



# Impact Measurement and Reporting Framework Supporting Documentation

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# Impact Measurement and Reporting Framework

## Supporting Documentation

### Purpose of this Document

This explanatory document serves as an appendix to the impact report of Erste Social Finance Holding. It summarizes and describes additional information such as the entity, stakeholder, methodologies, data processes, and verification steps that underpin the reported impact information. We have placed this content in a separate document to maintain the clarity and readability of the impact report, while still ensuring full transparency for audit and review purposes.

## 1 Entity overview

### 1.1 Ownership Structure

We, Erste Social Finance Holding GmbH are a subsidiary of ERSTE Stiftung (51%), a philanthropic foundation and core shareholder of Erste Group Bank AG re-investing dividend payments into social, cultural and European initiatives and Erste Group Bank AG (49%), a publicly listed banking group covering the Central and Eastern European market (CEE). We aim to combine the philanthropic values of ERSTE Foundation with the commercial business activities of the banking group, acting as innovation hub for financial literacy and social finance initiatives in Austria and Central and Eastern Europe.

Our focus lies on identifying unmet needs within the Social Sector. We therefore create innovative financial instruments (e.g. Quasi-Equity, Social Impact Bonds) and support initiatives to increase our investees capacities to become finance-ready. So far, we provided more than EUR 3.1 million<sup>1</sup> in form of Quasi-Equity to Social Businesses.

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<sup>1</sup> Status: 31.12.2024

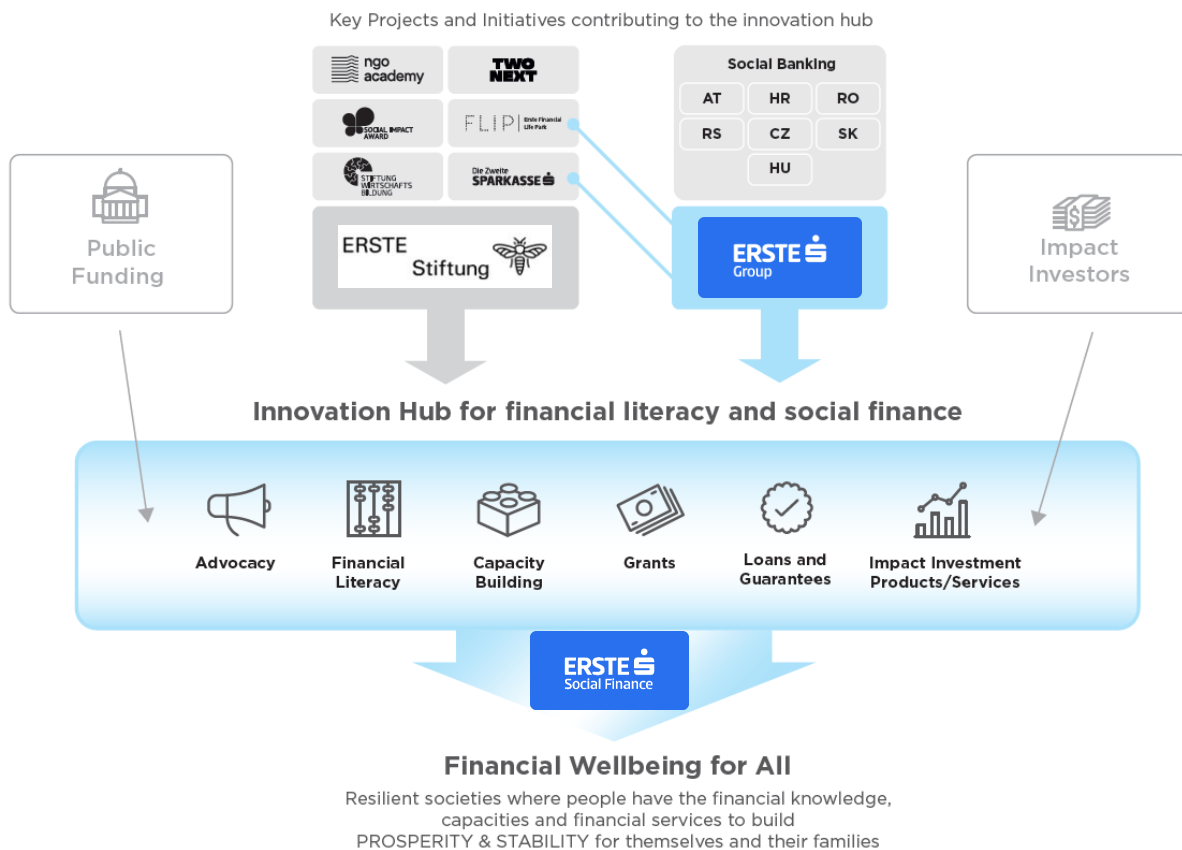


Figure 1: Overview Activities Erste Social Finance

As a social enterprise, we focus purely on impact-related topics within our activities as stated in our company policies. We reinvest our profits into growing more social businesses and building a strong ecosystem for impact-driven organizations. Most of our funding stem from our shareholders, combined with external third-party capital and partly supported through guarantee-instruments by the European Commission.

## 1.2 [Our vision and ambition](#)

### Our Vision: Financial Wellbeing for All

We envision a future where inclusive, resilient societies thrive - supported by access to financial knowledge and financial services that foster prosperity and stability.

### Our Ambition

Our ambition is to become the foremost hub for innovation in the field of offering financial literacy and social finance. We strive to transform financial infrastructure for a social purpose in CEE. We want to be there for those in

society who need our support the most and ensure that financial wellbeing for all is adequately addressed.

We as Erste Social Finance Holding serve the specific needs of all groups in society by understanding their potential, facilitating an open and honest dialogue on financial wellbeing and enabling access to financial know-how & tailor-made financial solutions for people and organisations in CEE to create intentional impact and achieve financial wellbeing for all.

Through our comprehensive approach, we aim to ensure that financial wellbeing is addressed for everyone across all the countries we serve.

### [1.3 Collaboration with local Social Banking entities](#)

In each country where Erste Group is present (Austria, Czech Republic, Slovakia, Hungary, Croatia, Serbia, Romania), additionally local Social Banking units within those local Erste Banks finance Starting Entrepreneurs, Micro Businesses, Social Organisations, Impact Businesses and support People in financial difficulties with standard bank products such as accounts and loans.

Erste Social Finance Holding complements those local offers by filling local financing needs and non-financial support gaps.

### [1.4 Stakeholder](#)

Our direct stakeholders are our investees (Social Enterprises/ Impact Businesses) receiving repayable financing and indirect stakeholders include their beneficiaries (e.g. people in need), our shareholder (e.g. Erste Group, ERSTE Stiftung), local Social Banking Units and external support partner (e.g. capacity building program provider; EU guarantees).

Our shareholder provides funding support for training programs, salaries and other related costs. The company itself is a Social Enterprise and has received the "VSE" Label (Verified Social Enterprise) by the Federal Ministry of Labour Social Affairs, Health, Care and Consumer Protection of the Republic of Austria. Any profits of Erste Social Finance Holding are being reinvested into creating impact.

### [1.5 Reporting Period 2024](#)

We are reporting the individual investee impact achievements on an annual basis, according to calendar years. Selected impacts are being shown on the portfolio level (e.g. number of jobs created). Internally we have two touchpoints with the financed entities per year to better manage and steer our impact and to gather related data.

## 2 Impact Thesis

### 2.1 Our Impact Model

We created our own “Theory of Change” (TOC) or Impact Value Chain based on the “I-O-O-I” model considering the Inputs, Outputs, Outcomes (Gross Impact) and Impacts (Net Impact) in financing of Social Enterprises or also called Impact Enterprises. We decided to include the results up to the mainly intended Gross Impact (Outcomes) as indirect results can be misleading and are very resource intensive to measure objectively. Overall – within the Financing and Investment Activities - we focus on measuring the impact of our financing on our investees and as well the impact of our investees towards their beneficiaries/ impact goals, but we do not measure how much of the investment is attributed to our activities but rather ask if it in general had a substantial impact or not.

### The ESF impact model – High Impact Enterprises

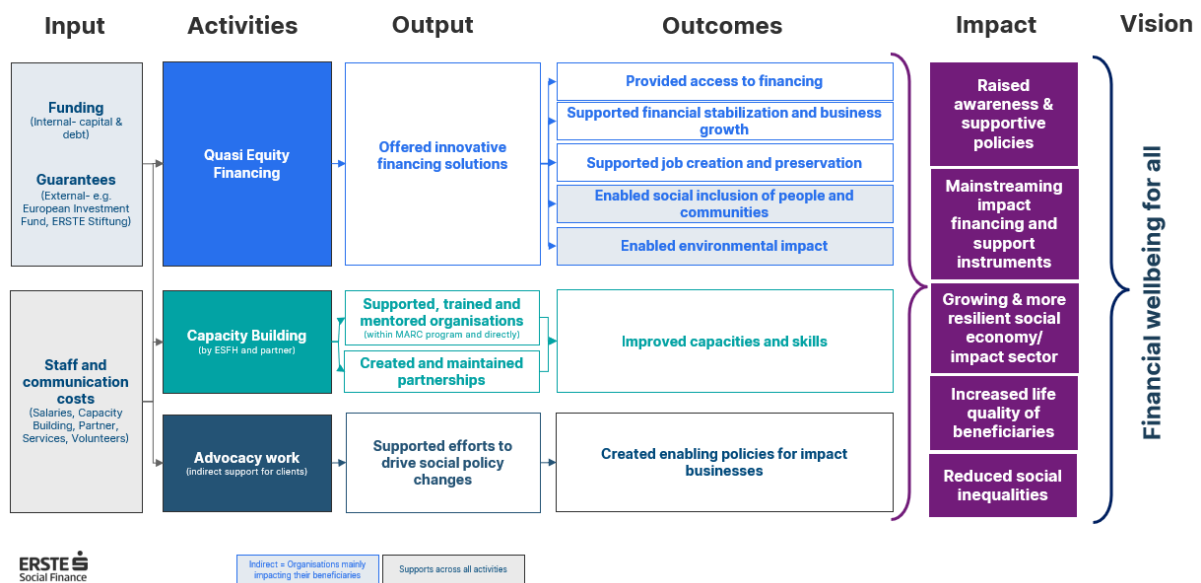


Figure 2: Theory of Change - High-Impact Enterprises

The main outcomes which we intend to create with our financing are:

- Improved access of finance
- Stabilization and business growth
- Job creation and preservation
- Enhanced social and environmental impact provided (achieved by the investee)
- Improved capacity and skills (via our capacity building programs)
- Creation of enabling policies for impact businesses (not tracked so far)

## 2.2 Contribution and Additionality

We contribute by providing access to financing only to those impact enterprises and organizations who have difficulties or no access to commercial financing due to their risk-return profile and to secure additionality. This aspect is verified during the due diligence process.

In addition to achieve additionality through providing financing, we deliver targeted capacity-building programs for organizations in the sector. We aim to address critical gaps in expertise and funding to help impact-driven enterprises grow, scale, and create lasting change. The goal is to empower entrepreneurs to turn bold ideas into sustainable solutions through expert consulting, financial readiness training, impact-scaling support, and access to a strong community network.

## 3 Impact Management Approach

### 3.1 Investment Process, Standards and Frameworks

We conducted an EU-supported research project recently, covering the Erste Group target markets in the CEE region concerning the status quo of the Social Economy. The results clearly showed that there are still gaps in financing the social sector which the current conventional financing industry could not fill so far. This underlines the importance of the work of institutions like Erste Social Finance Holding. We continue therefore to create dedicated financial instruments which can absorb more risk than the standard bank offerings (e.g. by using EU guarantees), don't take ownership rights, offer longer grace periods for repayment, adjust pricing according to the extent of how much of social impact is being generated, can have equity enhancing characteristics (e.g. Mezzanine financing) and link pay outs to the achievement of business and impact goals. Our products are ideally unlocking additional traditional bank debt financing to multiply our investments.

All our investments need to demonstrate a lockstep impact model, predicated on the synergy between business growth and social outcomes; as such, positive financial trajectories are viewed as indicators of scaled impact. Therefore, our investment managers are identifying (potential) investees who have impact as core of their business model. For example, an increase of turnover would be directly linked to an increase of impact, e.g. selling more products produced by more disadvantaged employees or more jobs can be created for underprivileged communities due to higher turnover.

We generate deal flow by collaborating with the most experienced and trustworthy ecosystem support agencies, local Erste Banks and targeted external promotion. To assess these social entrepreneurs, we apply the

European Social Entrepreneur Definition: social impact (including environmental objectives) is the primary objective of the company, most of the profit needs to be reinvested to grow the impact, and dividends can only be paid out to investors if impact goals were reached.

From the identification of potential investees up to the deal signing, impact is essential for our investment manager and internal decision bodies. Actually, we first identify if and what kind of impact is created by the potential investee and then assess the financial viability.

We follow a corporate assessment approach which includes qualitative and quantitative business and impact checks done by our investment and risk manager which include business case stress tests, results verifications and on-site due diligence visits. The financial assessment typically also relies on the infrastructure of the local bank, who acts as a co-financier, supported by external assessments if needed. Together with each investee, we define the targeted impact, indicators and goals pre-investment.

The final financing decision is then taken by an investment committee consisting of independent high level bank managers who assess mainly financials, business model and risk, and representatives of ERSTE Foundation assessing the impact model and targets.

During our investment period, we require limitations on the profit distribution to shareholders before not at least a substantial part of the expected impact has been achieved.

In the visual below you can see that the main investment process steps, ranging from generating leads, do initial assessments, go deep, structuring the deal, get the approval and closing signatures.

## High Impact Enterprises

Investment Process – Social Enterprises				
Lead Generation	Initial Assessment	In – depth Assessment	Deal Structuring	Approval/Signing
Deal sourcing via <ul style="list-style-type: none"> <li>• ESFH: conferences, contacts, etc.</li> <li>• Bank</li> <li>• Partner Organisations</li> <li>• Direct expression of interested organisations</li> </ul>	Check: <ul style="list-style-type: none"> <li>• Business &amp; impact model</li> <li>• duration of organization's existence</li> <li>• operational break-even reached (or close to it)</li> <li>• business plan</li> </ul> Personal/online meeting with client to discuss investment First alignment with bank on possible structure	Detailed Due Diligence: <ul style="list-style-type: none"> <li>• Check of credit history</li> <li>• Financial result analysis</li> <li>• Business plan evaluation</li> <li>• Impact model approval</li> <li>• Discussion with account manager and risk</li> <li>• Stress modelling of business plan</li> <li>• Verification of repayment capacity</li> <li>• KYC/AML check by bank</li> </ul> On-site visit Defining terms / structure	Structuring the contractual framework: <ul style="list-style-type: none"> <li>• financing terms</li> <li>• impact KPIs and goals</li> <li>• reporting</li> </ul> Contract negotiations with client Internal alignments with bank and risk department	Investment Committee Approval Final preparation of documents: <ul style="list-style-type: none"> <li>• Quasi Equity offer</li> <li>• Social enterprise declaration (incl. impact target)</li> </ul> Signing
<b>Goal:</b> ✓ Lead generated	<b>Goals:</b> ✓ First eligibility check done ✓ Rough financing structure developed	<b>Goals:</b> ✓ DD report ✓ Indicative term sheet	<b>Goals:</b> ✓ Deal structure finalised ✓ Investment Committee proposal established ✓ Contract drafted	<b>Goals:</b> ✓ Transaction approval ✓ Signing done

Figure 3 Investment Process - High-Impact-Enterprises

### [3.2 Impact Reporting Processes and Systems](#)

To ensure high standards of accountability and transparency, our impact reporting framework is overseen by a dedicated reporting function within our team. Impact monitoring is fully integrated into our investment lifecycle, beginning with a baseline assessment submitted during the funding application and verified through rigorous financial and impact due diligence. In addition, all applicants submit a self-declaration on their social enterprise status.

Post-investment, our team operates a bi-annual engagement cycle for data collection: Spring focuses on impact metrics and preliminary financial data, followed by an autumn cycle to finalize the prior year's financial results. For our annual impact report, data is consolidated on the portfolio level and mapped to the Sustainable Development Goals.

While impact indicators—typically limited to two per client—are self-suggested and not independently audited, they are closely monitored by our investment managers to ensure alignment with the overarching business case. This ensures a balance between the scope and depth of our data collection and the associated operational costs for our clients.

During due diligence, the bank establishes specific performance indicators for regular reporting by investees. By utilizing a "lockstep" model—where financial success and social impact are intrinsically linked—we use audited financial data as a reliable proxy for mission-related outcomes. This dual-purpose reporting ensures that every publicly audited statement also serves as verified proof of impact. This framework has been independently validated through an external impact audit conducted on a representative investee.

### [3.3 Identification of Stakeholders](#)

Initially, Erste Social Finance Holding and local Social Banking identified those organisations and enterprises which are important to create stability and wealth in CEE having positive impact on our communities and societies. Those were mainly NGOs and Social Enterprises or Impact Businesses.

Following, we analyzed what was hindering them to fully use their impact potential, which included target group interviews, gathering expert know-how and learning from research (e.g. Social Enterprise Monitor provided by Euclid),. It was clear that the lack of access to financing, due to their challenging risk-return profile, plays a big role there.

Paired with on-site visits and exchange with other international impact banks, we finally identified that Social Enterprises or Impact Business need additional innovative financial instruments and support compared to other impact driven organisations which local banks cannot deliver.

To find potential financeable organizations and to stay close to them we focus on partner- and memberships with long standing and experienced ecosystem supporters on local/ national and European wide levels, access to social sector network provided by ERSTE Stiftung and an enormous outreach via our local banks and branches.

During the investment process investment manager are asking each (potential) investee about their intended impact and goals they set to themselves and consult them in case they misplace outputs with outcomes or have difficulties to identify fitting indicators (e.g. using IRIS+ database where applicable). So far, we also identify potential expected and unexpected negative impacts during the investment process. In case of severe cases (e.g. child labor, production of weapons, unsustainable practices) or risk of mission drift this would lead to a negative investment decision.

The investment manager has regular update meetings and calls with the investees to identify the status quo of both business and impact and support them in solving potential (unexpected) negative developments. In case of more exhaustive support needs investees could get non-financial support in the framework of capacity building programs funded by local Social Banking units and ERSTE Stiftung.

### 3.4 Usage of Data

As part of the investment process identifying and collecting impact data already starts from doing first desktop research and having personal interactions with potential leads. Latest when signing the investment each potential investee must have defined their 1-2 main impact goals and indicators to measure those.

Continuously after financing, we collect the business and impact data from every investee at least once a year. The frequency depends also on the legal reporting duties and availabilities of the investees, as we do not want to add unnecessary reporting burden on our clients. Every investee who is looking for investments signs an agreement to provide us with such data within a given time frame and frequency.

Practically speaking our investment and data manager sends out a structured easy to fill out template to each of our investees using mainly digital channels (e.g. E-Mail). After receiving the filled-out template and clarifying any open issues, we store the data in our internal business and impact database.

Due to data protection and bank secrecy laws, we are limited in terms of details which can be publicly shared. We therefore have to focus on portfolio and individual impact results but refrain from publicly sharing impact targets and business-related data.

## 4 Impact Performance

### 4.1 Management Commentary (portfolio level)

On Portfolio level we are aggregating and showing the following outputs and impacts based on our provided financing to Social Businesses:

- Financial inclusion
  - Number of investees and volume of financing provided
  - Percentage of investees who could not receive funding before
  - Percentage of female managers
- Supported financial stabilization and business growth
  - Average turnover growth
  - Percentage of investees who improved their overall economic situation
- Supported job creation and preservation
  - Number of jobs created and preserved
- Improved capacities and skills
  - Number of organisations receiving training and hours of support sessions
  - Number of volunteers
- Created enabling policies for impact businesses
  - Number of official partnerships
  - Number of official memberships
  - Number of advocacy initiatives

Additionally, although not within our impact focus, we track the following:

- Gender of investee managers = percentage of female vs. male
- Focus of activities = Sustainable Development Goals (SDGs)

Within Erste Social Finance Holding impart report, we focus on and communicate only the intended positive impact results. Due to bank secrecy and data protection laws, we cannot share publicly any negative or unintended results which might have occurred or any other more detailed positive or negative deviated business or impact related results. We will try for the upcoming reports to at least share an aggregated view on impact results achievements.

Any of those presented results are directly based on investees' input, stemming from impact reporting templates filled out at least once per year or other available data sources and cross checked by our data officer and investment manager. In

our reporting approach, we prioritize ensuring that impact measurement does not create an excessive burden for our clients. Our goal is to define a limited number of valuable targets that align with both their interests and ours.

As of 31 December 2024, we have twelve clients with a total committed funding of EUR 3.1 million. As our portfolio continues to grow, we regularly reassess our impact management approach. Our objective is to integrate impact more deeply into the management process beyond due diligence. Through the nature of our investments mainly via debt instruments, the influence on impact after disbursement is limited. As a result, we aim to introduce more impact-linked financing mechanisms to incentivize clients financially to deliver greater impact.

#### [4.2 Impact Performance \(investee level\)](#)

The publicly published report includes the main impact areas, impact results and main SDG per investee. More detailed information about business related targets and details unfortunately cannot be shared publicly due to bank secrecy and data protection clauses.

Selected indicators were taken from IRIS+ database (where applicable and sometimes re-phrased for better understanding) and were incorporated within the internal investee reporting templates.

Investees are free to choose internationally acknowledged measurement units to describe their selected impact indicators to ensure readability and comparability (e.g. weight in kg or tons, number of, volume of). Especially in the area of sustainability, proxy figures have to be used to compare and calculate their impact achieved (e.g. reduced emissions compared to standard production).

The impact results are provided directly by the investees based on their filled-out impact reporting templates.

In most cases, an increase of turnover of investees business inherently increases their impact due to the core mission of their business model.

As part of the investment process, the investment manager assesses what kind of outcome the potential investee is contributing to and who is experiences the impact. As well the size of and depth of the applicant's impact is being challenged. The investment manager also checks if the contribution of the Social Enterprise would anyhow occur also without their intervention and even improves existing problem-solving approaches.

As impact is a core part of our investee business models the investment and risk managers try hard during the due diligence process to foresee if their projections, stress tests and risk mitigation plans are feasible.

So far, we judge the above-mentioned dimensions by stating if successfully incorporated or understood, or not. We don't yet provide scales or grades (e.g. IMP 1-5) as we believe it would raise even more questions due to subjective nature of such scales which hardly can reflect the vast variety of Social Enterprises within our investment portfolio.

Risk is describing the likelihood that the impacts will be different than expected.

#### 4.3 Unintended and/or negative impact

Our investment managers continuously discuss with our investees business and impact related developments including any unintended or negative impacts which might arise. If needed and feasible, remediating actions are being commonly discussed, agreed on bi-laterally and followed up by the investment manager during their common update calls or meetings.

## 5 Governance

### 5.1 Entity Governance

We commit to Erste Group Bank AG governance and several internal policies regarding topics such as Compliance Risk, Fraud Management, Conflict of Interest, Data Protection, Reporting Standards and Transaction Monitoring.

Further information about governance related topics, strategy, product portfolio, activities, client stories and the impact report can be found here:

- <https://www.erstesocialfinance.com/en/home>

### 5.2 Diversity, Equity, and Inclusion

Erste Social Finance Holding is adhering to Erste Group Bank AGs Code of Conduct paying attention to fairness, respect and sustainability in all activities in order to ensure harmonious cooperation.

Further information you can find here:

- <https://www.erstegroup.com/en/about-us/sustainability-esg>

### 5.3 Parent Company Governance

Interested parties are invited to delve into the most actual publicly available information of Erste Social Finance Holding main shareholders:

ERSTE Stiftung:

- <https://www.erstestiftung.org/de/foundation/>

Erste Group Bank AG:

- <https://www.erstegroup.com/de/home>
- <https://www.erstegroup.com/en/about-us/corpgov>