



Genossenschaftliche FinanzGruppe  
Volksbanken Raiffeisenbanken

# Exclusion Criteria, Sector Criteria, and Sustainability Checklist of DZ BANK

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 **DZ BANK**  
Die Initiativbank

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## 1 General principle

As the central institution of the Cooperative Financial Network, DZ BANK is aware of its responsibility for people, the environment and corporate governance. Corporate responsibility and sustainability have a long tradition at cooperative banks given that the cooperative idea was grounded on solving economic and social problems hand in hand. We still stand in this tradition today. For this reason, we have set ourselves strict standards in our business activities, which we regularly review and adjust. Firstly, we exclude the financing of certain business areas and activities (controversial activities). At the same time, we stand by our customers as a reliable partner and finance their sustainable transformation. This document focuses solely on how we deal with sustainability aspects in our lending activities.

## 2 Examination of sustainability aspects in lending

The sustainability assessment in lending is based on five elements: (i) our exclusion criteria, (ii) our sector criteria, (iii) our ESG checklist RepRisk DZ BANK, (iv) our ESG credit risk score and (v) the overall assessment of sustainability risks.

**Exclusion criteria:** In the exclusion criteria, we have defined activities and business areas that have a particularly negative impact on people, the environment or corporate governance (critical activities). We do not finance these critical activities or business areas. However, we do not want to exclude companies across their entire business activities if they only engage in critical activities to a limited extent or if a transformation process of the company towards greater sustainability is to be supported. We have therefore defined special conditions for some exclusion criteria under which we continue to support customers.

**Sector criteria:** In addition, there are particularly vulnerable sectors in which an additional and more in-depth review is necessary. For these purposes, we have developed separate, additionally applicable sector criteria.

**ESG checklist RepRisk DZ BANK:** Our commitment to the UN Global Compact and the Equator Principles is ensured by a checklist that is compared as part of the credit application. The purpose of the ESG checklist is to record the sustainability efforts of a customer/project in a structured manner in order to assess their reputational impact on DZ BANK.

**ESG credit risk score:** For corporate financing, we assess and quantify potential risks that could have a negative impact on the future creditworthiness of our customers from a sustainability perspective.

**Overall assessment of sustainability risks:** The summary of our customers' sustainability assessment is an integral part of every credit decision and also extends - where relevant - to the value of any collateral.

The five key elements of the sustainability assessment (exclusion criteria, sector criteria, ESG checklist RepRisk DZ BANK, ESG credit risk score, overall assessment of sustainability risks) for financing requests are checked at DZ BANK using a standardized company-wide procedure. We are aware that the application of these regulations is complex in practice and that decisions often have to be considered on a case-by-case basis. Nevertheless, we have established a multi-level system to ensure correct application in practice:

- First of all, we are training all employees involved in financing requests on sustainability using several specially developed formats such as training courses and handbooks. This serves to make our employees even more aware of the relevance of the topic and at the same time offer them concrete assistance in checking exclusion criteria, sector criteria, the ESG checklist and the ESG score.
- If ambiguities or scope for interpretation arise in practice with regard to the exclusion and sector criteria, we have introduced the so-called Ad hoc Committee on Exclusion Criteria for affected financing requests: Here, particularly experienced employees assess and document the specific facts from a sustainability perspective across all divisions and make a very prompt recommendation on the application of the relevant regulations.
- The Sustainability Exclusion Criteria Working Group, which meets regularly, was introduced to clarify fundamental and non-individual issues. This group is also entrusted with the fundamental

further development of the regulations. For DZ BANK, exclusion criteria, sector criteria, the ESG checklist, the ESG score and the overall assessment of sustainability risks are ongoing processes that require regular (re)assessment and may result in corresponding adjustments.

### 3 Sustainability assessment criteria

The currently valid criteria for the five central elements of the sustainability assessment (exclusion criteria, sector criteria, ESG checklist RepRisk DZ BANK, ESG credit risk score and the overall assessment of sustainability risks) are presented below.

#### 3.1 Exclusion criteria

Critical topic	Exclusion criterion
<b>Thermal coal</b>	We do not finance coal-fired power plants - neither new nor existing ones
	We do not finance any activities in the thermal coal value chain - in particular extraction and trading as well as directly related activities
	We do not finance any companies that operate coal-fired power plants, mine thermal coal, trade in thermal coal or are directly associated with it. Unless: <ul style="list-style-type: none"> <li>- The use of funds for these activities can be excluded, or</li> <li>- There is a clear will to transform, or</li> <li>- The share of thermal coal is less than 5 percent (for operators of coal-fired power plants: Share of electricity generation; otherwise: Share of sales)</li> </ul>
<b>Oil/gas extraction</b>	We do not finance oil production activities (upstream) or oil and gas production activities by means of fracking or from oil shale and oil sand as well as Arctic drilling and deep sea mining
<b>Atomic energy</b>	We do not finance any activities in connection with the construction, operation or maintenance of nuclear power plants
<b>Trade in animals and plants</b>	We do not finance any trading activities in connection with endangered animal and plant species according to the CITES list (Convention on International Trade in Endangered Species)
<b>Significant risks to the environment</b>	We do not finance companies or projects that pose significant risks to the environment. This includes in particular uranium mining, mining activities using the Mountain Top Removal process, asbestos mining, projects/properties or activities with high nuclear, biological or chemical contamination risks (not affected: biogas plants) and hazardous goods, unless the risks are adequately covered)
<b>Controversial weapons</b>	We do not finance the production of or trade in controversial weapons, i.e. weapons that have indiscriminate effects, cause excessive suffering, have devastating effects on the civilian population or are internationally outlawed. Examples of controversial weapons are (non-exhaustive) nuclear, biological, chemical weapons, landmines, anti-personnel mines, cluster bombs, autonomous weapons or uranium-containing munitions
	We do not finance companies involved in the development, manufacture, maintenance, operation or trade of controversial weapons or their core components, unless the use of funds for these activities cannot be ruled out
<b>Arms trade</b>	We do not finance arms deals of any kind to/from countries: <ul style="list-style-type: none"> <li>- with significant human rights violations, or</li> <li>- outside NATO and/or in areas of tension, unless a government export license</li> </ul>

	has been obtained
<b>Human and labour rights</b>	We do not finance companies that violate the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the ILO core labor standards or other internationally recognized principles in the area of human and labor rights
<b>Pornography</b>	We do not finance companies in the pornography industry or comparable sectors ("red light milieu")
<b>Controversial forms of gambling</b>	We do not finance companies that operate controversial forms of gambling. Companies that operate controversial forms of gambling are defined as companies whose primary business purpose is gambling, unless they are operated by the public sector or are subject to public sector supervision
<b>Trade in conflict materials</b>	We do not finance any trading activities in connection with raw materials that were extracted in conflict areas by parties to the conflict in violation of human rights and that serve, among other things, to finance the conflict

### 3.2 Sector criteria

Sector	Criterion
<b>Dams and water infrastructure</b>	<p>We recognize the recommendations of the World Commission on Dams (WCD) and do not finance dam projects that do not apply the recommendations of the WCD as comprehensively as possible. The customer must provide evidence of this, including with regard to</p> <ul style="list-style-type: none"> <li>- gaining public acceptance</li> <li>- a comprehensive and unbiased examination of options</li> <li>- Measures during operation of the dam</li> <li>- the conservation of river ecosystems and biodiversity and the associated livelihoods</li> <li>- Recognition of the rights of people affected by the dam and equitable sharing of benefits</li> <li>- Compliance with obligations and agreements</li> <li>- Transnational sharing of rivers for peace, development and security</li> </ul>
<b>Raw materials industry</b>	<p>Due to political, environmental and social sensitivities, special care and precautions must be taken in the extractive industries. Particularly in the oil &amp; gas and metals &amp; mining sectors, we are guided by international conventions and refer to best practices. Best practice examples are provided by the World Bank and industry associations in the context of the regional environment. Financing is examined against the background of the following aspects in particular:</p> <ul style="list-style-type: none"> <li>- Respect for human rights</li> <li>- Special consideration of the interests of indigenous peoples and local communities</li> <li>- Compliance with minimum standards for occupational safety and working conditions in accordance with the standards of the International Labor Organization (ILO); exclusion of child labor</li> <li>- Pollution of the environment through the extraction process of raw materials</li> </ul>

	<p>(groundwater, water, soil and air pollution) and consideration of the preservation of biodiversity</p> <ul style="list-style-type: none"> <li>- Protection of areas designated as "UNESCO World Heritage Sites" or other protected areas</li> <li>- Production processes with toxic substances</li> <li>- Compliance with legal regulations</li> <li>- Traceability of income flows between companies and state institutions in the country concerned to rule out corruption.</li> </ul> <p>We only finance customers who demonstrably meet the criteria today or are making sustained efforts to meet them in the near future.</p>
<b>Forestry</b>	<p>Forestry and the use of forestry resources play an important role in combating climate change and protecting biodiversity and ecosystems. We therefore only finance companies in this area that have been certified by the Forest Stewardship Council (FSC) or the national Programs for Endorsement of Forest Certification (PEFC) standards or use recognized equivalent standards. In addition, we base our financing decisions on the revised version of the World Bank standard (WN OP 4.36, 2013) and the criteria for sustainable forest management adopted at the 1993 Ministerial Conference on the Protection of Forests in Europe (MCPFE, since 2009 Forest Europe) in Helsinki.</p>
<b>Fishing</b>	<p>We recognize that special care must be taken in the area of fisheries with regard to the preservation of biodiversity (e.g. overfishing) and thus the livelihoods of humans and aquatic life. We therefore only finance companies/vessels of customers that have been certified by the Marine Stewardship Council (MSC) or use recognized equivalent standards.</p>
<b>Maritime industry</b>	<p>We recognize that special care is also required in the construction and operation of ships. We therefore do not provide financing for ships or their operators that do not meet the following minimum requirements:</p> <ul style="list-style-type: none"> <li>- Submission to the rules/regulations of the International Maritime Organization (IMO)</li> <li>- Inland navigation: Completed inland navigation training documented by valid patents</li> <li>- Shipyard can demonstrate a correspondingly positive track record (e.g. no greenfield shipyard); in the case of existing/second-hand financing, proof of corresponding construction/maintenance quality</li> </ul>
<b>Palm oil</b>	<p>We recognize that special due diligence and precautionary measures are necessary when dealing with customers or transactions related to palm oil in order to avoid adverse sustainability impacts on the environment, climate and human rights. For this reason, we link the financing of companies in the palm oil value chain to the following minimum requirements:</p> <ul style="list-style-type: none"> <li>- Membership of the Roundtable on Sustainable Palm Oil (RSPO) or another recognized organization with at least equivalent standards</li> <li>- NDPE Policy (No Deforestation, No Peat, No Exploitation); the scope of the policy covers both the company's own palm oil plantations and suppliers/purchased palm oil/fruit/pre-products</li> </ul>

	<ul style="list-style-type: none"> <li>- By 2030 and for the total volume of palm oil traded, processed or converted:             <ul style="list-style-type: none"> <li>- complete traceability back to the plantations of origin of the palm fruits ("tracability to plantation"), and</li> <li>- Full RSPO certification or recognized certification with at least equivalent standards</li> </ul> </li> </ul>
<p><b>Agriculture</b></p>	<p>As a transformation companion, we take responsibility for people, animals, the environment and nature. As such, we see agriculture as being caught between the conflicting priorities of food supply and social expectations of the way food is produced. For this reason, we support all farmers who adhere to the following agricultural sector criteria - regardless of whether they are conventional or organic:</p> <ul style="list-style-type: none"> <li>- No conversion of peatlands into agricultural land</li> <li>- Land acquisition in areas with indigenous populations only under the principles of Free Prior and Informed Consent (FPIC)</li> <li>- Compliance with the requirements of national fertilizer legislation (Fertilizer Ordinance)</li> <li>- Compliance with the Plant Protection Act and the Plant Protection Application Ordinance</li> <li>- Reduction of water consumption as far as possible</li> <li>- Compliance with the Animal Welfare Farm Animal Husbandry Ordinance, for example no cage housing for laying hens, or only the use of antibiotics as required</li> <li>- Accompanying primarily those farms that operate in accordance with the rules of the European Common Agricultural Policy (CAP) and are eligible for support.</li> </ul> <p>In this context, we are committed to the preservation of biodiversity and the reduction of greenhouse gases and support companies that pursue the principle of a circular economy, e.g. by recycling agricultural residues into bioenergy.</p>

3.3 ESG checklist RepRisk DZ BANK

Examination area	Criteria
<p><b>Ecological</b></p>	<ul style="list-style-type: none"> <li>- Environmental protection: e.g. action plan to ensure compliance with the 1.5°C target of the Paris Climate Agreement, reduction of climate-relevant emissions, use of renewable energies, careful use of resources, use of recycled materials in the production process, low water/electricity consumption, low pollution, impact on (local) ecosystems, etc., ESG reporting (e.g. CSRD, TCFD, GRI, NH report)</li> <li>- Assessment of the risks to the environment, biodiversity, climate and health of employees/residents etc. caused by general business activities, including consideration of any mitigation measures (contingency plans, hazardous substance storage, accident prevention, informing customers about the environmental impact of the company's own products, etc.).</li> <li>- Technologies and measures for more sustainable, environmentally and climate-friendly corporate development / business activities (sustainable corporate proces-</li> </ul>

	<ul style="list-style-type: none"> <li>- ses, climate-friendly products, environmental management systems)</li> <li>- Voluntary commitments (e.g. commitment to the Paris Climate Agreement, the UN SDGs, the UN Global Compact), taking into account the level of ambition</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>- Respect for human rights: e.g. equal treatment under the law, freedom of opinion/religion, human dignity, personal rights, life and security (no slavery, servitude, arbitrary arrests), etc.</li> <li>- Protection of cultural heritage/property, cultural/ memorial sites: e.g. protection of indigenous populations and their culture, protection against resettlement, etc.</li> <li>- Labor standards: e.g. safety in the workplace, anti-discrimination, no forced labor, no child labor, etc.</li> <li>- Dealing with best risks Social aspects in the supply chain</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>- Appropriate human rights due diligence (e.g. UNGP or OECD guidelines)</li> <li>- Corruption: No (in-)direct bribery or other inadequate acceptance/granting/demand of advantages, processes to combat corruption</li> <li>- Tax avoidance/tax evasion: compliance with the applicable tax laws/regulations</li> <li>- Competition: No competition cartels and compliance with the relevant regulations</li> <li>- Ambitious goals and measures for more sustainable corporate development</li> </ul>
<b>Overarching ESG ambition</b>	<ul style="list-style-type: none"> <li>- Credible transformation</li> <li>- ESG commitment</li> <li>- ESG rating</li> <li>- ESG reporting</li> <li>- Critical reporting and negative stakeholder reaction</li> </ul>

### 3.4 ESG credit risk score

The ESG credit risk score considers the medium-term credit risk outlook for corporate financing based on the impact of ESG risks. Risk factors from the following four dimensions are considered using the following input parameters:

<b>Partial score</b>	<b>Criteria</b>
<b>E-credit risk score</b> (transitory)	<ul style="list-style-type: none"> <li>- CO<sub>2</sub> emissions Scope 1, 2, 3</li> <li>- Waste consumption</li> <li>- Water consumption</li> <li>- Qualitative evaluation of the transformation</li> <li>- Downgrades Legal and reputational risks</li> <li>- Override</li> </ul>
<b>E-credit risk score</b> (physical)	<ul style="list-style-type: none"> <li>- Company location</li> <li>- Probability of occurrence of loss events</li> </ul>
<b>S credit risk score</b>	<ul style="list-style-type: none"> <li>- S-industry Score</li> <li>- Country adjustment</li> </ul>
<b>G credit risk score</b>	<ul style="list-style-type: none"> <li>- G-industry score</li> <li>- Country adjustment</li> </ul>



### 3.5 Overall assessment of risks associated with ESG factors

The topic of sustainability is the focus of supervisory and regulatory requirements. For example, both the EBA Guidelines on Loan Origination and Monitoring (EBA GLOM) and the ECB guidelines contain requirements regarding the consideration of ESG criteria in the lending business. A key component of the EBA GLOM, which came into force for new business from July 1, 2021, are requirements for the implementation of strategies and processes for dealing with risks associated with ESG factors. This includes dealing with these risks within the business and credit risk strategies as well as the risk culture. Furthermore, risks associated with ESG factors must be made transparent in the context of lending and credit monitoring.

In addition, the ECB guidelines on climate-related and environmental risks were published in November 2020, which contain the supervisory authority's expectations with regard to risk management and disclosure of climate-related and environmental risks.

As part of the loan application process, the various ESG aspects are assessed using the instruments described above and evaluated and documented as part of the overall ESG vote. The E, S and G factors are taken into account in each case. Even in the event that the assessment does not reveal any material risks from ESG factors, this result must be presented in the loan application.

Where relevant, ESG factors that influence the value of collateral should also be taken into account in the initial and subsequent valuation of collateral in accordance with the above-mentioned regulatory requirements. Climate and environmental risks in particular can have an impact on the value of collateral. At DZ BANK, the review is documented as part of the collateral valuation.