ESG Factbook – Blacklist Update

valid as of 23. Sep. 2022 | Supplementary document to the CSR Report 2021

September 2022

sustainability@hcob

Overview – ESG embedded in the client assessment / loan origination process

Deal is presented to the originator / Relationship Manager

1. Blacklist compliance check

Preliminary check of
- credit quality
- deal profitability

2. ESG Decision matrix check

Presentation to **Franchise Committee**

Deal structuring, acquisition of full deal and client information

3. ESG-Scoring

1 2 3 4 5 6

Finalization of Credit assessment & Credit application

Presentation to **Credit Committee**

The lending standards include a stringent **Blacklist, ESG Decision matrix** and the **ESG Scoring**, as detailed within this presentation. All three, have been implemented in all relevant parts of the lending standards and the decision making / loan origination process.

First of all, the Blacklist has to be used as the basis for new business decision marking, is updated on a regular basis and also published on our website. The Blacklist, which defines areas in which HCOB will not become involved on any direct financing or investments consists of **three layers:**

- **A.** **Country level** – No business will be conducted in countries with either a high level of corruption or a very high level of conflict
- **B.** **Industry level** – No business will be conducted in several industries negatively impacting sustainability aspects. A detailed description is laid out in this presentation
- **C.** **Company level** – Besides being screened on the criteria, no business will be conducted with companies that violate human dignity, human rights or any other global norm in general

On this basis, HCOB ensures a thorough screening process for new business, as the use of proceeds, the borrower or company as well as the location of project and sponsor are being taken into account.

In the second step, the ESG decision matrix serves as guidance within the loan origination process. The decision matrix takes into account the use of proceeds and enables HCOB to support even partially non-sustainable companies in their sustainable transformation

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Finally, the ESG-Scoring applies to total loan portfolio and is obligatory within the loan origination process for each new financing since the beginning of October 2020. The ESG Scoring has been developed on the basis of the EBA Action Plan on Sustainable Finance (06.12.2019) and the BaFin Guidance Notice on Dealing with Sustainability Risks (20.12.2019 / 16.01.2020).

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A. Country level

Monitoring transparency and corruption indices

A. Country level

Assessment as of 23.08.2022 – Changes:
Newly blacklisted: Kyrgyzstan, Mali
No longer blacklisted: Djibouti, Dominican Republic, Papua New Guinea, Paraguay, Togo, Turkey

Blacklist countries – ESG vs. other internal restrictions

HCOB high risk countries only

L Bahamas
Belarus
Bosnia-Herzegowina
Botswana
Egypt
Ethiopia
Guyana
Jamaika
Mongolia
L Panama
Trinidad & Tobago
Tunisia
R Turkey
Vanuatu

HCOB high risk countries & ESG blacklisted

Afghanistan
Burundi
Cambodia
Central African Republic
Dem. Rep. of the Congo
Guinea
Guinea Bissau
Iran
Iraq
Mali
North Korea
Lebanon
Libya
Myanmar
Nicaragua
Pakistan
R Russia
Somalia
South Sudan
Sudan
Syria
Uganda
Ukraine
Venezuela
Yemen
Zimbabwe

ESG blacklisted countries

Angola
Bangladesh
Cameroon
Chad
Comoros
Congo
Equatorial Guinea
Eritrea
Guatemala
Haiti
Honduras
Kyrgyzstan
Laos
L Liberia
Madagascar
Mauritania
Mozambique
Nigeria
Tajikistan
Turkmenistan
Uzbekistan

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
HCOB sanctions country list
HCOB high risk countries
(money laundering, fraud, terrorism financing)
HCOB ESG blacklisted

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 (source Global Peace Index, The Institute for Economics & Peace)

Shipping flag states 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

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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

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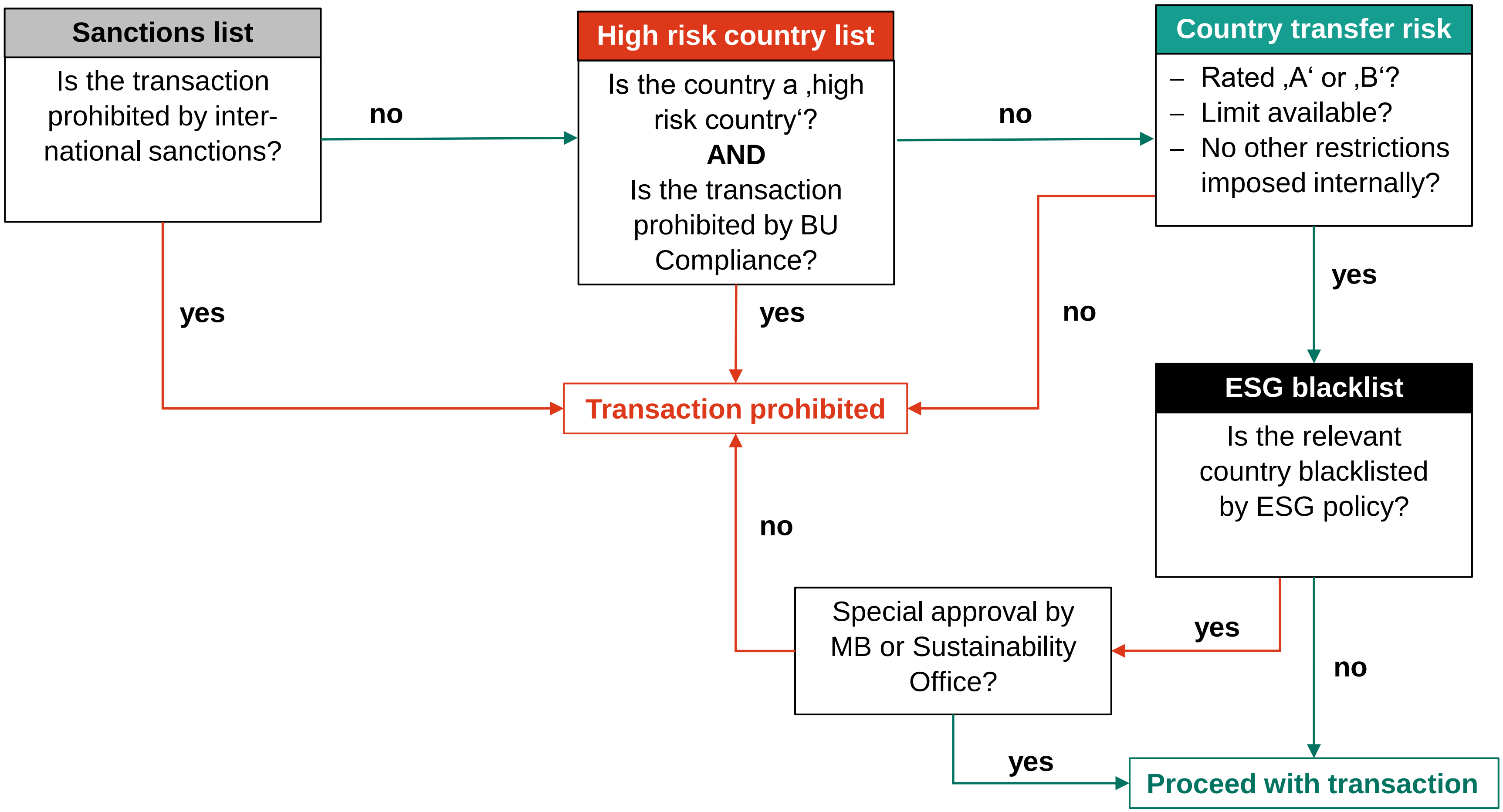
Country check routine for new business



B. Industry level

Exclusion of major blacklisted industries and checking for industry standards

Blacklist – Industry level | Sector overview

1. **Energy production – Avoiding fossil fuels and nuclear energy connected to risks and negative impact on climate and environment**
   - Coal mining (including thermal coal, including lignite coal) and its use for energy production including related businesses
   - Upstream oil-and gas industry (including Arctic offshore exploration of oil/gas, oil sands, oil shales but excluding gas power production)
   - Nuclear energy including mining, trading and processing of uranium
2. **Mining – Avoiding controversial mining activities connected to significant negative environmental, social and health impact**
   - Mountain-top removal mining
   - Mining, trading or processing of asbestos
   - Mining, trading and processing of diamonds
3. **Shipping – Avoiding controversial shipbreaking activities connected to significant negative environmental, social & health impact**
   - Ship breaking, including beaching of ships, shipbreaking yards, cash buyers, unless the yards are EU approved under the EU Ship Recycling Regulation
4. **Social – Avoiding activities with significant risks for human rights, health and social peace**
   - Weapons - Development, manufacturing, maintenance and trade of banned weapons and ammunition
   - Production and manufacturing of tobacco and vaping products (e-cigarettes)
   - Problem gambling and its development
   - Pornography, adult entertainment and brothels
   - Drugs and narcotics – except for medical purposes only, including Marijuana
   - Embryonic stem cell research
5. **Agribusiness – Avoiding activities with negative impact on climate, environment, biodiversity and animal welfare**
   - Deforestation and non-certified wood products from rainforest
   - Unsustainable palm oil production
   - Production, manufacturing, sales and trade of fur products
   - Fishing with drift net or dynamite fishing, shark finning, other harmful fishing techniques
   - Trade of any endangered species (flora or fauna and wildlife products)
   - Non mandatory animal testing e.g. for cosmetic purposes
   - Animal fights for entertainment

1. Energy production – Avoiding fossil fuels production and use of nuclear energy

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 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. 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. As renewable alternatives are available, financing nuclear energy and fossil fuels 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 on the energy sector:

We consider the energy sector to include activities in the extraction and production, 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. Due to this, there are almost no fossil fuel production 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. So, in the energy sector we‘ve put the following on our blacklist for new direct financings:

- Mining of thermal coal and lignite as well as related businesses such as coal trading, infrastructure and transportation assets that are built for and exclusively dedicated to the handling and transportation of thermal coal and lignite
- Upstream oil and gas industry (including Arctic offshore exploration of oil and gas, oil sands and oil shales, but excluding gas power production)
- Electricity production from fossil fuels with GHG emissions of >100g CO_2/kWh with the exemptions granted by EU Taxonomy for constructions approved before 2030
- Nuclear energy production and related businesses including uranium mining and handling, manufacturing and recycling of nuclear fuel elements as well as nuclear waste handling and storage.

1. Energy production – Avoiding fossil fuels production and use of nuclear energy

In contrast to fossil fuels and nuclear energy, financing of the production of alternative fuels and power generation from renewable energy sources (wind, solar, hydro, geothermal, biomass and waste) as well as dedicated infrastructure for using 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 decision matrix, which sets a solid framework for evaluating the financing. 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:

- UN Global Compact
- Paris Climate Agreement
- World Bank Group Environmental, Health and Safety Guidelines
- Qualifying Infrastructure Investment Guidelines

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2. Mining – Avoiding controversial mining activities

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, extraction and 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

2. Mining – Avoiding controversial mining activities

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 project / corporate sponsor matrix, which sets a solid framework for evaluating the financing.

Best practice and external guidelines:

- UN Global Compact
- World Bank Group Environmental, Health and Safety Guidelines
- IFC Environmental and Social Performance Standards and Guidance Notes
- ICMM Mining Principles
- GRI Mining Sector Guidelines

3. Shipping – Avoiding controversial shipbreaking activities

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 the grounds 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.

3. Shipping – Avoiding controversial shipbreaking activities

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

4. Social – Avoiding activities with significant risks for human rights, health and social peace

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.

4. Social – Avoiding activities with significant risks for human rights, health and social peace

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

- Drugs and narcotics – except for medical purposes only, including Marijuana
- Production and manufacturing of tobacco and vaping products (e-cigarettes)
- Problem gambling and its development, i.e. Internet-based gambling and betting services
- Pornography, adult entertainment and brothels
- Embryonic stem cell research
- Weapons - Development, manufacturing, maintenance and trade of banned ~~or controversial~~ 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

Best practice and external guidelines:

- 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)

5. Agribusiness – Avoiding activities with negative impact on climate, environment, biodiversity and animal welfare

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
- Fishing with drift net or dynamite fishing, shark finning, other harmful fishing techniques
- Trade of endangered species (flora or fauna and wildlife products)
- Non mandatory animal testing, e.g. for cosmetic purposes
- Animal fights for entertainment purposes

5. Agribusiness – Avoiding activities with negative impact on climate, environment, biodiversity and animal welfare

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 publically available.

Best practices and external guidelines:

- UN Global Compact
- 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

ESG decision matrix as guidance within the loan origination process for partially non-sustainable companies / financings

Use of proceeds / financing purpose**** \ **Group or Client***	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 black-listed 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 clients 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 clients 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

*No blacklisted business practices check preconditioned in any case I ** Financial sponsors are generally ‚green‘ (s.t. AML / KYC compliance) I *** Mitigants to be discussed on a case by case basis, may include e.g. proof of ESG compliance / undertakings or covenants in credit documentation / board minutes. I **** For the avoidance of doubt, proceeds may not be used to fund any blacklisted business activity

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