



ProCredit
H O L D I N G

ANNUAL ENVIRONMENTAL
PERFORMANCE REPORT

2016



Information about the report

The Annual Environmental Performance Report gives an overview of the Environmental Management Systems established in the ProCredit banks and of the main developments related to them in 2016. The scope of the 2016 report includes the following thirteen banks, split into four regions:

- **South Eastern Europe:** Albania, Bosnia and Herzegovina, Bulgaria (including a branch of ProCredit Bank Bulgaria in Thessaloniki, Greece), Kosovo, Macedonia, Romania and Serbia
- **Eastern Europe:** Georgia, Moldova and Ukraine
- **South America:** Colombia and Ecuador
- **Germany:** the ProCredit Bank in Germany

Whereas the qualitative information in the report relates mainly to 2016, some of the figures presented also refer to 2015 and 2014 for comparison reasons. The report considers the banks from the perspective of the ProCredit group as a whole; specific, country-based examples are provided when appropriate.

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Annex A: Classification by environmental risk of loan portfolios of the individual ProCredit banks as of December 2016

List of abbreviations and names

BCA	Business Client Adviser
EE	Energy efficiency
EMS	Environmental Management System
EMU	Environmental Management Unit
EUR	Euro
GHG	Greenhouse gas
GR	Environmentally friendly projects
IFC	International Finance Corporation
IPC	Internationale Projekt Consult
KfW	KfW, the German promotional bank
LED	Light emitting diode
MB	Management Board
PCB	ProCredit Bank
PCH	ProCredit Holding
SME	Small and medium enterprises
RE	Renewable energies
USD	United States dollar

1. Information about the group

The ProCredit group consists of development-oriented banks operating in Eastern Europe, South Eastern Europe, South America and Germany. Based in Frankfurt, Germany, the parent company of the group, ProCredit Holding, is responsible for the strategic management, capital adequacy, reporting, risk management, and business organisation of the group and also acts as a superordinated company from a regulatory point of view. At the consolidated level, the group is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht or BaFin) and the Deutsche Bundesbank. The development of the group is supported by its IT subsidiary, Quipu, as well as by the ProCredit Academy in Fürth (Germany), which is at the heart of ProCredit's staff development and knowledge dissemination infrastructure.

The ProCredit group is dedicated to an ethical corporate mission and benefits from a strong international and local reputation as an international development-oriented banking group. As such, the group aims to combine a high development impact with commercial success for its shareholders.

ProCredit banks aim to drive forward the creation of transparent, inclusive financial sectors in developing countries and transition economies. A functioning and fair financial system, which enables small and medium-sized businesses to invest and expand, is important for economic and social development. That is why our business model is very lean and laser-focused on supporting the small and medium clients that matter the most from a development point of view. We are convinced that these companies create jobs and make a vital contribution to the economies in which they operate. We concentrate on enterprises with stable, formalised structures, and attach particular importance to supporting local production, especially in agriculture. Our vision of development entails socially and environmentally conscious management, the diffusion of environmentally friendly technologies and information, and the creation of jobs. That is why we support businesses which, like us, have realised that economic growth cannot come at the expense of the environment.

In our operations, the group adheres to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent customer service for our clients.



2. The ProCredit approach to environmental management

Social responsibility is one of the core values that ProCredit group; therefore environmental awareness and protection has always been a matter of concern for the group. However, in the developing countries and transition economies where we operate, environmental issues often play second fiddle to the more pressing problems people face in their everyday lives, and protection of the environment cannot be taken for granted. Economic development inherently implies increased energy consumption if it is not offset by energy efficiency. ProCredit is acutely aware that supporting economic development must go hand in hand with promoting energy and environmental sustainability.

Minimising our negative environmental impact and actively promoting sustainability is an integral part of our business strategy, not only in lending or financial services, but also in our own day-to-day operations. Our approach to environmental management helps us to continually reduce our direct and indirect environmental footprint.

ProCredit institutions have set high standards regarding the impact of their operations on the environment and constantly strive to raise the awareness of their staff, clients, counterparties and the general public regarding environmental issues. This is achieved through the implementation of a comprehensive and sustainable three-pillar system for managing environment-related activities.

We adhere to the following key principles, which are stated in our Group Environmental Management Policy:

- Identifying the environmental aspects and impacts of our business activity
- Developing and implementing measures to mitigate environmental impact
- Using resources as efficiently as possible
- Ensuring compliance with relevant legislation and international standards
- Raising environmental awareness among our staff
- Minimising the environmental and social impact of our lending operations
- Encouraging our clients to invest in an environmentally sound way

The Environmental Management System (EMS) implemented in the ProCredit institutions aims not only to reduce the internal and external environmental impact of the ProCredit group; it also promotes loans and investments that have a positive impact on the environment.

Pillar I: Internal Environmental Management System

Internal environmental management relates to all in-house measures taken to reduce the banks' environmental footprint. These activities include applying internal energy and resource efficiency measures, raising the level of environmental awareness among staff, selecting and preparing instructors responsible for training and campaigns, and carrying out communication measures to provide staff with relevant environmental information.

The ProCredit institutions continuously monitor their own energy and resource consumption, with the aim of identifying opportunities to reduce our environmental impact and developing appropriate measures. They have introduced a dedicated database tool to monitor and analyse resource consumption and decide on appropriate improvement measures. These measures are implemented

throughout the group and form part of the standards followed in all our premises. We apply environmental criteria and energy efficiency measures when designing or renovating our premises, including the purchase of office equipment, as well as in the procurement process and in the selection of suppliers in general. We also invest in technologies that use renewable energy sources and other state-of-the-art measures.

Significant staff involvement and participation across all ProCredit institutions, as well as continuous environmental education and awareness-raising, are crucial for the successful implementation of the measures.

In addition, ProCredit institutions create partnerships with suppliers and other stakeholders who adhere to sustainable and environmentally friendly business practices.

Pillar II: Management of environmental risk in lending

Apart from our direct impact, we also influence the environment indirectly – by proactively choosing to finance certain types of investments and refusing to finance others. We are committed to financing environmentally and socially sound projects and work only with businesses that comply with environmental regulations and which do not endanger the health, safety or well-being of their staff or neighbours. In order to manage the impact of our lending operations on the environment, society, health and safety, we have implemented "Group standards for managing the environmental and social impact of lending". We assess and monitor the environmental and social (also including health and safety) risks of all business activities, filtering out and rejecting loan applications involving activities that are harmful to the environment, and incentivising clients to reduce the environmental impact of their activities. All borrowers are required to comply with the relevant rules and regulations regarding environmental protection as well as health and safety standards, including the high standards of our development-oriented shareholders, such as IFC and KfW.

However, we do not simply refuse to do business with companies just because they do not score well with regard to certain criteria. We engage our clients in dialogue to discuss how our services can help to improve their environmental and social performance in an economically sound way. From the clients' point of view, managing environmental risks might not only bring their company into line with more demanding regulations, but might also reduce costs and even create additional business opportunities.

Pillar III: Green finance/green loans

Keeping in mind the environmental challenges and high energy intensity of the countries we operate in, we are also strongly committed to accelerating the adoption of energy-efficient and renewable energy technologies, as well as to incentivising and supporting businesses in their environmentally friendly investments.

ProCredit banks are among the first in their markets to offer their clients a range of "green finance" services, which promote investments in:

- (1) Energy-efficient equipment and processes (EE)
- (2) Equipment and technologies using renewable energy sources (RE)
- (3) Environmentally friendly projects with a direct positive impact on the environment (Gr)

Institutionalisation of the Environmental Management System

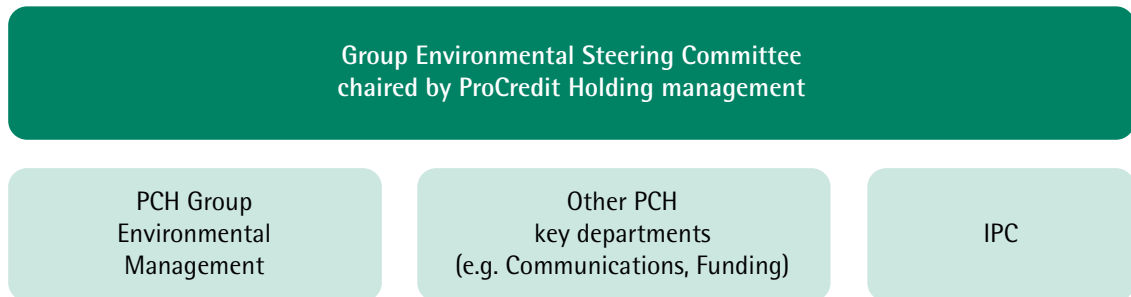
The key to successfully implementing our EMS is anchoring it within our institutions and assigning dedicated staff who are directly involved in environmental awareness and protection, both at group and at individual bank level.

Strategic decisions regarding the EMS are taken by the Group Environmental Steering Committee and implemented by the Group Environmental Management Team, which also facilitates the introduction and expansion of the EMS in all our banks.

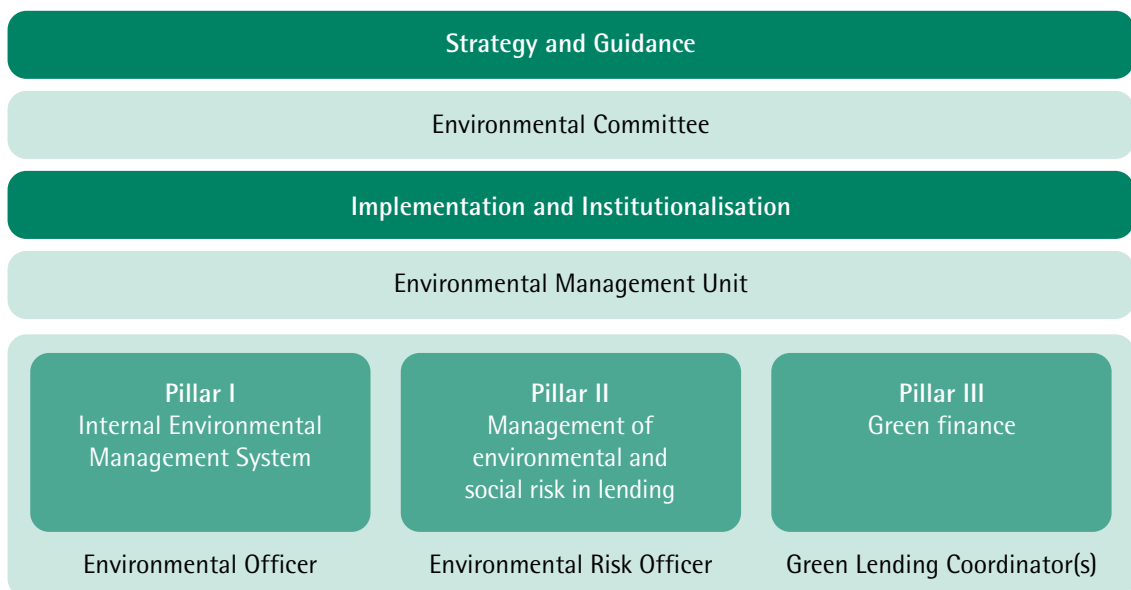
At bank level, the individual Environmental Committees are responsible for all strategic decisions. Each bank has a specialised Environmental Management Unit (EMU) that reports directly to the Management Board. The EMUs are responsible for the adoption, implementation and promotion of the group-wide environmental protection strategy. Headed by an Environmental Coordinator, each EMU comprises two to three specialised employees, including a technical specialist. Environmental Officers (usually from the administration, credit risk and business areas) responsible for the respective pillars have also been appointed in order to ensure the full institutionalisation of the EMS.

Graph 1: Institutional structure of our EMS

Environmental Management System at group level



Environmental Management System at bank level



Staff training is key for the successful development of our EMS. Training in environmental protection and energy efficiency is an integral part of the ProCredit Entry Programme curriculum, an introductory programme organised for all future employees. All managers and key staff from the banks receive specialised training on the topic during the ProCredit Banker and the ProCredit Management programmes at the Academy in Fürth, Germany. All ProCredit institutions have frequent, in-depth training sessions as well as internal and external education and awareness-raising seminars, events and campaigns for all staff and clients. Regular specialised seminars and workshops related to green finance, environmental management, environmental and social risk assessment, etc. are organised at group level.

External certification of the Environmental Management System

In recent years, the ProCredit banks have been constantly striving to improve their EMS and have demonstrated that the processes and procedures involved are well institutionalised. Having achieved this and to ensure that our commitment towards environmental protection is communicated transparently, the ProCredit group started to have its EMS externally audited and validated in 2016. By the end of that year, the ProCredit banks in Bulgaria, Colombia, Georgia, Kosovo, Macedonia and Serbia had already received ISO 14001 certification. In addition, the four Germany-based members of the group – ProCredit Holding, ProCredit Bank Germany, ProCredit Academy, and the group's software development company, Quipu – went one step further and obtained the more demanding EU Eco-Management and Audit Scheme (EMAS) certification in December 2016. Both ISO 14001 and EMAS certification are highly respected standards for managing the environmental impact of an organisation.

The certification is a step towards greater credibility and transparency for the group's comprehensive environmental management. During 2017, the ProCredit group will continue its endeavours to obtain ISO 14001 certification for the entire group.

2.1. Pillar I: Internal Environmental Management System

The ProCredit group's efforts in 2016 to hone its systematic approach to the collection of data on energy and other resource consumption even further have resulted in the rationalisation of the banks' internal administrative procedures. Manuals have been updated to ensure full integration of environmental criteria into all internal decision-making processes. Such criteria have also been integrated into the process of selecting service providers and suppliers of equipment, office supplies and other resources.

Three years ago, an upgraded web-based data collection tool was developed in close cooperation with IPC and Quipu, the group's IT service provider. By the first quarter of 2015, the tool was being utilised by all banks in the group. These input and reporting tools are continuously being enhanced to ensure the accuracy of the information, and efficient and effective analysis of energy and resource consumption throughout the year.

This information enables the banks to perform detailed analyses of their consumption patterns, assess the impact of their activities, and devise measures to counteract negative effects. Such analyses serve as the basis for setting environmental goals and objectives, and facilitate the

development of action plans with a set of measures specifically focused on various environmental aspects that are designed to further improve internal environmental performance.

To this end, in-house energy and resource efficiency measures have been implemented, including new or renovated heating and ventilation systems, efficient inverter air conditioners, improvements to the building envelope and the installation of LED lighting, as well as print optimisation and waste management measures, etc. Due to the reorientation of the ProCredit group to focus on financial services for small and medium enterprises, all ProCredit banks have additionally implemented infrastructural changes, adapting their networks to suit the current corporate policy in terms of size and location.

In line with the "Greening ProCredit Premises" guide, some banks have even created their own green or eco-building construction guidelines. These contain a number of typical energy efficiency measures and standards, and include additional ideas for investments that can be applied at ProCredit premises.

2.1.1 Energy and other resource consumption

ProCredit banks further improved their systematic approach and efforts to address energy and resource consumption in 2016. By establishing clear objectives and integrating the measures and activities needed to reach these goals into their internal standards and procedures, or into projects aimed at improving processes and efficiency, the banks have improved their environmental performance and their overall consumption has decreased.

The total energy used by the ProCredit banks in 2016 decreased by 11% compared to 2015. Consumption of fuel and paper and CO₂ emissions also decreased significantly, as shown below.

Table 1: Key consumption and emissions data in the ProCredit group

Indicator	Unit	2014	2015	2016	Change 2015 vs 2016
Energy	kWh	35,142,797	29,907,691	26,535,630	-11%
Fuel	l	753,544	685,875	529,369	-23%
GHG emissions	t CO ₂ eq	20,167	17,403	15,036	-14%
Water	m ³	70,387	57,452	55,616	-3%
Paper	kg	229,293	141,949	98,105	-31%

As in previous years, in line with the ProCredit group's business strategy, the banks have been steadily optimising their outlet networks, in particular reducing the number of branches and service centres. It is our aim to have a focused and modern outlet network offering convenient and comprehensive self-service 24/7 Zones. The goal is to increase the automation for simple every-day banking transactions to the level that they can be performed either via 24/7 machines or e-Banking. In 2015, 70% of all outlets had been equipped with a self-service 24/7 Zone and this figure was

increased to 96% in 2016. This strategy improves process efficiency for the bank and offers more flexibility for the clients.

It is clear that the greater use of technological processes in 24/7 Zones ultimately results in higher energy consumption. Research conducted in 2016 showed that the additional energy consumed by the 24/7 Zones in all banks was 21% on average. However, due to the ongoing efforts to increase the energy efficiency level throughout the ProCredit network, the 24/7 Zone effect has been offset by other energy conservation measures. This is visible in the relative energy indicators shown in Table 2. The energy consumption per square metre increased by only 3% when comparing 2015 and 2016. The ongoing focus on the automation of banking processes, coupled with staff optimisation, has resulted in an 8% increase in energy consumption per employee.

Table 2: Relative indicators for resource consumption and GHG emissions in the ProCredit group

Indicator	Unit	2014	2015	2016	Change 2015 vs 2016
Energy consumption per m ²	kWh/m ²	198.72	202.5	196.5	3%
Energy consumption per employee	kWh/pp	5,229.00	6,105.69	6,603.50	8%
GHG emissions per employee	tCO ₂ eq/pp	3.00	3.55	3.74	5%
Water per employee	m ³ /pp	10.47	11.73	13.84	18%
Paper per employee	Kg/pp	34.1	29.0	24.4	-16%

The analysis also shows that the increase in GHG emissions per person is a direct outcome of the reduction in the number of employees. However, despite increasingly closer cooperation between individual banks and the group as a whole, and the training courses delivered at the regional and international academies, the number of flights per employee decreased from 2.6 to 2.4, a reduction of 4%. The relative paper consumption per employee showed a significant decrease of 16% due to more efficient processes and expanding the concept of paperless offices.

Despite the introduction of energy-intensive 24/7 Zones, energy consumption in relation to business volume decreased significantly. Energy consumption by loan portfolio and by customer deposit fell by 13.5% and 16.6%, respectively, in 2016 in comparison to the previous year.

Table 3: Energy consumption and GHG emissions per business indicator in the ProCredit group

Indicator	Unit	2014	2015	2016	Change 2015 vs 2016
Energy consumption by loan portfolio	kWh/€1000	10.4	8.5	7.3	-13.6%
Energy consumption by customer deposit	kWh/€1000	11.3	9.1	7.6	-16.6%
GHG emissions by loan portfolio	kgCO ₂ eq/€1000	6.0	4.9	4.2	-15.6%
GHG emissions by customer deposits	kgCO ₂ eq/€1000	6.5	5.3	4.3	-18.5%

PCB Romania – Monitoring the bank's environmental impact through the Annual Environmental Plan and iEMS tool

As all banks in the ProCredit group do, PCB Romania sets targets and measures in its Annual Environmental Plan (AEP) in order to reduce energy and resource consumption. In its AEP 2016, PCB Romania set ambitious but realistic targets in terms of its electricity consumption per square metre, heating energy per square metre, printing paper consumption per 100 clients as well as fuel consumption per 100 km. These targets were linked with specific, transparent and well-documented measures, which included the replacement of inefficient light bulbs in the bank's premises with modern LED lighting systems, the relocation of outlets to better insulated and energy efficient premises, and the installation of efficient machines in the 24/7 Zones. More importantly, the iEMS tool played a significant role in achieving the 10% reduction, as it facilitated the continuous monitoring of monthly consumption data in all outlets. This enabled the Environmental Management Unit to immediately identify areas of unusually high energy and resource consumption, and it was able to counteract those developments with appropriate energy-efficient solutions. PCB Romania thus successfully achieved the targets set in its AEP 2016 and reduced its consumption of electricity, heating energy and printing paper by 10%, while increasing the fuel efficiency of its fleet by the same percentage.

PCB Macedonia – New Head Office in Skopje

PCB Macedonia opened its new head office in Skopje in May of 2016, a building that makes use of energy efficiency measures as well as renewable energy solutions in order to minimise its carbon footprint. The bank has invested in geothermal pumps, triple-glazed windows, good thermal insulation and LED lighting, and has designed the building to maximise the use of natural light. As a result, the annual energy consumption is expected to decrease to 100 kWh/m², which is significantly lower than the energy consumption of similar buildings in the country. An independent ventilation-recuperation system is in operation in rooms and areas that are not occupied continuously. The installed 24.5 kW photovoltaic system reduces grid electricity consumption by up to 10%. In addition, the bank has implemented environmentally friendly measures such as a green roof, which not only improves the roof insulation but also serves as a place where employees can meet and relax.

"ProCredit Bank is an institution oriented towards creating a healthier, greener environment and continuously invests in many activities for a better and cleaner world. We built our head office premises according to contemporary, cutting-edge eco standards for sustainable buildings. Our building minimises the use of energy from traditional resources and uses energy produced from 100 photovoltaic panels installed on the roof. We also switched to electric cars and we aim to use renewable energy resources as much as we can.

We have implemented an Environmental Management System in all our offices that helps optimise the consumption of energy and other resources and hence reduce our CO₂ emissions. Over the last three years, our efforts have enabled ProCredit Bank to successfully decrease its energy consumption by 40% and paper consumption by 70%." Jovanka Popovska, General Manager of PCB Macedonia.



Head office in Skopje, ProCredit Bank Macedonia

In accordance with the principles enumerated in our Group Environmental Management Policy, we apply ecological criteria to the choices we make when outfitting existing or new ProCredit bank premises, both owned and rented. The objective is not only to improve energy efficiency, but also to lessen the environmental impact of our activities by taking environmentally friendly measures and decisions. By implementing energy efficiency measures, the banks reduce their energy consumption and overall greenhouse gas emissions, and thus also reduce energy costs.

PCB Kosovo – New Training Centre in Prevallë

In December 2016, PCB Kosovo inaugurated its new Training Centre in the city of Prevallë, a two-storey building equipped with a canteen, sport facilities and a spacious garden, which was built to accommodate ProCredit Entry Programme participants and to provide other relevant training courses for ProCredit banks in neighbouring countries. As it was built in a mountainous area, the building utilises an energy efficient and environmentally friendly design and technology, which helps to avoid high energy consumption in the harsh winters. The bank has invested in appropriate thermal insulation and triple-glazed windows for the building envelope, as well as in solar water heating panels. The biomass boiler is fed with pellets made from sustainably managed wood, purchased from a certified producer. The off-grid photovoltaic system on the rooftop can generate an estimated 46,800 kWh annually, an amount that will cover approximately 15% of the centre's electricity demand. A waste water treatment plant has been constructed on site to purify waste water and recover clean water from underground streams.

"The successes and sustainability that we demonstrate in our business operations are the direct result of our commitment to achieving the objectives that we set in line with the bank's mission and vision. However, we cannot achieve any of these objectives without a team of motivated, dedicated and well-trained employees. Therefore, continuous investments in the training and development of our employees is particularly important. We believe that the selection of Kosovo to build the regional training centre further demonstrates the ProCredit group's commitment to enhancing education, developing the banking sector and promoting economic development in the country. In total we have invested over EUR 3.2 million." Ilir Aliu, General Manager of ProCredit Bank Kosovo.



Training Centre in Prevallë, ProCredit Bank Kosovo

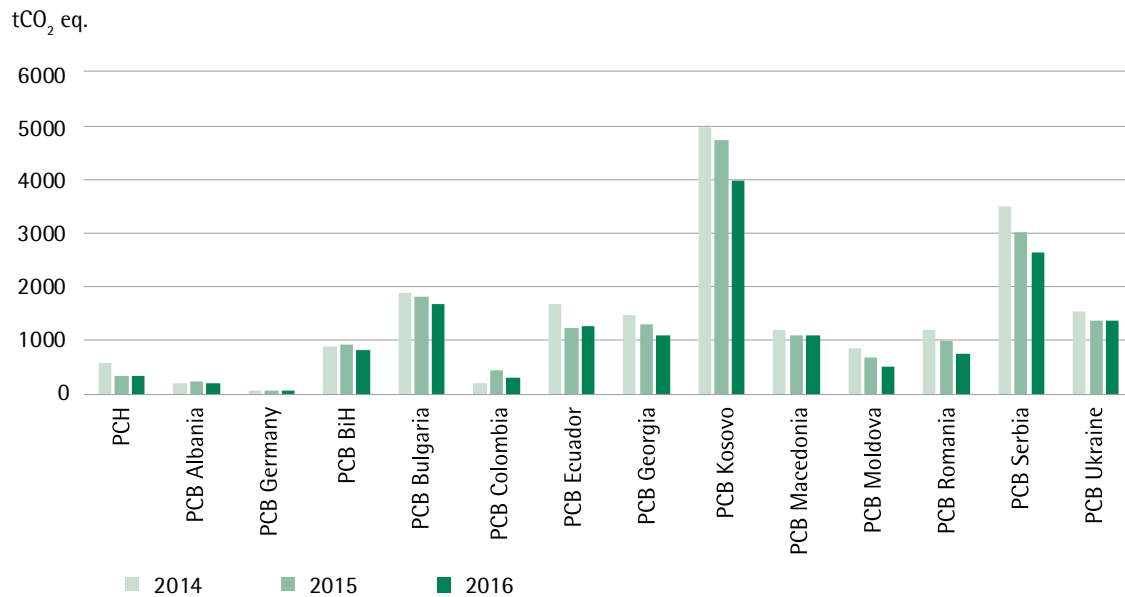
Ensuring that our buildings are as energy efficient and environmentally friendly as possible is a prime example of how we promote environmental consciousness. In our premises we try to illustrate how careful planning can minimise the ecological footprint of an institution. By showing how we manage our own environmental impact, we aim to incentivise our clients to invest in environmentally friendly measures as well. In order to facilitate this showcasing, with the support of IPC, we have prepared "ProCredit's Green Buildings", a brochure that presents the most outstanding ProCredit premises, highlighting the implemented energy efficiency, renewable energy and other environmentally friendly measures. Going beyond the basic energy efficiency measures, such as using LED lights and insulating walls, the buildings featured in this brochure include photovoltaic systems, geothermal heating systems and stand-alone waste water treatment plants.



Greenhouse gas emissions

As in previous years, the group managed to decrease its total GHG emissions even further, which is measured not only against the amount of energy consumed, but also against the country's energy mix. PCB Kosovo's GHG emissions are impacted by national electricity generation methods dominated by coal, whereas PCB Germany's GHG emissions are very low as the bank was able to switch to renewable energy sources for electricity.

Graph 2: Greenhouse gas emissions in the ProCredit group



Fuel consumption

Our business model requires a lot of travel to be close to our clients; therefore, to reduce our negative impact on the environment, ProCredit banks have invested in a clean, modern car fleet by introducing electric, hybrid and natural gas-powered vehicles.



Electric car fleet, ProCredit Bank Bulgaria

As of December 2016, 19% of the group's total car fleet utilises these innovative technologies and it is our aim to continue to build up this share.

The effect of the group's electric car fleet can be clearly observed when looking at the fuel consumption of all banks in the group. Absolute fuel consumption significantly decreased by 23% between 2015 and 2016 at all banks, except PCB Ecuador (due to switching from motorcycles to cars in order to reach their clients more effectively). Given the new business strategy of optimising branch networks, the reduction is even more impressive, as the BCAs often have to travel further and more often to conduct client visits.

In relative terms, fuel efficiency has also improved in recent years, decreasing to 6.65 l/100km (gasoline and diesel combined) in 2016, 11% lower than in 2015. The objective is to continue this positive development and to further expand the group's electric car fleet.

PCB Albania – promoting alternative ways of transport

To further its aim of increasing awareness of environmental issues, in 2016 PCB Albania joined a local initiative which promotes environmentally friendly forms of transportation.

The bank established 20 bicycle parking areas for a total of 500 bicycles. The parking spaces are very visible and located on main streets, at schools and universities, and in other busy public areas of the capital of Albania, Tirana. There is also a bicycle parking space located at the head office of the bank, which is helping to raise awareness – not only of the bank's staff, but also of its clients.



Bicycle parking area, ProCredit Bank Albania

Paper consumption

Paper is another major resource consumed by financial institutions; therefore, we consider reducing paper consumption to be a priority issue. The results achieved in 2016 in absolute and relative terms illustrate the group's continuous efforts in this area. Printing optimisation projects were introduced in most banks some years ago, and continue to be implemented and improved upon. Technical upgrades, multifunctional printing equipment, revision and automation of processes, as well as a series of internal awareness-raising campaigns for staff, have led to further decreases in paper consumption. As a result, the amount of paper consumed by the ProCredit banks in 2016 was 31% less in absolute terms compared to the year before.

In relative terms at group level, the use of printing paper per employee and total paper per client (incl. marketing paper) went down by an average of 16% and 15%, respectively. The most impressive results regarding printing paper consumption were achieved by PCB Ecuador with savings of 46%, PCB Romania with 37% and PCB Germany with 34% per employee.

Water usage

Measures to better monitor and reduce water consumption have been taken by the banks. Apart from internal awareness-raising campaigns, measures have also included replacing faulty taps and pipes, as well as installing separate water meters, water-saving aerators, and water sensors, etc. As a result, in 2016 water consumption decreased by 3% in absolute terms at group level.

This decrease was achieved despite the investment in modern but larger premises, such as the new head office of PCB Macedonia in Skopje, whose larger floor space and roof-top garden resulted in an increase in water consumption. At the same time, the benefits of a roof garden cannot be overlooked, as green roofs help to moderate the urban heat island effect through the evapotranspiration process of the plants, and provide a gathering and rest area for employees.

Waste management

The introduction of waste management processes and procedures have also helped to increase staff and client awareness and improve recycling efforts in all banks with regard to paper, plastic, and hazardous and electronic waste. However, the banks are faced with difficulties in identifying local recycling partners due to continuing low levels of awareness and weak regulation in some countries.

Procurement

Throughout 2016, the banks increasingly introduced environmental criteria into their procurement procedures with the aim of selecting environmentally friendly suppliers of office materials and equipment. This in turn contributed to increased awareness of environmental protection among the banks' partners. This makes it possible to ensure that the materials purchased are made from the most environmentally friendly materials available on the market.

Some of these measures might seem straightforward and simple to implement, but in many of our countries of operation, they are still innovative and exceptional. Often, suppliers of environmental friendly materials (e.g. recycled paper) are scarce, creating a challenging environment for a bank invested in making a positive environmental impact through procurement.

Staff and public awareness

Environmental awareness among staff members and their commitment was key to the encouraging results achieved in 2016 and will be indispensable for achieving the objectives and goals set for 2017. ProCredit staff have continued to enthusiastically contribute ideas and participate in all of the activities and measures described above.

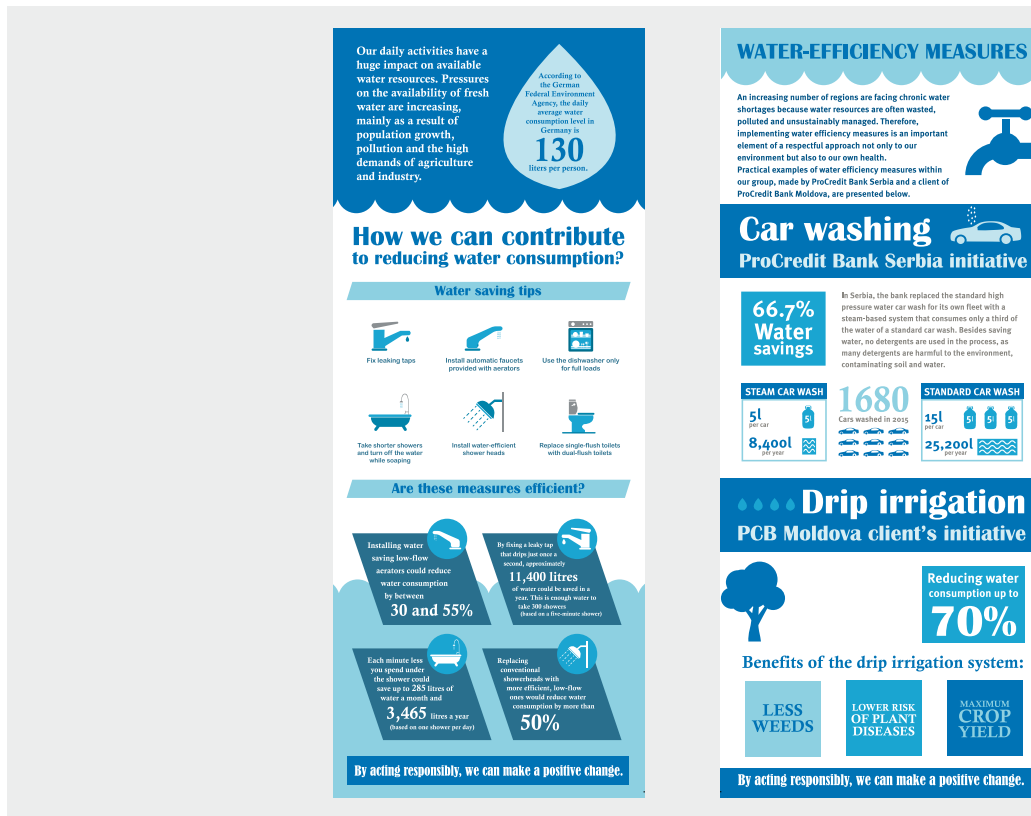


Environmental awareness-raising training at ProCredit Bank Bosnia

All ProCredit institutions undertake ongoing internal awareness-raising campaigns and use various communication channels for this purpose, such as regular training sessions, newsletters and educational brochures, internal publications, an intranet page dedicated to environmental topics, reminder signs and stickers to inform staff of best practices with regard to resource use and to communicate the results of the measures taken. Internal publications and intranet pages are aimed at raising awareness among employees as well as at keeping them informed about issues happening worldwide.

An essential part of internal communication is informing staff about the measures taken, the results achieved and the environmentally friendly practices that should be incorporated into everyday life. Therefore, data for energy and resource consumption at both bank and group level is made available to all staff and is openly discussed. The staff are encouraged to contribute at such discussions in order to come up with new, creative and diversified measures that will further improve energy and resource consumption. Furthermore, staff are continuously involved in organising activities and campaigns that promote the efficient use of resources and increase awareness of environmental issues among colleagues.

In addition to participating in internal training courses and campaigns, the employees at all ProCredit banks actively participate in different external events with the aim of raising interest and provoking discussions among the general public about environmental issues. This serves to underline the strong commitment of the ProCredit institutions towards protecting the environment.



Environmental awareness-raising initiative at ProCredit Holding

2.2. Pillar II: Management of the environmental and social risk of lending

The ProCredit group's efforts in 2016 to hone its systematic approach to the collection of data on energy and other resource consumption even further have resulted in the rationalisation of the banks' internal administrative procedures, and manuals have been updated to ensure full integration of environmental criteria into all internal decision-making processes. Such criteria have also been integrated into the process of selecting service providers and suppliers of equipment, office supplies and other resources.

The core activity of the banks in the ProCredit group is to provide financial services to small and medium-sized businesses in a responsible manner. When it comes to the lending process, all ProCredit institutions are committed to reducing the group's indirect environmental impact; therefore, the financing of environmentally and socially sound projects represents a core objective. All borrowers are required to comply with the relevant rules and regulations regarding environmental protection as well as health and safety standards.

Loans and financial services in general are not provided to applicants if the nature of their activities is not in line with the ethical principles of the ProCredit institutions and their shareholders. These are clearly outlined in the group's Exclusion List, which was further expanded in 2015 and is to be strictly adhered to. Focusing on the activities with a negative environmental impact, the group has added two items to the list: 1) underground mining for the extraction of metals, fossil fuels and

minerals and 2) charcoal production. The group continues to abstain from working with businesses engaged in logging activities and the production and trade of wood and other forestry products; however, a provision has now been made for cases in which the materials have been extracted from sustainably managed forests. Overall, clients involved in any of the activities on the list are not served by the ProCredit banks.

In cases where national or local regulations impose additional exclusion requirements, ProCredit institutions take a conservative approach and incorporate these into their Exclusion Lists, ensuring compliance with both group and local requirements.

Since its introduction, the system for managing environmental and social risks has proven to be a successful tool for managing the environmental risk of lending activities in all ProCredit banks. The simple and transparent screening process enables the institutions to identify the activities that pose high levels of environmental risk and to take appropriate mitigation measures.

This is not a one-time action, but rather a process that accompanies all stages of the business relationship and goes through the following steps:

- *Acquisition phase* – prior to approaching potential clients, front office staff screens their activity against the Exclusion List. Clients are thus preselected, and those whose activities fall within the scope of the list are not contacted at all. For the businesses that “pass” this initial screening process, potential environmental risks associated with their particular activities are identified and discussed in the later stages of the analysis.
- *Application phase* – the front office staff member responsible for processing the request assigns an environmental risk category (low, medium or high) to the client, based on the ProCredit group’s standardised list of business activities and their associated environmental risk.
- *Credit analysis phase* – the responsible staff member conducts an additional assessment for all cases in which the environmental risk has been determined to be high or medium. This assessment takes into account working conditions, waste management, water, air and soil pollution, hazardous materials and various other aspects. The front office staff member is responsible for confirming that the client has presented the requisite applicable environmental licences and permits.

All ProCredit institutions have appointed Environmental Risk Officers (EROs), who are experts in assessing environmental risk. As a member of the bank’s Credit Risk Department, the ERO is responsible for ensuring the implementation of the standards by advising and assisting staff on a daily basis. The expert also provides an opinion on all cases posing a high environmental risk (visiting the client’s premises in person, where necessary), as well as on loan applications associated with medium environmental risk if requested by the bank’s business committee.

- *Decision-making phase* – the credit committee is responsible for verifying and confirming the assessment and, if necessary, includes in its loan decision special conditions and/or covenants to ensure that the client complies with the laws and regulations and undertakes measures necessary to improve the company’s environmental performance. Such conditions and covenants may be a mandatory condition for the disbursement of the loan.
- *Monitoring* – after disbursement, regular checks are conducted to ascertain whether the client is complying with all recommendations pertaining to environmental risks.

The process of assessing environmental and social risk has been described in detail in the Group Standards for Managing the Environmental and Social Risk of Lending. A set of tools and instruments by sector and economic activity has been developed in order to further enhance the process of assessing the environmental risks of lending. This includes:

- detailed Guidance Notes for every economic activity depending on the environmental risk category
- a detailed and systematic approach to the additional environmental assessment of all exposures of business activities categorised as having a medium or high environmental impact

A set of additional materials, including a training manual and training materials for Business Client Advisers (BCAs), interpretation notes for the standards, and supplementary notes explaining how to use the Exclusion List are also available to all staff involved in the lending process.

Specific trainings and refresher courses on Pillar II were organised for staff in Bulgaria, Georgia and Romania. In 2016, these sessions were included in the Environmental Module of the ProCredit Entry Programme for newly hired staff. All new employees are required to familiarise themselves with the group's values, and thus with the importance of environmental issues, and to develop an understanding of how ProCredit institutions address these issues in their day-to-day operations. All relevant front and back office employees also receive supplementary specialised training in environmental matters, including an in-depth review of all aspects of the Standards for Managing the Environmental and Social Impact of Lending.

Furthermore, refresher training is regularly provided to existing staff at most ProCredit institutions.

Over the course of 2016, IPC consultants, Group Environmental Management and Group Credit Risk jointly organised visits to monitor the implementation of the Group Standards for Managing the Environmental and Social Impact of Lending at several ProCredit banks (Albania, Bulgaria, Kosovo, Macedonia, Serbia, Ecuador). Interviews were conducted with colleagues involved in the various steps of the lending process (BCAs, credit risk staff, Environmental Management Units, branch managers, the management of the banks). The feedback was collected in order to assess the contribution of the E&S risk assessment to the overall credit risk assessment process as well as to gauge its effectiveness as a bridge for fostering Green Lending. It was confirmed that the standards are being applied successfully and that the ESAFs (E&S assessment forms) are also being used as intended. The direct users acknowledged the value added by these forms.

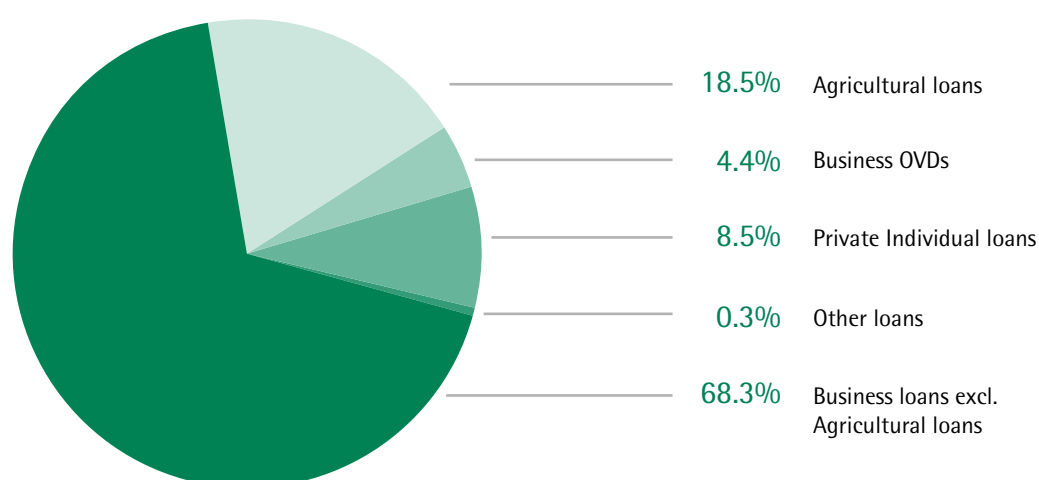
Additionally, in 2016, a two-day workshop was held at the ProCredit Academy in Fürth, where EROs from all of the banks met to cover various topics related to the assessment of environmental and social risk. Areas that require improvement and how to assist the process further were discussed and addressed in the annual review of the Group Standards for Managing the Environmental and Social Impact of Lending.

All ProCredit institutions assess and monitor the quality of their loan portfolios in terms of environmental standards on a regular basis. The figures from the different banks are then consolidated in order to provide an overview of the group's overall environmental performance.

2.2.1. Loan portfolio summary

As stated in the 2016 report, the outstanding loan portfolio of the thirteen ProCredit banks increased compared to the previous year by EUR 86 million (excluding discontinued operations)¹. As of 31 December 2016, the vast majority of loans in the total loan portfolio consisted of business² and agricultural loans, with business loans accounting for 34.5% of the total portfolio in number and 68.3% in volume, and with agricultural loans accounting for 18.6% in number and 18.5% in volume.

Graph 3: Distribution of outstanding loan portfolio (by volume) by type of loan as of 31 Dec. 2016



Loans to private individuals represent 8.5% of the total loan portfolio in terms of volume and include home improvement and housing construction loans. Housing loans accounted for 15.2% of the total number of outstanding loans, but only 6.5% of the volume. Due to the nature of home improvement loans, which are granted to private individuals, they are not subject to environmental risk assessments. Nevertheless, home improvement loans are often disbursed with the aim of improving the efficiency of energy use in houses and apartments, and thus lending of this type can significantly contribute to improving conditions and mitigating environmental impact by reducing CO₂ emissions. In our further discussion of the portfolio analysis, we will focus only on business and agricultural loans.

Tables 4 and 5 provide an overview of the ProCredit group's business and agricultural loan portfolios by number and volume of loans outstanding as of 31 December 2016. In terms of number, the vast majority of loans were in the segment of amounts up to EUR 30,000. However, in line with the group's overall strategy, outstanding business and agricultural loans below EUR 30,000 (which is the smallest segment of the total loan portfolio) now account for 76% of the total number of loans in the respective category, down from 83% in 2015 (excluding discontinued operations).

¹ The value represents the end of 2016 compared with the end of 2015, excluding the LP of Bolivia in the same period.

² As agricultural loans represent a significant part of the loan portfolio, they are reported separately for the purpose of the analysis.

Loans with outstanding amounts above EUR 30,000 now account for a larger share of the loan portfolio than in 2015 in terms of number (Table 4). In terms of volume (Table 5), outstanding loans for amounts above EUR 30,000 now account for 81% of the total portfolio in the respective loan type category, up from 72% in 2015 (excluding discontinued operations).

Table 4: Breakdown of the number of outstanding business and agricultural loans by outstanding loan amount in EUR (as at 31 Dec. 2016)

Loan Type	≤30,000	30,001-250,000	>250,000	Total number
Business loans*	41,914	15,726	1,547	59,187
Agricultural loans	27,127	4,470	297	31,894
Total number	69,041	20,196	1,844	91,081
Share in %	76%	22%	2%	100%

*excluding business overdrafts

Table 5: Breakdown of the volume of outstanding business and agricultural loans by outstanding loan amount in EUR '000 (as at 31 Dec. 2016)

Loan Type	≤30,000	30,001-250,000	>250,000	Total number
Business loans*	397,817	1,201,004	857,104	2,455,925
Agricultural loans	199,713	319,556	146,251	665,520
Total volume	597,530	1,520,560	1,003,355	3,121,445
Share in %	19.14%	49%	32%	100%

*excluding business overdrafts

The high degree of diversification in the loan portfolio, coupled with the fact that the trade and service sectors still account for the largest share of the loans, limits the individual environmental risk of the activities financed with our loans.

Additionally, as mentioned above, small and medium businesses that may involve environmental risks are thoroughly screened for their compliance with applicable local environmental regulations during the credit analysis phase and are subsequently monitored on a regular basis; only compliant activities are financed. If an activity involves environmental risks, the responsible staff member is required to discuss these with the client and suggest appropriate measures for improvement.

2.2.2 Breakdown of the business and agricultural loan portfolio by environmental risk

As shown in Table 6, in 2016, around 23% in number and 27% in volume of the group's business and agricultural loans were used to finance trade activities, including retail and wholesale as well as other trade activities. Services made up around 26% of the group's business and agricultural loans in terms of number and 24% in volume of outstanding loans. This segment comprises hotels, restaurants, health and educational services, car repair services, transportation, and other services. The main environmental, health, safety and social risks associated with trade and service activities are related to the working conditions and business premises that may negatively affect the health and safety of employees, clients and the community. In special cases, the associated risks can also include the improper disposal of waste water and sewage, unfiltered smoke or exhaust gas emissions, and/or the use of environmentally harmful chemical substances. If pollution and risks of this type are likely, the responsible ProCredit staff member advises the client to use appropriate disposal containers or filters, or to outsource waste disposal to recycling companies.

Table 6: Business and agricultural loan portfolio: Breakdown by segment in number of outstanding loans and volume (as at 31 Dec. 2016)

Segment	No. of loans	%	Volume in EUR	%
Trade	21,177	23%	852,361,861	27%
Service	23,697	26%	748,378,253	24%
Industry, construction	14,313	16%	855,184,467	27%
Agricultural loans	31,894	35%	665,520,429	21%
Total*	91,081	100%	3,121,445,010	100%

* excluding business overdrafts

In terms of numbers, the industry and construction segment accounts for around 16% of the group's business and agricultural loan portfolio and for 27% of the volume. The main activities in this segment are construction, carpentry, retail food production, metal manufacturing, food/beverage processing, and, to a lesser degree, raw material extraction. The environmental risks connected with these activities involve improper waste disposal, sewage discharged into water or soil, land erosion or degradation (from raw material extraction activities), smoke and exhaust gas emissions into the air, the use of environmentally harmful chemical substances, and working conditions and business premises that may negatively affect the health and safety of employees, clients and the community. Health, safety and social risks may be related to inappropriate working conditions and/or insufficient protection for employees, and/or to premises and equipment whose condition may cause pollution or adversely affect the safety of staff, clients and the community.

As mentioned above, when making on-site visits, ProCredit staff encourage clients to use appropriate methods for disposing of and/or recycling waste, to use filters, to rehabilitate land by growing plants and trees to prevent land erosion after extraction, to strictly adhere to employee health and safety requirements, and to ensure that equipment, premises and processes are adequately maintained to avoid pollution and to protect staff, clients and the community.

Financing provided to the agricultural sector, i.e. farming, livestock, fishing and forestry, accounted for about 35% of the number and 21% of the volume of the group's outstanding loans in 2016. Environmental risks in these sectors include the use of chemicals (fertilisers, pesticides), the improper disposal of waste water and sewage, deforestation and unsustainable fishing practices.

Additional health, safety and social risks are related to working conditions for employees and the condition of equipment used and the business premises. ProCredit staff are expected to advise clients on appropriate waste disposal methods, recommend the use of filters, encourage strict adherence to rules and regulations to ensure protection for employees, and insist on sustainable agricultural production.

Logging operations are only financed in sustainably managed forests.

ProCredit's business strategy implies forging long-term relationships with our clients based on a solid understanding of who our clients are. This entails a thorough assessment conducted during the client acquisition phase and is based on available information (financial, reputational, regulatory compliance, results of checks conducted by different authorities, incl. on environmental and social performance, etc.). At this stage, clients whose business activities involve the risk of serious environmental or social impacts, or those who have a questionable reputation with regard to E&S performance, are not considered. Usually this is also in line with the overall performance of a client and it is unlikely that a company with serious E&S concerns would submit a loan application. Because of this, it is also rare that loan applications are rejected on the grounds of serious E&S risks. In 2016, the banks reported five applications that had been rejected due to the lack of necessary permits and incompliance with environmental regulations, respectively.

Additionally, before approving a loan, the client's environmental and social practices are thoroughly evaluated by BCAs during an on-site visit. If issues are identified during these visits, they are addressed and improvement measures are included as additional covenants in the loan agreement. After loan disbursement, the BCAs stay in close contact with the client and regularly monitor their on-site activities, thus remaining informed about the client's environmental performance and improvement.



Tables 7 and 8 below provide an overview of the environmental risks in terms of number and volume identified in the portfolios of the ProCredit institutions as at 31 December 2016.³

With regard to the number of loans, the figures in Table 7 show that 53.3% of all business and agricultural loans outstanding at the ProCredit institutions finance activities that do not entail any environmental risk or entail low environmental risk. 45.2% of all business and agricultural loans finance activities that involve medium environmental risk, up from 44.2% in 2015, and only 1.4% of loans finance activities with a high environmental risk.

Table 7: Breakdown of the business and agricultural loan portfolio by environmental risk category (in number of outstanding loans) as at 31 Dec. 2016⁴

Environmental Risk Category	Low		Medium		High		Total
	#	%	#	%	#	%	
PCB Albania	3,198	61.2%	1,923	36.8%	103	2.0%	5,224
PCB BiH	1,779	62.1%	1,006	35.1%	80	2.8%	2,865
PCB Bulgaria	6,034	63.5%	3,382	35.6%	81	0.9%	9,497
PCB Georgia	3,732	83.6%	703	15.8%	28	0.6%	4,463
PCB Kosovo	4,550	54.8%	3,523	42.4%	232	2.8%	8,305
PCB Macedonia	2,929	43.7%	3,625	54.1%	147	2.2%	6,701
PCB Moldova	2,309	57.3%	1,686	41.9%	33	0.8%	4,028
PCB Romania	4,662	49.8%	4,668	49.9%	29	0.3%	9,359
PCB Serbia	6,317	28.8%	15,484	70.5%	170	0.8%	21,971
PCB Ukraine	2,282	58.9%	1,511	39.0%	80	2.1%	3,873
BPC Colombia	936	72.4%	258	20.0%	98	7.6%	1,292
BPC Ecuador	9,737	72.6%	3,450	25.7%	233	1.7%	13,420
PCB Germany	34	41.0%	48	57.8%	1	1.2%	83
All banks	48,499	53.2%	41,267	45.3%	1,315	1.4%	91,081

Table 8 shows that the breakdown of environmental risks in terms of volume is similar to the breakdown in terms of the number of loans. 55.8% of the portfolio finances activities with low environmental risk and 41.5% of the outstanding volume is allocated to activities with a medium environmental risk, and 2.7% of the loans finance activities with a high environmental risk, which has resulted in a slight increase from 2.1% in 2015.

³ Annex A contains a detailed breakdown by environmental risk category of the individual institutions' portfolios and of the group as a whole.

⁴ The figures are derived entirely from the environmental data submitted by the individual ProCredit institutions and differ slightly from the operational statistics compiled by ProCredit Holding. However, environmental risk ratios are not significantly affected by this discrepancy.

Table 8: Breakdown of the business and agricultural loan portfolio by environmental risk category (in volume of outstanding loans) as at 31 Dec. 2016⁵

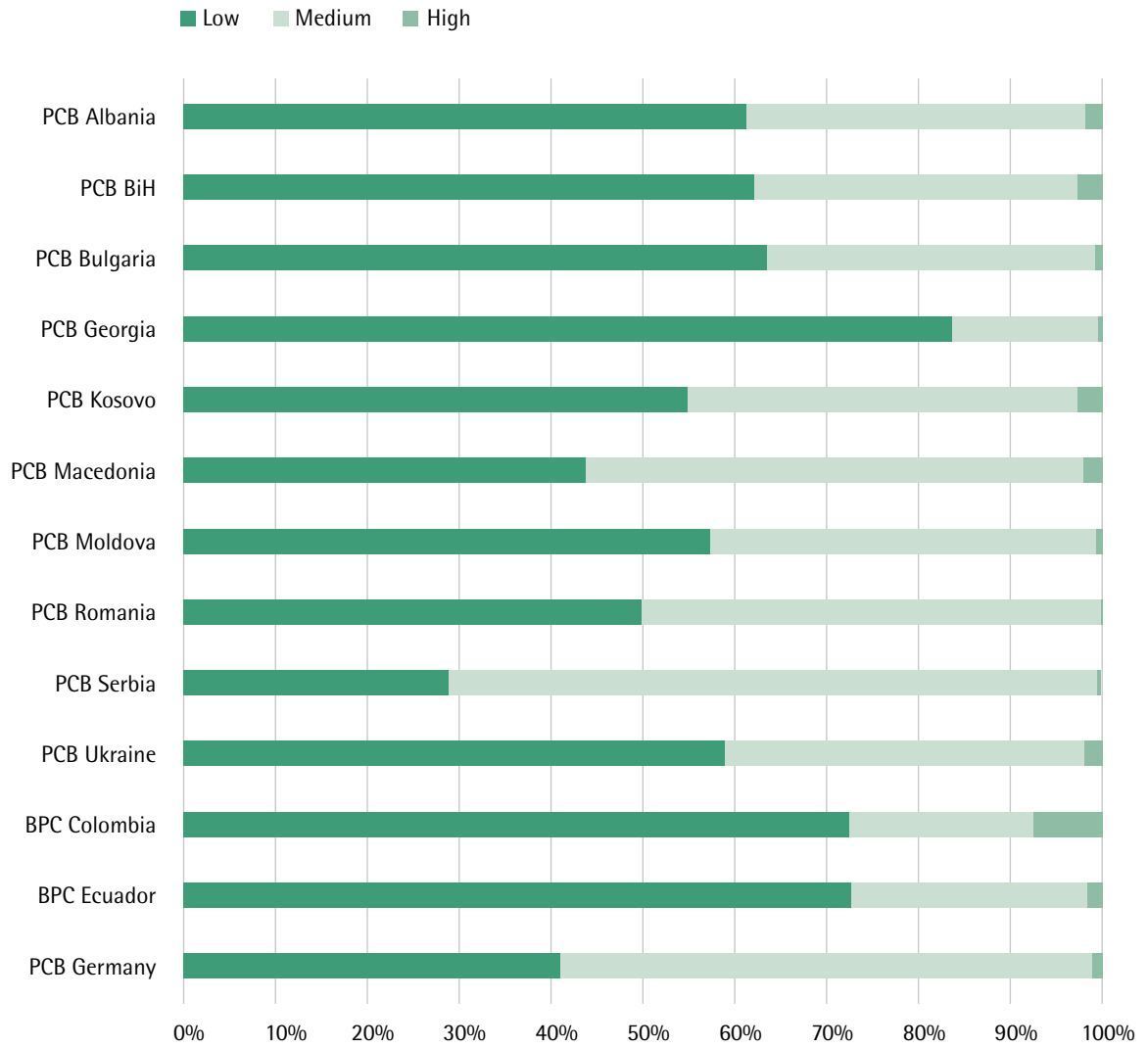
Environmental Risk Category	Low		Medium		High		Total
	#	%	#	%	#	%	
PCB Albania	84,119,106	64.2%	42,260,145	32.3%	4,556,957	3.5%	130,936,209
PCB BiH	66,800,630	53.4%	51,312,622	41.0%	7,023,492	5.6%	125,136,743
PCB Bulgaria	337,682,061	61.9%	201,522,126	36.9%	6,526,283	1.2%	545,730,470
PCB Georgia	236,261,175	80.4%	55,995,395	19.0%	1,701,011	0.6%	293,957,581
PCB Kosovo	189,141,549	64.2%	91,360,736	31.0%	14,291,109	4.8%	294,793,394
PCB Macedonia	120,873,215	50.2%	107,496,354	44.7%	12,318,439	5.1%	240,688,008
PCB Moldova	61,795,540	64.8%	32,641,902	34.2%	990,659	1.0%	95,428,101
PCB Romania	109,392,957	48.7%	113,145,043	50.4%	1,916,420	0.9%	224,454,419
PCB Serbia	203,005,084	37.9%	315,640,868	59.0%	16,570,379	3.1%	535,216,331
PCB Ukraine	112,243,716	38.4%	172,740,732	59.0%	7,628,601	2.6%	292,613,049
BPC Colombia	19,792,319	61.7%	9,447,281	29.5%	2,825,776	8.8%	32,065,376
BPC Ecuador	171,454,337	74.3%	53,226,214	23.1%	6,127,392	2.7%	230,807,944
PCB Germany	25,550,185	35.5%	45,903,469	63.7%	587,641	0.8%	72,041,295
All banks	1,738,111,873	55.8%	1,292,692,887	41.5%	83,064,159	2.7%	3,113,868,919

⁵ The figures are derived entirely from the environmental data submitted by the individual ProCredit institutions and differ slightly from the operational statistics compiled by ProCredit Holding. However, environmental risk ratios are not significantly affected by this discrepancy.

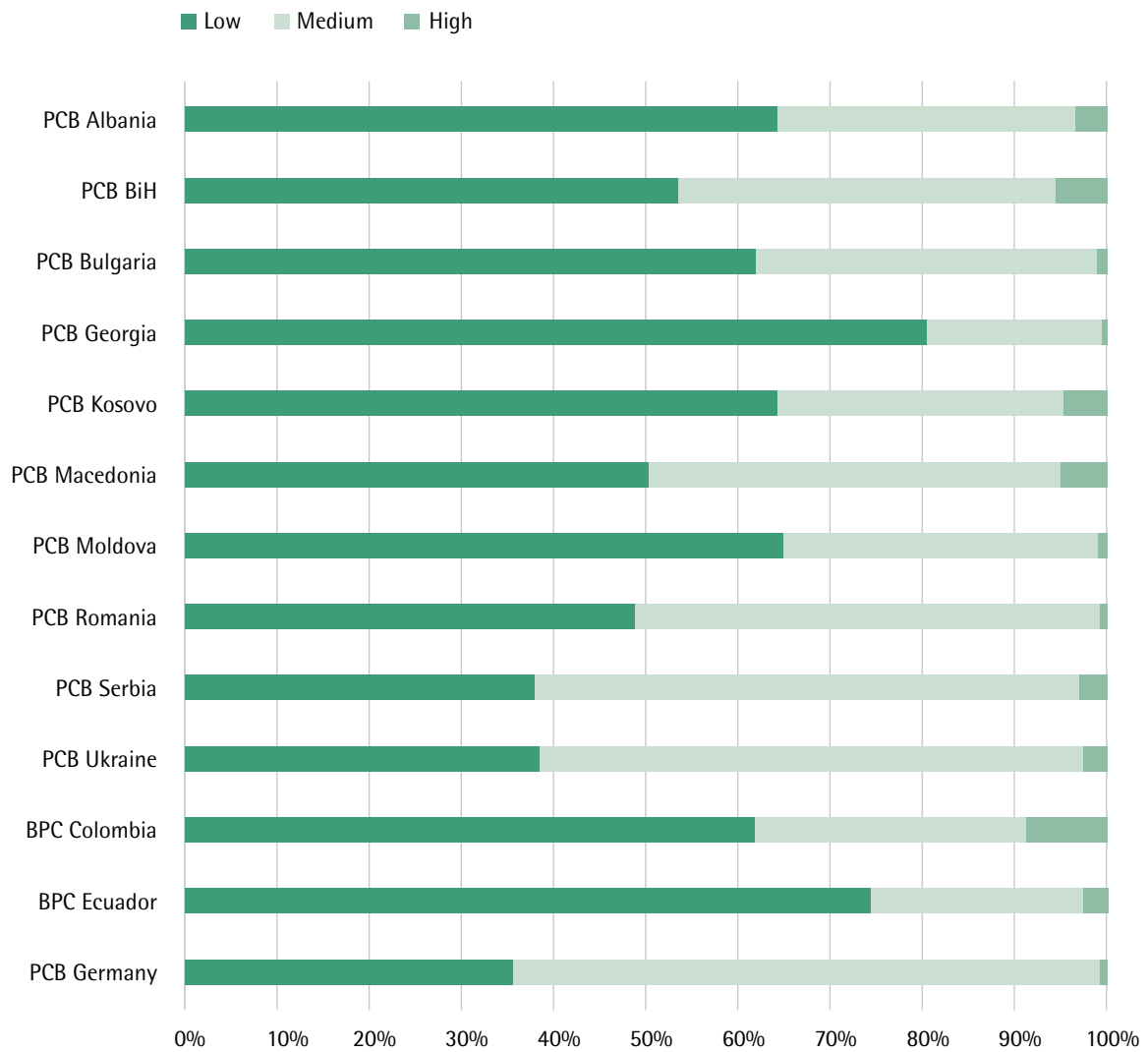


The following charts present an overview of the loan portfolios, broken down by environmental risk categories, in both number and volume as at year-end 2016 for all ProCredit institutions.

Graph 4: Breakdown of the business and agricultural loan portfolio by environmental risk category (in number of outstanding loans) as at 31 Dec. 2016



Graph 5: Breakdown of the business and agricultural loan portfolio by environmental risk category (in volume of outstanding loans) as at 31 Dec. 2016



The comparative overview of the portfolio breakdown by environmental risk category in terms of number for the period 2014–2016 presented in Tables 9 and 10 below provides detailed information on the development of the loan portfolio for each risk category.

Table 9: Development of the business and agricultural loan portfolio (numbers) by environmental risk category

Year	Low		Limited		Medium		High	
	#	%	#	%	#	%	#	%
2014	123,771	48.37%	109,134	42.65%	21,741	8.50%	1,221	0.48%
2015	88,066	54.65%	N/A	0.00%	71,189	44.18%	1,881	1.17%
2016	48,499	53.25%	N/A	0.00%	41,267	45.31%	1,315	1.44%

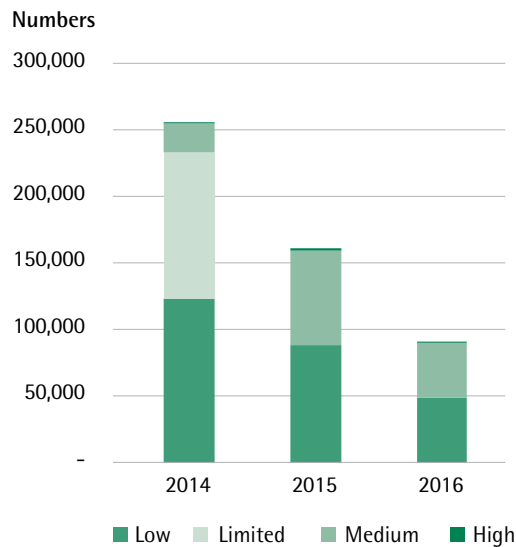
Table 10: Development of business and agricultural loan portfolio by environmental risk category in EUR '000

Year	Low		Limited		Medium		High	
	Volume	%	Volume	%	Volume	%	Volume	%
2014	1,994,908	52.58%	1,131,062	29.81%	631,899	16.65%	36,340	0.96%
2015	2,005,273	55.76%	N/A	0.00%	1,514,995	42.13%	75,925	2.11%
2016	1,738,112	55.82%	N/A	0.00%	1,292,693	41.51%	83,064	2.67%

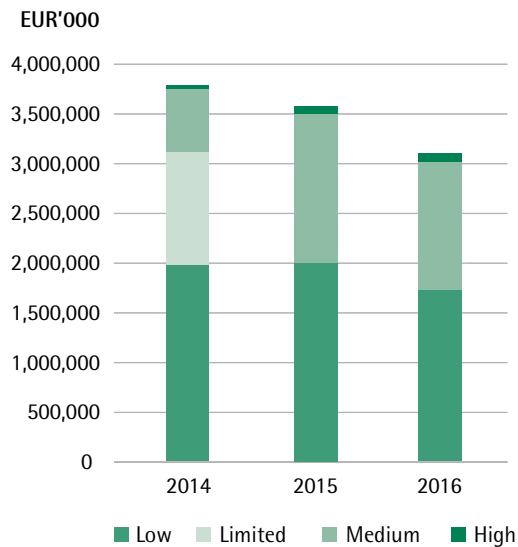
The outstanding volume to clients with activities entailing high environmental risk accounted for 2.67% (2.11% in 2015) of the total outstanding portfolio of the ProCredit institutions. In absolute values, this section continued to grow relative to 2015, and stood close to EUR 83.1 million in December 2016. The increase in the share of outstanding volumes with high environmental risk in 2016 is due to a stronger focus on small and medium-sized enterprises and financing production companies with more complex activities that have a greater impact on the environment.



Graph 6: Development of loan portfolio (numbers) by environmental risk category



Graph 7: Development of the loan portfolio (volume in EUR) by environmental risk category



Following the new approach implemented in 2015, for cases where clients are engaged in several activities, the banks consider the activity with the highest environmental risk as the determining factor for classifying the environmental risk category of the loan.

PCB Serbia experienced an increase in high-risk loans and accounted for the largest absolute volume of high-risk outstanding loans. In 2016, 170 outstanding loans totalling EUR 16.5 million involved a high degree of environmental risk. These loans were used to finance the trade of hazardous materials (EUR 10.1 million), waste management activity (EUR 2.2 million) and raw materials extraction (EUR 1.6 million). As a result, the quantity of high-risk environmental loans increased, accounting for 3.1% of the portfolio volume, and 0.7% in number of loans, down from 1% in 2015.

PCB Kosovo reported the largest number of high-risk environmental loans, and the second highest absolute volume in this category for the group. In 2016, 240 loans totalling EUR 14.3 million (2.8% and 4.8% of the bank's business and agricultural portfolio in terms of number and volume, respectively) involved a high degree of environmental risk. These loans issued in 2016 are predominantly being used to finance trade activities involving oil and petroleum, investments in raw material extraction operations and quarrying activities.

PCB Bosnia and Herzegovina reported 80 loans in the high-risk category with a volume of EUR 7 million. These figures represent 2.8% of the number and 5.6% of the volume of the bank's total business and agricultural portfolio. Although the share of volume is the second highest at the group level, the increase remains low when compared to the 2015 figure, which was EUR 6.8 million.

PCB Macedonia, with 147 loans and a volume of EUR 12.3 million, reported an increase in the absolute volume of loans in the high-risk category compared to EUR 9.6 million in 2015. The increase is due to the financing of clients involved in wholesale and retail fuel activities. Therefore, loans issued in 2016 accounted for 2.2% and 5.1% of the total business and agricultural loan portfolio in number and volume, respectively.

PCB Colombia remains one of the banks with the highest share of loans carrying a high degree of environmental risk relative to the bank's total business and agricultural portfolio in absolute volume, whereas the number of these loans decreased when compared to 2015. Loans issued in 2016 accounted for 7% and 8.7% of the total business and agricultural loan portfolio in number and volume, respectively. The activities that carry a high degree of environmental risk are the production and trade of varnish, the manufacturing of chemical substances and the trade of resin.

In line with the group's strong focus on financing small and medium-sized business and the increasing average loan size, the ProCredit group's aggregate high-risk portfolio accounts for 2.7% of the volume and 1.7% of the number of loans in the total business and agricultural loan portfolio, up from 2.1% in volume and 1.2% in numbers in 2015. The increase in the high-risk category is the result of the stronger focus on production and larger businesses with more complex and advanced technologies, which tend to utilise considerable quantities of resources, and this in turn generally implies a higher environmental risk.

The share of loans in the medium-risk group increased slightly, to 45.3% of the total number (from 44.2% in 2015), while the share of the total volume decreased to 41.5% (from 42.1% in 2015). These percentages have remained fairly stable, which confirms the strong focus on small and medium-sized businesses and on acquiring and financing more production companies, hence larger-scale operations that tend to have a greater impact on the environment. And last but not least, the group applies the contamination principle, whereby the highest risk-rated activity of an individual client or of a client among related parties is considered for assessment purposes.

PCB Germany, PCB Ukraine, PCB Serbia and PCB Romania reported the largest relative volume of medium-risk loans in their business and agricultural portfolios. Together they account for around 50% of all outstanding medium-risk loans in volume and 52.6% in number. These loans are predominantly small and medium exposures related to food and beverage processing activities, the energy sector, and carpentry and construction activities.

As in previous years, the majority of outstanding business loans were used to finance activities that entail a low degree of environmental risk: 53.3% in terms of number and 55.8% in terms of absolute volume.

Overall, the proper implementation of the EMS in all ProCredit banks is visible through the achieved and stable results and the generally satisfactory development of the environmental categories in 2016.

2.3. Pillar III: Green finance

ProCredit banks are also strongly committed to accelerating the adoption of energy-efficient and renewable energy technologies, as well as to incentivising and supporting businesses in their environmentally friendly investments.

In most countries where ProCredit operates, environmental awareness should not be taken for granted, since the economic and political developments in these countries overshadow the importance of environmental protection and investment in green technologies. Very often our banks are the pioneers in green lending in their markets. Therefore, ProCredit banks also aim to be innovators in raising general public awareness about the need for sustainable resource management.

Explaining the benefits of green investments and modern energy efficiency technologies by means of extensive campaigns for the general public and clients has played a crucial role in the constant development of the green portfolio in recent years. These key benefits include better quality products and services, more efficient use of energy and resources, as well as reduced costs and increased competitiveness.

We promote investments in:

1. Energy-efficient equipment and processes (EE)
2. Equipment and technologies using renewable energy sources (RE)
3. Environmentally friendly projects with a direct positive impact on the environment (Green)

The ProCredit group defines an EE investment as one that involves the implementation of measures which would reduce a client's energy consumption by at least 20%. EE investments also include the purchase of machines and equipment which are at least 20% more efficient than the existing country baseline. Investments financed thus far include new energy-efficient technologies for both businesses and private clients. Loans to businesses are often issued to replace old, inefficient machinery, investments in new business lines or expansion of current business activities, and they are especially attractive to manufacturers and clients operating in energy-intensive industries. Most of the energy efficiency loans to private clients are used to finance improvements in insulation, such as the insulation of exterior walls and roofs, or the installation of energy-efficient windows or modern central heating systems in residential properties.

ProCredit banks also support investments in renewable energy technologies, primarily in solar water heating, small photovoltaic installations, mini hydropower plants, wind power turbines and biogas and biomass applications.

The third group of green investments promoted by the ProCredit banks includes environmental protection measures, organic production, recycling, eco-labelled production, waste management and prevention, etc.

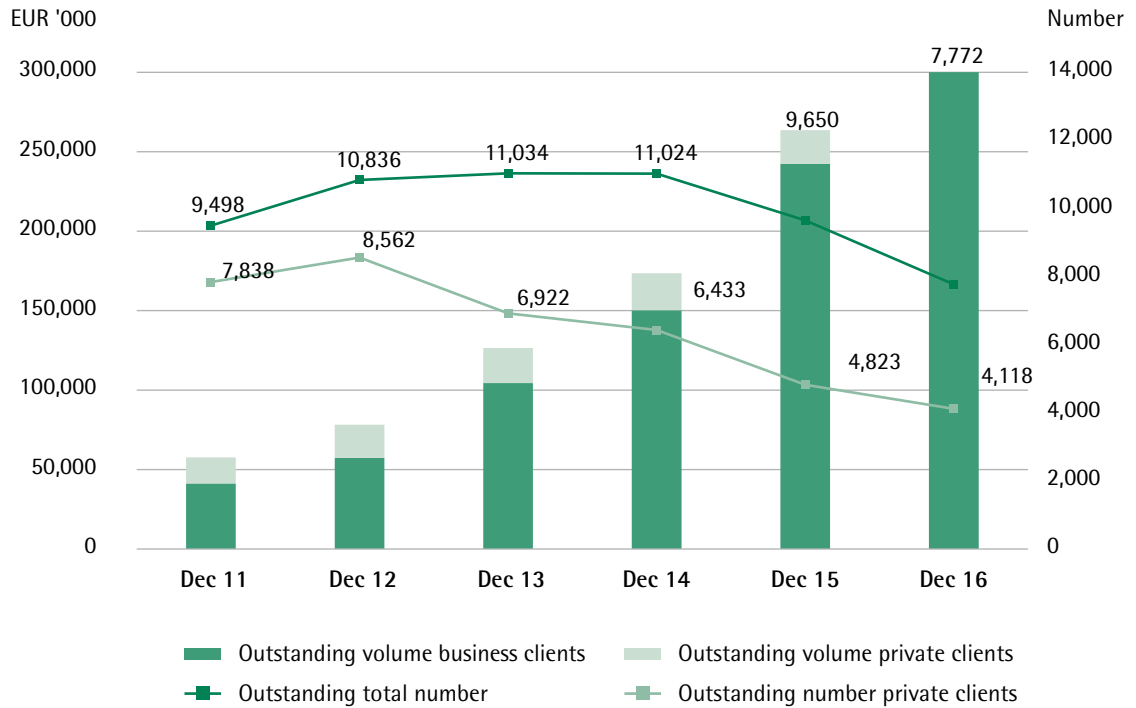
The total green loan portfolio in December 2016 consisted of 7,772 loans with an outstanding volume of EUR 329.3 million, accounting for 9.1% of the total loan portfolio for the thirteen banks. In terms of volume, the outstanding green portfolio is dominated by loans to business clients, which account for 93.3% of the total; the remaining 6.4% of the portfolio consists of green loans to

private clients. In terms of number, private clients and business clients account for 53% and 47% of the portfolio, respectively.

The following chart provides an overview of the development of the ProCredit group's consolidated green loan portfolio since December 2011.

The volume of the green loan portfolio for business clients increased by 26.7%, reaching EUR 307.2

Graph 8: ProCredit group green portfolio development for private and business clients



million in December 2016 compared to EUR 242.4 million in the previous year. The share of private clients' green loans decreased by 16.8% and now stands at EUR 22 million.

The following chart provides an overview of the development of the ProCredit group's consolidated green loan portfolio by group of investments.





Agromax Ltd, Georgia

Established in 2011, Agromax Ltd's main activity is growing cereal crops such as wheat, corn and barley. The company and ProCredit Bank have been successfully working together since 2012.

Agromax traditionally irrigated its land by means of free flooding, which is the most common practice in the country. However, in 2014 the company started using a system with a hose reel irrigator and later introduced a modern pivot irrigation system. Currently, 75% of the client's agricultural land is irrigated with the pivot system.

The investment has had a positive impact on both the company's financial performance and the quality of its crops. A pivot system ensures uniform irrigation, is easy to manage and results in high-quality produce and maximum yields. It is simple, reliable and has a long life expectancy. In addition, the pivot irrigation system uses 25 times less energy and needs only one-tenth of the water used by the hose reel system.

The company is a good example of how using modern technologies can lead to a more rational consumption of natural resources.

"The company started its operations on 400ha of land; however, we grew step by step and currently own 850ha. Until just a few years ago, we were using free flooding and hose reel irrigators, but two years ago we decided to replace our irrigation system with a more modern and efficient one. And here we are now, using the pivot irrigation system. The new technology has helped us to reduce water and energy consumption and improve the effectiveness of the irrigation process, and, as a result, to increase our productivity." Ioseb Okruashvili, Director of Agromax Ltd.



VSK Kentavar – Bulgaria

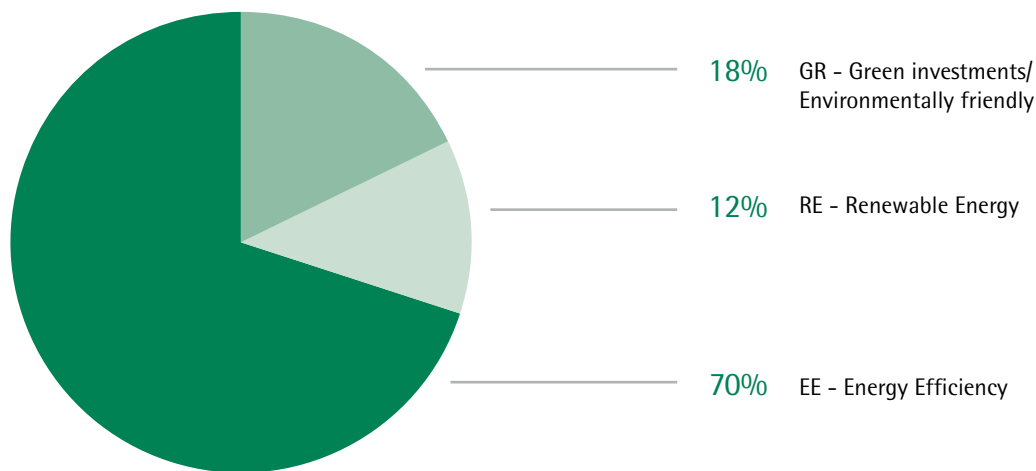
Founded in 1993, VSK Kentavar produces metal cutting tools and tool systems for Computer Numeric Control (CNC) machines. The company offers turnkey solutions for production processes at a number of Bulgarian and international companies from the mechanical engineering, power supply, metallurgy and chemical industries.

VSK Kentavar has been a client of ProCredit since 2001, the same year that the bank was founded. Today the company has grown considerably; 90% of its products are exported to the EU and the USA and it now employs a workforce of 250 people.

In order to expand its production range and improve the quality of its existing products, in February of 2016 VSK Kentavar invested in a new deep hole drilling machine. As the company's financial partner, ProCredit financed this investment with a Green Loan for EUR 200,000. As a result, the company saves 9,000 kWh a year and has increased the efficiency of its production process by 25%.

"We guarantee the high quality of the innovative products we offer. The successful introduction of this machine has contributed to the achievement of more stable manufacturing in our new production process; it ensures high productivity and improved efficiency, as production losses are reduced considerably. This makes our manufacturing much more eco-friendly." Mariana Pecheyan, Manager of VSK Kentavar.

Graph 9: ProCredit group green portfolio by group of investments as at December 2016 (in volume)



At the group level, the outstanding loan portfolio for energy efficiency measures stood at EUR 231.2 million in 2016. This investment group is dominated by investments in equipment and processes for business and agricultural clients. In addition, both client groups, business and private, made significant investments in building envelope improvements. Other relevant investment clusters include energy efficient space heating, ventilation systems, heating and cooling processes, and transport.

The outstanding green loan portfolio in renewable energy technologies amounted to EUR 39 million as at December 2015.

Finally, the third group – environmentally friendly investments – had an outstanding portfolio of EUR 59.1 million in December 2016, with a significant increase from the 2015 level (EUR 31.8m). This group mainly consists of investments in environmental protection measures for business clients (e.g. air protection measures, such as the purchase of vehicles with lower emissions), or investments by suppliers and producers of energy efficiency and renewable energy products in the markets in which the banks operate, as well as investments in organic agriculture. Soil and water protection measures are also financed under this group of green loans.



SC Win IMPEX SRL – Romania

Founded in 1993 with just six employees, SC Win IMPEX SRL operates its business in Craiova, Romania, in the field of production and sale of insulated windows and doors.

In 2015 SC Win IMPEX became a client of ProCredit Bank and it now does all of its banking with ProCredit.

Today, the company is well known in the market and has grown steadily – it has increased its staff to 61 employees and its premises now extend to 9,600m². Moreover, it has now started to export insulated windows and doors, an activity that has been developing consistently.

Using loans provided by the bank, the company has renovated and modernised two event halls. Aware of the importance of promoting and supporting investments in efficient technology, ProCredit financed the company in 2015 with two green loans totalling EUR 500,000 to acquire five new CNC (Computer Numeric Control) machines. The new machines use less energy than the old ones and productivity increased by 30% compared to the previous year. Furthermore, the company took a credit line in 2016 for working capital in order to further support the growth of the business.

"I am looking forward to continuing the development of my business and to consolidating our strong position on the market. The newly acquired equipment has already contributed to an increase in production. We are now planning to acquire additional modern, CNC equipment to help make our processes even more productive and efficient." Costel Serbanescu, Owner and Administrator of SC Win IMPEX SRL.



Visit to the waste treatment plant during the Green Seminar in April 2016

The key to the continuous development of the green loan portfolio is the knowledge and understanding of the business and credit risks related to the specifics and advantages of green investments. As in previous years, during 2016 the banks continued to provide refresher training on green lending and environmental awareness. These courses have helped staff acquire the knowledge and skills they need to identify energy efficient, renewable energy or environmentally friendly projects.

An important part of the training is practical role-play exercises, which allow staff to apply the knowledge they have acquired and practice explaining the benefits of green investments to clients. In addition, participants become familiar with numerous examples of eligible investments, including those with the highest potential in the respective markets and which are most frequently requested by clients.

Additionally, seminars and workshops concerning financing green investments are organised at group level in Germany at least twice a year. These serve to train the key environmental management and business staff to reinforce and improve green finance in their respective institutions. These workshops often include a half-day visit to businesses that serve as positive examples of environmental protection (e.g. an environmentally friendly waste water treatment factory, organic farm, energy park, etc.) with the goal of inspiring participants to replicate such investments in their respective countries.





From left to right, EE Seminar in Belgrade and Mini Biogas Plant Seminar in Novi Sad

Many ProCredit banks have participated in or co-organised a series of activities and meetings with clients and members of the business community as well as local and national authorities, with the aim of promoting green investments and increasing environmental awareness and responsibility among the public. In this context, ProCredit Serbia organised two seminars, which brought existing and potential clients together with the purpose of providing financial and technical education on investments in energy efficiency and biogas plants. One seminar, held in Novi Sad, was attended by 20 agricultural clients who have the potential to install a biogas plant, as well as two companies that sell such equipment. An additional seminar was held in Belgrade, connecting 40 small and medium business clients with a consultancy company and three companies with experience in lighting, heating and insulation. These activities highlight ProCredit's commitment and positioning as environmentally responsible financial institutions.





NVO EcoTech – Ukraine

Founded in 2010, NVO EcoTech was one of the first companies in Ukraine to manufacture biomass. Its business concentrates on the production of biomass boilers and biomass pellets. Back in 2010, the company's owner believed that biomass had significant potential in Ukraine and predicted strong demand for its commercial use. Thanks to this focus, NVO EcoTech has become a one-stop supplier of biomass technologies. Today, the company is capable of covering the entire biomass cycle, from designing and installing a turn-key boiler station to regularly maintaining and fuelling it. This gives NVO EcoTech a major competitive advantage over other suppliers.

NVO EcoTech became a client of ProCredit bank in 2013. The company's need for financing is a direct result of the seasonality of heating; typically, the company uses credit lines which it repays once the season is over.

Biomass is CO₂ neutral and is therefore an environmentally friendly source of energy. The client's advertising and marketing activities promote EcoTech's products and services to Ukrainian businesses as well as contribute to raising awareness of the environmental (and economic) benefits of using biomass.

"I value business relationships that are based on understanding, making compromises when necessary, and trust. Our relationship with ProCredit Bank is based on these values. Our boilers are efficient and reliable. We value innovation and incorporate modern technologies into our products. For example, our pellet feeding and burning processes are fully automated, thus ensuring maximum efficiency." Vasiliy Yakubovskiy, Owner of NVO EcoTech.



Electromobility Loan – Bulgaria

As cars produce a high volume of carbon emissions and greenhouse gases, their negative contribution to air pollution is significant. One way of preventing these environmental impacts is to replace fossil fuel-powered cars with electric ones, which are far less polluting than petrol or diesel vehicles, and thus help to improve air quality.

In Bulgaria, electric vehicles are a fairly new sight, with only an estimated 200 fully electric vehicles on the roads. To encourage growth in this market as well as investments in electric vehicles, ProCredit Bank Bulgaria has developed the "Electromobility", allowing both business and private clients to benefit from municipal subsidies, lower fees and reduced parking charges. This initiative is expected to result in an improvement in the local infrastructure for electric vehicles.

"I believe that investments in modern technology, innovative thinking and environmental orientation are key factors for the future development of stable, competitive companies on an international scale. Underlining our conviction that environmental protection is an investment worth making, we have developed a new loan facility for the market, EkoMobilnost targets clients who would like to purchase their own electric car at preferential lending terms. This idea of supporting our clients in their resolution to invest in such innovative vehicles followed the replacement of most of our own vehicle fleet with electric cars. However, a serious constraint to the development of this type of transport is the limited number of local charging stations available at present. That is why ProCredit Bank is establishing its own charging stations. The first one in Sofia is already in operation at our head office on Todor Aleksandrov Boulevard. This is one more step we are taking towards creating a cleaner environment." – Petar Slavov, Chairman of the Supervisory Board

Thessaloniki B2B Event

We see clear potential in promoting regional cooperation, particularly in the South Eastern European region, and we actively promote the intensification of cross-border co-operation by supporting those of our business clients who operate internationally. A dedicated B2B event in Thessaloniki in May 2016 "Realising the potential of the region - SMEs join forces" brought together around 1,000 participants from more than 500 SMEs from South Eastern and Eastern Europe. The event aimed to promote and develop international relations between clients of ProCredit banks in different countries where the group operates, thus creating real opportunities to connect with potential business partners.

The participants representing sectors such as production, trade, agriculture, mechanical engineering, textiles, IT and renewable energy, enthusiastically embraced the opportunity to engage in close dialogue, consider cooperation and find new partners. A total of more than 3,500 meetings took place.

During the event an agreement was signed between the EIF and ProCredit to increase lending to innovative SMEs as well as small mid-caps under InnovFin – EU Finance for Innovators, an initiative supported by the European Commission. The ProCredit group's environmental management approach was presented, supported by an outdoor exhibition summarising the ProCredit banks' and their clients' achievements in the area of environmental management and green finance.



B2B event in Thessaloniki

3. Conclusion

During 2016, the ProCredit banks continued with the ongoing improvements to their Environmental Management Systems and demonstrated that the necessary processes and procedures had been firmly anchored in their organisational structure. Having achieved this, the ProCredit institutions then initiated the process of obtaining ISO 14001 certification and, in the case of those located in Germany, certification under the stricter EMAS standards.

Energy and material consumption decreased in absolute numbers across the ProCredit group in 2016 compared to previous years. A number of improvement measures were implemented in all institutions in line with their annual environmental plans.

A more comprehensive approach for the assessment of the environmental and social risks in lending was established in the group and, as a result, ProCredit bank staff significantly improved their ability to identify, monitor and address these risks. In addition, they were trained in more effective strategies for advising clients on how to improve their environmental performance. In 2017, environmental staff at bank and group level will continue to monitor this process, raise awareness within the banks and ensure that the environmental and social risk assessment is incorporated into the overall approach towards risk management.

In 2016, the group's green loan portfolio continued its strong expansion, growing by 25% to reach almost EUR 330 million by the end of the year. Further steady growth is expected throughout 2017.

Forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that do not describe past events; they include statements on the assumptions and expectations of ProCredit Holding as well as the underlying assumptions. These statements are based on the plans, estimates and forecasts currently available to the Management of ProCredit Holding. Forward-looking statements therefore pertain solely to the date on which they are made. ProCredit Holding undertakes no obligation to update these statements in the event of new information or future events. Forward-looking statements naturally involve risks and uncertainties. A number of important factors can contribute to the fact that actual results may differ materially from forward-looking statements. Such factors include major disruptions in the Eurozone, a significant change in foreign trade or monetary policy, a worsening of the interest rate margin or pronounced exchange rate fluctuations. Should any of these factors arise, the impact could be manifested, among others, in a decreased group's green loan portfolio growth.



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