



ProCredit
H O L D I N G

Group Climate Transition Plan



Contents

1. Executive summary	2
2. Introduction	3
3. Foundations	4
3.1 Mission	4
3.2 Strategic ambition	4
3.3 Risk identification and materiality assessment	5
3.4 Commitments and regulation to achieving net zero	5
4. Environmental, social and governance framework	6
4.1 Board oversight and reporting	6
4.2 Management roles, responsibility and accountability	7
4.3 Culture, skills, competencies and training	8
5. Implementation strategy	9
5.1 Target-setting	9
5.1.1 Developing net-zero targets	9
5.1.2 Developing climate risk KRIs	10
5.2 Stakeholder engagement	10
5.2.1 Engagement with internal partners	10
5.2.2 Engagement with value chain	10
5.2.2.1 Sustainable procurement guideline	11
5.2.2.2 High-level client engagement approach	11
5.2.3 Public advocacy	15
5.3 Risk management	16
5.3.1.1 Credit risk	17
5.3.1.2 Operational risk	18
5.3.1.3 Stress testing	18
5.4 Monitoring	19
5.4.1 Monitoring our own operations	19
5.4.2 Monitoring client engagement	19
5.4.3 Monitoring risk	20
5.5 Products and services	21
5.6 Supporting tools	22
6. Metrics and targets	22
6.1 Financial metrics and targets	22
6.2 GHG metrics and targets	23
6.3 Carbon removals	24

1. 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 emphasises 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 gas metrics and targets, set under the SBTi framework.
- **Environmental, social and governance (ESG) governance:** The plan emphasises 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 the 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 the 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 prioritising sustainability, the plan reinforces the ProCredit group's position as a responsible banking group and supports engagement with clients and investors who value environmental and social considerations in their decision-making.

Overall, the Group Climate Transition Plan serves as a guide for the group's transition towards a lower-carbon business model, setting out the measures, targets and governance arrangements supporting the implementation of its climate-related objectives.

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 emissions. It also highlights the group's dedication to supporting clients in their decarbonisation efforts and ensuring compliance with international standards and regulations.

2. 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 minimising the environmental impact of its operations and lending activities. Our measures have helped us achieve significant milestones, such as reducing our Scope 1 and 2 CO₂ emissions by 71% relative to 2015 levels, as well as increasing the share of green loans to 19.4% of the total portfolio.

The group's mission emphasises 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 our 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 our commitment to environmental and social responsibility, emphasising 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 at ProCredit Holding.

3. Foundations

3.1 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 maintain an open, professional, and efficient working environment. This enables us to deliver friendly, knowledgeable, and effective service to our clients.

3.2 Strategic ambition

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

3.3 Risk identification and materiality assessment

In order to identify the relevance of ESG risks, including climate risks, 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 Climate Transition Plan focuses on these risk types.

For customer credit and operational risk, we have evaluated close to 40 climate physical and transition risk drivers, 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 the ProCredit group's markets and client segments include drought, water shortage, flood, and CO₂ price increases.

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

3.4 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. We are a member of the UN Environment Programme Finance Initiative (UNEP FI), which supports the group's implementation of its climate transition approach and stated net-zero targets, and also part of the UN Global Compact (UNGC), whose mission is to advance sustainable corporate governance. Up until its dissolution in 2025, we were also signatories to the Net-Zero Banking Alliance, which sought to strengthen the role of banks in supporting the transition of the real economy to net-zero emissions.

In addition, we 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 from the Greenhouse Gas (GHG) Protocol and the Intergovernmental Panel for Climate Change (IPCC), and have embedded their recommendations in our internal Environmental Management System (iEMS). And, for financed emissions, the group decided to become a 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 on our Environmental Standards website.

To prepare for the upcoming mandatory ESRS disclosure, 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.

4. Environmental, social and governance framework

4.1 Board oversight and reporting

A key element of the ProCredit group's governance approach is the institutionalisation of sustainability topics across all levels and functions of the organisation. 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 pursuing business opportunities, amplifying positive impact and managing risks through specialised committees. The overall management responsibilities are then allocated to individual members of the Management Board.

With regard 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 standardisation of sustainability/ESG risk-related topics, such as the Group Sustainability Team (GS), the 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 advises 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 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 the form of a scorecard with a short- and medium-term view.

With regard to ESG risk management, the following committees provide support and advice:

- The Group Risk Management Committee (GRMC) discusses, agrees upon, and recommends the group's Risk Strategy 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. Through a report, which is prepared monthly and discussed in the GRMC, 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 its sustainability initiatives, impact performance, and strategic goals annually through its Impact Report Package and Integrated Report. The reports emphasise 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 Standards), 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 former Net-Zero Banking Alliance (NZBA), and the Partnership for Carbon Accounting Financials (PCAF). Complying with these international organisations reinforce our commitment to responsible banking, demonstrating adherence to international sustainability standards.

4.2 Management roles, responsibility and accountability

ProCredit Holding is the parent company and the superordinated entity of the group, and 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 Board and the Supervisory Board. The Management Board consists of six executive board members and is tasked with ensuring 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. The 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 emphasises 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, in keeping with the company's mission and values. A detailed description of the structure can be found in our Corporate Governance Statement.

4.3 Culture, skills, competencies and training

As an institutionalised topic, ESG standards are part of our Code of Conduct, which includes statements on the group's aim to minimise the 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 group's 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.

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

This awareness is achieved and supported by regular training on ESG topics, such as our annual environmental training sessions. 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 receive continuous training on the topic of net zero that highlights the urgency of decarbonisation and outlines the group's dedicated strategy for emissions reduction and climate action. The training also fosters the practice of client engagement and familiarises participants with the economic and regulatory factors that incentivise MSMEs to embrace net-zero objectives. In this regard, the 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 for fostering energy efficiency, renewable energy, and other environmentally friendly investments by our clients through our green loan offer. We will continue to invest in further building the competence of our employees on this topic.

Furthermore, we have established a comprehensive training programme for our Environmental Risk Officers (EROs), i.e. credit risk staff with additional expertise in environmental and social risk assessment. This programme 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. An additional ESG-specific training seminar for the ProCredit group's Credit Risk and General Risk departments was carried out in 2024, and the group is dedicated to further developing its internal skills and capabilities in ESG risk management.

Additionally, an ESG Risk Seminar was delivered to the heads of the General Risk and Credit Risk departments of the ProCredit banks, as they are the owners of the overall risk framework and responsible for overseeing the two risk types most materially impacted by climate change. Due to the valuable outcome of such events, seminars have been established as a regular format. Regular 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 applying these stringent criteria, ProCredit aims to ensure that the businesses and activities it supports are consistent with its environmental and ethical standards and contribute to sustainable development.

5. Implementation strategy

5.1 Target-setting

5.1.1 Developing net-zero targets

As part of 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 emissions and contributes 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 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. In line with the 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. To obtain approval from the SBTi, our targets had to be consistent with the goal of limiting the 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 our progress towards reaching our targets annually.

By setting and validating science-based targets that align with the latest climate science and the goals of the Paris Agreement and taking a structured approach enabled by a third-party organisation, the group aims to ensure transparency and accountability while strengthening the alignment of its climate targets with internationally recognised climate goals.

5.1.2 Developing climate risk KRIs

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 5.4.3.

5.2 Stakeholder engagement

5.2.1 Engagement with internal partners

Engagement with internal stakeholders is a cornerstone of the group's approach to sustainability. This engagement is centred on 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 organisation.

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 organisation.

Additionally, we hold a general assembly every year at which 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.

5.2.2 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 prioritise 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.

5.2.2.1 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 suppliers¹. 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.

5.2.2.2 High-level client engagement approach

Our client engagement approach is a process in which we aim for our borrowers to set their own net-zero² targets and have them validated by the Science Based Targets initiative (SBTi). We believe it is imperative to apply this process 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.

Following the SBTi's approach for financial institutions, our near-term Climate Action Strategy centres on engaging with the clients who collectively account for 28% of the 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.

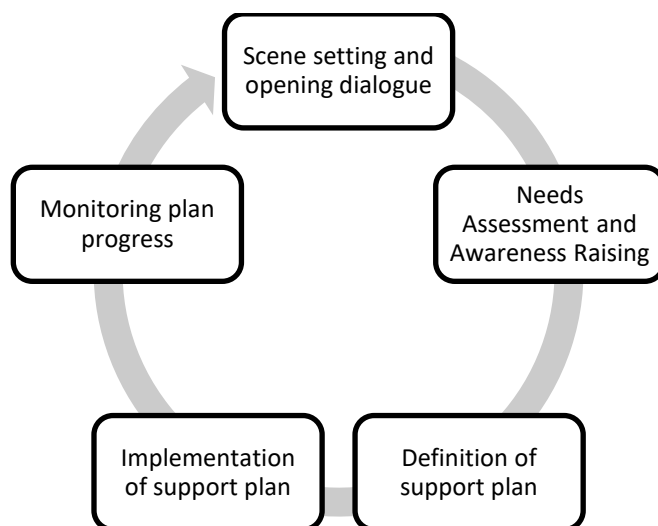
¹ A supplier is classified as significant based on their role in business operations (essential or supporting activities) and financial expenditure. Detailed criteria for classification can be found in the Sustainable Procurement Guideline.

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.

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 CO₂ reduction targets. These ambitious goals align with scientific guidelines and ensure that emissions 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 this step would suffice for us to reach our SBTi-validated near-term 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, or electro mobility to sustainable practices aimed at decarbonising operations.

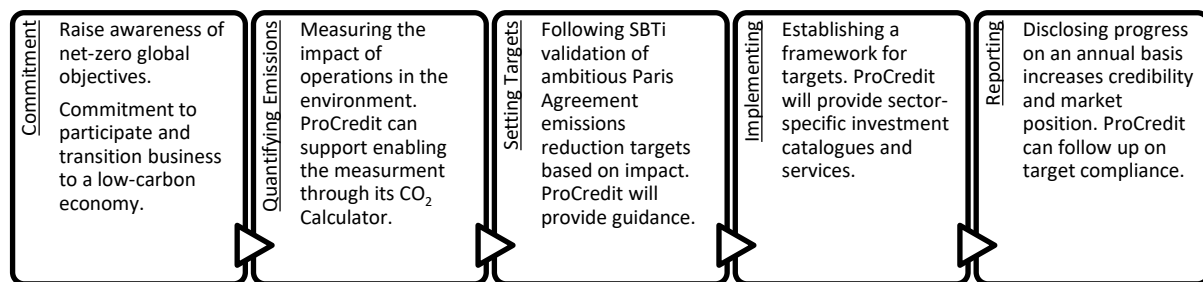
Additionally, by adopting the engagement recommendations outlined in the "Guidance on Client Engagement" from the UNEP FI Principles for Responsible Banking, we aim to build strong relationships with our clients, helping them transition to more sustainable business models and technologies. From these recommendations, we believe that 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 consisting of several stages, including scene-setting and an opening dialogue, conducting a needs assessment and raising awareness, 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 with clients by communicating the bank's commitment to supporting net-zero objectives. This stage includes presenting the bank's sustainability and impact targets, as

well as the results of risk and impact assessments, to clients. It is also important to outline the benefits of a sustainable approach to business through the ProCredit group's Net Zero Toolkit for MSMEs. The objective is to assess where clients are in their sustainability journeys and to identify their willingness to engage in discussions on climate change and decarbonisation.

This assessment has been labelled the “clients’ sentiment”, and it forms the basis for going forward with support. In order to be able to develop an effective support system for each client, it is important to keep a record of the clients’ reasoning behind their sentiment. Knowing how our clients perceive the issue of climate change will help us identify their willingness to pursue the path towards net zero. Hence, it is also important for clients to understand the process, 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 its clients’ 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 involve producing an initial GHG inventory of clients’ emissions with the ProCredit group’s CO₂ Calculator and indicating the SBTi requirements for each client.

Definition of a 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 its clients, the bank develops a tailored support plan based on their 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 decarbonisation options based on sector-specific investment catalogues, along with financing services and incentives. This helps clients understand the implications and realisation of their sustainability and impact targets.

Implementation of the support plan: For this stage, the bank provides products and services to support clients’ decarbonisation efforts. This involves formalising and initiating investments in the clients’ operations. The goal is to provide clients with the resources they need to implement their plans effectively.

Monitoring the progress of the plan: The final stage involves consistently reviewing the progress clients make against their decarbonisation targets. The bank uses collected data – preferably through the CO₂ Calculator – to ensure that 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-departmental objective, all departments must join forces to ensure the successful implementation of the client engagement process. The responsibilities of each team are as follows:

Sustainability Unit: This team leads the implementation of the client engagement process across the bank. They provide the necessary resources and expertise to ensure that 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 in accordance with 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, by providing incentives in our services (e.g. preferential conditions or access to technical assistance or industry events organised or 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. with the CO₂ Calculator or loans to foster their progress in achieving their targets).
- Continually 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 clients about the importance of stringent regulatory requirements that might affect their 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 stakeholders in each sector by promoting and enabling spaces where clients can share experiences and learn from other participants who are already taking action.

5.2.3 Public advocacy

We are currently engaging in public advocacy through various local memberships, such as the United Nations Global Compact (UNGC) local networks, through our participation in banking and other industries associations, and in 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 by following the recommendations set forth by the former Net-Zero Banking Alliance (NZBA) and leveraging the lessons learned from our local advocacy efforts to date.

Our forward-looking approach for public advocacy will focus on the 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 organisations, and other financial institutions. This collaboration will help us to amplify our impact and drive meaningful change in public policy.

By reinforcing 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.

5.3 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, should they occur, have – or may potentially have – significant negative impacts on our assets, financial and earnings situation, or reputation. ESG risks can have a significant impact on the known risk types and can become a contributing 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, 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 section starts by laying out how we manage environmental/climate risks as an institution in a broader sense (O) and then presents how we specifically monitor the risks arising from our transition planning.

Integration into risk processes

An institution’s 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
- A 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 and processes. This covers risk identification (see section 3.3), risk measurement and assessment, risk mitigation, risk reporting and monitoring, as well as risk governance (see also section 4).

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 and operational risk, ESG-related KRIs have been identified (see section 5.4.3). These indicators 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 (5.3.1.1 to 5.3.1.3) describe some key aspects in this regard.

5.3.1.1 Credit risk

Physical climate risk at portfolio level

Physical climate risks in the ProCredit group loan portfolio have been analysed in a high emissions climate scenario (IPCC RCP 8.5)³. The analysis models the exposure of the loan portfolio to 14 physical climate hazards⁴ over three different time periods: until 2040, 2041-2070, and 2071-2100. Due to our capital planning horizons and the maturity structure of the loan portfolio, we are focusing 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 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 a high exposure to physical climate risk were identified on group level, namely in crop and animal production, hunting and related service activities, and the construction of buildings. The materiality threshold of 3% is set in accordance with the 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

The ProCredit group has compiled 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.

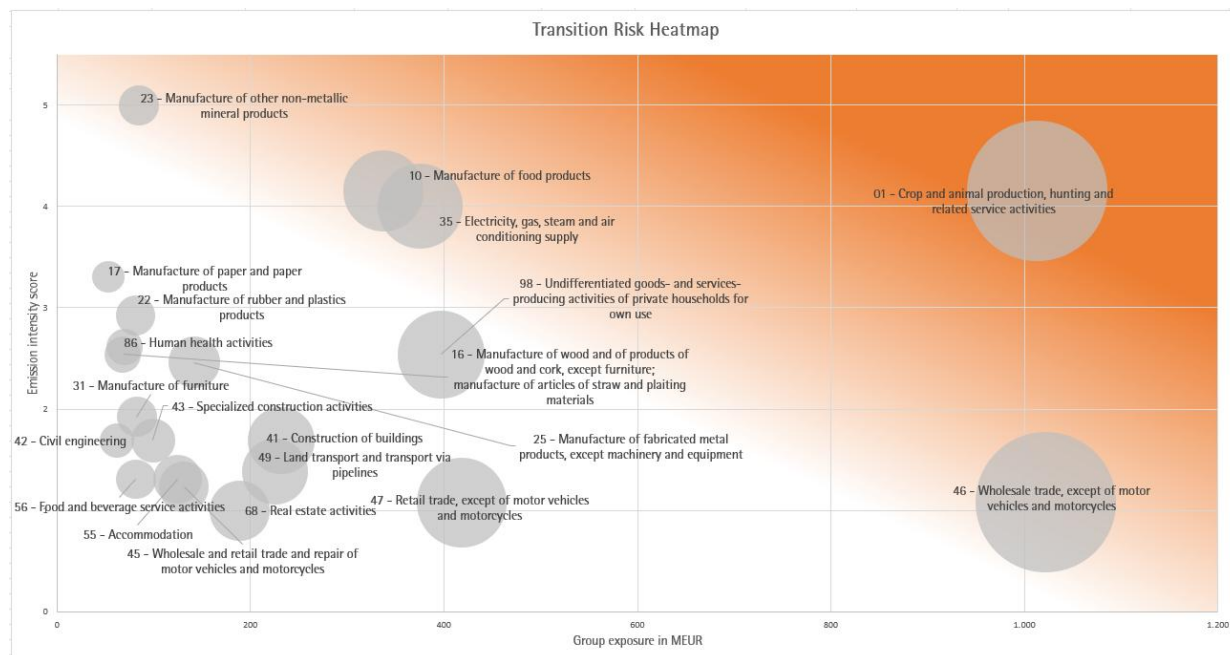


Figure 1: Transition risk heatmap Q1 2024

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.

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 – which contributes to our client engagement strategy and encourages clients to set science-based targets. With this step we aim 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. Furthermore, the group is developing climate risk scores as part of an ESG risk score which will be integrated into the borrower-level assessment process. This step will enable us to further quantify climate risks on the borrower and portfolio level.

5.3.1.2 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 regard 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 utilised as inputs 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, whereby 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 a Business Impact Analysis (BIA). Results from both the TA and BIA are used to support the business continuity strategy and planning.

5.3.1.3 Stress testing

As part of the group ICAAP, ProCredit performs various stress tests, including simulations of the impact of physical and transition risks across the economic sectors and geographical

regions in which the group operates. The transition risk scenario simulates a rapid political and regulatory shift towards a sustainable, net-zero economy, in line with the corresponding NGFS scenario. It implies immediate policy reactions, rapid technological change and a sharp increase in carbon pricing across all sectors. With regard to physical climate risk, an extreme drought is simulated, leading to a greater increase in defaults in the agricultural portfolio compared to the remaining portfolio. The drought event is assumed to affect all countries in South Eastern and Eastern Europe simultaneously.

5.4 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 emissions reductions across our own operations, as well as the progress of our strategy for engaging with clients who have a significant carbon footprint. In 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.

5.4.1 Monitoring our own operations

The ProCredit group is committed to rigorous environmental management in accordance with our Environmental Management Policy. Our internal environmental system is monitored through the iEMS tool, which calculates emissions through conversion factors, adhering to the GHG Protocol and IPCC guidelines. Our approach includes a 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 analyse 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 our own operations, we consider the composition and impact of our vehicle fleet as well as the share and consumption of electricity from renewable sources.

5.4.2 Monitoring client engagement

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

- **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. With regard to the engagement process and our clients' positioning along the path to net zero, the following categories apply:

- **Not engaged:** Clients who have not yet been approached about climate change and net-zero opportunities.
- **Approached:** Clients who have been approached but express 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 who are also quantifying emissions using an acceptable methodology (e.g. the ProCredit CO₂ Calculator, GHG protocol, IPCC assessment, or other relevant tool).
- **Net-zero targets set:** Clients who have already set net-zero targets for their operations under the SBTi framework.
- **Net-zero targets validated:** Clients who have validated their net-zero targets for their operations under the SBTi framework.
- **Implementing measures:** Clients who have validated targets and are implementing measures to reach these targets, preferably through financing with a ProCredit bank, where a loan must be identified as Green
- **Reporting impact:** Clients who disclose their impacts on a regular basis.

While assessing our 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 already taking action).

5.4.3 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 a high environmental impact (as a percentage of the total loan portfolio)
- Exposures to economic activities subject to high transition risk⁵ (as a percentage of the total loan portfolio)
- Additionally monitored metric: exposures with an environmental and social risk assessment (as a percentage of the 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 regard 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 whether they result in a financial impact. The thresholds established for this KRI account for both the materiality and the number of 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, it is escalated to Management Board members on an ad hoc basis.

5.5 Products and services

The ProCredit group is dedicated to balancing financial sustainability with positive impacts on the economy, environment, and society. The group emphasises long-term relationships with clients, a 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 ensure that its green lending operations have a comprehensive environmental impact, the ProCredit group has developed and implemented a robust methodology for green loan selection that applies stringent eligibility criteria and thus clearly differentiates green loans from other types of loans. Our green loan portfolio comprises three main investment categories: energy efficiency (EE), renewable energy (RE) and environmentally friendly measures (Gr). Eligible projects include those classified as eligible environmental measures, such as sustainable agriculture, sustainable buildings, renewable energy systems, and waste management solutions. The framework excludes investments in fossil fuel-based technologies, ensuring that financed projects target activities with clear environmental benefits.

The ProCredit group continuously maintains, updates and expands its green lending criteria to support the environment and promote the economic growth of its clients. The rigorous selection process described above underlines ProCredit's commitment to sustainability and responsible lending based on best practices. Additionally, one part of our eligibility criteria

⁵ Economic activities with a 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.

has been outlined in our Green Bond Framework to ensure that funded projects have a significant environmental impact.

5.6 Supporting tools

In line with our commitment to achieving net-zero greenhouse gas emissions, we are dedicated to implementing a comprehensive strategy that addresses the main challenges. For a financial institution, this primarily entails achieving a positive impact through investments; to achieve this objective, we focus on creating tools to support our clients in following a path that encompasses awareness, measurement, analysis, and reporting.

To this end, we utilise the following resources:

- We created the Decarbonisation Guide for MSMEs, which encourages businesses to take action and ensures a well-informed approach.
- To support clients in quantifying their impact, we have developed a CO₂ 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.

6. Metrics and targets

6.1 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 prioritising 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 allocated specific amounts of money for capital or operating expenditures 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 group's processes and policies.

6.2 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 in terms of 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 this commitment, 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 significantly reduce vehicle emissions by 34%, with emissions from charging the EVs already factored in. Notably, this reduction can be realised by successfully implementing the plan in the first three countries as illustrated in figure 5.2(b), which indicates the potential emissions reduction and the number of non-EV vehicles in the fleet.

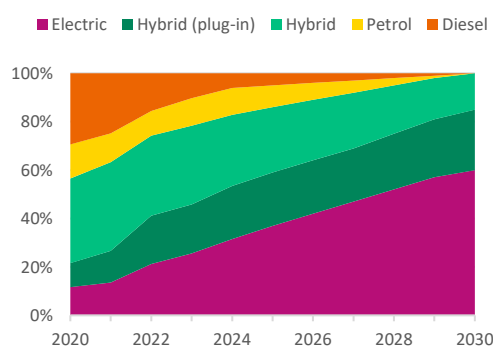


Figure 5.2(a) – Fleet composition

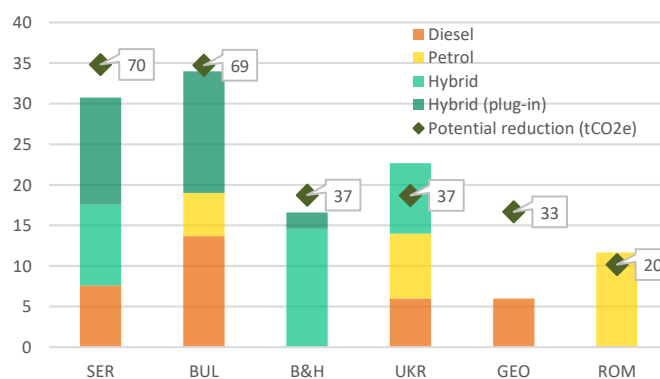


Figure 5.2(b) – EVs potential reduction per country

As part of our target, the group aims to reduce the share of non-renewable electricity sourcing to 48% by 2030 as compared to the 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 this measure in these countries, we expect to see a reduction of 60% in electricity emissions.

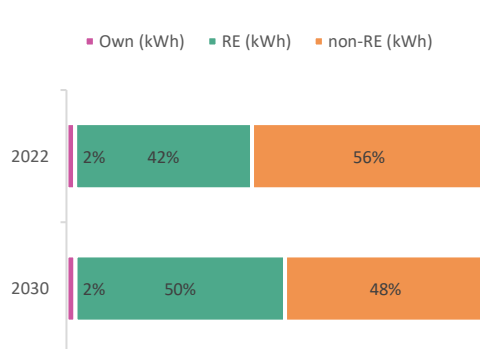


Figure 5.2(c) – Electricity sources

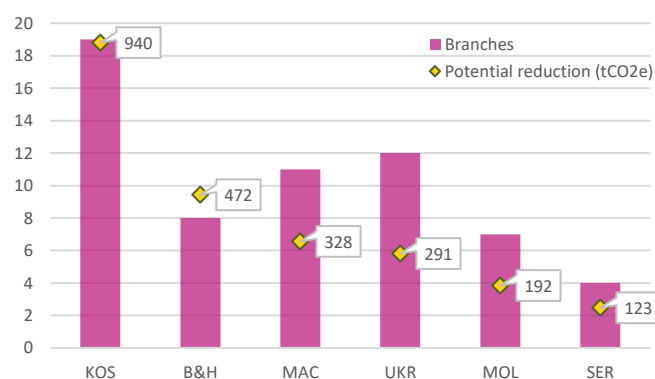


Figure 5.2(d) – GoOs potential reduction per country

Additionally, ProCredit's Scope 3 targets involve engaging with clients responsible for 28% of its portfolio emissions and encouraging them 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 the target is dynamic and moving, 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.

In line with the criteria of our Green Bond Framework, which ensures that the group only supports projects involving energy generation from renewable sources, we are committed to upholding this provision through 2030.

The ProCredit group has set itself clear and measurable goals to reduce its GHG emissions across all scopes, emphasising 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.

6.3 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 considerable uncertainty about measuring the impact of the projects we have implemented. Even if reporting on such carbon capture projects were compulsory, the impact would be insignificant in comparison with our total greenhouse gas emissions, which is why we focus primarily on reducing the latter.



ProCredit Holding AG
Rohmerplatz 33-37
60486 Frankfurt am Main
Germany

Tel. +49 69 95 14 37 0
PCH.info@procredit-group.com
www.procredit-holding.com

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