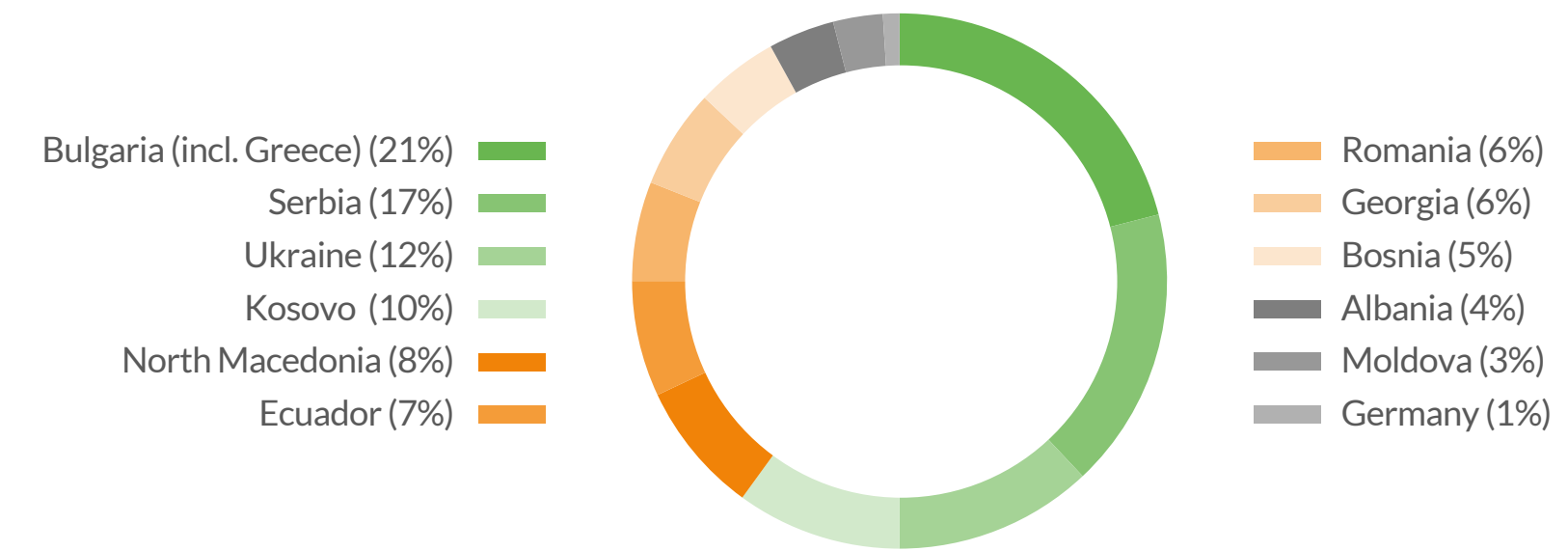
BUSINESS DESCRIPTION

ProCredit Holding (PCB) is a Germany-based group operating regional banks across Southeastern and Eastern Europe (SEE and EE), as well as in Ecuador, plus its holding and minor banking operations in Germany (it operates under a German banking licence; Exhibit 1). The company is focused on providing impact-oriented financing primarily to small and medium-sized enterprises (SMEs; 92% of the bank’s loan book at end-Q122) to support investment and working capital needs throughout their lifecycles, with individual loan volumes mostly in the range of €50k to €3m. Green loans represent a growing share of its loan book (19% at end-Q122). Moreover, it is a direct bank for private clients with a proprietary digital platform and a lean branch network, targeting middle-income and high earners (including SME owners) in particular. Importantly, as ESG aspects are strongly embedded within PCB’s mission and strategy, it does not provide meaningful volumes of consumer loans.

We note that the SME sector that PCB is focused on employed between 60% and 80% of the total workforce in the regions where PCB is present in 2019 (last available data) (vs c 60% on average in the European Union (EU) in the period) and was responsible for 40–80% of total value added by enterprises (c 60%), according to data provided by the European Commission. PCB’s lending activities support the real economy, with a significant share of agriculture, forestry and fishing (18% at end-Q122) and local production (22%) in the loan portfolio (Exhibit 2).

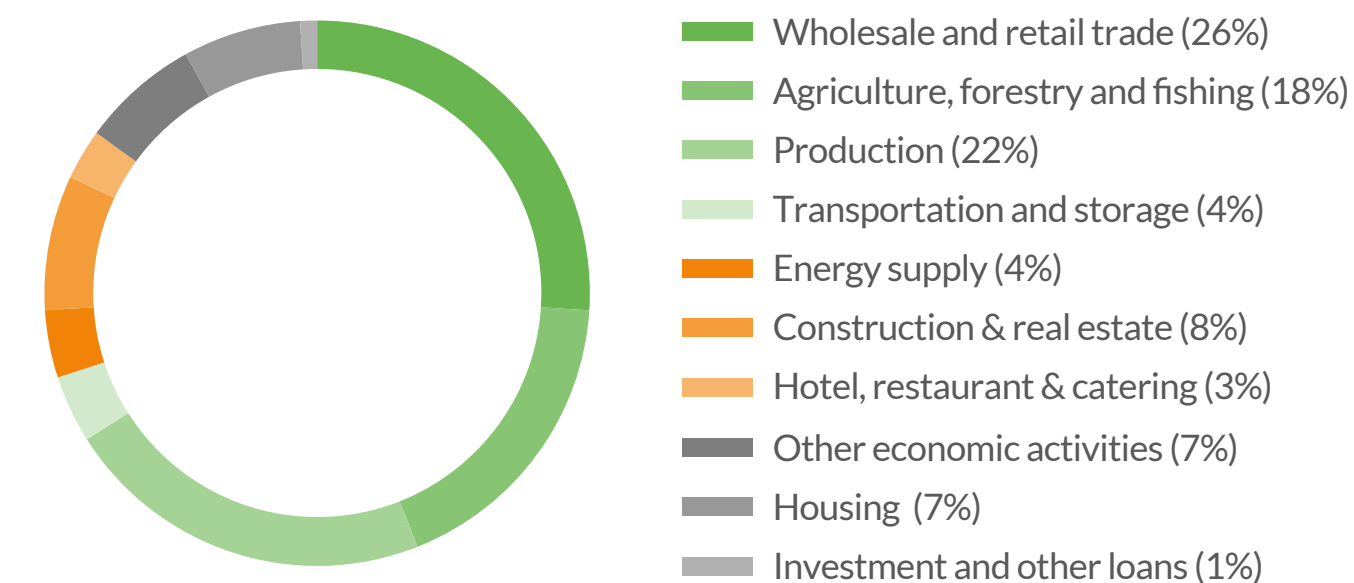
PCB is listed on the Frankfurt Stock Exchange, had total assets of €8.2bn at end-Q122 and had a market cap of €221m as of 5 April 2021. We also provide equity research reports on PCB, which are available on [our website](#).

Exhibit 1: PCB’s loan book by country at end-Q122



Source: ProCredit.

Exhibit 2: PCB’s loan book by sector at end-Q122



Source: ProCredit.
 Note: Energy supply includes electricity, gas, steam and air conditioning supply.

SUSTAINABILITY AT PCB AT A GLANCE

Edison ESG SWOT analysis of PCB

Strengths

PCB maintains its market position as an impact-oriented bank focused on building long-term relationships with well-established and innovative SMEs, which we believe has helped it navigate the pandemic well and keep credit default rates below the average level seen in its countries of operations.

PCB does not compromise its ESG lending standards in order to push portfolio growth. For example, in FY21, PCB stopped financing photovoltaic projects that use solar panels produced in China's Xinjiang region (see more details below).

PCB reduced its environmental footprint (Scope 1 and 2 emissions) by 56% between 2018 and 2021 and aims to become carbon neutral at group level by 2023.

PCB further improved the transparency of the disclosure of environmental impacts and risks of its loan portfolio through the Partnership for Carbon Accounting Financials (PCAF) and alignment to the Task Force on Climate-Related Financial Disclosures (TCFD) starting from FY21.

Strong digital channels for private and business clients, supported by its in-house software company Quipu, promote transparency and elimination of frauds and bribery, and facilitate PCB's business (eg during the war in Ukraine).

Experienced and well-trained staff, with long tenure in the company and good gender balance.

Opportunities

Transition to renewable energy sources in developing economies, which PCB has been financing since 2006.

Increasing importance of innovation, with PCB being one of the largest partners for the InnovFin programme run by the European Investment Fund.

The average GDP per capita in the countries where PCB operates is lower than the EU average, with the banking sector having an important role in supporting economic growth and promoting financial inclusion. Moreover, penetration of banking services in these countries is low compared to Western Europe, with domestic credit to the private sector as a percentage of GDP at c 30–80% in SEE/EE countries, where PCB runs its operations compared with c 80–145% in Western Europe, according to World Bank data.

Weaknesses

The lack of disclosure of some non-financial figures has affected the company's ESG Edge score, though PCB's disclosure of material and relevant aspects is solid and improving year-on-year.

Threats

PCB operates in regions where economic, political and regulatory uncertainty remains higher than in the EU countries. Most notably, Ukraine, which has been in a state of war since February 2022, represented c 12% of its loan book at end-Q122. We discuss PCB's situation in Ukraine in more detail in our [April 2022 equity research note](#).

Weather anomalies and natural disasters pose a risk for PCB's significant exposure to agriculture loans.

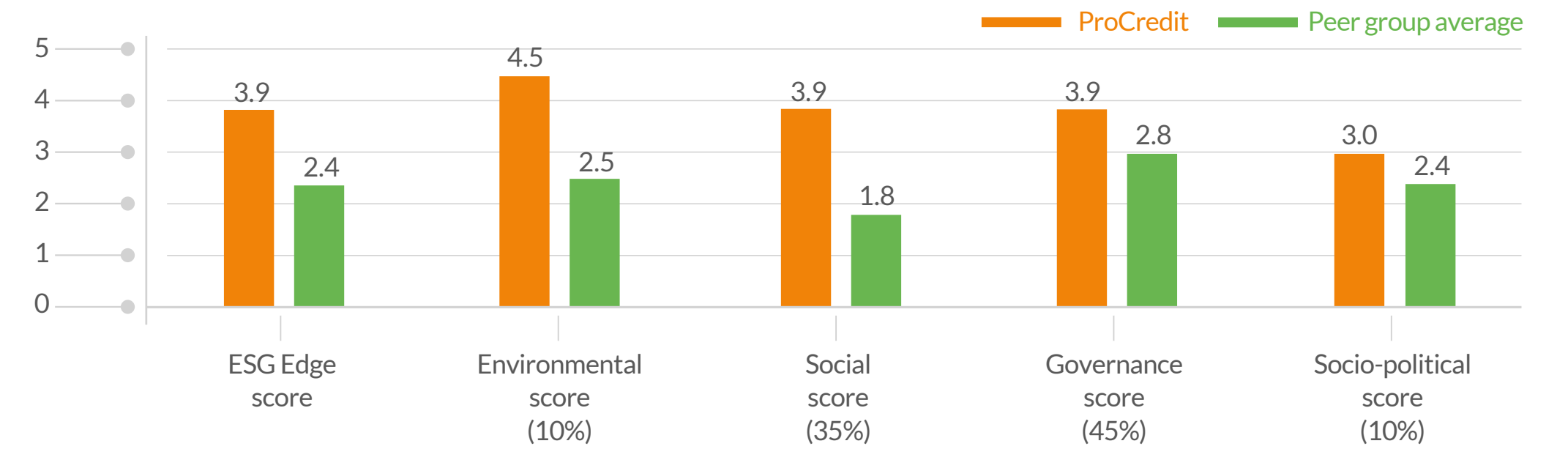
Large competitors in the region are positioning themselves on sustainable lending, eg for photovoltaic installations. That said, PCB has long-standing experience in providing sustainable lending in these countries and PCB's intentions are backed by the group's strategy, which has embedded sustainability standards in lending since its establishment (see our [initiation note](#) for more details).

SUSTAINABILITY AT PCB AT A GLANCE

ESG Edge score

The ESG Edge Score that we calculated for PCB is 3.9 in 2021 (with 0 representing a poor performance and 5 an excellent performance), higher than the 2.4 average for its peers (Exhibit 3). Importantly, PCB also outperformed its peers in all sub-scores: Environmental (which has a 10% weight in the ESG Edge Score), Social (35%), Governance (45%) and Socio-political (10%), which we describe in more detail below. The company's ESG Edge score increased slightly in 2021 from 3.6 in 2019 (Exhibit 4), when we assessed the company's ESG disclosures for the first time in our [December 2020 Edison ESG Edge report](#). This was supported by higher Environmental, Social and Governance sub-scores, which compensated for a reduction of the Socio-political score (see more details later in the note). We note that the latter sub-score is not fully comparable with 2018 and 2019 figures from our December 2020 note as we have changed the metrics that we assess to calculate it (see right).

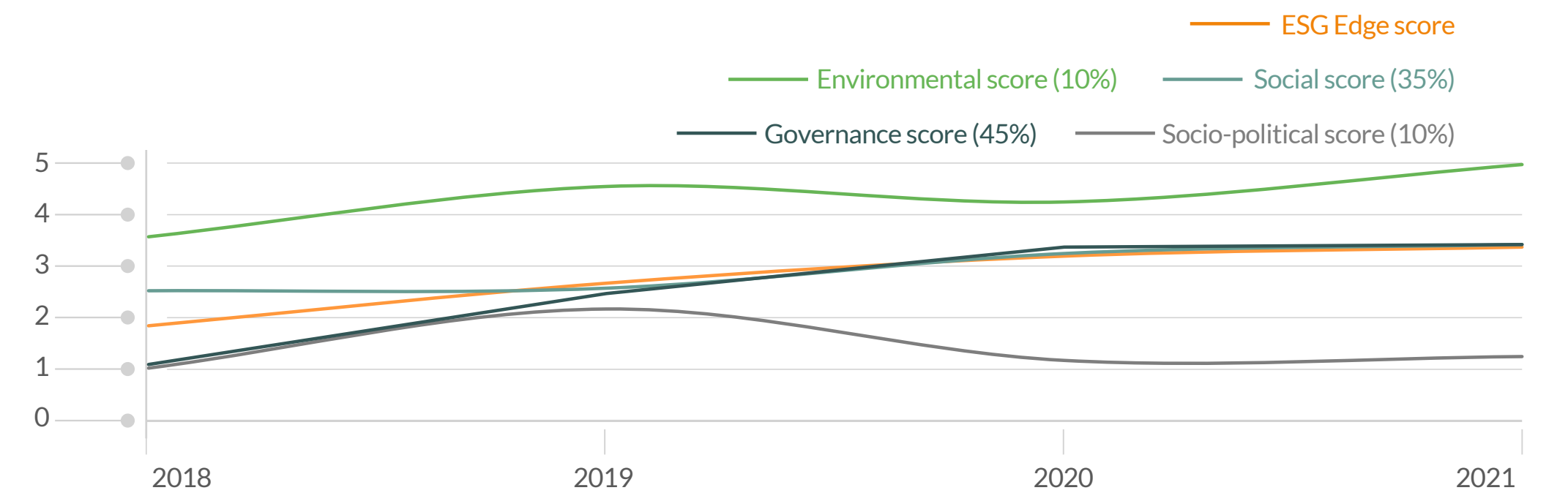
Exhibit 3: ESG Edge score – PCB versus peers in 2021



Source: Rebalance, Edison Investment Research.

Note: The peers are: ABN Amro, Erste Group, Raiffeisen Bank and TBC Bank.

Exhibit 4: PCB's ESG Edge score, 2018–21



Source: Rebalance, Edison Investment Research.

Note: *2021 and 2019 figures are not fully comparable as the metrics that we use to calculate this score have changed.

KEY SUSTAINABILITY THEMES AT PCB

Responsible banking to drive long-term value creation

Management highlights that strong financial indicators cannot compensate for a weak environmental and social approach in lending decisions. For instance, PCB stopped funding photovoltaic projects that use solar panels produced in the region of Xinjiang in China in FY21 due to concerns over breaches of the Uyghur minority's human rights in this process. Management estimates that c 67% of the existing solar capacity financed by PCB has been provided by companies directly or indirectly involved in the production of photovoltaic panels in this region. Based on our conversation with management, we understand that projects financed prior to the exclusion remain part of PCB's portfolio. Another example is PCB's Plastic Strategy launched in FY20 and expanded in FY21. Consequently, single-use plastic items are included in PCB's exclusion list, except the items for which substitutes can have a higher environmental impact, which forced the company to devise an exit strategy for some of its clients. This contrasts with PCB's competitors in local markets, which management highlights continue to finance the production of single-use plastic items.

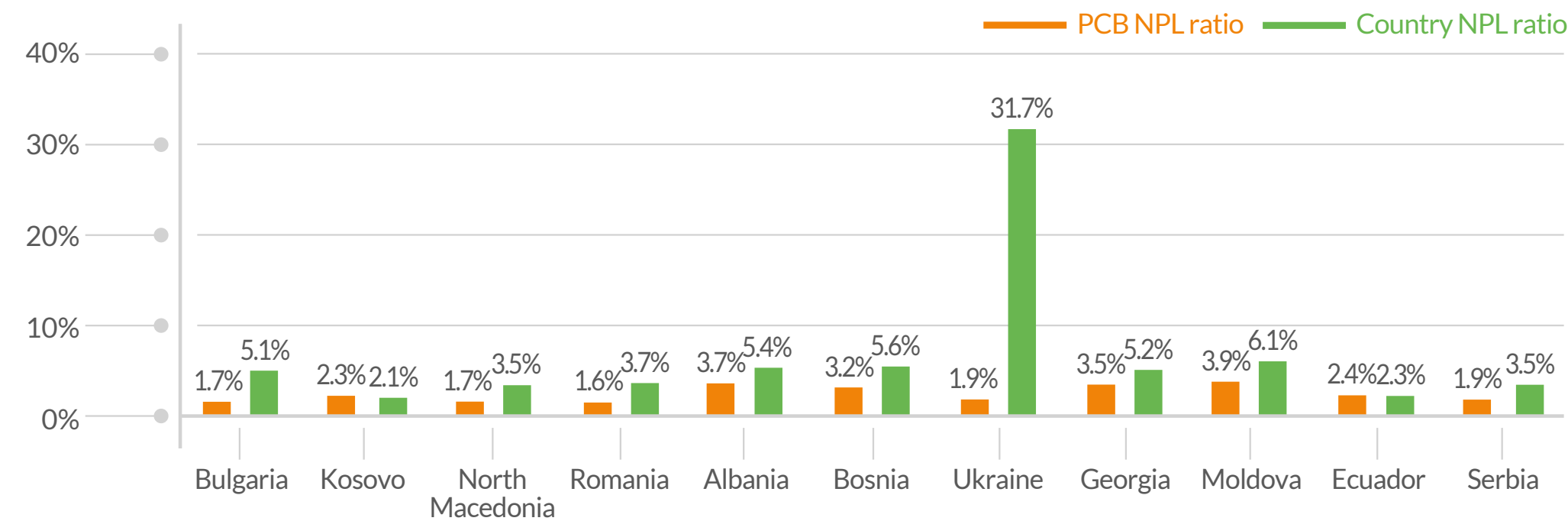
While this approach may affect the expansion of its business over the short term, management believes it can bring positive long-term environmental and social impacts, as well as sustainable value creation for PCB's shareholders.

For instance, during the COVID-19 pandemic, PCB actively supported its clients with new funding, as reflected in the strong loan book growth of 9.5% in FY20 and 12.8% in FY21 (see our [equity research update note](#) for more details). During a particularly challenging Q220 affected by lockdowns, PCB's loan book growth of 4.4% q-o-q was ahead of its closest peers RBI and Erste Bank, which both reported c 2% growth in the gross customer loan book in the period (according to our calculations).

We believe that PCB's responsible banking practices, focused on a long-term approach to clients, providing funding to well-established SMEs from relevant economic sectors, as well as prudent credit risk management, are reflected in the relatively low level of non-performing loans (NPLs) compared to the local banking sectors (Exhibit 5). While this may be partially due to the lack of any meaningful exposure to consumer lending (which is often characterised by higher NPL ratios), we also note that 1) the consumer lending practices of the local banking sector are probably not as aggressive as those of other financial services companies (including non-banking lending) and 2) an important part of the local banking sector's loan book (in contrast to PCB) consists of retail mortgage loans where NPL rates are usually relatively low. Interestingly, PCB's green portfolio is characterised by an even lower default rate (Exhibit 6). PCB describes its approach to credit risk management, a core element of its responsible banking approach, in detail in its [Capital Markets Day presentation on Credit Risk](#).

KEY SUSTAINABILITY THEMES AT PCB

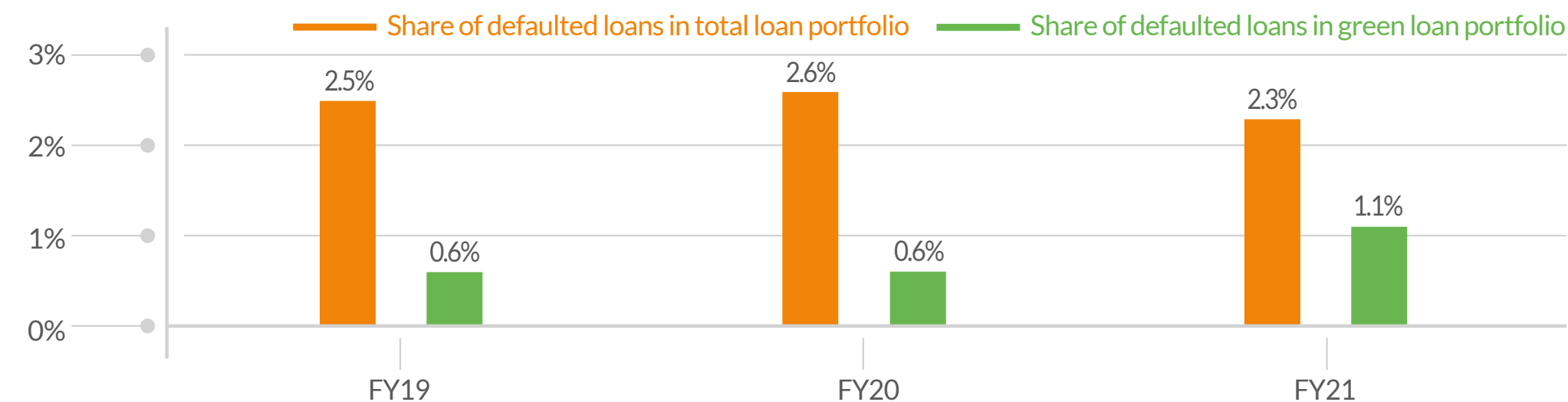
Exhibit 5: PCB's NPL ratios versus local banking sector NPLs at end-FY21



Source: IMF Financial Soundness Indicators, ProCredit.

Note: *NPL ratio for Georgia based on local central bank's methodology. Based on IMF data, this would be 1.9%.

Exhibit 6: The share of defaulted loans in PCB's total and green loan portfolios



Source: ProCredit.

Targeting a 20% share of green loans by 2023

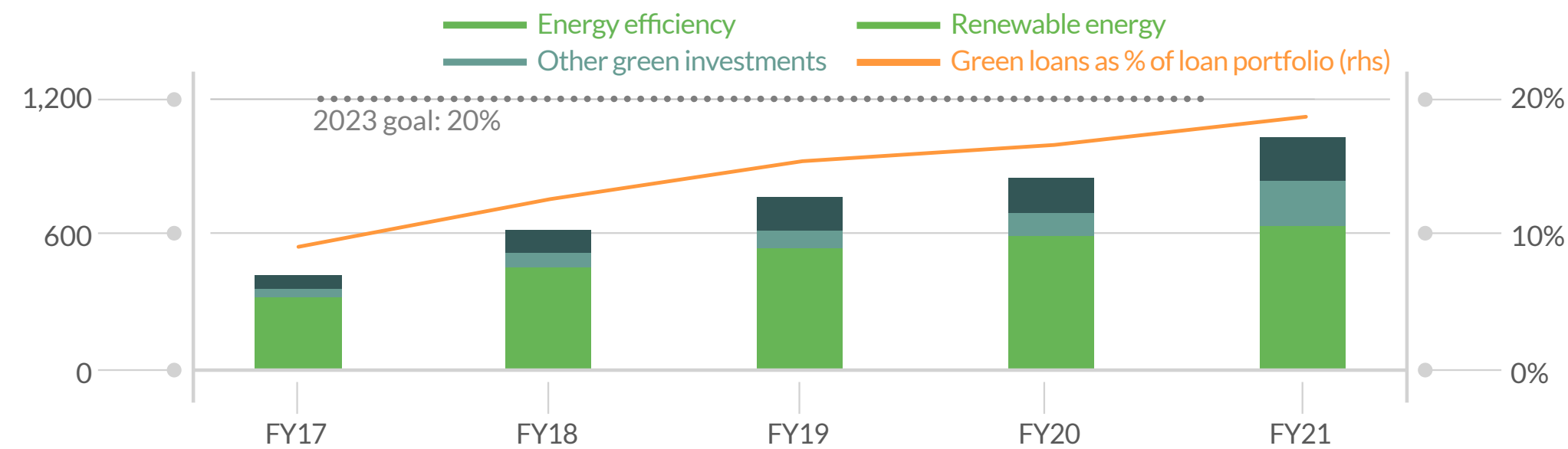
PCB's €1.2bn green loan portfolio represented c 19% of its loan book at end-Q122, the highest among its competitors in local markets, according to management, and growing at a CAGR of 18% between FY17 and FY21 (and c 15% y-o-y in FY21 alone). Management aims to increase this share to 20% by 2023. PCB's green portfolio includes loans to fund energy efficiency projects that reduce energy consumption by at least 20% (these made up 57% of the green loan portfolio at end-FY21), renewable energy (19%) and other green investments (24%), including investments leading to the prevention of air, water and soil pollution, waste management, as well as organic agriculture and production (Exhibit 7). We note that PCB operates in countries where CO2 emissions per unit of GDP are still higher than the EU average (Exhibit 8), which we believe creates scope for further growth of its green loan book. To be consistent with its environmental strategy in the retail segment, PCB launched a ProGreen account in FY21, which offers, among other things, green deposits (which will be used to finance exclusively environmentally friendly projects) and green loans (dedicated for green housing, solar energy and electric vehicles).

With respect to its own environmental impact, PCB has made significant progress since 2018 to meet its target to become carbon neutral as a group by 2023 (Scope 1 and 2 greenhouse gases emissions, ie direct emissions from owned

KEY SUSTAINABILITY THEMES AT PCB

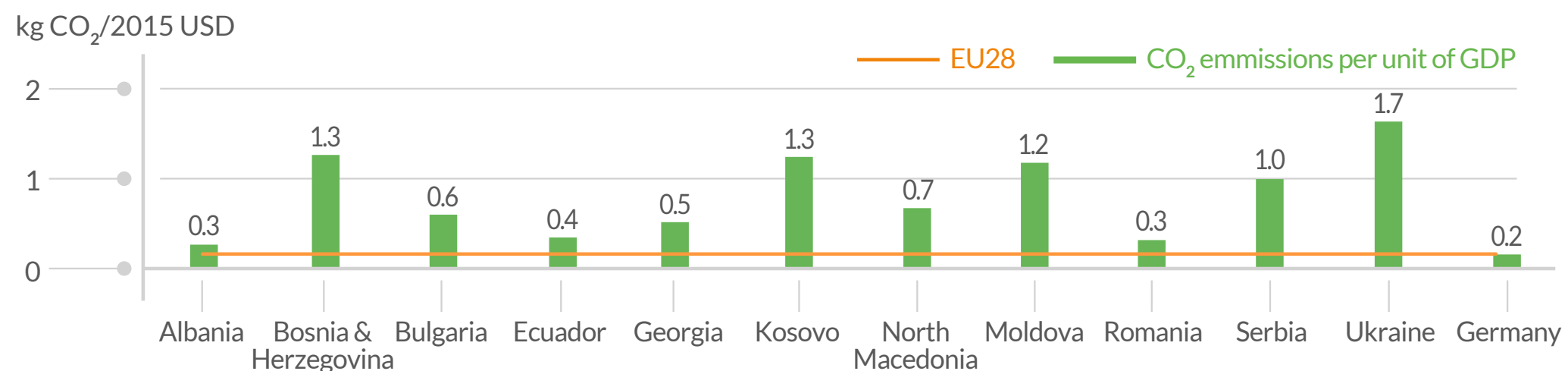
or controlled sources and indirect emissions associated with the purchase of electricity, steam, heating and cooling consumed by the company, respectively), which we describe in more detail in the Environmental performance section.

Exhibit 7: PCB's green loan portfolio



Source: ProCredit.

Exhibit 8: CO2 emissions per unit of GDP in countries where PCB operates



Source: ProCredit based on data from International Energy Agency, available at <https://www.iea.org/data-and-statistics>.

Note: Reference year 2020, except for Ecuador for which it is 2019.

Focus on strict ESG assessment and transparent disclosures

ESG assessment is an integral part of PCB's customer relationship and decision-making process, supported at all stages by its competent staff (see more details in the Social performance section). Based on the company's internal standards, each client is assigned to a low, medium or high environmental risk category (Exhibit 9), typically based on the sector they operate in. The activity type defines the scope of the mandatory Environmental and Social Impact Assessment Form. Moreover, high-risk clients are analysed by specially trained environmental risk officers. For loans exceeding a certain size and having a high environmental or social risk exposure, PCB mandates external experts to carry out a more comprehensive assessment. The company refrains from lending to sectors listed in its exclusion list, which it expanded with activities related to hunting and trade in wildlife or wildlife products and the production of single-use plastic in FY21.

Importantly, PCB has committed to measuring and disclosing the carbon emissions of its loan portfolio (Scope 3) through the PCAF standard in FY21. This is in line with a broader market practice, and its close yet larger peers Erste Group and RBI also adapted their carbon emission disclosures to the PCAF methodology in 2021. The standard supports the measurement and disclosure of generated emissions (ie emissions generated by economic activity),

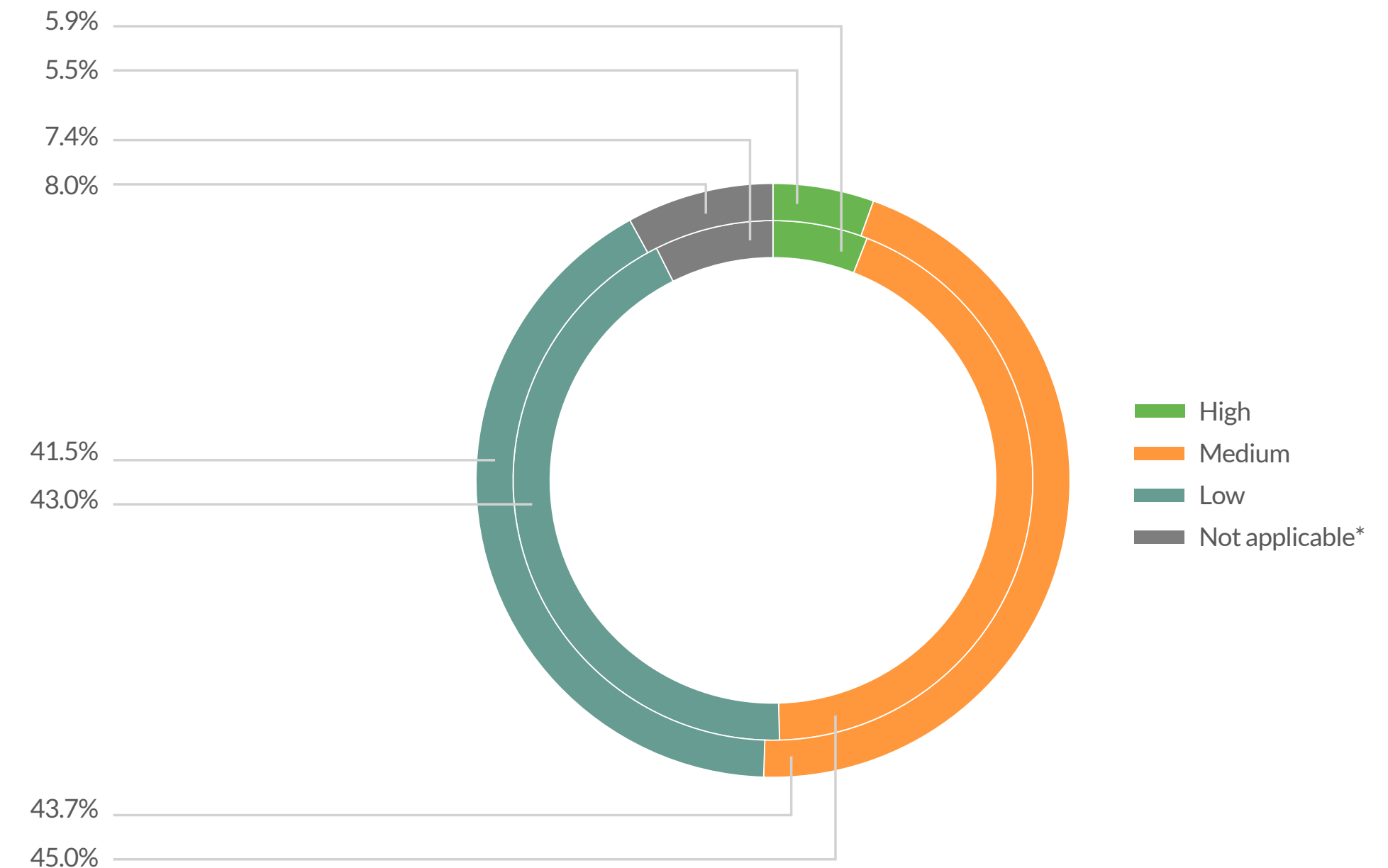
KEY SUSTAINABILITY THEMES AT PCB

emission removals (emissions captured and stored in trees, plants, soil, etc) and avoided emissions (emissions avoided through the implementation of green technologies). While PCB disclosed its generated and avoided emissions in FY21, it plans to expand the reporting with sequestered emissions, along with the development of its sustainable agriculture strategy.

Moreover, PCB started to consider the recommendations of the Task Force on Climate-Related Financial Disclosure in FY21. As part of this, PCB will focus on two projects, including (1) physical risk to strengthen its analysis at client and portfolio level using geographic information systems and (2) transition risk to execute a stress and scenario analysis to define sector activities that need to be prioritised on the decarbonisation pathway and identify new business opportunities to guide and support its clients in this transition. The company is also working towards aligning its environmental and social scoring methodology with the EU Taxonomy over the medium term. That said, management highlights its ESG screening criteria are similar to the so called ‘technical and do no significant harm’ screen criteria’ proposed by the regulation. At the same time, management believes that there is still a need for its own approach to green lending for SMEs as the regulation does not define these criteria for them. In addition, definitions of technical criteria for some relevant sectors (eg agriculture, recycling, water treatment) will be provided in the EU Taxonomy in coming years, while PCB has already developed and adopted them in lending.

Currently, PCB is preparing to disclose the share of eligibility in 2022 and share of alignment for corporate companies operating in EU countries in 2023.

Exhibit 9: PCB’s loan portfolio by environmental risk category in FY21 (outer circle) and FY20 (inner circle)



Source: ProCredit.

Note: *Loans to private clients.

PEER BENCHMARKING

Our peer group includes Erste Group and Raiffeisen Bank International (RBI), which are Austrian banks focused on SMEs and retail clients and PCB's direct competitors in some of the SEE and EE countries. We have also included TBC Bank, a regional bank in Georgia, where PCB is present too. Moreover, we included ABN Amro, which operates only in the Netherlands, but is highly rated in terms of ESG performance (eg it ranked among the top 15% banks in the Dow Jones Sustainability Index in November 2021).

PCB has outperformed its peers in the ESG Edge score and all sub-scores (ie Environmental, Social, Governance and Socio-political). Its Environmental score of 4.5 (vs 2.5 on average for peers) is largely driven by the actions that the company has undertaken to become carbon neutral as a group by 2023. PCB's above-average Social score (3.9 vs 1.8 for peers) reflects its outperformance in customer privacy as well as employee engagement, diversity and inclusion. The company's Governance score is 3.9 compared to 2.8 for peers, supported by its strong business ethics and management of the legal and regulatory environment. PCB's Socio-political score is the highest among the peer group, assisted by its outstanding response to the COVID-19 pandemic and a high inequality impact metric, which mainly assesses executive versus staff compensation policies. We describe PCB's performance relative to its peers in more detail in the following sections of this report.

Exhibit 10: Peer group comparison

Company	Market cap local ccy (m)	ESG Edge score	Environmental score (10%)*	Social score (35%)*	Governance score (45%)*	Socio-political score (10%)*
ABN Amro	€10,147	2.4	2.2	1.7	3.0	2.7
Erste Group	€12,602	2.2	2.4	1.8	2.4	1.8
Raiffeisen Bank	€3,750	2.8	3.8	2.1	3.3	2.5
TBC Bank	£817	2.1	1.6	1.6	2.4	2.6
Peer group average		2.4	2.5	1.8	2.8	2.4
ProCredit	€206	3.9	4.5	3.9	3.9	3.0

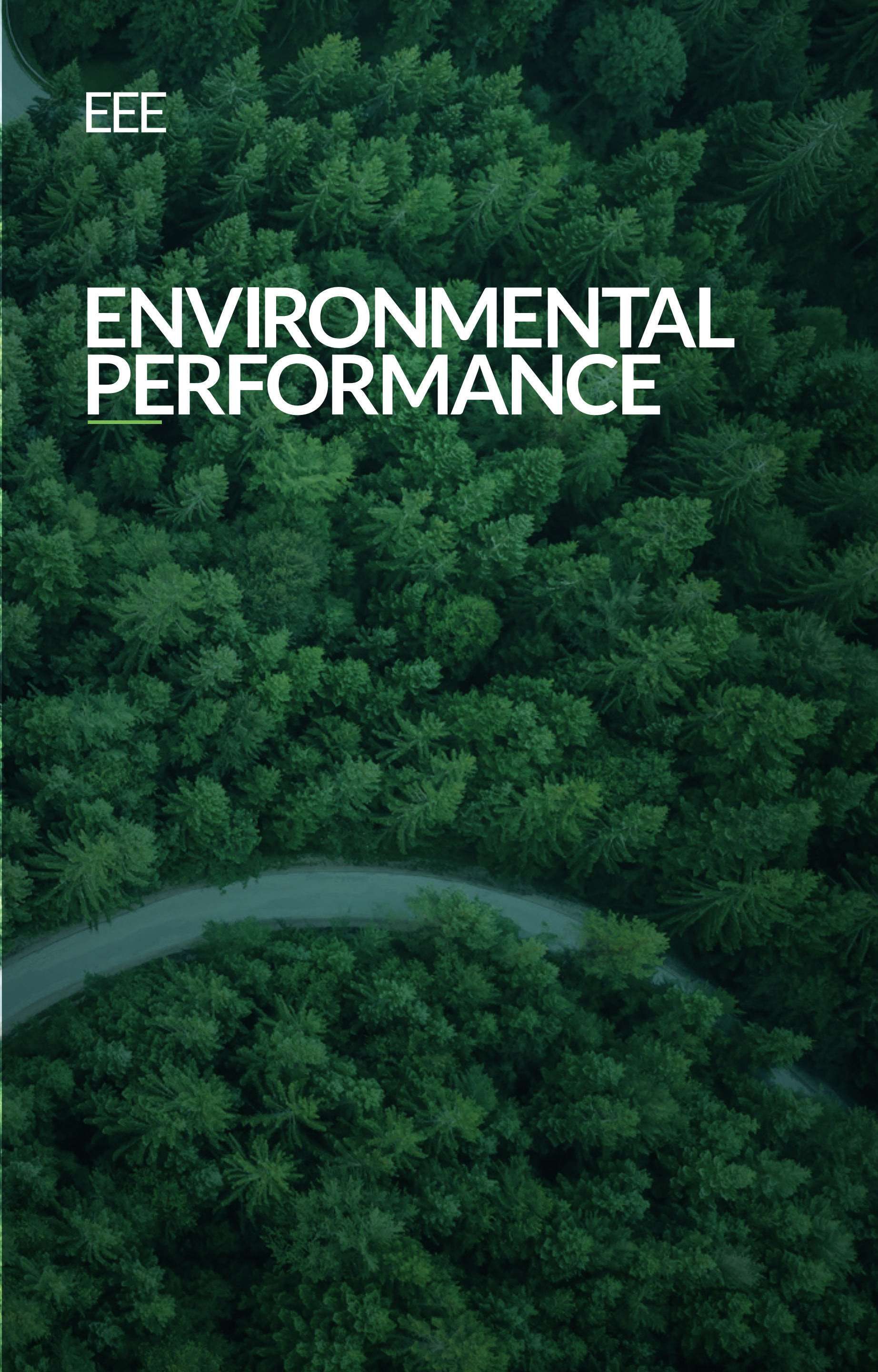
Source: Rebalance, Refinitiv.

Note: *Figures in brackets indicate the weighting of sub-scores in the ESG Edge score. Prices as at 26 May 2022.



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ENVIRONMENTAL PERFORMANCE

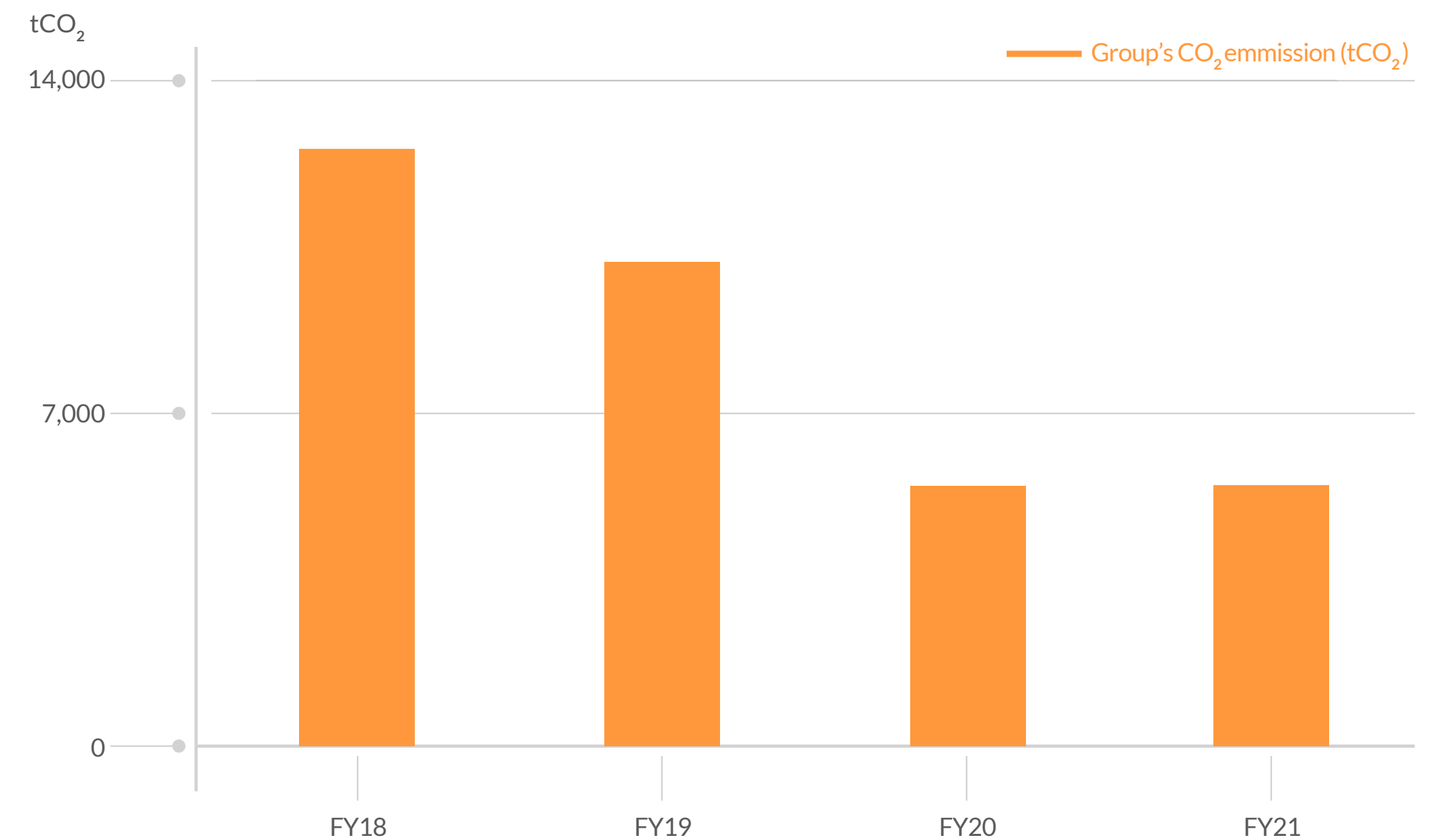


ENVIRONMENTAL PERFORMANCE

Targeting carbon neutrality from its own operations by 2023

PCB reduced its own CO₂ emissions (ie Scope 1 and Scope 2) by 56% between 2018 and 2021, facilitated, among other things, by green building certifications (ie EDGE), financing its own 3MWp photovoltaic park in Kosovo in FY21 (with eight other locations already having their own photovoltaic installations), expanding its electric car fleet to c 59% of the total (72% including hybrid plug-ins) in FY21 and making 207 e-chargers freely available for the public. Moreover, PCB reduced the number of flights by 27% y-o-y in FY21. While the total own CO₂ emissions increased slightly in FY21 year-on-year driven by road travel (up 12% y-o-y) and heating (up 18% y-o-y), the growth was from a low FY20 base, affected by lockdowns. Management reaffirmed its target to become carbon neutral from its own operations by 2023, prioritizing the transition to renewable energy sources and environmentally friendly solutions. For instance, PCB is investing in its own renewable energy project in Kosovo that will be operational in 2022 and will compensate for most of its own emissions. The remaining amount of CO₂ emissions at group level, which management expects will be very small, will be offset with carbon offset certificates.

Exhibit 11: PCB's own CO₂ emissions



Source: ProCredit.

ENVIRONMENTAL PERFORMANCE

Environmental score (10% weight in the ESG Edge score)

In Exhibit 12, we present PCB’s Environmental scores for 2021 and 2019 (ie our last assessment, which we published in the [December 2020 Edison ESG Edge](#)) along with the peer group rankings. It is worth noting that this reflects PCB’s internal environmental management, while the integration of ESG factors into the lending process is assessed across the Social score.

PCB’s Environmental score improved slightly to 4.5 in 2021 from 4.3 in 2019 and was again the highest in the peer group. This was driven by a notable improvement of its **greenhouse gas (GHG) metric** to 5.0 from 4.5 earlier (and now compares to a peer group average of c 4.4) as well as higher **air quality** and **water & waste management metrics**, supported by its internal environmental management activities. That said, the latter metric is still affected by the lack of some disclosures that we assess in our scoring system. PCB’s energy management metric of 4.5 is the highest in the peer group and remained stable compared to our previous assessment.

Exhibit 12: Environmental scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2021	2019	change	2021	2019	change
Environmental score	10%	4.5	4.3	+0.2	1	1	-
Greenhouse gas emissions	3%	5.0	4.5	+0.5	1	1	-
Energy management	3%	4.5	4.5	-	1	1	-
Ecological impacts	3%	5.0	5.0	-	1	1	-
Air quality	1%	4.5	4.3	+0.3	1	1	-
Water & wastewater management	1%	0.8	0.7	+0.1	2	2	-
Waste & hazardous materials management	1%	2.0	2.0	-	3	2	-1

Source: Rebalance.



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SOCIAL PERFORMANCE



SOCIAL PERFORMANCE

Competent staff as a key enabler of PCB's business model

On the social front, PCB's focus remains on comprehensive staff development, reflected in the average number of training hours that its employees take per year (132.5 on average between 2018 and 2021) and its competencies (eg 100% of employees had a minimum B1/intermediate English proficiency in FY21). PCB strengthened the training capabilities of ProCredit Academy in Fürth, Germany, through an e-learning platform in FY21.

The company promotes equitable pay and its annual total compensation ratio including the management board (calculated as the annual total compensation for the highest-paid individual in each country of significant operations to the median annual total compensation for all employees in the same country) stood at 2.3–6.9 depending on the region in FY21 (vs 2.1–7.2 in FY20). The remuneration policy is aligned with PCB's long-term oriented business objectives and does not include any short-term, performance-related bonuses. PCB's local banks have between 100 and 400 staff, significantly lower than its competitors, which management highlights allows PCB to create a working environment that does not primarily rely on monetary compensation. Management highlights the diversity within PCB with 30+ nationalities in its German head office and c 51% of the group's senior and middle management being women.

We believe that PCB's strong corporate culture is reflected in the rising average tenure across total staff, reaching 8.0 years for women in FY21 (vs 7.8 in FY20) and 7.9 years for men (6.6). We also note that with the publication of the 2021 Annual report, the company has started to put emphasis on using gender-sensitive and inclusive language in its corporate communication.

Since the beginning of the war in Ukraine, the company has provided accommodation outside the country to some of its staff (with 150 people, including 30 employees and their families, living now in ProCredit Academy in Germany) as well as essentials and medical supplies to employees in the country. Management highlights that most of its Ukrainian staff work from safer and decentralized locations in and outside the country. PCB maintains close contact with its clients in Ukraine, mainly via remote communication tools, and its digital banking channels facilitate payment transactions, card transactions and cash withdrawals. Lending is restricted and provided based on a case-by-case basis due to the extremely difficult market conditions. We discussed PCB's situation in Ukraine in more detail in our [April 2022 equity research note](#).

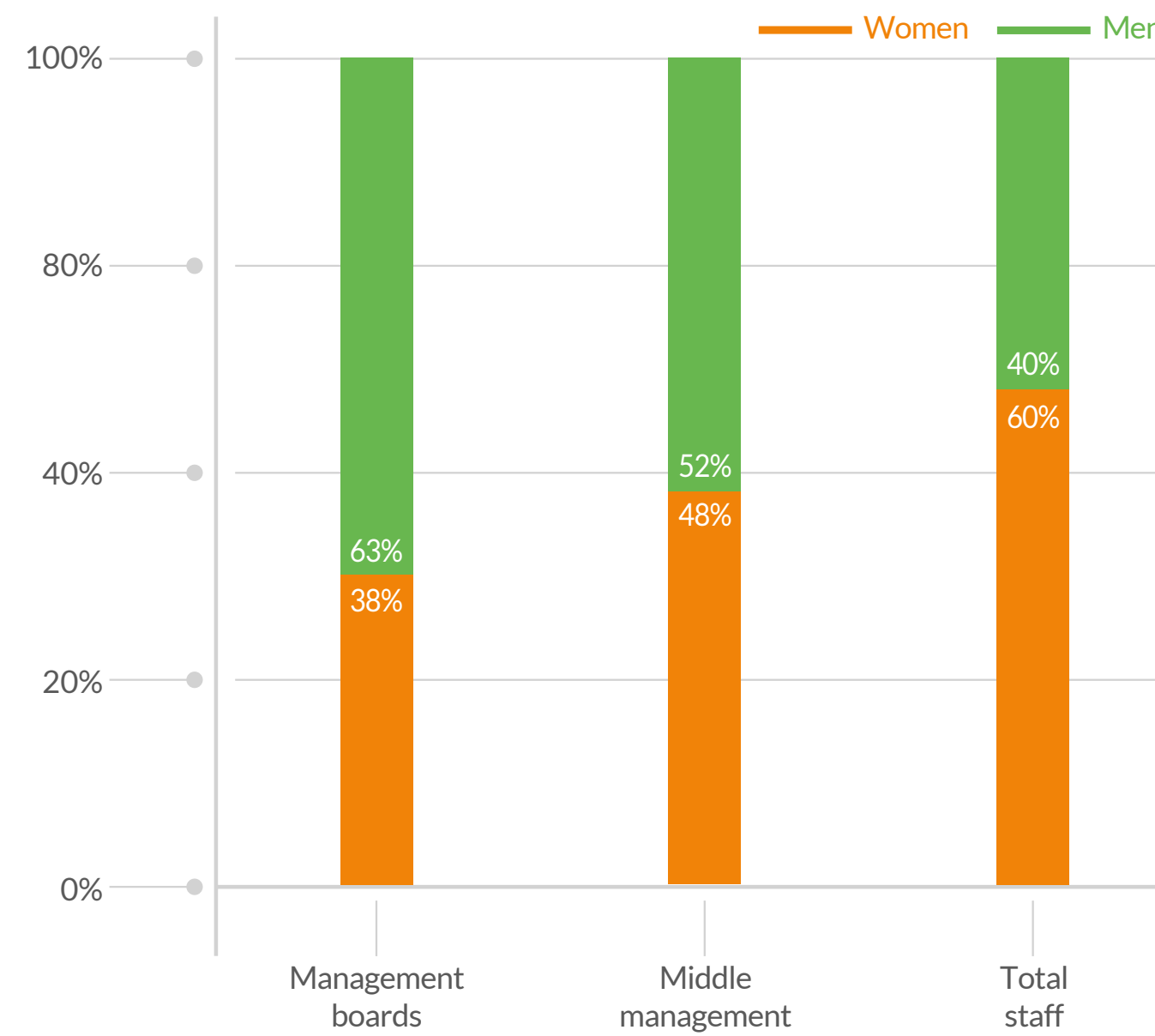
SOCIAL PERFORMANCE

Exhibit 13: Total staff and trainings at PCB



Source: ProCredit.

Exhibit 14: Gender diversity at PCB at end-FY21



Source: ProCredit.

SOCIAL PERFORMANCE

Social score (35% weight in ESG Edge score)

PCB's Social score increased to 3.9 in 2021 from 3.5 in 2019. While the largest contributor to the score, the **customer privacy metric**, declined from 5.0 to 4.3 in the period, we note it was still the highest in the peer group. The metric fell between 2019 and 2021 after Rebalance revised its methodology to include more disclosures around data and customer protection. The drop was offset by an increase in other major contributors to the Social score, including **product design & lifecycle management** (with PCB moving to rank second in 2021 from fourth in 2019) as well as **employee engagement, diversity & inclusion metrics** (remaining the top-performer). The former was supported by our assessment of PCB's integration of environmental and social risks in credit analysis, which, together with ABN Amro, had the best reporting practices in this area among peers. PCB's employee engagement, diversity & inclusion metric was backed by a favourable mix of women and men at all levels of the organization compared to the peer group. Some of PCB's social score metrics increased visibly in the period (eg access & affordability and human rights & community relations), but at the same time PCB's rank among peers declined as these companies improved their social disclosures in these areas to a greater extent.

Exhibit 15: Social scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2021	2019	change	2021	2019	change
Social score	35%	3.9	3.5	+0.3	1	1	-
Customer privacy	10%	5.0	5.0	0.0	1	1	-
Product design & lifecycle management	5%	4.3	3.8	+0.5	2	4	+2
Data security	4%	2.8	2.8	0.0	2	2	-
Employee engagement, diversity & inclusion	4%	3.8	3.6	+0.3	1	1	-
Access & affordability	2%	1.3	1.0	+0.3	2	1	-1
Customer welfare	2%	3.3	2.3	+1.0	1	1	-
Selling practices & product labelling	2%	3.4	1.9	+1.5	1	2	+1
Resource security	2%	5.0	4.0	+1.0	1	1	-
Human rights & community relations	1%	2.7	1.2	+1.5	3	1	-2
Employee satisfaction	1%	2.3	2.1	+0.2	4	1	-3
Wellbeing	1%	4.0	4.0	0.0	3	1	-2
Labour practices	1%	1.6	0.6	+1.1	3	1	-2
Employee health & safety	1%	5.0	5.0	0.0	1	1	-
Decent work	1%	4.0	4.0	0.0	3	1	-2

Source: Rebalance

SOCIAL PERFORMANCE

PCB's Social Score of 3.5 is the highest across the peer group. In the ESG Edge Score framework, the major driver of the Social Score in banks is the customer privacy metric, where PCB is rated at 5. This metric is supported by the fact that the company does not use or sell customer information for secondary purposes. In contrast, PCB's score in the Data Security metric is 2.83, affected by the €981 fine that the company paid in 2019 due to unwanted mobile push notifications, which were sent to one client by mistake. We note that this is a very minor amount relative to PCB's operations but has a relatively high impact on the score because it is a binary metric in the Rebalance framework. Furthermore, the firm has strong controls in place to ensure they do not mis-sell products and services, as well as a specific focus on avoiding over-indebtedness, which positively contributes to its selling practices & product labelling metric.

Another important contributor to PCB's Social Score is the product design & lifecycle management metric, which mainly reflects the level of disclosure of environmental and socio-economics effects of the granted loans. PCB's score is high at 3.8 but lags its peers as some of them provided more details with this respect, including for example carbon emission savings generated by investments financed by loans granted by the bank or the number of jobs that they create. Additionally, ABN conducts a climate scenario for its loan book and benchmarks the bank's energy portfolio against the objectives of the Paris Climate Agreement.

PCB's employee engagement, diversity & inclusion metric is 3.58, supported by gender diversity at senior positions and training expenditure for diversity related matters.

We note that some metrics across PCB's Social Scorecard are relatively low due to lack of disclosure. For example, the human rights & community relations metric reflects, among others, community spending (ie charitable spending), which PCB consciously avoids publishing although it takes parts in charitable actions on local markets. The metric is also negatively affected by the lack of disclosure of HIV policy, which we believe is not a material aspect given PCB's business profile.



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GOVERNANCE AND SOCIO-POLITICAL PERFORMANCE

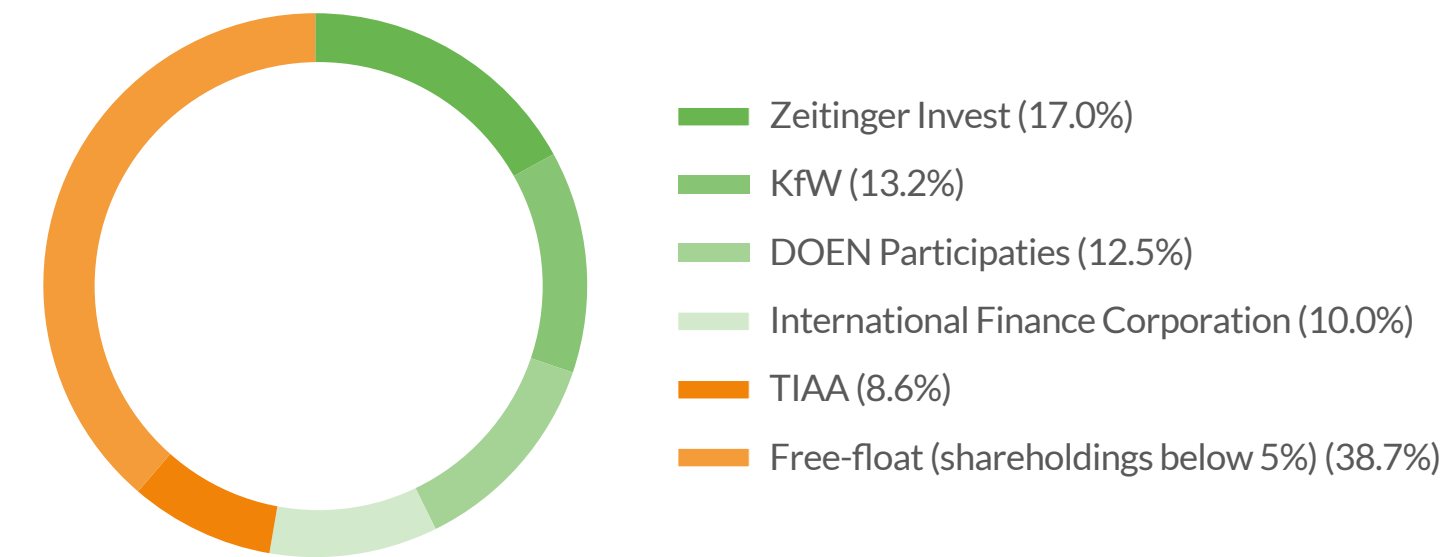
GOVERNANCE AND SOCIO-POLITICAL PERFORMANCE

Sustainable business model backed by impact-oriented shareholders

ProCredit Holding is managed by ProCredit General Partner (the personally liable managing partner of ProCredit AG & Co KGaA), an independent company owned by the core shareholders: Zeitinger Invest (a strategic shareholder since inception), KfW (a German development bank), DOEN Participaties (a Dutch entity focused on supporting sustainable and socially inclusive entrepreneurs), IFC (a member of the World Bank Group) and ProCredit Staff Invest (a vehicle for senior staff participation and PCB's shareholder since 1998). These entities hold c 55% of all listed shares at ProCredit Holding AG & Co. KGaA (Exhibit 16). The company also has a Supervisory Board, which consists of six independent members. Management highlights that the general partner structure guarantees the stability of PCB's mission to combine commercial success with development impact as its core shareholders have retained a significant influence on the group after it went public in 2016.

For more details on PCB's organisational structure, compliance and banking regulations as well as complaint management and financial crime prevention, please refer to the company's [Impact Report 2021](#). We describe the company's history in our equity [initiation note](#).

Exhibit 16: PCB's shareholder structure



Source: ProCredit.

Note: These are based on the following latest notifications from the respective shareholders: Zeitinger Invest (8 October 2018), KfW (28 December 2016), DOEN (29 December 2016), IFC (27 February 2018) and TIAA (29 December 2016).

Governance and Sociopolitical scores (45% and 10% weights in ESG Edge score, respectively)

PCB's audit metric, which is the major driver of the ESG Edge Governance score in banks, stood at 4.4 in 2021 (second highest in the peer group), up from 4.1 in 2019 (fifth). PCB's higher rank in 2021 versus 2019 in the peer group results, among others, from the adjustments that we made in our rating methodology, which now aligns better with the local markets' practice.

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We also note that PCB's supervisory board formed a Risk and Audit Committee in February 2021. This practice is in line with its peers and the German Corporate Governance Code and positively contributed to the metric in 2021. PCB's Risk and Audit Committee is composed of all members of the supervisory board.

PCB's **business ethics metric** at PCB of 3.1 and the **management of the legal & regulatory environment metric** of 4.7 were the highest in the peer group in 2021. The former was positively affected by the fact that the company did not report any monetary losses resulting from legal proceedings related to frauds, insider trading as well as anti-trust and anti-competitive behaviour. PCB's highest score in the management of the legal & regulatory environment metric results from both its outperformance and better disclosures across the categories that we assess in our scoring system compared to its peers.

Exhibit 17: Governance scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2021	2019	change	2021	2019	change
Governance score	45%	3.9	3.5	+0.4	1	1	-
Audit	10%	4.4	4.1	+0.4	2	5	+3
Business ethics	7%	3.1	3.2	-0.1	1	2	+1
Management of the legal & regulatory environment	7%	4.7	4.7	-0.1	1	1	-
Board composition	6%	4.3	3.7	+0.6	4	5	+1
Risk management	6%	4.1	2.8	+1.3	1	2	+1
Remuneration alignment	6%	2.8	2.6	+0.3	1	1	-
Systemic risk management	1%	2.9	2.4	+0.5	1	1	-
Management process	1%	3.8	2.3	+1.5	2	4	+2
Director contracts	1%	1.5	1.5	0.0	5	3	-2
Shareholder dilution risk	1%	3.3	2.3	+1.0	1	1	-

Source: Rebalance

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PCB’s Socio-political score declined to 3.0 in 2021 from 3.4 in 2019 but was still the highest in the peer group. We also note that the 2021 and 2019 figures are not fully comparable as the metrics that we use to calculate this score have changed. PCB’s Socio-political score is affected by a relatively low **community engagement metric** as, in contrast to its peers, the company does not disclose charity, community and political activity, assessed in our scoring system. Management highlights that PCB consciously avoids publishing charitable spending although it takes part in charitable actions on local markets.

That said, the company’s **inequality impact and pandemic metrics** are the highest in the peer group. We note that the company quickly adapted its working environment to the COVID-19 pandemic situation. At end-FY21, 96% of group’s employees were equipped to work from home and c 28% worked from home (ranging from 9% in SEE to 74% in South America). Management has promoted COVID-19 vaccines and 95% of its staff was fully vaccinated or recovered from COVID-19 at end-FY21. We understand that COVID-19 vaccination at PCB is compulsory in principle (unless special circumstances apply, such as health reasons). The company has invested time and effort in educating its staff on the matter of vaccines, for example by bringing in medical experts to answer any questions employees might have regarding the efficacy of vaccines and their potential risks. PCB has parted ways with employees who continued to

refuse to be vaccinated without valid reasons and sets a positive vaccination status as a prerequisite for hiring. Management highlights that it views decisions not to be vaccinated as against the group’s principles and values, and with its measures aims to provide a safe work space for all its employees.

Exhibit 18: Socio-political scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2021	2019	change	2021	2019	change
Socio-political score	10%	3.0	3.4	-0.4	1	1	-
Inequality impact	5%	2.7	N/A	N/A	1	N/A	N/A
Pandemic	4%	3.8	N/A	N/A	2	N/A	N/A
Political power	1%	2.2	N/A	N/A	2	N/A	N/A
Market power	1%	2.0	N/A	N/A	3	N/A	N/A
Community engagement	1%	2.3	2.1	N/A	4	2	N/A

Source: Rebalance.

Note: *The 2021 and 2019 figures are not fully comparable as the metrics that we use to calculate this score have changed.

REACH OUT

If you'd like to find out how Edison can help you:

Sally Boyle

Managing Director

+44 (0)7823 526366

sboyle@edisongroup.com

Rob Murphy

Managing Director,

Financials and Real Estate

rmurphy@edisongroup.com

Klaus Schinkel

Head of Germany

+49 69 788076 96

kschnkel@edisongroup.com

Neil Shah

Managing Director, Content

nshah@edisongroup.com

Milosz Papst

Director

mpapst@edisongroup.com

Anna Dziadkowiec

Associate

adziadkowiec@edisongroup.com

Amsterdam

Frankfurt

London

New York

Tel Aviv

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