ESG in the credit- and investment process

valid as of November 21, 2024

Content

1 Introduction

Introduction - Sustainability at HCOB

It is important for HCOB to support the sustainable transformation of the economy and society through its business. In doing so, the Bank not only pays attention to ecological aspects, but also consciously includes social and governance aspects. Hamburg Commercial Bank is therefore aware of the ESG (Environmental, Social, Governance) impact of its business activities and aims to contribute to sustainable development and the transition to a green economy through its lending and investment activities. With this comprehensive and forward-looking process, HCOB aims to enhance the long-term sustainability, performance and risk mitigation of its lending and investment portfolios.

In HCOB's ESG aligned lending process, all potential transactions undergo a multi-stage procedure in which they are screened for the three ESG dimensions – environmental, social and governance factors. Therefore, HCOB has developed a comprehensive evaluation system based on four core elements – the Blacklist, the ESG Decision Matrix, the ESG Scoring and the Sustainable and Transformational Finance Framework (STFF).

The decision-making processes for investments follows the bank's investment policy and is still closely aligned with the standards in the lending business and the bank's sustainability guidelines. However, as the investment process differs in many aspects from the lending process, different process steps are required to make it suitable for investment decisions.

This document provides a detailed overview of the corresponding process steps of ESG aspects embedded in the credit and investment process.

2 ESG-Embedded Lending Process

HCOB's Detailed ESG-Embedded Lending Process

In conjunction with the Bank's risk strategy and business strategy, HCOB's credit standards provide a binding and comprehensive framework for all parties involved in the lending business. Business approaches that are not fully compliant with these four elements of the loan origination process (Blacklist, ESG Decision Matrix, ESG Scoring Tool, STFF classification) are not pursued as a matter of principle.

1. Blacklist Compliance Check

- Each potential loan is checked against the Blacklist and only loans that do not violate the blacklist requirements can be granted
- The Blacklist has three levels: country-, sector- and company level

2. ESG Decision Matrix Check

- The ESG decision matrix is used to guide the lending process, allowing for an efficient pre-selection of new business opportunities also from a sustainability perspective
- It also enables HCOB to support less sustainable companies in their sustainable transformation

3. ESG Scoring

- ESG scoring is a tool-based approach used to conduct a thorough analysis of climate, environmental, social and governance risk factors for each financing transaction
- A minimum ESG grade of '4' is required for the credit decision
- The tool was developed based on the EBA Action Plan for Sustainable Financing and the BaFin Guideline on Dealing with Sustainability Risks

4. STFF[1] Classification

- The STFF is a classification system designed to identify and categorize financings with regard to positive impacts on climate and environmental goals
- STFF aligned financings are classified as "sustainable" or "transformational"
- The assessment process has a strong orientation towards the EU Taxonomy and the Bank's commitment to the goals of the Paris climate accord, creating transparency through a comprehensive and consistent approach

1) STFF: Sustainable & Transformational Finance Framework

Blacklist

As a first step in HCOB's decision process in loan origination, the Blacklist must be used as a basis for classifying all new transactions. It defines the areas in which HCOB will not become involved in any direct financing arrangements, consists of the following three levels:

- Country level – list of countries in which HCOB generally does not finance any business activities
- Industry level – list of industries and economic activities that is excluded from new lending
- Company level – list of specific company activities, practices and social aspects that are not acceptable in new lending

Therefore, the use of proceeds, the borrower or company, and the location of the project and sponsor are all taken into consideration, including basic ethical principles such as respect for human rights. With this process, HCOB ensures a thorough screening process for new business as a key element to prevent the financing of highly questionable companies and business activities and therefore also reputational risks. It is reviewed at least annually taking account of current strategy, market and risk developments. Existing business has been screened as a one-time effort when the Blacklist was initially introduced.

Please refer to the annex to this document for the complete and detailed Blacklist

ESG Decision Matrix

As a second step in the process, HCOB has developed an ESG decision matrix as a guide for lending in order to systematically make decisions at company level and create a consistent and standardized basis for decision-making. As the Bank's goal is to support client activities towards a greener economy, general process guidance and decision requirements are defined to handle all basic combinations of financing purposes and client types from a sustainability perspective. This means that HCOB's ESG Decision Matrix enables financings of such sustainable improvements even in so called 'brown' industries and even clients still having a share of blacklisted business activities.

The ESG decision matrix serves as a decision-making tool for new business selection and submission to the appropriate committees. Specific ESG-sensitive cases require a positive vote from the Sustainability Committee.

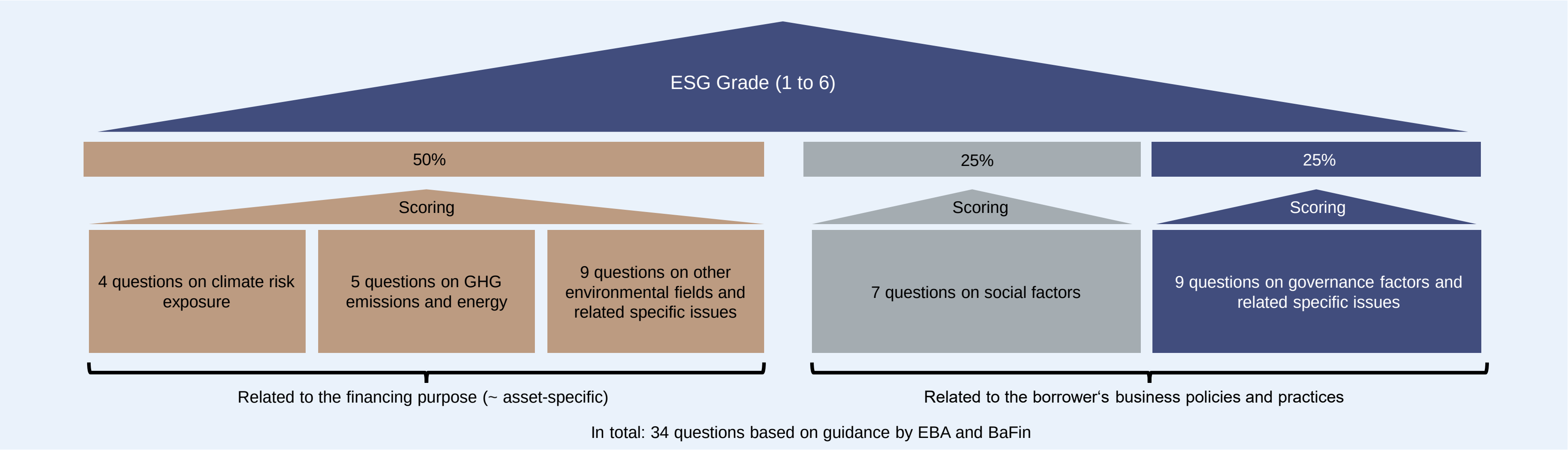
Group or Client* / **Use of proceeds / financing purpose******	Group or Client without blacklisted business activity and business practices**	Group or Client with minor blacklisted business activity (<20% revenue/ EBITDA share)	Group or Client with sizeable blacklisted business activity (>20% revenue/ EBITDA share)	Group or Client with 50% or more blacklisted business activity or blacklisted business practices
Use of proceeds is supportive with regard to sustainability aspects	Financing may proceed with regular approval process	Financing is possible, if it is secured that the proceeds are not used to finance the company's blacklisted business activity	Financing is possible –Client conversation must include strong focus on client's ESG strategy	Further investigation; mitigants required***; **positive vote of the sustainability committee** required
Use of proceeds is neutral with regard to sustainability aspects or undefined use of proceeds (financing for general corporate purposes/ acquisition financing)	Financing may proceed with regular approval process	Financing is possible if it is secured that the proceeds are not used *to* finance the company's blacklisted business activity	Further investigation; mitigants required***; **positive vote of the sustainability committee** required	Further investigation; mitigants required***; **positive vote of the sustainability committee** required
Use of proceeds is negative with regards to sustainability aspects	Financing is possible –Client conversation must include strong focus on client's ESG strategy	Further investigation; mitigants required***; **positive vote of the sustainability committee** required	Further investigation; mitigants required***; **positive vote of the sustainability committee** required	No financing
Use of proceeds in a blacklisted business activity	No financing	No financing	No financing	No financing

Hamburg Commercial Bank

ESG Scoring Tool

Hamburg Commercial Bank's ESG Scoring Tool has already been in place since October 2020 to evaluate the ESG characteristics of new business opportunities and ESG quality of remaining loan portfolio as requested from EBA and BaFin to integrate and reflect ESG factors in the lending process. The model is applicable to financings for corporations across all industry sectors as well as to project and asset financings, taking into account the financing purpose, the client's positioning and the behavior in respect of environmental, social and governance factors. Only governments and retail clients cannot be assessed in relation to their ESG characteristics, but such have no relevance for HCOB in new business. Generally, each financing has to be ESG-scored on an individual basis. Exceptions from the principle of an individual ESG Scoring of each financing apply to clients with a remaining credit exposure of less than 750k EUR. Overall, almost 100% of Hamburg Commercial Bank's scoreable loan book has been ESG-scored.

The ESG Scoring Tool encompasses 18 questions relating to climate and environmental aspects, seven questions on social aspects and nine questions on governance-linked issues. Each question is given a score depending on the assessment (positive, neutral, negative or yes/no). The ESG Scoring Tool provides environmental, social and governance sub-grades as well as an overall ESG grade. In the ESG grading, the 'environmental' factor has a double weighting assigned, meaning that this sub-grade carries more weight compared to the social and governance sub-grades. Here, a special focus is placed on exposure to physical and transitional climate risk, energy consumption, energy efficiency and carbon footprint. In regard to human rights and labor standards the significant risk for incidents of child labor or forced and compulsory labor are assessed as well.



ESG Scoring Tool

The overall ESG grade ranges from 1 to 6 (1 being the best grade) and is assigned to each new business opportunity presented to the Bank's Franchise and Credit Committees. A new business opportunity with a score of 5 or 6 leads to deal rejection if no mitigating factors are presented and if not explicitly accepted by the voting Credit Committee members.

The ESG scoring tool was developed in accordance with the relevant regulatory requirements and is regularly validated in accordance with the requirements of the HCOB model risk guidelines. In addition, a regular update of the ESG scoring is required for existing transactions and the tool is continuously reviewed and improved where necessary, e.g. through newly developed methods for quantifying physical and transitory climate risks, evolving standards and best practices for the various sustainability factors.

The results of our ESG scoring on portfolio level can be found in our CSRD aligned Sustainability Report.

	1	2	3	4	5	6
Environmental Standard	Client's economic activity is fully in line with relevant environmental standards[1], including carbon reduction and DNSH[2]	Company has an environmental policy in place and follows it, achievement within the next few years realistic, including reduction of carbon footprint	Environmental policy being developed and company in general follows carbon reduction and DNSH[2] targets in its economic activity	No steps taken yet, but company shows willingness to improve the carbon footprint and environmental impact of its economic activity	Harmful environment issues exist, economic activity is below necessary standards but could be improved	Economic activity of the company is not compliant with environmental standards and is unable to achieve such compliance
Social Standard	Client actively uses the requested social standards[1]	Solid social standards in place, not all already achieved	Social standards accepted, not all fulfilled and not yet documented	Standards are partially followed but certain criteria are missing	Social standards all significantly short but improvement possible with defined timeframe	Non-compliance with social standards and uncertainty that standards will be achieved
Corporate Governance Standard	Corporate governance in place which is actively followed	Solid corporate governance in place with certain requirements still missing	Most of the standards are followed but no governance in place yet	No corporate governance accepted and some important factors are not followed yet	Relevant corporate governance standard not followed yet but improvement possible	Non-compliance with governance standards and uncertainty that standards will be achieved

The procedure for applying the ESG scoring tool in investment decisions can be found in the chapter ESG in the investment process

Sustainable & Transformational Finance Framework (STFF)

The Sustainable & Transformational Finance Framework (STFF) outlines the Bank's approach to assessing sustainability within its financing activities. While it is strongly based on the EU Taxonomy, the framework applies a more practical and less formalistic set of criteria for qualifying economic activities.

In the credit process, market units perform the STFF classification for each new financing and for each existing financing as part of the regular credit monitoring process. The second line of defense reviews and approves the classification to ensure a valid evaluation.

The Framework provides a consistent and comprehensive methodology for defining financial products as sustainable and transformational finance in a credible and best practice manner:

- **Sustainable Finance:** Economic activities that meet Paris Alignment criteria for the average duration from today's perspective.
- **Transformational Finance:** Economic activities where Paris-alignment is not yet marketable or technologically possible, and/or that support the transition towards environmental sustainability in each sector. As a baseline, transformational finance is considered for activities deemed transitional according to the EU Taxonomy but can be extended with additional criteria considering Hamburg Commercial Bank's specific business model and financing activities.
- **Other:** All other financings that are neither classified as 'sustainable' nor 'transformational'. This includes financings that do not meet the criteria set out in the STFF, portfolio financings that cannot be further evaluated due to data availability issues, or general corporate purpose financing where the business partner is not obliged to publish non-financial reporting according to the Non-Financial Reporting Directive (NFRD) or Corporate Sustainability Reporting Directive (CSRD).

If the use of proceeds of financing cannot be determined (e.g., general corporate purpose financing or credit lines), the classification refers to the taxonomy data from the counterparty's non-financial reporting. In these cases, the taxonomy-aligned proportion of revenue of the counterparty is multiplied by the respective credit exposure to this counterparty. The calculated proportion of the exposure can be classified as *sustainable* for the purpose of the HCOB assessment procedure. If the counterparty is not obliged to publish a non-financial reporting according to NFRD or CSRD and the revenues from the counterparty do not stem from only one business activity, the financing cannot be further assessed and is therefore classified as 'other'.

The Framework aims to provide transparency across the Bank and to external stakeholders. It is dynamic in nature, aiming to cover sustainable and transformational activities from today's viewpoint and best available technology. It encompasses all economic activities currently most relevant for HCOB's financing. The current scope of the STFF is limited to cash-out instruments (with a special focus on loans) to non-governmental counterparties. All other financial instruments such as trading book exposure, derivatives, off-balance sheet exposure, or central bank, government, and sovereigns' exposure are currently not covered.

Please refer to the Sustainable & Transformational Finance Framework for further details

3 ESG-Embedded Investment Process

ESG embedded in the Investment Process

In addition to its lending business, HCOB is also an active investor in Capital Markets. Here, the decision-making processes follow the Bank's investment policy and are closely aligned with the standards in the Bank's lending business and its sustainability guidelines. In the investment process particular attention is paid to the HCOB Blacklist. Hamburg Commercial Bank distinguishes between three different product classes in its investment portfolio:

Active Investments

Active investments are bonds from well-known issuers such as supranational companies, governments, public authorities and major banks from developed countries that are actively managed by HCOB. They constitute the largest part of the Bank's investment portfolio. Sustainability factors for the mentioned type of issuers are seen as rather uncritical. Nonetheless all non-governmental issuers covered in this part of the investment portfolio have to be covered by using the Bank's ESG Scoring Tool.

Semi-passive Investments

Semi-passive investments are investment vehicles that are managed exclusively for HCOB by an independent external portfolio manager. Based on investment guidelines that are aligned to the Bank's ESG Blacklist, these products invest in diversified portfolios of corporate loans and bonds, whereby HCOB does not reserve the right to instruct the purchase of any specific assets for the portfolio but keeps the power to enforce the sale of non-acceptable single investments and to place specific issuers on a prohibited list for the investment manager. This structure utilizes the portfolio manager's expertise and access to loan markets outside HCOB's core markets while ensuring compliance with the bank's ESG restrictions.

Passive Investments

With so-called **passive investments**, HCOB also invests in securities and other structured financial instruments to build up diversified portfolios of loans or similar financial instruments, for example SME corporate loans. Such portfolios are actively managed by independent third-party portfolio managers. Issue-specific investment policies and guidelines laid out in the respective prospectuses are checked against the Bank's Blacklist requirements and get an ESG grade like semi-passive investments. Examples of such passive investments are public and private Collateralized Loan Obligations (CLOs) and Asset Backed Securities (ABS).

A specific ESG assessment approach has been developed for accessing the ESG quality of investments that are managed by external investment managers (Passive and Semi-passive investments). Here, for efficiency reasons, a simplified grading is applied based on the vehicle's investment policy match with Hamburg Commercial Bank's Blacklist exclusions and the industry sector composition of the underlying portfolio. Sub-grades for environmental, social and governance factors are not derived under this approach. In turn for not requiring a full ESG-look-through on an individual company level for the underlying loan portfolio level, the ESG grade for such investments is limited to an intermediate grade of '3' at best (range from 3 to 6). To secure an adequate alignment to the Bank's blacklist, the internal investment policy requires an ESG grade of 3 or 4 for investments in such vehicles to qualify as investable. Additionally, HCOB sets country restrictions and instructs the investment manager to identify issuers involved in controversial activities. Continuous alignment with the Bank's blacklist policy is secured by limiting portfolio allocation to broader industry sectors that would include industries on the Bank's ESG Blacklist. Compliance with the investment policy is monitored regularly and each case of non-compliance with the internal industry allocation thresholds is red flagged, reported and, in the case of two consecutive threshold breaches, triggers a review of the investment decision which must be presented to the Bank's Sustainability Committee for approval. Additionally, if necessary, HCOB will make use of its agreed rights to realign the fund's investment policy with changes to the Blacklist.

4 Appendix – detailed Blacklist criteria

A. Country level

Monitoring transparency and corruption indices

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Blacklist – Country level | ESG vs. other internal restrictions

HCOB high risk countries & ESG blacklisted

- Afghanistan
- Burkina Faso
- Burundi
- Cameroon
- Central African Republic
- Eritrea
- Ethiopia
- Guatemala
- Guinea
- Guinea-Bissau
- Haiti
- Iran
- Iraq
- Lebanon
- Libya
- Mali
- Mozambique
- Myanmar
- Nicaragua
- Nigeria
- North Korea
- Palestine
- Republic of the Congo
- R Russian Federation
- Somalia
- South Sudan
- Sudan
- Syrian Arab Republic
- Uganda
- Ukraine
- Venezuela
- Yemen
- Zimbabwe

ESG blacklisted countries

- Azerbaijan
- Bangladesh
- Bolivia
- Cambodia
- Chad
- L Colombia
- Congo
- Equatorial Guinea
- Gabon
- Honduras
- Kyrgyzstan
- Lao People's Democratic Republic
- L Liberia
- Madagascar
- Pakistan
- Papua New Guinea
- Paraguay
- Tajikistan
- Turkmenistan

HCOB high risk countries only

- Barbados
- Belarus
- Cuba
- Gibraltar
- Jamaica
- Moldavia
- Niger
- L Panama
- Philippines
- Senegal
- L South Africa
- Tansania
- Trinidad and Tobago
- Tunisia
- R Turkey
- L United Arab Emirates
- Vanuatu
- Viet Nam

HCOB sanctions country list
HCOB high risk countries
(money laundering, fraud, terrorism financing)
HCOB ESG blacklisted based on CPI & GPI

L HCOB transfer risk country B with limit
R HCOB transfer risk country B/C with restrictions
Turkey: no new business allowed
Russia: no new business allowed
HCOB transfer risk assessment not available

ESG blacklisted countries – no business in countries with:
- either a high level of corruption (Corruption Perceptions Index rated below 30, source Transparency International) or
- a very low level of peacefulness (Global Peace Index above 2800, source The Institute for Economics & Peace)

Israel excluded from Global Peace Index application as the security of Israel is a matter of German national interest (reason of state)

Shipping flag states such as Liberia, Marshal Island, Bahamas and Panama to be generally excluded from the Blacklist approach as long as the shipping company has no operation in this country

Application of the different country risk lists

1. **Sanctions list** – collection of countries on which sanctions are imposed by a relevant body, e.g.

- import and export restrictions on weapons or other goods and services
- financial sanctions
- ban on collaboration with public authorities
- restrictions on foreign investments

2. **High risk country list** – countries in which doing business is potentially connected to a high reputational risk for the bank, i.e. the bank may be misused for

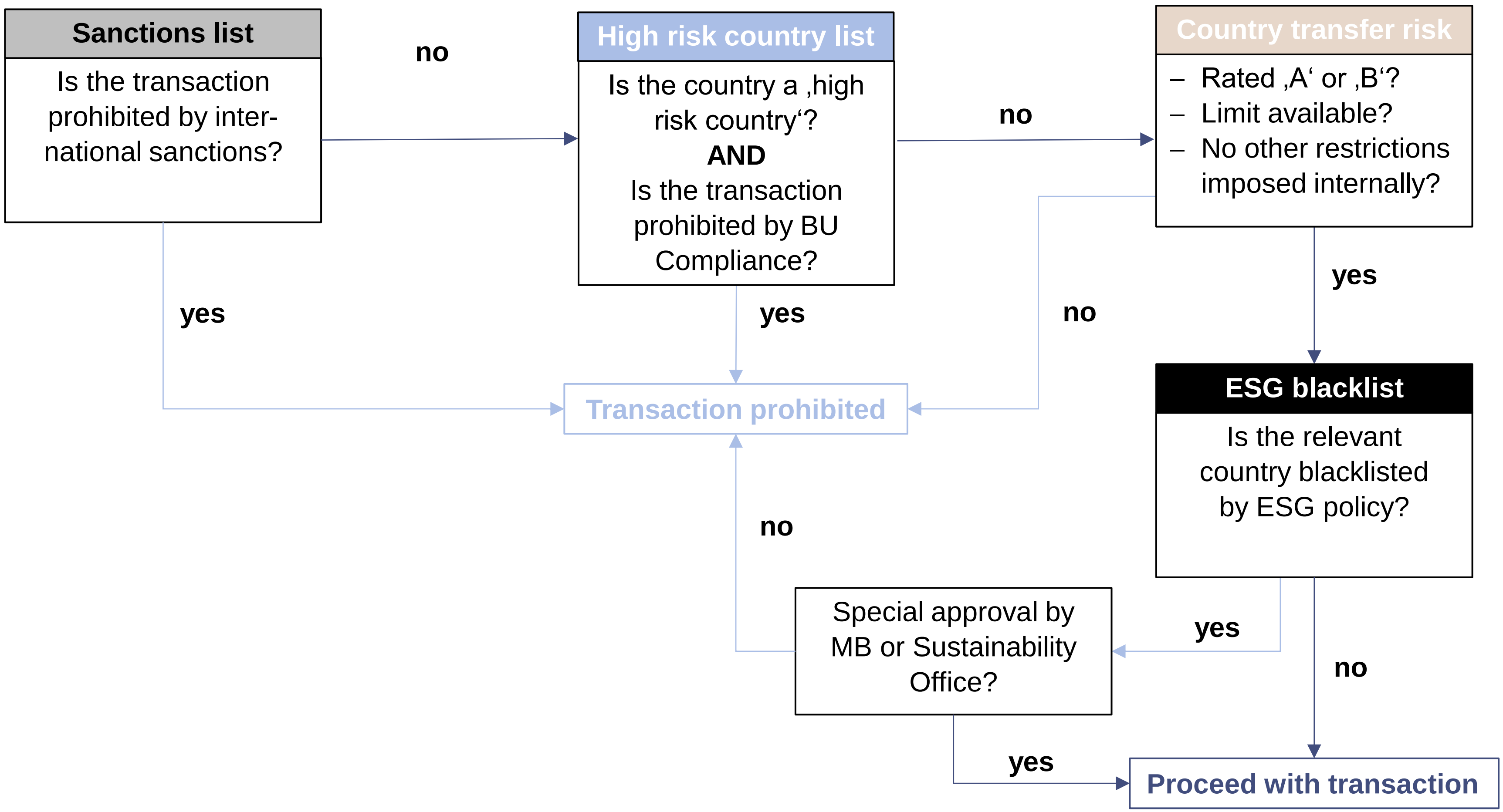
- money laundering
- terrorist financing
- fraud or any other criminal act

The list is model-based and administered by UB Compliance using several country indicators and information by public authorities; risk assessments (Low / Medium / High) are available for all countries of the world

3. **Country rating list** – internal country rating with respect to transfer risk; country rating assessment is performed by BU Risk Control only on demand (specific business opportunity). Three country rating categories are used:

- 'A' – transfer risk is very low, no limitations on business in these countries
- 'B' – countries with increased transfer risk, for which EAD limits are defined; additional restrictions on business may be imposed
- 'C' – very high transfer risk, new business in such countries is prohibited

Country check routine for new business



B. Industry level

Exclusion of major blacklisted industries and checking for industry standards

Blacklist – Industry level | Sector overview

1. **Energy production**
   - Coal mining (including thermal coal, lignite coal), dedicated infrastructure and coal use for energy production including related businesses
   - Oil-and gas production (including Arctic offshore exploration of oil/gas, oil sands, oil shales) and use for energy production (except for flexible gas power plants to secure the energy transition to net zero 2050)
   - Dedicated infrastructure for oil and gas production, including offshore shipping assets (except for offshore service, supply and subsea assets)
   - Nuclear energy including mining, trading, processing of uranium, recycling of nuclear fuel rods and waste disposal from such activities
2. **Mining**
   - Mountain-top removal mining
   - Mining, trading and processing of asbestos
   - Mining, trading and processing of diamonds
3. **Shipping**
   - Ship breaking, including beaching of ships, shipbreaking yards, cash buyers, unless the yards are EU approved under the EU Ship Recycling Regulation
4. **Social**
   - Weapons - Development, manufacturing, maintenance and trade of banned weapons and ammunition
   - Production and manufacturing of tobacco and vaping products (e-cigarettes)
   - Pornography, adult entertainment and brothels
   - Drugs and narcotics – except for medical purposes only, including Marijuana
   - Embryonic stem cell research
   - Gambling activities outside regulated jurisdictions
5. **Agribusiness**
   - Deforestation and non-certified wood products from rainforest
   - Unsustainable palm oil production
   - Production, manufacturing, sales and trade of fur products
   - Trade of any endangered species (flora or fauna and wildlife products)
   - Controversial animal welfare practices

Energy production

Risks related to the sector and rationale for restriction:

Energy production is a key enabler for economic development, and fossil fuels have played the dominant part in covering energy needs. However, given the backdrop of greenhouse gas-driven global warming, an imminent change is required. While this change cannot be achieved abruptly due to the dominance of fossil fuels, a resource re-allocation is required in global energy supply. Besides having negative climate impacts, financing these activities, causes significant harm to the environment. Furthermore, as has become obvious by the nuclear reactor catastrophes of Tchernobyl (1986) and Fukushima (2011), using nuclear energy comes with the risk of disastrous consequences for human lives and the economy in case of a severe failure. Furthermore, waste from nuclear energy is a severe risk for nature and human life, leaving mankind with a risky legacy lasting for thousands of generations. As renewable alternatives are available, financing nuclear energy and fossil fuels production and its use for energy production might also bear significant risks for stranded assets, as values for these assets could in future be significantly impacted by transitory risks due to policy actions or market developments. This especially applies to thermal coal mining and its use for electricity and heat production as some countries already work on phasing out energy production from coal. In the oil & gas industry most controversial is the oil production from unconventional sources like tar sands and oil shales, as well as exploration and production activities in nature reserves and highly sensitive ecosystems tike the Arctic that causes significant harm to the environment.

HCOB‘s approach to the energy sector:

We consider the energy sector to include activities in the exploration, extraction and production, processing and refinery, trade, storage, transport and distribution of energy. This includes power generation from all kinds of energy sources. HCOB has been active in renewable energy financing for decades but has never been a player in financing fossil fuels extraction and production. The Bank’s focus with regard to fossil fuels is oriented towards so-called midstream and downstream activities, securing supply to end consumers during the transition phase to a carbon-neutral economy in the long term. Here, as a part of its ship financing business, HCOB is involved also as a financier of assets that are used for transporting fossil fuels. With regard to shipping assets used in the offshore oil and gas industry HCOB only allows for financings to offshore service, supply and subsea assets. Against the background of actual gas supply security risks in Europe HCOB has put this business under annual review for a phase-out. Offshore oil & gas production assets are excluded from financing, however.

Result of this policy is, that there are almost no financings of fossil fuel production, fossil fuel-based energy generation or nuclear energy financings on the Bank‘s balance sheet today. Due to the risks and negative impact on climate and environment HCOB does not intend to finance these activities in the future, either. However, the Bank recognizes that a reliable energy supply during the transition phase to a net zero GHG economy especially requires a bridging by flexible power plants that partners renewable power generation for securing grid stability. So, in the energy sector we‘ve put the following on our blacklist for new direct financings:

Energy production

- Mining of thermal coal and lignite coal as well as related businesses such as coal trading, infrastructure and transportation assets that are exclusively built for and dedicated to the handling and transportation of thermal coal and lignite coal
- Oil and gas production (including Arctic offshore oil and gas exploration, oil sands and oil shales) and use for energy production
- Dedicated infrastructure for oil and gas production, including offshore shipping assets (except for offshore service, supply and subsea assets)
- Electricity production from fossil fuels with GHG emissions of >100g CO_2/kWh except for flexible gas power plants that are contracted in national capacity markets with GHG emissions of max. 450 g CO_2/kWh
- Electricity production from conventional, utility scale nuclear energy and related businesses including uranium mining and handling, manufacturing and recycling of nuclear fuel elements as well as nuclear waste handling and storage. However, HCOB is open to evaluate financings for future, new generation nuclear power plants if such projects use proven technology, have significantly reduced security and environmental risks and are aligned to EU Taxonomy.

In contrast to fossil fuels and nuclear energy, financing of the production of green hydrogen, alternative fuels and power generation from renewable energy sources (wind, solar, hydro, geothermal, biomass and waste) as well as dedicated infrastructure for producing, transporting, transmitting, using and distributing renewable energy is highly welcome.

While HCOB does not intend to participate in direct financings for the blacklisted activities stated above, HCOB is aware that in the energy sector, energy producers and distributors / utilities often cover the full range of energy production, logistics and distribution, from fossil fuels to - increasingly - renewables sources as well. In view of this, when applying our blacklist criteria to energy sector companies, for us the use of proceeds is crucial. This is being handled by the Bank‘s ESG decision matrix, which sets a solid framework for evaluating a financing in this regard. Thus, e.g. HCOB may finance a wind farm or a solar park for a utility which also has fossil fuel-fired power plants in its portfolio. However, HCOB in each case conducts a deeper analysis and evaluates the corporate behind the project and checks its ESG-related credentials and its commitment towards using sustainable energy sources.

Best practice and external guidelines:

- United Nations (UN) Global Compact
- Paris Climate Agreement
- EU Taxonomy
- World Bank Group Environmental, Health and Safety Guidelines
- Qualifying Infrastructure Investment Guidelines

Mining

Risks related to the sector and rationale for restriction:

Mining of ores and minerals and their processing and refining to metals and mineral raw materials is a key for industrial production and enabler for economic development. However, mining companies are increasingly challenged to safeguard human welfare and minimize negative impact on the environment in their operations. As mining assets are often developed and operated in complex environments like remote locations and countries with weaker governance, mining companies are increasingly confronted with additional environmental and social risks. Key environmental risks from mining operations are the direct impact on surrounding areas (including mountain top removal and land consumption for tailing management; erosion and formation of sinkholes; contamination of soil, groundwater and surface water by chemicals and toxic residuals from mining processes), air pollution, water consumption, wastewater disposal and impact on aquifers and freshwater sources as well as loss of biodiversity and threatening of endangered species. Key social risks include risks to local communities (relocation of people and land/water/property rights (incl. native peoples) and incidents of physical harm in relation to resettlement; absence of a benefit sharing agreement or compensation; unconsidered health impacts like the spread of communicable diseases due to influx of labor), human rights and workforce risks (disregard for labor rights including collective bargaining and unionization rights, incidents of physical harm or inappropriate conduct of security personnel, involvement in child labor, forced labor or human trafficking; sub-standard working conditions such as (e.g. occupational safety and health standards, wages, etc.).

HCOB‘s approach on the mining sector:

We consider the mining sector to include activities in the exploration and extraction of ores and minerals and their concentration, dedicated mining infrastructure as well as storage and transport of ores and minerals to ports or terminals. Exploitation of energy resources is not handled as part of mining but included in energy production. HCOB has been highly reluctant in financing mining operations in the past and does not intend to finance these activities more actively in the future, either. With regard to the potentially negative impact associated with mining operations we‘ve put the following mining operations on our blacklist for new direct financings:

- Mountain-top removal mining regardless of the type of raw materials extracted
- Mining, trading or processing of asbestos
- Mining, trading and processing of rough diamonds not covered by the Kimberly Process Certification Scheme

Mining

HCOB encourages mining companies to improve their operations with regard to environmental and social aspects and to follow best practices. For new direct financings in the mining sector, we generally conduct a deeper analysis including the company‘s compliance to global norms, social and environmental standards.

While HCOB does not intend to participate in direct financings for the blacklisted activities, HCOB is aware that in the mining sector, producers and commodity traders often cover a wide range of business activities, from raw material extraction to trading, logistics and distribution. In view of this, when applying our blacklist criteria to mining sector companies, for us the use of proceeds is crucial. This is being handled by the Bank‘s ESG decision matrix, which sets a solid framework for evaluating a financing in this regard.

Best practice and external guidelines:

- United Nations (UN) Global Compact
- World Bank Group Environmental, Health and Safety Guidelines
- International Finance Corporation (IFC) Environmental and Social Performance Standards and Guidance Notes
- International Council on Mining and Metals (ICMM) Mining Principles
- Global Reporting Initiatives (GRI) Mining Sector Guidelines

Shipping

Risks related to the sector and rationale for restriction:

Reaching the end of their useful lives, decommissioned vessels need to be broken down to enable disposal or recycling of the parts and materials. Due to the size of the vessels, this is a challenging and lengthy process and requires expert knowledge on shipbuilding and waste management. Traditionally, the majority of vessels, is broken down in Bangladesh, Pakistan and India (in 2020 ninety percent of the gross tonnage dismantled globally according to the NGO Shipbreaking Platform). Vessels are usually dismantled in these countries on dedicated beaches instead of industrial sites. Such operations are connected to risks for human welfare and negative impacts on the environment.

Environmental: Although shipbreaking is not a key driver for carbon emissions, the beaching of the vessels and the disposal of the parts and materials may cause serious damage on local sites either physically (by the process of beaching) or by polluting soil, water and air with hazardous materials.

Social: Working and social standards in the key South-East Asian shipbreaking countries often do not meet the levels of Western countries. There is a sizeable number of dead and injured workers associated with the dismantling of vessels.

Governance: Transparency in the stated South-East Asian countries is comparatively low, in particular in the shipbreaking industry. There are no official numbers available for casualties in India and Pakistan. For their last journey vessels are often reflagged to flag of conveniences with particularly low requirements.

HCOB‘s approach on shipbreaking

We regard shipping as a key contributor to the world economy and an enabler of world trade. Although we traditionally focus on the financing of the commercial operation of vessels, we acknowledge our responsibility to observe lifetime considerations of the maritime assets which we finance. i.e., also reflect on ship recycling.

HCOB has committed in November 2020 to the Responsible Ship Recycling Standards which are incorporated into our ESG policies, procedures and standards for ship financing and form part of every new loan agreement. We are only the second German bank who has joined this industry-led initiative.

Shipping

We recognize that ship recycling operations are part of the overall lifecycle of a ship and the associated companies need to be financed. We also recognize that banks can play a vital role in transforming the sector in a positive way. Nevertheless, we have no local expertise in the key ship recycling countries and have therefore very limited means in observing the compliance with regulations and commitments for improvement at the sites. Thus, direct financings are blacklisted for:

- Shipbreaking yards that are not approved by the EU Ship Recycling Regulation and
- Cash buyers, i.e. companies which are directly involved in buying ships for scrapping

Best practice and external guidelines:

- Responsible Ship Recycling Standards
- EU Ship Recycling Regulation
- Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal
- NGO Shipbreaking Platform

Social

Risks related to these activities and rationale for restriction:

Companies from all industries have an increasing responsibility to incorporate human rights issues into their business standards, wherever they operate. As HCOB‘s Code of Conduct is aligned with the United Nation‘s Global Compact principles, some activities which in our view can do either significant harm to people‘s health, can cause addictions with serious side effects or violate human rights are being placed on the bank‘s restricted list. For HCOB financing these controversial activities involve significant reputational risks, either as there is a high risks for being connected with or involved in activities being socially and politically controversial or even legally non-compliant.

HCOB‘s approach on these activities:

HCOB strives for the protection of human rights, as called upon by the Universal Declaration of Human Rights by the United Nations. Thereby, the exclusion of certain activities, which either violate human rights, harm people‘s health or causes addictions (substance addiction as well as gambling addiction) with serious side effects and high costs for the society (e.g. health care costs caused by tobacco consumption) is derived from a set of internationally accepted frameworks, standards and best practices.

However, the discussion on weapons shows that views are being shaped by and evolve with political consensus, too and are backed by sound principles. The defense sector plays an important role in safeguarding democracy and human rights against potential aggressors.

Social

In alignment with HCOB's commitment to several frameworks as e.g. the United Nations (UN) Sustainable Development Goals, we consider the following list of activities as fully restricted:

- Drugs and narcotics – except for medical purposes only (such as pharmaceutical Cannabis)
- Production and manufacturing of tobacco and vaping products (e-cigarettes)
- Pornography, adult entertainment and brothels
- Embryonic stem cell research
- Weapons - Development, manufacturing, maintenance and trade of banned weapons and ammunition such as, but not limited to: Cluster weapons, Anti-personnel mines, Biological (bacterial) and chemical weapons, Nuclear weapons, incl. depleted uranium munition. HCOB will only finance transactions with end recipient as clearly identifiable government entity and does not support the supply of weapons to areas of conflict. Also, HCOB excludes countries that are under an EU, US or UN arms embargo (export financings require an officially approved export license by relevant authorities, e.g. (KrWffKontrG) and countries where weapons could be used to oppress the civilian population
- Gambling activities outside regulated jurisdictions
  Pleas note: Potential deals in regulated jurisdictions are checked on a case-by-case basis including a mandatory internal compliance check due to additional risks from money laundering or other criminal activities. Real estate property that is fully or partially rented to providers of stationary gambling activities is not classified as gambling activities and is possible if the rental rate is not directly linked to a share of the tenant's revenue from gambling activities.

Best practice and external guidelines:

- United Nations (UN) Global Compact, Universal Declaration of Human Rights, International Labor Standards of the International Labor Organization (ILO)
- World Health Organization Framework Convention on Tobacco Control
- Convention for the Suppression of the Traffic in Persons and of the Exploitation of the Prostitution of Others, Optional Protocol to the Convention on the Rights of the Child on the sale of children, child prostitution and child pornography
- International Standards on Drug Use Prevention, European Drug Prevention Quality Standards
- Chemical Weapon Convention (CWC, Paris, New York 1997), Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Treaty, 1997), Convention on Cluster Munitions (Oslo Convention, 2008), and the Non-proliferation Treaty of Nuclear Weapons (NPT, New York 1968 / 1970)

Agribusiness

Risks related to agriculture, fishery and forestry including animal treatment and rationale for restriction:

Agriculture, fishery and forestry need to accommodate the increasing demands of a growing world population for food, housing, textiles and water to only name a few basic needs. To meet these needs the earth's resources are used with significant impact on ecosystems, biodiversity and local communities. The agribusiness is connected to unsustainable farming practices with manifold environmental risks such as air pollution, soil and ground water contamination due to the application of herbicides, pesticides, fertilizers and other chemicals, depletion of water resources, soil erosion and desertification. Deforestation of rainforest for logging or agricultural purposes such as palm oil production significantly contributes to climate change and harms ecosystems and biodiversity. The loss of biodiversity and habitat, potential extinction of endangered species and community displacement are further negative impacts. Livestock farming is a key contributor of GHG emissions. Furthermore, in several countries production of specific agricultural commodities is connected to very low social standards or even human rights violations like forced labor and child labor. Regulatory, technological, market price and reputational risks are evident.

HCOB's approach on the agricultural, fishery, forestry and animal welfare:

The agricultural sector involves planting, harvesting, processing and trading of soft commodities like wheat, rice, soy, palm oil, cotton, sugar cane, cocoa, coffee, tea, etc. as well as breeding, raising and processing of pigs, cattle, poultry and other livestock. Fishery and forestry are also included in agribusiness. Financing companies in the agribusiness requires thorough due diligence to exclude supporting the most unsustainable practices. Besides this animal welfare issues are also increasingly gaining of importance as a reputational risk. Therefore, HCOB has blacklisted direct financing of the following activities:

- Deforestation, production and trading of non-certified wood products from rainforest
- Unsustainable palm oil production, meaning palm oil production without RSPO certification
- Production, manufacturing, sales and trade of fur products
- Trade of endangered species (flora or fauna and wildlife products)
- Controversial animal welfare practices:
  - Fishing with drift net or dynamite fishing, shark finning, other harmful fishing techniques
  - Non mandatory animal testing, e.g. for cosmetic purposes
  - Animal fights for entertainment purposes

Agribusiness

When financing the agribusiness HCOB is aiming to support sustainable management of crop cultivation, livestock farming, fish farming and forestry. A solid framework is used to assess ESG related issues, evaluating the client's approach to the blacklisted topics as well as the overall sustainability strategy and targets. We do not directly finance any of the named blacklisted activities. As agricultural products are key inputs for other industries (e.g. food industry) a agribusiness supply chain assessment is strongly encouraged and supported by the bank even if details might not be publicly available.

Best practices and external guidelines:

- United Nations (UN) Global Compact
- United Nations (UN) Food and Agriculture Organization (FAO) guidelines
- Taskforce on Nature-related Financial Disclosures (TNFD)
- Forestry Stewardship Council (FSC)
- Marine Stewardship Council (MSC)
- Round Table on Responsible Soy Association (RTRS)
- Round Table on Sustainable Palm Oil (RSPO)
- International Union for the Conservation of Nature (IUCN) Red List (Category I-VI)
- Natura 2000 network of nature protection areas
- RAMSAR sites
- UNESCO World Heritage Sites
- GMP+ (Good Manufacturing Practices for Food, Pharmaceutical & Cosmetic Products)
- EU Directive in the Protection of Animals used for Scientific Purposes
- Royal Society for the Prevention of Cruelty to Animals (UK) standards

C. Company level

Combining project and borrower level in decision matrix

Hamburg Commercial Bank

Blacklist – Company level

No business will be conducted with companies that violate human dignity, human rights or any other global norms in general.

Best practices and external guidelines:

- Paris Climate Agreement
- Sustainable Development Goals
- United Nations (UN) Global Compact
- Universal Declaration of Human Rights, International Labor Standards of the International Labor Organization (ILO)
- World Bank Group Environmental, Health and Safety Guidelines

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