

Second-Party Opinion ProCredit Group Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the ProCredit Group Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds - Energy Efficiency, Renewable Energy and Environmentally Friendly Measures - are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 9, 11 and 12.



PROJECT EVALUATION AND SELECTION ProCredit's Business Client Advisers along with the credit committee of the respective banks will be responsible for project evaluation and ProCredit's Group Sustainability Steering Committee will be responsible for project selection under the Framework. ProCredit has established a multi-step environmental and social risk assessment process to monitor and mitigate environmental and social risks commonly associated with the eligible projects. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS ProCredit's Group Sustainability Steering Committee along with the Group Funding and Group Sustainability Committee will be responsible for management of proceeds. The net proceeds will be managed on a portfolio basis and will be tracked using an internal tracking system. Pending full allocation, ProCredit may temporarily invest unallocated proceeds in cash or cash equivalents or to reimburse or purchase existing debt as per ProCredit's liquidity policy. Sustainalytics considers this to be in line with market practice.



REPORTING ProCredit commits to report on allocation and impact on an annual basis until full allocation, published on the ProCredit Holding's corporate website. The allocation reporting will include the aggregated amount of net proceeds allocated to each use of proceeds categories and the geographical segment, the number or amount or percentage of new and existing loans (financed and refinanced) and the balance of potentially unallocated net proceeds. Sustainalytics considers this to be in line with market practice.

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Introduction

ProCredit Holding AG based in Frankfurt am Main, Germany, is the parent company of ProCredit Group (“ProCredit” or the “Group”), which consists of commercial banks for small and medium enterprises. The banks of the group operate in South-Eastern and Eastern Europe, in South America, and in Germany and provide account services, financial advice and loan services. The total number of employees in the ProCredit Group was 3,951 as of 31 December 2023.

ProCredit has developed the ProCredit Group Green Bond Framework dated April 2024 (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance or refinance, in whole or in part, existing or future projects expected to provide positive environmental outcomes and advancements in the markets where the Group operates. The Framework defines eligibility criteria in three areas:

1. Energy Efficiency
2. Renewable Energy
3. Environmentally Friendly Measures

ProCredit engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).¹ The Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of ProCredit’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. ProCredit representatives have confirmed (1) they understand it is the sole responsibility of ProCredit to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and ProCredit.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness,

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

² ProCredit Holding, “Investor Relations”, at: <https://www.procredit-holding.com/investor-relations/>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

reliability or completeness of any facts or statements and related surrounding circumstances that ProCredit has made available⁴ to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the ProCredit Group Green Bond Framework

Sustainalytics is of the opinion that the ProCredit Group Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories - Energy Efficiency, Renewable Energy and Environmentally Friendly Measures⁵ - are aligned with those recognized by the GBP. Sustainalytics considers that the eligible projects are expected to contribute to positive environmental outcomes and advancements in the markets where the Group operates.
 - The Framework does not include a look-back period for refinancing operating expenditures as ProCredit will use a portfolio approach to allocate the proceeds, which Sustainalytics considers to be in line with market practice.
 - ProCredit intends to finance or refinance loans⁶ provided to micro, small and medium-sized enterprises (MSMEs) and private individuals in the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Greece, Kosovo, North Macedonia, Romania, Serbia, Georgia, Moldova, Ukraine, Germany and Ecuador.
 - Under the Energy Efficiency category, ProCredit may finance or refinance loans that are expected to contribute to energy efficiency improvements and reduced emissions in accordance with the following criteria:
 - Loans related to buildings and building measures, such as:
 - Development and acquisition of new and existing residential and commercial buildings that meet one of the following criteria:
 - Buildings that have achieved or are expected to achieve one of the following green building certification levels: LEED Gold or above,⁷ BREEAM Very Good or above,⁸ EDGE,⁹ and Passive House¹⁰. Sustainalytics considers financing of buildings which achieve LEED Gold, EDGE and Passive House certifications as credible and impactful. In the context of new buildings, Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages ProCredit to select BREEAM-certified buildings that score high enough in the energy category (which Sustainalytics regards as the most important category) to fulfil the requirements for BREEAM Excellent in that category. Sustainalytics further notes that it is market expectation to specify all eligible schemes and certifications, and encourages ProCredit to report on any specific schemes and certifications it intends to use.
 - Buildings with at least a 10% improvement in primary energy demand (PED) compared to the PED resulting from the local nearly zero-energy building (NZEB) requirements,¹¹ which Sustainalytics considers to be aligned with market practice.

⁵ The category - Environmentally Friendly measures – covers expenditures from categories such as Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use.

⁶ ProCredit confirmed to Sustainalytics that i) the loans could be in the form of project/asset-based loans or working capital loans where expenditures are earmarked based on invoices and ii) any loan will be considered eligible for financing or refinancing only when it meets the relevant eligibility criteria in the Framework.

⁷ LEED: <https://www.usgbc.org/leed>

⁸ BREEAM: <https://bregroup.com/products/breeam/>

⁹ EDGE: <https://edge.gbci.org/>

¹⁰ Passive House: https://passivehouse-international.org/index.php?page_id=183

¹¹ ProCredit confirmed to Sustainalytics that the NZEB criterion becomes valid once when NZEB requirements have been defined in the context of the respective local market.

- New buildings with at least a 20% improvement in PED compared to national energy performance certificate (EPC) requirements. ProCredit has confirmed to Sustainalytics that the financing will be limited to buildings meeting the following minimum EPC ratings in the respective regions: Albania - EPC B, Bosnia and Herzegovina – EPC B,¹² Bulgaria – EPC A, Greece – EPC A, Macedonia - EPC B, Romania – EPC A, Serbia – EPC B and Ukraine – EPC B. Sustainalytics considers these expenditures to be aligned with market practice.
- Refurbishment and renovations of buildings that lead to a minimum 30% improvement in PED over initial performance. Additionally, ProCredit may finance or refinance expenditures related to retrofits and the asset value of building together when the refurbishment leads to achieving one of the certifications listed above. Sustainalytics considers these expenditures to be aligned with market practice.
- Energy-efficient heating, cooling, air conditioning and ventilation systems and related equipment such as chillers, heat pumps (air, water or ground source) and electric boilers. ProCredit has confirmed that it will exclude the financing of heat pumps that rely on high-GWP refrigerants, and the borrower will promote a robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life. Sustainalytics considers this expenditure to be aligned with market practice.
- Loans to private individuals to purchase energy-efficient household appliances in accordance with the EU energy label, which includes dryers, fridges and freezers. The Group has confirmed the following: i) financing will be limited to household appliances in the highest two populated classes of the EU energy label; and ii) loans related to manufacturing of such appliances will be excluded. Sustainalytics notes that ProCredit's reliance on the EU energy labels to define eligibility in this category is consistent with the EU Taxonomy and views the expenditure as aligned with market practice.
- Energy-efficient lighting technologies such as LED and solar lighting solutions for street lighting, which Sustainalytics considers to be in line with market practice.
- Energy-efficient production and processing moulding machines, motors and pumps with a threshold of a minimum 20% energy savings assessed over the specific energy consumption, energy efficiency index or electrical motor efficiency class. Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installation of energy-efficient systems, equipment and technologies, and considers this expenditure be in line with market practice.
- Acquisition, manufacture, purchase, leasing, operation or maintenance of private and public passenger vehicles, which includes battery and plug-in hybrid electric vehicles (PHEV), and electric vehicle chargers. Sustainalytics notes that financing will exclude PHEVs whose tail pipe emissions exceed 50 gCO₂/km. Sustainalytics views the expenditure as aligned with market practice.
- Cogeneration plants and battery energy storage systems (lithium-ion and redox flow batteries). ProCredit has confirmed the following:
 - Financing for cogeneration plants will be limited to those with life cycle GHG emissions intensity below 100 gCO₂e/kWh and powered using feedstock such as natural gas, biomass, biogas or biofuels.
 - ProCredit will assess the sustainability of each biomass feedstock on a case-by-case basis, considering environmental and social impacts through internal and external assessments, along with technical due diligence. Sustainalytics notes the uncertainty about the specific feedstock that may be used by such facilities, and that the environmental and social impacts associated with the feedstock, including those related to direct and indirect land use change, vary based on the type of feedstock. Hence, Sustainalytics encourages ProCredit to report on the sources of biomass feedstock used in such facilities and to pursue third-

¹² For Bosnia and Herzegovina, Sustainalytics notes that less than 1% of the total building stock in Bosnia and Herzegovina is rated by an EPC. Additionally, based on the data currently available, Sustainalytics considers EPCs A+ and A as corresponding to the top 15% of the building stock in the country based on PED. However, Sustainalytics has not been able to determine whether an EPC rating of B or C corresponds to the top 15% of the low-carbon buildings in Bosnia and Herzegovina.

- party certifications to validate their sustainability credentials, to the extent possible.
- Additionally, ProCredit will ensure that: i) production of non-waste biomass does not take place on land with high biodiversity nor on land with high amounts of carbon converted to biofuel feedstock production; ii) a food security impact assessment will be conducted to demonstrate no competition with food and feed; and iii) peat, feedstock with 10% or more of non-certified oil, energy crops, waste biomass sourced from non-RSPO certified palm oil operations, animal fats, oil and other animal processing by-products or animal manure from industrial-scale livestock operations will be excluded.
- ProCredit has confirmed to Sustainalytics that some projects may rely on animal manure from small-scale livestock. The use of livestock residue for biomass energy may improve the environmental performance of some agricultural operations, however, livestock farming has a significant carbon and water footprint that is not addressed using livestock by-products in energy generation. Furthermore, such farming techniques may contribute to land degradation, biodiversity loss and deforestation. Nevertheless, Sustainalytics considers the use of residues from day-to-day operations of existing facilities for energy generation to provide positive impacts in the short term.
- ProCredit has confirmed to Sustainalytics that battery energy storage systems will be used exclusively for powering renewable energy projects.
- Sustainalytics considers investments tied to natural gas and associated components and systems more suitable for transition finance as they may prolong fossil fuel consumption.
- ProCredit has confirmed that assets or technologies designed or intended for processes that are primarily driven or powered by fossil fuels will not be financed under this category.
- Under the Renewable Energy category, ProCredit may finance or refinance loans for the development renewable energy generation projects and systems in accordance with the following criteria:
 - Solar thermal and photovoltaic systems. ProCredit has confirmed that loans provided for solar thermal systems will be limited to private individuals and that such projects generally do not include the installation of backup systems. Nevertheless, Sustainalytics considers reliance on non-renewable energy backup limited at 15% of the facility's electricity production as market practice and recommends ProCredit to report on the limit of use of non-solar energy backup, especially fossil fuel sources.
 - Run-of-river hydroelectric power systems without artificial reservoir and with less than 15 MWp installed capacity, in accordance with the following criteria:
 - For facilities that became or will become operational after the end of 2019: i) life cycle carbon intensity is below 50 gCO₂e/kWh; or ii) power density is greater than 10 W/m².
 - For facilities that became operational before the end of 2019 and are being refinanced: i) life cycle carbon intensity is below 100 gCO₂e/kWh; or ii) power density is greater than 5 W/m².
 - For all new hydropower plants, ProCredit has confirmed that an environmental and social impact assessment will be carried out to ensure that there are no significant risks and controversies associated with the projects being financed.
 - Wind power plants.
 - Geothermal power plants with life cycle GHG emissions intensity below 100 gCO₂e/kWh.
 - Projects related to biogas plants with combined heat and power (CHP) units and biomass plants with boiler.
 - ProCredit has confirmed that feedstock will be selected using the criteria provided under the Energy Efficiency category. Additionally, the Group has systems in place to ensure that there is no double counting of projects and assets between the activities.

- Sustainalytics considers expenditures under this category as aligned with market practice.
- Under the Environmentally Friendly Measures category, ProCredit may finance or refinance loans to conserve and improve the quality and availability of soil, air and water, in accordance with the following criteria:
 - Purchase, installation or construction of land, air and water protection systems such as subsoilers, rainwater harvesting tanks, drip irrigations systems, water treatment plants, control sensors for air, particulate matter or gaseous pollutants and air filters.
 - ProCredit has confirmed the exclusion of: i) treatment of wastewater and air pollution prevention from fossil fuel production or from processes or technologies that are inherently reliant on fossil fuels as an energy source; ii) systems and treatment facilities dedicated to controversial activities that have harmful social or environmental impacts, such as industrial-scale livestock facilities; iii) remediation activities related to the contamination or negative environmental externality resulting from the borrower's own activities; and iv) desalination plants.
 - Sustainalytics views these expenditures as aligned with market practice.
 - Development of waste management projects related to waste sorting and collection, waste transportation using zero emission vehicles and recycling of waste, such as paper, cardboard, metals, glass, plastics or wood. Sustainalytics notes the following:
 - ProCredit has confirmed that: i) the projects financed will support source segregation of waste; ii) waste recycling will be limited to mechanical processing or recycling, and financing will not be extended for chemical recycling activities; iii) any e-waste management projects will be accompanied by a robust waste management plan to mitigate associated risks; and iv) projects financed may also include information and communication technology (ICT) solutions such as pay-as-you-throw schemes, take-back programmes and waste monitoring tracking.
 - Sustainalytics views these expenditures as aligned with market practice.
 - Environmental services, audits for energy projects and implementation of energy management systems such as ISO 50001, building management systems or environmental management systems. ProCredit has confirmed the exclusion of assets or technologies designed or intended for processes that are primarily driven or powered by fossil fuels. Sustainalytics considers these expenditures as aligned with market practice.
 - Organic production processes and sustainable products, including: i) crop production certified using EU organic,¹³ Organska Kontrola,¹⁴ Demeter¹⁵; and ii) recycled paper or cardboard certified by Blue Angel.¹⁶
 - Sustainalytics notes that Organska Kontrola has been recognized by EU Commission¹⁷ and accredited by International Organic Accreditation Service,¹⁸ but is unable to opine on the certification currently due to lack of publicly available information to assess the criteria and methodology used.
 - Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications and encourages ProCredit to report on any specific schemes and certifications it intends to use.
 - Projects enabling at least 20% improvement in resource efficiency including but not limited to¹⁹ drip irrigation systems and hydroponics.
 - Sustainalytics recognizes the potential of hydroponics to reduce water and resource inputs but notes that such farming methods may be energy intensive. To address this concern, Sustainalytics encourages ProCredit

¹³ EU Organic: https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo_en

¹⁴ Organska Kontrola: <http://www.organskakontrola.ba/index.php>

¹⁵ Demeter: <https://www.demeter.de/>

¹⁶ Blue Angel: <https://www.blauer-engel.de/en>

¹⁷ EU Commission, "Organic Farming Information System", at: https://ec.europa.eu/agriculture/ofis_public/pdf/CBListAnnexIV.pdf?uid=493FDB44-CFB5-8FE7-315213D6D6BD6DDA/

¹⁸ International Organic Accreditation Service (IOAS): <https://ioas.org/>

¹⁹ As part of this Second-Party Opinion, Sustainalytics has assessed only drip irrigation and hydroponics, which are listed in the Framework.

to ensure that the projects financed will be powered by renewable energy sources and energy-efficiency measures.

- Sustainalytics notes that the Framework uses ProCredit's Exclusionary List²⁰ to limit financing to borrowers involved in activities on the list. Sustainalytics considers this exclusion list to strengthen the Framework.
- Project Evaluation and Selection:
 - ProCredit's Business Client Advisers in the respective countries where ProCredit operates along with the credit committee of the respective bank will be responsible for the project evaluation under the Framework. Additionally, a technical specialist from ProCredit's sustainability department at the respective bank will also be involved for complex projects or for loans above EUR 250,000. ProCredit's Group Sustainability Steering Committee will be responsible for the final decision on project selection under the Framework. The committee comprises at least of two members of ProCredit's management board and the Head of Group Sustainability.
 - During the project evaluation stage, ProCredit assesses if the loans that are being financed or refinanced comply with ProCredit's environmental and social (E&S) risk policies. ProCredit has established a multi-step E&S risk assessment process to monitor and mitigate environmental and social risks commonly associated with the eligible projects. For additional details, please refer to Section 2.
 - Based on the established processes for project selection and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - ProCredit's Group Sustainability Steering Committee along with the Group Funding and Group Sustainability Committee will be responsible for management of proceeds. The net proceeds will be managed on a portfolio basis and tracked using an internal tracking system.
 - Sustainalytics notes that ProCredit is using a portfolio approach for allocation of proceeds to eligible assets. Sustainalytics considers it to be a good practice to ensure continuous allocation such that, as the underlying eligible loans/assets in the pool are amortized or removed for any reason, the pool will be replenished such that the value of outstanding eligible loans remains equal to or greater than the net proceeds.
 - Pending full allocation, ProCredit may temporarily invest unallocated proceeds in cash or cash equivalents or to reimburse or purchase existing debt as per ProCredit's liquidity policy, excluding debt associated with carbon-intensive assets or activities. Sustainalytics considers this process to be aligned with market practice.
 - Based on the process in place for the management of proceeds and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - ProCredit commits to report on allocation and impact on an annual basis until full allocation, published on a dedicated page in the Investor Relations section of ProCredit Holding's corporate website.²¹
 - Allocation reporting will include the aggregated amount of net proceeds allocated to each use of proceeds category and the geographical segment, the number or amount or percentage of new and existing loans (financed and refinanced) and the balance of potentially unallocated net proceeds.
 - Impact Reporting will include the output and expected or realized impact indicators per use of proceeds in the Framework in line with the ICMA Harmonised framework for impact reporting. Key impact indicators may include installed capacity in MW, electricity generated (in MWh) and tonnes of CO₂ saved (in total and by geographical segment).
 - Based on the commitment to annual allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021

Sustainalytics has determined that the ProCredit Group Green Bond Framework aligns with the four core components of the GBP.

²⁰ ProCredit, "Code of Conduct", at: <https://www.procredit-holding.com/downloads/>

²¹ ProCredit Holding, "Investor Relations", at: <https://www.procredit-holding.com/investor-relations/>

Section 2: Sustainability Strategy of ProCredit

Contribution to ProCredit's sustainability strategy

ProCredit incorporates sustainable practices in its lending decisions, with a focus on financing energy efficiency measures and renewable energy projects. ProCredit has developed a Climate Action Strategy to align its business with the 1.5°C scenario of the Paris Climate Agreement. The strategy includes a comprehensive impact analysis of the Group's operating and financial activities. In 2023, ProCredit's green loan portfolio made up approximately 20% (EUR 1,268.3 million) of the total loan portfolio (EUR 6,226.5 million), a growth of 3% compared to 2022. The green loan portfolio entails loans aimed at investments related to energy efficiency, renewable energy and other environmentally friendly projects such as waste management and organic farming. Furthermore, the Group aims to increase its share of green loan portfolio to approximately 25% in the next five to seven years.²²

ProCredit is a member of the Net-Zero Banking Alliance (NZBA)²³ and has set a long-term emissions reduction goal for 2050, which is aligned with NZBA's guidelines. ProCredit aims to reach net zero by 2050. Furthermore, ProCredit has set targets to reduce scope 3 emissions, which largely consist of financed emissions from its borrowers, using the SBTi's customer engagement approach. The target requires ProCredit to engage with the clients responsible for 28% of the Group's financed emissions (particularly from the agricultural and manufacturing sectors) by 2027, compared to a 2022 baseline. ProCredit will support its clients in setting SBTi-validated targets, which will help address the Group's scope 3 emissions. Furthermore, as of 2023, 36% of ProCredit's green loan portfolio was dedicated towards renewable energy, avoiding an estimated 191.9 ktCO_{2e} in emissions. The green loans provided for renewable energy projects grew by 12% in 2023. As of 2023, the total installed capacity of solar photovoltaic projects financed by ProCredit had reached 859 MWp.²⁴

ProCredit discloses ESG-related information in adherence with the Global Reporting Initiative (GRI) and the European Sustainability Reporting Standards. Additionally, ProCredit has committed to perform a double materiality assessment in accordance with the Corporate Sustainability Reporting Directive (CSRD) in 2024. Additionally, ProCredit Holding is a signatory to the UN's Principles of Responsible Banking.²⁵

Sustainalytics is of the opinion that the ProCredit Green Finance Framework is aligned with the Group's overall sustainability commitment and initiatives and will further ProCredit's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics notes that ProCredit plays a limited role in the development of the specific projects it finances, but by offering lending and financial services, it is exposed to environmental and social risks associated with the eligible projects. Some key environmental and social risks associated with the eligible projects may include issues related to: i) land use and biodiversity issues associated with infrastructure development; ii) community relations; iii) emissions, effluents and waste generated in construction; iv) occupational health and safety and v) business ethics and risks related to responsible lending.

Sustainalytics is of the opinion that ProCredit is able to manage or mitigate potential risks by the presence of the following measures:²⁶

- ProCredit Holding has an overarching Group Environmental Management Policy that defines the approach employed by all institutions under ProCredit Holding to manage environmental and social impact.²⁷ As part of the policy, ProCredit has implemented an Environmental and Social Management System (ESMS) across all its banks and is based on three pillars: i) "internal environmental management"; ii) "management of environmental and social risk in lending" and

²² ProCredit, "Annual report 2023", (2023), at: <https://www.procredit-holding.com/wp-content/uploads/2024/03/2023-Annual-Report.pdf?t=1712302914>

²³ N-Zero Banking Alliance: <https://www.unepfi.org/net-zero-banking/>

²⁴ ProCredit, "Impact Report Datasheet 2023", at: <https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.procredit-holding.com%2Fwp-content%2Fuploads%2Fsites%2F2%2F2024%2F03%2FProCredit-Impact-Report-Datasheet-2023.xlsx%3Ft%3D1713180276&wdOrigin=BROWSELINK>

²⁵ Ibid.

²⁶ ProCredit has communicated to Sustainalytics that on topics not covered under ProCredit Group's policies, the Group abides by the policies of ProCredit Holding.

²⁷ ProCredit Holding, "Group Environmental Management Policy", at: https://www.procredit-holding.com/wp-content/uploads/2021/08/Group-Environmental-Management-Policy_2021.pdf

iii) "green finance". Under the "management of environmental and social risk in lending" pillar, ProCredit addresses E&S risks in its lending portfolio via a three-step process: i) screening the borrower's business activities against ProCredit's Exclusion List; ii) categorizing the borrower's activities according to the degree of environmental risk; and iii) conducting an on-site individual environmental and social risk assessment.²⁸ The Exclusion List is provided in ProCredit's Code of Conduct and addresses some of the key environmental and social risks, such as activities posing significant risks to the environment, health and safety of workers, exploitative forms of labour and adverse impacts on indigenous and vulnerable groups.²⁹

- For risks associated with biodiversity and land use, ProCredit excludes financing of borrowers involved in the production or trade in any product or activity deemed illegal or listed as having negative impact as per national laws or regulation and international standards or conventions related to the protection of biodiversity resources.³⁰
- As part of on-site individual environmental and social risk assessment, ProCredit assesses specific risks related to waste handling, emissions, and working and employment conditions. ProCredit's compliance with the IFC Performance Standards also addresses risks related to worker health and safety by establishing requirements pertaining to exposure to chemical and physical hazards, working conditions, child or forced labour and monitoring.³¹ The Bank's Group Standards for Managing the Environmental and Social Risk and Impact of Lending also require its clients to comply with local laws and regulations on human rights, health and safety. In addition to this, the Bank complies with international principles and standards, such as: i) Universal Declaration of Human Rights; ii) European Convention on Human Rights; iii) International Labour Organisation (ILO)'s Declaration on Fundamental Principles and Rights at Work; and iv) UN Guiding Principles on Business and Human Rights.³²
- ProCredit Holding's Code of Conduct applies to ProCredit Group and its banks, and addresses business ethics, compliance with laws and regulations, bribery and corruption and overall corporate responsibility.³³ ProCredit is committed to ensure transparency in its interest rates and base its lending decisions on the repayment capacity of borrowers. Additionally, ProCredit's staffs are not incentivized to push loans, thereby mitigating risks of predatory lending.³⁴ ProCredit has a credit risk management process to assess factors such as debt and repayment capacity of borrowers and avoiding over indebtedness.³⁵

Based on these policies, standards and assessments, Sustainalytics is of the opinion that ProCredit has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

²⁸ On-site assessment is performed for any legal entity financed with an exposure above EUR 750,000 whose economic activity is assessed as posing a high level of environmental risk.

²⁹ ProCredit Holding, "Code of Conduct", at: https://www.procredit-holding.com/wp-content/uploads/2022/10/ProCredit_Code_of_Conduct_20221024_L.pdf?t=1712396075

³⁰ Ibid.

³¹ IFC, "Performance Standard 2: Labour and Working Conditions", at:

<https://www.ifc.org/en/insights-reports/2012/ifc-performance-standard-2>

³² ProCredit Holding, "ProCredit Group Statement on Human Rights", at: <https://www.procredit-holding.com/wp-content/uploads/2023/03/Human-rights-statement.pdf>

³³ ProCredit Holding, "Our Responsibility - Our Code of Conduct", at:

https://www.procredit-holding.com/wp-content/uploads/2022/10/ProCredit_Code_of_Conduct_20221024_L.pdf

³⁴ ProCredit Holding, "Responsible Banking for Development", at: <https://www.procredit-holding.com/about-us/pro-credit-today/responsible-banking-development/>

³⁵ ProCredit, "Annual report 2023", (2023), at: <https://www.procredit-holding.com/wp-content/uploads/2024/03/2023-Annual-Report.pdf?t=1712302914>

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on two below on where the impact is specifically relevant in the local context.

Importance of financing energy efficiency and renewable energy projects

To limit global warming to 1.5°C above pre-industrial levels in accordance with the commitments of the Paris Agreement, global GHG emissions need to reach net zero by 2050.³⁶ The Global Renewables and Energy Efficiency Pledge, launched at the COP28 World Climate Action Summit December 2023, aims to triple the global installed capacity of renewable energy sources to at least 11 TW by 2030 and double the global rate of energy efficiency improvements from about 2% to over 4% by 2030. These goals are designed to create a political momentum at the global level, encouraging all countries to step up efforts and collaboration in rolling out the clean energy transition and improving energy efficiency.³⁷

As part of its goal to achieve climate neutrality by 2050, the European Commission has committed to reducing GHG emissions by 55% by 2030 relative to 1990 levels.³⁸ In this context, reducing energy consumption and increasing the share of renewables in the energy mix have the potential to contribute significantly to meeting the EU’s climate goals.³⁹ The EU has committed to reducing final energy consumption by at least 11.7% by 2030 compared to 2020 and increasing the share of renewable energy in gross final energy consumption to at least 42.5% by 2030.^{40,41} To achieve these objectives, the EU is focusing on a clean energy transition in key sectors: electricity, heating and cooling, and transport.⁴² In December 2023, the EU Commissioner of Energy and the energy ministers of all 27 EU member states signed a joint declaration to form the European Energy Efficiency Financing Coalition (EEFC), involving European financial institutions, industry experts and other stakeholders. The EEFC aims to increase access to financing for energy efficiency projects, facilitate the sharing of best practices, and support the development of innovative financing mechanisms.⁴³

In this context, Sustainalytics is of the opinion that ProCredit’s financing of energy efficiency and renewable energy projects is expected to support the clean energy transition in Europe.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the ProCredit Group Green Bond Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Energy Efficiency	9. Industry, Innovation and Infrastructure	9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
	11. Sustainable Cities and Communities	11.2 Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

³⁶ United Nations, “For a livable climate: Net-zero commitments must be backed by credible action”, at: <https://www.un.org/en/climatechange/net-zero-coalition>

³⁷ Global Renewables and Energy Efficiency Pledge: <https://www.cop28.com/en/global-renewables-and-energy-efficiency-pledge>

³⁸ European Commission, “2030 climate & energy framework”, at: https://ec.europa.eu/clima/policies/strategies/2030_en

³⁹ European Commission, “European Green Deal”, at: https://ec.europa.eu/clima/eu-action/european-green-deal_en

⁴⁰ European Commission, “Energy efficiency targets”, at: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficiency-targets-directive-and-rules/energy-efficiency-targets_en

⁴¹ European Commission, “Renewable energy targets”, at: https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-targets_en

⁴² Eurostat, “Renewable energy statistics”, at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable_energy_statistics#:~:text=The%20share%20of%20renewables%20in,compared%20with%209.6%20%25%20in%202004.

⁴³ European Commission, “European Energy Efficiency Financing Coalition”, at: https://energy.ec.europa.eu/topics/energy-efficiency/financing/european-energy-efficiency-financing-coalition_en#:~:text=The%20European%20Energy%20Efficiency%20Financing,the%20energy%20efficiency%20financing%20sector

		vulnerable situations, women, children, persons with disabilities and older persons
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Environmentally Friendly Measures	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
	11. Sustainable cities and communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
	12. Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Conclusion

ProCredit has developed the ProCredit Group Green Bond Framework under which it may issue green bonds and use the proceeds to finance or refinance, in whole or in part, existing or future projects expected to provide positive environmental outcomes in the markets where the Group operates.

The ProCredit Group Green Bond Framework outlines processes for tracking, allocation and management of proceeds, and makes commitments for ProCredit to report on allocation and impact. Sustainalytics considers that the ProCredit Group Green Bond Framework is aligned with ProCredit's overall sustainability strategy and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 6, 7, 9, 11 and 12. Additionally, Sustainalytics considers that ProCredit has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that ProCredit is well positioned to issue green bonds and that the ProCredit Group Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021.

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