



ESG EDGE



ProCredit
H O L D I N G

MSCI Rating: **AA**
ESG Edge Score: **3.8**

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.



Price	€7.54		
Market cap	€444m		
Total assets at end-March 2022	€8.9bn		
Shares in issue	58.9m		
Free float	38.7%		
Code	PCZ		
Primary exchange	Frankfurt Prime Standard		
Share price performance			
%	1m	3m	12m
Abs	19.9	19.1	111.3
Rel (local)	20.1	13.1	75.3
52-week high/low	€7.54	€2.56	

ESG Edge Scores (out of 5)

Environmental: 4.6

Social: 3.9

Governance: 4.1

Socio-political: 2.0

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A vertical rectangular panel on the left side of the image shows a person's silhouette standing on a dark, rocky outcrop, looking up at a vibrant, colorful view of the Milky Way galaxy. The galaxy's core is a bright, glowing yellow and orange, with a dense concentration of stars and nebulae. The arms of the galaxy are visible as a soft, pinkish-purple glow against a deep blue and green background. The rest of the image, to the right of the panel, shows a dark, starry night sky with a few scattered stars and a dark, silhouetted horizon line at the bottom.

INTRODUCTION

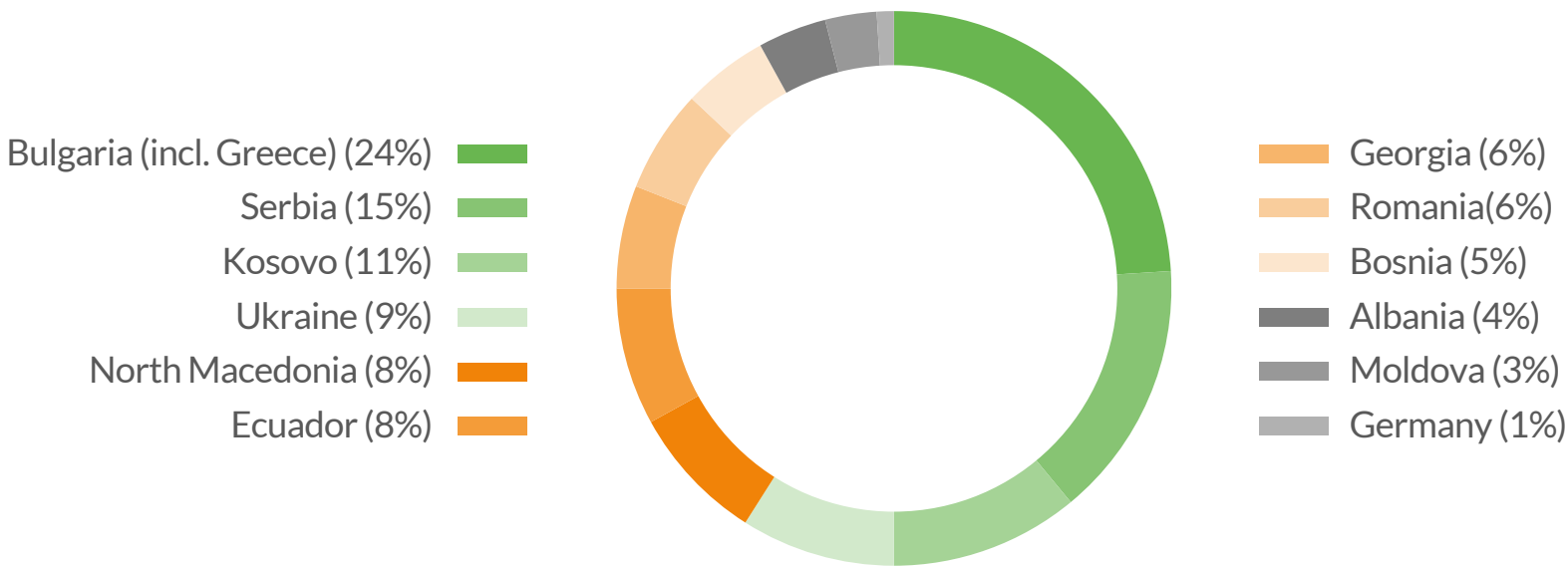
BUSINESS DESCRIPTION

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; 91% of the bank’s loan book at end-2022) to support investment and working capital needs throughout their lifecycles, with individual loan volumes mostly in the range of €50k to €1.5m. PCB’s lending activities support the real economy, with a significant share of agriculture, forestry and fishing (18% at end-March 2023) and local production (20%) in the loan portfolio (Exhibit 2). Management believes that innovative, transparent and tax-paying SMEs that embark on productivity-enhancing investments are critical to local economic development. Green loans represent a growing share of its loan book (20.2% at end-March 2023). 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.

PCB’s management highlights that the SME sector that PCB is focused on accounts for 70.9% of the total workforce and 62.1% of the value added (in terms of percentage of GDP) in the regions where PCB is present.

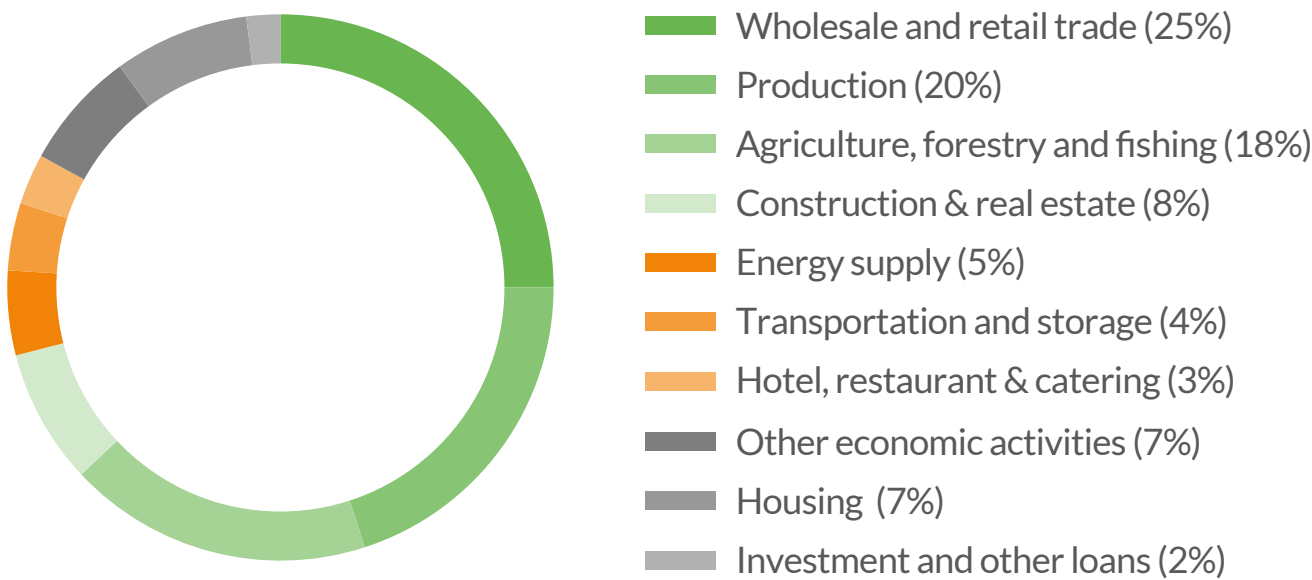
PCB is listed on the Frankfurt Stock Exchange, had total assets of €8.9bn at end-March 2023 and had a market cap of €444m as of 29 June 2023. We provide equity research reports on PCB, which are available on [our website](#).

Exhibit 1: PCB’s loan book by country at end-Q123



Source: ProCredit.

Exhibit 2: PCB’s loan book by sector at end-Q123



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

SUSTAINABILITY AT PCB AT A GLANCE

Edison ESG SWOT 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 COVID-19 pandemic and the war in Ukraine well, and also kept credit default rates below the average level seen in its countries of operations over the long term.

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.

PCB reduced its environmental footprint (Scope 1 and 2 emissions) by 44% between 2018 and 2022 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 fraud and bribery, and facilitate PCB’s business (eg during the war in Ukraine).

PCB has experienced and well-trained staff, with long tenure in the company and a good gender balance.

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.

Opportunities

Developing economies are transitioning to renewable energy sources; PCB has been financing the transition since 2006.

Innovation is increasingly important, with PCB being one 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 the loan book to 2021 GDP at 0.5x for SEE/EE (excluding Ukraine) versus 0.9x in Central and Eastern Europe and 1.5x in Western Europe, according to PCB.

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 9% of its loan book at end-March 2023. We discuss PCB’s situation in Ukraine in more detail in our [April 2023 note](#).

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

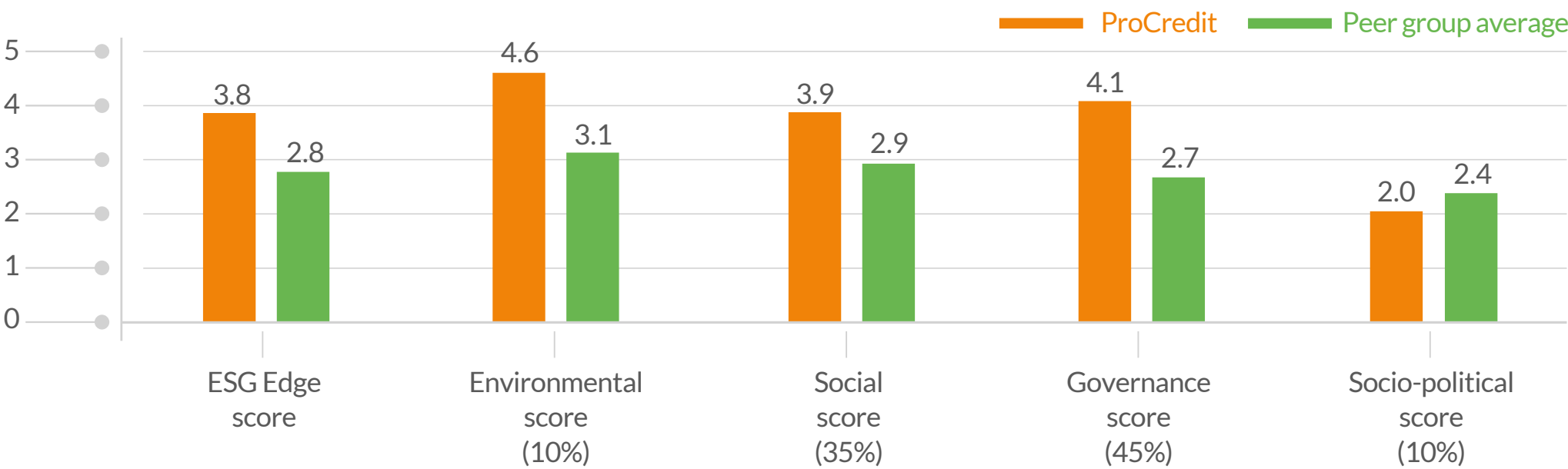
Large competitors in the region are positioning themselves on sustainable lending, eg for photovoltaic installations. That said, PCB has long-standing experience in providing sustainable lending in these countries and PCB’s intentions are backed by the group’s strategy, which has embedded sustainability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

SUSTAINABILITY AT PCB AT A GLANCE

ESG Edge score

PCB continues to deliver a superior ESG profile compared to its peers, with the ESG Edge score that we calculate at 3.85 in 2022 (0 representing a poor performance and 5 an excellent performance) broadly in line with its 2021 score and well above the 2.76 average for its peers in 2022 (Exhibit 3). PCB has outperformed the peer average on the Environmental sub-score (which has a 10% weight in the ESG Edge score), as well as the Social (35%) and Governance (45%) sub-scores, while its Socio-political sub-score was slightly below the peer average (see below for a detailed discussion of PCB’s sub-scores).

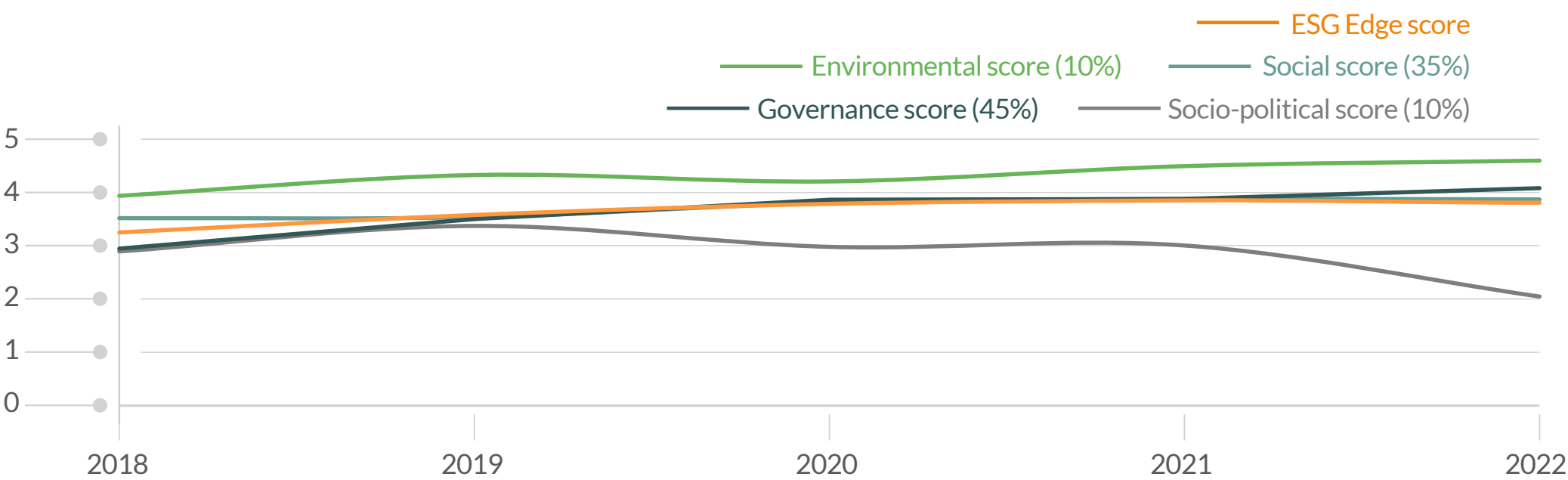
Exhibit 3: ESG Edge score – PCB versus peers in 2022



Source: Rebalance, Edison Investment Research.

Note: Peers include ABN AMRO, Erste Group, Raiffeisen Bank and TBC Bank.

Exhibit 4: PCB’s ESG Edge score, 2018-22



Source: Rebalance, Edison Investment Research.

Note: *2021-22 figures are not fully comparable with 2019 figures 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.

Another example is PCB's Plastic Strategy launched in FY20, with single-use plastic items included in PCB's exclusion list, except for items for which there are no substitutes with a lower environmental impact. As a result, PCB devised an exit strategy for some of its clients operating in the plastics production business (even though they represented a small proportion of its overall portfolio). This contrasts with PCB's competitors in local markets, which management highlights continue to finance the production of single-use plastic items. Customers defined as plastics producers were allocated to a 'blacklist' (all types of plastics banned by the EU from 3 July 2021), a 'greylist' (all other types of single-use plastics presenting high environmental impact if not disposed of properly) and a 'whitelist' (plastics with no substitutes with a lower environmental impact).

From 2020 to end-2022, PCB communicated its strategy to 100% and 87% of its clients from the blacklist and greylist, respectively (and 26% from

the whitelist), with 23% of its clients on the greylist agreeing to implement measures to improve their sustainability (a further 16% of clients were already aligned with PCB's definition of sustainability). PCB stopped financing 25% of its clients who are plastic producers (who were not ready to adjust their operations to PCB's strategy). This led to declines of 80% and 20% in the share of loan portfolio of blacklist and greylist plastic producers, respectively. PCB aims to have an exit strategy for all its blacklist clients by end-2023. We also note that PCB recently introduced an animal welfare assessment to its client evaluation process.

While PCB's 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 [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, Raiffeisen Bank International (RBI) and Erste Bank, which both reported c 2% growth in the gross customer loan book in the period (according to our calculations). Moreover, PCB supplied its Ukraine agricultural clients with liquidity to invest in the next sowing season when ports in the Black Sea were blocked.

KEY SUSTAINABILITY THEMES AT PCB

We believe that PCB's responsible banking practices, focused on a long-term approach to clients and providing funding to well-established SMEs from relevant economic sectors, as well as prudent credit risk management are reflected in its relatively low share of credit-impaired loans compared to the local banking sectors (Exhibit 5). This allowed PCB to remain profitable in FY22 (with a return on equity, ROE, of 1.9%) despite the high loan loss provisions in Ukraine (excluding Ukraine, ROE stood at 7.8% in FY22). We note that in some of PCB's local markets, the definition of a non-performing loan differs from PCB's definition. Moreover, in some of the markets, lending practices allow the refinancing of underperforming loans without these being transferred to the non-performing category. This distorts the comparison presented in Exhibit 5, leading to a higher reported figure of credit-impaired loans for PCB versus the broader local market.

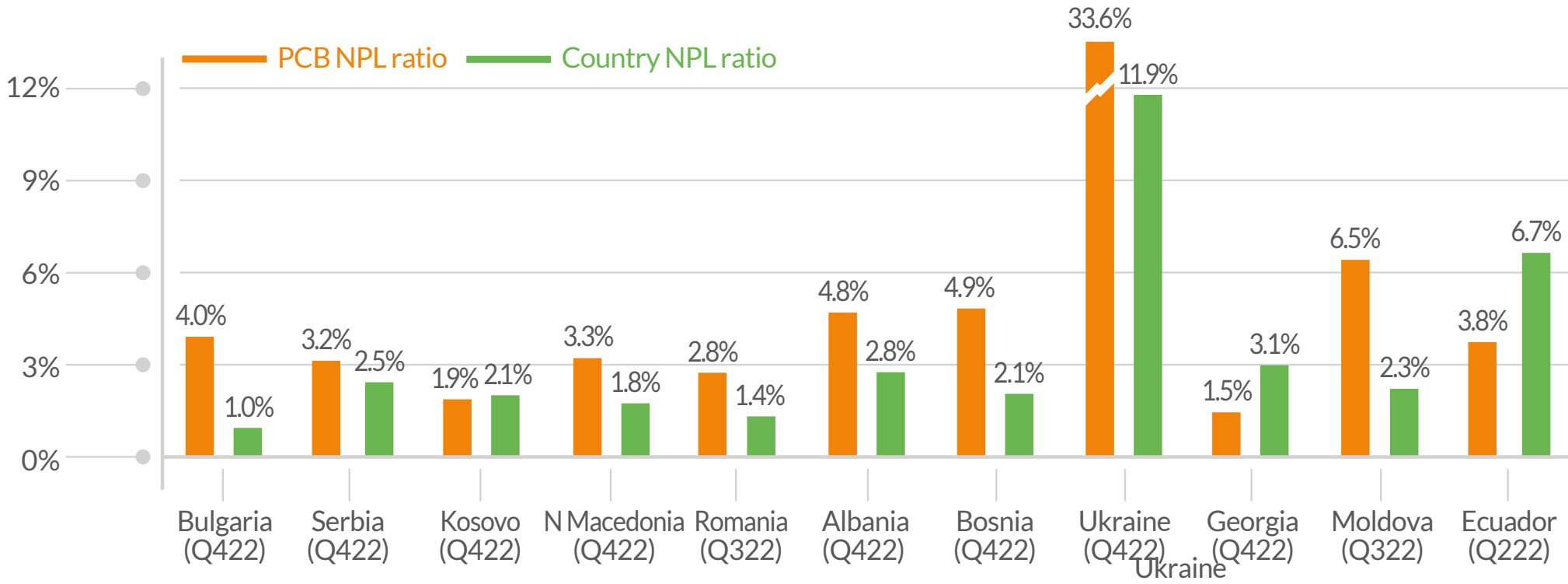
While PCB's lower share of credit-impaired loans vs the local banking sectors may be partially due to consumer lending (which is often characterised by a higher share of credit-impaired loans), we also note that (1) the consumer lending practices of the local banking sector are probably not as aggressive 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 the share of credit-impaired loans is usually relatively low.

Interestingly, PCB's green loan 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](#).

We also note that PCB recently joined the United Nations Global Compact to align its operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

KEY SUSTAINABILITY THEMES AT PCB

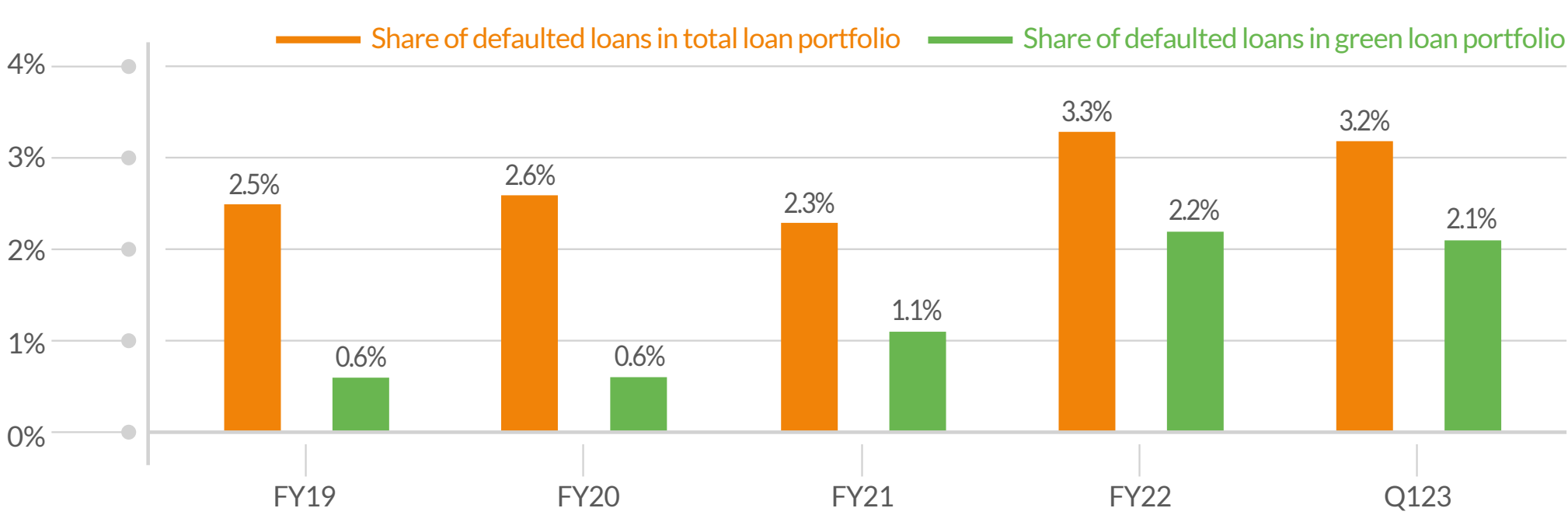
Exhibit 5: PCB’s NPL ratios versus local banking sector NPLs at end-FY22



Source: IMF Financial Soundness Indicators, ProCredit.

Note: NPL, nonperforming loan. Figures at the quarter indicated in brackets on the X axis.

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



Source: ProCredit.

Targeting a 25% share of green loans in the medium term

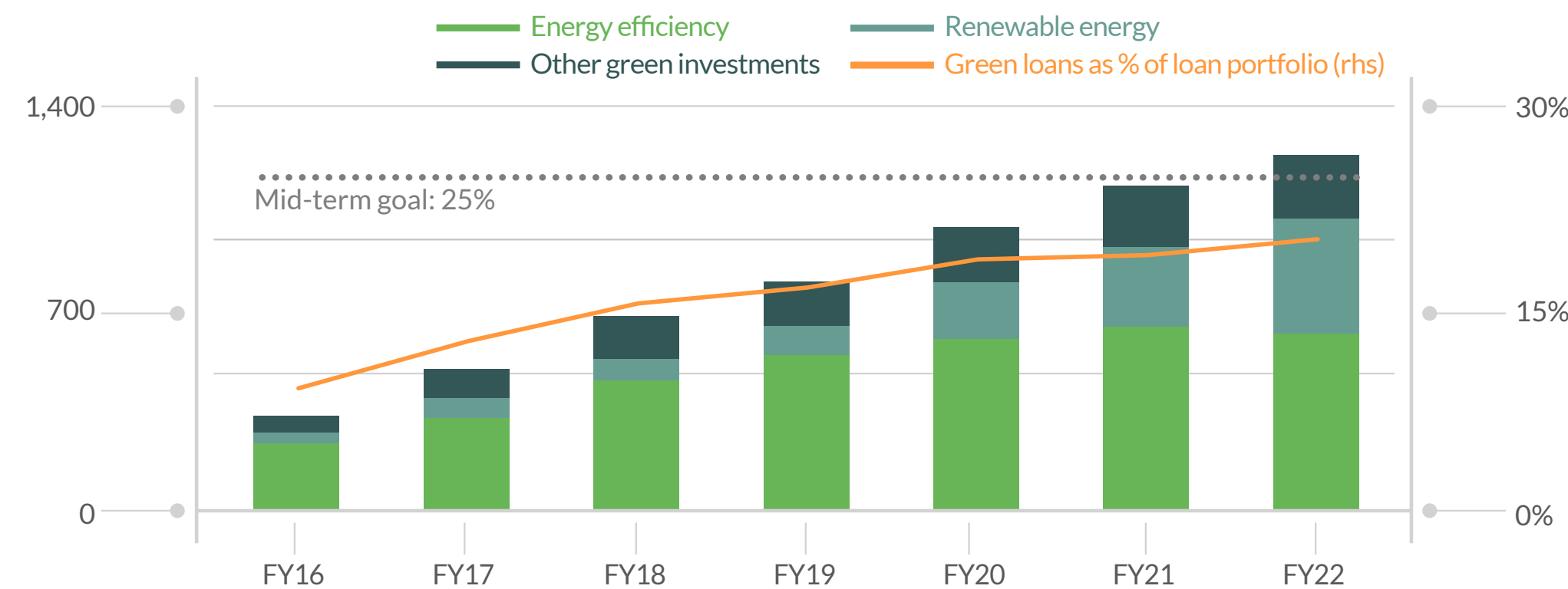
PCB’s €1.2bn green loan portfolio represented 20.2% of its loan book at end-March 2023, the highest among its competitors in local markets, according to management, and growing at a CAGR of 16% between FY18 and FY22 (c 9.1% y-o-y in FY22 alone, accounting for more than 50% of total loan portfolio growth). After reaching its previous 20% target, management now aims for PCB’s green loan book to be 25% of the total loan portfolio in the medium term.

Its green loan portfolio includes loans to fund energy efficiency projects that reduce energy consumption by at least 20% (these made up c 49% of the green loan portfolio at end-March 2023), renewable energy (33%) and other green investments (18%), including investments leading to the prevention of air, water and soil pollution, waste management and organic agriculture and production (see Exhibit 7). We note that PCB operates in countries where CO2 emissions per unit of GDP are still higher than the EU average, which we believe creates scope for further growth in its green loan book (Exhibit 8). 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 exclusively used to finance environmentally friendly projects) and green loans (dedicated to green housing, solar energy and electric vehicles).

KEY SUSTAINABILITY THEMES AT PCB

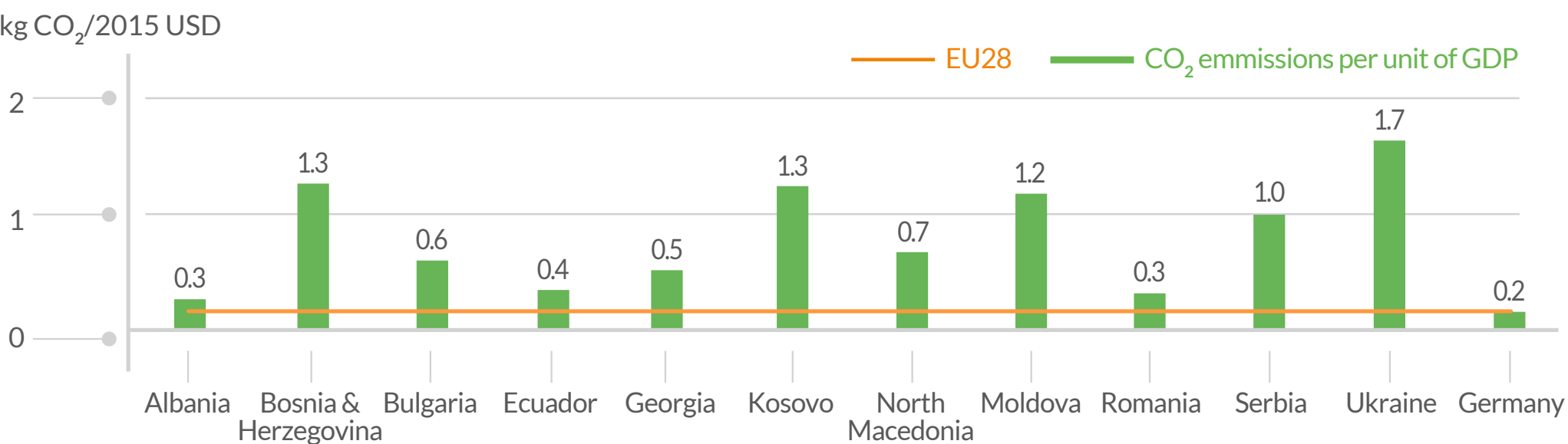
With respect to its own environmental impact, PCB has made significant progress since 2018 to meet its target to become carbon neutral as a group by 2023 (Scope 1 and 2 greenhouse gases emissions, ie direct emissions from owned or controlled sources and indirect emissions associated with the purchase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

KEY SUSTAINABILITY THEMES AT PCB

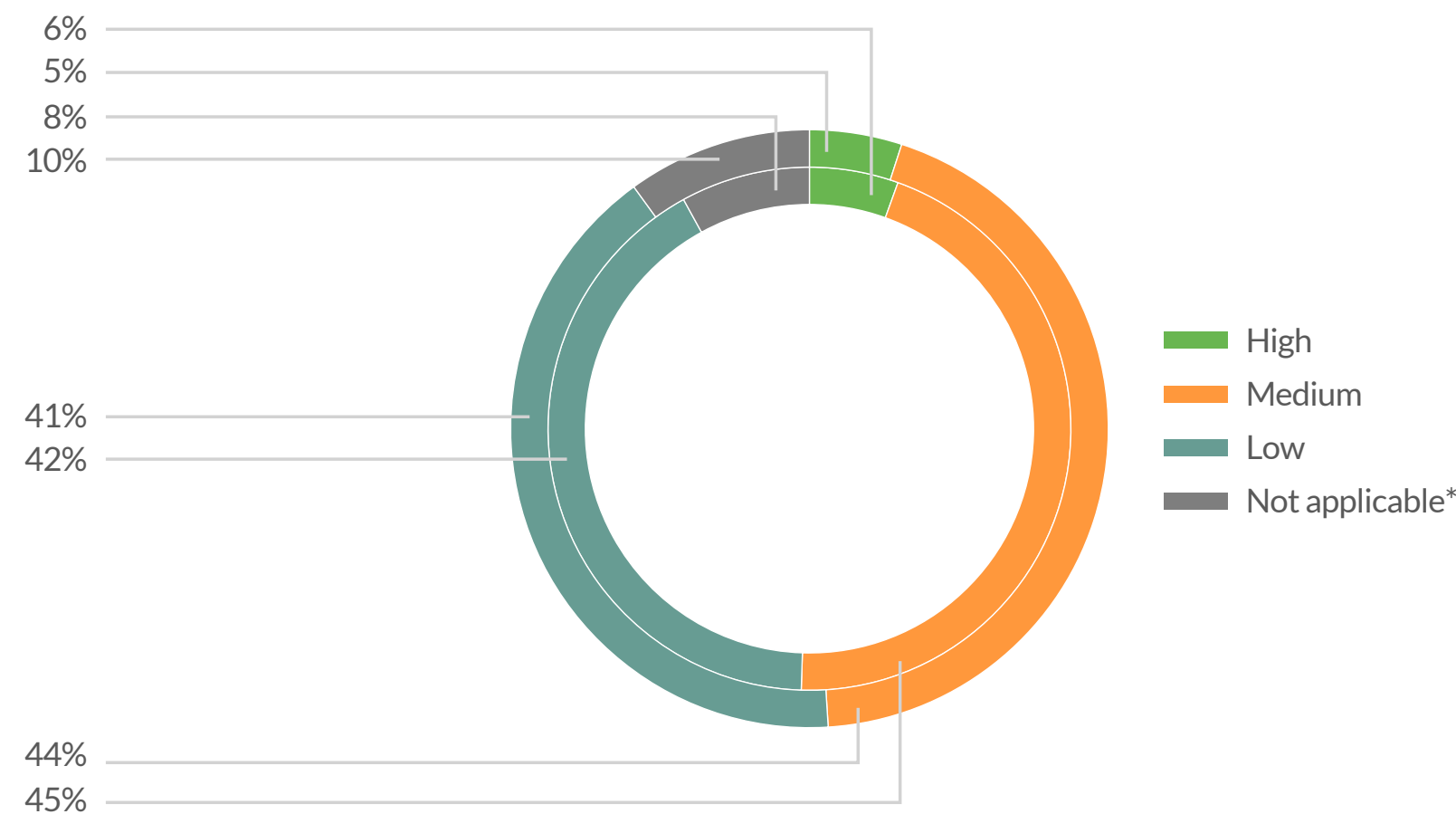
For loans exceeding a certain size and having a high environmental or social risk exposure, PCB mandates external experts to carry out a more comprehensive assessment. The company refrains from lending to sectors listed in its exclusion list, which will be expanded to include coal-related activities in the near term.

Importantly, PCB committed to measuring and disclosing the carbon emissions of its loan portfolio (Scope 3) through the PCAF standard in FY21 (see below for details). 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. Moreover, PCB started to consider the recommendations of the Task Force on Climate-Related Financial Disclosure in FY21. As part of this, PCB completed the screening of its portfolio for (1) physical risk to strengthen its analysis at client and portfolio level using geographic information systems and (2) transition risk, executing 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 to align its environmental and social scoring methodology with the EU Taxonomy over the medium term. That said, management highlights that its ESG screening criteria are similar to the so-called ‘technical and do no significant harm’ screening criteria proposed by the regulation. Management believes there is still a need for its own

approach to green lending for SMEs as the regulation does not define these criteria. 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 its own criteria in lending. Close to 14% of PCB’s total assets at end-2022 were in sectors defined as EU Taxonomy-eligible.

Exhibit 9: PCB’s loan portfolio by environmental risk category in FY22 (outer circle) and FY21 (inner circle)



Source: ProCredit.
Note: *Loans to private clients.

PEER BENCHMARKING

Our peer group includes Erste Group and RBI, which are Austrian banks also operating in the SEE/EE countries. We have also included TBC Bank, a regional bank in Georgia, where PCB is present too. Moreover, we have included ABN AMRO, which operates only in the Netherlands, but is among banks with a high rating in terms of ESG performance (eg it ranked among the top 15% of most sustainable banks in the S&P Global Dow Jones Sustainability Index in December 2022). Further relevant peer banking groups active in SEE and EE such as OTP Bank or NLB Group are not considered in this analysis.

PCB has outperformed its peers in the ESG Edge score in three out of four sub-scores (ie Environmental, Social and Governance). Its Environmental score of 4.6 (vs 3.1 on average for peers) is largely driven by the actions the company has undertaken to become carbon neutral as a group by 2023. PCB’s above-average Social score (3.9 vs 2.9 for peers) reflects its outperformance in: customer privacy; employee engagement, diversity and inclusion; selling practices and product labelling; as well as resource security. The company’s Governance score is 4.1 compared to 2.7 for peers, supported by its strong management of the legal and regulatory environment, audit processes and business ethics. PCB’s Socio-political score of 2.0 is slightly below the peer average of 2.4, mostly due to lower sub-scores in political and market power, as well as community engagement. 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	€6,344m	2.6	2.6	2.5	2.8	2.4
Erste Group	€13,414m	2.2	2.7	2.0	2.5	1.1
Raiffeisen Bank	€4,615m	3.4	3.8	3.7	3.0	3.5
TBC Bank	£1,367m	2.8	3.3	3.4	2.4	2.5
Peer group average		2.8	3.1	2.9	2.7	2.4
ProCredit	€444m	3.8	4.6	3.9	4.1	2.0

Source: Rebalance, Refinitiv.

Note: *Figures in brackets indicate the weighting of sub-scores in the ESG Edge score. Prices as at 29 June 2023.

An aerial photograph of a dense, green forest. A light-colored, unpaved road winds through the trees in a series of curves. The road starts from the top left, curves to the right, then back to the left, and finally curves to the right again towards the bottom right. The forest is composed of many tall, coniferous trees, creating a textured green canopy.

ENVIRONMENTAL PERFORMANCE

ENVIRONMENTAL PERFORMANCE

Targeting carbon neutrality from its own operations by 2023

In 2022, PCB defined carbon neutrality of its operations' net zero Scope 1 and 2 emissions, in line with the Science Based Targets initiative (SBTi) and Net-Zero Banking Alliance (NZBA) standards. PCB reduced its Scope 1 and Scope 2 CO2 emissions by 44% between 2018 and 2022 (or by 42% including flight emissions), facilitated by, among other things, green building (ie EDGE) certifications (there are currently five buildings with EDGE certification at group level), installing photovoltaic panels at eight of PCB's locations, expanding its electric and hybrid car fleet to c 63% of the total (77% including hybrid plug-ins) in FY22 and making 272 e-chargers freely available for the public.

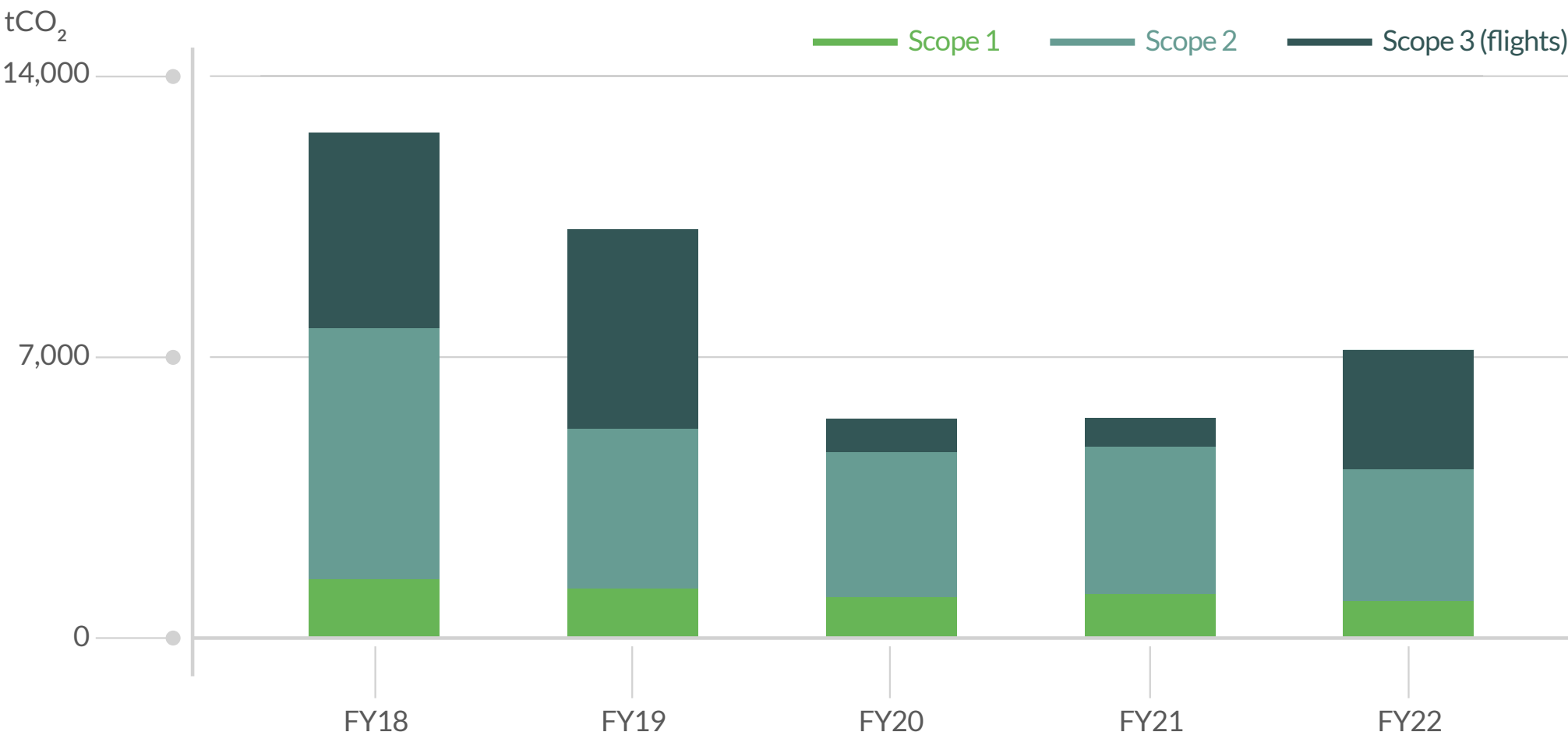
In FY22, group Scope 1 and 2 emissions declined by c 12% to 4,185 tonnes of CO2 equivalent (and total energy consumption in PCB's office buildings decreased by 11% in FY22). Meanwhile, PCB's flight emissions increased in FY22 from 746 to 3,006 tonnes of CO2 equivalent, partly due to the group's return to normal operations after the COVID-19 lockdowns, but also as the group responded to humanitarian and operative requirements resulting from the war in Ukraine (see the Social performance section below).

Management reaffirmed its target to become carbon neutral in its operations by 2023, prioritising the transition to renewable energy sources and environmentally friendly solutions. PCB is in the final stages of construction of its own 3MWp photovoltaic park in Kosovo (to be commissioned in 2023) that will compensate for 85–90% of its stage 1 and 2 emissions. The remaining amount of CO2 emissions at group level, which management expects will be very small, will be offset with carbon offset certificates.

PCB started reporting client emissions (Scope 3 financed emissions) in accordance with the PCAF standard from 2021 and has included the updated data for FY22 in its latest Impact Report. The standard supports the measurement and disclosure of generated emissions (ie emissions generated by economic activity), emission removals (emissions captured and stored in trees, plants, soil, etc) and avoided emissions (emissions avoided through the implementation of green technologies). In its FY22 Impact Report, PCB disclosed the generated and avoided emissions. The main contributors to PCB's loan portfolio emissions are energy-intensive sectors such as agriculture, livestock and the manufacturing of raw materials, for which PCB intends to establish new strategies to support its clients' transition to low-carbon technologies. Moreover, it joined the NZBA and committed to setting near- and long-term emissions reduction targets companywide in line with the SBTi Net-Zero Standard.

ENVIRONMENTAL PERFORMANCE

Exhibit 11: PCB’s CO2 emissions



Source: ProCredit.

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

In Exhibit 12, we present PCB’s Environmental scores for 2022 and 2021 (ie our last assessment, which we published in the [May 2022 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 in the Social score.

PCB’s Environmental score improved slightly to 4.6 in 2022 from 4.5 in 2021 and was again the highest in the peer group. This was driven by a notable improvement in its energy management metric to 4.9 from 4.5 a year earlier as the company further improved the quality of reporting and provided additional metrics in this area (eg percentage use of renewable energy). Moreover, PCB reduced the energy use per employee in 2022.

Exhibit 12: Environmental Scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2022	2021	change	2022	2021	change
Environmental score	10.0%	4.6	4.5	+0.1	1	1	-
Greenhouse gas emissions	3.0%	5.0	5.0	-	1	1	-
Ecological impacts	3.0%	5.0	5.0	-	1	1	-
Energy management	2.5%	4.9	4.5	+0.4	1	1	-
Air quality	0.5%	4.8	4.5	+0.3	1	1	-
Water & wastewater management	0.5%	0.7	0.8	-0.1	4	2	-2
Waste & hazardous materials management	0.5%	1.9	2.0	-0.1	2	3	+1

Source: Rebalance.



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 (c 134 on average between 2018 and 2022) and its competencies (eg 100% of employees had a minimum B1/intermediate English proficiency in FY22). PCB strengthened the training capabilities of the 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 region to the median annual total compensation for all employees in the same region) stood at 9.4–11.0 depending on the region in FY22. This represents an increase from 2.3–6.9 in FY21 and resulted from a group wide review of management board compensation, which according to PCB's management has historically been significantly below the market. The review was based on an independent salary benchmarking study, covering Germany and the markets of PCB's operation and taking into account salary structures of other impact-oriented financial institutions. PCB's management highlights that, even after the salary review, management board compensation for the 30-plus management board members responsible for the various ProCredit entities (for ProCredit Holding disclosed in PCB's remuneration report) still remains well below

market averages. Moreover, PCB has also significantly raised salaries across all levels of the group (with further hikes planned for this year) in an effort to offset recent inflationary pressures.

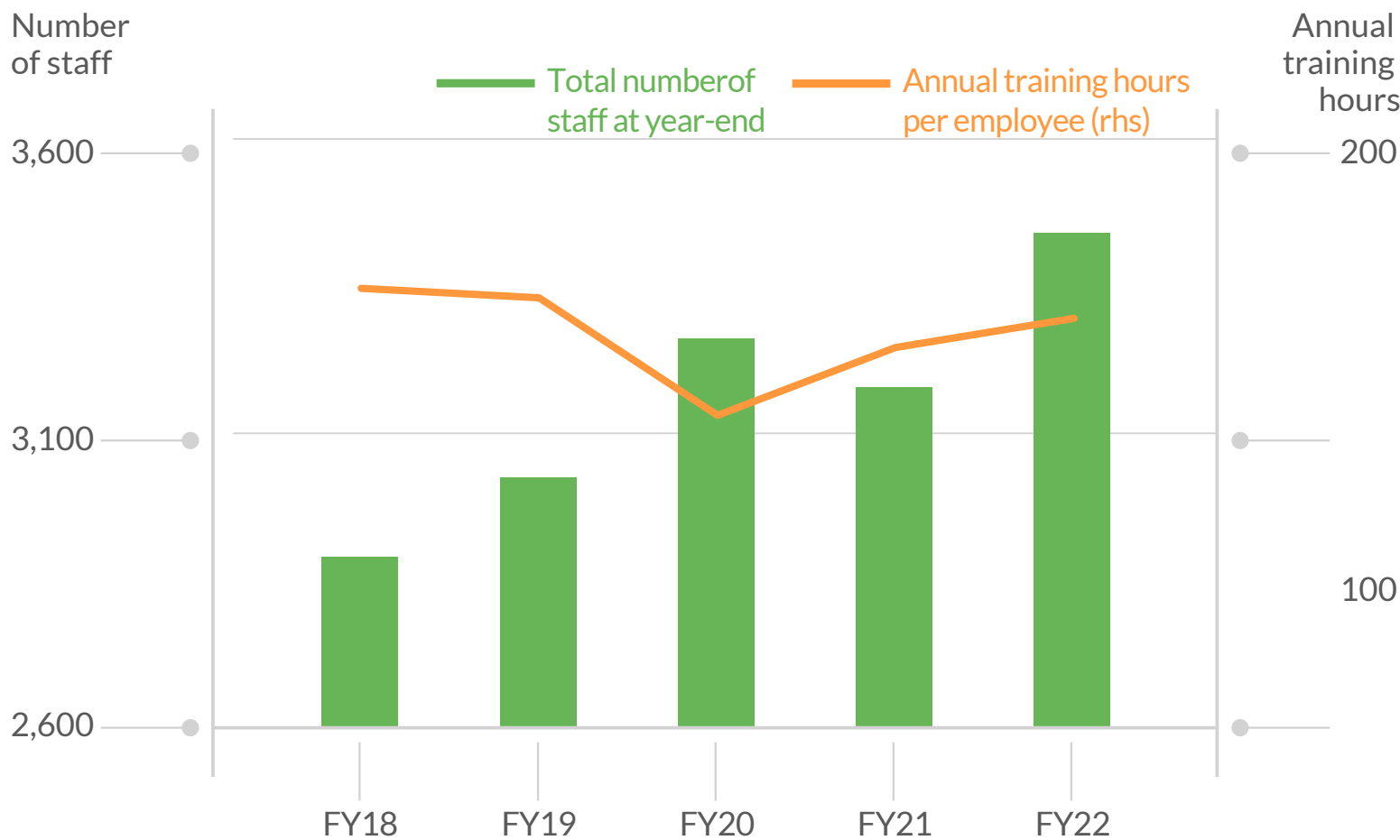
The remuneration policy is aligned with PCB's long-term business orientation and does not include any short-term, performance-related bonuses. PCB's local banks have between 100 and 400 staff, significantly lower than its competitors, which management highlights allows PCB to create a working environment that does not primarily rely on monetary compensation. Management underlines the diversity within PCB with more than 30 nationalities in its German head office and c 38% and 48% of the group's board members and middle management, respectively, being women. The latter metric does not yet reflect the appointment of Ms Eriola Bibolli to PCB's management board in June 2023. We believe that PCB's strong corporate culture is reflected in the high average tenure across total staff, reaching 7.7 years for women in FY22 (vs 7.9 in FY21) and 6.6 years for men (6.6), as well as a turnover rate of 11% in FY22 (vs 12% in FY21). We also note that with the publication of its 2021 annual report, the company has started to put emphasis on using gender-sensitive and inclusive language in its corporate communication.

SOCIAL PERFORMANCE

Since the start of the war in Ukraine, the company has provided accommodation outside the country to some of its staff (with 150 Ukrainian colleagues and family members living at the academy at its peak utilisation) as well as essentials and medical supplies to employees in the country. Management highlights that most of its Ukrainian staff work from safer

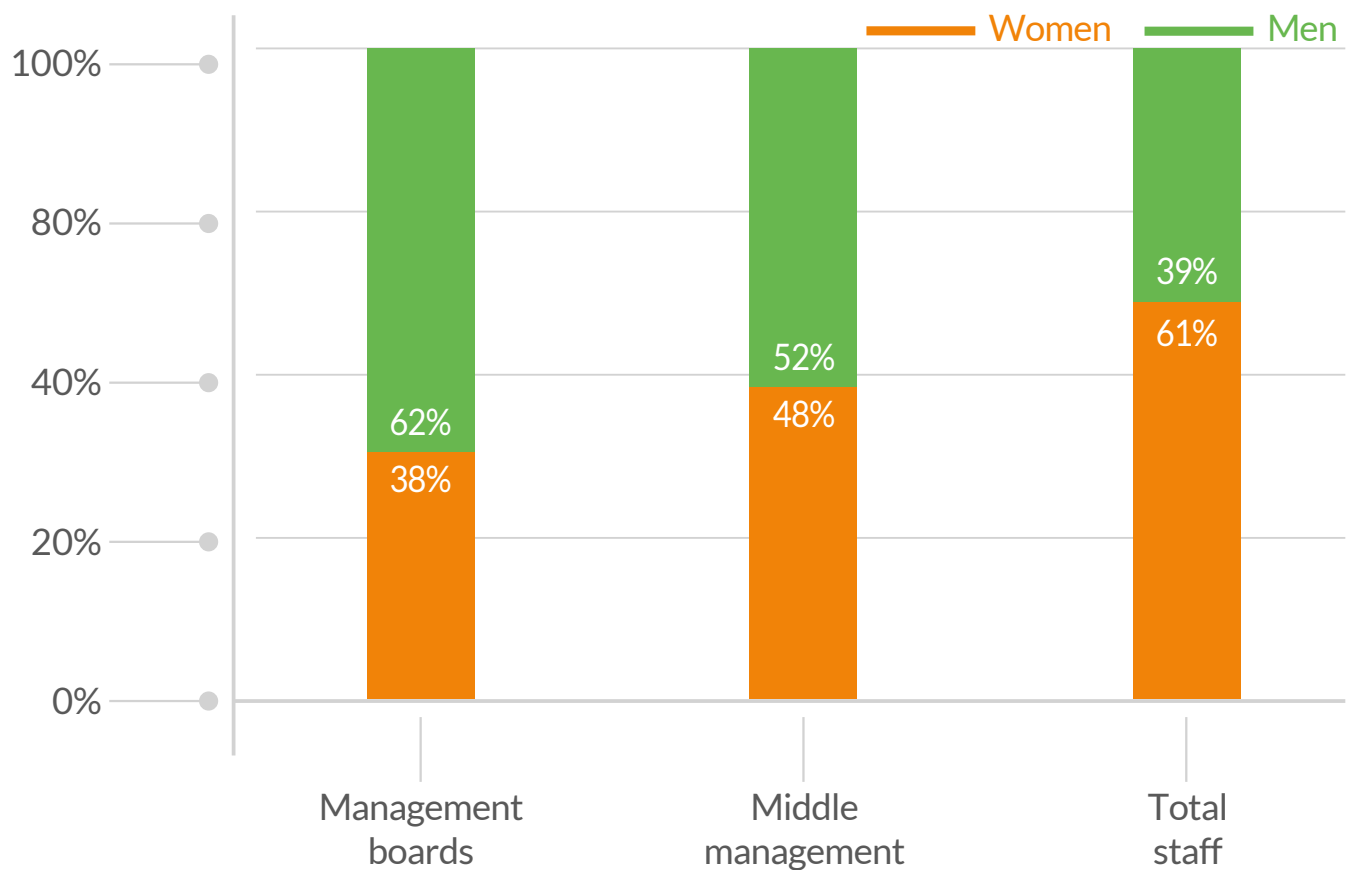
and decentralised locations in and outside the country. PCB maintains close contact with its clients in Ukraine, mainly via remote communication tools, and its digital banking channels facilitate payment transactions, card transactions and cash withdrawals. We discussed PCB’s situation in Ukraine in more detail in our [April outlook note](#).

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 remained broadly stable year-on-year at 3.9 in 2022. The company has seen some improvement in several metrics in 2022. The **employee engagement, diversity & inclusion** score increased, assisted by the disclosure of annual training costs on diversity, inclusion and harassment by employee level, as well as detailed reporting on management training and hours of environmental training. PCB’s **decent work** score rose due to an increase in full-time equivalents during the year and improved reporting by providing a more detailed breakdown of the workforce, for example by gender and temporary versus permanent workers. Other metrics with positive changes include **labour practices** and **employee satisfaction**. These positive movements were offset by a somewhat lower rating in **human rights & community relations**, given that there was no disclosure of community spending in 2022. Moreover, the **resource security** score declined, despite PCB’s 100% recycling rate of paper and e-waste, as the overall gross waste generation by PCB was higher year-on-year in 2022.

Exhibit 15: Social Scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2022	2021	change	2022	2021	change
Social score	35.0%	3.9	3.9	-	1	1	-
Customer privacy	10.0%	5.0	5.0	-	1	1	-
Product design & lifecycle management	5.0%	4.3	4.3	-	4	2	-2
Data security	4.0%	2.8	2.8	-	3	2	+1
Employee engagement, diversity & inclusion	4.0%	4.4	3.8	+0.6	1	1	-
Access & affordability	2.0%	1.3	1.3	-	4	2	-2
Customer welfare	2.0%	3.3	3.3	-	1	1	-
Selling practices & product labelling	2.0%	3.4	3.4	-	1	1	-
Resource security	1.5%	3.5	5.0	-1.5	1	1	-
Human rights & community relations	1.0%	1.5	2.7	-1.2	5	3	-2
Employee satisfaction	1.0%	2.3	2.3	+0.1	5	4	-1
Wellbeing	1.0%	4.0	4.0	-	2	3	+1
Labour practices	0.5%	2.5	1.6	+0.9	4	3	-1
Employee health & safety	0.5%	5.0	5.0	-	1	1	-
Decent work	0.5%	4.5	4.0	+0.5	4	3	-1

Source: Rebalance



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) and the European Bank for Reconstruction and Development (EBRD). Together with the Teachers Insurance and Annuity Association of America (TIAA), these entities hold c 61.3% of all listed shares at ProCredit Holding AG & Co KGaA. The company also has a supervisory board, which consists of six independent members.

In March 2023, PCB announced that the EBRD would purchase the 5.06% stake held by IFC. This transaction has now been completed with the EBRD replacing IFC as a core shareholder with an 8.7% stake (the EBRD had held a 3.6% minority stake since 2018). We believe that having the EBRD as a major shareholder should further support PCB's business in the SEE and EE regions given the EBRD's regional focus and emphasis on funding climate change adaption and SMEs. PCB is already participating in EBRD programmes in all its countries of operation in the region.

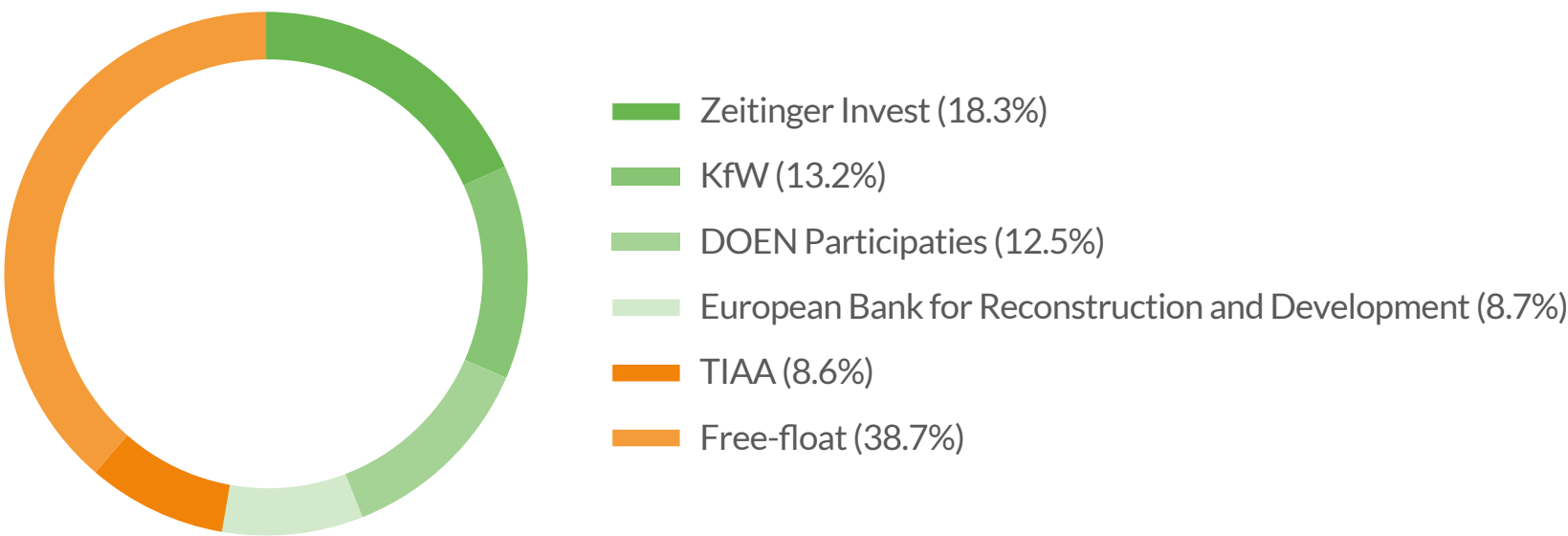
In October 2022, ProCredit General Partners agreed with PCB's shareholders to prepare a change of ProCredit Holding's legal form into a stock corporation. The general partner believes that the change will provide greater alignment of ProCredit Holding as an internationally oriented, listed financial holding company and offers the opportunity to realise efficiencies in its corporate governance structure and the work of the company's executive bodies. PCB obtained shareholder approval for the change at the 2023 AGM held on 5 June 2023.

Finally, we note that PCB recently joined the United Nations Global Compact to align its operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

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 2022](#). We describe the company's history in our equity [initiation note](#).

GOVERNANCE AND SOCIO-POLITICAL PERFORMANCE

Exhibit 16: PCB’s shareholder structure



Source: ProCredit.
Note: These are based on the following latest notifications from the respective shareholders: Zeitingen Invest (13 April 2023), KfW (17 April 2023), DOEN Participaties (14 April 2023), EBRD (23 May 2023) and TIAA (29 December 2016).

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

PCB’s Governance score rose to 4.1 in 2022 from 3.9 in 2021, on the back of improved reporting of the description of the functions of audit and risk committees (which assisted both the audit and management process metrics). Further positive impacts came from the **business ethics** score (as PCB disclosed additional details of the whistleblower system), **board composition** (resulting from an increased share of women and improved participation in meetings of board members) and **risk management** (thanks to further disclosure related to the incorporation of ESG factors in credit analysis).

Exhibit 17: Governance Scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2022	2021	change	2022	2021	change
Governance score	45.0%	4.1	3.9	+0.2	1	1	-
Audit	10.0%	4.8	4.3	+0.5	1	2	+1
Business ethics	7.0%	3.2	3.1	+0.1	1	1	-
Management of the legal & regulatory environment	7.0%	4.6	4.7	-0.1	1	1	-
Board composition	6.0%	4.4	4.3	+0.1	1	4	+3
Risk management	6.0%	4.3	4.1	+0.2	2	1	-1
Remuneration alignment	5.5%	2.9	2.8	+0.1	2	1	-1
Systemic risk management	1.0%	3.0	2.9	+0.1	2	1	-1
Management process	1.0%	5.0	3.8	+1.2	1	2	+1
Shareholder dilution risk	1.0%	2.2	3.3	-1.1	1	1	-
Director contracts	0.5%	1.5	1.5	-	4	5	+1

Source: Rebalance

GOVERNANCE AND SOCIO-POLITICAL PERFORMANCE

PCB’s Socio-political score declined to 2.0 in 2022 from 3.0 in 2021, which was mostly due to a fall in the **political power** and **community engagement** metrics. In contrast to its peers, the company does not disclose charity, community and political activity, which are assessed in our scoring system. Management highlights that PCB consciously avoids publishing charitable spending although it takes part in charitable actions in local markets. PCB’s year-on-year score change was also affected by the removal of the **pandemic** metric from our Socio-political scorecard in 2022 (PCB scored highly in this metric in 2021 and ranked second in its peer group). We also note that PCB ranked second in the **inequality impact** metric in 2022, assisted by strong ratings on several sub-metrics, including: gender pay gap, regulatory investigations, employees below minimum wage, average one-year pay increase, total redundancies and CEO one-year bonus.

Exhibit 18: Socio-political Scorecard

Metric	Weighting in ESG Edge score	Score (0-5)			Peer group rank		
		2022	2021	change	2022	2021	change
Socio-political score	10.0%	2.0	3.0	-1.0	4	1	-3
Inequality impact	5.0%	2.8	2.7	+0.1	2	1	-1
Political power	2.0%	1.3	2.2	-0.9	4	2	-2
Market power	2.0%	2.0	2.0	-	5	3	-2
Community engagement	1.0%	0.0*	2.3	-2.3	5	4	-1

Source: Rebalance.
Note: *No company disclosures on community engagement in 2022.

REACH OUT

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