ProCredit HOLDING

Group Climate Transition Plan

Contents

Executive summary

The Group Climate Transition Plan is a strategic document that outlines the ProCredit group's comprehensive approach to transitioning to a low-carbon economy. It emphasizes the group's commitment to environmental and social responsibility, sustainable economic development, and climate change mitigation and adaptation. The plan is structured to provide a clear roadmap for achieving net-zero emissions, engaging with stakeholders, implementing sustainable practices, and managing climate-related risks.

Key Points:

- **Achieving Net-Zero Emissions**: The plan sets out the group's commitment to aligning with the 1.5°C pathway of the Paris Climate Agreement, with specific targets validated by the Science Based Targets initiative (SBTi). This includes significant reductions in Scope 1, 2, and 3 emissions.
- **Engagement Strategy**: The plan details the group's approach to engaging with value chain partners, including suppliers and clients, to promote sustainability and reduce environmental impacts. This includes sustainable procurement guidelines and a high-level client engagement approach.
- **Implementation Strategy**: The plan outlines the steps for setting and monitoring targets, leveraging from green products and services, and providing supporting tools to achieve the group's sustainability goals.
- **Risk Management**: The plan details how climate risk is integrated into the group's risk management framework, including risk identification, materiality assessment, and monitoring of credit and operational risks.
- **Metrics and Targets**: The plan includes specific financial and greenhouses gases metrics and targets, set under the SBTi framework.
- **ESG Governance**: The plan emphasizes the importance of governance and oversight, detailing the roles and responsibilities of the board and management in achieving sustainability objectives.

The Group Climate Transition Plan is strategically important for several reasons:

- **Upholding our Core Values and Strategic Vision**: The plan embodies ProCredit group's core values of environmental responsibility, transparency, and responsible banking. It aligns with our business strategy by promoting sustainable economic development, supporting climate change mitigation efforts, and balancing business opportunities with impact considerations.
- **Alignment with Global Standards**: By aligning with the Paris Climate Agreement and other international frameworks, the plan ensures that ProCredit group is contributing to global efforts to combat climate change.
- **Stakeholder Engagement**: The plan's engagement strategy fosters collaboration with value chain partners, enhancing the group's ability to drive sustainable practices across its operations and lending activities.
- **Risk Mitigation**: Integrating climate risk into the risk management framework helps the group identify and mitigate potential risks, ensuring long-term financial stability and resilience.
- **Transparency and Accountability**: The plan's detailed metrics and targets, along with robust monitoring and reporting mechanisms, demonstrate the group's commitment to transparency and accountability in its sustainability efforts.
- **Competitive Advantage**: By prioritizing sustainability, the plan positions ProCredit Group as a leader in responsible banking, enhancing its reputation and attracting environmentally conscious clients and investors.

Overall, the Group Climate Transition Plan serves as a comprehensive guide for ProCredit group's journey towards a sustainable and low-carbon future, ensuring that the group remains at the forefront of climate action and continues to support global sustainability goals.

The Group Climate Transition Plan includes specific sections on governance and oversight, engagement strategies with the value chain, implementation strategies for setting and monitoring targets, risk management, and metrics and targets for financial and greenhouse gas (GHG) emissions. It also highlights the group's dedication to supporting clients in their decarbonization efforts and ensuring compliance with international standards and regulations.

1. Introduction

The ProCredit group has a long-standing commitment to environmental and social responsibility, which is deeply embedded in the group's mission. From its founding, ProCredit has focused on minimizing the environmental impact of their operations and lending activities. Our measures have helped us achieve significant milestones, such as reducing 71% of scope 1 and 2 CO_2 emissions from 2015, as well as increasing the share of green loans to 19.4% of the total portfolio.

The group's mission emphasizes the importance of sustainable economic development, promoting environmental awareness, and supporting climate change mitigation efforts. The mechanisms implemented include fostering a resilient and green society by working closely with staff, clients, and suppliers. This comprehensive approach underscores their dedication to creating a positive environmental and social impact. A more detailed chronology of the measures taken by the group can be found in the Group Climate Action Strategy.

The purpose of the Group Climate Transition Plan is to outline the ProCredit group's comprehensive strategy for transitioning to a low-carbon economy. This document details the group's commitment to environmental and social responsibility, emphasizing sustainable economic development, climate change mitigation, and the promotion of environmental awareness. It provides a structured approach to achieving net-zero emissions, engaging with stakeholders, implementing sustainable practices, and managing climate-related risks.

To ensure the effectiveness and alignment with best practices, this document will be reviewed every 12 months in accordance with the governance practices of the group and shall be approved at the management level in ProCredit Holding.

2. Foundations

2.1 Mission

ProCredit is a German development-oriented bank for Eastern and South Eastern Europe dedicated to supporting micro, small, and medium-sized enterprises (MSMEs) and private individuals, fostering economic growth and sustainable development.

We are committed to delivering exceptional customer service that extends far beyond offering financial products. Our goal is to build strong, lasting partnerships with our clients by providing personalised advice and consistent support at every stage of their financial journey.

Our core principles guide everything we do:

- We take the time to thoroughly understand our clients' unique circumstances, conducting sound financial analysis to promote their long-term financial stability.
- We prioritise transparency in all client interactions, ensuring clarity and trust in our financial services and products.
- We uphold responsible lending practices that promote financial inclusion while protecting clients from over-indebtedness.

- We focus on driving broad social, economic and environmental impact by engaging with our clients to promote sustainable practices and support their transition towards environmentally responsible operations.

We believe MSMEs are vital drivers of economic and social progress. By supporting them through their economic cycle, we aim to foster sustainable development and drive the green transformation in our countries of operation. By offering accessible deposit facilities, digital banking services, and a comprehensive range of financial products, we aim to cultivate a culture of saving and financial responsibility among all our clients, including private individuals.

Our shareholders seek sustainable, long-term returns, aligned with our unwavering commitment to ethical banking practices and positive social impact.

We invest extensively in the training and development of our staff to foster an open, professional, and efficient working environment. This enables us to deliver friendly, knowledgeable, and effective service to our clients.

2.2 Strategic ambition

We align our near-term ambitions with the 1.5°C pathway of the Paris Climate Agreement, confirming our commitment to climate action. Our near-term targets have been validated by the Science Based Targets initiative (SBTi), which underlines the group's dedication to reducing its carbon footprint and supporting global efforts to limit temperature rise. Furthermore, ProCredit aims to mobilize capital towards decarbonization, by focusing on financing renewable energy projects and encouraging clients to adopt science-based targets and investments. ProCredit aims to facilitate the transition to a low-carbon economy, ensuring sustainable growth and environmental stewardship.

2.3 Risk Identification and Materiality Assessment

In order to identify the relevance of ESG risks, including climate risks, for ProCredit group, we analyse the impact of various ESG risk drivers on the materiality of the traditional risk types. The group's materiality assessment currently points to a material but limited impact of ESG risk drivers on credit risk and operational risk. Therefore, this initial iteration of ProCredit's Transition Plan focuses on these risk types.

For customer credit and operational risk, in total close to 40 climate physical and transition risk drivers have been evaluated, out of which the most important climate risk drivers are qualitatively assessed based on a defined methodology. Some of the climate risk drivers most relevant for ProCredit group's markets and client segments include drought, water shortage, flood, and CO_2 price increases.

Given the comparatively sizeable share of green loans in ProCredit group's portfolio (19.4%) and given our exclusion of coal-related and other activities from financing, the overall portfolio impact of transition risk as one key ESG risk is assessed as moderate and would likely need longer to materialize. Hence, ESG risk in the short-term, one-year period, mainly refers to physical risks.

Improving the climate change materiality assessment of physical and transition risks for the customer credit portfolio depends on quantifying the risk, where the key challenge is the availability of data and scenarios. This assessment focuses on the risks directly faced by the group in its daily operations, as well as the risks the group's clients are exposed to. In addition, we have carried out a detailed double materiality assessment, as part of the group's sustainability reporting in line with European Sustainability Reporting Standards (ESRS), which is aligned with the risk inventory.

2.4 Commitments and regulation to achieving net zero

The ProCredit group is actively involved in several initiatives to achieve net-zero emissions and promote sustainable practices. Our memberships include the UN Environment Programme Finance Initiative (UNEP FI) and the Net Zero Banking Alliance (NZBA), aligning our lending and investment portfolios with net-zero emissions by 2050. Furthermore, we are part of the UN Global Compact (UNGC), supporting sustainable corporate governance.

We also participate in the Science Based Targets initiative (SBTi), committing to significant reductions in Scope 1 and 2 emissions and encouraging our clients to set their own science-based targets. To quantify our impact, we follow guidelines and recommendations from the Greenhouse Gas (GHG) Protocol and the Intergovernmental Panel for Climate Change (IPCC), embedded in our internal Environmental Management System (iEMS). And, for financed emissions the group became member of the Partnership for Carbon Accounting Financials (PCAF), which enables us to estimate attributed emissions from our loan portfolio. More about these memberships can be found in our Environmental Standards site.

To prepare for the upcoming mandatory ESRS, we have conducted a materiality assessment and gap analysis, according to the standard's requirements to ensure we meet the new directive – including our target ambitions – effectively. The Group Climate Transition Plan is designed to align with guidelines from the European Banking Authority (EBA). This plan incorporates the minimum standards and reference methodologies for the identification, measurement, management, and monitoring of ESG risks as outlined in the EBA's guidelines.

3. ESG Governance

3.1 Board oversight and reporting

A key element of the ProCredit group's governance approach is the institutionalization of sustainability topics across all levels and functions of the organization. This ensures that sustainability is not only a strategic goal, but also a core value and an integral part of the daily operations and decision-making processes.

The group has not set specific metrics or targets for governance, as it considers governance to be an overarching principle that guides all aspects of its business. Rather than measuring governance performance, the group focuses on implementing and maintaining effective governance structures, policies, and practices that enable it to achieve its sustainability objectives and create positive impact.

Board oversight

The Management Board of ProCredit Holding defines the group's approach towards seizing business opportunities, amplifying positive impact and managing risks through specialized committees. The overall management responsibilities are then allocated to individual members of the Management Board.

With regards to ESG related topics a differentiation needs to be made between Sustainability and ESG risk management related tasks, which is reflected in the structure. It thus includes cooperation between leading departments on the implementation and standardization of Sustainability/ESG risk related topics, such as the Group Sustainability Team (GS), Group Credit Risk Management Team (GCRM), and Group Risk Control (GRC), along with Quipu IT Support.

On sustainability related topics, the following committee supports and advised the Management Board of ProCredit Holding:

- The Group Sustainability Steering Committee (GSSC) reports to the Management Board on the impact and opportunities of the group's operations on a quarterly basis. The Committee advises and supports the Management Board with regard to the establishment of strategic priorities for the ProCredit group in the areas of of sustainability, with a specific focus on climate change, energy and resource efficiency, renewable energy, green finance and managing environmental and social risks, as well as sustainable procurement and ESG ratings. Specific impact KPIs are enshrined in the group's Business Strategy in form of a scorecard with a short- and medium-term view.

With regards to ESG risk management, the following committees support and advise:

- In the Group Risk Management Committee (GRMC) the group's Risk Strategy is discussed, agreed and recommended for Management Board approval. The Committee further supports the Management in the implementation of the risk strategy as well as the monitoring of the strategy implementation. Based on the monthly prepared and in GRMC discussed risk report, Management Board members are informed about the material risks – including ESG risks – as well as ICAAP.
- The Group Environmental, Social and Governance Risk Management Sub-Committee (ESGRC) is a sub-committee to the GRMC and advises and supports the Management Board on all issues related to ESG risks/ESG risk management.

While the strategic steering and monitoring of this plan are managed at the group level, ProCredit banks play a crucial executive role in ensuring the framework's local implementation. To this end, adequate local governance structures are established, with the banks' Sustainability committees actively involved in the oversight of implementation and monitoring of the plan.

Reporting

The ProCredit group provides a comprehensive overview of their sustainability initiatives, impact performance, and strategic goals annually through its Impact Report Package and Integrated Report. The reports emphasize the group's dedication to five key Sustainable Development Goals (SDGs): Industry, Innovation and Infrastructure (SDG 9), Decent Work and Economic Growth (SDG 8), Gender Equality (SDG 5), Climate Action (SDG 13), and Affordable and Clean Energy (SDG 7).

These reports also highlight the group's alignment with several international frameworks and standards. Our sustainability reports adhere to the GRI Standards and ESRS (European Sustainability Reporting Directive), ensuring transparency and accountability. Additionally, the reports align with the EU Taxonomy and other signatory frameworks, such as the UNEP FI Principles for Responsible Banking, the UN Global Compact, the Net-Zero Banking Alliance (NZBA), and the Partnership for Carbon Accounting Financials (PCAF). Complying with these international organizations reinforce our commitment to responsible banking, demonstrating adherence to international sustainability standards.

3.2 Management roles, responsibility and accountability

ProCredit Holding is the parent company and also the superordinated entity of the group. ProCredit Holding owns 100% of the shares of all subsidiaries. ProCredit Holding is responsible for the strategic guidance of the group, for maintaining an adequate level of equity and for ensuring that all reporting, risk management, anti-money laundering and compliance obligations required under German and European banking regulations are met. Risk management, controlling and compliance systems are in place across the group, in line with BaFin's Minimum Requirements for Risk Management, commonly referred to as MaRisk.

ProCredit Holding has a two-tiered board structure, consisting of the Management and Supervisory Board. The Management Board consists of six executive board members and is tasked to ensure that ProCredit Holding adequately fulfils its critical role within the group, as described above. Several committees are in place to support the Management Board in its duties. ProCredit Holding Management Board's representation in the Supervisory Boards of all its subsidiaries further strengthens operational and strategic alignment throughout the group.

The ProCredit Group emphasizes transparent corporate governance and open communication with stakeholders, supported by its shareholders. The Management Board and Supervisory Board work closely together, holding regular meetings and ensuring comprehensive reporting on business and risk strategies. The company adheres to the German Corporate Governance Code, with a focus on diversity, professional standards, and sustainable banking. As part of its governance structure, the company requires that members of the Supervisory Board and Management Board have a good understanding and interest in sustainability and its objectives, reflecting the company's mission and values. A detailed description of the structure can be found in our Corporate Governance Statement.

3.3 Culture, Skills, Competencies and Training

As an institutionalized topic, ESG standards are part of our Code of Conduct, which includes statement on the aim to minimize negative environmental impacts of ProCredit's operations and those of its clients, fostering a culture of resource conservation and climate change mitigation and adaptation.

Integral to this commitment is the exclusion list, which explicitly prohibits business relationships with entities engaged in activities detrimental to health, safety, and the environment. This includes the production and extraction of fossil fuel related products, the production or trade of hazardous substances, unsustainable logging and fishing practices, and operations that negatively impact protected areas or involve involuntary resettlement.

Additionally, employees are strongly aware of environmental impacts. Our staff actively supports environmental protection efforts and the reduction of the ecological footprint. This involves monitoring and reducing own use of energy, paper, water, and waste; as well as ensuring clients' activities do not negatively impact the environment. Also, staff encourages investments in energy efficiency, renewable energy technologies, and projects with positive environmental impacts.

This awareness is achieved and supported by regular training sessions in ESG topics, such as our annual environmental trainings. In 2024, this training included a net zero session aimed at empowering ProCredit group employees with the knowledge and skills necessary to actively participate in the company's journey towards achieving net zero emissions by 2050.

All Business Client Advisers are trained constantly on net zero, highlighting the urgency of decarbonization, and outline the group's dedicated strategy for emission reduction and climate action. Furthermore, it also fosters the practice of client engagement and lays the economic and regulatory factors that incentivize MSMEs to embrace net zero objectives. This training is pivotal in aligning the company's workforce with its strategic environmental goals, ensuring a unified and informed approach to sustainability. It further includes capacity building in green finance and our criteria to foster energy efficiency, renewable energy and other environmental investments of our clients, though our green loans offer. We will continuously invest in further building competences of our employees on this topic.

Furthermore, we have established a comprehensive training program for our Environmental Risk Officers (EROs) – credit risk staff with additional expertise in environmental and social risk assessment. This program is designed to equip EROs with the knowledge and skills necessary to effectively assess and manage the environmental and social risks associated with our clients' operations. Moreover, they are responsible for suggesting actionable recommendations to enhance environmental and social performance, including the implementation of applicable covenants. This training ensures that our EROs are well-prepared to uphold our Group Standards for Managing the Environmental and Social Risk and Impact of Lending. Additional ESG-specific training seminar for Procredit Group's Credit Risk and General Risk departments was carried out in 2024, and the group is dedicated to developing further its internal skills and capabilities in ESG risk management.

Additionally, an ESG Risk Seminar was delivered to the Heads of General Risk and Credit of the ProCredit banks, as owners of the overall risk framework as well as the two risk types most materially impacted by climate change. This format will be established as a regular format. Two Sustainable Finance Seminars are delivered annually for sustainability and business managers, as well as management board members across all banks, and one Renewable Energy Seminar is delivered to all colleagues, involved in Renewable Energy Project Finance.

By adhering to these stringent criteria, ProCredit not only safeguards the environment but also upholds its ethical standards, ensuring that all business activities align with its mission of sustainable development.

4. Implementation Strategy

4.1 Target Setting

4.1.1 Developing Net Zero KPI's

Following our journey towards net zero, the group set and validated science-based targets (SBTs) in alignment with the Science Based Targets initiative (SBTi). We believe this effort ensures our commitment to reducing greenhouse gas (GHG) emissions and contributing to global efforts to limit temperature rise to 1.5°C.

The group began its target setting process by diligently collecting comprehensive data on our greenhouse gas (GHG) emissions, including Scope 1 (direct emissions), Scope 2 (indirect emissions from purchased energy), and Scope 3 (all other indirect emissions, especially those from investments and lending activities). With this data, we selected the SBT Portfolio Coverage Approach as the most appropriate method given our portfolio composition, business model, and capacity. Following SBTi's framework a completed target submission form was sent, which was assessed based on specific criteria, including coverage of institution-wide Scope 1 and 2 emissions, and Scope 3 investment and lending activities. Our targets had to be consistent with keeping global temperature increase to 1.5°C. Upon validation, we announced our targets publicly, following SBTi's framework to demonstrate our commitment. To enhance our transparency and accountability, we are preparing our processes to disclose the progress towards reaching our targets annually.

By setting and validating science-based targets that aligned with the latest climate science and the goals of the Paris Agreement, through a structured approach enabled by a third-party organization, the group aims to ensure transparency, accountability, and a significant contribution to global climate action, enhancing its efforts' credibility.

4.1.2 Developing Climate Risk KRI's

Thus far, it has been assessed that ESG risks can contribute to the materiality of customer credit risk and operational risk. Consequently, ESG Key Risk Indicators (KRIs) were developed at group level to measure and regularly monitor the impact of ESG risks as a driver of credit- risk and operational risk. For further details please refer to section 4.4.3.

4.2 Stakeholder Engagement

4.2.1 Engagement with internal partners

Engagement with internal stakeholders is a cornerstone of the group's approach towards sustainability. This engagement is centered around annual training sessions for staff, ensuring that all employees are well-informed and equipped to contribute to our sustainability goals. These training sessions cover a range of topics, including environmental, social, and governance (ESG) issues, and are designed to foster a culture of sustainability within the organization.

The Management Board plays a crucial role in this engagement process through active participation in various committees. These committees are responsible for overseeing the implementation of the strategies and ensuring that our sustainability objectives are met. The involvement of the Management Board ensures that sustainability is integrated into our strategic decision-making processes and that there is accountability at the highest levels of the organization.

Additionally, we hold a general assembly every year where the most relevant topics, including ESG issues, are presented and discussed with all shareholders. This annual assembly provides a platform for transparent dialogue and ensures that our shareholders are kept informed about our progress and future plans.

By fostering strong engagement with both internal and external stakeholders, we aim to create a collaborative environment that supports our transition to a low-carbon economy and enhances our overall sustainability performance.

4.2.2 Engagement with value chain

As part of our commitment to sustainability, we aim to engage with our value chain partners, including suppliers and clients, to promote best practices and reduce environmental and social impacts. We believe that by working together, we can create more value for all stakeholders and contribute to the global goals of sustainable development. To this end, we have developed a sustainable procurement guideline that sets out our expectations and requirements for our suppliers in terms of sustainability. We have also created a high-level client approach for decarbonisation, which outlines how we can support our clients in their transition to a low-carbon economy.

Our engagement strategy is based on the following principles:

- We identify and prioritize the most significant sustainability risks and opportunities in our value chain, taking into account the materiality of those risks, and applying a principle of proportionality to our clients.
- We communicate our sustainability expectations and requirements to our value chain partners and provide them with guidance and support to meet those requirements.
- We monitor and evaluate the performance and progress of our value chain partners, using a combination of self-assessments and feedback mechanisms.
- We collaborate with our value chain partners to address common challenges and develop solutions that benefit both parties and the wider society.

4.2.2.1 Sustainable procurement guideline

Our Group Guideline for Sustainable Procurement outlines our expectations and requirements for responsible sourcing and purchasing. The key topics including compliance with the ProCredit Exclusion List, anti-money laundering, corruption prevention, human rights adherence, and health, safety, security, and environmental standards are applied to all our significant suppliers[1]. A more detailed assessment process is carried out through a clearly defined scoring system, which is applied to significant suppliers based on the spending amount and the type of service provided.

4.2.2.2 High-level client engagement approach

Our client engagement approach is a process in which we aim for our borrowers to set their own net-zero[2] targets and have them validated by Science Based Targets initiative (SBTi). As a process, we believe it is imperative to apply it to all our clients, both existing and prospective. The ProCredit banks should implement the approach by carrying out the following activities:

- Acquiring clients who have already set net-zero targets or at the very least have an understanding of the climate-related risks and opportunities their businesses are exposed to.
- Engaging with existing clients on the topics of decarbonisation and net-zero target-setting.

[1] A supplier is classified as significant based on their role in business operations (essential or supporting activities) and financial expenditure. Detailed criteria for classification can be found in the Sustainable Procurement Guideline.

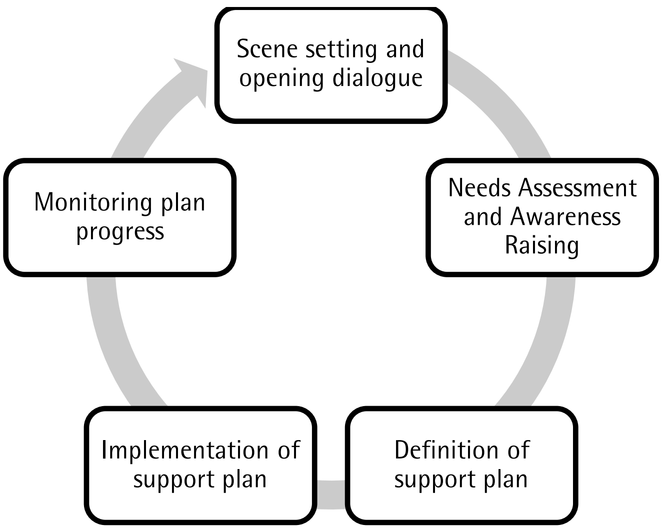
[2] "Net-zero emissions" refers to the state where greenhouse gas emissions resulting from human activities are balanced by the removal of these gases over a given period.

Following the SBTi approach for Financial Institutions, our near-term Climate Action strategy centers on engaging with the clients who account for 28% of total GHG emissions arising from our loan portfolio by 2027. The change in emissions caused by our clients from one year to the next depends mostly on their financial information. Hence, the clients and the number of clients responsible for 28% of the emissions will vary every year, depending on the composition of loan disbursements as well as client repayments. This means, that by 2027, regardless of the clients' composition and status from previous years, 28% of our loan portfolio by financed emissions must have SBTi validated targets.

Achieving this target includes supporting our clients in quantifying their emissions. Setting a baseline is essential for informed decision-making. Once we have a more accurate assessment of each client's carbon footprint, we can move on to support them in defining their own science-based CO_2 reduction targets. These ambitious goals align with scientific guidelines and ensure that emission reduction efforts are grounded in realistic analysis. External validation through the SBTi adds credibility to our clients' targets and represents a crucial step of our engagement process with them.

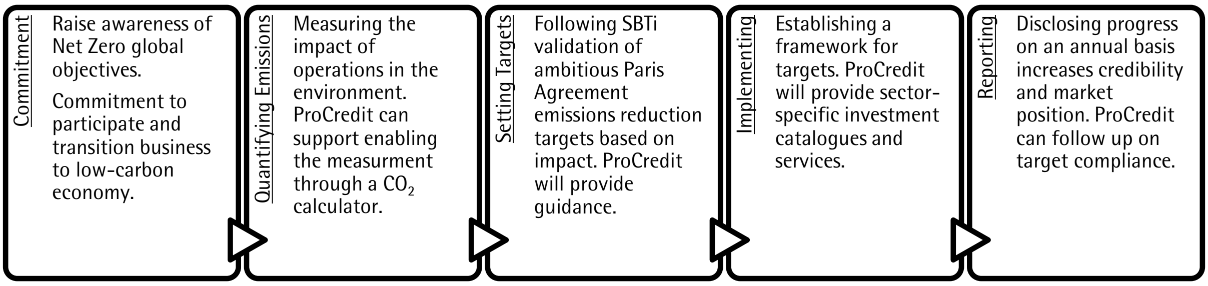
Although, according to our SBTi-validated near-term target, this step would suffice for us to reach our target, our engagement with clients does not stop here. We aim to support our clients further by providing them with financing for projects aimed at achieving their decarbonisation goals. These projects can vary from initiatives in energy efficiency, renewable energy, electro mobility, or sustainable practices aimed to decarbonise operations.

Additionally, by adopting the engagement recommendations outlined in the "Guidance on client engagement" from the UNEP FI Principles for Responsible Banking, we aim to build strong relationships with our clients, helping them transition to more sustainable business models and technologies. From these recommendations, we believe engaging with clients is crucial for fostering sustainable practices and enabling economic activities that benefit both current and future generations. The recommendations involve a cycle with several stages, including scene setting and opening dialogue, needs assessment and awareness raising, defining support plans, implementing these plans, and continuous monitoring. Through this structured approach, we can better understand our clients' sustainability journeys, provide tailored support, and ensure that our collective efforts contribute to shared prosperity and environmental stewardship. In the graph below you can find a representation of these stages.



Scene Setting and Opening Dialogue: This initial stage involves establishing the context for engagement by communicating to the client the Bank's position in the context of net zero. This stage includes presenting to the client the Bank's sustainability and impact targets, as well as the results of risk and impact assessments. It is also important to present benefits to the client through the ProCredit group Net Zero toolkit for MSMEs. The goal is to understand where the client is in its sustainability journey and identify whether the client welcomes or rejects a climate change discussion.

This understanding has been labelled as the 'clients' sentiment', and is the basis for going forward with the support. It is important to keep a record of the clients' reasoning behind the sentiment to develop an effective support system with each client. Knowing how our clients feel about the issue of climate change will help us identify their stance regarding the path towards net zero. Hence, it is also important for the client to understand the path to follow, which can be simplified in the following five steps:



Needs Assessment and Awareness Raising: During this stage, the Bank aims to gain a deeper understanding of the client's performance, baseline, and maturity level regarding sustainability. This involves raising awareness about the importance of sustainability actions and ensuring that clients understand the benefits of these actions. This stage often overlaps with the initial dialogue, as it builds on the information gathered during those conversations. Ideally, this could mean assessing a first GHG inventory of clients' emissions with the ProCredit group CO_2 calculator and indicating the SBTi requirements for each client.

Defining Support Plan: In this stage the aim is to identify how the Bank can support clients in adopting new technologies, business models, and practices to reduce negative impacts and increase positive ones. Together with the client, the Bank develops a tailored support plan based on the client's GHG inventory. The plan can be a standalone document or part of the Bank's broader documentation with clients. Ideally, the support plan outlines proposals for transition and decarbonization options based on sector-specific investment catalogues, together with financing services and incentives. This helps clients understand the implications and realization of their sustainability and impact targets.

Implementing Support Plans: For this stage, the Bank provides products and services to support clients' decarbonization efforts. This involves formalizing and initiating investments in the clients' operations. The goal is to provide clients with the resources needed to implement their plans effectively.

Monitoring: The final stage involves consistently reviewing the progress clients make against their decarbonization targets. The Bank uses collected data – preferably through the CO_2 calculator – to ensure clients are meeting predetermined timelines and expectations.

It is essential to view this engagement cycle as a continuous and evolving process. By consistently revisiting and refining each stage, we can adapt to the changing needs and circumstances of our clients. This cyclical approach ensures that we remain proactive in supporting our clients' sustainability journeys, fostering long-term relationships built on trust and mutual growth. Through ongoing collaboration and commitment, we can strengthen our position as the "Hausbank" option for our clients.

Roles and responsibilities

As a cross-department objective, all departments must unify efforts to ensure the successful implementation of the client engagement process. Among their responsibilities, for the engagement process specifically, each team should additionally fulfil the following:

Sustainability Unit: This team leads the implementation of the client engagement process across the bank. They provide necessary resources and expertise to ensure all other departments are equipped to succeed. Additionally, this department must monitor the client engagement ratio to track the progress of the client engagement process and define the protocol of data collection and monitoring according to this document.

Business Department: As the primary point of contact for our clients, this department manages all client communications, ensuring that clients are well informed about the steps to quantify emissions, set and validate targets, and implement decarbonisation measures, as well as supporting data collection and reporting.

Expectations

We aim to guide and support our clients in their decarbonisation journey. To do this, we:

- Encourage clients to set validated decarbonisation targets, through incentives in our services (e.g. preferential conditions or access to technical assistance or industry events organised/sponsored by the ProCredit banks).
- Establish clear communication channels (or leverage existing ones) for regular check-ins to assess our clients' sentiments towards net zero and monitor their target-setting progress.
- Equip clients with the necessary tools and resources to commit to and achieve their net-zero targets (e.g. CO_2 calculator tool or loans to progress in targets).
- Constantly identify clients' needs in order to provide them with solutions tailored to their net-zero targets and climate-related risks and opportunities, building up resilience especially during the transition period.
- Clearly communicate the requirements, enforcement mechanisms, and implications of non-compliance.

Communication principles

Our client-centric business model is crucial to understanding our clients' positions regarding the path towards net zero. This process also presents an opportunity to become the "Hausbank" of many high-emitting clients already in our portfolio, guiding them in the process of committing to and fulfilling science-based net-zero targets.

We view the transition to net zero not just as a path with clear objectives to comply with the Paris Climate Agreement, but as a strategic tool for businesses to mitigate climate change risks and adapt to markets transitioning to a low-carbon economy. By emphasising the impact (both positive and negative) climate change has on the financial performance of businesses rather than focusing on climate awareness only, we aim to spotlight the upcoming low-carbon reality by:

- Informing about the importance of stringent regulatory requirements that might affect our clients´ businesses.
- Highlighting the market opportunities that arise from reducing emissions, prioritising efficiency measures that enhance profitability in our clients' businesses.
- Stressing climate-related risks (physical and transition) that could hinder the clients' operations and in turn become a financial burden.
- Assisting clients in identifying solutions utilising comprehensive sector-specific catalogues with sustainable investment options.

We not only intend to engage with clients one at a time, but also to encourage networking between the parties related to each sector by promoting and enabling spaces where clients can share experiences and learn from other participants who are already taking action.

4.2.3 Public advocacy

We are currently engaging in public advocacy through various local memberships, such as: the United Nations Global Compact (UNGC) local networks, participation in banking and other industries associations, and chambers of commerce. A detailed list of our memberships can be found in our environmental management website and impact reports. We plan to strengthen this initiative guided by the recommendations of the Net-Zero Banking Alliance (NZBA) and lessons learned from our existing local advocacy efforts.

Our forward-looking approach for public advocacy will focus on following:

1. **Leveraging Local Advocacy**: We will build on the lessons learned from our local advocacy efforts to inform our group-level strategy. This includes identifying needs, best practices, successful initiatives, and key partnerships that have proven effective in promoting sustainability and climate action at the local level.

2. **Aligning with NZBA Recommendations**: This includes advocating for policies that support the transition to a low-carbon economy, promoting the adoption of science-based targets, and encouraging the development of regulatory frameworks that facilitate sustainable finance.

3. **Collaborating with Stakeholders**: We will actively collaborate with a wide range of stakeholders, including government agencies, industry associations, non-governmental organizations, and other financial institutions. This collaboration will help us to amplify our impact and drive meaningful change in public policy.

By guiding our approach to public advocacy engagement and aligning with international best practices, we aim to enhance efficiency and leverage our engagement with business markets while promoting sustainability and climate action.

4.3 Risk Management

An informed and transparent approach to risk management is a central component of our socially responsible business model. ESG risks for the ProCredit group represent environmental, social or governance events or conditions, which if they occur have or may potentially have significant negative impacts on the assets, financial and earnings situation, or our reputation. ESG risks can have a significant impact on the known risk types and can contribute as a factor to the materiality of these risk types. The management of ESG risks is part of the group's overall risk management framework, and thereby included in all respective processes, including from risk identification and assessment to measuring and monitoring.

For the purpose of our transition plan, we are focusing on the "E" component of ESG risks. Environmental and climate-related risks are commonly understood to comprise two main risk drivers: physical risk and transition risk. Managing transition risks (as part of the broader ESG risks) is essential for ProCredit and a key element of the group's transition plan.

This chapter lays out firstly how we manage environmental/climate risks as an institution in a broader sense (4.3.1) and secondly how we specifically monitor risks arising out of the transition planning.

Integration into risk processes

The risk appetite provides the framework for risk management. This is a conscious decision about the extent to which we are prepared to take risks in order to achieve the strategic objectives of the ProCredit group. The risk appetite is defined for all material risks and is presented in the risk strategy. Our strong awareness of sustainability aspects (ESG risks) also informs this process. ProCredit's risk appetite is thus expressed, among other things, in the following ESG-related business policy principles of:

- Responsible banking for development, including strong environmental/social/governance (ESG) risk awareness
- Structured, multi-phase selection process for all staff as well as careful training of staff, during which great importance is placed on ethical, social and environmental aspects

ESG risk management is incorporated in the group's risk management framework/processes. This covers risk identification (see section 2.3), risk measurement and assessment, risk mitigation, risk reporting and monitoring as well as risk governance (see also section 3).

Based on the ESG risk driver materiality assessment, it has been concluded that ESG risks can contribute particularly to the materiality of customer credit risk and operational risk. Both, for customer credit risk as well as operational risk ESG related KRI have been identified (see section 4.4.3), which are regularly monitored as part of the overall group risk report by the Group Risk Management Committee/ESG Risk Management Sub Committee.

The subsequent sections (4.3.1.1 to 4.3.1.3) describe some key aspects in this regard.

4.3.1.1 Credit risk

Physical Climate Risk at Portfolio Level

Physical climate risks in the ProCredit group loan portfolio have been analyzed in a high emissions climate scenario (IPCC RCP 8.5)[3]. The analysis models the exposure of the loan portfolio to 14 physical climate hazards[4] over time periods until 2040, 2041-2070, and 2071-2100. Due to our capital planning horizons and the maturity structure of the loan portfolio, we focus on the short-term scenario until 2040 for the interpretation of results.

The portfolio-level analysis enables ProCredit to identify physical risk concentrations across the industries which we finance and the geographies where our clients operate. Such concentrations are limited due to the diversification of the portfolio across economic activities and geographies. In 2024, two sectoral concentrations in the loan portfolio with high exposure to physical climate risk have been identified on group level, namely in crop and animal production, hunting and related service activities and construction of buildings. The materiality threshold of 3% is set in accordance with ProCredit group's CSRD materiality assessment. The diversification of the respective loan portfolio across geographies however mitigates potential risks arising from these concentrations.

Transition Climate Risk at Portfolio Level

ProCredit has a strict exclusion list which bans the financing of underground mining for coal and shale oil, and the financing of coal-related activities, which reduces the transition risk exposure for the group.

For transition risk, the group's only material concentration (>3%) is in activities within crop and animal production, hunting and related services (fig. 1 – top right corner). As is the case with physical risk concentrations, the group's geographical diversification mitigates this risk to an extent.

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[3] Based on climate models listed in the IPCC CMIP5 and CMIP6 protocols.

[4] Acute: coastal flood, river flood, heat stress, cold stress, wildfire, tropical storms, heavy precipitation, landslides; Chronic: drought, water stress, erosion, cropland erosion, land subsidence.

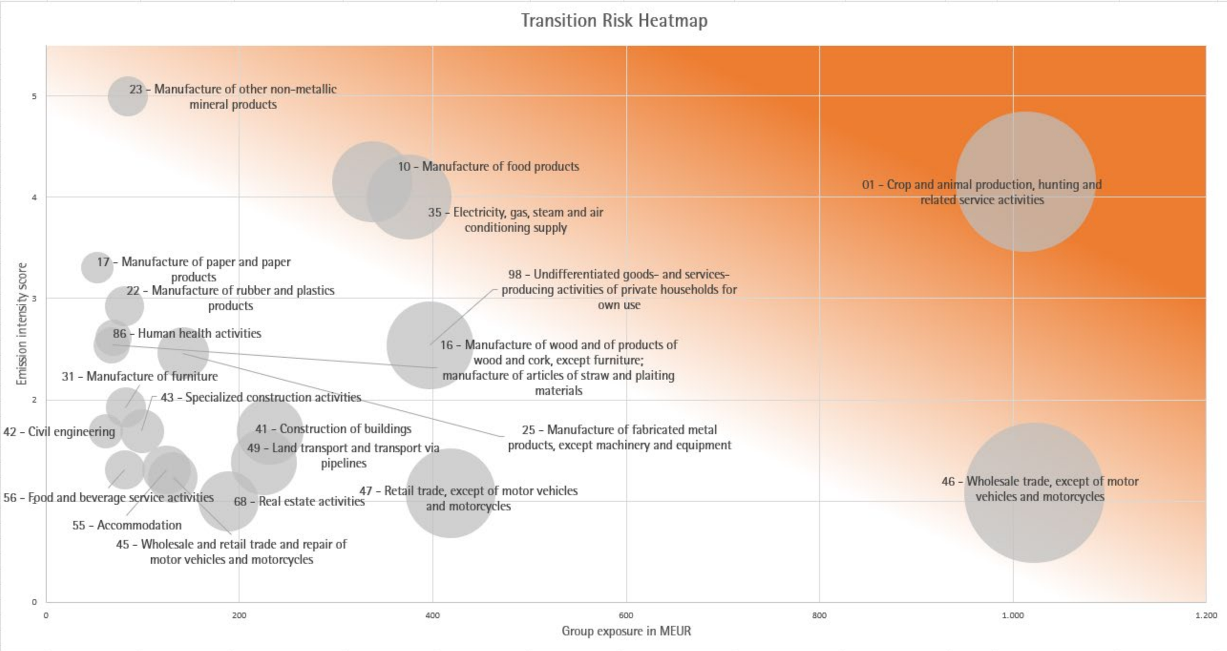

Figure 1: Transition risk heatmap Q1 2024

Borrower-level assessment

We have expanded our borrower-level assessment of Environmental and Social risks, to include both physical and transition climate change risk in the evaluation process. This enables ProCredit to not only assess its risk exposure, but to also inform clients about their susceptibility to climate change risk – contributing to our client engagement strategy, encouraging clients to set SBTs. With this step we are aiming to mitigate climate risk through timely and proactive engagement with individual clients, providing them with information on the specific natural hazards their assets are exposed to. Further, the group is developing climate risk scores as part of an ESG risk score which will be integrated in the borrower-level assessment process. This step will enable us to further quantify climate risks on the borrower and portfolio level.

4.3.1.2 Operational risk

Based on our materiality assessment, operational risk is the second most impacted risk by ESG risk drivers, including climate change. Chronic and acute physical climate risks may have a material negative impact on ProCredit's premises, staff, operations and its ability to ensure continuous provision of critical services. Furthermore, as legal and reputational risks are part of operational risk, transitional risks may also impact it.

The effects of climate risks are to be considered while assessing the "regular" operational risk subcategories such as:

- Climate change transition risk events can impact business risk and people risk
- Climate change physical risk events can impact risk events of external origin.
- Greenwashing allegations risk events can impact legal risk and reputational risk.

Scenario Analysis

Furthermore, ProCredit institutions annually assess climate change scenarios with regards to physical risk and transition risk. The physical risk scenario involves critical loss of physical assets due to natural disasters, while the transition risk scenario focuses on regulatory and reputational risks arising from greenwashing allegations. These scenario results are then utilized as input to calculate the economic capital requirements (as part of ICAAP economic perspective) for operational risks at the group level.

Business Continuity Planning

To identify the potential impact of climate events on our operations and be able to respond to them in a timely manner, the severity of various natural disasters is determined in the threat analysis (TA). The TA considers the full spectrum of threats where natural disasters are also included. In addition to the threat analysis, a list of critical processes is prepared to understand which processes are important for maintaining the bank's key products and services. This process is known as Business Impact Analysis (BIA). Results from both TA and BIA are used to support the business continuity strategy and planning.

4.3.1.3 Stress testing

As part of the group ICAAP, ProCredit performs various stress tests, to which belongs simulating the impact of physical and transition risks across economic sectors and geographical regions, where the group operates. The transition risk scenario is simulated through a swift policy/regulation change towards a sustainable, net zero economy, in line with the corresponding NGFS scenario. It implies immediate policy reaction, fast technology change and strong increase in carbon pricing across all sectors. With regards to physical climate risk, an extreme drought is simulated, leading to a higher increase in defaults for the agricultural portfolio compared to the remaining portfolio. The drought event is assumed to affect all countries in South-Eastern and Eastern Europe simultaneously.

4.4 Monitoring

To monitor the implementation and impact of our science-based targets, we have established a comprehensive process that involves regular data collection, verification, reporting, and review. Our focus is on tracking our own operations' emissions reduction and the progress of our engagement strategy with clients who have a significant carbon footprint. By doing so, we aim to ensure that we are on track to meet our ambitious goals and to identify any gaps or challenges that need to be addressed. We also communicate our results and achievements to our stakeholders and the wider public, demonstrating our commitment and leadership in climate action.

4.4.1 Monitoring our own operations

ProCredit group is committed to rigorous environmental management, that is based on our Environmental Management Policy. Our internal environmental system is monitored through iEMS tool, which accurately calculates emissions through conversion factors, adhering to the GHG Protocol and IPCC guidelines. Our approach includes detailed estimation of emissions from various sources such as electricity, heating, vehicles, and flights, and incorporates both direct and indirect emissions.

The tool is accompanied by a documented comprehensive process that acts as a user manual, enabling us to track the impact of our measures in line with our science-based targets. We collect and analyze data on our own operations to identify areas for improvement, and opportunities for innovation. This approach is essential for ensuring the effectiveness and credibility of our results and for fulfilling our responsibility as a sustainable bank.

As a result of this process, we can monitor the progress of measures implemented and report on our achievements and challenges. In the specific case of our targets for own operations, through the composition and impact of our vehicle fleet; as well as, through the share and consumption of renewable electricity.

4.4.2 Monitoring client engagement

As the "Hausbank" of our clients, we support them in developing their businesses. To assess the progress made by engaging clients, we gather relevant information about their operations. The financed solutions clients implement in their businesses to mitigate climate change risks and become net-zero leaders are based on:

- **Physical-risk-related**: Measures taken by the client to mitigate the effects of a changing climate (e.g. building a natural dike to protect crops from flooding).
- **Transition-risk-related**: Measures taken by the client to comply with changing regulations, emerging technologies, and market sentiment changes (e.g. using a more efficient machine to reduce energy consumption and increase productivity).
- **Net-zero-path-related**: Measures taken by clients specifically to reduce their GHG emissions and align with the reduction path of their sector (e.g. setting specific targets validated by SBTi).

Our clients' sentiments and positions on the path towards net zero will set the basis for assessing their progress as well as our own targets. To follow-up the engagement process and clients under the net zero path, these can be categorised as follows:

- **Not engaged**: Clients not yet approached about net zero.
- **Approached**: Clients who have been approached and communicates no interest in the topic.
- **Committed to Net Zero**: Clients who are committed to the goal of achieving a net-zero level of emissions by setting science-based targets.
- **Quantifying emissions**: Client who are not only informed about net zero but is also quantifying emissions using an acceptable methodology (e.g. ProCredit CO2 calculator, GHG protocol, IPCC assessment, or other relevant tool).
- **Net Zero targets set**: Clients who have already set net-zero targets for its operations under the SBTi framework.
- **Net Zero targets validated**: Clients who have validated their net-zero targets for its operations under the SBTi framework.
- **Implementing measures**: Clients who have validated targets and are implementing measures to reach these targets. Preferably, through financing with PCG where loan must be identified.
- **Reporting impact**: Clients who are disclosing in a periodically manner their impacts. For which, it would be ideal to support with file or link to report.

While measuring clients' sentiments, it is important to note the level of information they have about the net-zero concept, indicating whether they are aware of the risks and opportunities a low-carbon economy represents for their business, as well as the process they need to follow to reach net-zero emissions (whether or not they are taking action).

4.4.3 Monitoring risk

The following ESG KRIs are part of the ProCredit group's quarterly risk reports and are also reported to the Management Board in the ESG risk management sub-committee.

Credit Risk Monitoring

Climate change risks are monitored through established KRIs, with defined (early warning) thresholds and limits. ProCredit's KRIs reflect the principles of double materiality – measuring both outside-in and inside-out impacts. While the KRI are reported for the entire group as part of the group risk report, they are additionally monitored for individual subsidiaries. This assures the timely identification of portfolio shifts which may lead to increases in credit risk. ProCredit tracks the following KRIs:

- exposures to economic activities with high environmental impact (as percentage of total loan portfolio)

- exposures to economic activities subject high transition risk[5] (as percentage of total loan portfolio)
- Additionally monitored metric: exposures with an environmental and social risk assessment (as percentage of total loan portfolio)

Operational Risk Monitoring

Risk events occurring in the group are documented in the internal risk event database (RED) where all operational risk incidents, losses and near misses are recorded. With regards to climate related operational risk events, the ProCredit group has established a backward-looking KRI to record the number of events resulting from a natural disaster. The indicator shows events regardless of having a financial impact or not. The thresholds established for this KRI account for both the materiality and the number of the events.

Furthermore, biweekly RED reviews are conducted to identify reputational risk events, including those arising from greenwashing risk. If a potential significant reputational risk for the group is detected, ad-hoc escalation to Management Board members is done.

4.5 Products and Services

The ProCredit group is dedicated to balancing financial sustainability with positive impacts on economy, environment, and society. The group emphasizes long-term relationship with clients, prudent risk approach, and a commitment to environmental protection. By promoting transparent and inclusive financial services and issuing green loans, ProCredit aims to drive sustainable economic development, reduce greenhouse gas emissions, and support the transition to low-carbon economies.

To assure the desired environmental impact the green loans are transparently differentiated from the other loans via applying relevant criteria for specific loan purposes. ProCredit group Green loan portfolio comprises three main categories such as Energy Efficiency (EE), Renewable Energy (RE) and Environmentally friendly measures (GR). ProCredit group developed and implemented a robust methodology for green loan selection that applies stringent eligibility criteria to ensure that its green lending operations have a comprehensive environmental impact. Eligible projects include those focused on positive impact such as sustainable agriculture, sustainable buildings, renewable energy systems, and waste management solutions. Importantly, the framework excludes any investments in fossil fuel-based technologies, ensuring that all funded projects contribute to a greener future.

ProCredit group continuously maintain, update and extend the criteria to support the environmental support and economic growth of clients. This rigorous selection process emphasizes ProCredit's commitment to environmental sustainability and best green and responsible lending practices. Additionally, one part of our eligibility criteria has been outlined in our Green Bond Framework, to ensure that funded projects have a significant environmental impact.

4.6 Supporting Tools

In alignment with our commitment to achieving net-zero greenhouse gas (GHG) emissions, we are dedicated to implementing a comprehensive strategy that tackles main challenges. Indeed, for a financial institution this mainly means impact through investments; for which we focus on creating tools to

5 economic activities with high transition risk are defined as those carried out by emission-intensive industry sectors and sectors subject to carbon pricing. This indicator includes exposure in sectors and geographies subject to the EU Emission Trading System (EU ETS) and EU Carbon Border Adjustment Mechanism (EU CBAM). The exposure is determined based on the location of the lending institution (PCBs in EU / non-EU countries) and the ISIC subsector of the borrower.

support our clients' in following a path that encompasses awareness, measurement, analysis, and reporting.

To this end, we have started elaborating resources such as:

- A Net Zero guide for MSMEs – which directs participants to take action – that ensures a well-informed approach.
- To support clients in quantifying their impact, we are developing a CO_2 calculator that estimates emissions based on international standards, including the IPCC and GHG protocol.
- Our green lending supports our clients' sector-specific investment opportunities to reduce impact, through financing cleaner technologies and operational efficiency.
- Finally, we aim to encourage clients to transparent and accountable reporting, tracking their progress with our support.

Together, these resources form the backbone of our engagement strategy to achieve net zero by 2050.

5. Metrics and Targets

5.1 Financial metrics and targets

As part of its business development strategy, the group has set financial targets that are aligned with its commitment to combat climate change. In addition to setting science-based targets for reducing greenhouse gas emissions, the group is also prioritizing low-carbon activities in its core business of lending. The group has implemented stricter environmental and social criteria in its lending decisions, aiming to steer its portfolio growth towards less carbon-intensive sectors and activities.

Moreover, the group is increasing its support for green investments, such as renewable energy, energy efficiency, green transport and sustainable agriculture and thus contributing to the transition to a low-carbon economy.

The group has not set specific amounts of money for capital or operating expenditure related to these targets, as it believes that the flexibility and adaptability of its financial decisions are crucial to respond to the dynamic and uncertain market conditions around climate change. Moreover, as an institutionalised topic, ESG as well as Climate Change are embedded across the processes and policies of the group.

5.2 GHG metrics and targets

As part of its commitment to environmental sustainability, the group has established ambitious and science-based targets to reduce its greenhouse gas (GHG) emissions across its operations and value chain. The following paragraphs describe the group's GHG metrics and targets, which are aligned with the Paris Agreement and the 1.5°C warming scenario.

After following the validation process with the Science Based Targets initiative (SBTi), the group aims to reduce its absolute Scope 1 and Scope 2 greenhouse gas emissions by 42% by 2030, using 2022 as the base year. This metric was calculated using the target setting tools provided by SBTi and is related to absolute emissions, meaning that the reduction will be measured upon the total GHG emissions in tCO2eq, not the emissions intensity per unit of output or revenue.

To achieve this target, we will focus on electrifying our fleet by switching to electric vehicles (EVs) and increasing our renewable energy sources by purchasing guarantees of origin (GoOs).

In line with our commitment to electrifying our fleet, by 2030 we aim for a fleet composition of 60% electric vehicles (EVs), 25% plug-in hybrids, and 15% hybrids, based on a 2022 baseline. Figure 5.2(a) shows the evolution of the fleet composition from 2020 to the expected composition in 2030. With this target composition, we expect to achieve a significant reduction in vehicle emissions by 34%, already accounting for emissions from charging the EVs. Notably, this reduction can be realized by successfully implementing the plan in the first three countries illustrated in figure 5.2(b), which indicates the potential emission reduction and the number of non-EV vehicles in the fleet.

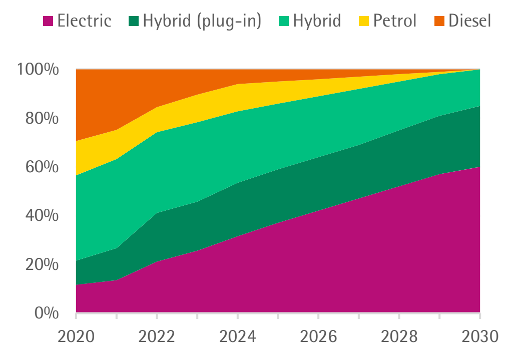

Figure 5.2(a) – Fleet composition

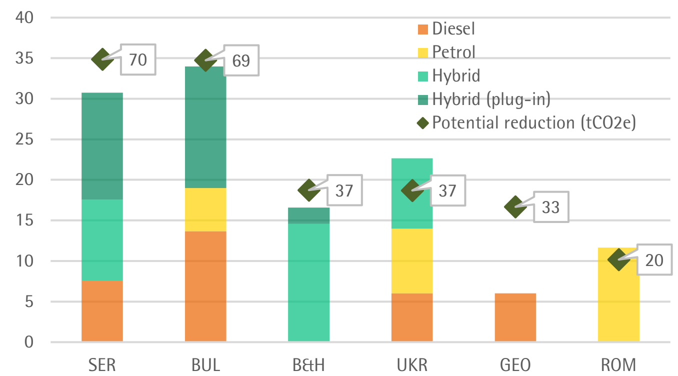

Figure 5.2(b) – EVs potential reduction per country

Following our target, by 2030, the group aims to reduce non-renewable electricity sourcing to 48%, from a 2022 baseline. Due to the space limitations, for now we plan to maintain our own production consumption at 2%, and we will increase our renewable energy sourcing through Guarantees of Origin (GoOs) to 50%, as illustrated in figure 5.2(c). Consequently, the targeted reduction can be accomplished by purchasing GoOs in our branches located in the first three countries depicted in figure 5.2(d), which outlines the potential reduction, and the number of branches required to transition to GoOs. By implementing measure in these countries, we expect a reduction of 60% in electricity emissions.

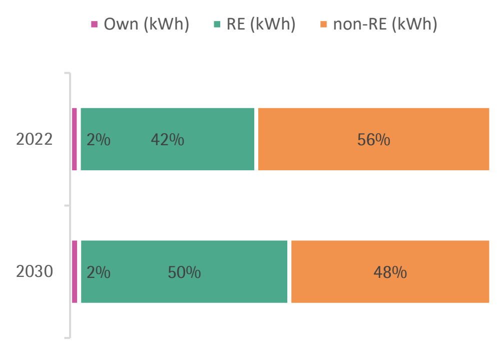

Figure 5.2(c) – Electricity sources

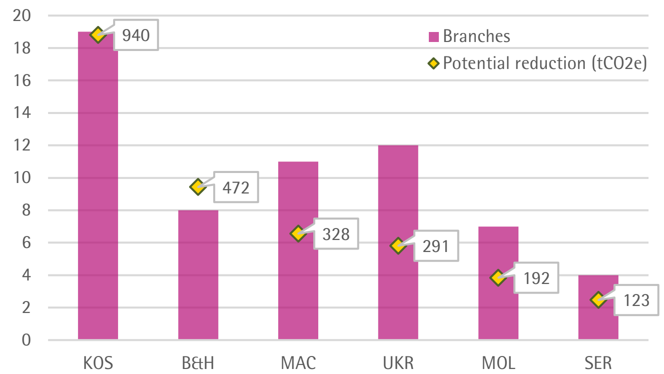

Figure 5.2(d) – GoOs potential reduction per country

Additionally, ProCredit's Scope 3 targets involve engaging with clients responsible for 28% of its portfolio emissions to set their own science-based targets by 2027. These clients are identified based on their emissions accountable to the Group, which may change over time (as described in the engagement approach). As a dynamic and moving target, we will track our engagement periodically, aiming to do so on a quarterly basis. Therefore, the metric is the percentage of emissions coming from clients with SBTi validated reduction targets.

The group has also committed to financing only renewable energy projects through 2030, following the criteria of its green bond framework. This framework ensures that the group only supports energy generation projects that use renewable sources.

ProCredit group has set itself clear and measurable goals to reduce its GHG emissions across all scopes, emphasizing support to clients in their own decarbonisation efforts. This ensures transparent and accountable reporting towards progress, as well as aligning with international standards and reinforcing our dedication to environmental stewardship.

5.3 Carbon removals

Regarding carbon removals, we have decided not to provide any information on the (active) capture and storage of greenhouse gases, as there is great uncertainty about measuring the impact of our implemented projects. Even if reporting on such carbon capture projects were compulsory, the impact would not be significant compared to our total greenhouse gas emissions, which is why we focus primarily on reducing the latter.

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