# Group Responsible Financing Policy

| | |
|---|---|
| Disclosure: | Public |
| Classification Level: | A |
| Version: | 2.0 |
| Effective Date: | March 2021 |

The current version of this document is held electronically in the intranet.

This printout is not subject to an update service

ERSTE Group

# Table of Contents

1. General ....3
1.1 Objectives ....4
1.2 Scope 4
2. Roles and Responsibilities ....5
2.1 Business / Deal Originator ....5
2.2 Group Assignment Office ....5
2.3 Local & Group Non-financial risk management function ....5
2.3.1 Local Non-financial risk management function ....6
2.3.2 Group Non-financial risk management function ....6
2.3.3 Group ROCC Office ....6
2.3.4 Group Sustainability Office ....7
2.4 Cooperation model (Non-financial risk management function – Group Assignment Office) ....7
3. Responsible Financing Policy Process ....8
3.1 Responsible Financing Country Index ....9
3.2 Decision Grid ....9
4. Defense / Weapons Industry ....10
4.1 Defense / Weapons Industry Objectives ....10
4.2 Defense / Weapons Industry Scope ....10
4.3 Defense / Weapons Industry Guidelines ....11
4.3.1 Weapon Categorization ....11
4.3.2 Decision Grid for Defense/Weapons Industry ....12
5. Energy Sector ....13
5.1 Energy Sector Objectives ....13
5.2 Energy Sector Scope ....13
5.3 Energy Sector Guidelines ....14
5.3.1 Fossil Fuels ....15
5.3.1.1 Oil & Gas ....15
5.3.1.2 Oil Sand / Tar sand ....15
5.3.1.3 Arctic Oil & Gas ....15
5.3.1.4 Coal ....16
5.3.2 Nuclear ....18
5.3.3 Renewables ....18
5.3.3.1 Biofuels ....18
5.3.3.2 Hydro Power and other Renewables ....19
5.4 Energy Sector Decision Grid ....19
6. Abbreviations ....20
7. Annex ....21

# 1. General

Erste Group (EG) is one of the largest financial services providers in Central and Eastern Europe (CEE), with a strong focus on the Retail, SME, Corporate, and Debt Capital Markets business.

EG recognizes that, due to its strong presence in CEE, its future is tied to the successful social, environmental and economic development (SE&E) of this region over the long term. EG´s aspiration is to become an active promoter to initiate and support real changes in CEE through the commitment to sustainable development. “Sustainability” – as used within this policy – for EG means embracing opportunities and managing risks deriving from economic, social and environmental developments and engaging with all relevant stakeholders such as clients, investors, civil society, public sector, governmental institutions, employees and suppliers.

EG is aware that as a financial institution, the biggest impact it has on society and the natural environment is through the business activities of the own clients. EG´s objective is to make balanced, informed and transparent decisions and to serve its clients commercially, while actively engaging with them and other stakeholders to work towards the implementation of sustainable business practices over a reasonable period of time. Beside complying with legal and commercial requirements of the Banking Business the third question of EG´s “Statement of Purpose” (see Annex 2 Ref 12) has a distinguished position in the decision of deal pursuit i.e. “Is this the right thing to do?” Based on this “Statement of Purpose” it issued also a “Code of Conduct” (see Annex 2 Ref 11) for the general and specific behavior of all its employees when doing business.

EG, as a result of being a publicly listed company, strives to act in the best long-term sustainable interest of its shareholders and other stakeholders. With this in mind, EG recognizes that SE&E governance issues might affect its performance across different dimensions (sectors, regions …) to varying degrees through time. Mitigating risk is therefore the key motivator for incorporating these Principles. Other drivers like reputation, competitive advantage and others are of equal importance.

Hence the following overarching general principles of responsible financing are firmly imbedded in EG governance culture:

(1) EG incorporates SE&E governance issues into policies and practices
(2) EG incorporates SE&E governance issues in the analysis and decision-making process
(3) EG seeks appropriate disclosure on SE&E governance issues by the clients it lends to/invests in, advises to or provides any other form of financial or banking assistance
(4) EG measures, monitors and reports on activities and progress of implementing these Principles
(5) EG contributes to the acceptance and implementation of such Principles within the financial industry

These Principles aim to be in accordance with EG´s commitments regarding corporate social responsibility (sustainability) such as the signed United Nations (UN) Global Compact constantly seeking to ensure that the respect of human rights and the environment are an integral part of all EG financing activities. The principles described in this policy shall be reviewed on a regular basis whereas EG reserves the right to adapt them if necessary and include external stakeholders as deemed appropriate.

EG´s goal is to create principles for responsible financing with regard to socially, environmentally and ethically sensitive sectors. With this goal in view EG has principles concerning the Energy and the Defence/Weapons Industry Sector.

## 1.1 Objectives

The overall objective of the Group Responsible Financing Policy is to provide main principles and rules for assessing and mitigating various reputational risks in regard to financing the Energy sector and the Defense / Weapons industry. These principles are inherent to the collaboration with business clients who are directly or indirectly involved in socially, environmentally and ethically sensitive sectors.

For the Energy sector, in addition to the above mentioned risks, the Responsible Financing Policy shall mitigate the risk of indirectly contributing to Climate Change, which is in line with Erste Group's position to support the Paris Agreement of the COP21 (UN-Climate Change Conference in Paris).

Therefore, this document outlines the limits which business is not allowed to surpass. Moreover, it sets the rules of conduct in those cases when the policy allows the pursuing of a deal, as well as defining the risk profiles which trigger the involvement of a specific level of risk management assistance.
Furthermore, the policy describes the escalation process in order to ensure an efficient and competent decision making in all cases.

The specific objectives of the policy regarding the Defense / Weapons Industry are under Chapter 4.1 and for the Energy Sector under Chapter 5.1.

## 1.2 Scope

All products in the Corporates and Markets product catalogue of all EG entities in scope of this policy (see application box page 2) are in scope no matter whether they are direct or indirect; on - or off-balance-sheet financing, and whether financial risks are linked to it or not.

Responsible Investments (including Erste Asset Management) concerning all topics listed in the content of this policy and all retail business line products are out of scope.

The specific scopes of the policy regarding the Defense / Weapons Industry are under Chapter 4.2 and for the Energy Sector under Chapter 5.2.

# 2. Roles and Responsibilities

## 2.1 Business / Deal Originator

Business is considered local and is defined by the i) Corporate segments LC, SME, PS, CRE and ii) Markets' segment FI together with all corresponding product units (e.g. 0196 1606 Group Transaction Banking, 0196 0369 Group Markets Origination & Funding, etc.). It represents the first line of defense in the role of deal originators and their assisting staff, who are directly or indirectly linked to the projects in question. The functioning of the first line of defense setup in terms of Responsible Financing needs to be supervised and guided in each entity by the related Local Corporate Support Head (B-1). They assume responsibility for any deficiency in the implementation of the local Responsible Financing Policy in their jurisdiction.

The deal originator in Business complies with the requirements of the aforementioned policy only if they:

- Provide all information and documents related to the sensitive deal in a timely manner to the Local & Group Non-financial risk management function and / or Group assignment office
- Assess the non-financial risks in line with the Responsible Financing policy and propose follow up action accordingly (reject the deal, pursue with conditions/ risk mitigates, pursue the deal)

## 2.2 Group Assignment Office

**The Group Assignment Office (Group AO),** a role within OU 0196 0355 Group Corporates, is responsible for the methodology (i.e. policy content) regarding the Group Responsible Financing Policy. As such it acts as intermediary between Business and Non-Financial Risk Management (NFR – Mgmt). In general, the Group AO is involved in the deal, when the assessment of the Business would require an additional expert opinion.

The Group Corporates Assignment Office is the originator and owner of the Group Responsible Financing Policy. The email address for the Group Assignment Office is: GCAssignmentOffice0760@erstegroup.com

The Group AO holds ultimate ownership of the policy content. Therefore, its main duties are to:

- ensure that the policy is diligently elaborated, updated if necessary and implemented content-wise in the local entities in the Corporates and Markets business lines
- give an expert opinion, as policy owner, for deals where the deal's level of compliance with the policy cannot be straightforwardly assessed
- overview, collect and file the documents about the deal decision of transactions due to their relevance to responsible financing.
- keep a log of all deals assessed as in scope of the group policy, including all deals requiring expert opinion exchange all received information with all involved stakeholders, if they were not notified in the specific transaction

## 2.3 Local & Group Non-financial risk management function

The second line of defense is fulfilled by the Local and Group Non-financial risk management function (Local and Group NFR). They staff the assisting and supervising role regarding the local/Group Responsible Financing Policy. Besides ensuring that national and international treaties and sanctions are met within Erste

Group, they deliver additional information if necessary, so that Business can assess whether the deal breaches the self-imposed policy. Furthermore, they guide the deal originator and connected staff through the specific process which the certain deal requires.

### 2.3.1 Local Non-financial risk management function

in each entity needs to:

a) set up a list of documentation requirements to ensure a fast decision process and compliance of the planned activity/deal transaction with national, European and international laws and regulations (e.g. War Material Act, Foreign Trade Act, Banking Act, international and European treaties, conventions and embargoes, etc.) and internal policies at any time.

b) check whether all legally required documents were provided (e.g. export license, environmental impact assessment, KYC Check, etc.). These need to be filed locally. A confirmation of completeness of the documentation originating from Business needs to be sent to Group Non-financial risk management function.

c) supervise whether Business complies with the Responsible Financing Policy Process (see Chapter 3) and escalates to higher operational decision levels, if the Non-financial risk assessment demands it. Furthermore, it informs Group Non-financial risk management function about any outcome of the NFR Decision assessment done by Business and validates the Reputational Risk scaling estimated by Business

### 2.3.2 Group Non-financial risk management function

1. holds the ownership of the Risk assessment in the Group Operational & Non-Financial Risk Management Procedure (see Annex 2 Ref 1) i.e. they have the right to question and challenge the risk assessment of Business and local Non-financial risk management function
2. holds the ownership of the Group Policy for Managing Reputational Risk (see Annex 2 Ref 2)
3. holds the ownership of the Responsible Financing Country Index (RFCI) (see Chapter 3.1) and needs to update it on regular basis
4. needs to inform the Group AO about potential deals which might breach the policy and make all documents (e.g. transaction description, local confirmation of documentation, further email exchanges etc.) available
5. has to be informed in case of Group relevance (i.e. the inherent non-financial risk could potentially affect the entire EG) or Holding involvement in the transaction

### 2.3.3 Group ROCC Office

The Group Regional Operational Conduct Committee (ROCC) Office is a function within the Group NFR function. Group ROCC Office acts as the main risk counterpart with regards to the Group Responsible Financing Policy. It is staffed by OU 0196 0985 Non-Financial Risk Management.

The email address is: ROCCOffice0985@erstegroup.com

### 2.3.4 Group Sustainability Office

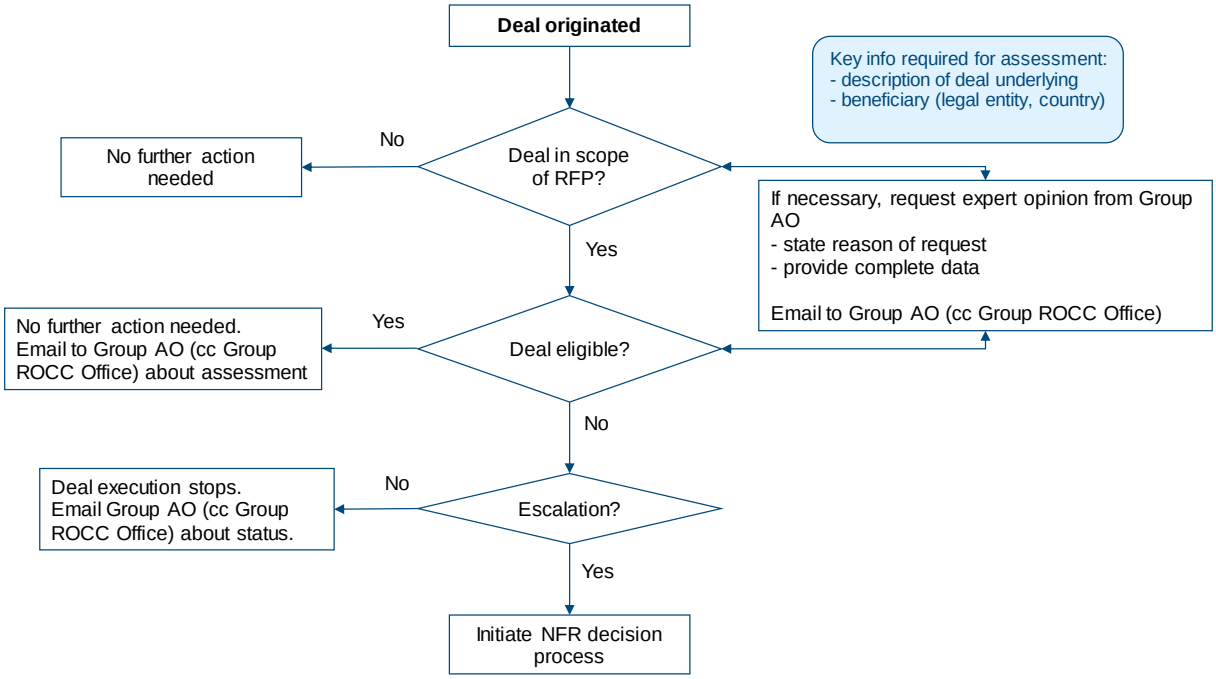
The Group Sustainability Office, a role within OU 0196 0337 Group Sustainability Office, provides a content oversight over the Group Responsible Financing Policy, ensuring directional alignment of the financing principles with the overall group sustainability objectives, and similarly will participate on the decision making of large cases reinforcing the group sustainability principles.

## 2.4 Cooperation model (Non-financial risk management function – Group Assignment Office)

In order to avoid parallel activities between all involved parties, such as Group ROCC Office, Local/Group Non-financial risk management function and the Group AO, both the Group AO and Group ROCC Office are assigned together to be first contact for Business in all deal stages. The underlying rational is that in any case Group Non-financial risk management function needs to supervise each deal, while the principles of responsible financing are extensively described within the policy to which Business commits itself. Therefore, diligent reading and understanding of the policy should suffice on business side to be able to act accordingly.

# 3. Responsible Financing Policy Process

*Figure 1: Responsible Financing Policy Process Overview*




The deal originator has to perform and is responsible for compliance with the Responsible Financing Policy process.

If, at any stage of the process, **expert opinion** is required, the deal originators shall request Group AO for consultation. Once Group AO is approached, Group ROCC Office has to be involved as well, according to the cooperation model. The deal originator has to state the specific reason for the request. If requested by Group AO, the deal originator has to provide additional data (i.e. beneficiary, originator, underlying goods or project, destination country, etc.) necessary to assess the deal. Based on the provided data Group AO shall provide their decision within max 1 working day.

The Responsible Financing Policy Process starts immediately after deal origination and comprises the following steps:

1. Verify whether the deal is within the scope of the Responsible Financing policy outlined in chapter 1.2 of this policy. In case the deal is:
   - not in scope, no further activities related to the Group Responsible Financing Policy are required
   - in scope, then the deal needs to be assessed
2. **Assess** whether the deal is eligible to the policy according to the principles outlined in chapter 4 and 5 of this policy. Any assessment done solely by the deal originator (i.e. without Group AO involvement) needs to be communicated with Group AO and Group ROCC Office (i.e. notification via Email).

   In case the planned deal is:
   - **eligible** with the Group Responsible Financing Policy no further activities are required.

- **not eligible** with the Group Responsible Financing Policy the deal originator needs to either stop the transaction execution or needs to escalate to higher decision levels. Escalation procedure: A NFR decision needs to be initiated (if not already done at an earlier stage) in which case the involvement of the Group AO and Non-financial risk management function is required to give their expert opinion. The final decision and approval authority is reached according to the criteria and process set out in the Group Operational & Non-Financial Risk Management Procedure (see Annex 2 Ref 1).

## 3.1 Responsible Financing Country Index

The RFCI bundles a number of internationally accepted indices measuring the status of the covered country regarding legal, political and economic standards[1]. A predetermined procedure by Group Non-financial risk management function assesses a final score for the Defense/Weapons industry and the Energy Sector for each country. This is used as input for the decision grid (see chapter 3.2) allowing transactions with different types of goods in different geographies. In case there is no value in the RFCI for a country, the local reputational risk management function needs to be consulted.

The updated country list is to be found in the Annex 1.

## 3.2 Decision Grid

The decision grid determines whether certain types of potentially relevant deals to certain destination countries (see chapter 3.1) are eligible.

The decision grid for Defense/Weapons industry can be found in Chapter 4.3.2 and for Energy Sector see Chapter 5.4.

[1] Examples: Defense / Weapons industry:, CPI – Transparency International, GTV – Regulation on Money Laundering and Terrorist Finance Risk, FATF – High Risk and non-cooperative jurisdictions, OFAC – Sanctions Programs and Country Information, UN / EU Sanctions, UN / EU Weapons Embargo, Freedom House, Global Peace Index, Rule of Law and other indices if necessary Energy Sector:, CPI – Transparency International, GTV – Regulation on Money Laundering and Terrorist Finance Risk, FATF – High Risk and non-cooperative jurisdictions, UN / EU Weapons Embargo, Freedom House, Global Peace Index, Environmental Performance Index and other indices if necessary

# 4. Defense / Weapons Industry

## 4.1 Defense / Weapons Industry Objectives

Although Erste Group has no specific business focus on the Defense/Weapons industry, Erste Group implements Defense/Weapons Industry Sector Principles in order to both govern its business activities in this sector as well as to service its clients and the society in a responsible manner.

The Defense/Weapons Industry Sector Principles described in this policy are based on those accepted by the industry and by various other stakeholders as representing best practice and are consistent with our long-standing commitment to sustainable and socially responsible business conduct.

## 4.2 Defense / Weapons Industry Scope

The scope of the Principles lined out herein covers the following business cases:

(1) Transactions with producers or traders of weapons
(2) Transactions with producers or traders of components (i.e. semi-finished and finished products) including spare parts which are supplied to producers of complete weapon systems or licensed producers of weapons
(3) Transactions with producers or traders of civil products, if the civil products are intended to serve for a special military purpose (= dual use)
(4) Transactions with companies that manufacture, develop or trade in controversial weapons (such as chemical weapons, biological weapons)
(5) Transactions in connection with the transport of products covered in (1) – (4)

Hunting and sporting weapons are not in scope. In order to be deemed a hunting or a sporting weapon the hunting/sporting purpose must be unambiguous (i.e. free of doubt). In any case, involvement of the local NFR management function is recommended.

For the avoidance of doubt, general corporate banking relationships, i.e. current account, deposit and payment business which is not directly linked to the sale or purchase of specific products or services of the Defense/Weapons Industry are not within the scope. But such relationships are subject to an overall NFR assessment conducted by the local NFR management function.

General financing of a company (e.g. investment loan, working capital or overdraft financing) active in the Defense / Weapons industry is considered in scope, with the country of origin of the financed company according to the “Country of risk”-principle being taken into consideration for the RFCI. For determining the “country of origin”, the registered legal seat of the company should be used.

## 4.3 Defense / Weapons Industry Guidelines

Erste Group shall only provide financing, advisory or any other banking services, if:

- such transaction can reduce or exclude potential human casualties and human rights violations and
- such transactions are not involving controversial weapons and
- the deal beneficiary and/or the destination of the underlying goods is located in a country that (i) is not subject to a United Nations, European Union or any other relevant national weapons embargo and (ii) complies with international humanitarian law.

Large arms (see chapter 4.3.1) shall only be permitted EU/Home Market military (i.e. national armies of EG countries and EU member countries, but not police forces of any country).

The following criteria must be fulfilled regarding all the transaction partners:

- the transactions must be executed with intermediaries that pass the diligent AML / KYC check (see Annex 2 Ref 3) and that can provide sufficient documentation of every armament deal (the level of necessary certification is described in Chapter 2.3.1a)
- the transactions must be executed with end users that qualify as governments, governmental organizations and state-owned Organizations

### 4.3.1 Weapon Categorization

Erste group defines five weapons categories, wherein category (1) - (3) are considered **active military products**. The main rule is that if a weapon has a feature which enables its upgrading into a more aggressive item, it then falls into the more dangerous category.

The categories are:

(1) **Controversial Weapons**, which are weapons currently prohibited by international humanitarian law or recommended to be prohibited by the International Committee of the Red Cross (see Annex 2 Ref 10). They include:

- Biological weapons, Chemical weapons, Anti-personnel and land mines, Cluster munitions
- Nuclear weapons, Weapons containing depleted uranium and uranium 238 or its essential components

(2) **Large Arms**, which are weapons that fall under one of the seven 'heavy weapons' categories of the UN Register of Conventional Arms (see Annex 2 Ref 9). Broadly speaking, large arms are too cumbersome for foot transportation, in contrast to small arms. They include: battle tanks, armored combat vehicles, large-caliber artillery systems, combat aircraft and unmanned combat aerial vehicles, attack helicopters, warships, missiles / missile launchers

(3) **Small Arms**, which are weapons that fall under the 'Small Arms and Light Weapons' category of the UN Register of Conventional Arms (see Annex 2 Ref 9). Broadly speaking, small arms can be transported by foot, in contrast to large arms.

- Small Arms are designed for personal use. They typically include: revolvers and self-loading pistols, rifles and carbines, sub-machine guns, assault rifles, light machine guns.

- Light Weapons are designed for use by several persons as a crew. They typically include: heavy machine guns, hand-held under-barrel and mounted grenade launchers, portable anti-tank guns, recoilless rifles, portable anti-tank missile launchers and rocket systems, and mortars of calibers < 75mm

(4) **Passive** military products such as helmets and bullet proof vests, combat and army uniforms and any military equipment if it cannot be categorized as active.

(5) **Neutral** military products which is defined as disarmament/disarming equipment such as mine detectors, bomb squad robots etc.

For avoidance of doubt:

- Spare parts and components (i.e. software and electrical components) that are used in the assembling of a military product shall be assessed together and in the same way as the respective product e.g. spare components such as software or wiring used to assemble an active weapon shall also be considered active military products.
- Dual use products shall be assessed in the same way as the respective military product. Dual use products are civil goods and technologies which, due to their clear and objective specification, constitute a strategic advantage to a military user. (Example: a drone with technical specifications that enable it to carry out offensive military operations is dual use, while a standard Camcopter is not). Many dual use goods are already defined by official export control lists (e.g. Waasenaar Arrangement) and can be used for guidance. However, these lists are not considered exhaustive for the purpose of this policy.

### 4.3.2 Decision Grid for Defense/Weapons Industry

Together with the RFCI (see Chapter 3.1) the decision grid determines whether certain types of transactions are eligible. The eligibility depends on the weapons categorization of the underlying good and the RFCI of the country of destination (or country of origin in the case of general financing).

*Figure 2: Goods / country eligibility matrix for Defense /Weapons Industry*

| | Controversial weapons | Large arms | Small arms | Passive | Neutral |
|---|---|---|---|---|---|
| Sanctions & Embargoes [10] | ⛔ | ⛔ | ⛔ | ⛔ | ⛔ |
| High RFCI [8-9] | ⛔ | ⛔ | ⛔ | ⛔ | |
| Medium RFCI [5-7] | ⛔ | ⛔ | ⛔ | | |
| Low RFCI [1-4] | ⛔ | ⛔ | | | |
| EU & Erste Home Markets | ⛔ | | | | |

The complete Defense / Weapons RFCI is in the Annex 1. Transactions of imports are treated similar in the RFCI as exports (e.g. arms imports from one country is dealt the same way as exporting to that country. Hence, the country indices need to be used also for the eligibility decision grid for financing the imports).

# 5. Energy Sector

## 5.1 Energy Sector Objectives

Erste Group is committed to provide financial services to the energy sector as it is convinced that energy supply is the key element to economic and social development.

EG is committed to support the energy sector in its key role in developing the economies in CEE and sees, on the other hand, the necessity to manage sensibly the environmental and social impacts of energy sector projects. Hereby, it is to be emphasized that in mid-to long term economic, social and environmental well-being are not mutually exclusive, but inherently linked to each other. In this spirit, Erste Group implements Energy Sector Principles in order to govern its business activities in this sector in a way that supports the development of the economies in Erste Group home markets leading to more prosperity and social independence and a better management of environmental risks.

The Energy Sector Principles which are described in this policy provide guidance to EG´s business units in the field of corporate banking on the application of sustainability principles which govern the Group's involvement in this sector. The Energy Sector Principles are based on accepted industry principles and by various other stakeholders as representing best practice and are consistent with EG´s long-standing commitment to sustainable development.

In addition to the guiding principles above, EG also recognizes the environmental challenge, especially the problem of climate change as one of the main collective hazards ever experienced worldwide and acknowledges the strategic importance of renewable energy and energy efficiency projects.
Especially fossil fueled energy production contributes most to the emissions of greenhouse gases (GHG) and its negative impact on climate change. Erste Group supports the Paris Agreement (COP21) with its target that all actions possible have to be undertaken to stay below the 1.5°C global temperature increases in order to avoid Climate Change.

This is the real challenge of financing energy projects: how to balance economic growth with enough, reliable and relatively cheap energy and to avoid unwanted long-term effects on the earth's climate, while ensuring social responsibility (e.g. financing district heating). Erste Group shall provide financial services to support energy sector projects focused on energy efficiency, renewable energy and the implementation of low-carbon technologies.

## 5.2 Energy Sector Scope

The scope of the Principles lined out herein covers the following business cases:

(1) The exploitation, production, transportation, storage, distribution, waste management, trading and refining of oil & gas (including processing of other hydrocarbons), solid fossil fuels and nuclear energy sources

(2) Production, transportation, storage, distribution of biofuels and other renewable sources

(3) The generation of power and/or heat/cold by means of fossil-fired power plants (such as oil, gas and coal-fired power plants), nuclear power plants and power plants based on renewable energy sources (hydro, wind, thermal solar and photovoltaic solar, geothermal, biogas and biomass energy)

(4) The transmission and distribution of power or heat/cold generated by such power plants

(5) The production of technical components (i.e. semi-finished and finished products, incl. spare parts) for plants of the aforementioned energy sources. Financing of production of components in general is not in scope, the components shall only be considered in scope when the components can be assigned to only a specific type of power plant (e.g. transformers for a nuclear power plant or transformers for a gas thermal power plant)

(6) Projects in connection with the phase-out/closing of power plants (nuclear, thermal, hydro, etc.)

(7) Services related to the aforementioned activities under (1), (2), (3), (4), (5) and (6) (e.g. maintenance, construction of access road to a power plant)

For the avoidance of doubt:

- General corporate purpose financing outside of coal sector - i.e. transactions not linked to specific projects or services of a non-coal sector client - is not within the scope of the policy. But such transactions are subject to an overall risk assessment of a potential business relationship conducted by local NFR management function.
- Electric energy trading (including acquisition, supply and transportation of electrical energy from a producer in the energy sector) is not in the scope of the policy.

## 5.3 Energy Sector Guidelines

Erste Group shall provide financing, advisory or any other banking services to the energy sector only if such projects or transactions:

- are in compliance with European or any other applicable national and international environmental laws (www.ecolex.org is regarded as the most comprehensive information source),
- are not located in protected areas such as those designated as part of Natura 2000 (see Annex 2 Ref 5) in accordance to EU Directive 92/43/EWG (see Annex 2 Ref 6), or any locally designated protected areas (protectedplanet.net as most comprehensive global database on protected areas),
- are in compliance with human rights standards,
- are in line with state of the art technology for emission and security performance and are using equipment that complies with the Best Available Technology (BAT) standard; If this is not the case, the information is included in the NFR decision procedure and such exception is sufficiently justified and approved,

Additional guidelines shall be applied to the following energy sources:

### 5.3.1 Fossil Fuels

For new or material upgrading of fossil fired power plants the following thresholds, measured as (CO2 equivalent) greenhouse gas emissions (GHG) per total energy production (in kWh; incl electricity, heat, cooling), need to be fulfilled in order to ensure a sufficient efficiency:

*Table 1: Carbon intensity thresholds*

| | Lignite / Brown Coal | Hard Coal / Black Coal | Crude Oil | Natural Gas | Fracking Oil / Gas |
|---|---|---|---|---|---|
| **Total Carbon Intensity (gCO2/kWh)** | N/A | N/A | 700 | 500 | - |

Note: The Group refrains from financing new or upgrade of Coal fired power plants their thresholds are not applicable (N/A).

#### 5.3.1.1 Oil & Gas

Erste Group shall provide financing, advisory or any other banking services only if such projects or transactions:

- have no material adverse effects on critical natural habitats, critical freshwater resources or marine reserves
- are not mainly located in areas of high risk (i.e. areas of conflict or of geological and environmental hazards; the expert opinion of Physical Security is required for the risk assessment of the related possible hazards)
- provide an environmental action plan addressing all the issues raised in the environmental impact assessment, and, in particular, including but not limited to, an oil spill plan and the exclusion of continuous venting of associated gas to the atmosphere
- fracking activities are decided case by case, with the addition of a mandatory involvement of NFR Management function and subject to deep fracking only
- complies with UN / EU sanctions or embargos

#### 5.3.1.2 Oil Sand / Tar sand

No project related to oil sand / tar sand shall be financed.

#### 5.3.1.3 Arctic Oil & Gas

Artic region is one of the last pristine natural places left on the planet. It has shallow, biologically productive seas and vulnerable ecosystem. Artic seas are serving as an important feeding source for the fragile communities of whales, seabirds and other wildlife. Arctic region is considered as the land, sea and permafrost inside the Arctic Circle (66.5 degrees north of the Equator).

*Economic activities subject to coal financing (coal sector)*

Arctic Oil & Gas activities are defined as the exploration, drilling, production and transportation of Oil & Gas (including LNG) performed in the Arctic region.

*Key risk identification*

- Exploration and industrial activities are harmful for the living and feeding conditions of the fragile wildlife of Artic region which would result to environmental degradation and decreasing biodiversity.
- Remote proximity, extreme weather conditions and lack of infrastructure means a delayed mobilization of mitigating measures for industrial accidents, causing therefore far more severe impacts to the Artic ecosystem.

*Policy objectives*

Erste Group do not want to take risks of environmental degradation in the vulnerable ecosystems of Artic region.

*Financing rules*

Erste Group will refrain from any financing of projects, assets or cash flows directly related to Arctic Oil & Gas activities. This restriction applies also to financing of maintenance or supply chain dedicated directly to the Artic Oil & Gas activities.

#### 5.3.1.4 Coal

Thermal coal sector is a significant contributor to rising temperatures of the planet, and hence with a responsibility impact towards society and future generations in terms of environmental preservation, human rights and human health. And yet coal is a relevant factor of energy security of CEE region and serves as a significant primary energy source in district- and retail heating for some of the countries. Based on the IPCC report (2014) the global warming limit of 1,5°C set by the Paris Agreement can be achieved only with phasing out coal sector as early as by near 2030. Yet taking the dependency of the CEE region, the transition has to ensure energy security and social responsibility.

*Economic activities subject to coal financing (coal sector)*

- Coal mining, coal and coke processing.
- Coal based power generation, electricity, heat and steam production.
- Power, heat, and steam production for industrial processes using coal as primary energy source.
- Machinery, spare parts and engineering support for power plants, and industrial facilities burning or processing coal.
- Coal trading as commodity, coal transportation and storage.

*Key risks identification*

- Coal mining has a severe impact on environmental degradation creating significant risks caused by air pollution of small particles, water usage, significant impact on biodiversity and furthermore it provides an exposure to human rights violations by forced expropriations and exposure to violation of worker’s rights.
- Coal burning for power generation creates high exposure to climate change through GHG emissions and subsequent environmental degradation by storage of unutilized coal ashes and combustion waste.
- Associated activities are exposed to secondary risk of reputation and controversial events.

*Policy objectives*

Erste Group is committed to a progressive reduction of its financing in thermal coal mining, and power generation, with an ultimate target to achieve a net zero exposure by 2030. In the spirit of this commitment,

Erste Group will seek in depth discussions with clients until end of 2023 to set the respective transition plans and will support their transition efforts to disengage from the thermal coal sector within the 2030 timeframe.

## *Financing rules:*

**1. Non-Eligible for new financing in coal sector** if any of following is met

- Direct financing of coal-asset specific investments or cash flows related to coal mining, coal processing, coke processing or coal based power generation (electricity, heat, steam), notwithstanding extension, refurbishment and servicing of existing plants; this restriction includes supply chain dedicated directly to assets of coal mining or coal fired power plants.
- Corporate financing for companies or group of companies which extend their coal mining or coal-based power generation (installed) capacities.
- Corporate financing for companies or group of companies which have more than 25% of revenues coming from coal sector.
- Corporate financing for companies or group of companies which do not set up until end of 2023 a transition plan aligned with the 2030 phase out target.
- Trade finance of coal as commodity, financing of stocking and processing of coal.

**2. Eligibility and exceptions rules for new financing in coal sector**

- Financing clients using coal in industrial processes (steel, aluminum, cement, bricks, ceramics, glass, etc.) as there are no industrial scale alternatives.
- Thermal coal used in other applications, such as filtration, cleaning or other specialized products like activated carbon, carbon fiber or silicon metal.
- Corporate financing to existing companies having more than 25% of their revenues from coal sector is subject to a credible time-bound exit plan presented not later than by end of 2023.
- Climate aligned activities (renewable energy, climate adaptation, etc.) can be financed regardless of above given eligibility of coal sector clients in aim to support their contribution to climate protection, environmental restoration and low carbon energy production.

Erste Group will review all existing coal sector client engagements and will seek in depth discussions with the impacted clients to align their financing by the end of 2023 with the eligibility rules of this policy.

Financing engagement with direct coal-asset financing continues till the maturity of the existing contracts; revolving contracts shall be prolonged not beyond end of 2023.

### 5.3.2 Nuclear

Erste Group has a very restrictive approach concerning projects in the nuclear energy industry. Due to the long radioactive half-life of nuclear waste and its difficult final isolation, it is in Erste Group's interest not to extend nuclear energy capacities.
Therefore, transactions (defined as financing, advisory or other banking services) in this sector can be categorized as follows:

**1. Non-Eligible**

- All transactions related to new Nuclear Power plant projects and all related projects (e.g. access roads, security systems for new nuclear plants), as well as components, spare parts required for the operation of the new power plant
- Projects relating to the surface extraction of uranium, as well as the transformation, processing and storage of nuclear fuel.

**2. Eligible**

- For existing and operational nuclear power plants, that are deemed of vital or of indispensable importance to the electricity supply and are in line with the Energy RFCI:
  - Transactions that increase the safety standards (incl. better security systems against accidents or violent attacks) of the respective power plants
  - Transactions for the acquisition of spare parts and vital components which are required for the operation of those plants, with the rationale that without the replacement of the respective parts and the related maintenance works a safe and adequate functioning of the respective plant could not be ensured
  - Projects and related costs for running down existing nuclear power plants while ensuring the highest safety standards
- The transformation, processing and storage of domestic nuclear waste within CEE borders are eligible

In addition, potential deals need to comply with certain safety, legal and security standards which can be ascertained based on the assessment of the country (**Energy RFCI**) where the respective project or transaction will take place. Nuclear deals are only deemed eligible for countries with an Energy RFCI 1 to 4, all others are deemed non-eligible. The RFCI for the Energy Sector is to be found in Annex 1.

### 5.3.3 Renewables

#### 5.3.3.1 Biofuels

Erste Group shall provide financing, advisory or any other banking services only if such projects or transactions:

- clearly identify the source of the biomass they use
- have no negative impact on food supply security and biodiversity
- have no adverse effects on the sustainable usage of soils, critical natural habitats such as rain forests or critical freshwater resources,
- do not substantially increase water usage compared to the previous usage of the area from which biomass originates,

#### 5.3.3.2 Hydro Power and other Renewables

Erste Group shall provide financing, advisory or any other banking services only if such projects or transactions:

- in case of Hydro plants, comply with the World Commission on Dams (WCD) Framework (see Annex 2 Ref 7) and international conventions such as the European Union Water Framework Directive (see Annex 2 Ref 8),
- has no adverse effects on critical natural habitats or critical freshwater resources, while projects in protected areas (e.g. Natura 2000 as set by the EU Directive 92/43/EWG, see Annex 2 Ref 5 and 6) are to be considered un-eligible for any financing, advisory or banking services

## 5.4 Energy Sector Decision Grid

For the purpose of the Decision grid, energy sector deals are categorized into three main energy source groups:

i) Nuclear,

ii) Fossil Fuels

iii) Renewable and others

The potential deal needs to comply both with the related policy principles on that particular energy source as well as certain safety, legal and security standards which can be ascertained based on the assessment of the country where the respective project or transaction will take place.

As such, the following country ratings signal the eligibility of a deal, assuming that all other principles stated above in chapter 5.3 of the present policy are observed:

- Nuclear: Energy RFCI between 1 to 4 and limitations as stated for non-eligible cases (see Chapter 5.3.2, Nuclear, Non-eligible transactions)

- Fossil Fuels: no limitation except non-eligible cases (see Chapter 5.3.1 Coal, Non-eligible / Eligible financing)

- Renewable and other: no limitation

# 6. Abbreviations

**AML** – Anti-Money-Laundering

**AO** – Assignment Office

**BAT** – Best Available Technology

**C&M** – Corporates and Markets

**CEE –** Central-and Eastern Europe

**CFO** – Chief Finance Officer

**COP21** – (21st Conference of the Parties - UN-Climate Change Conference in Paris).

**CRE** – Commercial Real Estate

**CRO** – Chief Risk Officer

**EG –** Erste Group

**FI** – Financial Institutions

**FFPP –** Fossil Fired Power Plants

**GHG** – Greenhouse gases

**GOCC** – Group Operational Conduct Committee

**ICRC** – International Committee of the Red Cross

**IHL** – International Humanitarian Law

**LC** – Large Corporates

**GM** – Group Markets

**KYC –** Know Your Customer

**NFR** – Non-Financial Risks (operational, compliance, reputational, security, legal and ICT risks)

**PS** – Public Sector

**RFCI** – Responsible Financing Country Index

**ROCC** – Regional Operational Conduct Committee

**SE&E** – Social, Environmental and Economic development

**SME** – Small and Medium-sized Enterprises

**SPoC** – Single Point of Contact

**UN** – United Nations

# 7. Annex

Annex 1 Responsible Financing Country Index (RFCI) ..... 21
Annex 2 Related Documents and References ..... 21

## Annex 1 Responsible Financing Country Index (RFCI)

The RFCI is updated regularly by NFR Reporting, Control and Inspections and published on the Open Network.

Please refer to the separate Annex 1 xls file published on the Open Network.

https://intranet.ersteopen.net/Portal.Node/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Business/Corporates/Group_Responsible_Financing_Policy.en.html

In case there is no value in the RFCI for a country, the local reputational risk management function needs to be consulted.

## Annex 2 Related Documents and References

| Ref | Document (name/title) | Link or Detail |
|---|---|---|
| 1 | Group Operational & Non-Financial Risk Management Procedure (EG_CRO_C_0013) | https://intranet.ersteopen.net/Portal.Node/strict/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Risk_Management/Operational_Risk/C_0103_OpRisk_and_NFR_Mng._Procedure.en.html |
| 2 | Group Policy for Managing Reputational Risk (EG_CRO_A_0046) | https://intranet.ersteopen.net/Portal.Node/strict/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Risk_Management/Operational_Risk/EG_CRO_A_0046_Group_Policy_for_Managing_Reputational.en.html |
| 3 | Anti-Money Laundering, Know Your Customer, Foreign Account Tax Compliance Act and Common Reporting Standard Policy (EG_CRO_A_0021) | https://intranet.ersteopen.net/Portal.Node/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Risk_Management/Compliance/Anti-Money_Laundering__Know_Your_Customer_and_Foreig.en.html |
| 4 | EU Directive 2009/28/EC | http://www.buildup.eu/sites/default/files/RES%20Directive%202009-28-EC.pdf |
| 5 | Natura 2000 | http://ec.europa.eu/environment/nature/natura2000/index_en.htm |
| 6 | EU Directive 92/43/EWG | http://ec.europa.eu/environment/nature/legislation/habitatsdirective/index_en.htm |
| 7 | World Commission on Dams (WCD) Framework | http://www.unep.org/dams/WCD/report/WCD_DAMS%20report.pdf |
| 8 | European Union Water Framework Directive | http://ec.europa.eu/environment/water/water-framework/index_en.html |
| 9 | UN Register of Conventional Arms | https://www.un.org/disarmament/convarms/transparency-in-armaments/ |

| | | |
|---|---|---|
| 10 | Use of weapons under int'l humanitarian law | https://www.icrc.org/en/war-and-law/weapons |
| 11 | Code of Conduct | https://intranet.ersteopen.net/Portal.Node/strict/groups/About_us/SF_IDENTITAET/999_Code_of_Conduct/Code_of_Conduct.de.html |
| 12 | Statement of Purpose | https://intranet.ersteopen.net/Portal.Node/strict/groups/About_us/SF_IDENTITAET/999_Statement_of_Purpose/start_Statement_of_Purpose.de.html |
| 13 | Group ESG Risk Definition Policy (EG_CEO_A_0016) | Topic of approval |

*Table 1: Related Documents and References*