



ProCredit
H O L D I N G

GROUP CLIMATE ACTION STRATEGY



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1. Our journey and commitment to sustainability

As the effects of global warming continue to intensify, climate change remains a significant challenge and poses risks for entire societies. Given their influence over the allocation of capital and the direction of economic activity, banks have an important role to play in supporting climate change mitigation and adaptation efforts. Banks also face significant risks associated with climate change, including physical risks from extreme and chronic weather events, as well as transition risks from policy changes, technological innovations, and shifting consumer preferences.

Reducing and managing the adverse environmental and social impacts of our operations and lending activities has always been a key objective of the ProCredit group. Internally, we do so through our Environmental Management System, which we implemented in 2015 to minimise the impact of our own operations on the climate and environment. Our green loans and thorough **environmental and social (E&S) risk assessment** further enable us to promote climate awareness among our clients. Our green lending criteria, verified by a third-party, are disclosed in our **Green Bond framework**.

We are now taking the next step in contributing to the climate change mitigation and adaptation process by supporting our clients in their efforts to decarbonise and build up their resilience to withstand physical and transition risks.

We cannot do this alone, however. We need to do it together with our staff, clients and suppliers, and all other stakeholders who are as committed as we are to supporting the transition to a lower-carbon and more climate-resilient economy.



Global challenges need to be addressed as a society, and that is our strategy. We want to walk **together** with our staff, clients and suppliers in the transition to **net zero** and **adaptation to climate change**.

2015

Measuring our emissions. ProCredit began its journey on climate action in response to the Paris Agreement, creating a tool that supports the company in collecting, assessing and disclosing our internal emissions.

2019

Sustainable supplier screening and assessment. Implementation of a system to assess suppliers in terms of sustainability, including environmental measures related to climate mitigation (e.g. green labelling, energy efficiency measures, renewable energy).

2021

First loan portfolio emissions accounting.
We reported our portfolio emissions (Scope 3) following the Partnership for Carbon Accounting Financials (PCAF) standard.

2023

Inauguration of our own 3 MWp PV park in Kosovo.
With this project, we aim to avoid 4,000 tCO₂eq of emissions annually.

..... 2018

Setting our first target. We initially set the ambitious target to achieve carbon neutrality in our own operations (Scope 1 and 2 emissions) and a 20% green portfolio by the end of 2023. Our progress in emissions reductions is displayed in the graphic on page 5.

..... 2020

Assessment of physical climate risks in the agricultural sector. We assessed the effect of incremental and acute climate changes (temperature, rainfall and sea level rise, flood, drought, wildfire, and other hazards) in our countries of operation.

Plastic strategy was published with the aim of reducing plastic use by assessing related risks, supporting clients in reducing their use of plastic, promoting circular solutions and raising awareness.

..... 2022

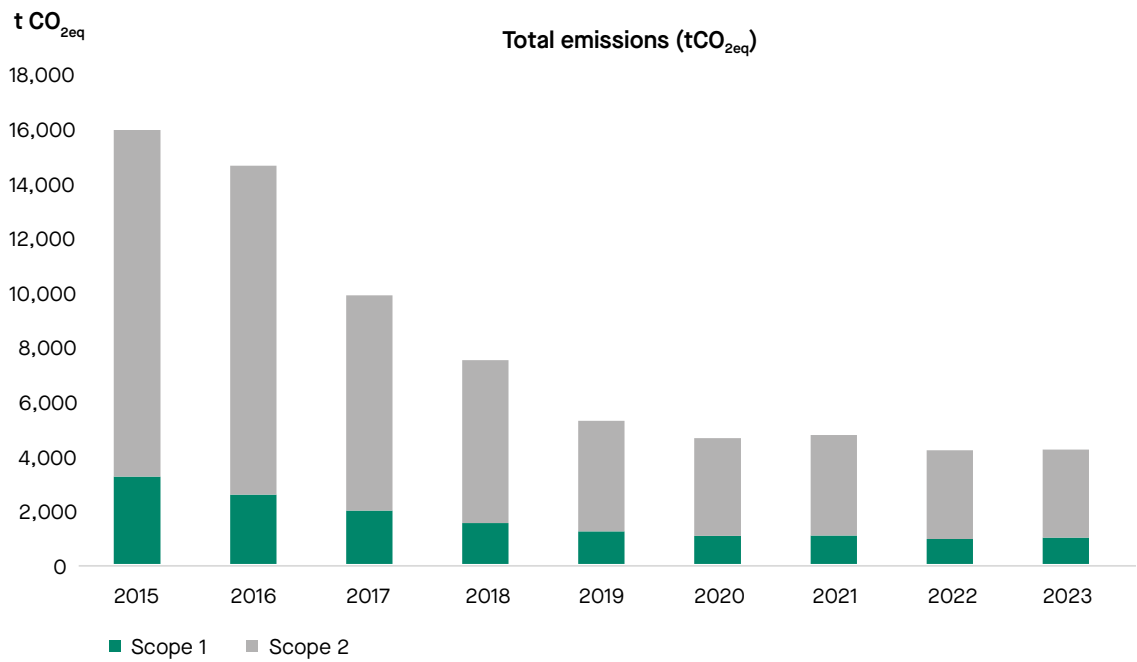
Portfolio assessment of climate risks and reaffirmed commitment to net zero. A physical and transition risk screening was conducted for the group portfolio. Furthermore, we joined the Net-Zero Banking Alliance (NZBA) and committed to setting near- and long-term emissions reduction targets for the group, in line with the Science Based Targets initiative (SBTi) Net-Zero Standard.

Achieving a 20% green portfolio. In 2022, we achieved our target of allocating 20% of our loan portfolio to support the green investments of our clients. (For more details, see our [Impact Report Package 2022](#), section: Sustainable Finance)

..... 2024

Net-zero targets were set and validated by the Science Based Targets initiative (SBTi) as aligned with the goals of the Paris Agreement.

Our emissions reduction since 2015

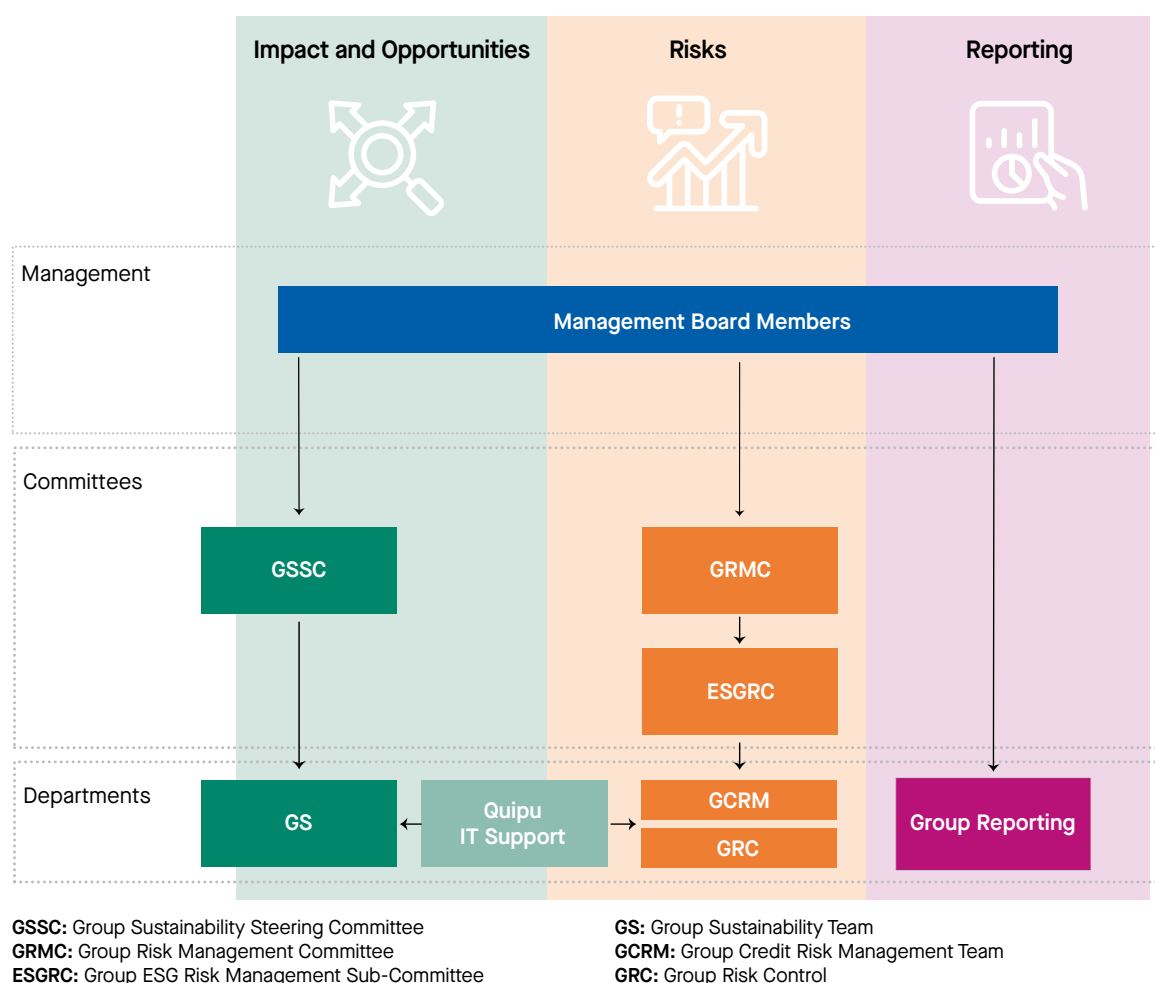


2. Governance on climate action

To structure proper governance on climate action, we considered the **double materiality** concept related to climate:

1. The **impact** of our operations on climate change through our direct and indirect emissions
2. The possible **financial effects (risks and opportunities)** that climate change has on the group

Furthermore, nothing can be improved if it is not measured, which underscores the importance of setting, monitoring and fulfilling our climate action goals. Therefore, to ensure that climate action is fully integrated into the group's organisational structure, the topic has been divided into three main areas – Impact and Opportunities, Risks, and Reporting – along with all the respective bodies, committees and departments as shown in the graphic below. With this structure we aim to ensure senior management oversight, clear definition of responsibilities, and regular reports on the topic. Moreover, our internal documents, including policies, procedures, plans and strategies, are reviewed annually to ensure continued relevance in our countries of operation.



Note: Cross-departmental working groups have been instrumental for setting up this strategy and further institutionalising these topics. Each department has updated its processes to incorporate the strategy.

3. Where we stand

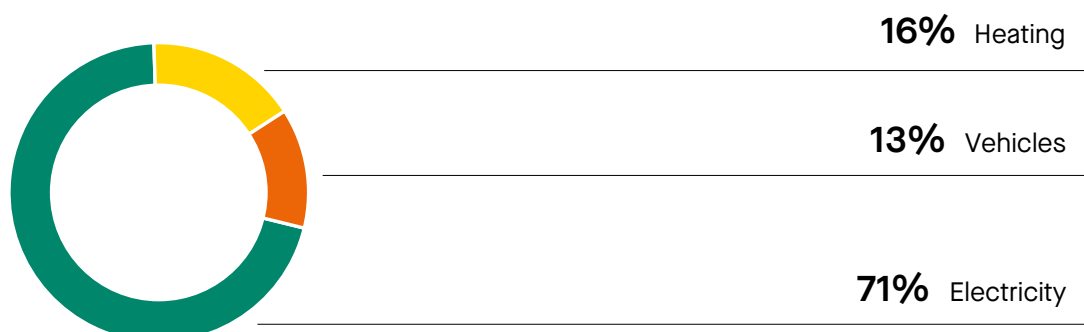
3.1 Where we stand: Our impact

Sustainability is a central part of our business strategy. This is reflected in the overall reduction of our Scope 1 and 2 emissions since 2015 and the improvements made to our environmental and social assessment system to identify possible negative impacts and risks posed by our clients' business activities. Of course, there is still work to do, so it is important to know where we stand.

Scope 1 and 2 emissions 2022

4 ktCO₂eq

Scope 1 & 2 by source FY 2022



Scope 3 financed emissions 2022

770 ktCO₂eq

GHG emissions of lending portfolio by sector activity 2022

Sector activity	Total outstanding (EUR m)	Attributed emissions (tonne CO ₂ eq.)	Data quality score (1=high, 5=low)
Agriculture (A)	850	358,424	4.2
Industry (C)	1,237	259,634	4.2
Retail (G)	1,417	53,822	4.2
Transport (H)	237	26,448	4.2
Utilities (D)	29	22,185	4.6
Construction (F)	362	15,751	4.2
Water distribution (E)	24	11,929	4.1
Minerals (B)	15	4,674	4.1
Other sectors	627	16,659	4.2
Total	4,800	769,527	4.2

Using the GHG Protocol and PCAF standards, we account for our Scope 1 and 2 emissions related to our lending activities. We define 2022 as our baseline year for setting our net-zero targets. The details of our emissions are disclosed in our [Impact Report Package 2022](#).

3.2 Where we stand: Our risks

Given our geographical outreach and loan portfolio composition, we are exposed to different physical and transition risks that arise from climate change. Our long-standing, borrower-level E&S risk assessment approach has now been complemented with analyses of:

Transition risk

- Our exclusion list reduces the group's exposure to transition risk by excluding certain high-risk activities from financing. Fossil fuel extraction is just one example of an emissions-intensive activity that is excluded from financing, which also limits the risk of stranded assets.
- We have set key risk indicators (KRIs) for transition risk and the risks arising from the environmental impact of our loan portfolio, and we monitor these on a quarterly basis.
- We assess our clients' and our own transition risk exposure by analysing the following aspects: policy and regulation risk, technology risk, and market risk arising from changes in consumer preferences.
- Forward-looking stress-tests based on the Network for Greening the Financial System (NGSF) scenarios help us to quantify the potential effects of climate change on our loan portfolio.

0 €

exposure in crude petroleum &
natural gas extraction

Physical risk

- We are identifying geographies in our portfolio that have an elevated exposure to acute and chronic physical risk such as: flood, drought, wildfire, etc. This knowledge supports the development of targeted adaptation and mitigation measures to address risks affecting our clients and our portfolio. Currently, our green loans support clients in implementing measures that address physical climate risks, and we aim to support them further in strengthening the resilience of their businesses. As an example, 15% of our green loan portfolio is allocated to the agricultural sector (e.g. irrigation systems that directly address such risks).
- As the impact of climate hazards is likely to increase over time, we are conducting stress-tests to estimate the future climate risk exposure in our loan portfolio.
- To support the resilience of our clients' businesses and, in turn, our portfolio, we take physical climate risks into account when assessing client credit risk. Client geolocation data helps us monitor our exposure to physical climate risks via defined KRIs.

15%

of all green loans in
agriculture

19%

of group business loan portfolio
in agriculture

4. Our strategy

1. Net zero by 2050

We have committed to reaching net zero emissions by 2050. This includes reducing our own emissions (Scope 1 and 2) as well as those related to our loan portfolio (Scope 3, category 15).

2. Building a climate-resilient portfolio

We strive to take account for climate change-related (physical and transition) risks throughout our risk management framework and we support our clients in making their businesses more resilient in coping with such risks.

Mitigation

Actions to reduce emissions that cause climate change



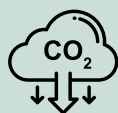
Energy efficiency

Renewable energy



Waste management & recycling

Low-carbon transportation



Low-carbon products & services



Sustainable agriculture



Climate-smart infrastructure

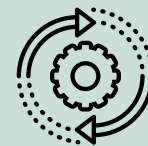


Water and energy conservation

Adaptation

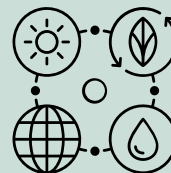
Actions to manage the impacts of climate change

Extreme weather insurance



Business model transition

Climate-resilient infrastructure



Biodiversity conservation

4.1 Our strategy: Net zero by 2050



Net zero by 2050

We have committed to reaching net zero emissions by 2050. This includes reducing our own emissions (Scope 1 and 2) as well as those related to our loan portfolio (Scope 3, category 15).

1. Reducing our own footprint first

- Through measures implemented across our operations and supply chain, we aim to reduce our own emissions by 42% before 2030 (2022 as the baseline year). We plan to achieve this goal by increasing the share of renewable electricity suppliers and electric cars and by introducing energy efficiency measures both at our premises and in our processes.

2. Supporting our clients' transition

- We will help our clients in their efforts to decarbonise, from emissions accounting and setting reduction targets to getting the financial support they need to implement their strategies. We want to continue to be their “Hausbank” during this transition. Our target for 2027 is to engage with the clients responsible for 28% of the total emissions arising from our portfolio, supporting them in setting their own targets. Here, we will focus on the agriculture and manufacturing sectors.

3. Prioritising low-carbon activities

- By implementing strengthened environmental and social criteria in lending, we support the shift of business loan portfolio growth towards less carbon-intensive activities.

4. Promoting green electricity (project finance)

- Our energy project financing activities consist exclusively of renewable energy (RE) projects, and we will continue supporting the deployment of renewable energy projects in our countries of operation.

5. Increasing support for green investments

- Currently, 20% of our portfolio is allocated to supporting our clients in the acquisition of green assets, such as energy efficient equipment, PV systems, green buildings, e-cars, waste management equipment and other items. In the next 5-7 years, we aim to increase this share to 25%.

4.2 Our strategy: A climate-resilient portfolio

Building a climate-resilient portfolio

We strive to take account for climate change-related (physical and transition) risks throughout our risk management framework and we support our clients in making their businesses more resilient in coping with such risks.



1. Integrating climate risk into our risk management framework

- Integrating climate risk into the Internal Capital Adequacy Assessment Process (ICAAP) stress-testing framework.
- Ongoing analysis of the materiality of specific climate risks, as part of the risk inventory update process.
- Ensuring a robust internal governance setup for managing climate change-related risks, and subsequent rollout to subsidiary banks.
- Defining key indicators for climate risk monitoring and management.

2. Identifying climate risk clusters in our portfolio

- Conducting regular analyses and mapping of transition risk and physical climate risk, at the level of economic subsectors and specific geographies.

3. Supporting our clients

- Providing green loans to our clients in order to boost their resilience to climate-related risks and reduce their transition risks.
- Collecting relevant client data for granular climate risk analyses in the medium term.

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