



ProCredit
H O L D I N G



Impact Report 2016

Advised by **ipc**
Internationale Projekt Consult GmbH



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1 Management Overview

ProCredit is an international group of development-oriented commercial banks. In line with the ethical, social and environmental orientation of its business model, the ProCredit group aims not just to be commercially successful for its shareholders: it also aspires to make a significant development impact through the positive ethical, social, economic and environmental influence it has in the countries in which it operates.

The group operates in countries with similar characteristics: transition or development economies, low awareness of environmental protection and a labour market with relatively poor opportunities – especially in comparison with the European Union (EU) average. This sets the context of the challenges faced by ProCredit banks and how they address them on a daily basis.

The ProCredit group has been a pioneer in development finance since its origins more than 30 years ago. Over the years, the development finance debate has evolved beyond the simple, and often spurious, focus on “loans for the poor”. Today, the role of development-oriented financial institutions is seen in a broader social, environmental and economic context. In transition economies, where low-income individuals often have “excess access” to finance due to the availability of irresponsible consumer finance products, their priority is not only to support responsible finance for small and medium-sized enterprises (SMEs) and private individuals, but also to raise awareness of the environmental and social issues that are often neglected due to the more pressing matters of everyday life.

Responsible finance for SMEs is a prerequisite for the stable development of these businesses, which are the backbone of economic development and which employ the majority of the population. In this way, the ProCredit group continues to play a pioneering role in development finance as the leading specialist full-service bank for SMEs in South Eastern and Eastern Europe. Moreover, the owners of SMEs form an emerging middle class, which has a vested interest in supporting an inclusive, transparent society.

Responsible finance for private individuals involves promoting the use of bank accounts for the receipt of salary payments, promoting savings services and electronic channels for payments, and providing credit facilities that support building up long-term assets, such as housing, rather than encouraging short-term consumption.

In December 2016, ProCredit Holding listed its shares on the regulated market segment of the Frankfurt Stock Exchange and was simultaneously admitted to its Prime Standard sub-segment. This was a landmark move for a small banking group, particularly given its focus on doing business in what are generally regarded as high-risk, intransparent countries.

With the listing on the Frankfurt Stock Exchange, ProCredit aims to expand its development impact by bringing private sector international investors to its countries of operation in a way that promotes a sustainable, long-term view – not just the opportunity to make a quick return on an emerging market investment. This makes the ProCredit group unique, as it is a publically listed company that is explicit in its development and ethical ambitions and actions. Its positioning and competitive advantage are firmly rooted in measuring impact in terms deeper than just a short-term return on equity.

Financial overview		31 Dec. 2016
in EUR millions		
Total assets		5,668
Gross loan portfolio		3,629
out of which share of loans to businesses		90.9%
Customer deposits		3,475
Shareholders equity (excl. non-controlling interests)		646
Return on average equity		9.6%
Equity ratio Fully loaded CET1		12.4%
Equity ratio Fully loaded Total capital		15.4%
Leverage ratio (Fully loaded)		9.8%
Customer deposits/ total gross loans		95.8%
Number of employees		4,078
Rating (Fitch) of PCH		BBB (stable)
Rating (Corporate responsibility, oekom research)		Prime

Joining forces with the Social Stock Exchange offers a great opportunity for the ProCredit group to advance its cause and to simultaneously support the Social Stock Exchange in its declared mission to promote and facilitate investments by the broad public into causes that create an impact.

Through the Social Stock Exchange, the ProCredit group would like to significantly increase its visibility among like-minded investors who wish to make an impact by supporting an economically, socially and environmentally sound business with a declared development mission. At the same time, the ProCredit group hopes to raise awareness of the challenges faced in its countries of operation and make a sustainable contribution to the economic, social and environmental development in these countries. This guides ProCredit's corporate strategy and activities and it is especially visible in the group's

approach to providing financial services for business clients, to promoting environmental awareness and protection, and to developing human resources.

The scope of our Impact Report 2016 for the Social Stock Exchange includes ProCredit Holding AG & Co. KGaA and 13 ProCredit banks in the following four regions:

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

Core social and environmental issues of the ProCredit group

Providing financial services
for SMEs

Environmental
awareness and protection

Human resource
development



Borislav Kostadinov
Credit risk management
Environmental management and
impact reporting
Group communications
Investor relations



Dr Anja Lepp
Risk control
Financial risk management
Operational risk management
Prevention of money laundering and other
fraudulent activities



Sandrine Massiani
Human resources
Business support
Compliance and legal
Internal audit
IT



Dr Gabriel Schor
Finance and controlling
Group supervision
Treasury
Funding

Management of ProCredit Holding and areas of responsibility

2 Social Purpose and Context

2.1 Organisational structure

The ProCredit group has created an extensive infrastructure to facilitate its developmental mission and support the three main social and environmental impact areas of providing financial services to SMEs, promoting environmental protection and developing human resources.

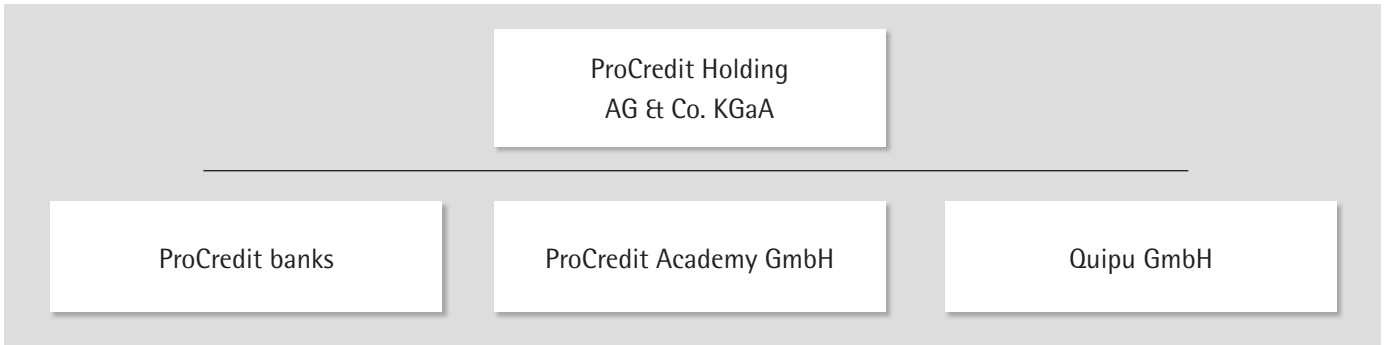
ProCredit Holding is the super-ordinated company of the group and its activities range from forging group-wide strategies to setting overall policy guidelines and standards with regard to the material areas of banking operations in order to ensure that appropriate organisational structures and processes are in place at group level. These guidelines and standards are supplemented by the exchange and dissemination of best practices at seminars, workshops and training sessions on specific topics that ProCredit Holding holds on a regular basis.

The senior management and selected management-level staff of ProCredit Holding are also members of the supervisory boards of the local ProCredit banks, and are thus closely involved in all strategic business processes. Each senior manager has an extensive international background, and together, the whole management team can draw on a broad range of experience in all areas closely related to ProCredit's mission, such as international development finance, economic development, renewable energies and resource management.

At the heart of the ProCredit group are our development-oriented commercial banks, which specialise in working with SMEs. All ProCredit banks pursue a broadly similar strategy and all are united behind the same mission statement, which outlines their developmental and commercial objectives. ProCredit has a focused regional approach and the banks collaborate closely with each other, which successfully allows us to make the most of the synergies between the different institutions (for instance, our banks work together in the areas of recruitment and staff training at the regional training centres, we have frequent workshops and seminars with the banks on strategic or operational topics, etc.). In the South Eastern European region in particular, we see clear potential and we actively promote the intensification of cross-border cooperation by supporting our business clients who operate internationally.

The ProCredit group is supervised on a consolidated basis by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the Deutsche Bundesbank. All ProCredit banks implement German and EU banking standards.

Organisational structure of the ProCredit group



The ProCredit group believes that the success of its business strategy and ability to deliver valuable services to its clients largely depend on the skills and attitude of its staff, as well as on its ethical approach to banking. This ethical approach is integrated into all of our activities and is reflected in the group's policies and standards, as well as in our Code of Conduct¹, which applies to all of our employees. At the heart of ProCredit's staff development and knowledge dissemination infrastructure is the ProCredit Academy in Fürth, Germany. The Academy provides workshops, seminars and training courses for staff from all hierarchical levels, as well as hosts the comprehensive top-level management programme. Regional centres support staff training with seminars and workshops for all key business areas, and regular exchanges among staff members within each region are held in order to foster the transfer of technical skills and specialist knowledge.

The group's IT subsidiary, Quipu GmbH, supports all of ProCredit's activities and plays a central role in implementing the business and risk strategies of the group. IT and software development priorities are also managed at group level with strong involvement of the banks, as set out in the Group IT Strategy, which is approved by the management of ProCredit Holding.

The group's commitment to development is also mirrored in its shareholder structure, which comprises a mix of development-oriented private and government-backed shareholders. As a result, the ProCredit group benefits from an ideal blend of entrepreneurial spirit and public support that has proven instrumental for the group's success in pursuing its mission in the past and will continue to do so in the future. Our core shareholders² are listed below.

We strongly believe that regular, transparent communication with our shareholders and stakeholders is crucial for keeping them continually informed about the development of the company³. In this respect, we strive to ensure the regular publication of news about the company and to provide detailed financial reports, as well as to cultivate ongoing, personal contacts with investors, analysts, the media and the interested public⁴.

¹ "Our Code of Conduct" is published on the ProCredit Holding website in the "About Us" section – "Business ethics and environmental standards".

² The core shareholders: Zeitinger Invest, DOEN Participaties BV, IFC, KfW and ProCredit Staff Invest GmbH & Co. KG collectively own, directly and indirectly, 61% of the issued and outstanding share capital of ProCredit Holding (as of 21 Dec 2016) and 100% of the issued and outstanding share capital of ProCredit General Partner AG, the general partner (Komplementär) of the company. They have entered into a Core Shareholders' Agreement, according to which each core shareholder agrees to exercise its influence as a shareholder in the company on a long-term basis, subject to applicable law, to ensure that (i) the financial institutions of the ProCredit group continue to focus on providing responsible and transparent banking services to SMEs and private customers, (ii) the ProCredit group continues to operate in a manner that strives to create well-managed, commercially sustainable institutions in line with German banking regulations, and (iii) that the operations of the company and its subsidiaries continue to be in line with applicable law and best practice banking and socially responsible standards.

³ Detailed information on publications related to the ProCredit group is provided in the Appendix.

⁴ Additional information is available in the Financial Calendar published in the Investor Relations section of the ProCredit Holding website.

Zeitinger Invest GmbH

The largest single shareholder and strategic investor is Zeitinger Invest GmbH, which holds 17.48% of the company's shares. The company emerged from Internationale Projekt Consult GmbH (IPC) in 2016 and is owned by members of the Zeitinger family, who strongly believe in the idea of Europe and its humanistic values. Since 1980, the family has been breaking new ground in the field of development, pursuing its objectives by carrying out consulting assignments and assuming management responsibility. One of the guiding principles underlying its activities is the commitment to transmitting entrepreneurial values, which Zeitinger Invest regards as the motor for long-term sustainable development.

KfW

KfW, acting on behalf of the German Federal Government and other entities, holds 14.52% of the shares. It is one of the world's leading and most experienced promotional banks and it finances investments as well as accompanying advisory services in developing countries and emerging economies with the aim of creating sustainable, integrative financial systems.

DOEN Participaties BV

Holding 13.76% of the shares, DOEN Participaties BV is an impact investment company that was established more than 20 years ago. To achieve its goal of a green, social and creative world, DOEN Participaties BV invests in innovative early stage social enterprises, investment companies and funds with a clear social or green mission around the world. The investments are characterised by high targeted social and environmental impact, strong entrepreneurship, innovation and scalability.

IFC (International Finance Corporation)

IFC, the International Finance Corporation, is a member of the World Bank Group and is the world's largest global development institution focused exclusively on the private sector in emerging markets. The IFC owns 10.97% of the shares.

ProCredit Staff Invest GmbH & Co KG

ProCredit Staff Invest GmbH & Co KG is an investment vehicle for ProCredit staff members and holds 4.92% of the shares. Most ProCredit Holding employees and the members of the management teams at almost all of the ProCredit banks, as well as other key staff members from across the group, are partners in ProCredit Staff Invest. In the course of their daily work, they all help to ensure that their investment in ProCredit Holding produces the desired results, in terms of both its developmental impact and the financial return it generates.

2.2 Mission statement

Central to the ProCredit group's mission is recognition as socially responsible development-oriented banks. The mission statement sets the operational framework for all banks in the group:

Mission statement

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who would like to save. In our operations, we adhere 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.

In our operations with business clients, we focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility.

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.

2.3 Our countries of operation in focus*

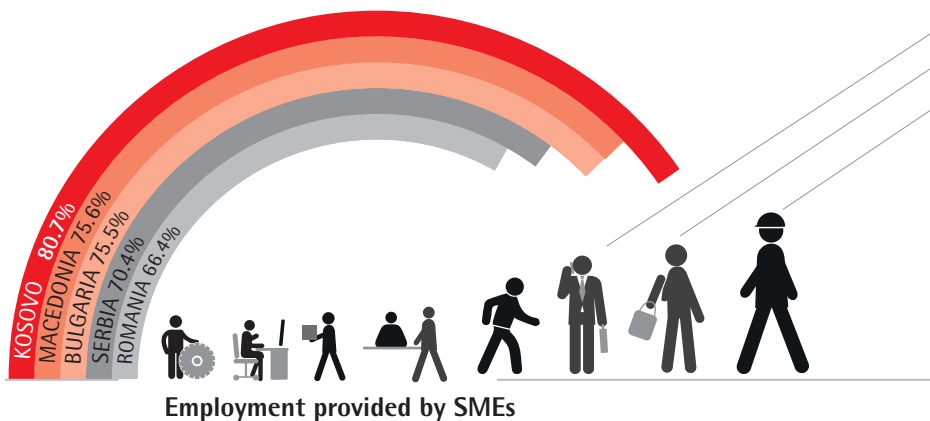
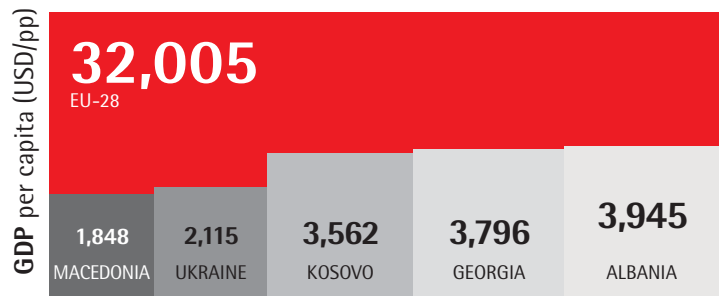
ProCredit group operates in transition countries which share similar characteristics: high importance of SMEs for employment and economic growth, low environmental awareness and protection, and a relatively poor job market, especially in comparison with the EU average.

The group views SMEs as an important, but underserved, client group. In order to achieve a sustainable impact on the social development in its countries of operation, the ProCredit group focuses on the financing of SMEs as a way to support local production of goods and the creation of jobs and as a way to enhance local capacity for innovation and to raise ecological standards. The ProCredit group believes that it differs from its

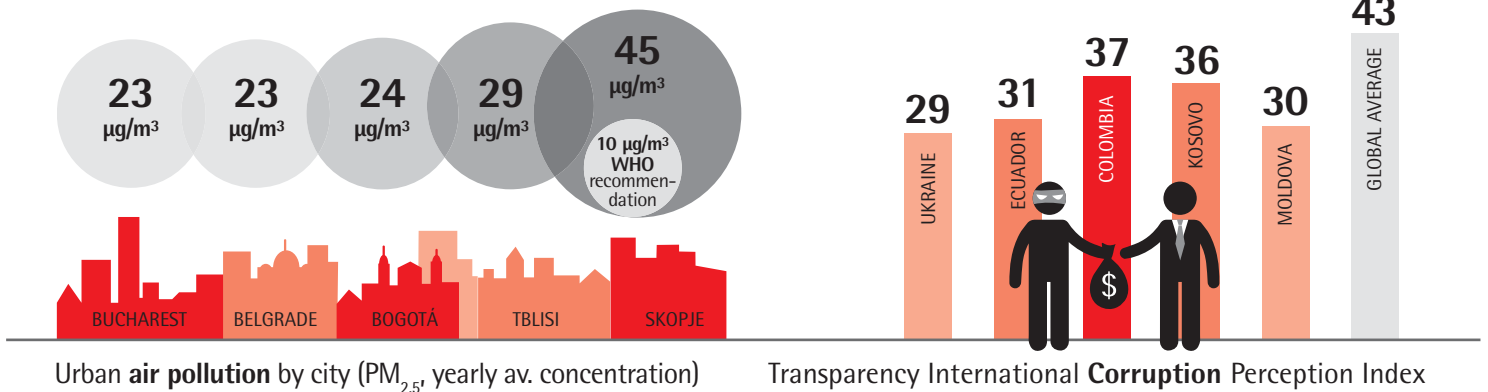
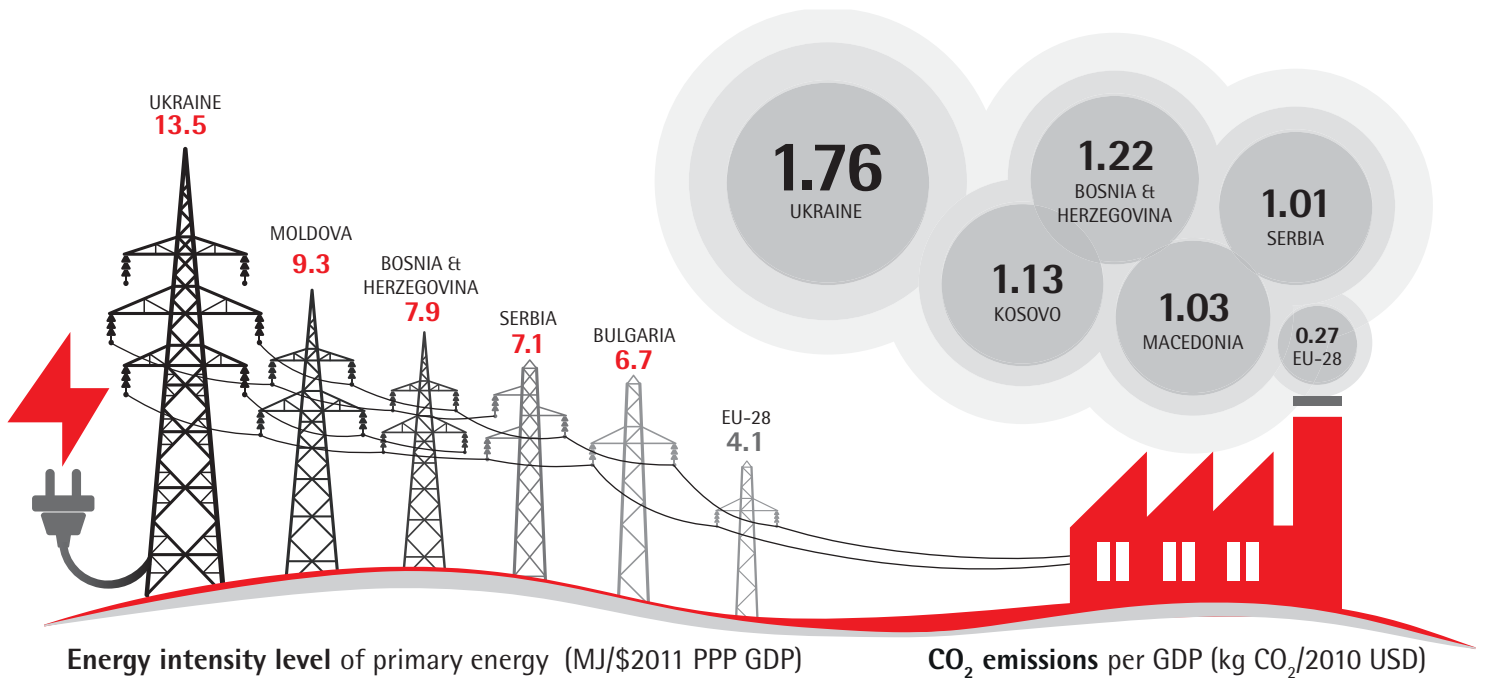
competitors in that it focuses almost exclusively on lending to SMEs.

This sets the context of the problems and challenges ProCredit banks address in all that they do, and especially in the three main areas of providing financial services for SME clients, promoting environmental awareness and protection, and developing human resources. The impact in those three main areas is therefore especially striking in comparison to other financial institutions in the group's countries of operation.

In the group's markets of operation, SMEs are a central part of the economy and, according to the "The annual report for European SMEs" of the European Commission, they typically employ more than 50% of the working population.

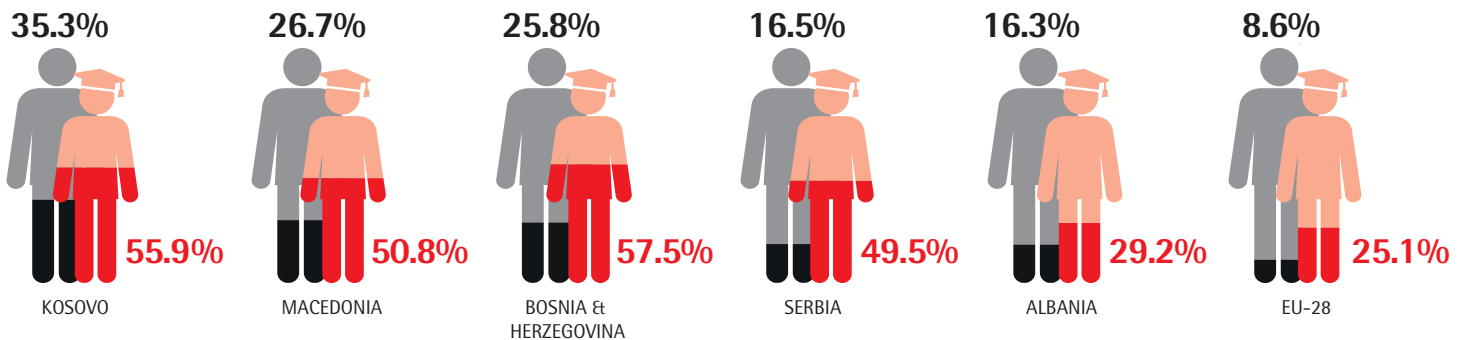


* The "benchmark" used is the EU-28 average, which is compared to the indicators from five ProCredit bank countries. As ProCredit banks operate in many countries, each of them face different issues – transition economies, low environmental protection, and a poor job market. In this infographic, we have decided to show just five of the ProCredit bank countries in order to provide a clear overview of the situation. All data sources and reference dates can be found in the Appendix.



Fine particles, also known as PM2.5, cause serious health issues when they get deep into the lungs or even the bloodstream. The PCB countries shown here all exceed the WHO recommendation, and the situation is even worse in Skopje, Macedonia, where the yearly average concentration is significantly higher than EU standards.

The EU-28 country scores range from 41 (Bulgaria) to 90 (Denmark), and most of the PCB countries scored lower than the range. Of all the PCB countries, only Romania and Georgia were rated above the global average score of 43.



Unemployment rate as % of total labour force
Youth unemployment rate

3 Who Benefits

SME clients

More than 90% of the ProCredit loan portfolio in terms of volume is attributable to our business clients, namely SMEs, especially companies that are involved in local production and agriculture. Enterprises engaged in these business sectors are particularly important for local economic development and sustainable employment in rural areas. However, they tend to have greater difficulty accessing financing than enterprises in other sectors. These clients often have unsophisticated accounting systems and are perceived to constitute a higher risk, making it more difficult for banks to analyse their creditworthiness and do business with them. Serving such clients is time-consuming and complex, as it demands high levels of expertise, flexibility and staff involvement. For example, scoring models, as used in consumer lending, are of little value for assessing these diverse businesses, which is why SMEs are not a priority target group for mainstream banks, which tend to prefer consumer and corporate finance.

This is not to say that SMEs have no access to finance from mainstream banks – they often do. The problem is that the products on offer are often not appropriate and not delivered in an appropriate way. For example, when loan decisions are based on social contacts and collateral, the debt levels and structures provided may not be sustainable for this kind of enterprise, leading to default, business collapse and unemployment. In our countries of operation, default levels on SME loans tend to be high in the wider banking sector, reflecting a limited propensity for responsible lending. In contrast, the way we operate as a banking group reflects our commitment to serving this client group – it is not always easy to link the success of a business to its bank, but you can often link the failure of a business to its bank. Therefore, a key indicator of success for the ProCredit group is to have levels of non-performing loans well below the local banking sector average.

The way we operate reflects our commitment to serving this client group: we work carefully with our clients, ensuring that they receive fair and transparent advice from well-trained staff who are not incentivised by a bonus system to push

loans indiscriminately. We have direct communication with our clients on a regular basis so that we can follow their development and discuss any challenges they might face. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity in order to provide them with appropriate financial services and to avoid over-indebting them. We are very strict about preventing money laundering, financial crime and questionable business practices. We categorically refuse to support certain harmful practices and activities, which we have listed in our Exclusion List. In our opinion and in accordance with our values from a development and risk perspective, it is more important to say “no” to clients who do not adhere to rules and regulations, and thus miss out on short-term profitable business opportunities, than it is to simply drive up the number of clients and business volume regardless of ethical and legal considerations. In addition, we do not want to encourage informal business behaviour or tax evasion practices. In keeping with the approach described above, we do not measure our impact and success merely in terms of the number of clients, but rather in terms of their development and the scope and quality of the relationship we establish with them. As a highly specialised player, we can only be successful over the long term if our SME clients are also successful. We build long-term partnerships with our clients by providing them with a full range of modern financial services that match their needs. In terms of impact, it is not always easy to measure the causal link between the development of an SME and its bank, but in our experience, a responsible, stable banking relationship can play a vital role in the success of SMEs operating in the volatile transition economies in which we are present.

We have a strong regional focus on South Eastern and Eastern Europe and support business cooperation in the region by bringing our clients together, both individually and at organised events.

Employees of our SME clients

The sustainable growth of our clients' businesses leads in turn to the creation of new job opportunities in the countries we operate in. This has an important economic impact on these transitional countries, which often suffer from high levels of unemployment.

Existing and potential employees benefit from a financially more stable employer. These employees also benefit from the skills advancement and training that they will be given to enable them to operate more modern equipment and potentially gain experience in the wider range of services that their employers will provide. The modern equipment that we finance for our clients is safer and requires less maintenance, thereby creating a better working environment for the staff. Given the existing level and enforcement of environmental and safety regulations and practices in our South Eastern and Eastern European, as well as South American countries of operation, we are also particularly conscientious about financing environmentally and socially sound projects for clients who comply with environmental regulations and who do not endanger the health, safety or well-being of their staff or neighbours. When applying our "Group standards for managing the environmental and social impact of lending", we actively manage the impact of our lending operations on the environment, society, health and safety. By carefully assessing the environmental and social risks related to our clients' activities, we also encourage them to improve their practices and working conditions, directly benefitting their employees. Examples include the installation of ventilation systems to remove dust from the air in the workplace as well as financing the purchase of up-to-date fire safety equipment. We also extend our responsible banking services to our clients' employees, who can also make use of our range of personal financial services.

ProCredit group staff (including potential and former staff)

In our countries of operation, "who you know" often counts more than what your potential is. That is why fairness and openness are the key distinguishing features of our recruitment process. Our potential staff highly appreciate the very transparent, purely merit-based process, which treats every applicant the same way. Furthermore, we do not only hire candidates with a back-

ground in economics or finance – we consider it more important for them to have the right attitude and share our values. Recent university graduates are also given an opportunity with us, which is less common in the markets where we operate. We provide all our employees with continuous training and we support them with regular dialogue and feedback. In addition to the position-specific courses that give our staff the full strategic and technical knowledge they need to perform their job and provide high-quality services to their clients, we ensure a well-rounded professional education by providing courses on ethics and the environment as well. In this way, our staff benefit from comprehensive training and the continuous dialogue between managers and their teams, all of which is aimed at the holistic development of all employees, both professionally and personally. The ProCredit group respects the fundamental principle of human dignity and our staff are all treated equally, without any form of discrimination based on ethnicity, gender, religion, origin, sexual orientation, etc. Our approach to staff development is also drawing the attention of the wider banking sector and other businesses, as it emphasises the importance of investing in continuous professional training.

Environment

Environmental awareness and protection has always been important for the ProCredit group. However, in the countries 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.

By making green investments in our own premises, we consume fewer resources and mitigate our direct impact on the environment. At the same time, we aim to achieve a positive indirect impact by working with businesses whose activities do not harm nature and strive to acquire clients who also make positive contributions towards the environment. We also directly promote green investment projects and support clients who want to improve their business processes in an environmentally sound manner.

Technology suppliers

Our promotion of investments in environmentally friendly equipment has resulted in technology suppliers seeing a boost in demand for their products and services. This not only enables them to expand their range of products and services, but also helps to promote the uptake of modern technologies in the market. For example, ProCredit banks are investing in a clean, modern car fleet, including electric and hybrid vehicles, and are promoting loans for the purchase of electric cars; in this way, we are not only addressing the issue of pollution, but also supporting the spread of this innovative technology. Already, almost 20% of the group's total car fleet consists of electric or hybrid vehicles and this share is expected to further increase. Service providers are also expanding their knowledge and experience through working with us on technologies that may be innovative and new to their markets. For example, as our banks moved towards the automation of cash services and comprehensive electronic banking for our clients, the service and technology providers developed their skills and products alongside us.

General public

The general public benefits from the improvements to the financial system through our work in combatting money laundering, reducing cash dependency and supporting SMEs. It is generally acknowledged by banking regulators in our countries of operation that ProCredit banks, given our development orientation and the requirement to implement German banking regulations in all ProCredit banks, are standard bearers for transparency, international best-practice banking and effective risk management. As the ProCredit group expands

its non-financial reporting, all group banks will report on and be measured by sustainability indicators. In these terms, ProCredit contributes to banking sector stability and trust, improving transparency and reducing the "perception of corruption" which tends to be quite high in our countries of operation. Additionally, in cases when staff leave the ProCredit group, the financial sector and other spheres clearly benefit from exceptionally well-trained and well-rounded staff.

As our clients develop and grow, their increased workforce provides opportunities for the general public and also contributes to reducing unemployment. This in turn means a reduction in social costs for the general public.

The environmental improvements, supported by actively managing our direct and indirect impacts, create a better living space for the general public. Reduced energy consumption means reduced carbon emissions, and therefore a lower contribution to global warming and climate change. Improvements in the production processes of our clients also go a long way towards mitigating pollution and improving the quality of air and water for everyone.

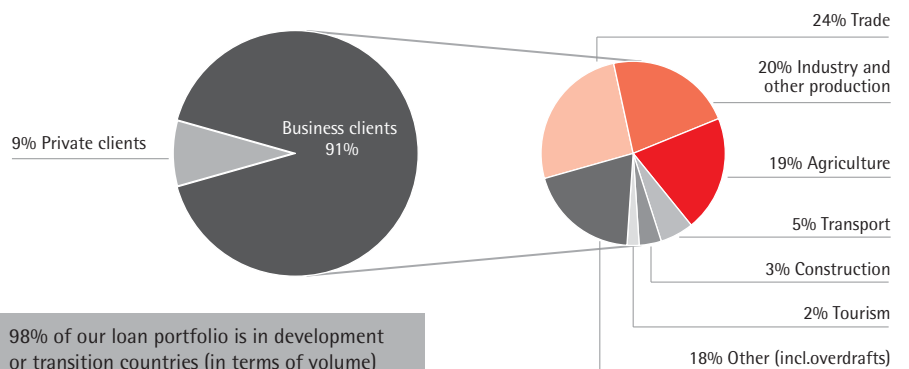


4 Activities and Operations

4.1 Providing financial services for SME clients in transition countries

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. This is especially important in the transition countries that we operate in, where SMEs often do not have access to appropriate financial products and services. That is why our business model is very lean and laser-focused on supporting the SMEs that matter the most from a development point of view.

Figure 1: Loan portfolio distribution (31 Dec. 2016)



ProCredit is focused on supporting SMEs, with 91% of the group's portfolio dedicated to financing business clients, particularly those involved in industry, production and agriculture.

98% of our loan portfolio is in development or transition countries (in terms of volume)

4.1.1 Financing small and medium businesses responsibly

Providing an appropriate financing structure to match the needs of our clients

We make great efforts to work with clients who value our business approach, which is based on understanding their needs and offering appropriate solutions while taking care not to create over-indebtedness.

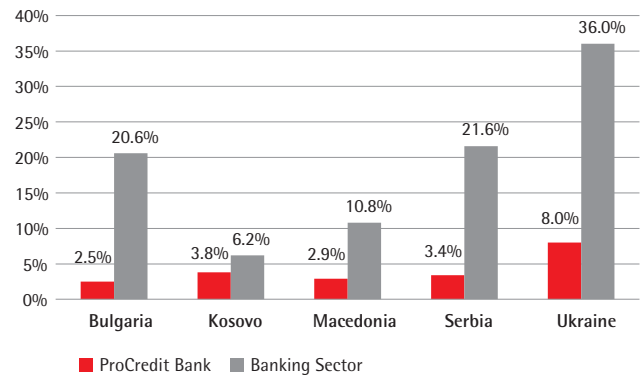
We are convinced of the importance of local producers and clients involved in agriculture; their contribution as SMEs is vital to the development of local economies. Therefore, in order to achieve a sustainable impact on social development, we attach particular importance to supporting local production of goods and agriculture, as well as to enhancing the local capacity for modernisation and innovation. For example, the agricultural loan portfolios of the ProCredit banks in Serbia, Macedonia and Bulgaria account for 34%, 26% and 18% of those countries' total agriculture loan portfolios, respectively.⁵ Of course we also support a number of other businesses involved in a wide range of essential services, such as education and health facilities, technology developers and suppliers of "green" equipment and goods, etc.

Our partnership model for SME clients is to provide a tailored approach based on their specific features. We are very strict about conducting a careful business analysis as the main step in the lending process. The questions we ask include: What assets and liabilities does the client have? What is the payment capacity? What is the management capacity? Is the business model viable? Have our social and environmental exclusion criteria been taken into account? In this way, we get to understand our clients' businesses, their level of indebtedness and production capacity, and we are able to grant the most appropriate loans and other financial services.

Our dedication to practising sound risk management, obtaining detailed knowledge about our clients and tailoring our financial services to their individual needs contributes to the robust financial development of these companies and to the high quality of the ProCredit loan portfolio.

⁵ Sources: Association of Serbian Banks, National Bank of Macedonia, National Bank of Bulgaria.

Figure 2: Non-performing loan (NPL) ratios of selected ProCredit banks



The NPL ratios of many ProCredit banks are significantly lower than the average of the local banking sectors, emphasising the high quality of our loan portfolio.

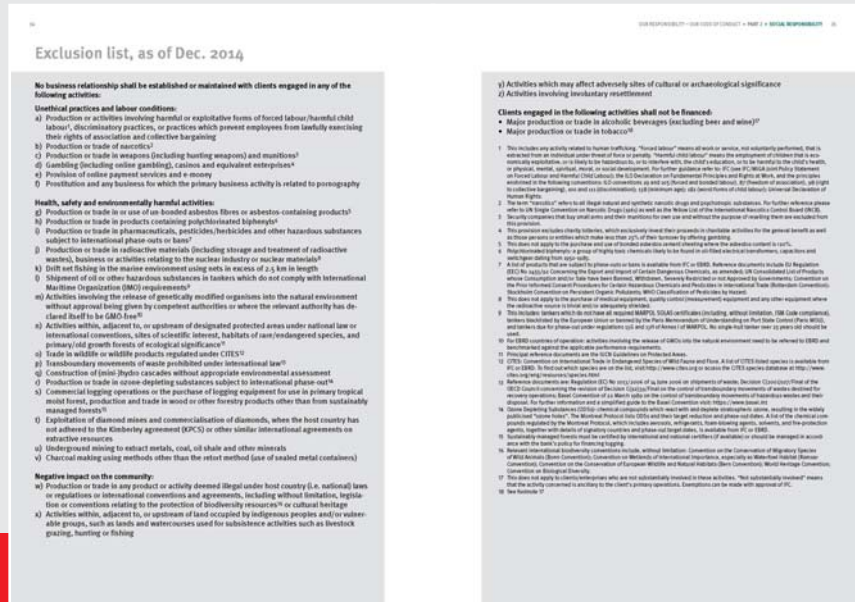
Implementing a strict Exclusion List

There are certain business practices that are harmful from a social, moral or ecological standpoint, or that are not in compliance with usual health and safety regulations. We categorically refuse to support such activities, as they are incompatible with our ethical values. Such activities include, for example, manufacturing or trading in weapons, or mining, or other forms of exploitation of natural resources, even if such activities are legal. They are summarised in our Exclusion List (which is also part of our Code of Conduct), and we do not enter into any business relationships with individuals and companies involved in them.

Case Story: ProCredit's Exclusion List

REFUSING TO SUPPORT HARMFUL PRACTICES AND ACTIVITIES

Despite ProCredit's inclusive approach and our openness towards the many different business models of our clients, there are certain harmful practices and activities that ProCredit banks categorically refuse to support. To ensure that the ProCredit banks apply this principle consistently across the globe, we have formulated an unambiguous Exclusion List.



Unethical practices and labour conditions:

- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour, discriminatory practices, or practices which prevent employees from lawfully exercising their rights of association and collective bargaining
- Production or trade of narcotics

Health, safety and environmentally harmful activities:

- Production or trade in or use of unbonded asbestos fibres or asbestos-containing products
- Production or trade in products containing polychlorinated biphenyls
- Production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans

Negative impact on the community:

- Production or trade in any product or activity deemed illegal under host country (i.e. national) laws or regulations or international conventions and agreements, including without limitation legislation or conventions relating to the protection of biodiversity resources or cultural heritage
- Activities within, adjacent to, or upstream of land occupied by indigenous peoples and/or vulnerable groups, such as lands and watercourses used for subsistence activities such as livestock grazing, hunting or fishing

Clients engaged in the following activities shall not be financed:

- Major production or trade in alcoholic beverages (excluding beer and wine)
- Major production or trade in tobacco

Extract from the Exclusion List – Code of Conduct, page 32–33

Preventing money laundering and fraud

Ethical behaviour is an integral part of our business model. ProCredit banks do not tolerate any illegal or illicit activity from either their clients or their own employees. Moreover, the ProCredit group is committed to the highest standards for preventing money laundering, financial crime (including bribery and corruption), terrorism financing and other acts punishable by law. We consider exposure to risks from such activities to be especially relevant in our countries of operation. We believe that money laundering is not only detrimental to free competition; we also think that it supports loss-making economic structures, which have negative impacts that go above and beyond the financial markets. For SMEs to integrate into regional and global trade and financial systems, transparency is essential. Our approach to anti-money laundering (AML) goes hand in hand with facilitating effective trade finance for expanding SMEs.

As the ProCredit group is under the regulatory supervision of the German Federal Financial Supervisory Authority (BaFin), German anti-money laundering legislation is applied as the minimum standard for all ProCredit banks. However, our approach follows the principle of the strictest norm. Some requirements for ProCredit banks exceed EU and German regulatory standards, for example, when handling cash payments. At the heart of our approach to hindering the handling of funds from suspicious sources are the efforts made by our staff to get to know our customers well. Long-term business relationships are central to our success and to our anti-money laundering culture. Besides identifying all contracting parties and clarifying the purpose of all business relationships, knowing our customers always includes determining beneficial ownership. Beneficial owners are natural persons who benefit substantially from a business relationship, but who themselves might never make an appearance. Wherever this is the case, ProCredit banks verify beneficial ownership and identify any person who substantially owns or controls the account holder, even if this person does not play an active role in the business relationship itself. In order to monitor their customers' account transactions, ProCredit banks employ anti-financial crime software and conduct regular awareness training for all staff.

We rigorously discontinue business relationships with customers whose activities give rise to suspicions of criminal involvement or show that their business practices go against our ethical standards. For example, in 2016 we closed 261 accounts at ProCredit banks and blocked 32 more for reasons connected to money laundering and unethical behaviour by customers. A further 283 accounts were put under enhanced monitoring to gain a better understanding of the customers' financial dealings.

4.1.2 *Supporting development and formalisation of businesses*

In addition to supporting our clients' development and investments in the growth of their companies, we also encourage them to increase the degree of formality of their business, which is still at a low level in the transition and development countries where we operate. We support businesses in providing reliable financial reporting and emphasise that transparent and proper accounting is important to create an environment conducive to investment and growth.

At the same time, we discuss ways of strengthening management structures with our clients and suggest methods of improving their environmental performance.

We strongly support the shift away from a cash-based financial system, which is a key feature of the countries in which we are operating, by providing electronic banking services and 24/7 self-service areas in all our locations, thus increasing the level of formality and transparency of transactions. These pioneering developments also benefit our clients, as they are convenient and highly efficient.

Case Story: B2B Event for our Clients

SMEs JOIN FORCES

“Realising the potential of the region – SMEs join forces” – ProCredit brought together about 1,000 participants from South Eastern and Eastern Europe at a B2B event in Thessaloniki in May 2016.

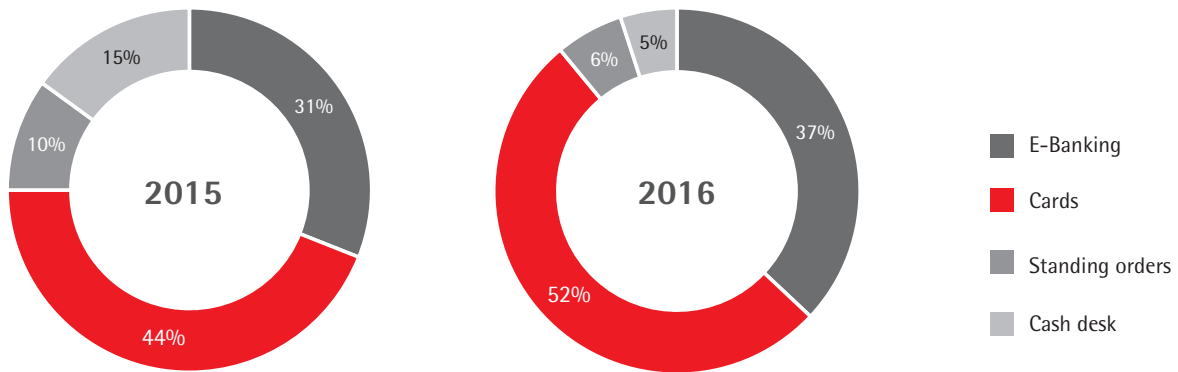


The event was occasioned by the launch of ProCredit Bank Bulgaria's operations in Greece, where the bank opened a branch in Thessaloniki in November 2015. The Thessaloniki branch complements the strong regional presence of the ProCredit group in the Balkan countries.

As a banking group that specialises in providing banking services for SMEs, ProCredit is committed to promoting regional cooperation and development in this sector. The B2B event was attended by around 1,000 participants: over 500 SMEs from the ten South Eastern and Eastern European ProCredit banks as well as selected Greek SMEs came together on that day. B2B meetings under the motto "Meet your potential business partner" allowed SMEs with similar business lines from different countries to find common interests, consider working together and find new partners. The companies, which represented sectors such as production, trade, agriculture, mechanical engineering, textiles, IT and renewable energy, enthusiastically embraced this opportunity to engage in close dialogue: in total, more than 3,500 meetings took place.

A positive signal for the Greek economy was sent by the signing of an agreement between the European Investment Fund (EIF) and ProCredit to increase lending to innovative SMEs as well as to small mid-caps under InnovFin – EU finance for innovators, an initiative supported by the European Commission. European Commissioner Dimitris Avramopoulos attended the signing, which was the first of its kind in Greece.

Figure 3: Distribution of transactions by channel (in terms of number)⁶



By supporting the shift away from cash-based transactions, the percentage of transactions conducted in the ProCredit group via the cash desk has been reduced from 15% in 2015 to 5% in 2016.

4.1.3 Building long-lasting relationships with clients

Our relationships with business clients are based on a good understanding of the respective enterprise and its business processes as well as the specific requirements associated with it. The successful long-term business relationships which we strive for with our customers are based on the high-quality individual advice provided by our staff. This involves our staff making regular visits to customers at their premises, not only to analyse their business situation and risk profile, but also to provide them with comprehensive advice.

We strive to become their "Hausbank", i.e. their go-to bank providing all the financial services they typically need, and focusing flexibly and individually on their specific needs in order to build up and maintain long-term business relationships. This also gives us access to comprehensive data on our clients' transactions, which in turn enables us to offer sound financial advice based on solid information about how the

business is doing. On a more personal level, building long-term relationships with our clients means we know how they think, plan, organise, and take decisions. This makes it much easier for us to analyse their business activities and take decisions about the services we offer them.

Instead of being motivated by bonuses or short-term sales success, our staff consider the success of our clients in the long term, which bolsters our responsible approach to banking and helps to build trust. What we offer is not products, but partnership: We explain the advantages of working together and of combining their business expertise with our financial expertise.

⁶ The 2015 data in this graph includes data from ProCredit Bank in Bolivia, which was still part of the ProCredit group in 2015.

Case Story: Bulgarian Natural Cosmetics Producer

GROWING WITH US

PROCREDIT BANK BULGARIA

Established more than 15 years ago, our client's business is the production and distribution of cosmetic products based on natural ingredients such as rose oils and yoghurt probiotics.



The company started out producing primarily shampoo, conditioner and soap, but has since expanded its product line to include face, body and hand creams, perfumes, sunscreen, hair gel and toothpaste, among other items.

Supported by ProCredit Bank

Since the beginning, ProCredit Bank Bulgaria has been supporting the growth of the business by providing investment loans for the construction of factory premises, the equipment of R&D laboratories and the purchase of energy efficient and modern production equipment. In addition, the company uses the full range of financial services provided by the bank, such as current accounts, cards, and internet banking.

Job creation & staff development

From a small enterprise of around 70 employees in 2008, the company now has almost 180 employees. Having developed its in-house expertise, the company creates its own products with certified cosmetics specialists in its fully-equipped laboratories. Staff development is also important to the company: employees undergo special training so that they are fully acquainted with all of the active ingredients and benefits of the products.

Expanding market

The company has also expanded in terms of market reach, going beyond the established local market to export its cosmetics to more than 40 countries in Europe, Asia and the Middle East.



4.2 Enhancing environmental awareness and protection in transition countries

In the countries where we operate, environmental protection is often overlooked in light of the more pressing problems which play a significant role in people's everyday lives. The energy intensity of these economies and greenhouse gas emissions tend to be relatively high (compared to the EU average), and pollution is also a major problem.

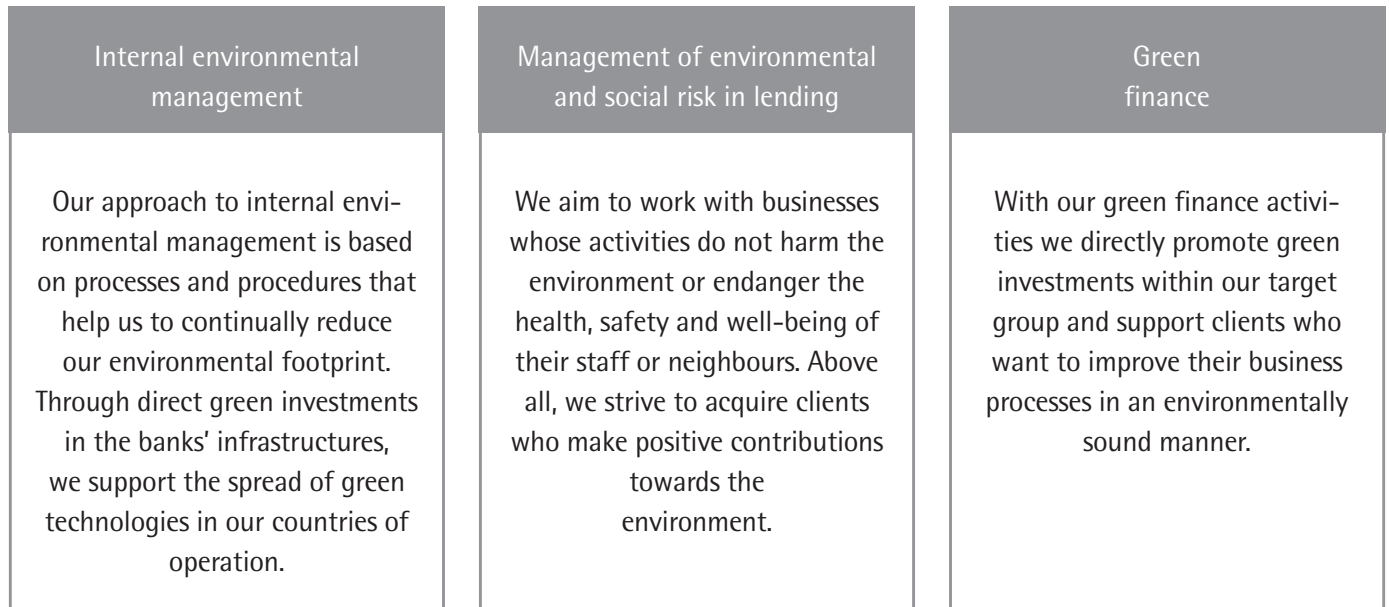
Therefore, minimising our negative impact on the environment and proactively promoting a sustainable way of doing business is an integral part of our business strategy – not only in connection with our lending operations or the provision of financial services to our clients, but also in our own day-to-day operations.

4.2.1 Implementing an Environmental Management System

To achieve this, we have developed and implemented a comprehensive Environmental Management System (EMS) that is based on three pillars. We aim to reduce both the internal and external environmental impact of the ProCredit group, and promote loans and investments among our clients that have a positive impact on the environment. In line with our corporate culture of transparent communication, we have initiated a process of external verification of our EMS. All ProCredit banks in South Eastern and Eastern Europe and South America have either already obtained or are in the final process of obtaining ISO 14001 certification; in most cases, they are the first financial institutions in their markets to achieve this milestone.

In addition to ISO 14001, the four ProCredit institutions located in Germany, i.e. ProCredit Holding AG & Co. KGaA, ProCredit Bank AG, ProCredit Academy GmbH and Quipu GmbH, have also certified their Environmental Management Systems under the more demanding EMAS standard.

ProCredit Environmental Management System



Internal environmental management

We continually monitor our energy and resource consumption in terms of environmental impact, which allows us to identify opportunities, and develop and implement measures to mitigate these impacts. 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 (double- or triple-glazed windows, thermal insulation for walls, sun protection measures, etc.), and the installation of LED lighting, as well as print optimisation and automation processes, introducing waste-management measures, etc. A prime example of how we promote environmental consciousness is ensuring that our buildings are as energy-efficient and environmentally friendly as possible. Examples of the most environmentally outstanding buildings among the ProCredit premises include the Niš branch in Serbia, the Macedonian and Georgian head offices, the training centre in Prevalë, Kosovo, and the ProCredit Academy in Fürth, Germany, among others.

Alongside the technologies we have implemented, it is also crucial to educate and raise awareness among staff. Training, campaigns and direct communication all serve to provide staff with relevant information and contribute to the environmen-

tal education which plays a significant part in the continuing professional development of our staff.

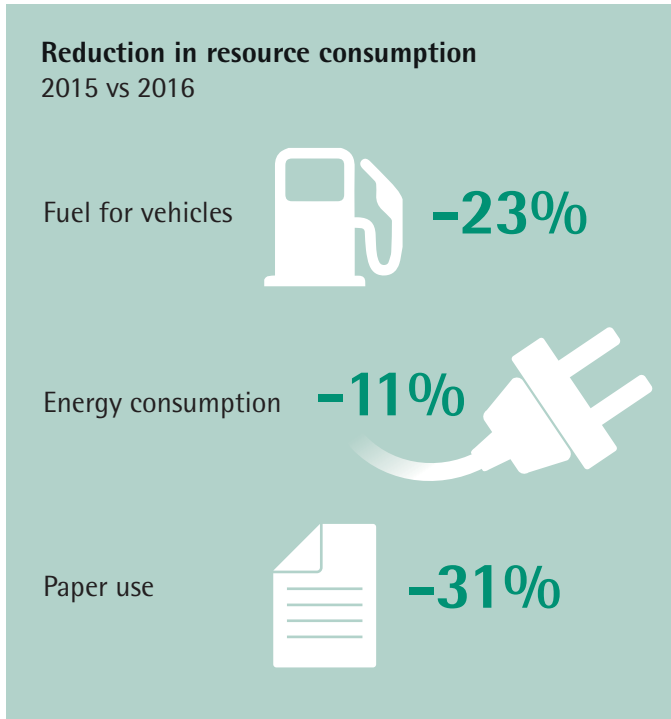
ProCredit institutions also forge partnerships with suppliers who adhere to sustainable and environmentally friendly business practices.

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, the necessary infrastructure is missing or inadequate (e.g. for waste management), environmental regulations are lacking or not enforced, suppliers of environmentally friendly materials (e.g. recycled paper) are scarce, and certain practices (e.g. paperless reporting and banking operations) are neither established nor regulated, among others.

By overcoming such challenges, the ProCredit banks not only improve their own environmental performance, but also raise awareness, contribute to the creation or improvement of infrastructure and regulations, establish and spread good practices, incentivise the supply of environmentally friendly materials and ultimately also contribute to improving the environmental performance of their partners.

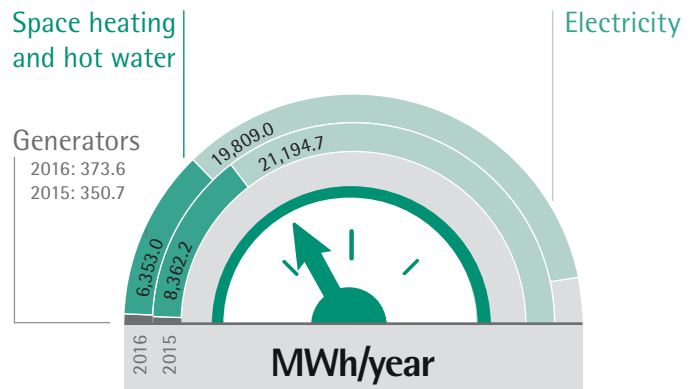
Reducing our direct environmental impact

Due to the environmental measures implemented, there has been a decrease in the resource consumption and greenhouse gas emissions of the ProCredit group.*



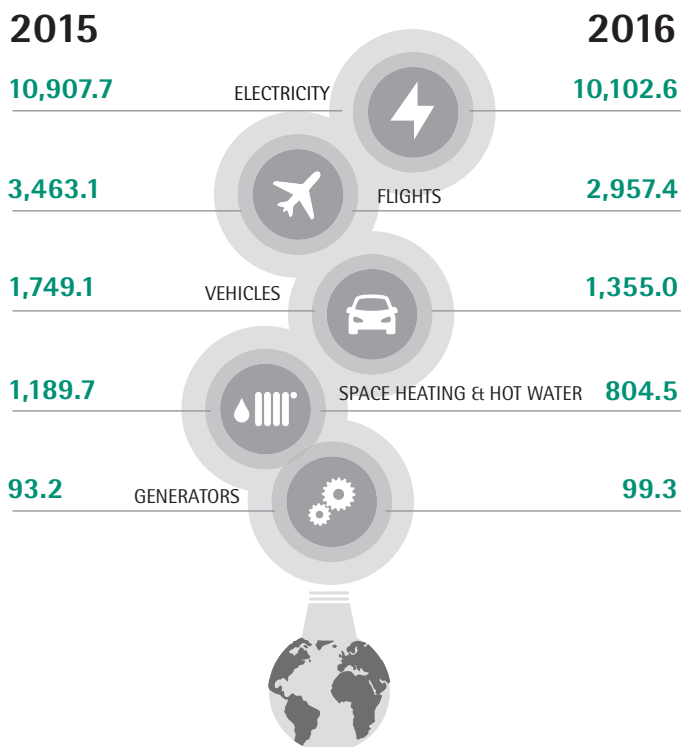
Annual energy consumption

Energy consumption in 2016 was 8900 MWh, 11% lower than in 2015.



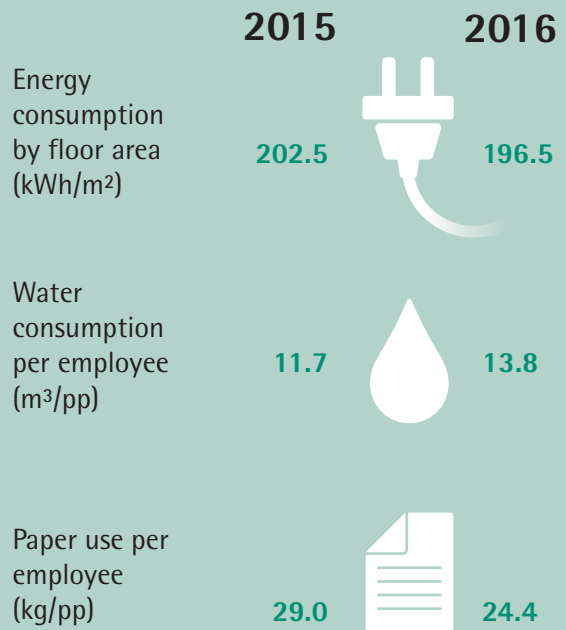
Annual greenhouse gas emissions

(Tonnes CO₂ eq)



Relative indicators

(resource consumption and GHG emissions)



*The data in the following graphs apply to ProCredit Holding and all ProCredit banks (excluding ProCredit Bank in Bolivia).

Case Story: Green Branch in Niš

REDUCING OUR DIRECT ENVIRONMENTAL IMPACT

PROCREDIT BANK SERBIA

Built in 2013, the Niš branch was specially designed to showcase the bank's commitment to environmental protection; the branch's heating demand is 90% lower than the maximum level stipulated in Serbian regulations on heating energy performance for renovated office buildings.



Building envelope

Triple-glazed windows with low emissivity glass and state-of-the-art insulation were installed; movable vertical sunshields prevent sunlight from coming into the branch, protecting against solar heat gain and glare.

Heating & cooling

A geothermal heating system, using heat from the ground, was installed for space heating and cooling in the branch, including a frequency controller for the circulation pump, which optimises electricity consumption. A waste heat recuperation system provides a complementary source of heat during the winter months.

Lighting

LED lighting is considered to be the most efficient lighting and was therefore installed throughout the whole building to ensure that electricity consumption for lighting is as low as possible. To further reduce electricity consumption, motion sensors were installed in areas with lower traffic.

Green measures

Green plants absorb heat, help to reduce urban temperatures, and can lead to improvements in air quality by reducing pollution. The green roof on the branch has flowers, grass and trees which clean the air and produce oxygen at the same time. To fully utilise the roof space, a solar water heating system was installed; using a renewable resource to heat water saves energy and reduces carbon emissions.

Managing the environmental and social risk in our lending operations

The core activity of the banks in the ProCredit group is to provide financial services to businesses, and as such, our indirect environmental impact is substantial. We aim to minimise our indirect environmental impact by working with businesses whose activities do not harm the environment or society, a goal which is perhaps not so common in the countries we operate in, where environmental issues are often neglected.

In order to manage the impact of our lending operations on the environment, society, health and safety, we have implemented the group-wide "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.

The ProCredit group has implemented an environmental and social risk categorisation system that is based on international standards and which assigns individual economic sectors to the low, medium or high environmental and social risk category, depending on their potential environmental and social impact. All companies whose business activities fall into the medium (for example agriculture, food industry, a number of manufacturing activities, etc.) or high risk categories (chemical industry, transport of hazardous materials, waste management, etc.) are subject to a further individual on-site assessment of their performance with regard to environmental, health and safety issues.

However, rather than simply refusing to do business with companies because they do not score well with regard to certain criteria, we prefer to discuss with them how our services can help to improve their environmental and social performance in an economically sound way.

Our three-step process for managing the environmental and social risk of lending

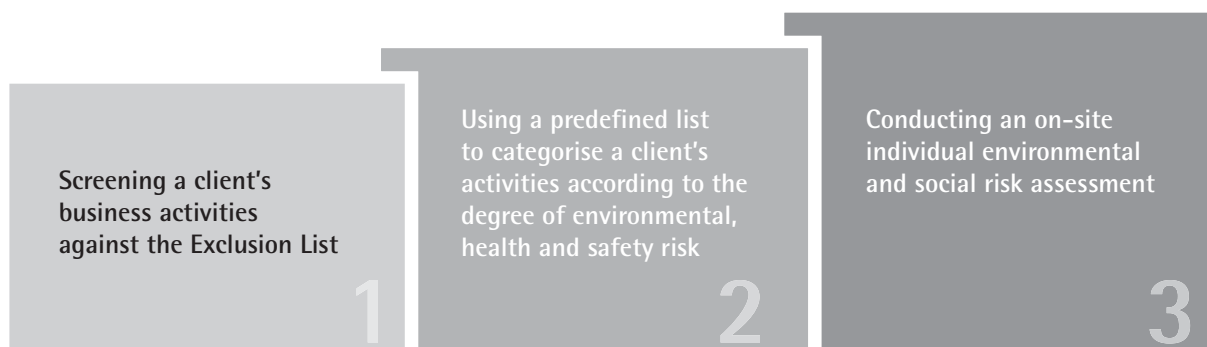
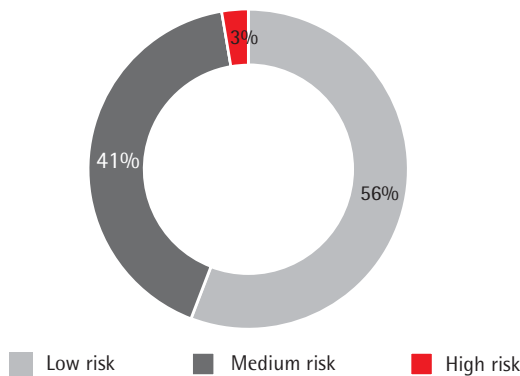


Figure 5: Business and agricultural loan portfolio volume by environmental risk category (31 Dec. 2016)



ProCredit banks monitor the environmental and social risk of their SME loan portfolio; more than half of the group's loan portfolio is in the low E&S risk category.

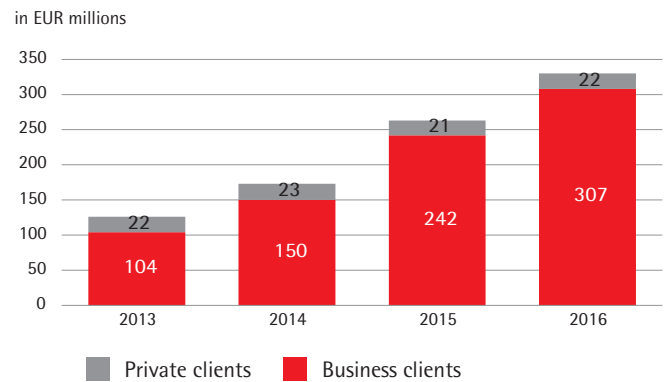
Green finance

Keeping in mind the environmental problems 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 introduce a range of "green finance" services for our clients, 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 (Green)

Figure 6: Development of the green loan portfolio⁷



ProCredit encourages its clients to make environmentally sound investments. The success of this approach can be seen in our green loan portfolio, which has steadily increased in recent years, reaching almost EUR 330 million in 2016.

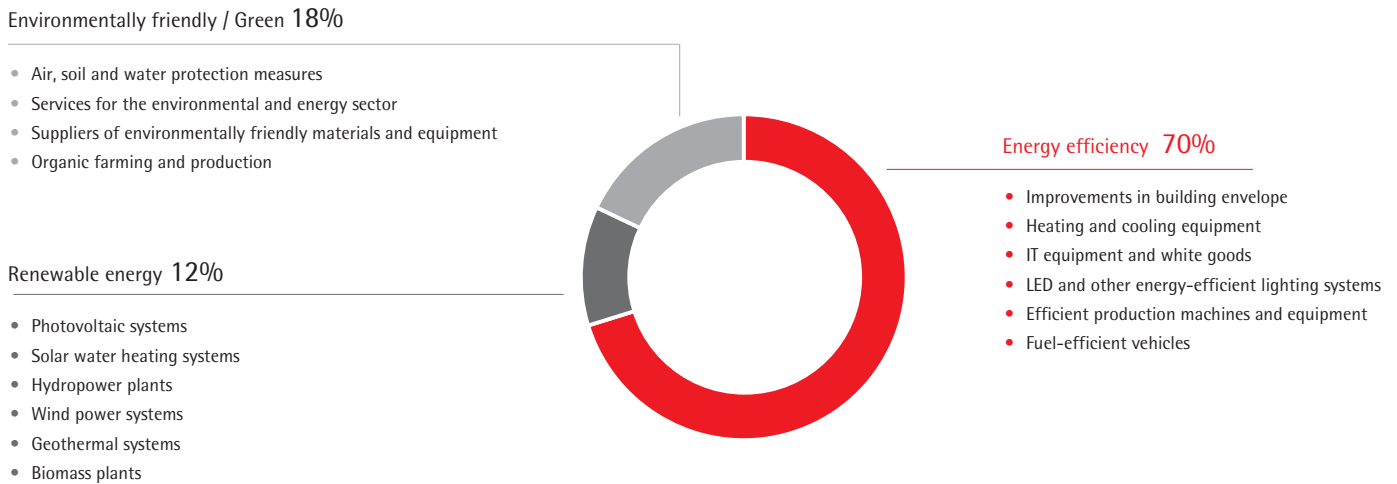
From a business perspective, some of the key benefits of the investments in modern energy-efficient technologies are better quality products and services, more efficient use of energy and resources, reduced costs and increased competitiveness. Providing green loans and incentivising clients to undertake investments in modern and energy efficient technologies do not simply mean making a token effort. In the countries in which the ProCredit group operates, our banks are very often pioneers in green lending and we constantly strive to engage our clients in discussions to present the benefits of such investments.

Furthermore, ProCredit's green finance products are not dependent on external funding lines that have a limited scope in terms of funds and timeline. In contrast, we have developed and established our own methodology for the introduction of green finance, which considers how these investments can be financed sustainably, ensuring that our clients always have the option of obtaining green loans.

Green loans already represented 9.1% of the group's loan portfolio at the end of 2016 and we intend to keep this share growing, aiming for more than 10% in 2017.

⁷ The 2015 data in this graph includes data from ProCredit Bank in Bolivia, which was still part of the ProCredit group in 2015.

Figure 7: Green loan portfolio by investment type (31 Dec. 2016)



The majority of our green loans are for investments in energy efficiency (70%), followed by environmentally friendly investments and renewable energy measures.

4.2.2 Raising internal and external awareness

Environmental awareness among staff members has been the key to the results we have achieved thus far and will be indispensable for achieving the objectives and goals we set in the future. All ProCredit institutions undertake ongoing internal awareness-raising campaigns with regular training sessions, newsletters, educational brochures and 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 keep them informed about global issues. In 2016, more than 2,800 staff attended environmentally-related training sessions.

In addition to internal training courses and campaigns, ProCredit banks also aim to be innovators in raising general public awareness about the need for sustainable resource management and the opportunities this brings by means of education and marketing campaigns aimed at the business community and private clients. Our employees actively participate in many different external events with the aim of raising interest and provoking discussions among the general public about environmental issues. This is particularly essential

in many of our countries, as the general public's environmental awareness tends to be low.

Extensive campaigns – targeting both the banks' clients and the general public – in order to highlight the benefits of green investments for businesses and homes have played a crucial role in the development of our green finance services.

Figure 8: Hours of environment-related training provided to staff



As part of an internal awareness-raising campaign, the average amount of environment-related training provided to the staff in 2016 was around 9 hours per employee.

4.2.3 Institutionalising our EMS

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.

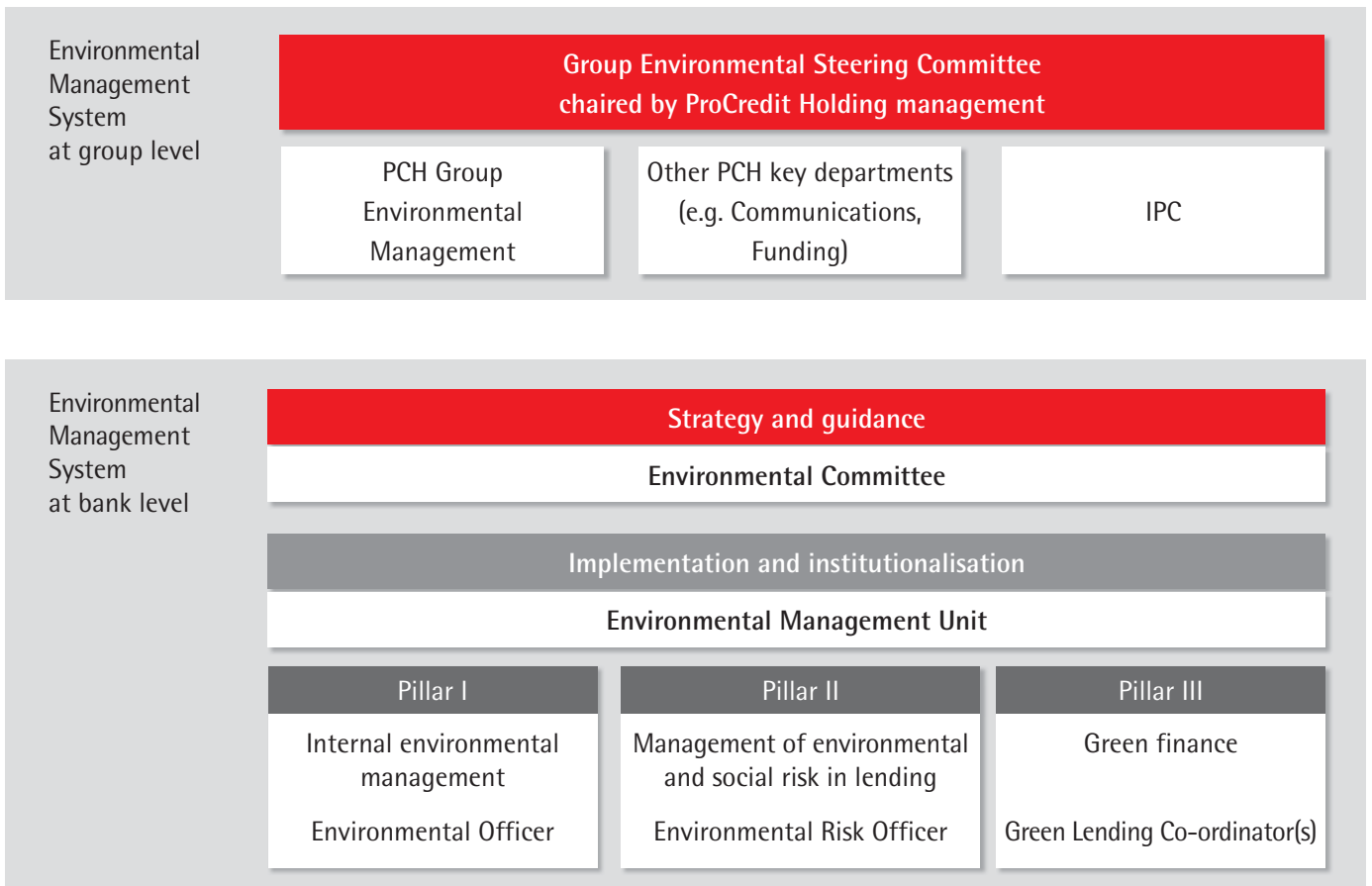
Figure 9: Number of staff dedicated to environmental awareness and protection



The key to successfully implementing the EMS is anchoring it within our institutions; the group has 81 staff members dedicated to environmental awareness and protection.

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 the Environmental Coordinator, each EMU comprises 2 to 3 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.

Institutional structure of our EMS



Case Story: Georgian Agribusiness

SUPPORTING BUSINESSES WITH ENVIRONMENTALLY FRIENDLY INVESTMENTS

PROCREDIT BANK GEORGIA

Agriculture is one of the most vital areas of economic development in Georgia.



Most farmers use free flooding and hose reel irrigators to provide the water required for their crops. However, these irrigation methods are inefficient, using a relatively large amount of water to irrigate the required area of land. This exacerbates the already problematic levels of water consumption in Georgia.

Pivot sprinkler irrigation

An alternative solution is a pivot sprinkler irrigation system, an investment that is supported by ProCredit Bank Georgia, which is actively engaged in providing financing for environmentally friendly technologies for agribusinesses.

Pivot sprinklers provide overhead irrigation by means of a system consisting of several segments of pipe (usually galvanised steel or aluminium) joined together and supported by trusses. The machine moves in a circular pattern, hence the name "pivot" irrigation system.

Advantages

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 (25 years or more).

Furthermore, it is automated and does not require additional workforce; it can even be operated remotely, by mobile phone or personal computer.



4.3 Developing human resources in transition countries

In our countries of operation, unemployment is a serious problem: “who you know” often counts more than what your potential is, and salaries and career progression paths are unclear for staff. To counteract this, ProCredit applies a deeply thought-through approach to human resource development, which is central to our business model. Ethical banking can only be successful if we have employees who identify with our values and goals, and actively pursue them.

4.3.1 Implementing a values-based HR approach

As a development-oriented commercial banking group, we continuously evaluate the relevance of our actions with regard to our concept of development. This goes well beyond the traditional concept of economic growth, because we are convinced that there are many other aspects which also determine the way people work together in the societies they live in. Our “ethical compass” is anchored firmly in a strong sense of social and environmental responsibility. Continuing our progress in this direction requires responsible employees and the promotion of a constant and open dialogue within the institution. We therefore expect from our staff a high sense of personal responsibility and ownership, the ability to engage in peer-to-peer dialogue, and a long-term vision and commitment.

Together with the mission statement, our corporate values, which form the foundation of our business ethics, are part of our Code of Conduct and reflect a strong sense of social and environmental responsibility as well as a willingness to act ethically and sustainably at three levels: economic, social and environmental.

Our values – the following principles guide the operations of the ProCredit institutions

Personal integrity and commitment:

Complete honesty is required of all employees at all times, and any breaches of this principle are swiftly and rigorously dealt with.

High professional standards:

We take personal responsibility for the quality of our work and always strive to grow as professionals.

Social responsibility:

As a development-oriented banking group, we intend to act for the benefit of society at large, not only passively (by avoiding socially harmful acts) but actively (by engaging in actions with a positive impact on the welfare of society and the environment).

A culture of open communication:

We communicate openly, fairly and constructively with each other. We deal with conflicts at work in a professional manner, working together to find solutions.



Transparency:

We provide transparent information to our customers, to the general public and to each other.

Extract from the Code of Conduct

We are also convinced that there are many other aspects, apart from the monetary aspect, which determine the way people work together. Whether one bases this conviction on "a fulfilled life" in the Aristotelian sense, or on the Socratic maxim that "an unexamined life is not worth living," is not as important as our desire to find people who are driven by the will to contribute to the common good and to avoid hiring those who are striving after individual benefit. The fact that we value, and seek to promote the "common good", the "res publica", is a motive that in all probability distinguishes us from other financial institutions.

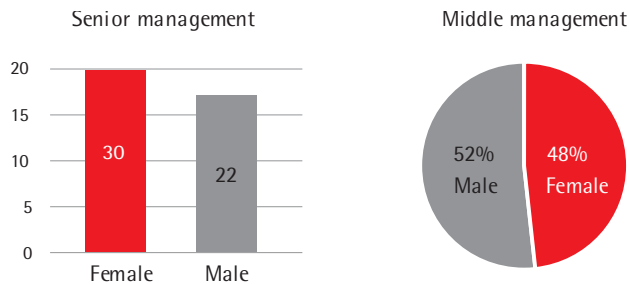
The principle of fixed remuneration is another key element of our approach to staff, as we believe that short-term, performance-related bonuses have a negative impact on the provision of appropriate advice to clients – and even relationships within colleagues. The salaries of our staff reflect market averages, even though, especially for the managers, they are rarely on a par with the bonuses doled out by competitor banks. Our approach to remuneration is rather to provide a longer-term perspective to employees, so that they can confidently plan their life.

A strong discussion culture with flat hierarchies and a firm

belief in careful management of human resources and training play an essential role in ProCredit's success. The ProCredit group fosters comprehensive and collective training for its middle managers and high potential staff at its international academy in Germany. As a result, the local and group-level management teams know each other and form a closely-knit network, which permits the rapid diffusion of best practices, and they share a strong sense of solidarity and a common vision.

These values and the way of approaching business are shared and continuously promoted by all our senior managers in the different ProCredit institutions. A strong asset of the group is the balanced gender distribution in both senior and middle management levels. Our senior management teams (Management Board level) are more than 50% female and just under 50% of our middle management staff members (branch and deputy branch managers, heads of departments) are female. With only a few exceptions, our senior managers are natives of the country in which their bank operates. They also have a long track record, averaging just over 13 years with the ProCredit group.

Figure 10: Number of female staff in management positions (31 Dec. 2016)



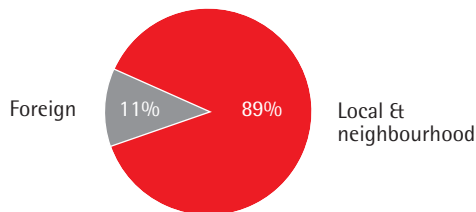
The high quality of our managers, about half of whom are women, is a strong asset of the group.

Figure 11: Average service length of senior management staff at ProCredit banks (31 Dec. 2016)



ProCredit aims at fostering long-lasting relationships with its clients and staff alike. In line with this, our senior managers have worked for the group for more than 13 years on average.

Figure 12: Origins of ProCredit banks' management (31 Dec. 2016)



With our focus on developing local capacities, 89% of the senior management of the ProCredit banks are local or from neighbouring regions or countries.

Figure 13: Amount invested in staff training



In 2016, the ProCredit group invested more than EUR 8.5 million in staff training, or almost EUR 2,200 per employee.

4.3.2 Applying a transparent selection procedure

Our disciplined approach to recruitment illustrates our commitment to a certain way of doing business. All potential new recruits are required to go through a rigorous selection process from an online application to a two-week in-house ethics workshop.

The aim of this process is to attract and select individuals who share our enthusiasm for working with clients in a transparent, professional and friendly manner. The ProCredit approach

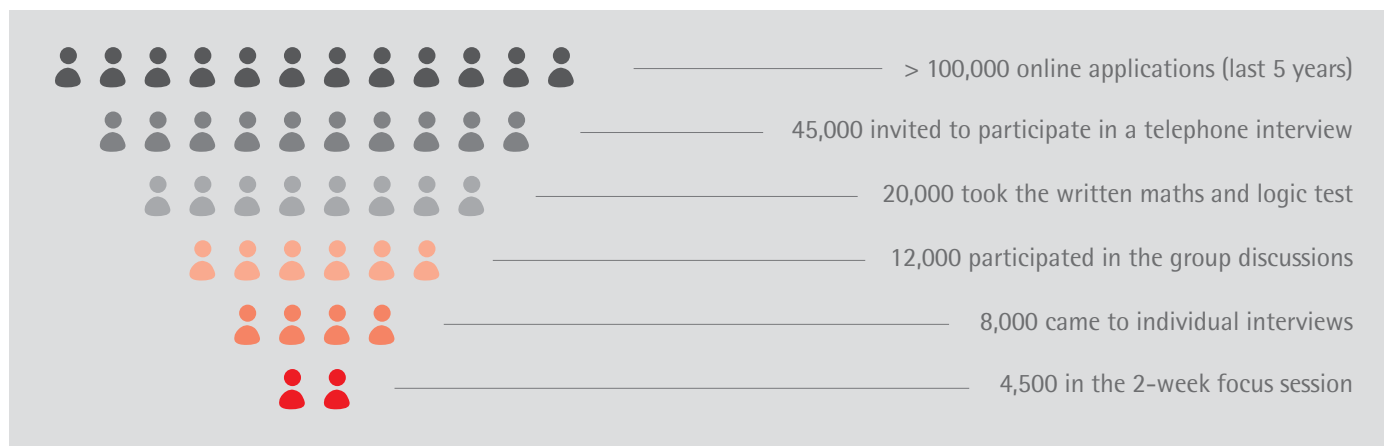
to recruitment is rigorous compared to the norm in the countries in which we work, where often the "right connections" count more than one's potential. This fair approach is highly appreciated by potential employees and highlights the value of continuous professional training.

To make sure that our employees are well prepared for their role as responsible staff members, the training we offer starts during the recruitment process with the ProCredit Entry Programme.

On average, less than 5% of the original applicants are accepted into the ProCredit Entry Programme. Of those who

do participate, approximately two thirds will be offered an employment contract at the end of the programme. However, even those who do not join ProCredit will have participated in a high-impact, long-lasting learning experience.

ProCredit's recruitment steps

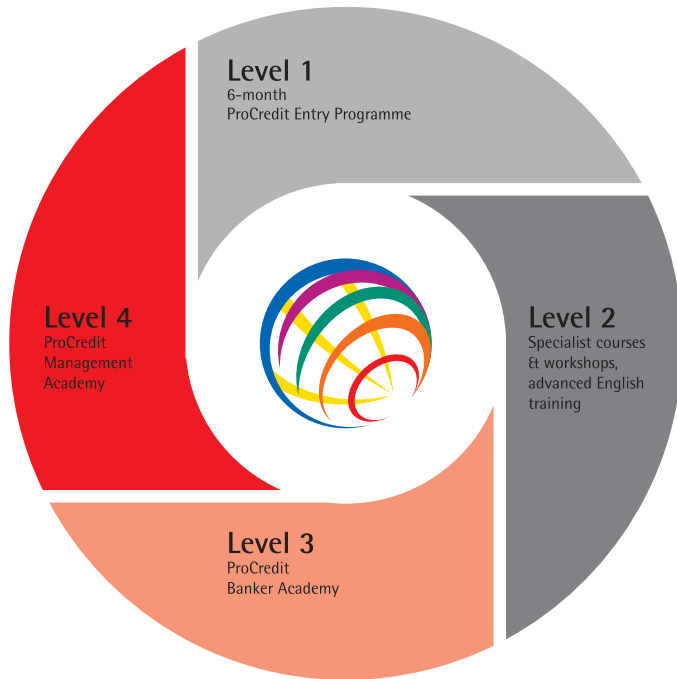


4.3.3 Developing and training staff

The ProCredit group invests heavily in a wide array of training measures to make our institutions stronger. Last year alone, more than EUR 8.5 million was invested in staff training. Position-specific courses and group-wide thematic workshops ensure that each staff member has the right skills and competencies. To meet the demand that comes with holding respon-

sibility as leaders of staff, all of our managers are required to attend courses at our academies. Going beyond the confines of conventional management training, our academies confront the participants with essential philosophical, historical and social questions. While at the academies, the managers develop a strong sense of solidarity and common purpose, which they share with each other, their staff and the institution as a whole.

Levels of group training at ProCredit



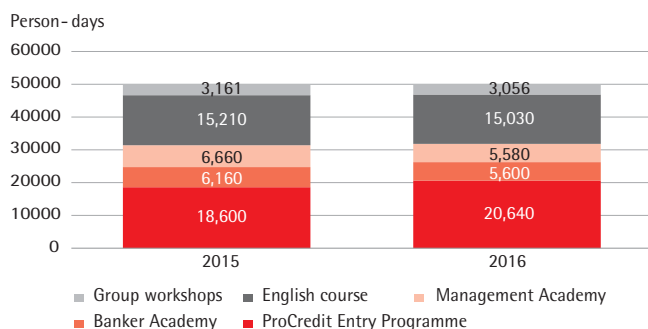
Level 1: ProCredit Entry Programme

The ProCredit Entry Programme is the very first step of continuing long-term professional and personal development within the group. It is a great opportunity for people who already have some work experience, no matter what professional background they have, and especially for people who have recently graduated from university. The aim is to identify those who share the same values as the group.

Attending the ProCredit Entry Programme is not conducted following the conventional classroom approach, where the lecturer talks and the students take notes. Instead, the majority of the programme entails working in teams, preparing presentations and participating in discussions. The aim is to challenge participants to take responsibility and demonstrate how they can contribute to ProCredit.

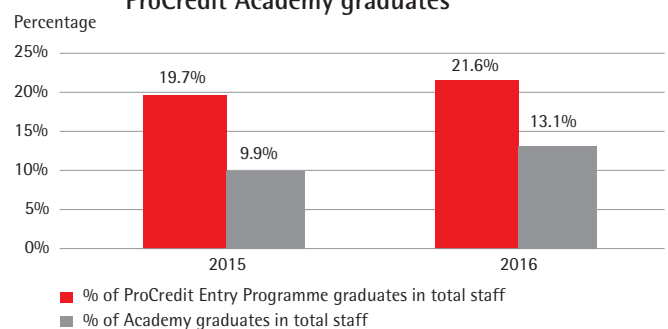
This six-month training programme covers all aspects of our approach to banking as a development-oriented commercial banking group. Nevertheless, we do not neglect the social and environmental aspects, which also form part of our responsible banking approach. All the topics are studied in English, as the ProCredit Entry Programme is an international programme with participants from a wide range of different countries. It is held at one of our international training centres in Eastern Europe and in Latin America. The objective of the programme is not to train newcomers for a specific position in the banks, but rather to equip them with the curiosity and willingness to learn, which will allow them to develop throughout their entire professional life.

Figure 14: Person-days of group training in the ProCredit group



The ProCredit group invests heavily in a wide array of training measures to give its employees all the necessary tools to advance its mission. Topics range from language courses through professional development to environmental awareness and ethics. On average, each employee goes through 12.8 days of group training per year.

Figure 15: Percentage of ProCredit Entry Programme and ProCredit Academy graduates



As more and more staff go through the ProCredit Entry Programme and the ProCredit Academy, the percentage of staff that have graduated from the two courses is steadily increasing.

Level 2: Specialist courses and workshops, advanced English training

Following this initial grounding, staff receive more in-depth training in the technical skills needed for their specific positions, including advanced English training. After the ProCredit Entry Programme, all new employees, whatever their future position, undergo structured in-house training in front office to learn the details of all core banking activities and the intricacies of customer service. Then, the staff members that will be dealing directly with business clients are trained and coached in the branches for 12 months before they start to manage their own portfolio of clients. During this training, special focus is placed on their customer service and communication skills.

The aim of these specialist courses is to educate our staff so as to enable them to offer proper financial advice to our clients. These courses help our staff to appreciate the situation from the client's perspective, which helps them determine which banking services will benefit our clients most and how best to communicate this so that the client understands these benefits.

These position-specific courses are complemented by regular workshops and seminars organised regionally or at group level, covering all topics that are strategically and operationally important. To improve communication between the ProCredit banks and ProCredit Holding, regular structured one-year staff exchange programmes permit between 20 and 25 colleagues from the group's banks to spend a year in one of the teams at the Holding.

As English is the *lingua franca* of the group, a great deal of emphasis is placed on English training. No staff member can understand the key policies and strategy documents, make valuable contributions to the numerous intra-bank working sessions or participate in group-wide training programmes without having a good command of English. Moreover, learning a foreign language creates openness, curiosity and an interest in the wider world. To this end, regular six-week Eng-

lish courses are always available at our academies.

Ethics courses are also given by highly trained in-house teachers, allowing staff take part in intense, value-based discussions and analyse ethical dilemmas. Discussion sessions on the Code of Conduct are also organised on an annual basis for all staff.

Levels 3 and 4: ProCredit Banker Academy and ProCredit Management Academy

The ProCredit Banker Academy is a key component of the phased ProCredit training programme, which begins with the ProCredit Entry Programme, continues through advanced courses for existing staff and – for more senior staff and managers – culminates in attendance at the ProCredit Management Academy. As well as fostering the personal and professional development of promising employees who identify with us and want to advance, the Banker Academy also serves to identify ProCredit staff with strong management potential and prepare them for participation in the three-year intensive course at our Management Academy.

The ProCredit Banker Academy and the ProCredit Management Academy have developed a one-year and three-year training programme, respectively, which, just like our banks, have been continually adapted in response to the various challenges and changes in the environments in which we operate – be they organisational, economic, political or social.

We are convinced that building long-term relationships with small and medium-sized enterprises is the most effective method of promoting job creation and economic growth; discussion of this business philosophy amongst our staff is essential. They are encouraged to build on their existing knowledge and at the same time challenge their preconceptions of the world, human behaviour and their role in and responsibility, not just to the company, but to society as a whole. The training programme arouses the curiosity of participants, allows them to construct an analytical framework with which they can address complex ideas across disciplines both past and present, and prepares them for further challenges and training both at home, in their banks and – for some of them – at the ProCredit Management Academy, which we expect all senior managers of the ProCredit banks to attend.

The corporate culture of the academies can be summed up in the concepts of tolerance and curiosity, rational thought and scientific method, solidarity and friendliness, values and principles.

Figure 16: Hours of English courses delivered



As English is the group's *lingua franca*, there is strong focus on English training, with more than 120,000 hours of courses delivered in 2016.

Case Story:
ProCredit Management Academy

**SUPPORTING OUR STAFF'S
PERSONAL AND PROFESSIONAL
DEVELOPMENT**

The ProCredit Management Academy has developed a three-year training programme, which has been continually adapted in response to the various challenges and changes in the environments in which we operate – be they organisational, economic, political or social.



YEAR 1

Block I

Basics of Financial Mathematics and Statistics

The Origins of Human Civilisations: The Social Cage in Ancient Egypt

Block II

Understanding Business – Looking beyond Figures

The Origins of Human Civilisations: The Sources of Social Power in Ancient Mesopotamia

Block III

Climate Change and Climate Politics: An Environmental Capacity Building course

The Catastrophic End of the Bronze Age and the Dawn of the Iron Age

Excursion to Berlin

Block IV

Financial Accounting

Oikos and Polis in the Archaic and Classical Age of Greek Civilisation

Block V

Financial Analysis

Introduction to Philosophy

Block VI

Risk Management

Alexander the Great and the Age of Hellenism

Block VII

AML – The Prevention of Financial Crime

History of Religion: Zoroastrianism, Judaism and Christianity

The courses offered by the ProCredit Management Academy fall into three main areas: **Banking and Finance (Blue)**, **Humanities (Red)** and **Environment and Communication (Green)**.

Additional information is available in the brochure “ProCredit Management Academy” published on the ProCredit Holding website.

YEAR 2**Block I****How to make an Argument****The Rise and Decline of the Roman Republic**

Block II**Introducing the German ProCredit Bank****The Roman Empire and its Fall***Excursion to Rome*

Block III**Energy Politics, Water and Waste****Understanding the Dark Ages:**

Civilisations of the Early Medieval World

Public Feedback

Block IV**ProCredit: Our Approach to Staff Development****Major Developments and Contradiction of the Intellectual World in the Medieval Period**

Block V**Introduction to Economic Theories Part I****The High Middle Ages:** Transformation, Crisis, Disaster and Renewal

Block VI**Internal Controls and Internal Audit****Renaissance and Reformation**

Block VII**Management of Credit Risks****New Horizons:** European Expansion and the New Trans-Atlantic World Economy**YEAR 3****Block I****The Enlightenment Period** and its Philosophy

Block II**Quipu:** Meet your Software Provider**Enlightenment Applied:** The American Union of Republics and the French Revolution

Block III**e-Banking and Digitalisation****The ProCredit Approach to Environmental Management**

Block IV**Business Planning****Capitalism explained:** Commercialisation, Industrialisation and the Development of Modern Society

Block V**Communicating our Identity****The Abyss of History:** The Totalitarian Regimes of the 20th Century*Excursion to Weimar and the Nazi concentration camp Buchenwald*

Block VI**Introduction into Economic Theories Part II****The New World Order of the 20th century:** Cold War and European Integration

Block VII**Climate Change** in a Global Political Context**The Cave and the Light** - History of Moral and Political Philosophy

4.3.4 Promoting transparency and communication in career development

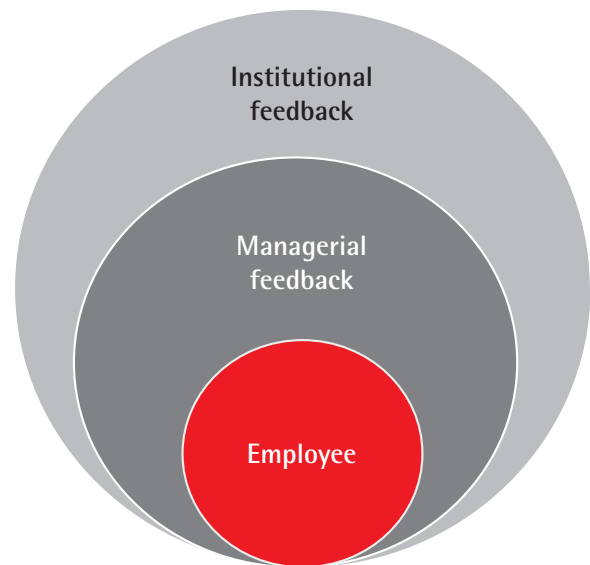
We place great value on a transparent salary structure with fixed salaries and consciously refrain from the practice of giving short-term bonuses as a supposed means of incentivising our staff; we believe that this type of incentive can hinder the ability of our staff to provide responsible advice to our clients, and might even harm relationships among colleagues.

The ProCredit group has a standardised salary system in which group-wide principles are established. It includes fixed salary ratios for certain positions, mandates a maximum ratio of 10 between the highest and lowest salary levels, and sets training requirements for each position.

Another very important component of the ProCredit group's approach to staff management is our open and responsible communication lines. Therefore, long-term professional development opportunities for our staff are addressed in regularly scheduled discussions on performance and mutual expectations. All staff have two feedback conversations with their supervisor and one staff conversation with a member of the Management Board per year. In these conversations, every employee has the opportunity to discuss possibilities for further career development.

ProCredit's staff assessment system

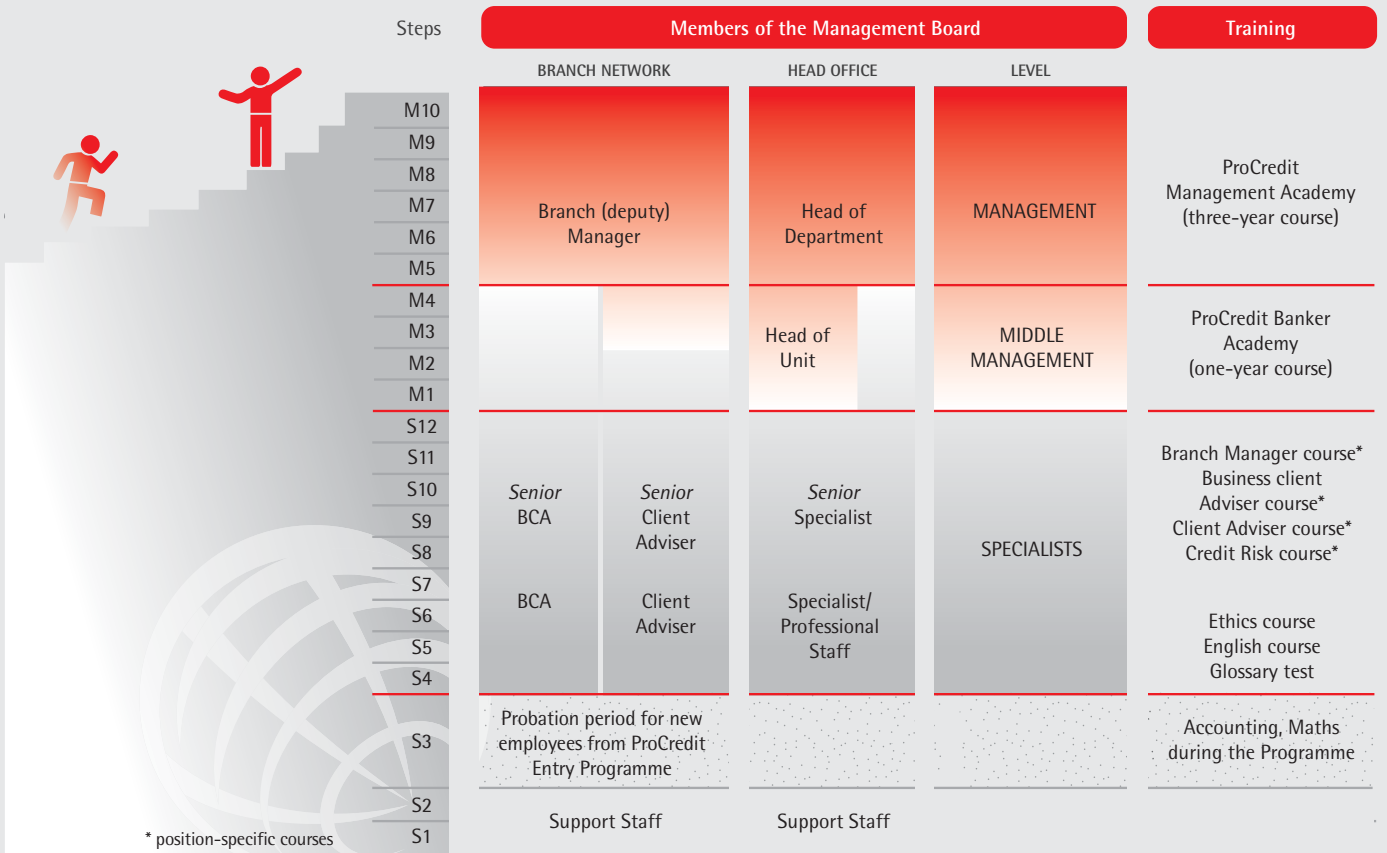
- A **two-layered feedback** system involving the direct supervisor (managerial feedback) and a representative of top management (institutional feedback)
- Institutionalised in **all ProCredit banks**
- Leads to **decisions** related to staff development and institutional performance
- Focuses on the development of the **whole person**, not only on quantitative performance
- An effective two-way **dialogue** and exchange of ideas
- Takes place on a **regular** basis throughout the year



Case Story:
ProCredit's Group-Wide Salary Structure

PROMOTING TRANSPARENCY THROUGH FAIR AND CLEAR REMUNERATION

The ProCredit group has a standardised salary system in which group-wide principles are established. It includes fixed salary ratios for certain positions, mandates a maximum ratio of 10 between the highest and lowest salary levels, and sets training requirements for each position.



5 Stakeholders

The following stakeholders have been identified as playing an active role in steering the direction of the ProCredit group, therefore contributing to our social impact.

Shareholders of ProCredit Holding

The shareholders of ProCredit Holding, which are mainly of private and public institutions, are equally as interested in the banks' development impact as in their commercial success. ProCredit Holding has the legal form of a partnership limited by shares. The general partner is ProCredit General Partner AG, a small independent company owned by the core shareholders (Zeitinger Invest GmbH, DOEN, KfW, IFC and ProCredit Staff Invest GmbH & Co. KG). The core shareholders have been guiding the activities of the group since its foundation and make a material contribution to the success of the ProCredit group.

Supervisory Board

The members of the Supervisory Board of ProCredit General Partner AG as well as ProCredit Holding AG & Co. KGaA as of 30 November 2016 are as follows:

- Dr Claus-Peter Zeitinger, Chairperson
- Mr Wolfgang Bertelsmeier
- Mr Christian Krämer
- Mr Rainer Ottenstein
- Mr Petar Slavov
- Mr Jasper Snoek

Each member of the Supervisory Board receives annual compensation of EUR 10,000. Compensation received in the capacity as a simultaneous member of the Supervisory Board of ProCredit General Partner AG is deducted from the compensation of a Supervisory Board member.

Other financial partners

As a banking group, ProCredit also works with a number of financial partners that fulfil various functions in their relationship with ProCredit and therefore have an interest in the groups' commercial development and social impact.

- The EIB Group, i.e. the European Investment Fund (EIF) and the European Investment Bank (EIB), with which ProCredit has entered into a number of guarantee and financing agreements to support SMEs in Eastern Europe.
- Deutsche Bank, which is our broker and a central contact to commercial investors for the placement of debt instruments in Germany.
- Finance in Motion, which manages the European Fund for Southeast Europe (EFSE) and the Green for Growth Fund (GGF), both of which are public private partnerships and which support ProCredit's financing of businesses and "green projects" in Eastern Europe.
- responsAbility, a leading asset manager in the field of development investments that provides funding to ProCredit in the form of subordinated and senior instruments.

6 Evidencing Social Value

6.1 Providing financial services for SME clients in transition countries

Item	Unit	2015 ⁸	2016
Loan portfolio distribution			
Business clients	EUR '000	3,797,421	3,312,307
Private clients	EUR '000	307,518	316,393
Total	EUR '000	4,104,939	3,628,700
Group loan portfolio at risk and coverage ratios			
Trade	EUR '000	1,077,499	854,077
Industry and other production	EUR '000	696,288	731,838
Agriculture	EUR '000	682,578	668,168
Transport	EUR '000	197,390	193,970
Construction	EUR '000	132,128	127,349
Tourism	EUR '000	75,724	69,844
Others (incl. overdrafts)	EUR '000	909,612	642,247
PAR 30	%	4.4	3.9
PAR 90	%	3.6	3.4
Coverage ratio PAR 30	%	97	106
Coverage ratio PAR 90	%	119	124
Distribution of transactions by channel (in terms of number)			
E-Banking	%	31	37
Cards	%	44	52
Standing orders	%	10	6
Cash desk	%	15	5
NPL ratios of selected ProCredit banks			
Bulgaria	%	2.5	20.6
Kosovo	%	3.8	6.2
Macedonia	%	2.9	10.8
Serbia	%	3.4	21.6
Ukraine	%	8.0	36.0

⁸ The 2015 data in this table includes data from ProCredit Bank in Bolivia, which was part of the ProCredit group in 2015.

6.2 Enhancing environmental awareness and protection in transition countries

Item	Unit	2015	2016
Annual resource consumption			
Generators	MWh/year	350.7	373.6
Space heating and hot water	MWh/year	8,362.2	6,353.0
Electricity	MWh/year	21,194.7	19,809.0
Fuel for vehicles (only diesel and gasoline)	litres/year	685,875.4	529,369.4
Fuel for vehicles (all energy sources)	MWh/year	6,738.7	5,226.8
Water	m ³ /year	57,452.4	55,616.4
Paper use	kg/year	141,949.0	98,105.0
Annual greenhouse gas (GHG) emissions			
Electricity	tCO ₂ eq	10,907.7	10,102.6
Space heating and hot water	tCO ₂ eq	1,189.7	804.5
Generators	tCO ₂ eq	93.2	99.3
Vehicles	tCO ₂ eq	1,749.1	1,355.0
Flights	tCO ₂ eq	3,463.1	2,957.4
Relative indicators (resource consumption and GHG emissions)			
GHG emissions per employee	tCO ₂ eq	3.6	3.7
Energy consumption per m ²	kWh/m ²	202.5	196.5
Water consumption per employee	m ³ /pp	11.7	13.8
Paper use per employee	kg/pp	29.0	24.4
Business and agricultural loan portfolio volume by environmental risk category⁹			
Low risk	EUR '000	2,005,273	1,738,952
Medium risk	EUR '000	1,514,995	1,292,388
High risk	EUR '000	75,925	83,064
Development of the green loan portfolio¹⁰			
Green loans to Business clients	EUR	242,419,014	307,737,219
Green loans to Private clients	EUR	21,204,373	21,520,668
Development of the total green loan portfolio by investment type¹¹			
Energy efficiency	EUR	192,200,526	231,166,796
Renewable energy	EUR	39,650,458	38,997,900
Environmental protection	EUR	31,772,400	59,093,190
Staff attending environmentally-related trainings			
Number of staff	Number	2,743	2,803
Hours per staff member	Hours/pp	13.33	9.47
Number of staff dedicated to environmental awareness and protection			
Number of staff	Number		81

9, 10, 11 The 2015 data in this table includes data from ProCredit Bank in Bolivia, which was part of the ProCredit group in 2015.

6.3 Developing human resources in transition countries

Item	Unit	2015	2016
Number of female staff in management positions			
Senior management - female	Number	27	30
Senior management - male	Number	22	22
Middle management - female	Number	183	156
Middle management - male	Number	198	168
Average service length of the senior management within the ProCredit group			
Average length of service	Years	12 years 7 months	13 years 1 months
Origins of ProCredit banks' management staff			
Local Et neighbourhood	%	90	89
Foreign	%	10	11
Person-days of group training in the ProCredit group			
ProCredit Entry Programme	Person-days	18,600	20,640
Banker Academy	Person-days	6,160	5,600
Management Academy	Person-days	6,660	5,580
English course	Person-days	15,210	15,030
Group workshops	Person-days	3,161	3,056
Per employee	Person-days/pp	10.5	12.8
Number of staff that went through the 4 levels of training			
ProCredit Entry Programme	Number	155	172
ProCredit Banker Academy	Number	88	80
ProCredit Management Academy	Number	111	93
Group workshops	Number	754	708
English courses	Number	492	493
Percentage of ProCredit Entry Programme and ProCredit Academy graduates			
Entry Programme graduates	%	19.69	21.55
Academy graduates	%	9.94	13.09
Invested amount in staff trainings			
Investment per staff member	EUR/pp	1,741	2,194
Hours of English courses delivered			
Hours of English courses	Hours	121,680	120,240

7 Other Issues

7.1 Negative externalities

Risks related to the provision of financial services for SME clients in transition countries

The ProCredit group's business model is focused on serving economies and customer segments, particularly SMEs, which have typically been inadequately served by the traditional banking industry. The ProCredit banks operate in transition economies in Eastern and South Eastern Europe, in developing countries in South America, and in Germany. With the exception of Germany, these countries are politically and economically less stable than Western Europe and are more susceptible to local market disruptions. The prevailing political, economic and social conditions as well as people's trust in the banking sector in a country or region significantly affect the general demand for loans, savings products and other banking services in that country or region. This is also true for the level and quality of infrastructure, which differs between the countries the ProCredit group operates in. For ProCredit, these factors are particularly relevant with regard to South Eastern Europe, where it generates most of its operating income.

The risk of direct government interference in times of economic crises is generally higher in transition economies and developing countries. Under economic pressure, local governments may be more likely to implement measures restricting banking business, such as currency transfer and convertibility restrictions, or may be forced to directly intervene to support the banking sector. Consequently, the group is subject to country risk, which it defines as the risk that the group, due to country-specific peculiarities, will not be able to enforce rights over certain assets or that a counterparty in that country will be unable to perform an obligation. Country risk arises from cross-border transactions and includes the risk of convertibility, transferability and expropriation, as well as the risk of macro-economic shocks, regulatory risks and security risks. The level of risk, however, differs significantly from country to country, and generally depends on the stage of economic and political development in each country. In addition, building up loan and deposit volumes to sustainable levels takes more

staff resources and time in some of the ProCredit group's geographic segments than in others. This is due to relatively smaller loan exposures and average deposit volumes, which is generally attributable to relatively lower levels of per capita GDP as well as the more limited credit history of clients.

Risks related to the group's environmental awareness and protection aims

The development of green investments in ProCredit countries is still largely dependent on government policies that incentivise or dis-incentivise investments in these technologies. In our countries of operation, green investments are not mainstream and are therefore often only perceived to be feasible when there are subsidies or other governmental support schemes. This might reduce the confidence that investors and financial institutions have in these types of projects and therefore might hinder the development of green finance projects in the ProCredit countries of operation.

Another area of indirect environmental impact connected to ProCredit is the environmental and social risk of the group's lending operations. Although these risks are reduced by the standards that the banks have put in place, they cannot be completely mitigated. There is a certain – although quite small – number of business clients in the group's portfolio who have activities entailing high E&S risk. These activities are carefully assessed in order to ensure that they meet the required standards. However, in the event of any environmental or social incidents, the risk remains that any negative impacts will also affect the financing bank.

We have already described the direct environmental impact of ProCredit's activities and the measures taken to mitigate this impact and improve the group's environmental performance. Nevertheless, business trips (e.g. air travel) are an inevitable part of our business model and human resource development approach. Although we are aware of the impact that flights have on the environment from carbon emissions, there is unfortunately no feasible, more environmentally friendly alternative. We make an effort, however, to reduce these envi-

ronmental impacts by increasing the use of video conferences, combining trips¹², prioritising direct routes and flying in economy class. We are also looking into other options to compensate for these emissions in the future.

Developing human resource in transition countries

Another risk in the ProCredit countries of operation is human capital flight, also known as "brain drain", which refers to the emigration of skilled or well-educated individuals. The majority of migration is from developing to developed countries due to their higher standards of living and quality of life, higher salaries, access to advanced technology and more stable political conditions. This reduces the pool of potential employees from which the ProCredit banks can find suitable staff. Despite the group's focus on developing capacities locally, without suitable staff, this may become increasingly challenging.

7.2 ProCredit group's risk management

The principles of the group's business activities, as listed below, lay the foundation for the group's risk management policies. The consistent application of these principles significantly reduces the risks to which the ProCredit group is exposed. In addition, the ProCredit group applies the risk management standards required by the German banking supervision authorities (BaFin/Bundesbank) in all ProCredit banks.

Focus on core business

The ProCredit institutions focus on the provision of financial services to small and medium businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the ProCredit banks' other operations are performed mainly in support of the core business. The main risks incurred by ProCredit institutions in the course of their day-to-day operations are customer credit risk and operational risk. All other risks involved in banking operations are avoided or strictly limited, even if this means that the group forgoes income opportunities.

High degree of transparency, simplicity and diversification

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans regions and countries, as well as urban and rural areas within countries. In terms of client groups, this diversification spans economic sectors, client segments (small and medium enterprises) and income groups. The diversification of the loan portfolio is a central pillar of the group's credit risk management policy. A further characteristic of the group's approach is that it seeks to provide its clients with simple, easily understandable products. This leads to a high degree of transparency, not only for the respective client, but also from a risk-management point of view. Both the high degree of diversification and the group's simple, transparent products and processes result in a significant reduction of the group's risk profile.

Careful staff selection and intensive training

Responsible banking is characterised by long-term relationships, not only with clients, but also with staff. This is why the group selects its staff very carefully and has made significant investments in training its employees for many years. Key elements of ProCredit's approach to staff management are a very thorough staff selection process, regular training for all existing staff, intensive training for management staff in the ProCredit academies, and the application of a uniform salary system for all staff across the group. The group's intensive training efforts not only produce a high level of professional competence, but also and above all promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, especially operational risk and fraud risk.

¹² For example, business trips to two (or more) countries in the same region can be combined to reduce the total flight mileage, rather than flying to and from the country of origin for each trip separately.

8 Appendix

We hope we have given you a clear idea of who we are and what we stand for. If you are interested in finding out more, the following group documents provide further details on ProCredit's economic, social and environmental impacts and are available on the ProCredit Holding website:

- Financial reports and presentations
 - Annual reports
 - Disclosure reports
 - Quarterly and half-yearly reports
 - Quarterly results presentations
 - Roadshow presentations
- ProCredit Group: Our Responsibility – Our Code of Conduct
- Working for ProCredit
- ProCredit Academy: A Training Centre for ProCredit Bank Managers
- Annual Environmental Performance Report
- Our Group Environmental Policy
- The Introduction of Green Finance
- Managing the environmental and social risk of lending, and others

This document was developed in cooperation with our partner, Internationale Projekt Consult (IPC) GmbH. We thank IPC for their expert advice in the preparation of this report.

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ProCredit
H O L D I N G

ProCredit Holding AG & Co. KGaA
Rohmerplatz 33-37
60486 Frankfurt am Main, Germany
Tel. +49-(0)69 - 95 14 37-0
Fax +49-(0)69 - 95 14 37-168
www.procredit-holding.com

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