

GROUP ENVIRONMENTAL MANAGEMENT POLICY (VERSION 1.0)

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1. Introduction

Promoting environmental awareness and protection, and helping to mitigate climate change, has always been a matter of concern for the ProCredit group and is a critical part of our business model – not only in connection with business operations but also in our day-to-day work. Ensuring that the economic development which the ProCredit institutions support is as environmentally and socially sustainable as possible is a central component of the group's development mission.

We set high standards regarding the impact of our operations on the environment and we make continuous efforts to increase the environmental awareness of our staff, clients, counterparties and the general public. We achieve this through the implementation of a comprehensive and sustainable Environmental Management System (EMS) aimed at improving both the internal and the external environmental impact of our activities.

2. Environmental Principles

We conduct our business activities in a sustainable and environmentally friendly manner to protect the environment and prevent pollution. We adhere to the following key principles to continuously improve our environmental performance:

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

All ProCredit institutions support a forward-thinking approach to environmental management that enables us to detect and avoid potential environmental impacts at an early stage.

The institutionalisation of the EMS through the efforts of the institutions' management teams and through the consistent implementation of improvement measures has been a key factor in the success of our approach. Annual environmental plans, which contain a clear set of objectives and concrete activities, are carried out in accordance with the priorities set by the respective Environmental Committees. As a result of adopting new green business areas and holding systematic informational events for all employees as well as specialised staff trainings, a higher level of environmental awareness and a sense of identity as a group that is strongly committed to ecological principles have developed within our institutions.

The Management and all staff of the ProCredit institutions are obliged to comply with the regulations of the Environmental Management System.

3. Purpose of the policy

The Group Environmental Management Policy defines the approach to be used by ProCredit institutions¹ to manage the environmental impact of the ProCredit group, its employees and its clients. For the ProCredit group, protecting the environment and helping to reduce the advance of climate change is part of corporate social responsibility.

The objectives of the policy are:

- To implement a comprehensive and sustainable system for managing all environment-related activities

¹ In this document, ProCredit Holding, ProCredit banks, ProCredit academies and Quipu are referred to as either "ProCredit institutions" or "ProCredit group".

- To raise environmental awareness in ProCredit institutions and help to reduce the negative environmental impact of the group's operations
- To continuously improve the group's environmental performance
- To support each institution's market positioning as an environmental sound institution
- To integrate environmental protection as a corporate value into each institution's philosophy
- To raise awareness and the level of knowledge among staff and clients with regard to environmental topics
- To present the environmental performance and activities of the institution, both internally to staff and externally to the public and relevant stakeholders

4. Definitions

For the purposes of this document, key terms are defined in the following way:

- **Green finance/Green credit products:** all financing activities for investments in energy and resource efficiency, renewable energy sources and environmentally friendly investments.
 - **Energy efficiency (EE) investments:** measures to use less energy to provide the same or an increased level of output.
 - **Renewable energy (RE) sources investments:** investments in harnessing natural resources that are inexhaustible within human time scales (e.g. wind energy, solar energy) or that are replenished much more quickly than they are depleted (e.g. biomass).
 - **Environmentally friendly investments:** these investments have a direct positive effect in environmental protection even though there may not always be measurable reductions in energy demand or greenhouse gas (GHG) emissions (e.g. organic agriculture, water and soil protection, consulting and planning services to reduce environmental pollution, etc.).
- **Environmental impact:** a negative effect on the natural environment that is caused, directly or indirectly, by a certain action or decision by the institution.
- **Environmental risk:** potential to have a negative environmental impact caused by an action or decision by the institution.
- **Environmental Management System:** a system of strategies, procedures, norms, and organisational structures designed to manage and continuously improve the environmental impact of the institution and its employees (internal measures) and its clients (external measures).

5. The ProCredit group's environmental management

The ProCredit group seeks to continuously reduce its negative environmental impact and that of its clients based on the following three pillars. Each ProCredit institution will develop its own Environmental Management Policy adhering to these pillars.

5.1 Pillar 1: Internal Environmental Management System

The goal of this pillar is to improve the institutions' internal environmental performance. This is achieved by means of the following measures:

- implementing in-house energy and resource efficiency measures, both technical and behavioural
- raising the level of environmental and energy awareness and knowledge among staff
- implementing communication measures to provide staff with relevant environmental information
- complying with local environmental standards and regulations

It is important to implement these activities in all of the institutions' departments and procedures. These measures are accompanied by ongoing monitoring and are subject to continuous improvement.

Responsibility for Pillar 1 lies with the Environmental Officer or another employee nominated by the Environmental Committee.

5.2 Pillar 2: Management of environmental and social risk in lending

The goal of this pillar is to reduce the ProCredit banks' external environmental impact caused by its lending activities. This helps to reduce credit risk, as an environmental risk may turn into a financial risk for the client and therefore for the bank.

The following measures are part of managing the environmental risk in lending:

- assessing and monitoring the environmental risk of a client's business
- filtering out and rejecting loan applications that are harmful to the environment
- incentivising environmental impact reductions among clients

Detailed procedures are specified in the Group Standards for Managing the Environmental and Social Impact of Lending. These standards establish the scope of activity, responsibilities, and organisational aspects related to the assessment of the environmental impact of lending. Responsibility for Pillar 2 lies with the Environmental Risk Officer or another employee nominated by the Environmental Committee.

5.3 Pillar 3: Green finance / green credit products

The goal of this pillar is to improve the ProCredit banks' external environmental performance by designing and offering special (green or environmental) credit products for investments in energy efficiency, renewable energies, and other environmentally friendly measures. By financing such investments, the bank supports environmentally friendly and energy-efficient businesses and households.

The design of these credit products takes into account the circumstances in the banks' local markets, and the approval process considers the technical aspects supporting the investment. Loans disbursed for this purpose are classified as green credits in the bank's core system, allowing for simple identification of these loans in the various systems and reports.

A detailed description of green investment loans is available in the Group Guidelines for Green Finance. These guidelines establish the basic criteria for green investments, the responsibilities for green lending activities, and the organisational aspects related to the processing of green investment loans. Responsibility for Pillar 3 lies with the Green Finance Specialist or another employee nominated by the Environmental Committee.

6. Organisational structure and key responsibilities

The ProCredit institutions are responsible for the establishment of their own environmental policies and Environmental Management Systems. It is the responsibility of each institution to identify, evaluate, manage, monitor and report on its environmental impact. The Group Environmental Management department at ProCredit Holding, the Environmental Management Unit/Department in each bank and the Environmental Co-ordinators at the ProCredit Academies and at Quipu shall assume different roles and responsibilities in the establishment of Environmental Management Systems, and the implementation of such systems and the monitoring of activities shall comply with these objectives at all levels.

The ProCredit institutions have to further develop procedures, processes and instructions for the corresponding operational units, which support the implementation of the institution's policy in line with the group guidelines and ensure full compliance with its objectives at all levels. This includes, but is not limited to, specific tasks and responsibilities for staff positions, terms of reference for the environmental committees and guidelines for the assignment of decision-making authorities which reflect the respective organisational structures.

The general minimum responsibilities for the ProCredit institutions' Environmental Management System, split according to group level, bank level and non-banking institutions, are described below.

6.1 Group level

Responsibility for environmental management at the group level lies with the Group Environmental Steering Committee (GESC).

This committee:

- Approves an annual group environmental management plan which defines priorities and key activities, assigns responsibilities and monitors implementation
- Approves Group Guidelines related to Environmental Management, such as this document, the Group Guidelines for Internal Environmental Management and the Group Guidelines for Green Finance, and oversees their group-wide implementation
- Bears responsibility for the development and expansion of green activities group-wide
- Regularly reviews the development of the green portfolio
- Supervises the proper functioning of the Environmental Management System
- Discusses strategic aspects of group environmental management, including positioning, communication channels, business principles and targets, and approves relevant measures

The committee meets at least four times a year. The detailed tasks and procedures of this committee are described in the Terms of Reference for the GESC.

Group Environmental Management department

The responsibilities of Group Environmental Management department at ProCredit Holding are the following:

- To develop, expand and maintain sustainable environmental management practices and strengthen environmentally responsible positioning group-wide; to promote investments in energy efficiency and sustainable resource management at ProCredit institutions and by ProCredit clients in all countries of operation
- To develop and disseminate the group policy, standards and supporting documents for environmental management
- To support the responsible staff in each ProCredit institution in implementing its Environmental Management System
- To support the expansion of green lending activities group-wide in order to improve the ProCredit banks' external environmental performance, designing and offering special credit services for investments in energy efficiency, renewable energy, and other environmentally friendly activities
- To develop and maintain a reporting framework to capture and monitor the development of the group's environmental performance and to keep the Management and the Group Environmental Steering Committee informed of key developments
- To work with the marketing and training departments of ProCredit Holding and ProCredit institutions, as well as external consultants, to develop materials which support the green positioning of the group
- To facilitate the exchange of experiences and best practices among the ProCredit institutions to further develop internal environmental management, the management of environmental and social risks, and the management of green lending activities, and to arrange and co-ordinate support from any external consultants in all issues related to environmental management
- To collaborate with Group Funding to obtain funding and provide financial support which underpins activities at both group and individual bank level; this also includes preparing and co-ordinating reports for donors and stakeholders

6.2 Bank level

Management Board

The Management Board of each bank approves the modifications to the bank's policies and standards applicable to environmental management and keeps its Supervisory Board informed about the internal environmental performance, the environmental and social risk in lending and the status of green lending. The assignment of responsibilities to the Environmental Unit/Department and nomination of employee(s) to support, implement or oversee the development of, and activities related to, environmental management is also subject to Management Board decisions.

Environmental Committee

The committee supervises the proper implementation and functioning of the Environmental Management System in the institution; it designs and approves strategies to address environmental issues; and it ensures that appropriate resources and staff are allocated for each of the three pillars. Moreover, the committee has the task of overseeing the implementation of these strategies and the overall environmental performance of the institution. The committee is also responsible for approving external and internal communication measures with regard to environmental management. Detailed tasks and procedures of the committee are set out in the Terms of Reference for the Environmental Committee, which are defined by each institution individually. The committee meets at least four times a year.

Environmental Management Unit/Department

All banks should have a separate organisational unit responsible for the Environmental Management Policy; this unit is referred to here as the Environmental Management Unit or Department. This Unit/Department reports directly to a member of the Management Board. The general responsibilities of the Unit/Department are:

- Supporting the introduction, implementation and maintenance of the Environmental Management System in the institution, including co-ordination with all relevant units/departments involved/responsible for each area of the system
- Developing annual environmental plans, in co-operation with other relevant units and departments, for the environmental goals and measures planned in each area
- Monitoring the development in each of the areas/pillars
- Co-ordinating, participating in and following-up on the staff environmental training programme
- Monitoring the development of EE/RE and green finance initiatives in other banks and at the country level in general
- Reporting environmental management plans and results to the Management Board and the Environmental Committee
- Co-ordinating bank-level reports related to environmental performance

Under the Environmental Management Unit or Department, there are generally two functions: Environmental Co-ordinator or Head of the Environmental Management Unit and a Technical Expert. The Environmental Management Unit or Department also co-ordinates tasks related to each pillar with the Environmental Officer, the Environmental Risk Officer and the Green Finance Specialist, who are typically employees from other departments nominated to assist in Pillar I, Pillar II and Pillar III activities.

Environmental Co-ordinator

The Environmental Co-ordinator or Head of the Environmental Management Unit/Department is responsible for organising the Environmental Committee meetings, supervising compliance with agreed measures and ensuring internal and external communication of these measures. S/he co-operates and co-ordinates with staff responsible for the three pillars to ensure the full implementation of the Environmental Management Policy. Also, the Environmental Coordinator/Head of the Environmental Management Unit/Department organises management and departmental staff activities during the implementation and operation of the Environmental Management Policy. Detailed tasks and procedures

of the Head of the Environmental Management Unit/Department are set out in the job description for the Head of the Environmental Management Unit/Department, which is developed by each bank individually.

Technical Expert(s)

Each bank's environmental department/unit will include one or more technical experts. The responsibilities of these staff members with regard to green finance involve the provision of technical support and expertise during the introductory phase (i.e. market research of the legal and regulatory framework, technology level, etc.) and continued support thereafter. The responsibility of the technical expert is to provide support and expertise in proposing solutions, calculations and analyses aimed at improving the bank's Internal Environmental Performance. The banks shall outline further responsibilities in their environmental policy and other internal procedures; these duties shall be reflected accordingly in the job description, which is to be developed by each bank individually.

Environmental Officer

The Environmental Officer is, in general, responsible for Pillar I activities and may be an employee from any department. The Environmental Officer monitors the bank's internal environmental performance and supports initiatives to reduce the negative internal environmental impact of the bank. The Environmental Officer is also responsible for internal awareness raising campaigns and may participate in environmental trainings. The banks shall outline further responsibilities in their environmental policy and other internal procedures; these duties shall be reflected accordingly in the job description, which is to be developed by each bank individually.

Environmental Risk Officer

The Environmental Risk Officer is responsible for tasks concerning Pillar II and is usually a member of the Credit Risk Department. The Environmental Risk Officer is responsible for issuing opinions in the particular cases explained in the Group Standards for Managing the Environmental and Social Impact of Lending. The banks shall outline further responsibilities in their environmental policy and other internal procedures; these duties shall be reflected accordingly in the job description, which is to be developed by each bank individually.

Green Finance Specialist

The Green Finance Specialist is an employee, typically a member of the business department, nominated by the bank to be responsible for the implementation of Pillar III.² The main responsibilities of the Green Finance Specialist are to develop strategies for the expansion of the green portfolio and to perform monitoring activities related to the green portfolio. The banks shall outline further responsibilities in their environmental policy and other internal procedures; these duties shall be reflected accordingly in the job description, which is to be developed by each bank individually.

6.3 Non-banking institutions

ProCredit Holding, the ProCredit academies and Quipu are not directly involved in the banking activities of the group. Therefore, the assessment of the environmental and social risks in lending (Pillar 2) and green finance (Pillar 3) are not relevant for these institutions. The setup of the EMS in ProCredit Holding, the ProCredit academies and Quipu thus differs significantly from the EMS established in the banks. The main responsibilities are described below.

Management Board

The Management Board of each institution approves the modifications to the institution's policies and standards applicable to environmental management and is constantly informed about internal environmental performance. The Management Board also reviews and approves changes to any

² In cases of banks that provide green lending to both business and private clients, these responsibilities may be shared among different employees responsible for each client group, i.e. one employee responsible for green lending to private clients and one employee responsible for green lending to business clients.

current, organisationally relevant document in order to incorporate the processes involved in the introduction of the Environmental Management System, thus ensuring compliance with the institution's policies and standards. The assignment of responsibilities and the appointment of the Environmental Co-ordinator is also subject to Management Board decision.

Environmental Committee

The committee designs and approves strategies to address environmental issues and ensures that appropriate resources and staff are allocated for internal Environmental Management (Pillar 1). Moreover, the committee is assigned the task of overseeing the establishment of the EMS, and supervises the proper implementation and functioning of the Environmental Management Policy at the institution level. The committee is also responsible for the approval of an Annual Environmental Plan to ensure effective internal and external measures with regard to environmental management. The detailed tasks and procedures of the committee are set out in the Terms of Reference for the Environmental Committee. The committee meets at least two times a year. For ProCredit Holding, the function of the Environmental Committee is performed by the Group Environmental Steering Committee.

Environmental Co-ordinator

The Environmental Co-ordinator may be an employee from any department. For ProCredit Holding, the Environmental Co-ordinator shall be a member of the Group Environmental Management department. The Environmental Co-ordinator monitors the institution's environmental performance and supports initiatives to reduce the negative environmental impact of the institution. The Environmental Co-ordinator is also responsible for internal awareness-raising campaigns and environmental trainings. The institutions shall outline further responsibilities in their environmental policy and other internal procedures; these duties shall be reflected accordingly in the job description and/or appointment document.

7. Monitoring and reporting procedures

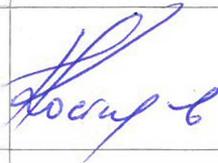
In order to ensure proper monitoring and management of each institution's environmental performance, all ProCredit institutions implement a system to document, supervise and report on internal and external measures. Each bank's green lending portfolio projections and statistics must be included in the bank's business plan.

Likewise, all institutions must ensure that the environmental performance is communicated internally (to staff and management) and externally (to shareholders, interest groups, clients and the general public) in a clear and effective manner. ProCredit institutions co-operate with Group Environmental Management to develop annual reports on the environmental performance of the group.

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