



Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

Exclusion Criteria, Sector Criteria and Sustainability Assessment of DZ BANK

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 **DZ BANK**
Die Initiativbank

Contents

1	General principle	1
2	Assessment of sustainability aspects in lending activity	1
3	Sustainability assessment criteria	2
3.1	Exclusion criteria	2
3.2	Sector criteria	4
3.3	ESG checklist RepRisk DZ BANK	6
3.4	ESG credit risk score	7
3.5	Overall assessment of risks associated with ESG factors	8

1 General principle

As the central institution of the cooperative financial network, DZ BANK is aware of its responsibility for people, the environment and the principles of sustainable corporate governance. Corporate responsibility and sustainability have a long tradition at cooperative banks. Even the basic cooperative idea was based on the idea of solving economic and social problems together. We are still following this tradition today. For this reason, we exclude the financing of certain business areas and activities. In this document, the focus is on dealing with sustainability aspects in lending.

2 Assessment of sustainability aspects in lending activity

The sustainability assessment in DZ BANK's lending activities is carried out for traditional lending and credit substitute business as well as for the debt capital market business¹ and treasury investments (excluding ABS²). Every commitment, including corporate, project, export, foreign trade, acquisition, real estate, leasing and property financing, must always be checked for sustainability aspects.

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

Exclusion criteria: The overarching exclusion criteria are defined in the DZ BANK Group's Group Credit Standard, which regulates the consideration of risks in connection with ESG factors. Depending on the business model of the respective group companies, the scope of application or justified exceptions (e.g. exceptions for cooperative banks, for DZ BANK Group companies, in the case of evidence of the borrower's willingness to transform or in the case of overriding decisions in exceptional cases) can be defined. The exclusion criteria relate to activities and business areas that have a particularly negative impact on people, the environment or corporate governance (critical activities). We do not finance these critical activities or business areas. However, we do not want to exclude companies across their entire business activities if they only engage in critical activities to a limited extent or if a transformation process of the company towards greater sustainability is to be supported. We have therefore defined special conditions for some exclusion criteria under which we continue to support customers.

Sector criteria: In addition to the group-wide exclusion criteria, DZ BANK also applies defined sector criteria in the same area of application. Deviation from this requirement is only possible in exceptional cases in the case of overriding decisions. The sector criteria define general lending principles for selected sectors that are particularly vulnerable from a sustainability perspective and ensure that minimum ESG standards are taken into account. They are applied to projects, transactions and companies in the ESG application area that generate more than 50% of their total turnover both directly and indirectly in the respective sector and act as borrowers vis-à-vis DZ BANK.

ESG checklist RepRisk DZ BANK: In DZ BANK's credit assessment process, loan applications are systematically checked for relevant sustainability aspects. This involves using DZ BANK's ESG checklist, which is based on the 10 principles of the UN Global Compact and, for qualified project financing, on the Equator Principles. The purpose of the ESG checklist is to record the sustainability efforts of a customer/project in a structured manner in order to assess their reputational impact on DZ BANK.

¹ DCM= Dept Capital Market: support for our clients in structuring and placing bonds on the capital market

² ABS = Asset Backed Securities

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

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

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

- First of all, we train all employees entrusted with financing requests on sustainability using several specially developed formats such as training courses and handbooks. This serves to make our employees even more aware of the relevance of the topic and at the same time provide them with concrete assistance in checking exclusion criteria, sector criteria, the ESG checklist and the ESG credit risk score.
- If there are any internal uncertainties or questions regarding the interpretation of the exclusion criteria and sector criteria, we have set up the so-called Ad hoc Committee for Exclusion Criteria for affected financing requests: Here, employees assess and document the specific facts of the case from a sustainability perspective across all divisions and make a prompt recommendation to the inquirer on the interpretation of the respective regulations.
- The Working Group Exclusion Criteria, which meets regularly, was introduced to clarify fundamental and non-individual issues. This group is also entrusted with the fundamental further development of the regulations. For DZ BANK, exclusion criteria, sector criteria, the ESG checklist, the ESG credit risk score and the overall assessment of risks associated with ESG factors are ongoing processes that require quarterly (re)assessment and are subject to corresponding adjustments.

3 Sustainability assessment criteria

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

3.1 Exclusion criteria

Exclusions are defined for direct and indirect funding. Direct funding is direct, targeted financing of a specific activity or project. Indirect funding is general corporate financing that is not explicitly targeted, for example working capital facilities or the purchase of bonds. Where an exclusion applies to indirect funding, the customer can only be supported if the following requirements are met:

- The borrower can provide credible evidence of a reduction in, or the withdrawal from, excluded activities in order to demonstrate their willingness to transform.
- The possibility of the funding being used in connection with these activities can be ruled out, even for indirect funding products.
- The proportion of revenue accounted for by the excluded activity does not exceed the defined threshold.

Critical topic	Exclusion criterion
Thermal coal	No direct funding for activities connected to thermal coal, such as new or existing coal-fired power plants or activities in the upstream value chain, and no indirect funding for companies involved in activities that are linked to thermal coal (revenue threshold: 5 percent).
Oil and gas extraction	No direct funding for oil extraction activities (upstream), oil and gas extraction involving fracking or oil sands / oil shale, or Arctic drilling and deep-sea mining, and no new business (direct or indirect, except refinancing) that increases the lending volume with companies involved in oil and gas extraction (upstream) (revenue threshold: 0 percent).
Nuclear energy	No direct funding for the construction of new nuclear power stations or direct funding for activities connected with the operation or maintenance of nuclear power stations, unless the activity increases security or makes a relevant positive ESG contribution.
Trading of animals and plants	No direct funding for the trading of endangered animal or plant species in accordance with the CITES (Convention on International Trade in Endangered Species) list.
Significant threats to the environment	No direct or indirect funding for companies or projects that pose significant threats to the environment, particularly uranium/asbestos extraction (revenue threshold: 1 percent), mining activities involving the mountain-top removal method, projects/assets or activities that pose a high risk of nuclear, biological, or chemical contamination (excluding biogas facilities), and hazardous goods with insufficient measures to minimize risk.
Conventional weapons	DZ BANK takes great care when funding companies in the conventional weapons segment and reserves the right to exclude specific types of weapons.
	No direct or indirect funding for companies that are linked to the development, production, maintenance, or operation of conventional weapons or their material parts, pursuant to the definition in the German Weapons Act (WaffG), and whose registered office and majority of business activities are outside NATO or EEA/EFTA countries, unless there is proof that the weapons will be used exclusively by NATO, EEA, or EFTA countries.
	No funding for transactions involving the supply of weapons in/to countries outside NATO, the EEA, or EFTA or areas of conflict, unless a government export authorization has been issued by the Bundesamt für Wirtschaft und Ausfuhrkontrolle (BAFA) [German Federal Office for Economic Affairs and Export Control] or an equivalent body in an EU, EEA, or EFTA country.
Controversial weapons	No direct or indirect funding for companies that are involved in the production or trading of controversial weapons or their core components. Controversial weapons are those that have indiscriminate effects, are excessively injurious, have a devastating impact on the civilian population, or have been internationally outlawed. These currently include anti-personnel mines (under the Ottawa Convention, 1997), cluster bombs (under the Oslo Convention, 2008), biological weapons (under the Biological Weapons Convention [BWC], 1972), chemical weapons (under the Chemical Weapons Convention [CWC], 1993), nuclear weapons for non-nuclear weapon states (under the Treaty on the Non-Proliferation of Nuclear Weapons [NPT], 1968) that are not NATO members, blinding laser weapons (under Protocol IV of the UN Convention on Certain Conventional Weapons [CCW], 1995), and ammunitions containing uranium.

Critical topic	Exclusion criterion
	No direct or indirect funding for companies involved in the development, production, maintenance, operation, or trade of controversial weapons or their core components if it cannot be ruled out that the funding may be used for these activities.
Human rights and labor rights	No direct or indirect funding for companies that demonstrably contravene internationally recognized standards of human rights and labor rights. Internationally recognized standards are the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the fundamental conventions of the International Labour Organization (ILO) (revenue threshold: 0 percent).
Pornography	No direct funding for activities or companies in the pornography industry or similar sectors (revenue threshold: 1 percent).
Controversial gambling	No direct funding for controversial forms of gambling or indirect funding for companies involved in controversial forms of gambling. These are companies whose original business purpose is gambling, except where operated or supervised by public-sector entities (revenue threshold: 1 percent).
Trade involving conflict materials	No direct funding for trade activities involving materials extracted in conflict regions by a conflict party in a way that breaches human rights, and which may be used to finance the conflict.
Deforestation	No direct funding of activities with a direct link to illegal deforestation, slash-and-burn, and/or the conversion of tropical forests, primary forests, and protected areas.

3.2 Sector criteria

Sector	Criterion
Dams and water infrastructure	DZ BANK acknowledges the recommendations of the World Commission on Dams (WCD) and therefore does not provide funding to any dam projects that do not apply the WCD's recommendations as fully as possible. The customer is required to provide evidence, including that it – has secured public acceptance; – has undertaken a comprehensive and unbiased review of options; – has appropriate measures in place during dam operation; – is preserving river ecosystems, biodiversity, and the livelihoods associated with these; – recognizes the rights of people affected by the dam and equitable sharing of the benefits; – adheres to obligations and agreements; – facilitates the cross-border use of rivers for the benefit of peace, development, security, and safety.
Commodities industry	DZ BANK recognizes that special care and precautions need to be taken in the commodities industry because of political, environmental, and social sensibilities. Particularly in the oil and gas and the metals and mining sectors, it is guided by international conventions and makes reference to best practice. The World Bank and industry associations provide examples of best practice at regional level. Financing decisions specifically take account of the following aspects: – Compliance with human rights – Particular consideration of the interests of indigenous people and local communities

Sector	Criterion
	– Compliance with the minimum standards for occupational health and safety set out by the International Labour Organization (ILO); no child labor – Pollution of the environment in the process of extracting commodities (contamination of groundwater, lakes, and rivers; soil and air pollution) and consideration of the preservation of biodiversity – Protection of designated UNESCO World Heritage sites or other protected spaces – Use of toxic substances in the production process – Compliance with laws – Transparency of income streams between companies and government institutions in the affected country as a means of precluding corruption – Consideration of customary/traditional ownership rights and the principles of ‘free, prior, and informed consent: indigenous rights, participation, and the mining industry’ DZ BANK only finances such customers if they already demonstrably fulfill the criteria or are making sustained efforts to fulfill them in the near future.
Forestry	DZ BANK recognizes that forestry and the handling of forestry resources play a key role in fighting climate change and protecting biodiversity and ecosystems. DZ BANK therefore aims only to finance transactions in this sector with customers that have been certified by the Forest Stewardship Council (FSC), to the relevant national standards under the Programme for the Endorsement of Forest Certification (PEFC), or to recognized equivalent standards. DZ BANK’s funding decisions are also guided by the revised version of the World Bank standards (WN OP 4.36, 2013) and by the sustainable forestry criteria specified at the Ministerial Conference on the Protection of Forests in Europe, held in Helsinki in 1993 (MCPFE, Forest Europe since 2009).
Fishing	With regard to fishing, DZ BANK recognizes that particular care needs to be taken to preserve biodiversity (such as avoidance of overfishing) and therefore to protect people’s livelihoods and aquatic ecosystems. As a result, in this sector it only provides funding where certification has been obtained from the Marine Stewardship Council (MSC) or standards with an equivalent level of recognition have been applied.
Maritime industry	DZ BANK recognizes that great care must also be taken in the construction and operation of ships. Consequently, it aims not to provide any funding for ships or their operators that fail to meet the following minimum requirements: – The rules and regulations of the International Maritime Organization (IMO) are applied. – For inland navigation: The appropriate training has been completed and is evidenced by valid licenses. – The shipyard can provide evidence of a suitably positive track record (for example, not a greenfield shipyard); for funding of existing/second-hand projects, proof of appropriate build/maintenance quality is available. – Ship classification by a classification society accepted by DZ BANK that has at least IACS (International Association of Classification Societies) standard.
Palm oil	When dealing with customers or conducting business where there is a connection to palm oil, DZ BANK recognizes that special care and precautions are required to avoid negative impacts on the environment, climate, and human rights. It therefore

Sector	Criterion
	links its funding for companies in the palm oil value chain to the following minimum requirements: – Membership of the Roundtable on Sustainable Palm Oil (RSPO) or another recognized organization whose standards are at least equivalent to those of the RSPO – NDPE policy (no deforestation, no peat, no exploitation) whose scope encompasses not only proprietary palm oil plantations but also suppliers, purchased palm oil, palm fruit, and intermediate products – By 2030 and for the entire volume of palm oil that is traded, processed, or sold: – Full traceability to the plantations from which the palm fruit was sourced – Full RSPO certification or other generally accepted certification that uses standards that are at least equivalent to those of the RSPO
Agriculture	DZ BANK recognizes that farmers find themselves in a difficult position, having to balance the need for food security with social expectations regarding the way in which food is produced. DZ BANK therefore supports all farmers who adhere to the following sector criteria for agriculture, irrespective of whether they farm conventionally or organically: – No conversion of peat bogs into agricultural land – Purchase of land in regions with an indigenous population only in accordance with the principles of free, prior, and informed consent (FPIC) – Compliance with the requirements of German fertilizer legislation (Fertilizer Regulation) – Compliance with the German Plant Protection Act (PflSchG) and the German Plant Protection Implementing Regulations (PflSchAnwV) – Reduction of water consumption as far as possible – Compliance with the German Animal Welfare Livestock Husbandry Regulation (TierSchNutzTV), for example not keeping laying hens in cages and only using antibiotics where necessary – Support concentrated on those farms that operate in accordance with the conditionality requirements of the EU's common agricultural policy and are eligible for support In this context, DZ BANK is committed to the preservation of biodiversity and the reduction of greenhouse gases, and it supports companies that pursue the principle of a circular economy, for example by recycling agricultural waste into bioenergy.

3.3 ESG checklist RepRisk DZ BANK

Examination area	Criteria
Environment	- Environmental protection: e.g. action plan to ensure compliance with the 1.5°C target of the Paris Climate Agreement, reduction of climate-relevant emissions, use of renewable energies, careful use of resources, use of recycled materials in the production process, low water/electricity consumption, low pollution, impact on (local) ecosystems, etc., ESG reporting (e.g. CSRD, TCFD, GRI, Sustainability report)

Examination area	Criteria
	- Assessment of the risks to the environment, biodiversity, climate and health of employees/residents etc. caused by general business activities, including consideration of any mitigation measures (contingency plans, hazardous substance storage, accident prevention, informing customers about the environmental impact of the company's own products, etc.). - Technologies and measures for more sustainable, environmentally and climate-friendly corporate development / business activities (sustainable corporate processes, climate-friendly products, environmental management systems) - Voluntary commitments (e.g. commitment to the Paris Climate Agreement, the UN SDGs, the UN Global Compact), taking into account the level of ambition
Social	- Respect for human rights: for example, equal treatment under the law, freedom of opinion/religion, human dignity, personal rights, life and security (no slavery, servitude, arbitrary arrests), etc. - Protection of cultural heritage/property, cultural/memorial sites: for example, protection of indigenous populations and their culture, protection against resettlement, etc. - Labor standards: for example, safety in the workplace, anti-discrimination, no forced labor, no child labor, etc. - Dealing with existing risks relating to social aspects in the supply chain
Governance	- Appropriate human rights due diligence (e.g. UNGP or OECD guidelines) - Corruption: No (in-)direct bribery or other inadequate acceptance/granting/demand of advantages, processes to combat corruption - Tax avoidance/tax evasion: compliance with the applicable tax laws/regulations - Competition: No competition cartels and compliance with the respective regulations - Ambitious goals and measures for more sustainable corporate development
Overarching ESG ambition	- Proven further development / Sustainability implemented ESG commitment - ESG rating - ESG reporting - Critical reporting and negative stakeholder reaction

3.4 ESG credit risk score

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

Partial score	Criteria
E-credit risk score (transitory)	- CO₂emissions Scope 1, 2, 3 - Waste - Water consumption - Qualitative evaluation of the transformation - Downgrades for legal and reputational risks - Override
E-credit risk score	- Company location

(physical)	- Probability of occurrence of loss events
S credit risk score	- ESG Checklist RepRisk - S-Branch Score - Country adjustment
G credit risk score	- ESG Checklist RepRisk - G-industry score - Country adjustment

3.5 Overall assessment of risks associated with ESG factors

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

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

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

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

Imprint

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