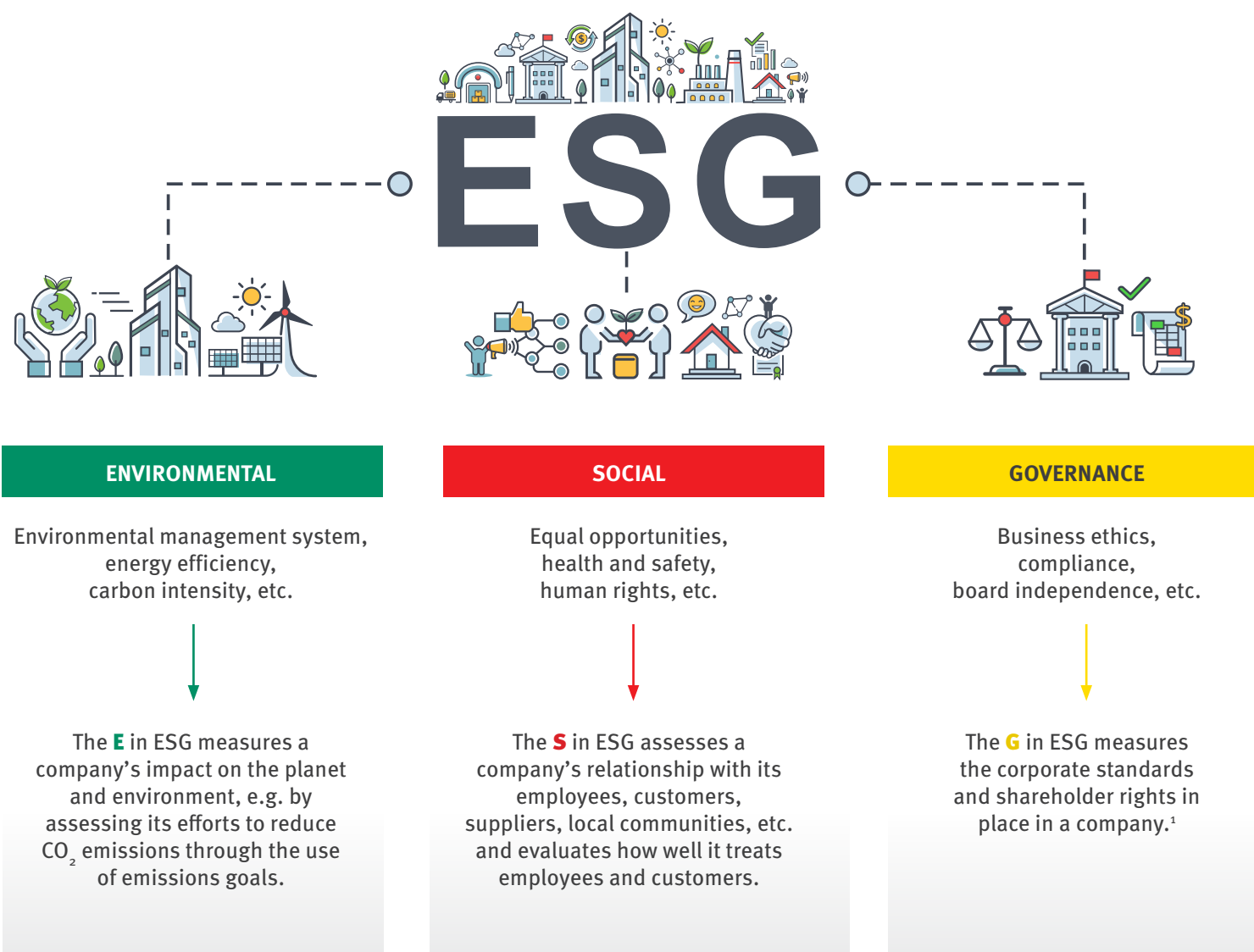


What are ESG indicators and why do they matter?

ESG stands for “environmental, social and governance” and reflects a company’s measures and long-term commitment towards the community, the environment and social impact. ESG indicators are used to determine the sustainability performance of companies.



¹ Complete guide to ESG investing, SustainFi (2021), <https://sustainfi.com/articles/esg-investing/>

What are ESG ratings?

ESG ratings focus on evaluating the sustainability of a company based on its own performance versus the performance of a peer group.² The ESG risks and opportunities evaluated depend on the industry in which the company is active.³ That is why the indicators used for this assessment can vary. However, corporate governance is examined in all industries, due to its universal significance.

An outstanding ESG rating reflects a company's efforts and performance regarding its social and environmental responsibilities. It can help investors to identify opportunities or risks to a business which might not be detected through conventional financial analysis.



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How are companies rated?

Only listed companies are issued ESG ratings and there are various ESG rating systems used by different agencies, for example, MSCI (Morgan Stanley Capital International), ISS (Institutional Shareholder Services) and Sustainalytics. These are the most favoured rating agencies, due to their broad coverage.

The agencies use publicly available ESG data sources for their assessments, such as company reports and other media sources. In addition, some have their own platforms or are in contact with issuers (company assessed), in order to complement the information used in the assessment.

A company needs to establish a sound ESG governance structure with sufficient ESG management policies, systems and internal controls, as well as implement measures needed to optimise performance and achieve a good ESG rating.⁴



² What is an MSCI ESG Rating?, MSCI (2017), <https://www.msci.com/our-solutions/esg-investing/esg-ratings>

³ Why ESG is here to stay, McKinsey & Company (2020),

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay>

⁴ What is ESG rating?, Deloitte (2022), <https://www2.deloitte.com/cn/en/pages/risk/articles/what-is-esg-rating.html>

Our scepticism of rating agencies

Although ESG rating agencies have good criteria in place for the assessment of companies, some of them seem to carry out their rating based on the most common practices rather than what is actually of greater importance: “Rating agencies lack profundity from context and thereby can miss the mark in certain areas.”⁵

In the past, we have had to justify why we reject the systematic use of bonuses and why our equitable remuneration system does not align with the market standard of paying million-euro salaries for managers. In our view, bonuses do not align with the principles of good governance. Why? Because this practice reflects a type of self-serving behaviour on the part of individuals which does benefit society as a whole.

Furthermore, we have also been criticised for our audit structure and for not having a CEO who single-handedly takes decisions. At ProCredit, we believe that decisions should not be taken by a select group of individuals, but that these issues and possible solutions should be discussed by qualified staff with diverse points of view and qualifications. This feature represents a core element of our governance structure.

In the future, we would welcome a more in-depth debate on governance in the financial sector. When criticising the lack of depth demonstrated by ESG ratings agencies, it should be noted that it was exactly these common practices in companies that led to the last financial crisis and have proven to be dangerous to the entire banking system. Yes, our values and practices differ from most in the financial sector, but this is precisely what sets us apart from our competitors – even at the risk of receiving a lower ESG rating.

More information on this topic can be found in our Impact Report 2020 (p. 2ff. and p. 31ff.) available on the *ProCredit Holding website*.



Certification and standards

Different standards and certifications are used worldwide to disclose and report general or specific ESG indicators. The ProCredit group discloses its sustainability performance in accordance with GRI Standards and therefore fulfils the requirements of national and international ESG obligations and commitment, such as the EU-NFDR (Non-Financial Reporting Directive) and the Principle of Responsible Banking (PRB). Furthermore, the group is committed to disclosing specific indicators using international standards, such as the Partnership for Carbon Accounting Financials (PCAF) for CO₂ emissions and EDGE for green buildings.



More information about our ratings can be found on the *ProCredit Holding website*.



ISS ESG Corporate Rating | Prime status

ISS ESG Corporate Rating evaluates a company's performance with regard to environment, social and governance issues.

ProCredit Holding was rated "B-", which corresponds to "Prime". This status is only granted to industry leaders who fulfil performance expectations and have proper ESG risk management in place, in order to achieve sustainable development.⁶

B-

MSCI ESG | AA rating

MSCI ESG Ratings measure a company's resilience to long-term, financially relevant ESG risks. The MSCI approach employs a rules-based methodology to identify industry leaders and laggards, rating companies on an AAA to CCC scale.

ProCredit Holding's ESG rating is AA, which qualifies the group as a leader in its industry with regard to managing the most significant ESG risks and opportunities.

AA

ProCredit also has a Fitch rating. However, this is not based specifically on ESG indicators, but more on financial factors.

⁶ ISS ESG Corporate Rating Methodology, ISS Governance (2021), <https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

Banks' part

- Which ratings do you have?
- What is your procedure and assessment approach regarding clients and suppliers?
- Do you plan to acquire any ratings this year?
- Explain and share your experience about the rating process