



ProCredit
H O L D I N G

ANNUAL ENVIRONMENTAL
PERFORMANCE REPORT

2015

– Short Version –



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 2015. The scope of the 2015 report includes the following fourteen banks, split into four regions:

- **South Eastern Europe**, consisting of seven banks in Balkan countries: Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia, Romania and Serbia
- **Eastern Europe**, with three banks located in: Georgia, Moldova and Ukraine
- **South America**, consisting of three banks in: Bolivia, Colombia and Ecuador
- **Germany** - the ProCredit Bank in Germany,

Whereas the qualitative information in the report relates mainly to 2015, some of the figures presented also refer to 2014 and 2013 for comparison. 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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List of abbreviations and names

BCA	Business client adviser
EE	Energy efficiency
EMS	Environmental Management System
EUR	Euro
DOEN	DOEN Foundation
FMO	The Dutch Development Bank
GHG	Greenhouse gas
GR	Environmentally friendly projects
IPC	Internationale Projekt Consult
KfW	KfW, the German promotional bank
LED	Light emitting diode
MB	Management Board
OeEB	Development Bank of Austria
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 is made up of development-oriented banks operating in Eastern Europe, South Eastern Europe, South America and Germany. The parent company of the group is ProCredit Holding, a Frankfurt-based company which guides the group. At a consolidated level the group is supervised by the German federal banking supervisory authorities (BaFin and Bundesbank). The ProCredit group aims to combine high development impact with commercial success for its shareholders.

Our corporate strategy and our activities are guided by the objective of making a sustainable contribution to economic, social and environmental development in the countries where we operate. ProCredit's business strategy is based on establishing long-term relationships with our clients and staff and on careful risk management.

ProCredit banks also aim to help create transparent, inclusive financial sectors in developing countries and transition economies. A functioning and fair financial system which enables people to save and businesses to invest and expand is important for economic and social development. ProCredit banks aim to be the "house bank" for SMEs and to provide simple savings services for ordinary people.

Through our collaboration with SMEs, we aim to make contributions to creating jobs, enhancing capacity for innovation and raising ecological and social awareness. In this regard, we concentrate on enterprises with stable, formalised structures, and attach particular importance to supporting local production, especially in agriculture.

Our SME clients value ProCredit as an equal partner that understands their needs and the unique challenges they face. We offer a broad range of transparent financial services. We promote a savings culture and improve the financial stability of our clients. Lending to private clients is limited and serves mainly to enable borrowers to acquire and maintain long-lasting assets, as is the case, for example, with home improvement loans for investments in energy efficiency.



2. The ProCredit approach to environmental management

Environmental awareness and protection has always been a matter of concern for the ProCredit group. In the countries in which the ProCredit institutions operate, environmental issues are often overshadowed by the more pressing problems which shape the everyday lives of most people, and so environmental awareness cannot be taken for granted. Economic development inherently implies increased energy consumption and ProCredit is acutely aware that promoting environmental sustainability must go hand-in-hand with its role in supporting economic development in its countries of operation.

Ensuring that the economic development that the ProCredit institutions support is as environmentally and socially sustainable as possible is a central component of the development mission of the group. For this reason, all ProCredit institutions set high standards regarding the impact of their operations on the environment and play an important role in raising the environmental awareness of their staff, clients, counterparties and the general public through the implementation of a comprehensive and sustainable system for managing environment-related activities.

The ProCredit group has developed and implemented a three-pillar approach for a comprehensive Environmental Management System which aims to reduce both the internal and external environmental impact of the ProCredit banks.

Pillar I: Internal environmental management

The ProCredit institutions continually monitor their own energy and resource consumption in terms of environmental impact and opportunities for improvement. Internal environmental management relates to all in-house measures taken to reduce the banks' environmental impact. These activities include implementing in-house 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. Environmental education makes up a significant part of continuing professional development for our staff on both the regional and international level.

Pillar II: Management of environmental risk in lending

The implementation of environmental and social risk assessment in lending is another part of ProCredit's Environmental Management System. The goal of this pillar is to reduce the adverse impact caused indirectly by the banks' lending activities. This includes assessing and monitoring the environmental and social (including also health and safety) risks of a client's business, 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.

Pillar III: Green finance/green loans

This pillar aims to improve the banks' external environmental performance by designing and offering specialised loans for investments in energy efficiency, renewable energies and other environmentally friendly activities. ProCredit banks aim to promote economic development that is as environmentally and socially sustainable as possible. Therefore, we have introduced a range of "green finance" services in all countries where the ProCredit banks operate.

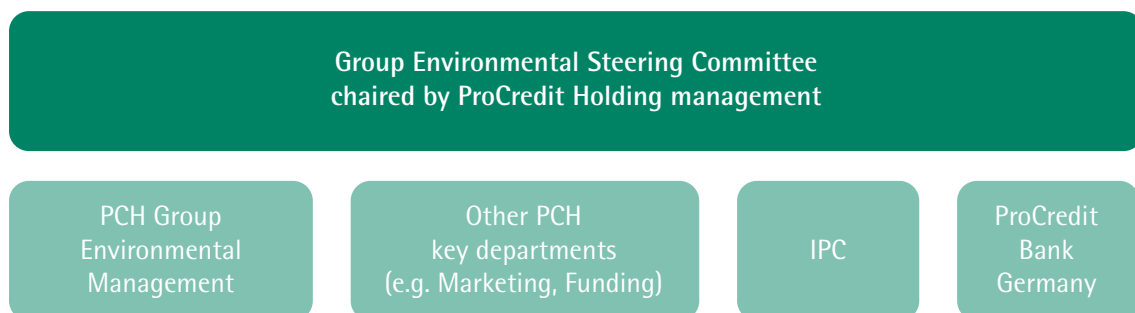
Institutionalisation of the Environmental Management System

The institutionalisation of the green approach was made possible thanks to the hard work of the banks' management teams, who put in a great deal of time and effort to implement the initiative successfully. The banks are continuing to live up to the group's environmental policies. Each bank's environmental committee sets an annual environmental plan, containing a set of recommendations and activities that will help the bank achieve the desired objectives. As a result of adopting new green business strategies as well as holding regular exchanges of information with all employees and special staff training sessions, a new environmental awareness and sense of identity has developed within the banks. This has been perceived positively by clients, suppliers, the financial sector, local authorities and the general public.

The Group Environmental Management team at ProCredit Holding is responsible for the strategic development and implementation of the approach and supports its introduction and expansion at bank level. Strategic decisions are taken by the Group Environmental Steering Committee, which meets quarterly and is chaired by a member of the PCH Management Board. The committee is made up of representatives of the Group Environmental Management team, the Management Board member responsible for business, the heads of the Group Marketing and Funding teams, as well as members of the Management Boards of ProCredit Bank Germany and IPC. IPC provides technical support and training at the group and bank level for every aspect of the EMS.

Each bank's environmental management unit is directly subordinated to a member of its own management board and usually consists of at least an environmental co-ordinator and a technical expert. Bank environmental committees are responsible for all strategic decisions related to EMS at bank level. Additionally, co-ordinators are assigned for each pillar in order to ensure that the EMS is institutionalised throughout the bank; this responsibility is in addition to their regular jobs. The co-ordinators tend to be staff members from administration (Pillar I), credit risk (Pillar II) and business (Pillar III) departments.

The established EMS structures are illustrated below.



EMS at group level



EMS at bank level

In 2015, group-level activities were generously supported by the DOEN Foundation, OeEB (Development Bank of Austria) and FMO (the Dutch development bank).

Strengthening and further development of our EMS requires significant staff involvement and participation across all levels of the ProCredit group. Staff training is therefore the key to success. 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 at the regional ProCredit Academies in Macedonia and Colombia, as well as at the central ProCredit 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.

2.1. Pillar I: Internal environmental management system

All ProCredit institutions have adopted a systematic approach towards the collection of data on energy and other resource consumption. During 2014, an upgraded web-based data collection tool was developed in close co-operation with IPC and Quipu, the group's IT services provider, and by the first quarter of 2015 the tool was being utilised by all banks in the group. These input and reporting tools ensure the accuracy of the information and continuous, efficient and effective analysis of energy and resource consumption throughout the year.

The information on energy and resource use 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 also support the banks in developing further action plans with a set of measures specifically focused on various environmental aspects with the purpose of further improving their internal environmental performance.

The ProCredit banks have put in place an approach to improve the sustainability of their own energy consumption, preserve and optimise the use of resources and reduce their environmental impact as much as possible. To this end, in-house energy and resource efficiency measures have been implemented, which apply to both technology and behaviour. 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. These changes also entailed implementing measures

related to the environmental performance of the premises: improving energy efficiency, reducing energy consumption and overall greenhouse gas emissions – measures that also result in cost savings. Examples are: new or renovated heating and ventilation systems, efficient inverter air conditioners, improvements to the building envelope (installing double- or triple-glazed windows, thermal insulation for walls, sun protection, etc.) as well as LED lighting installation.

In 2015 the ProCredit banks kept up their efforts to improve their Environmental Management Systems and have demonstrated that the processes and procedures involved are well institutionalised. Having achieved this, the ProCredit banks have either already applied for their EMS to be certified according to ISO 14001 or are expected to start the process of certification in 2016. PCBs Bulgaria, Georgia, Kosovo and Colombia are the first banks expected to be certified in 2016.

2.1.1 Energy and other resource consumption

Throughout 2015, the banks further reinforced their systematic approach and efforts to address energy and resource consumption. 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.

In 2015, the total energy used by the ProCredit banks decreased by 15% compared to 2014. Consumption of water, paper and CO₂ emissions also decreased significantly, as shown below.

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

Indicator	Unit	2013	2014	2015	Change 2015 vs 2014
Energy	kWh	45,648,000	38,365,704	32,588,711	-15%
Fuel	l	901,339	771,614	605,290	-22%
GHG emissions	t CO ₂ eq.	25,823	22,980	20,710	-10%
Water	m ³	107,343	90,590	66,140	-27%
Paper	kg	416,482	272,237	195,812	-28%

In line with the ProCredit group's business strategy, in recent years 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. A major goal for 2016 and beyond is to increase the automation level for simple every-day banking transactions, so that they can be performed either via 24/7 machines or e-Banking. In 2015, 64% of all outlets had already been equipped with a self-service 24/7 Zone. In these outlets, the number of newly installed machines increased by a factor between two and five. This strategy improves process efficiency for the bank and offers more flexibility for the clients. As a result, the number of self-service bank transactions supported by such technology increased significantly during the reporting period.

It is apparent that the greater use of technological processes in 24/7 zones ultimately results in higher energy consumption than before. After carefully assessing the effect in all banks, the increase in energy consumption in the 24/7 zones was calculated at 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 meter increased by only 2% comparing 2014 and 2015.

The ongoing focus on the automation of banking processes, coupled with staff optimisation, has resulted in a 16% increase in energy consumption per employee.

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

Indicator	Unit	2013	2014	2015	Change 2015 vs 2014
Energy consumption per m ²	kWh/m ²	201.70	186.50	190.40	2%
Energy consumption per employee	kWh/pp	4,739.90	5,004.10	5,824.60	16%
GHG emissions per employee	tCO ₂ eq/pp	2.68	3.00	3.70	23%
Water per employee	m ³ /pp	11.20	11.82	11.82	0%
Paper per employee	kg/pp	41.40	34.30	29.60	-14%

The analysis also shows that the increase in GHG emission per person is a direct outcome of the reduction of number of employees. Also the number of flights per employee increased due to high-quality trainings at the regional and international academies and the increasingly closer cooperation between the banks and on the group level. The relative paper consumption per employee showed a significant decrease of 14% due to more efficient processes and expanding the concept of paperless offices.

In spite of the introduction of an increasing number 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 approximately 20% in 2015, in comparison with the previous year.

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

Indicator	Unit	2013	2014	2015	Change 2015 vs 2014
Energy consumption by loan portfolio	kWh/€1000	12.3	10.2	8.2	-19.5%
Energy consumption by customer deposit	kWh/€1000	14.4	11.6	9.2	-20.7%
GHG emissions by loan portfolio	kgCO ₂ eq./€1000	7.0	6.1	5.2	-14.4%
GHG emissions by customer deposit	kgCO ₂ eq./€1000	8.2	7.0	5.9	-15.7%

Here are some practical examples from individual ProCredit banks.

PCB Ukraine – renovated training centre

PCB Ukraine has renovated an office building and transformed it into *ProHouse*, a guest house and training centre for its staff. The bank has invested in building insulation, a ventilation system with heat recovery, LED lighting, solar water heating panels, and geothermal heat pumps. The implementation of energy efficiency investments and the use of renewable energy technologies has increased energy security and minimised long-term operating costs. ProHouse serves as a tool for raising awareness among staff and the public. An open day for external visitors is held once per month. Everyone interested is welcome to visit and see the improvements in operation.



ProHouse in Kiev, Ukraine

"At first we had some hesitation as to whether we should switch from natural gas to renewable energy sources. After all, gas had served us and our neighbours reliably for many years. On top of this, we had no direct experience with solar collectors, and for us a geothermal heat pump was something purely theoretical. None of our locations had ever used such equipment before and there were hardly any practical examples of them being used anywhere in the country. Now, two years later, we feel we made the right decision. Not only does ProHouse have a proper ambient temperature in winter and in summer, the bank has also managed to reduce its energy consumption. The project has generated some public interest, so we use the example of ProHouse to promote renewable energy technologies in Ukraine" concluded Victor Ponomarenko, General Manager, PCB Ukraine.



Efficient vehicles

Monitoring the use of vehicles and other means of transportation was also in focus during 2015. Aside from the introduction of GPS systems to monitor and promote environmentally-friendly driving habits among staff, investments in more efficient vehicles were made in Bulgaria, Macedonia and Kosovo. 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, including electric, hybrid and natural gas-powered vehicles.



Electric car fleet at PCB Bulgaria

Already, 15% of the group's total car fleet utilises these innovative technologies and it is our aim to continue to build up this share. PCB Bulgaria, has invested in ten electric vehicles that will contribute to a substantial reduction in fuel consumption and in CO₂ emissions.

"We want to do the right things at the right time. We work to achieve what others only dream about. Our electric cars are environmentally friendly, noiseless and do not pollute the urban environment. They are an integral part of our business model – honest, effective, and reliable at all times" concluded Reni Peicheva, Member of the Management Board, PCB Bulgaria.

Paper consumption

Paper is another major resource consumed by financial institutions; therefore, we consider reducing paper consumption to be a priority issue and the results achieved in 2015 in absolute and relative terms are very encouraging. Printing optimisation projects were introduced in most banks some years ago, but continued in 2015. Technical upgrades, multifunctional printing equipment, revision and automation of processes, as well as a series of internal awareness-raising campaigns for staff, led to further decreases in paper consumption. As a result, the amount of paper consumed by the ProCredit banks in 2015 was 28% less in absolute terms compared to the year before.

In relative terms at group level, use of printing paper per employee and total paper per client (incl. marketing paper) went down by an average of 14% and 12%, respectively. The most impressive results regarding printing paper consumption were achieved by PCB Georgia with savings of 36%, PCB Moldova with 37% and PCB Romania 24% per employee.

Water usage

Measures to better monitor and reduce water consumption have been taken by the banks. As a result, water consumption decreased in 2015 by at least 27% in absolute terms at group level. Aside from internal awareness-raising campaigns, these measures included replacing faulty water faucets and pipes, installing separate meters, water-saving aerators, water sensors, etc.

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, 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 the respective countries.

The example of PCB Georgia

In spite of the absence of national regulations for waste management relevant to financial institutions, PCB Georgia has implemented its own waste management system following the EMS principles. Apart from raising staff awareness and provoking changes in behaviour, this served as an example for other organisations and the public in general. Even though waste management is still in the early stages of development, PCB Georgia separates paper, plastic, metal, glass, hazardous and residual waste. Using individual agreements with local companies, PCB Georgia ensures the proper treatment and recycling of its waste. Staff involvement plays an essential role in waste separation in the bank and their commitment has contributed to the establishment of a well-functioning waste management system.



Waste separation at ProCredit Bank Georgia

ProCredit Academies – organically grown food

ProCredit makes a contribution to environmental protection of not only by supporting its clients' green investments, but also by setting own examples.

The ProCredit Academies in Veles, Macedonia and Fusagasugá, Colombia have invested in organic farming in order to grow their own fruits, vegetables and herbs. Among other environmental benefits, organic farming typically has a positive impact on soil quality by reducing soil compaction, erosion and over-fertilisation. Organic production at ProCredit Academy Fusagasugá covers more than 50% of its own demand for fruit and vegetables, depending on the season and the level of occupancy.



Organic production at ProCredit Academies: Macedonia and Colombia

Procurement

Throughout 2015, 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.

Staff and public awareness

Environmental awareness among staff members and their commitment has been the key to the encouraging results achieved in 2015 and will be indispensable for achieving the objectives and goals set for 2016. ProCredit staff have continued to enthusiastically contribute ideas and participate in all of the activities and measures described above.

All ProCredit institutions undertake on-going 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 aim to raise awareness among employees and also to keep 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.

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

A large-scale initiative, aimed at encouraging people to replace plastic bags with an environmentally friendly alternative, was carried out in the ProCredit group's Eastern and South Eastern European countries of operation. ProCredit banks distributed a total of 630,000 organic cotton bags, which were produced by a Bulgarian company, a long-time client of the bank. With this campaign, ProCredit drew attention to the long-term effects of polluting nature with plastic waste. The simple solution of re-usable textile bags showed that everyone can contribute to the protection of environment by making small steps.



Environmental awareness-raising training at ProCredit Bank Ukraine.



Distribution of organic cotton bags

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

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. Therefore, when it comes to the lending process, all ProCredit institutions are committed to reducing the group's indirect environmental impact; therefore, financing 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 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 where the materials are extracted from sustainably managed forests. On the whole, 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, the 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 the institutions' 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.

At the end of 2013, the group began revising the definitions for the environmental risk categories and developed a set of tools and instruments by sector and economic activity to further enhance the assessment of the environmental risks of lending. In 2014, the new concept was tested in three pilot banks (PCB Bulgaria, PCB Georgia and PCB Ecuador) and in 2015 it was successfully implemented in all ProCredit banks. The main improvements include:

- detailed guidance notes for every economic activity depending on their environmental risk category
- a more detailed and systematic approach to the additional environmental assessment for all exposures of business activities categorised as having a medium or high environmental impact
- a simplified assessment form for very small exposures given their limited environmental impact due to the size of their operations

In addition, the number of risk categories was reduced from four to three, distributing the activities with "limited" risk between high, medium and low risk. The usage of thresholds based on the size of the exposure was also eliminated (which previously added a credit risk element into the assessment process). This has led to a more consistent approach in terms of measuring environmental impact, and presents a more realistic and conservative way of classifying of the group's outstanding portfolio.

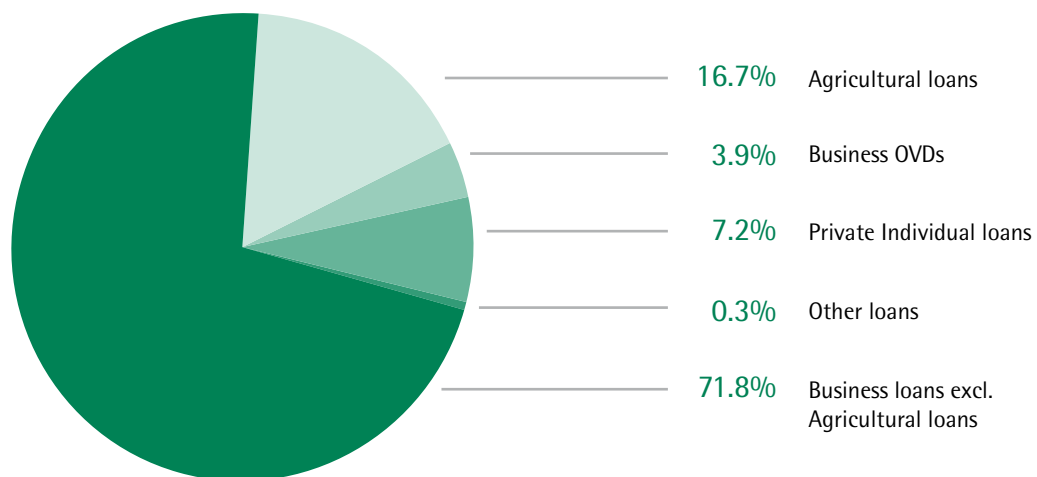
The development of these new standards was carried out in close collaboration with IPC consultants and the Group Environmental Management and Group Credit Risk teams. A set of materials – including a training manual and training materials for Business Client Advisers (BCAs), interpretation notes for the standards and supplementary notes explaining how to use the exclusion list – were presented to key staff from the business, credit risk and environmental management areas of the banks. The materials were well received and welcomed for their comprehensiveness, practical nature, valuable information and user-friendly presentation. In addition, all Branch Managers, Business Client Advisers and Credit Risk staff in the group underwent practical training for the implementation of the new approach in 2015.

Training regarding Pillar II was organised for newly hired staff and also continued to be part of the ProCredit Entry Programme in 2015. All new employees are required to familiarise themselves with the group's values and thus with the importance of environmental issues and to understand how ProCredit institutions address them 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.

2.2.1. Loan portfolio summary

The outstanding loan portfolio of the fourteen ProCredit banks included in the scope of the 2015 report increased from EUR 3.85 billion in 2014 to EUR 4.06 billion. As at 31 December 2015, the large majority of loans in the total loan portfolio consisted of business¹ and agricultural loans, with business loans accounting for 42% of the total portfolio in number and 71.8% in volume, and with agricultural loans accounting for 16.7% both in number and volume.

Graph 1: Distribution of outstanding loan portfolio (in terms of volume) by type of loan as of 31 Dec 2015



The loans for private individuals represent 7.2% of the total loan portfolio in terms of volume and include home improvement and housing construction loans. Housing loans accounted for 11.2% of the total number of outstanding loans, but only 5.5% in 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.

¹ As agricultural loans represent a significant part of the loan portfolio, they are reported separately for the purpose of the analysis

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 at 31 December 2015. In terms of number, the vast majority of loans belong to the smallest segment, i.e. loan amounts up to EUR 10,000. However, in line with the group's overall lending strategy in 2015, the smallest segment's share of the total loan portfolio continued to decrease: outstanding business and agricultural loans below EUR 10,000 now account for 55% of the total number of loans, down from 65% in 2014. All other segments in terms of number now account for a larger share of the loan portfolio than in 2014. In terms of volume, outstanding loans of above EUR 10,000 now account for 90% of the total portfolio, up from 85% in 2014.

Table 4: Breakdown of the number of outstanding business and agricultural loans by outstanding loan amount in EUR (as at 31 Dec. 2015)

Loan type	≤ 10,000	10,001-50,000	50,001-250,000	>250,000	Total number
Business loans*	57,548	46,106	10,463	1,282	115,399
Agricultural loans	31,108	12,207	2,218	204	45,737
Total number	88,656	58,313	12,681	1,486	161,136
Share in %	55%	36%	8%	1%	100%

All data in EUR; *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. 2015)

Loan type	≤ 10,000	10,001-50,000	50,001- 250,000	> 250,000	Total volume
Business loans*	227,137	1,010,095	982,835	698,360	2,918,427
Agricultural loans	111,722	253,653	212,101	100,291	677,767
Total volume	338,859	1,263,748	1,194,936	798,651	3,596,194
Share in %	9%	35%	33%	22%	100%

All data in EUR; *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 which may involve environmental risks are thoroughly screened for their compliance with applicable local environmental regulations during the credit analysis phase and 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 them with the client and suggest appropriate improvement measures.

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

In 2015, as shown in Table 6, around 27% in number and 30% 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 30% of the group's business and agricultural loans in terms of number and 28% in volume of outstanding loans. This segment comprises hotels, restaurants, hairdressers and cosmetic studios, 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 include improper disposal of waste water and sewage, unfiltered smoke or exhaust gas emissions, the use of environmentally harmful chemical substances, and working conditions and business premises whose condition may negatively affect the health and safety of employees, clients and the community. 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. 2015)

Segment	No. of loans	%	Volume in EUR	%
Trade	44,172	27%	1,074,451,854	30%
Service	48,576	30%	1,020,148,782	28%
Industry, construction	22,651	14%	823,825,724	23%
Agricultural loans	45,737	28%	677,767,418	19%
Total*	161,136	100%	3,596,193,778	100%

* excluding business overdrafts

In terms of numbers, the industry and construction segment accounts for around 14% of the group's business and agricultural loan portfolio and for 23% in terms of volume. The main activities in this segment are: construction, food/beverage processing, textile production, retail food production, carpentry, 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, as well as the use of environmentally harmful chemical substances. Health, safety and social risks may be related to inappropriate working conditions and insufficient protection for employees, or to premises and equipment in a condition that 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 28% of the group's outstanding loans in 2015, in terms of number and 19% in terms of volume. Environmental risks in these sectors involve 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 and 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.

The comparative overview of the portfolio breakdown by environmental risk category in terms of number for the period 2013-2015 presented in Tables 7 and 8 below provides detailed information on the development of the loan portfolio by each risk category.

Table 7: Development of the business and agricultural loan portfolio (numbers) by environmental risk category

Year	Low		Limited		Medium		High	
	#	%	#	%	#	%	#	%
2013	161,306	47.80%	149,083	44.20%	25,050	7.40%	1,970	0.58%
2014	123,771	48.40%	109,134	42.70%	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%

Table 8: Development of business and agricultural loan portfolio by environmental risk category in EUR '000

Year	Low		Limited		Medium		High	
	Volume	%	Volume	%	Volume	%	Volume	%
2013	1,885,960	52.20%	1,156,773	32.00%	537,398	14.90%	36,081	1.00%
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%

The outstanding volume to clients with activities entailing high environmental risks accounts for 2.1% (0.96% in 2014) of the total outstanding portfolio of the ProCredit institutions. In absolute values, this section of the portfolio doubled when compared to the 2014 figures, and stood close to EUR 75.9 million in December 2015. This increase was in line with the group's expectations, given that the new approach takes into account only three categories of environmental risk compared to four in the previous years. As a result, in 2015 the former "limited" environmental risk category was distributed among the low, medium and high categories. At the same time, adjustments were made to the ProCredit group's standardised list of business activities and their associated environmental risk, such as classifying "trade and transport of hazardous materials" as high risk and separate from the current trade and services categories, the majority of which carry a low environmental risk.

In line with the more conservative new approach, 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. This practice further contributes to the increase in the medium and high environmental risk categories, as the principle is followed even if the highest risk activity is not considered to be the client's main activity, i.e. the one generating the highest revenues or making up the largest part of the total assets. In addition, since 2015, the principle of related parties has been integrated into the risk classification process, i.e. the classification is no longer done on the basis of individual clients, but the highest risk category of one client is applied to the exposure of the whole group of connected entities.

As in previous years, the majority of outstanding business loans were used to finance activities that entail a low degree of environmental risk – 54.7% 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 results and the general satisfactory development of the environmental categories in 2015.

2.3. Pillar III: Green finance

ProCredit institutions have devoted significant effort to encouraging clients to invest in equipment and processes that will improve their environmental performance. These efforts include incentivising clients to undertake measures and investments that will minimise their negative environmental impact, as well as promoting compliance with applicable local regulations.

Providing green loans and incentivising clients to undertake investments in modern and energy-efficient technologies are not a trivial effort in the countries in which the ProCredit institutions operate. Very often our banks are the pioneers in green lending in their markets and it is therefore necessary to engage in dialogue with clients to present the benefits of such investments.

Therefore, ProCredit banks also aim at being innovators in raising general public awareness about the need for sustainable resource management and the opportunities this brings through education and marketing campaigns aimed at the business community and private clients. This reflects further on the communities and the population as a whole.

The development of extensive campaigns for the general public and for the banks' clients explaining the benefits of green investments for their businesses and homes has played a crucial role in the development of the green portfolio. From a business perspective, some of the key benefits of the investments in modern energy efficient technologies are better quality products and services, more efficient use of energy and resources, reduced costs and increased competitiveness.



Sava Kovačević AD, ProCredit Bank Serbia

The agricultural enterprise Sava Kovačević AD was founded back in 1946. In December 2003, the company was privatised by Mirocin Energo Ltd. from Vrbas. With the investments of the new owners, the company has become one of the leading agricultural companies in Serbia. Today the company has 3,380 hectares of its own land and leases an additional 750 hectares of state land. Also, with around 2,000 head of cattle, this modern farm has its own dairy production.

The management of the company is highly aware of the importance of environmental protection and energy efficiency. For this reason, they considered the possibility of renovating their drying plant. However, taking into account the fact that the capacity of the renovated drying facility would not be sufficient for the planned increase in production, and also that this would entail substantial consumption of heavy fuel oil as its main source of energy, it was decided to build a brand new drying facility for alfalfa rather than renovating the existing facility.

The new drying facility is completely automated. The temperature and the volume of alfalfa are controlled. The heat used for the drying process comes from the company's biogas plant. Thanks to this arrangement, consistent quality of the alfalfa is provided regardless of the weather conditions. Furthermore, the produced hay contains more protein and the beta-carotene is preserved. This in turn results in a substantial increase in milk production. Additionally, with this investment, the company saves 87% on electricity in comparison with the old dryer's consumption. Also, CO₂ emissions have been reduced by 12,040 kg annually.

"We produce much better quality hay with the new dryer. At the same time, we are no longer dependent on the weather conditions, which allows us to increase our milk production by 850-900 litres per day," concluded Mr Vujčić, director at Sava Kovačević.



Praha Ltd., ProCredit Bank Bosnia and Herzegovina

Established in 2012 by Mr Rajko Đuričić, Praha Ltd. generates electric power by using photovoltaics. Driven by both a high level of environmental awareness and favourable economic conditions for operating a photovoltaic power plant, Mr Đuričić decided to produce electricity from renewable sources.

Mr Đuričić successfully obtained all necessary licences and permits and started construction in 2015. Convinced of the need to foster renewable energy production, ProCredit financed this project with a green loan in the amount of EUR 153,000. The plant has been fully operational since January 2016 and the electric energy it generates is sold to the state-owned electricity distribution company.

The positive environmental impact achieved by this investment is reflected through annual CO₂ emissions reductions of 114,000 kg.

"I am very proud of this project. It is the first PV plant in the Žepče municipality. It was very important that we had the support of the municipality and the local population; they too realised the importance of this project. When I look at it, I see the future!", said Mr Đuričić.

The project makes a substantial contribution to ecological stability, protects the environment and helps pave the way for a sustainable future.

The ProCredit banks have therefore made it a general principle to assess each loan application to determine whether it has a "green" purpose. The following investments qualify as green investments:

1. Investments in energy-efficient equipment and processes (EE)
2. Investments in equipment and technologies using renewable energy sources (RE)
3. Investments in 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 machines and equipment which are at least 20% more efficient than the existing country baseline.

ProCredit banks also support investments in renewable energy technologies (RE), primarily in solar water heating technologies, 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 concerns environmental protection measures, organic production, recycling, eco-labelled production, waste management and prevention, etc.

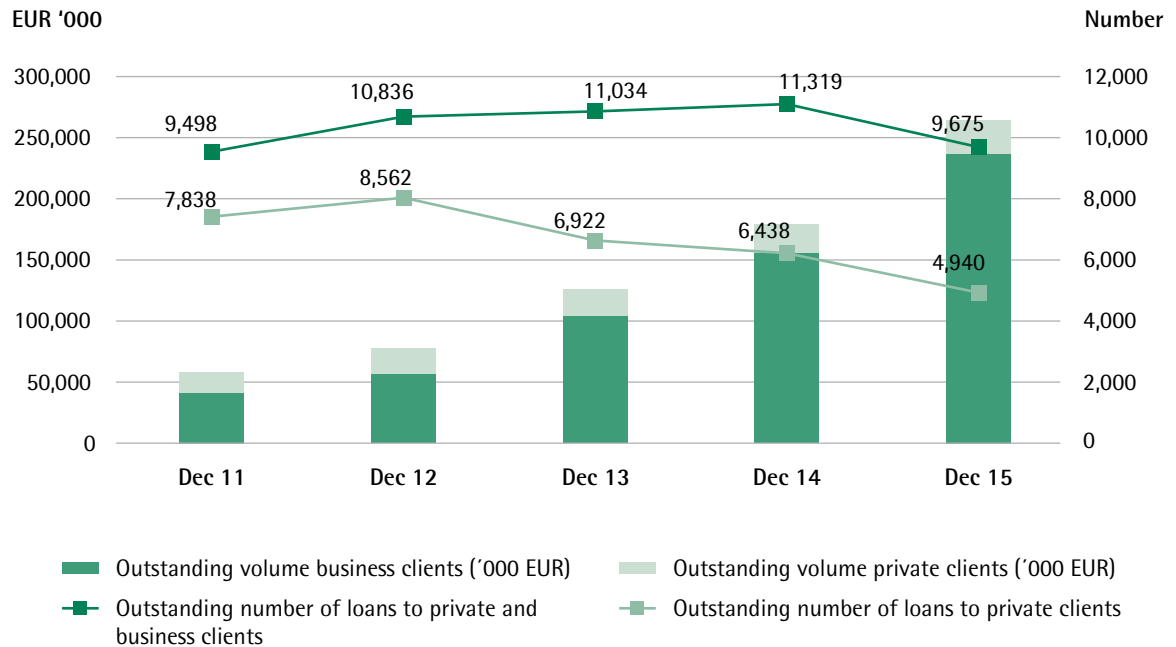
ProCredit banks have played a pioneering role in their markets by offering special green loans for the above-mentioned investments. This initiative is motivated by the commitment shared by the entire ProCredit group and its shareholders to accelerate the adoption of energy-efficient and renewable energy technologies as well as to support businesses with an outstanding commitment to environmental sustainability through environmentally friendly investments.

In line with further expansion of the green lending approach in 2015, ProCredit Bank Colombia introduced green lending. Thus, by 2015, all ProCredit institutions have fully embraced the green lending concept. Furthermore, all banks in the group have further streamlined their processes and procedures connected to green finance.

The total green loan portfolio as at 31 December 2015 consisted of 9,675 loans with an outstanding volume of EUR 264.2 million, which accounts for 6.5% of the combined loan portfolio for the fourteen banks.

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

Graph 2: ProCredit group green portfolio development for private and business clients





Fernuci FPC, ProCredit Bank Moldova

Fernuci FPC is a leading producer of organic walnuts and an exporter of shelled walnuts for the European food retail and manufacturing industry. The company has 19,000 walnut trees on approximately 90 ha of land. Additionally, it purchases walnuts from regional farmers and thus positively contributes to the local economy.

By controlling every step of the process, from cultivation to distribution, Fernuci FPC has received organic certification and a certificate of quality for every step.

ProCredit Bank Moldova has been Fernuci's FPC main financial partner since April 2015. Aware of the importance of promoting and supporting water-saving technologies, the bank financed the company's investment in a drip irrigation system for the walnut orchard with a green loan of EUR 300,000. The system is expected to reduce water consumption by up to 70%, diminish weeds, reduce the risk of plant diseases and maximise crop yield.

"Growing a walnut orchard is a highly capital-intensive activity. It was only logical for us to invest in technologies that would support the rapid growth of the trees and secure an early commercial harvest. ProCredit Bank supported us in the investment in a state-of-the-art irrigation system which improves both productivity and the quality of the nuts," explained Mr Robert Sporschill, co-owner of Fernuci FPC.





EKO-GRUP, ProCredit Bank Macedonia

EKO-GRUP was established in 2006 as a consultancy company in agriculture, rural development and environmental protection. In 2009, it started producing organic food and now offers more than 50 processed organic fruit and vegetable products. EKO-GRUP produces its own vegetables, but also cooperates with a number of local farmers to obtain the most suitable organic products for processing.

For consumers, EKO-GRUP offers a variety of premium organic and gourmet products and the possibility to purchase them either at a supermarket chain or online at their convenience. Their products are tasty, authentic and high quality. They are produced in sunny Macedonia, where companies still take pride in tradition and craftsmanship.

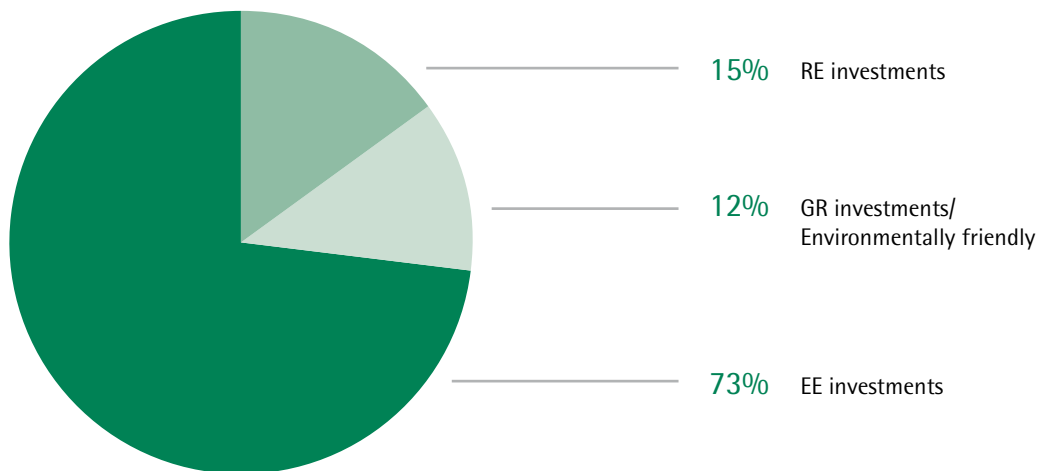
Among other environmental benefits, organic agriculture has a positive impact on soil quality by reducing compaction and erosion. ProCredit supports EKO-GRUP in its business by offering financing and other modern banking services. Moreover, the ProCredit Regional Academy located in Macedonia regularly purchases different EKO-GRUP products in order to provide locally grown organic food to its participants.

"We pay attention to the technology and equipment that we use for food processing. We have invested in energy-efficient equipment, and we use biomass pellets for the process of baking the peppers. As a result, we have cut our electricity consumption by up to three quarters," stated Mr Goran Angelovski, owner of EKO-GRUP.

In terms of volume, the outstanding green portfolio is dominated by loans to business clients, which account for 89.5% of the total; the remaining 10.5% of the portfolio consists of green loans to private clients. In terms of number, private clients and business clients account for 51% and 49% of the portfolio, respectively.

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

Graph 3: ProCredit group green portfolio by group of investments as at December 2015 (in volume)



At the group level, the outstanding loan portfolio for energy efficiency measures stood at EUR192.8 million in 2015. 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 39.6 million as at December 2015, which is almost double the outstanding volume in December 2014 (EUR 20 million). This growth was mainly driven by an increase in loans involving solar energy or wind power turbine projects as well as biogas plants and related equipment.

Finally, the third group - environmentally friendly investments - had an outstanding portfolio of EUR 31.7 million as at December 2015, which is more than double the 2014 level (EUR 15.7 million). 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, and investments in organic agriculture. Soil and water protection measures are also financed under this group of green loans.

In order to strengthen their internal capacities for green finance, the banks provide refresher trainings on green lending for all lending staff every year. These trainings are attended by the banks' front- and back-office staff as well as by decision-makers. The trainings give staff updated information about operational principles as well as changes in processes and procedures for identifying green loans, so that they acquire the knowledge and skills they need to identify energy-efficient, renewable energy or environmentally friendly projects.

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



Green lending training, ProCredit Bank Romania (left) and ProCredit Bank Albania (right)

Many ProCredit banks participated or co-organised a series of activities and meetings with clients, members of the business communities and local and national authorities, with the aim of promoting green investments as well as increasing environmental awareness and responsibility among the public. In addition, these activities highlight ProCredit's commitment and positioning as environmentally responsible financial institutions.



Green B2B meeting organised by PCB Serbia

3. Conclusion

In 2015 the ProCredit banks maintained their efforts to continuously improve their Environmental Management Systems and have demonstrated that the related processes and procedures are well-established in their institutions. Having achieved this, some of the ProCredit banks have begun the process of having their EMS certified in accordance with ISO 14001. Other banks are expected to start the certification process in 2016.

Energy and material consumption in the ProCredit institutions clearly decreased in absolute numbers in 2015 compared to previous years. In 2016, due to the increased energy intensity of the new 24/7 Zones, internal environmental management will become even more important.

The group established a new, more comprehensive approach for the assessment of the environmental and social risks in lending in 2015. As a result of the implementation of this new concept, ProCredit bank staff significantly improved their ability to understand, assess and monitor these risks. In addition, they learned how to more effectively advise clients on measures to improve their environmental performance. In 2016, environmental staff in the banks and in PCH 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 2015, green finance was fully introduced in all ProCredit institutions and continued to expand strongly. Growth of 47% was achieved and the green loan portfolio reached EUR 264.2 million by the end of the year.



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