



ESG EDGE



ProCredit
H O L D I N G

MSCI Rating:	AA
ESG Edge Score:	3.6

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 methodology starts by grounding our work through the analysis of the data points of other data providers and ratings agencies'.

Our ESG Edge scores are derived in collaboration with our partner Rebalance and follow the guidelines of the Sustainable Accounting Standards Board (SASB) and use the Cambridge Impact Framework. We follow this up with management and employee interviews to validate our findings and get to the narrative behind the data. Our findings are condensed in this report to focus on key ESG drivers, transition opportunities and risks for the company. Please see our website for a more detailed overview of our methodology.



ProCredit
H O L D I N G

Price	€7.20		
Market cap	€424m		
Total assets (€bn) at end-Sept 2020	7.1		
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	21.0	20.0	1.4
Rel (local)	16.3	16.0	(1.4)
52-week high/low	€7.25	€4.60	

BUSINESS DESCRIPTION

ProCredit (PCB) is a Germany-based group operating regional banks across Southeastern and Eastern Europe, as well as in Ecuador. The banks focus on SMEs and private middle-income and high earners. At end-September 2020, the group's total assets stood at €7.1bn.

ProCredit has extensive experience in supporting small and medium-sized enterprises (SMEs) in emerging economies, with a focus on Southeastern (SEE) and Eastern Europe (EE) and banking operations in Ecuador. PCB aims to positively contribute to the economic, social and environmental situation in these regions and create shareholder value in the process.

This has been supported with a dynamic growth of its green loan portfolio (CAGR of 34% in 2016-2019), prudent credit, social and environmental risk management as well as long-term oriented approach to its clients and staff.

PCB's environmental, social and governance (ESG) efforts are reflected in its outperformance vs peers in the ESG scoring system that we have applied.

ESG Edge Scores (out of 5)

Environmental:	4.3
Social:	3.5
Governance:	3.5
Socio-political:	3.4

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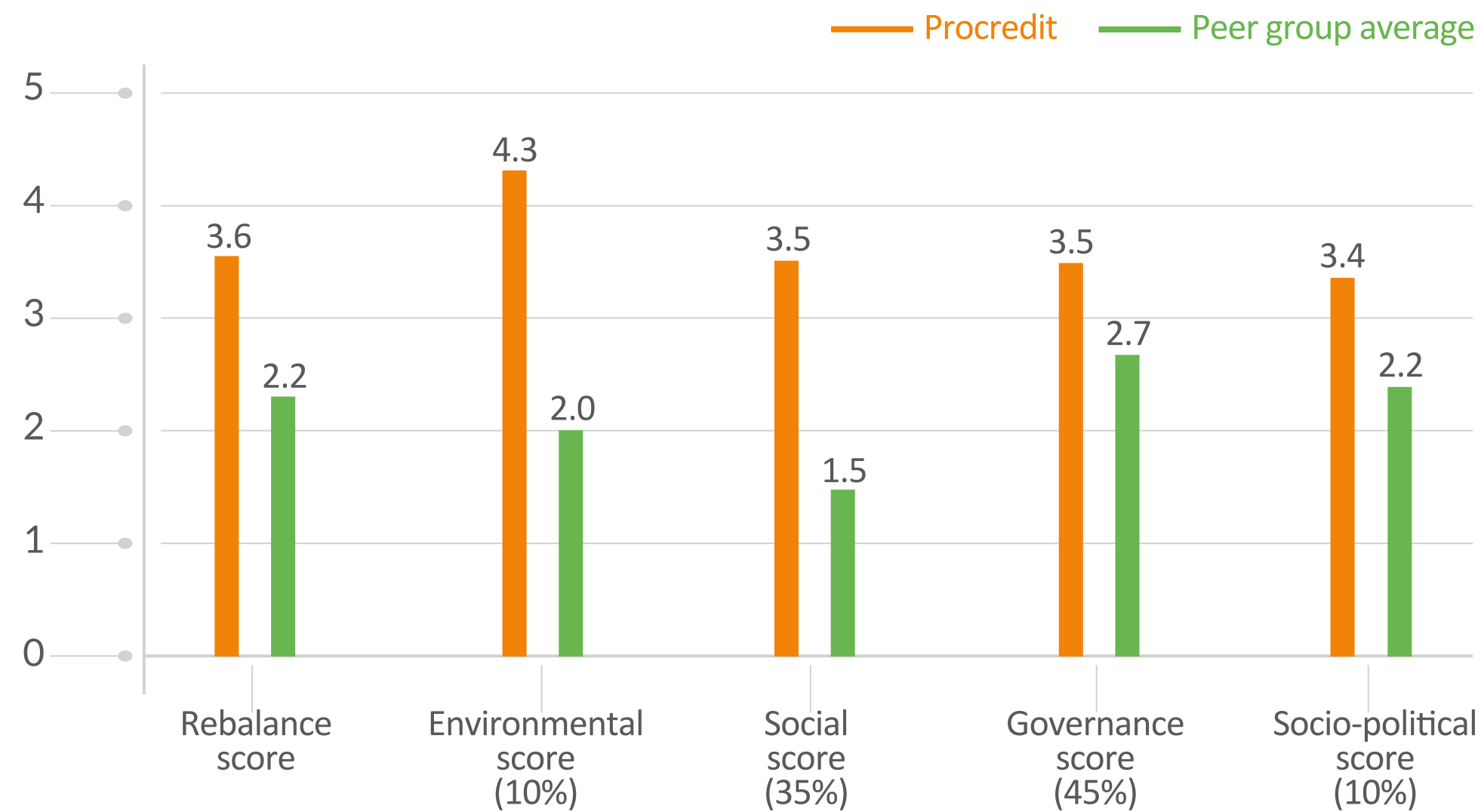
FLYING HIGH

Visibly outperforming peers in ESG Scores

In 2019, PCB outperformed its peers (i.e. Erste Group, Raiffeisen International, TBC Bank and ABN Amro) in the ESG Edge Score, which measures companies' ESG and socio-political performance on a scale of 0 to 5 (0 being poor performance, 5 an excellent performance). PCB's MSCI ESG rating is AA, which places it among the top 15% of companies rated by MSCI in the banking sector worldwide.

FLYING HIGH

Exhibit 1: : PCB's ESG Edge score vs peer average



Source: Kearney, Edison Investment Research

Actively pursuing its sustainability goals

In the medium term, PCB's aims to increase the relative size of its green loan portfolio to 20% of the total loan book (vs c 18% at end-Q320), while still maintaining its high credit quality as illustrated by the share of credit impaired loans in gross green loan book of 0.3% at end-H120 (vs 2.3% at group level at end-Q320). Over the same period, it plans to become carbon neutral with respect to its own CO2 emissions (these were down 19% y-o-y in 2019) and increase the level of social and environmental competence among its employees (underpinned by its in-house ProCredit Academy in Fürth).




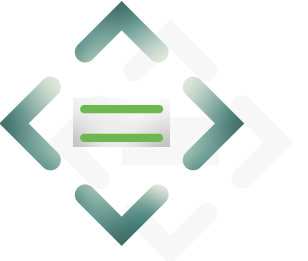



Focus on long-term sustainable value creation

PCB believes that its impact-oriented approach will benefit shareholder returns over the longer term. Its business model and strategy are backed by prominent shareholders, including its founding shareholder Zeitinger Invest (with a 17% share in the company), KfW (Germany's leading development bank; (c 13%), DOEN Foundation (a Dutch entity focused on supporting sustainable and socially inclusive entrepreneurs; c 13%), and the International Finance Corporation (10%).

SUSTAINABILITY AT PCB AT A GLANCE

PCB's commitment to the UN Sustainable Development Goals

Management highlights that PCB's banking practices contribute to solving a number of sustainable development challenges. In its impact reporting, the company refers to eight UN Sustainable Development Goals, which it considers most relevant for its business and to which it can make the greatest contributions.

 <p>Gender inequality</p>	 <p>Affordable and clean energy</p>	 <p>Industry, innovation and infrastructure</p>	 <p>Decent work and economic growth</p>	 <p>Reduced inequalities</p>	 <p>Responsible consumption and production</p>	 <p>Climate action</p>	 <p>People, justice and strong institutions</p>
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SUSTAINABILITY AT PCB AT A GLANCE

Edison ESG SWOT of PCB

Strengths

Strategic approach to sustainability and focus on material topics for banks, including economic development, technology and innovation, corporate governance and environmental management systems.

Focus on impact-oriented lending, with a significant share of green loans in the total loan book and incorporation of ESG factors into the lending process across the whole loan portfolio, which helps achieve strong portfolio quality relative to other market players.

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

Weaknesses

The lack of disclosure of some non-financial figures (eg environmental and socio-economic effects of the granted loans or breaking down waste reporting) has affected the company's ESG Edge score, though PCB's disclosure of material and relevant aspects is solid.

The lack of an independent audit committee makes it an outlier compared to peers, but management highlights that all six members of the independent Supervisory Board fulfil all responsibilities of an audit committee and address audit matters on a regular basis.

Opportunities

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

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

The average GDP per capital 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.

Threats

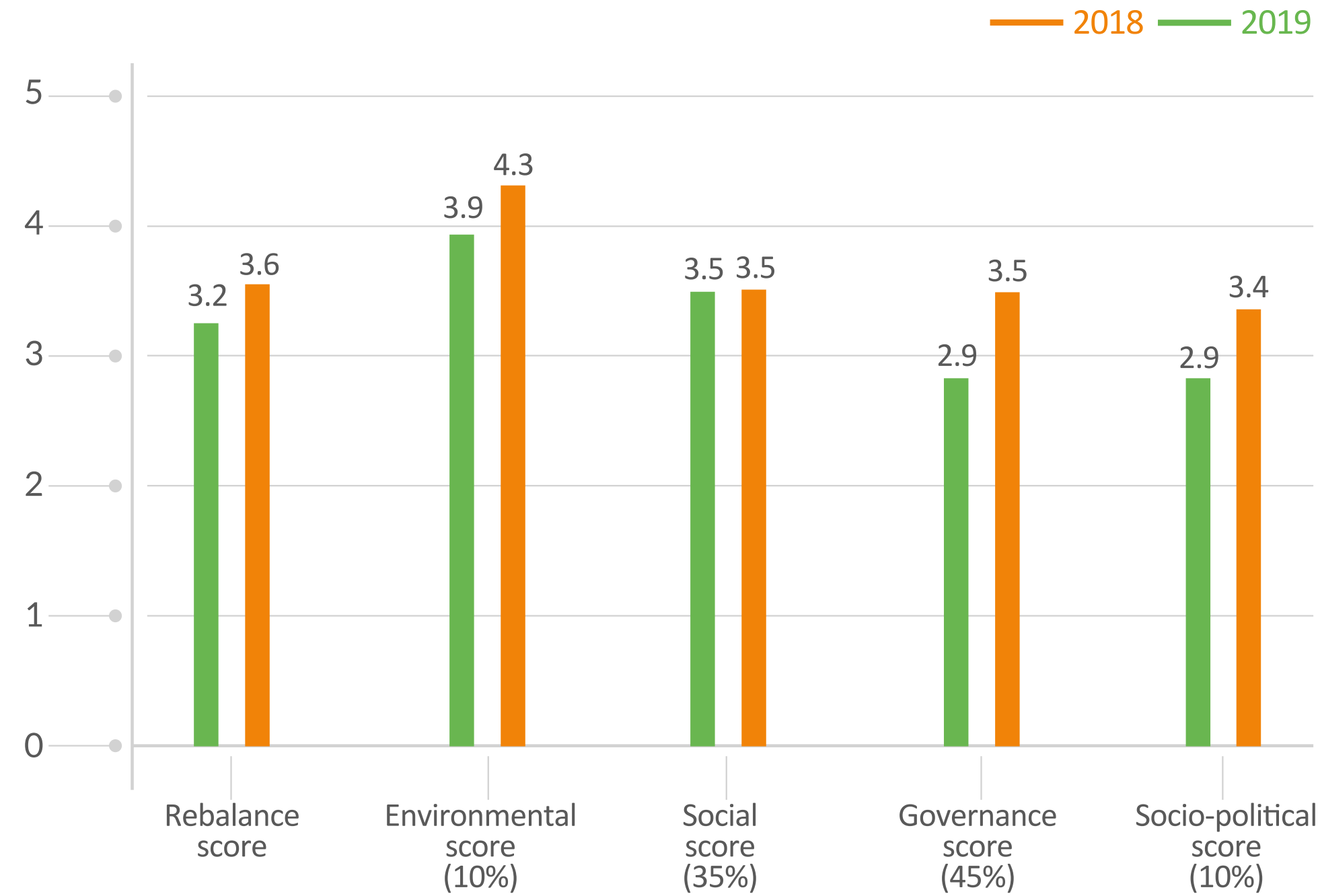
PCB operates in regions, where economic, political and regulatory uncertainty remains higher than in the EU countries.

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

SUSTAINABILITY AT PCB AT A GLANCE

ESG Edge score

PCB's ESG Edge Score increased to 3.6 in 2019 from 3.2 in 2018, which was assisted by higher Environmental, Social, Governance and Socio-political Scores, with the Social Score broadly stable year-on-year. We describe major drivers for subsequent sub-scores in the following sections of this report.



Source: ProCredit, Edison Investment Research, Rebalance.

Note: *Figures in brackets in the chart indicate the weighting of subsequent sub-scores in the Rebalance Score.

BUSINESS DESCRIPTION: IMPACT-ORIENTED SME LENDER

PCB is focused on providing impact-oriented financing primarily to small and medium-sized enterprises (SMEs; 94% of the bank's loan book at end-September 2020) 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 (18.3% at end-September 2020). 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 stand high on PCB's priority list, it does not provide meaningful volumes of consumer loans. Its geographical footprint currently covers 10 countries in Southeastern (SEE) and Eastern Europe (EE), as well as Ecuador plus its holding and minor banking operations in Germany (it operates under a German banking licence).

Peer benchmarking

Our peer group includes Erste Group and Raiffeisen Bank International, 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 the ESG performance (eg it ranked among the top 10% banks in the Dow Jones Sustainability Index in September 2019).

Exhibit 2: 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	€7,642	2.1	1.8	1.4	2.7	2.1
Erste Group	€10,874	2.0	1.4	1.3	2.7	1.9
Raiffeisen Bank	€5,592	2.7	3.2	2.0	3.3	2.4
TBC	£668	1.9	1.6	1.4	2.2	2.6
Peer group average		2.2	2.0	1.5	2.7	2.2
ProCredit	€424	3.6	4.3	3.5	3.5	3.4

Source: Rebalance.

Note: *Figures in brackets indicate the weighting of sub-scores in the Rebalance Score.

BUSINESS DESCRIPTION: IMPACT-ORIENTED SME LENDER

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 3.6 (vs 2.2 on average for peers) is largely driven by the actions that the company has undertaken to become carbon neutral as a group in the next three to five years. PCB's above average Social Score (3.5 vs 1.5 for peers) reflects its outperformance in the customer privacy as well as employee engagement, diversity and inclusion. The company's Governance Score is 3.5 compared to 2.7 for peers, supported by its strong business ethics and management of the legal and regulatory environment, although somewhat affected by its performance in Rebalance's audit metric. PCB's Socio-political Score is the highest among the peer group, assisted by its outstanding response to the COVID-19 pandemic, both with respect to employee safety and approach to clients, which is oriented at long-term partnerships and an individual risk assessment.

We describe PCB's performance relative to its peers in more details in the following sections of this report.

An aerial photograph of a dense, lush green forest. A light-colored, unpaved road winds through the trees in a series of curves, starting from the top left and moving towards the bottom right. The trees are a vibrant green, and the overall scene is a natural, serene landscape.

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ENVIRONMENTAL PERFORMANCE

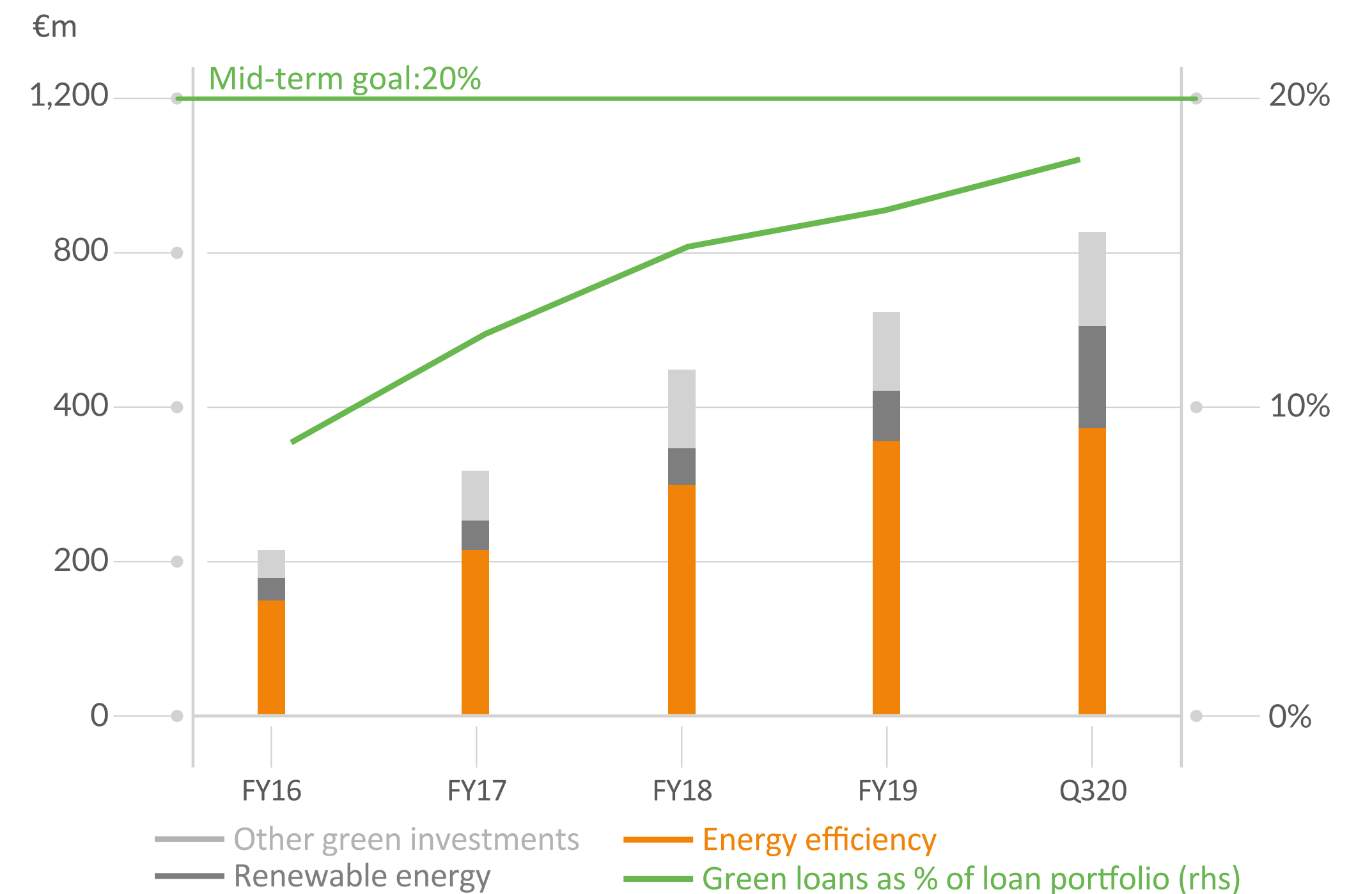
Environmental management at PCB embraces 1) green finance activities, 2) management of environmental and social risks in lending and 3) internal environmental management. Green finance at PCB refers to the green loans that the company has been distributing since 2006. At end-Q320, they represented c 18% of its loan book, which compares with the medium-term target of 20%. The portfolio includes loans to fund energy efficiency projects that reduce energy consumption by at least 20% (these made up 60% of the green loan portfolio at end-Q320) as well as renewable energy (20%) and other green investments (20%), including investments leading to the prevention of air, water and soil pollution, waste management, as well as organic agriculture and production (Exhibit 3).

ENVIRONMENTAL PERFORMANCE

The environmental and social risk management at the company is enhanced by the group-wide code of conduct, which includes an exclusion list, specifying business activities that must not be financed by the group (in fact, no business activities will be established with clients engaged in any of these activities). Additionally, PCB has also set standards to minimise the environmental impact of its lending operations, supported by the Group Environmental Steering Committee at group level and Environmental Committees in the local banks.

Finally, PCB's internal environmental management embraces all processes and procedures that help the company reduce its direct environmental footprint, with the aim of becoming carbon-neutral in the next three to five years. The group has reduced its CO₂ emissions and energy consumption over recent years (Exhibit 4) following a gradual switch to renewable energy providers (mostly in Romania, Bulgaria and Serbia) and improvements of energy efficiency at new outlets and head offices (eg PCB's banks in Bulgaria and North Macedonia received the EDGE certification for green building management in 2019).

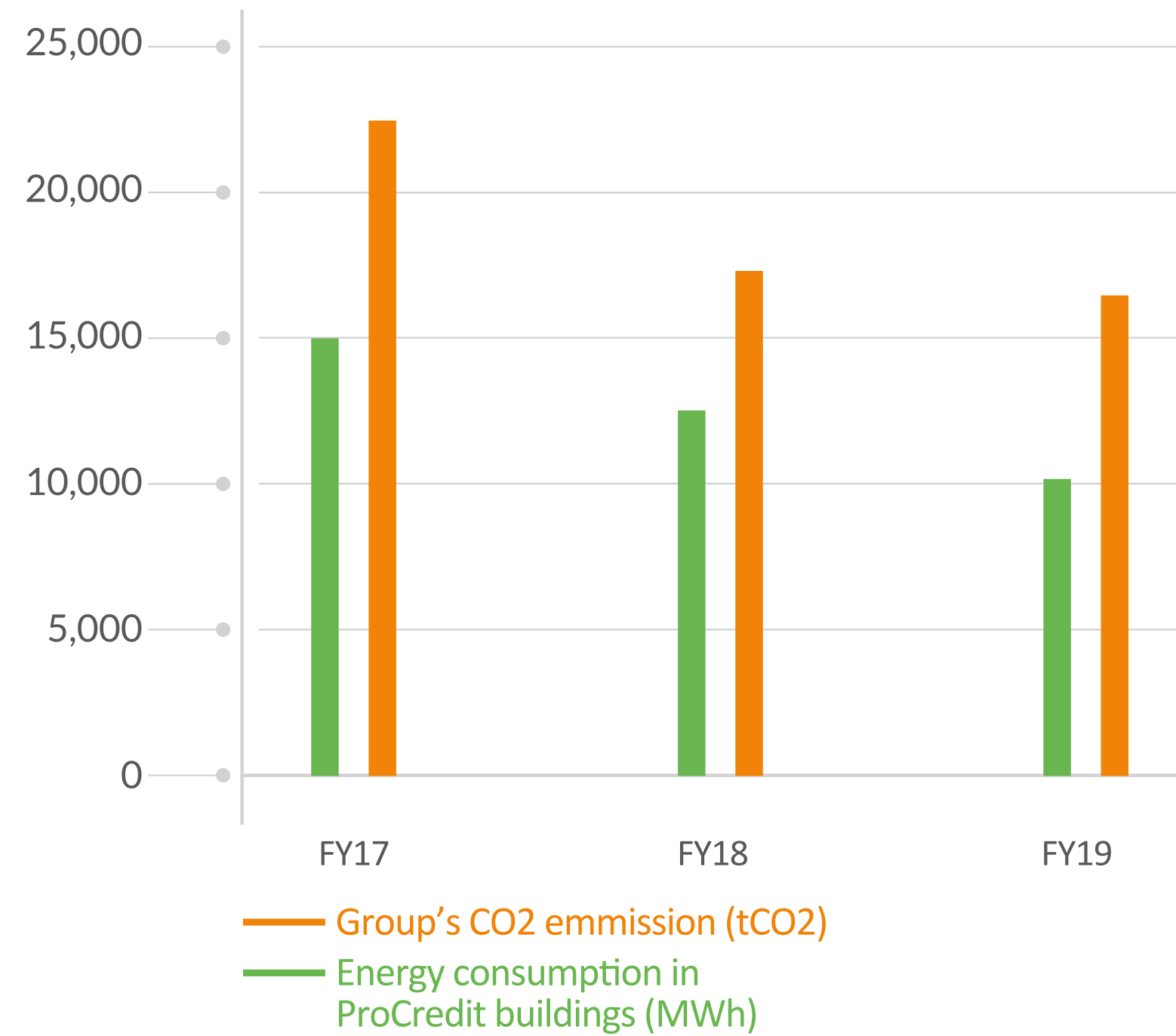
Exhibit 3: PCB's green loan portfolio



Source: ProCredit, Edison Investment Research.

ENVIRONMENTAL PERFORMANCE

Exhibit 4: PCB's direct environmental impacts



Source: ProCredit, Edison Investment Research.

Environmental score

In Exhibit 5, we present PCB's Environmental Score along with the peer rank and PCB's quartile. 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 Governance Score.

Exhibit 5: Environmental Scorecard

Metric	Weighting in ESG Edge Score	Score (0-5)	Peer Rank	Overall quartile*
Environmental Score	10%	4.3	1	1
Greenhouse Gas Emissions	3%	4.5	1	1
Energy Management	3%	4.5	1	1
Ecological Impacts	3%	5.0	1	1
Air Quality	1%	4.3	1	1
Water & Wastewater Management	1%	0.7	2	3
Waste & Hazardous Materials Management	1%	2.0	2	3

Source: Rebalance.

Note: *Overall quartile is based on a group of c 1,200 companies across different sectors that have been rated with Rebalance Score so far.

ENVIRONMENTAL PERFORMANCE

PCB's Environmental Score is the highest among its peers and places the company in the first quartile within 1,200 companies that have been rated with the ESG Edge Score so far. The main positive contributors to the Environmental Score are: Greenhouse Gas Emissions (4.5), Energy Management (4.5) and Ecological impacts (5.0), reflecting the group's efforts to reduce its direct environmental footprint. We note that in 2019, renewable energy usage at PCB was above its peers' levels, with 57% of electricity and 20% of heating energy coming from renewable sources (vs 40% and 17% in 2018, respectively).

The ecological impacts metric takes into account carbon emissions tracking and volumes, the company's objectives and progress towards carbon-neutral operations, efficient use of resources (eg recycling, green building, energy usage), waste management and environmental expenditure. We note that PCB's target to become carbon neutral within three to five years (without the use of carbon offsets) is ambitious compared to its peers, which have either not specified a date or assume a longer timeframe for achieving this target.

In some cases, PCB's underperformance compared to peers results from the lack of disclosure eg in the waste & hazardous materials management metric as the company does not provide a detailed breakdown of its waste reporting, in contrast to its peers and other rated companies. We believe however that this disclosure might not be that relevant for financial institutions, which is also reflected in the relatively low weighting of this metric in the Environmental Score.



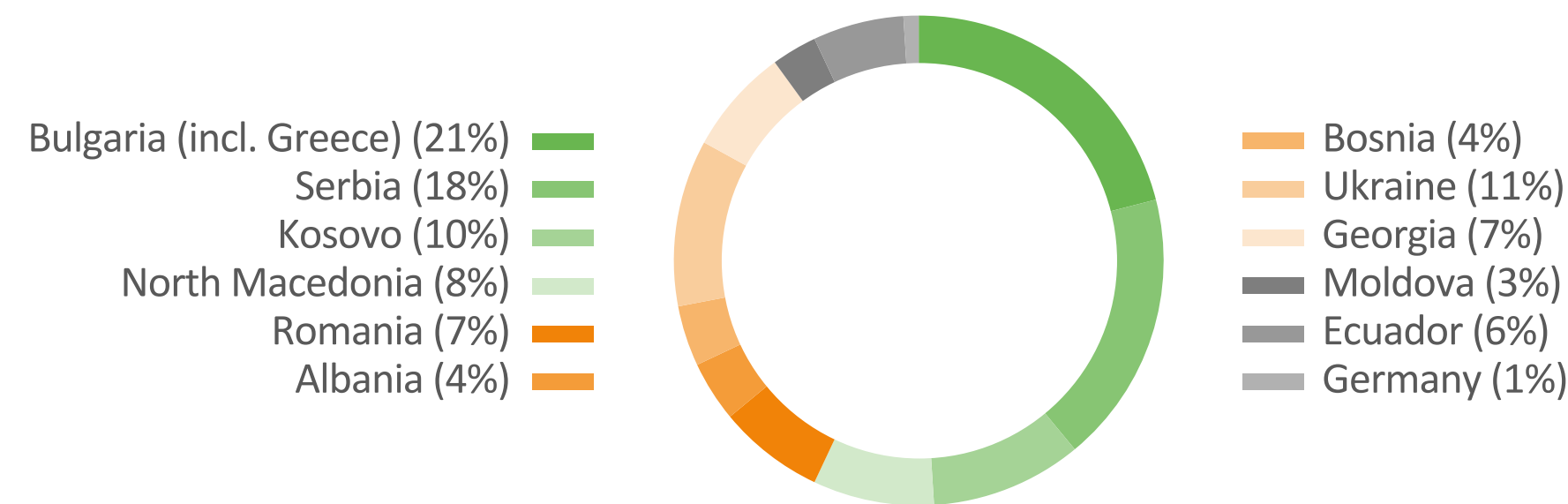
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SOCIAL PERFORMANCE

We believe that the funding that PCB provides has both a direct and indirect impact on the socio-economic development of the countries where it operates. The company provides a full spectrum of modern financial services, most notably loans to SMEs, which represented c 94% of its loan portfolio at end-Q320. This is important given that the SME sector in the regions where PCB is present employed between 60% and 80% of the total workforce in 2019 (vs c 60% on average in the 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. Moreover, PCB has no meaningful exposure to consumer lending and provides funding to the real economy, with a significant share of agriculture, forestry and fishing (20% at end-Q320) and local production (23%) in the loan portfolio (Exhibit 7).

SOCIAL PERFORMANCE

Exhibit 6: PCB's loan book by country at end-Q320

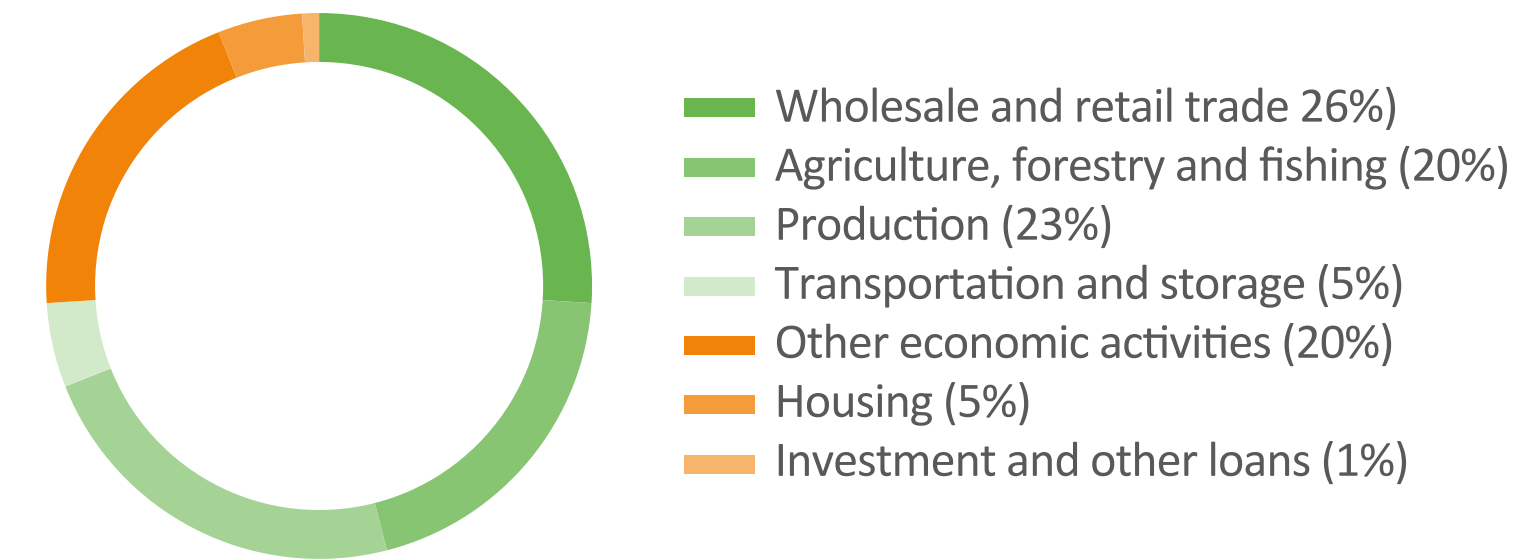


Source: ProCredit.

During the COVID-19 pandemic, PCB has actively supported its clients with new funding as reflected in a strong loan book growth of 8.5% in the first nine months of 2020 (9M20), driven by longer-term investment loans and green loans (see our equity research update note for more details).

With respect to clients, PCB focuses on establishing long-term partnerships and promoting lending that is economically, socially, and environmentally inclusive. It is noteworthy that the company has been actively cooperating with European institutions to foster innovation and became one of the largest partners for the InnovFin programme run by the European Investment Fund (EIF). The EIF doubled the available financing covered by guarantees provided to PCB through the InnovFin initiative to €1.62bn in July 2019, which extended PCB's capacity to grant loans to innovative companies.

Exhibit 7: PCB's loan book by sector at end-Q320



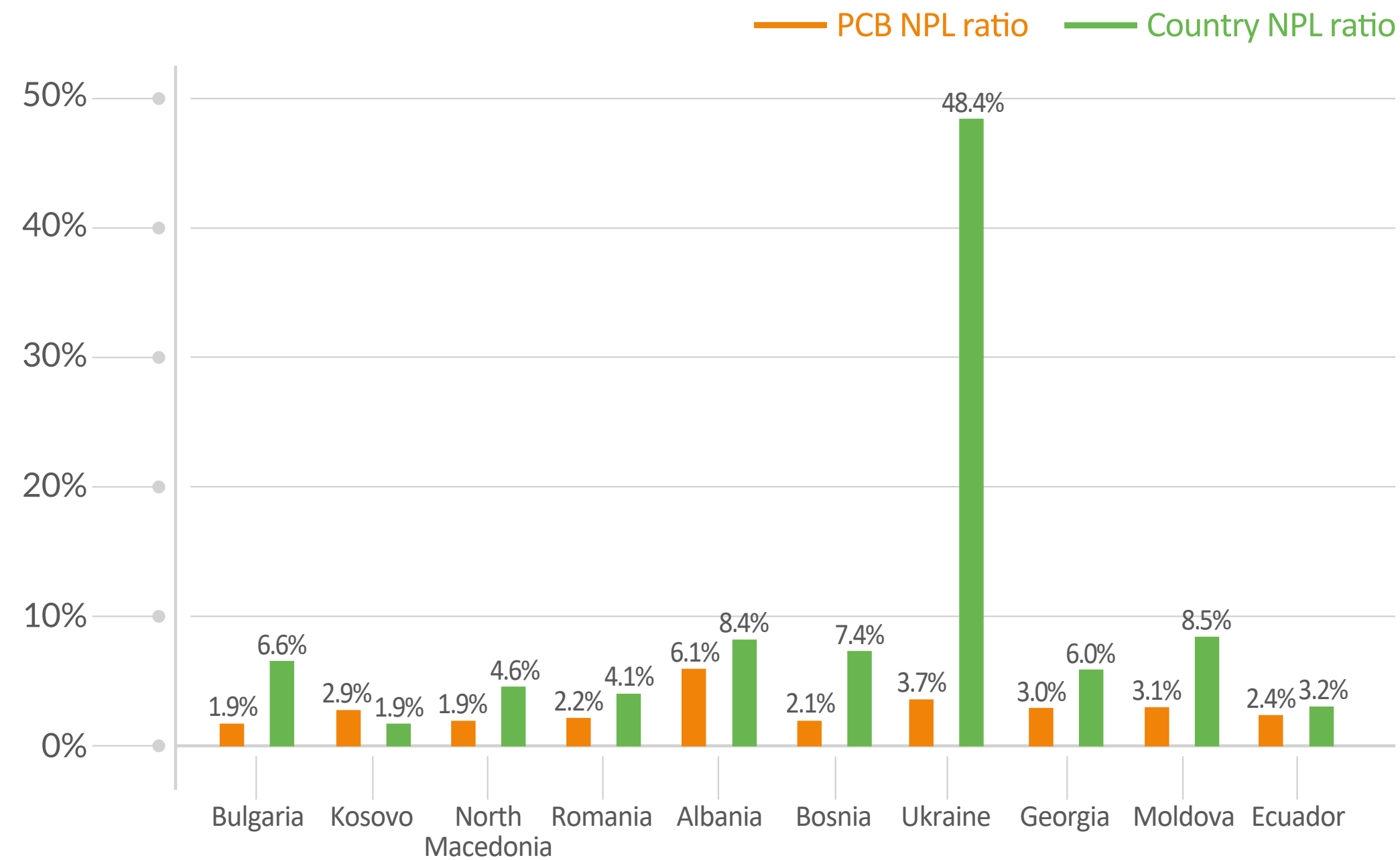
Source: ProCredit.

PCB has enabled access to this EU-backed funding to around 2,000 SMEs.

Management highlight that PCB's offering is transparent, with clear price features and simple range of banking products, which it complements with the digital banking services to private clients through the ProCredit Direct platform. The company puts much emphasis on ensuring the privacy and security as well as prudent and comprehensive credit risk management, which, besides financial aspects, accounts also for social and environmental risks (see more details in the Environmental performance section). We believe that PCB's individual approach to clients and focus on well-established SME is reflected in the relatively low level of non-performing loans (NPLs) compared to the local banking sectors (Exhibit 8).

SOCIAL PERFORMANCE

Exhibit 8: PCB's NPL ratios vs local banking sector NPLs at end-FY19



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 2.7%.

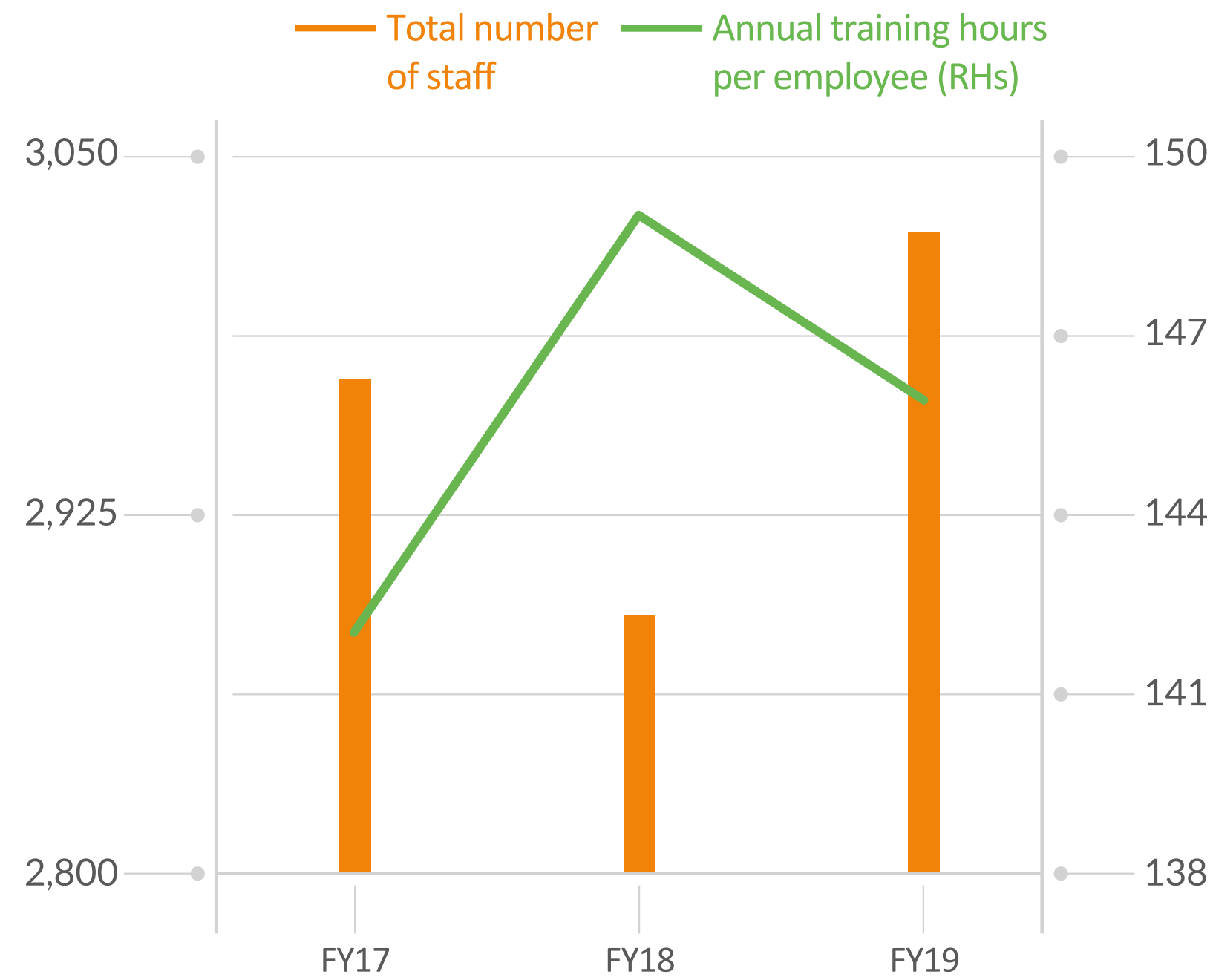
Due to the COVID-19 pandemic, PCB expects a higher cost of risks in FY20 vs FY19, but we note that the quality of its loan portfolio has remained at a relatively stable level during the COVID-19 pandemic so far (see our equity research update note for more details).

PCB highlights that it can fulfil the needs of SMEs better than its competitors, thanks to its well-trained and long-serving staff, with 75% of the team having more than five years of experience in the group, while managers in local banks have worked for PCB for over 12 years on average. The company remains focused on targeted recruitment and staff development, which it supports with comprehensive training programmes provided by ProCredit Academy in Fürth, Germany (Exhibit 9). Management also highlights its preference and tendency to hire managers from the local community.

The company's remuneration policy is aligned to its long-term oriented business objectives and does not include any short-term, performance-related bonuses. Salary structures are defined in the Group Remunerations Policy, which defines narrow pay steps linked to objective training and skill levels and thus eliminates any meaningful gender pay gaps, according to management. The company promotes diversity and equal opportunities, as exhibited by the composition of the management boards in the group's banks, with women representing 53% of the headcount (Exhibit 10).

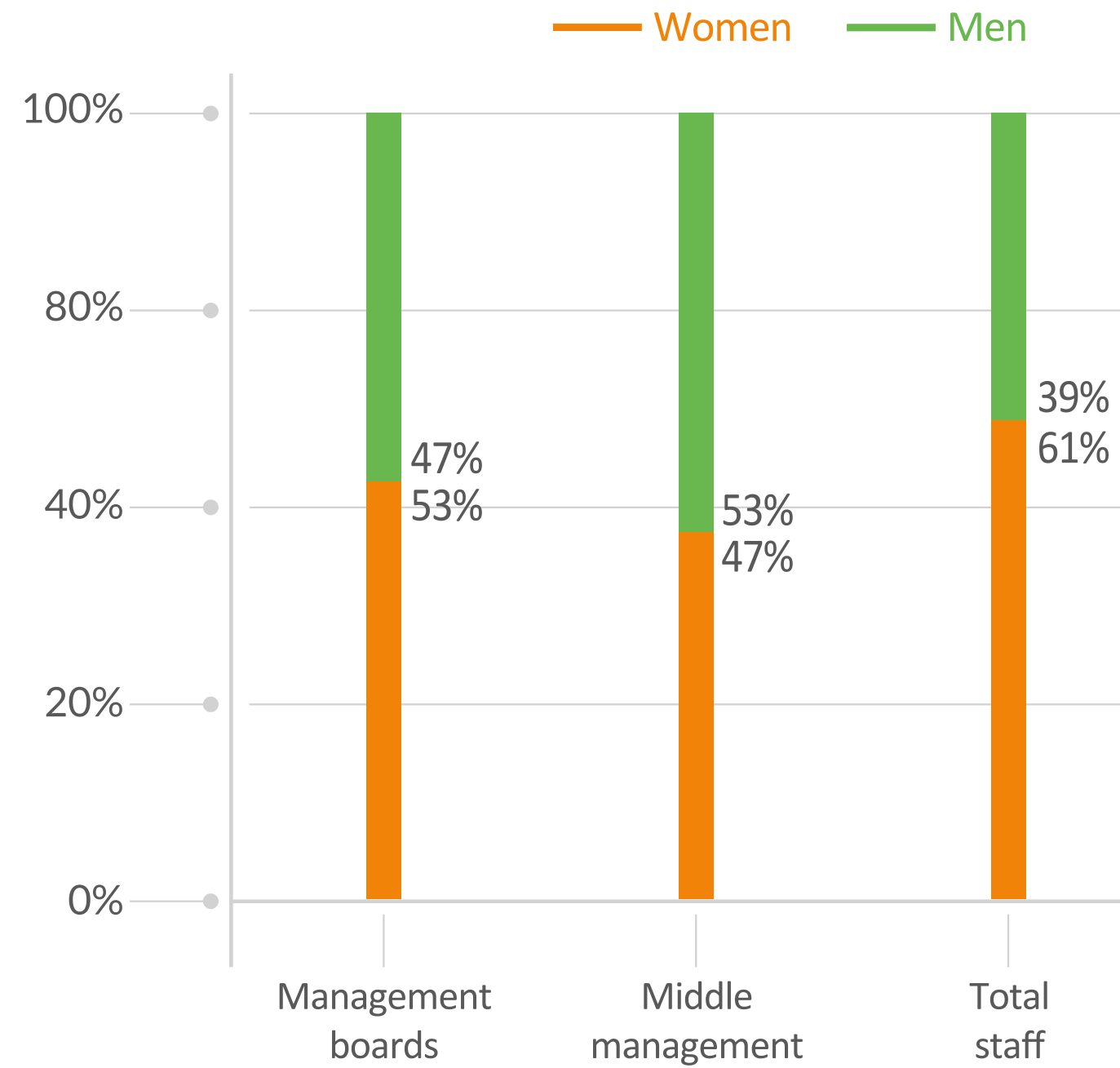
SOCIAL PERFORMANCE

Exhibit 9: Total staff and trainings at PCB



Source: ProCredit.

Exhibit 10: Gender diversity at PCB at end-2019



Source: ProCredit.

Based on a survey that we held with the company's employees in May 2020, PCB's employees appreciate the transparent pay structures in the group, the very high level of training and development, the clear job progression, the sense of purposeful work and the gender diversity.

SOCIAL PERFORMANCE

Exhibit 11: Social Scorecard

Metric	Weighting in ESG Edge Score	Score (0-5)	Peer Rank	Overall quartile*
Social Score	35%	3.5	1	1
Customer Privacy	10%	5.0	1	2
Product Design & Lifecycle Management	5%	3.8	4	3
Data Security	4%	2.8	2	2
Employee Engagement, Diversity & Inclusion	4%	3.6	1	1
Access & Affordability	2%	1.0	1	2
Customer Welfare	2%	2.3	1	1
Selling Practices & Product Labelling	2%	1.9	2	2
Resource Security	2%	4.0	1	1
Human Rights & Community Relations	1%	1.2	1	2
Employee Satisfaction	1%	2.1	1	2
Wellbeing	1%	4.0	1	1
Labour Practices	1%	0.6	1	1
Employee Health & Safety	1%	5.0	1	1
Decent Work	1%	4.0	1	1

Source: Rebalance

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.

SOCIAL PERFORMANCE

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 PERFORMANCE

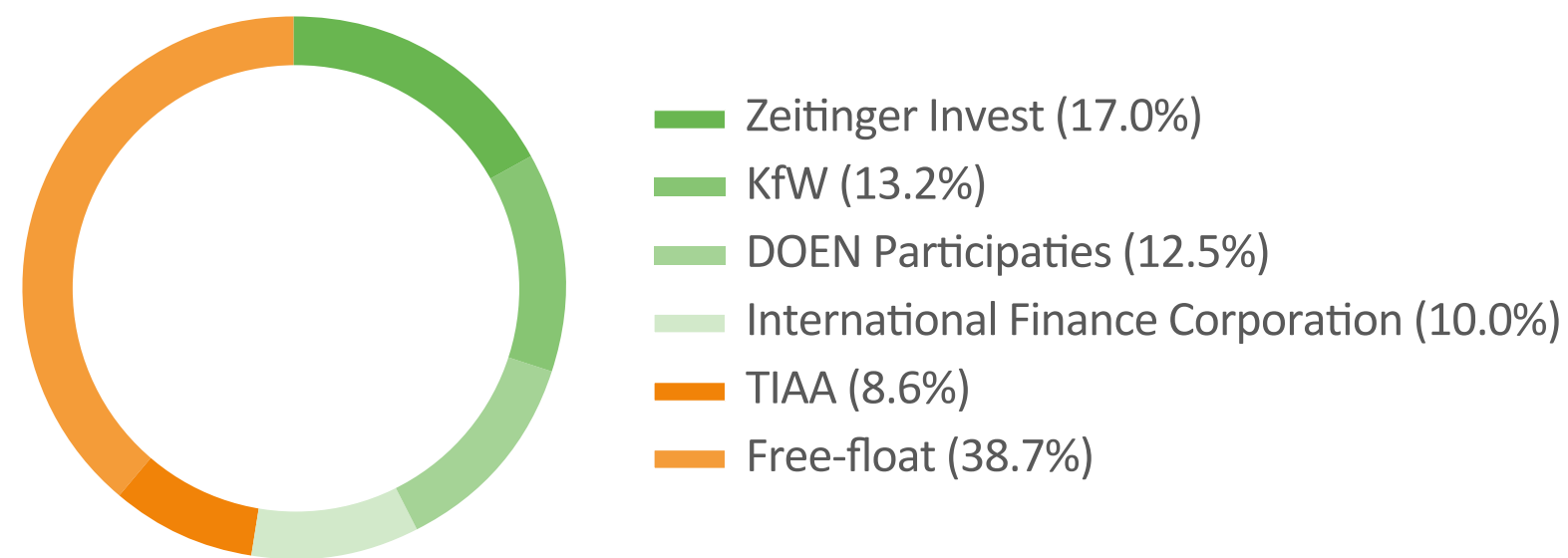
PCB is supervised at the group level by the German regulatory authorities. It thus applies German banking regulations, in addition to local banking regulations, at all its banks for most of their activities. For more details on PCB's organisational structure, compliance and banking regulations as well as complaint management and financial crime prevention, please refer to the company's Impact Report 2019.

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).

GOVERNANCE PERFORMANCE

These entities hold c 55% of all listed shares at ProCredit Holding AG & Co. KGaA (Exhibit 12). The company has also 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 significance influence on the group after it went public in December 2016 .

Exhibit 12: ProCredit Holding AG & Co. KGaA current shareholder structure



Source: ProCredit.

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

Exhibit 13: Governance Scorecard

Metric	Weighting in ESG Edge Score	Score (0-5)	Peer Rank	Overall quartile*
Governance Score	45%	3.5	1	2
Audit	10%	4.1	5	2
Business Ethics	7%	3.2	2	2
Mgmt of the Legal & Regulatory Environment	7%	4.7	1	1
Board Composition	6%	3.7	5	2
Risk Management	6%	2.8	2	2
Remuneration alignment	6%	2.6	1	2
Systemic Risk Management	1%	2.4	1	2
Management Process	1%	2.3	4	3
Director Contracts	1%	1.5	3	3
Shareholder Dilution Risk	1%	2.3	1	2

Source: Rebalance

The management board of the ProCredit General Partner consists of three members: Dr Gabriel Schor, Sandrine Massiani and Dr Gian Marco Felice, who are the managers of ProCredit Holding. Dr Gabriel Schor has worked with the ProCredit group or PCB’s founding shareholder Zeiting Invest (formerly IPC) since 1983, while Sandrine Massiani and Dr Gian Marco Felice have over 13 years’ experience in the group.

GOVERNANCE PERFORMANCE

ProCredit Holding's key management personnel also include Christian Dagrosa. We describe their career background and responsibilities in the group in our equity research Initiation note.

The audit metric is the major driver of the ESG Edge Governance score in banks and PCB's score of 4.1 is the lowest in its peer group. One of the reasons is the lack of an independent audit committee, which is an outlier against the peer group. An independent audit committee monitors the accounting process, issues recommendations for improving reliability and supervises the effectiveness of the company's internal control, audit and risk management systems. It also oversees the annual audit of the financial statements and consolidated financial statements and thus monitors the independence of the external auditor, particularly with respect to additional work performed for the audited company. Management highlights that PCB has not created an independent audit committee due to the relatively small size of ProCredit Holding and the fact that all six members of the independent Supervisory Board are qualified and actively fulfil the responsibilities of an audit committee. PCB's share of non-audit work related fees in total audit fees of c 18% in 2019 was higher than for its peers (c 11% on average), which also negatively affected the Audit metric. Management highlights that the majority of non-audit fees are charged for quarterly audits, which are not mandatory, but increase the company's transparency (and allow it to include interim earnings in its capital ratios).

That said, the business ethics metric at PCB was rated at 3.22, the second highest in the peer group, after Raiffeisen, which scores marginally higher due to stronger whistle-blower and customer privacy policies. PCB's business ethics metric is 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. The company's performance in the management of the legal & regulatory environment metric of 4.73 is also strong compared to peers as none of its employees have been investigated for investment related or civil cases, mediation or arbitration cases (due to integrity or duty of care), and there were no regulatory investigations or fines related to financial industry regulation.



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SOCIO-POLITICAL PERFORMANCE

PCB's long-term mission is to contribute to an inclusive, stable, and efficient financial system. We note that the company's founding shareholder is Zeitinger Invest (formerly IPC), which has been fostering the development of the banking sector in emerging markets since 1980, when it was established as a consulting company to run projects with government-owned development banks and credit-granting NGOs in Latin America and, later, in the former Soviet Union. In late 1990s, it supported the development of the financial sector in the Balkans by setting up banks together with international public sector development organisations (some of which remain its major shareholders). We describe the group's history in more detail in our equity research Initiation note. We believe that, most recently, its digital banking platform ProCredit Direct has helped improve access to finance in the countries where PCB operates. Management highlights the innovative nature of its IT solutions in the markets it is present, eg PCB's bank in Ecuador is the only fully digital and cash-free bank in the country.

SOCIO-POLITICAL PERFORMANCE

Exhibit 14: Socio-political Scorecard

Metric	Weighting in ESG Edge Score	Score (0-5)	Peer Rank	Overall quartile*
Socio-political Score	10%	3.4	1	2
Event Responses	5%	4.3	1	1
Public Policy Engagement	3%	2.5	2	2
Community Engagement	3%	2.1	2	2

Source: Rebalance

PCB's Socio-political score of 3.4 is the highest among its peers, driven by the strong performance in the Event Responses metric (4.3), which in the ESG Edge score methodology reflects the company's response to significant events, which is currently mainly attributable to COVID-19 pandemic (in the past it was the Global Finance Crisis in 2008/09). As part of this response, the majority of PCB's employees were provided with corporate laptops and necessary infrastructure and directed to work from home, while those who continued commuting to offices and branches could use alternatives to the public transport at the firm's expense.

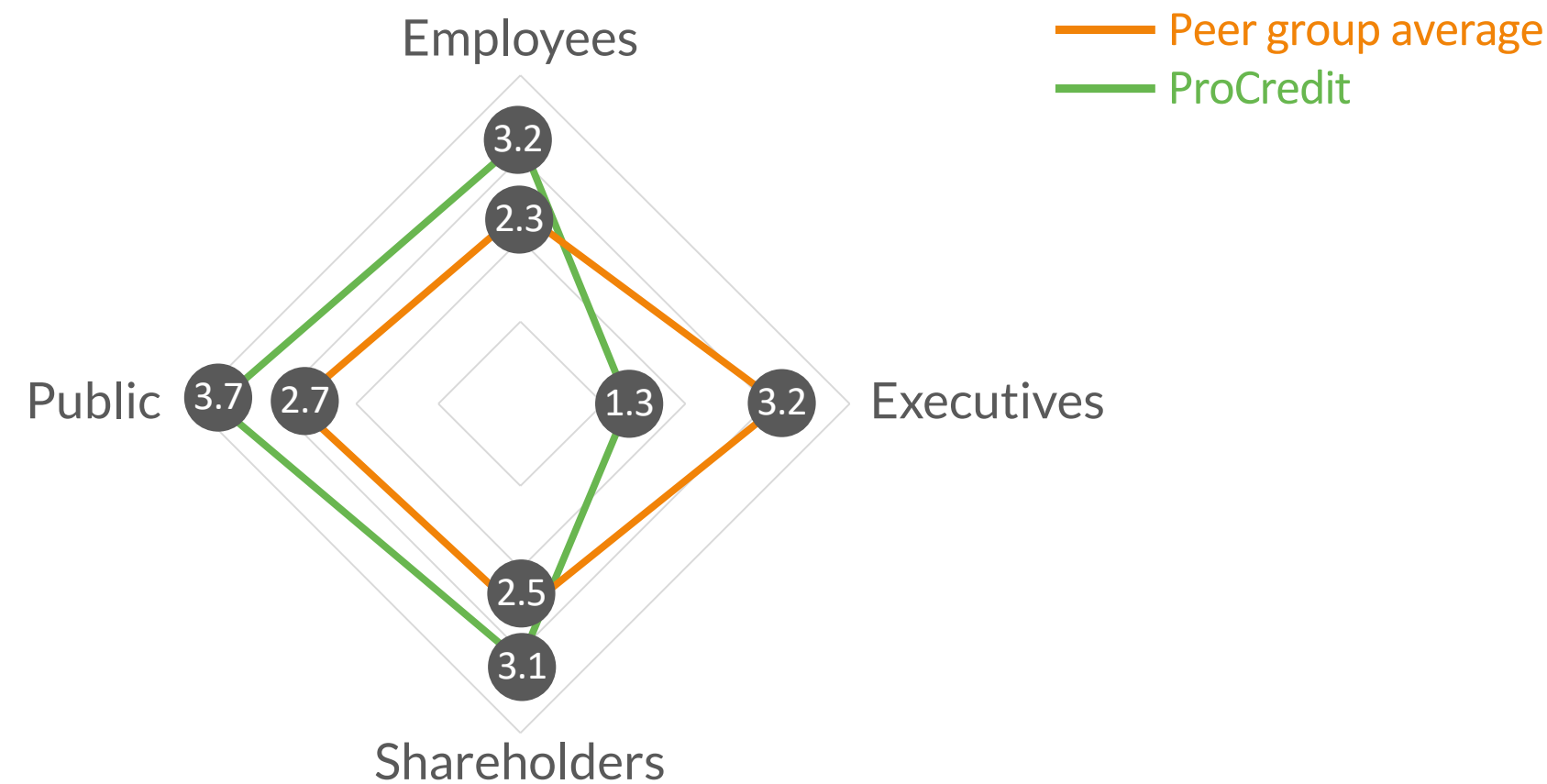
On top of that, there have been no announcements of lay-offs and the company has not disclosed any government funding accepted due to the pandemic. During the pandemic, the company retains its long-term, impact-oriented approach to clients, which it hopes will support its loan growth during the COVID-19 crisis. Interestingly, PCB has been granted a US\$100m loan from IFC under the IFC's Working Capital Solutions programme in July 2020. The funding is aimed to enable SMEs to bridge the COVID-19-related liquidity bottlenecks and to take advantage of potential opportunities arising from the crisis.

PCB does not engage in government lobbying, which has a positive impact on its public policy engagements metric. Management highlights that PCB, and its shareholders find more transparent ways to exercise a significant and effective political influence, on technical and regulatory matters in particular. Examples here include PCB's cooperation with the UN Environment Programme Finance Initiative (UNEP FI) and the 2° Investing Initiative.

STAKEHOLDER ANALYSIS

In Exhibit 15, we present the Stakeholder Analysis for PCB and its peers, which provides an additional perspective to PCB’s sustainability-oriented actions as it links them with the needs and expectations of the company’s primary stakeholders. The scores present how well the company’s business operations are aligned with the interests of its primary stakeholders on a scale of 0 to 5 (0 – poor alignment, 5 – excellent alignment). The figures are calculated as a weighted average of relevant metrics from the Environmental, Social, Governance and Socio-political Score, and are relative to sector thresholds.

Exhibit 15: Stakeholder analysis



Source: Rebalance.

Note: Public includes any stakeholder group apart from employees, shareholders, and executives, e.g. local communities, regulatory agencies, environment etc. Suppliers are excluded from the analysis as they are not PCB’s primary stakeholders given the company’s business focus on banking operations.

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