



**ProCredit**  
H O L D I N G

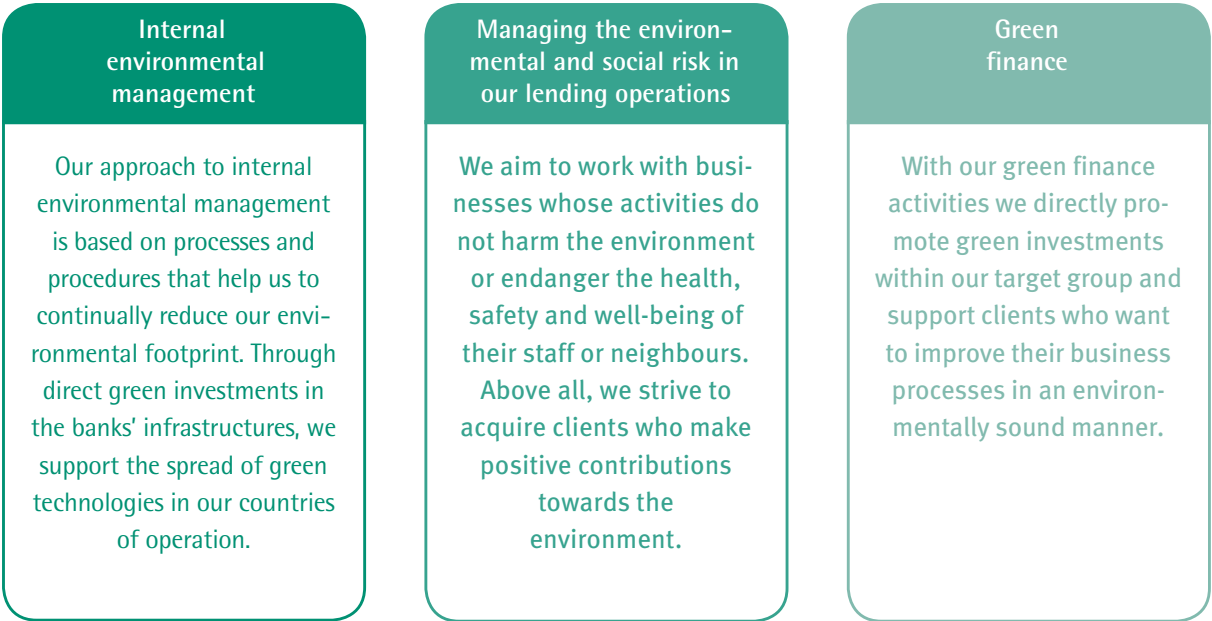
## MANAGING THE ENVIRONMENTAL AND SOCIAL RISK OF LENDING



# The Environmental Management System of the ProCredit group

As a development-oriented commercial banking group, we need to continuously evaluate the relevance of our actions with regard to our conception of development. This goes well beyond the traditional concept of economic growth. Rather, it is related to a broader sense of responsibility towards the societies in which we operate. More than merely promoting economic growth, our definition of development entails fostering democracy and free speech, respect for fellow human beings, social justice, ecological awareness and ethical behaviour. If we are to truly live this concept of development, we as ProCredit must continuously assess our actions and decisions, not only from the perspective of profitability and our clients' needs, but also and above all in terms of the impact they might have on society and the environment around us. We must not allow anything – not even a significant profit – to lead us astray from our primary goal of minimising the negative impact of our business decisions on society and the environment.

Therefore, for us, the implementation of social and environmental standards is part of a responsible business model. This applies to our lending operations and is part of our day-to-day work. In order to avoid and effectively manage any potentially negative impacts on society, be it our social environment or our ecological footprint, we have developed a clear environmental management system across all banks of the ProCredit group. It consists of internal measures to encourage efficient consumption of resources as well as several measures to promote investment projects with a low environmental impact. The ProCredit Environmental Management System is based on three pillars and designed to ensure that direct and indirect environmental impacts are minimised. These three pillars are described here:



## Our environmental and social risk assessment framework

In this brochure we present our approach to the second pillar, managing the environmental and social risk in our lending operations, as it is a crucial part of our environmental strategy. We aim to minimise our indirect environmental impact by working with businesses whose activities do not harm the environment or society.

This objective is reflected in our creditworthiness analysis methodology, in which assessing environmental and social aspects plays an important role in the credit decision-making process. As a development-oriented banking group, we operate in countries where businesses are not always required to meet high environmental and social standards. In this way, we not only make sure that our clients comply with the law; we also carefully assess the risks associated with their production processes and production site.

Our efforts to minimise environmental and social risks are not based on simple scoring systems. Rather than simply refusing to do business with companies because they do not score well with regard to certain criteria, we prefer to engage them in dialogue to discuss 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*



### Step 1: Our Exclusion List

Despite our inclusive approach and openness towards the many different business models of our clients, there are certain harmful practices and activities that ProCredit banks categorically refuse to support. In some cases, the correct response to environmental and social risk is clear-cut: we will, for example, never enter into a business relationship with companies involved in the production or trade in weapons or narcotics, forced labour, child labour, prostitution or pornography, activities which may endanger cultural or archaeological sites or involve involuntary resettlement.

To ensure that we apply this principle consistently across the globe, we have formulated an unambiguous Exclusion List. Clients engaged in the activities specified in our Exclusion List are not only excluded from receiving loans from us, but are also barred from holding an account with any of our banks. This also applies to clients who do not adhere to international AML standards.



## Step 2: Our environmental and social risk categorisation system

To guide our staff in the analytical process, we have designed an **environmental and social risk categorisation system** based on international standards that assigns individual economic sectors to the high, medium or low environmental risk category, according to their potential environmental and social impact.

- **Low risk** sectors could have a minimal to limited negative impact on the environment and society. This category typically includes service-oriented businesses, such as grocery stores, schools or fitness studios.
- **Medium risk** sectors utilise production processes that could have adverse effects on the environment and society, but which can usually be improved by applying simple mitigation strategies. This category typically applies to food processing industries or to production activities that do not use chemical processes.
- **High risk** sectors are engaged in activities which involve complex, differentiated production processes or which are severely detrimental to their surroundings, such as raw materials extraction or chemical production. These businesses require much stricter and more sophisticated mitigation action to minimise their impact on the environment and society.

Our categorisation system is binding for all ProCredit banks and does not vary from country to country. All companies whose business activities fall into the medium or high risk categories are subjected to an individual assessment of their performance with regard to environmental, health and safety issues.

## Step 3: Activity-specific assessment

*When we receive loan applications from companies whose activities could be hazardous to the environment or society, we analyse their situation and identify the available options to mitigate the risk.*

The purpose of this assessment is to make sure that the company's owners are aware of all environmental, health and safety issues, and that appropriate processes are in place to manage any risks.

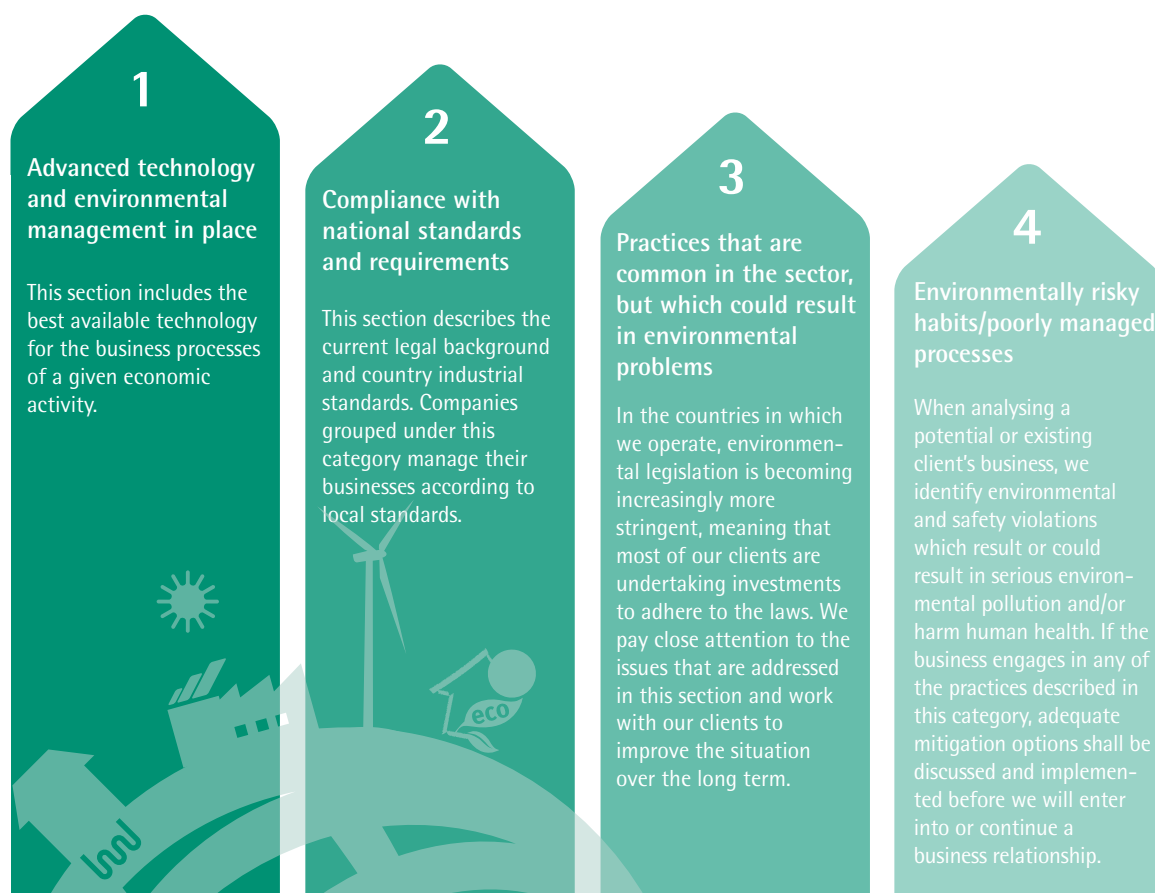
In particular, we look at the following aspects:

- **Legal compliance:** Does the company bear liability for any damage to the environment? Does it have the necessary permits? Is it operating in accordance with laws and regulations?
- **Production risks:** How clean are the company's production methods? Is management aware of potential risks? If so, how are these risks mitigated? How is waste disposal handled? What safety measures are in place?
- **Environmental and site factors:** Where are the business premises located? Can any noise or emissions resulting from the business activity disturb neighbours or pose a threat to sensitive ecosystems?
- **Social integrity:** Are the working and employment conditions satisfactory? Are labour rights fully respected?

In 2013 we began to intensify our approach to environmentally responsible banking. We conducted broad-based research with the aim of creating an activity-specific environmental and social risk profile of each of economic activity that could potentially have a medium or high impact.

We used the findings of our research to develop activity-specific assessment forms which explain the potential adverse environmental impacts for all relevant kinds of economic activities and specify which technologies can be applied to prevent or mitigate them. The assessment process takes various aspects into account, such as water pollution, soil pollution, air pollution and waste management.

ProCredit banks use the assessment forms to analyse and evaluate the environmental, health and safety performance of their clients. During the assessment, our staff responsible for the lending process refer to the criteria below to identify the areas in which clients are already managing their environmental and social impact. But we can also help clients to develop an even greater awareness of environmental and social risk, and help them to enhance their processes accordingly. Different environmental aspects inherent to a particular business can match one of the following criteria:



*Our assessment forms support the credit decision-making process by providing a clear overview of environmental, health and safety issues for each individual business.*

Regular training and clear assessment forms ensure that our staff understand the environmental and social risk management issues the companies they analyse have to contend with. They are then well-positioned to advise their clients on mitigation strategies and the investments needed to implement them.

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