



ProCredit
H O L D I N G

Group Environmental Management Policy



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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 economic development is environmentally and socially sustainable is a central component of the group's development mission.

We set high standards regarding the environmental and social impact of our operations and we make continuous efforts to increase the awareness of our staff, clients, counterparties, and the general public regarding environmental and social issues. We achieve this through the implementation of a comprehensive and sustainable environmental management system (EMS) aimed at improving the environmental and social impact of our activities.

2. Purpose of the policy

The Group Environmental Management Policy defines the approach employed by the ProCredit institutions in the management of their environmental and social impact¹. For the ProCredit group, part of its corporate social responsibility entails the protection of the environment, be it physical, natural or cultural. Furthermore, this social responsibility aims to protect the surrounding communities in the group's countries of operation, prevent the violation of human rights as well as improve labour conditions, help reduce global warming, and create economies that are resilient against the impacts of climate change wherever possible.

The main objectives of the policy are to:

- Implement and maintain a comprehensive and sustainable system for managing all environment-related activities
- Raise environmental awareness at all ProCredit institutions and to help reduce the negative environmental and social impact of the group's operations by increasing the level of knowledge among staff and clients with regard to environmental and social topics
- Continuously improve the group's internal environmental performance
- Support each institution's market positioning as an environmentally sound institution
- Integrate environmental protection as a corporate value into each institution's philosophy
- Present the environmental performance and activities of the institution, both internally to staff and externally to the public and relevant stakeholders

3. Scope of the policy

The Group Environmental Management Policy applies to all ProCredit institutions in the group's countries of operation. It sets the framework for achieving the objectives defined above. The policy is divided into the sections listed below:

¹ In this policy, social impact is considered the impact of the business activities of the loan clients of the ProCredit Banks on their employees and on the general public. This also includes the impact of the suppliers of all ProCredit institutions on their employees. Other social impacts of the ProCredit group are not part of this policy and are covered in other strategic documents such as the Code of Conduct or the Group HR Policy.

- Environmental principles: overview of the group's key principles with regard to the continual improvement of its environmental and social performance
- Environmental management within the ProCredit group: overview of the general approach employed at all ProCredit institutions in the implementation of their environmental management system – the application of other pillars at certain ProCredit institutions is also discussed in this section
- Organisational structure and key responsibilities: overview of how the EMS is implemented at different levels within the ProCredit group and the main functions or units at each level – the levels defined are the ProCredit group, the ProCredit Banks, and non-financial ProCredit institutions
- Monitoring and reporting: overview of the communication regarding the performance of the EMS with internal and external stakeholders

In line with PCH Standards on Managing Group and PCH Documents, this policy is to be reviewed annually.

4. Environmental principles

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

- Identify the environmental aspects and impacts of our business activity
- Develop and implement measures to mitigate negative environmental impact
- Use resources as efficiently as possible
- Ensure compliance with relevant environmental and social legislation and international standards
- Raise awareness regarding environmental and social issues among our staff
- Minimise the negative environmental and social impact of our lending operations
- Encourage our clients to invest in an environmentally sound manner
- Seek to work with suppliers who conduct their business in line our environmental and social standards; engage in communication to positively influence the environmental and social impact of our suppliers' products and/or operations

All ProCredit institutions support a forward-thinking approach to environmental and social management that enables us to detect and avoid potential negative environmental and social 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 regular informational events for all employees as well as specialised staff training events, an increasing 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.

5. Definitions

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

- **ProCredit institutions or ProCredit group:** comprises ProCredit Holding (PCH) as the parent company, the ProCredit banks (PCBs), and the group's non-financial institutions, i.e. ProCredit Academy (PCA) and Quipu
- **Green finance:** all financial services related to energy and resource efficiency, renewable energy sources, and other environmentally friendly investments according to the following definitions:
 - **Green lending:** any lending activity which falls under the eligible investment categories detailed below:
 - **Energy efficiency (EE) investments:** measures to reduce energy consumption and provide the same or an increased level of output
 - **Renewable energy (RE) 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 (GR):** other environmentally friendly investments, which have a direct positive effect on environmental protection, even though there may not always be measurable reductions in energy demand or greenhouse gas (GHG) emissions (e.g. resource efficiency, organic agriculture, water and soil protection, consulting and planning services to reduce environmental pollution etc.)
 - **Green accounts:** refers to accounts in which funds deposited by customers are invested exclusively in investments eligible under EE, RE and GR
 - **Green bonds and other debt instruments:** any type of bond or other financial instrument whose net proceeds are used to (re-)finance loans eligible under EE, RE or GR criteria
- **Environmental and social impact:** any change (positive or negative), potential or actual, to the physical, natural, or cultural environment, as well as impacts on the surrounding community and workers, resulting from a business activity
- **Environmental and social risk:** potential for having a negative environmental and social impact caused by an action and/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, its employees (internal measures), and its clients (external measures)

6. The ProCredit group's environmental management

The ProCredit group seeks to continuously reduce its negative environmental and social impact and increase the positive impact of its own operations, as well as those of its clients and suppliers, based on the three pillars listed below. Each ProCredit institution has developed its own environmental management policy adhering to these pillars, wherever applicable:

6.1 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
- Defining objectives to reduce greenhouse gas (GHG) emissions deriving from the institution's own operations
- Raising the level of environmental awareness and knowledge among staff
- Implementing communication measures to provide staff with relevant environmental information
- Complying with local environmental standards and regulations
- Assessing the sustainability of a supplier's business practices, in addition to actively engaging in conversation to increase their awareness and improve their environmental and social impact; seeking to work with suppliers who operate in line with the environmental and social standards set by the ProCredit institutions

The implementation of these activities in all departments and procedures within the ProCredit institutions is crucial. These measures are accompanied by ongoing monitoring and are subject to continuous improvement.

At least one employee in every institution should be assigned responsibility for Pillar 1 by the Environmental Committee.

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

The goal of this pillar is to reduce the ProCredit banks' negative indirect environmental and social impacts caused by its lending and investment activities, while increasing their positive impact. This also helps to reduce reputational risk as well as credit risk, as an environmental and social risk may become a financial risk for the client and thus for the bank.

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

- Applying an exclusion list of activities (part of our Code of Conduct) for which we neither engage in any business relationship nor provide financing
- Assessing and monitoring the environmental and social performance of all business clients based on their activities
- Incentivising the improvement of environmental and social performance and disseminating the application of good environmental and social practices among clients, rejecting business relationships and/or the financing of clients engaged in activities that are environmentally or socially harmful

The Group Standards for Managing the Environmental and Social Impact of Lending establish the details, scope, responsibilities, and organisational aspects related to the assessment of the environmental and social impact of lending.

This pillar does not apply to PCA and Quipu, as they do not carry out financing operations/activities.

At all ProCredit banks and at PCH, at least two employees should be assigned responsibility for Pillar 2 by the Environmental Committee.

6.3 Pillar 3: Green finance/green credit services

The goal of Pillar 3 is to improve the ProCredit banks' indirect environmental performance by designing and offering special (green or environmental) credit services for investments in energy efficiency,

renewable energies, and other environmentally friendly measures. By financing such investments, the banks support environmentally friendly and energy-efficient businesses and households.

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

A detailed description of green 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 loans.

This pillar does not apply to PCA and Quipu, as they do not carry out financing operations/activities.

At all ProCredit banks and at PCH, at least one employee should be assigned responsibility for Pillar 3 by the Environmental Committee.



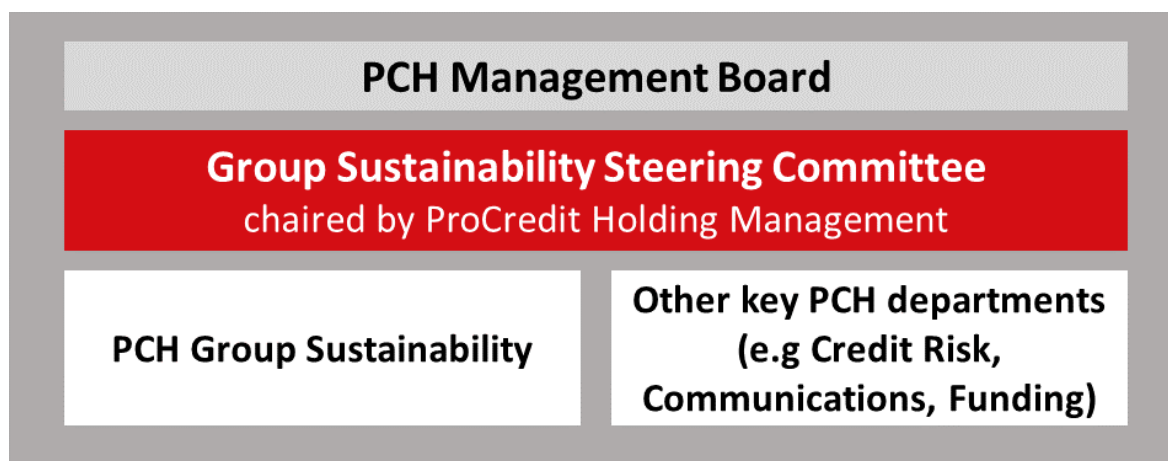
7. Organisational structure and key responsibilities

The ProCredit institutions are responsible for the establishment of their own environmental policies and environmental management systems in line with the Group Environmental Policy. It is the responsibility of each institution to identify, evaluate, manage, monitor and report on its environmental impact. The management board of each institution has the active role of ensuring the effectiveness of the established environmental management system across all departments of the institution, its communication with internal and external parties, and the promotion of continuous improvement.

All ProCredit institutions must further develop and monitor procedures, processes and instructions for the corresponding operational units, which support the implementation of the institution's policy in line with the Group Environmental Policy and the group standards and guidelines developed. They must also ensure full compliance with the set objectives at all levels. This includes, but is not limited to, specific tasks and responsibilities for staff positions, the terms of reference for the sustainability committees, and guidelines for the assignment of decision-making authorities, which reflect the respective organisational structures.

The general minimum responsibilities for the environmental management system at ProCredit institutions are defined according to group level, bank level, and non-banking institutions.

7.1 Group level



ProCredit Holding Management Board

The Management Board of ProCredit Holding bears the responsibility of approving strategical changes to the environmental management system for the group and for communication with the external stakeholders with the support and advisory of the Group Sustainability Steering Committee. The Management Board has the following responsibilities:

- Approving major modifications to group policies and strategies related to the EMS
- Keeping the Supervisory Board informed about the group's internal environmental performance, the environmental and social risk in lending, and the status of green lending
- Taking an active role in the preparation and approval of the ProCredit Group Impact Report
- Taking accountability for the effectiveness of the EMS

- Ensuring that an environmental policy and environmental objectives are established and that these are compatible with the strategic aims and context of the group
- Ensuring the integration of the EMS requirements into the group's activities
- Ensuring that the resources needed for the EMS are available
- Communicating the importance of effective environmental management and of conforming to the requirements of the environmental management system
- Ensuring that the EMS achieves its intended outcomes
- Directing and supporting staff so as to contribute to the effectiveness of the environmental management system
- Promoting continual improvement of EMS
- Supporting other relevant management roles to demonstrate their leadership as it applies to their areas of responsibility

Group Sustainability Steering Committee

The Group Sustainability Steering Committee (GSSC), which is chaired by the ProCredit Holding Management Board member responsible for sustainability, is responsible for overseeing the implementation and continuous improvement of different sustainability aspects, including the environmental management system of the group as well as advising and supporting the PCH Management Board with regard to strategic environmental decisions.

This is accomplished by:

- Discussing and approving group standards and associated documents related to the EMS, and overseeing their implementation across the group
- Supervising the proper functioning of the environmental management system at the group level
- Approving the annual Group Environmental Management Plan, which defines high level targets for the group as well as priorities and key activities, in addition to assigning the respective responsibilities and monitoring the implementation thereof
- Approving non-material changes to the group policy and remaining informed with regard to substantial changes in the policy and other group documents related to environmental management
- Bearing responsibility for the development and expansion of green activities across the group as decided upon by the PCH Management Board
- Reviewing group-wide resource allocation for environmental management
- Regularly reviewing the development of the green portfolio and suggesting improvements if necessary
- Discussing strategic aspects of group environmental management, including positioning, communication channels, business principles and targets, and advising the PCH Management Board with regard to relevant measures; overseeing the implementation of defined strategies upon approval
- Reviewing and monitoring the preparation of the group's annual Impact Report

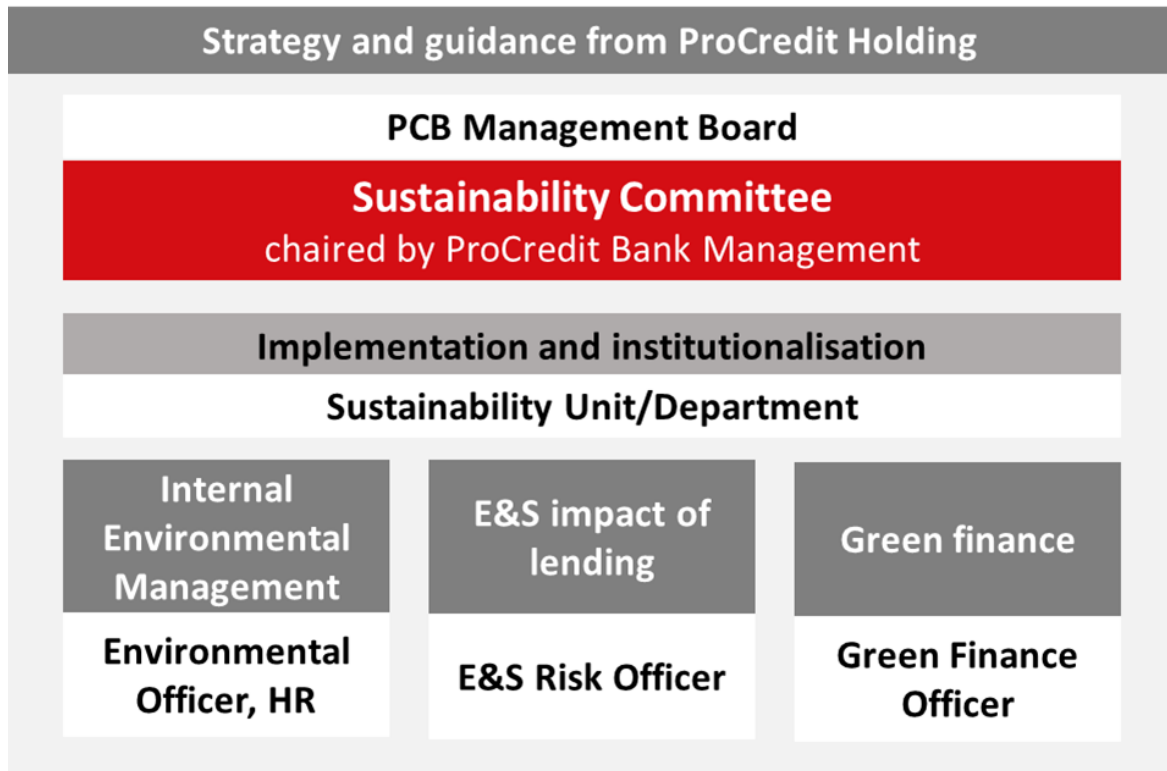
The committee is to meet at least once per quarter. The detailed tasks and procedures of this committee are described in the terms of reference for the GSSC.

Group Sustainability Team

The responsibilities of Group Sustainability Team at ProCredit Holding are the following:

- Develop, expand and maintain sustainable environmental management practices, and strengthen sustainable positioning across the group; promote investments in energy efficiency and sustainable resource management, as well as inclusive finance at ProCredit institutions and by ProCredit clients in all countries of operation
- Develop and disseminate the group policy and supporting documents for environmental and social management
- Support the responsible staff at each ProCredit institution in the implementation of its environmental management system across all three pillars
- Support the group-wide expansion of green lending activities, in order to improve the indirect environmental performance of ProCredit banks, designing and offering special credit services for investments in energy efficiency, renewable energy, and other environmentally friendly activities
- Support the group-wide expansion of inclusive lending activities, in order to improve the indirect impact of ProCredit banks, designing and offering special credit services for investments that promote gender equity and other forms of inclusive finance
- Develop and maintain a reporting framework to capture and monitor the development of the group's environmental performance and to keep Management and the Group Sustainability Steering Committee informed of key developments
- Work with the departments responsible for marketing and communications at ProCredit Holding and other ProCredit institutions, as well as external consultants, to develop materials which support the sustainable positioning of the group
- 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, as well as other sustainability related topics. The Group Sustainability Team shall arrange and coordinate support from any external consultants in all issues related to sustainability
- Collaborate with Group Funding to obtain funding and provide financial support which underpins activities at both the group and individual bank levels; this also includes preparing and coordinating reports for donors and stakeholders
- Support Group Credit Risk in the development and dissemination of the necessary standards, supporting documents and tools needed to evaluate and minimise the environmental and social risks of our clients and promote good practices
- Coordinate internal environmental and social management activities at ProCredit Holding
- Support development and conduct training sessions, seminars, and other capacity building activities related to the environmental management system for the group
- Quantify the impacts related to sustainability matters and participate in impact reporting and disclosures

7.2 Bank level



Management boards

The management board of each institution approves the bank's policies and standards applicable to sustainability, in accordance with the related group policies and standards, and keeps its supervisory board informed regarding internal environmental and social performance, environmental and social risks in lending, and the status of sustainable lending. The assignment of responsibilities to the sustainability unit/department and the nomination of employee(s) to support, implement or oversee the development of and activities related to sustainability is also subject to management board decisions.

Sustainability committees

The committee, chaired by the management board member responsible for sustainability, supervises the proper implementation and functioning of the environmental management system in the institution; it designs and approves strategies to address environmental issues; 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 sustainability committee, which are defined by each institution individually. The committee is to meet at least once per quarter.

Sustainability units/departments

All banks should have a separate organisational unit responsible for their environmental management policy; this unit is referred to in this document as the Sustainability unit or department. This

unit/department reports directly to a member of the management board of the bank. The general responsibilities of the unit/department are:

- Supporting the introduction, implementation and maintenance of the environmental management system at the institution, including co-ordination with all relevant units/departments involved/responsible for each area / pillar 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 and the monitoring thereof
- Following and analysing the development, risks, and opportunities related to green finance and environmental management in the local market, and incorporating them into the strategy in place at the bank concerning the related area
- Co-ordinating, participating in and following-up on the staff environmental training programme
- Reporting environmental management plans and results to the management board and environmental committee
- Co-ordinating bank-level reports related to sustainability

The sustainability unit/department must consist of at least the following two functions: head of the sustainability unit/department and at least one technical expert, depending on the size of the bank and the targeted portfolio. The sustainability unit/ department also supports the tasks related to each pillar and coordinates with those assigned responsibility for Pillar 1, Pillar 2 and Pillar 3 activities. The sustainability unit/department may also include additional specialists or members depending on the requirements and sustainability strategy of the institution. Additional experts for inclusive finance may be added if that decision supports the overall banks strategy for sustainability.

The environmental officer, the environmental risk officer and the green finance officer, who are typically employees from other departments, are nominated to assist in Pillar 1, Pillar 2 and Pillar 3 environmental activities.

Head of Sustainability Unit/Department

The head of sustainability unit/department is responsible for organising the sustainability committee meetings, supervising compliance with agreed measures and ensuring internal and the external communication of these measures. He/she cooperates and coordinates with the staff responsible for the three pillars to ensure the full implementation of the environmental management policy. Furthermore, the head of sustainability unit/department organises management and departmental staff activities within the scope of the implementation and operation of the environmental management policy. Detailed tasks and procedures of the head of sustainability unit/department are set out in the job description developed by each bank individually.

Technical experts

Each bank's sustainability department/unit must have one or more technical experts, as required by the scope and extent of the institution's operations. The responsibilities of these staff members with regard to green finance involve the provision of technical support and expertise during the introductory phase of a new green product (i.e. market research of the legal and regulatory framework, technology level, etc.). The technical expert should also provide support and expertise during the calculation and analysis of technical assessments for individual green investments. Furthermore, the technical experts are expected to provide support in proposing solutions and analysis 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 officers

The environmental officer is, in general, responsible for Pillar 1 activities and is usually a member of administration or a similar 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 training sessions. 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.

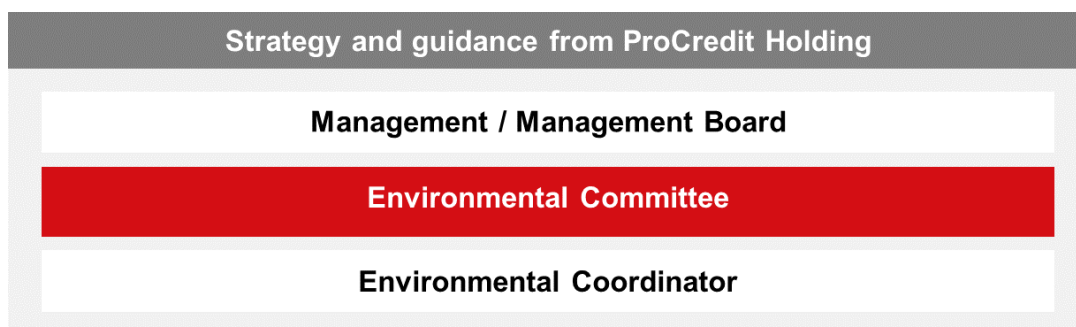
Environmental & Social risk officers

The environmental risk officer is responsible for tasks concerning Pillar 2 and is usually a member of the credit risk department. The number of environmental risk officers required depends on the size and scope of the bank's portfolio. To ensure continuity, there should be at least two environmental risk officers at each bank. 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 officers

The green finance officer is an employee, typically a member of the business department, nominated by the bank to be responsible for the implementation of Pillar 3.² The main responsibilities of the green finance officer 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.

7.3 Non-banking institutions



The ProCredit Academy 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 at the ProCredit Academy and Quipu thus differs significantly from the EMS established at the banks. Similar approach applies to ProCredit Holding's internal

² In the case of banks that provide green lending to both business and private clients, these responsibilities may be shared by the 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.

environmental management system, which defers from its role of group supervisory. The main responsibilities are described below.

Management

The management of each institution approves the modifications to the institution's policies and standards applicable to environmental management and is continually informed regarding internal environmental performance. The management also reviews and approves changes to any 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 coordinator is also subject to a management board decision.

Environmental committees

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 bi-annually.

Environmental coordinators

At all non-financial ProCredit institutions, an environmental coordinator should be nominated. The environmental coordinator monitors the institution's environmental performance and supports initiatives to reduce the negative environmental and social impact of the institution. The environmental coordinator is also responsible for internal awareness raising campaigns and environmental training. 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.

8. Monitoring and reporting procedures

All institutions must ensure that the environmental and social 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. This communication is facilitated at the group level by the annual ProCredit Group Impact Report and the Environmental Statement for the German ProCredit institutions, whose preparation is coordinated by the Group Sustainability and approved by PCH Management. Related strategies, policies, and guidelines may also be made public if deemed necessary.

Furthermore, to ensure proper monitoring and management of each institution's environmental and social performance, all ProCredit institutions are to 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.

Whenever exceptions to, deviations from or changes to a group-wide strategy related to environmental management arise at the institutional level, they must be reported ad hoc to Group Sustainability. The

decision on how to proceed with such instances will be discussed on a case-by-case basis at ProCredit Holding and escalated to the Management if deemed necessary.

9. Related documents

The documents below provide further details regarding the specific responsibilities, processes, and procedures mentioned in this policy:

- Terms of Reference to Group Sustainability Steering Committee
- Group Guidelines – Green Finance Definitions, Operations, Reporting
- Group Standards for Financing Renewable Energy Projects
- Group Standards for Managing the Environmental and Social Impact of Lending



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