Helaba

# SUSTAINABILITY CRITERIA FOR LENDING ACTIVITIES

Werte, die bewegen.

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# 1. Sustainability Principles

Helaba is a public-law credit institution with a mandate to operate in the public interest and has always embraced its responsibility for society and the environment as part of its fundamental identity. The business model enjoys strong regional roots and has a long-term focus. Helaba operates throughout Germany and in selected international markets.

With a view to minimising negative effects on the environment and society and preventing reputational risk, Helaba drew up guiding sustainability guidelines applicable for the Group. These guidelines include standards of conduct approved by the Board of Managing Directors for business activities, business operations, employees and corporate social responsibility. Helaba's corporate values under the "Values with impact" slogan underline its aspirations to make a positive contribution to society and to strengthen Germany as a business location.

Helaba also signed the ten principles of the UN Global Compact. With this step, the Bank recognises international standards for environmental protection, human and labour rights, and anti-corruption measures. At both national and international levels, Helaba applies the Universal Declaration of Human Rights and the Declaration on Fundamental Principles and Rights at Work issued by the International Labour Organization (ILO) as overarching principles for all its business activities.

Lending business is one of Helaba's core activities and represents its main impact on the environment and society. Helaba takes this responsibility very serious and strives to minimising sustainability risks associated with its lending business, including transition and physical risks caused by climate change.

Helaba has developed sustainability and exclusion criteria for lending with the aim of minimising negative effects from financing operations. These criteria have been integrated into the existing risk process and risk containment activities and apply throughout the Group. Accordingly, it has been set out in the specific risk strategy for default risk that it is prohibited to consciously finance projects that could have a serious detrimental environmental or social impact. Thus, sustainability criteria receive the highest level of bindingness.

Helaba reviews its risk strategies annually and will adjust or expand sustainability criteria as required. The sustainability criteria are published on Helaba's website and are therefore also visible to market players. Thus, it is transparent for all stakeholders, for which purposes Helaba provides finances and which sustainability principles it adheres to.

# 2. Integration in Risk Strategy

The management of sustainability risks is integrated into the group-wide risk management procedures. The basis is a comprehensive and universal risk strategy derived from the business strategy. This risk strategy was drawn up on a binding basis in accordance with the German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk).

The Helaba Board of Managing Directors is responsible for all of the risks to which the Bank is exposed and for implementing the risk policy throughout the Group. The Board of Managing Directors has also established a Risk Committee to implement and monitor Helaba's risk strategy. The Risk Committee is complemented by the Asset / Liability Management Committee and the Credit Committee of the Board of Managing Directors (VS-KA).

The MaRisk contain differentiated rules in respect of the organization of lending business, of lending processes and of the design of the methods used to identify, quantify, contain and monitor risks in lending business. The approval procedure followed by the Bank ensures that no credit risks are entered into without prior approval.

The rules of procedure for the Board of Managing Directors state that loans above a certain value require the approval of the Supervisory Board Risk and Credit Committee (VR-RKA). Commitments in amounts below this value are approved at different authorising levels (Board of Managing Directors, Credit Committee of the Board of Managing Directors, individual members of the Board of Managing Directors, staff members) depending on the amounts involved.

Loans are approved on the basis of detailed risk assessments. In accordance with the MaRisk, the loan documents in what is designated risk-relevant business always comprise two independent opinions, one from the relevant front office unit and one from the relevant back office unit. The representative of the relevant back office unit also always has a right of veto in this connection as part of an escalation process. The ultimate decision rests with the entire Board of Managing Directors.

Sustainability criteria are included for all forms of finances (e.g. corporate loans, project and export finance, guarantees, acquisition and leasing finance, real estate and asset finance) and are systematically reviewed in every credit application. The criteria are based on the ten principles of the UN Global Compact, OECD-Guidelines as well as legal requirements and sector initiatives.

Sustainability criteria are specifically defined in a way that allows the relevant front office unit to decide whether Helaba's involvement in the finance request is principally possible. Is one of the exclusionary criteria met, the lending request is usually denied at this early stage. Thus, credit risk management only evaluates inconclusive cases on an extensive level.

Sustainability criteria are defined as requirements of business strategy with the highest level of bindingness within the risk strategy. Therefore, a lending request that does not meet these requirements can only be granted following the escalation process by VS-KA or VR-RKA, respectively, the highest committees at Helaba.

Employees in sales, product development and back-office divisions receive trainings on sustainability issues, including workshops and case studies. Inconclusive lending requests are evaluated in VS-KA. VR-RKA monthly monitors the credit risk of Helaba on an individual basis and portfolio level. All cases of breach of Helaba`s risk strategy must be reported to the supervisory board.

Helaba reviews its risk strategies annually and will adjust or expand sustainability criteria as required. For this assessment, experiences from inconclusive cases are being recognized in order to further refine the decision-making process. Helaba's supervisory board approves Helaba's risk strategy which is adopted by the management board annually.

# 3. Overarching sustainability requirements

Helaba will not wittingly enter into arrangements for the financing of projects that are likely to cause severe environmental damage or have a serious adverse impact on society. Circumstances in which this applies include but are not limited to:

- Abuses of human rights, including the rights of indigenous peoples
- Destruction of cultural assets, especially World Heritage Sites
- Breaches of employee rights, in particular the use of child labour or any form of forced or compulsory labour
- Damage to the environment, especially to wetlands and World Heritage Sites, illegal logging or slash-and-burn land clearance, threats to endangered species

In export finance transactions, the OECD recommendations regarding environmental and social impact assessments (OECD Common Approaches) must be complied with in conjunction with the corresponding policies and standards of the World Bank and the IFC as cover for the issues presented. Where an OECD country has ECA cover, these requirements have, in principle, already been covered. In addition, the sector-specific requirements must also be taken into account.

These overarching requirements, together with the specific stipulations set out below, are intended to help Helaba safeguard its conservative risk profile.

# 4. Sector-specific sustainability requirements

## 4.1 Energy industry

Basic principles:

- In connection with the construction and renovation of power plants, Helaba advocates the use of particularly environmentally friendly technologies as a top priority.
- Helaba believes that highly efficient gas power plants used to satisfy peak loads (peaking power plants) represent an important complementary technology on the way to greater use of renewable energy resources and should therefore be considered as an environmentally friendly technology.
- Helaba primarily finances projects in the renewable energy sector, in particular solar power plants and wind farms.
- Helaba's current exposures in relation to coal-based energy are being gradually scaled back.
- In principle, projects to finance power plant decommissioning can be financed.

Exclusions:

- As a rule, Helaba does not finance any projects for lignite power plants or oil-fired power plants (construction of new plants, modernisation, replacement capital investment)

### 4.1.1 Coal-fired power plants

Basic principles:

- Helaba will consider providing financing for replacement capital investment to ensure that existing coal-fired power plants are properly operated.
- Helaba will support the modernisation of existing coal-fired power plants only in exceptional cases, i.e. if the modernisation work means that substantial efficiency gains or better performance can be demonstrably achieved or if the improvements will lead to a noticeable and verifiable reduction in greenhouse gas emissions.

Exclusions:

- No financing for projects involving the construction of new coal-fired power plants or for expanding the capacity of existing coal-fired power plants.
- No recommissioning of mothballed coal-fired power plants, although this does not include power plants used as hot and cold reserves.
- No financing of new corporate clients whose business predominantly involves coal-based energy, i.e. coal mining or coal-fired power plants.

### 4.1.2 Dams and hydroelectric power plants

Basic principles (in Germany):

- Projects for modernising and recommissioning mothballed hydroelectric power plants are financed primarily where the financing is for plants with outputs between 1 MW and 5 MW.

Exclusions (in Germany):

- No financing for hydroelectric projects in protected areas (nature conservation areas and Natura 2000 sites).
- No financing for projects involving the construction of new small-scale hydroelectric plants (<1 MW installed capacity).

Basic principles (outside Germany):

- In accordance with the recommendations of the World Commission on Dams (WCD), international hydroelectric projects and plants created in or after the year 2000 can be financed if the borrower is able to furnish an audit report prepared by an expert authority accredited by UNFCCC (United Nations Framework Convention on Climate Change) or proof of the performance of an audit in accordance with the OECD Common Approaches covering compliance with WCD recommendations. Finance for power plants/projects created before 2000 is considered to be strategy-compliant in principle.

### 4.1.3 Nuclear power

Basic principles:

- All financing of replacement capital investment and also investment to maintain the safety of nuclear power plants is permissible.

Exclusions:

- No financing of the development or construction of nuclear power plants, or of modernisation that is not aimed at maintaining safety.
- No financing of new corporate clients whose main business activities are associated with the generation, trading or marketing of nuclear energy and/or with uranium enrichment plants, uranium mining or the reprocessing of spent nuclear fuels.

## 4.2 Mining

Basic principles:

- Supply chains for minerals from conflict-affected and high-risk areas: Financing provided solely for businesses that can provide documentary evidence of their compliance with the relevant due diligence requirements relating to commodities originating from conflict-affected and high-risk areas, i.e. tin, tantalum and tungsten, their ores, and gold (EU Procedure 2014/0059/COD and OECD Due Diligence Guidance for Responsible Supply Chain of Minerals from Conflict-Affected and High-Risk Areas).
- Helaba will consider providing financing for projects for the decommissioning and renaturation of mines.

Exclusions:

- **Coal mining:** No financing of projects directly related to the mining of power plant coal, including process chains directly and exclusively associated with this (conveyor systems, transport logistics used predominantly for coal).
- **Mountaintop removal mining:** No financing of projects in connection with mountaintop removal mining.
- **Diamonds:** No financing of projects in connection with diamonds whose origin cannot be demonstrated to be completely above board in accordance with the Kimberley Process.

## 4.3 Oil and gas production

The following requirements relate to financing arrangements provided in connection with natural gas, heavy fuel oil, petrochemicals, lubricants, crude oil and by-products.

Exclusions:

- **Tar sands/oil sands:** No financing of projects in connection with the exploitation of tar sands containing petroleum deposits or similar controversial processes to extract crude oil and natural gas.
- **Arctic drilling:** No financing of projects in connection with controversial drilling in the Arctic to extract oil and gas. (The Arctic for this purpose is the region defined as such by the Arctic Council's Arctic Monitoring and Assessment Programme (AMAP)).
- **Fracking:** No financing of projects connected with fracking.

## 4.4 Agriculture and forestry, pulp and paper industry

Basic principles:

- **Protection and development of sustainable forest management:** Financing provided only for forestry projects and businesses that have joined a certification system for sustainable forest management on a binding basis or that can provide credible evidence in the form of a documented course of action that they are preparing for such membership. In particular, this includes certification systems for sustainable forest management such as PEFC. This helps to prevent the risk of financing being provided for illegal logging.
- **Palm oil/soya:** Financing provided solely for projects and businesses that have joined a certification system on a binding basis, e.g. Roundtable on Sustainable Palm Oil (RSPO)/Round Table on Responsible Soy (RTRS) or that can provide credible evidence in the form of a documented course of action that they are preparing for such membership.
- **Animal welfare:** Financing provided only for projects and animal product manufacturers that have joined a certification system for sustainable animal husbandry on a binding basis or that can provide credible evidence in the form of a documented course of action that they are preparing for such membership. Certification systems include the German federal government's animal welfare label, national initiatives such as the German "Tierwohl", "Demeter", "Naturland" and "Bioland" initiatives and the EU's organic products certification scheme. In the case of financing outside the EU, they include the Terrestrial Animal Health Code from the World Organisation for Animal Health in conjunction with the IFC's Good Practice Notes (GPN). Financing will not be provided in any case that contravenes EU animal welfare law. Trading companies active in the foodstuffs segment are excluded from this rule due to the complexity.

Exclusions:

- **Agricultural (soft) commodities:** Helaba does not enter into any speculative transactions involving agricultural (soft) commodities, nor does it issue investment products related to such commodities.

## 4.5 Armaments

Basic principles:

- Helaba recognises the right of countries to defend themselves. It is therefore possible for Helaba to support financial transactions related to armaments if an appropriate German export licence is available. In the case of any financing for weapons exports, it is imperative that the transactions comply with the requirements specified in the Political Principles Adopted by the Government of the Federal Re-public of Germany for the Export of War Weapons and Other Military Equipment and satisfy the criteria in the Principles Governing Conventional Arms Transfers published by the Organization for Security and Cooperation in Europe (OSCE).

Exclusions:

- Helaba will not have any involvement in financing related to the manufacture of, or trading in, controversial types of weapon or their key components, in particular cluster munitions, including any launching, firing or projectile systems, anti-personnel mines, minelaying or other mine systems, biological and chemical weapons, including depleted uranium ammunition, and armaments with nuclear war-heads (atomic weapons).

## 4.6 Gambling & pornography

Basic principles:

- Helaba only provides financing for select forms of gambling, for example those run by a government agency or a charitable organisation (national lottery).

Exclusions:

- **Controversial forms of gambling:** Helaba does not provide financing to operators of casinos or betting shops, or to manufacturers of gaming machines.
- **Online gaming:** Helaba does not provide finance for online gaming activities, which are not permitted in Germany for the time being.
- **Prostitution and pornography:** Helaba does not provide finance to operators of brothels or people engaged in prostitution, or to producers of pornographic material.

# 5. Own Investment

## 5.1 Basic Principles

Sustainability criteria as defined in Helaba's risk strategy also apply to its own investments (Depot-A). The following exclusionary criteria have been defined within the investment policy.

Moreover, assets under management must comply with a minimum sustainability rating. Issuers of stocks and securities with a low sustainability rating are thus excluded from the investable universe.

## 5.2 Exclusion of

### 5.2.1 Energy Generation

- > 25% Revenues from coal power generation
- > 25% Revenues from nuclear power
- > 10% Revenues from uranium mining or processing

### 5.2.2 Oil and Gas Production / Mining

- > 10% Revenues from tar or oil sand
- > 10% Revenues from arctic drilling
- > 10% Revenues from fracking

### 5.2.3 Armaments

- > 0% Revenues from controversial weapons (nuclear, chemical biological, cluster munition, antipersonnel mines)

### 5.2.4 Agriculture

- > 0% Revenues from speculative transactions based on agricultural commodities

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