

Group Responsible Financing Policy

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Local Heads of GLC, LLC, SME, PS, CRE, FI
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1. General

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

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

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

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

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

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

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

EG's goal is to create principles for responsible financing with regard to socially, environmentally and ethically sensitive sectors. With this goal in view EG has principles concerning the energy and the defence/weapons industry sector.

1.1 Objectives

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

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

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

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

1.2 Scope

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

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

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

2. Roles and Responsibilities

2.1 Business / Deal Originator

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

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

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

2.2 Group Assignment Office

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

The Group Corporates Assignment Office is the originator and owner of the Group Responsible Financing Policy.

It is staffed by the GLC Business Partner in EGB on operating side (i.e. Assignment Officer) and by the Head of Corporate Steering (i.e. ultimate policy owner).

The email address for the Group Assignment Office is: GCAssignmentOffice0356@erstegroup.com

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

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

2.3 Local & Group Non-financial risk management function

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

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

2.3.1 Local Non-financial risk management function

in each entity needs to:

- a) set up a list of documentation requirements to ensure a fast decision process and compliance of the planned activity/deal transaction with national, European and international laws and regulations (e.g. War Material Act, Foreign Trade Act, Banking Act, international and European treaties, conventions and embargoes, etc.) and internal policies at any time.
- b) check whether all legally required documents were provided (e.g. export license, environmental impact assessment, KYC Check, etc.). These need to be filed locally. A confirmation of completeness of the documentation originating from Business needs to be sent to Group Non-financial risk management function.
- c) supervise whether Business complies with the Responsible Financing Policy Process (see Chapter 3) and escalates to higher operational decision levels, if the Non-financial risk assessment demands it. Furthermore, it informs Group Non-financial risk management function about any outcome of the Risk Return Decision assessment done by Business and validates the Reputational Risk scaling estimated by Business

2.3.2 Group Non-financial risk management function

- a) holds the ownership of the Risk assessment in the Risk Return Decision i.e. they have the right to question and challenge the risk assessment of Business and local Non-financial risk management function
- b) holds the ownership of the Responsible Financing Country Index (RFCI) (see Chapter 3.1) and needs to update it on regular basis
- c) needs to inform the Group AO about potential deals which might breach the policy and make all documents (e.g. transaction description, local confirmation of documentation, further email exchanges etc.) available
- d) has to be informed in case of Group relevance (i.e. the inherent non-financial risk could potentially affect the entire EG) or Holding involvement in the transaction

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

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

3. Responsible Financing Policy Process

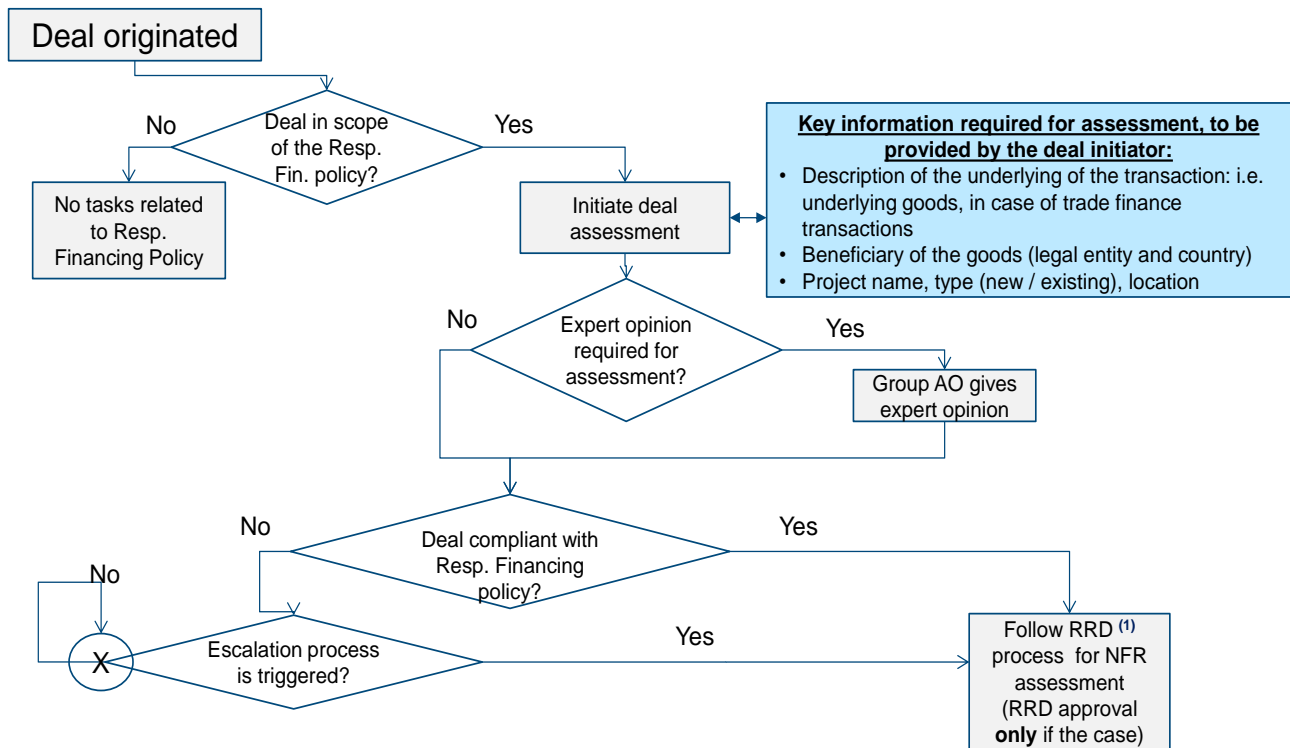
The following chapter describes each stage through which the potentially sensitive deal needs to pass. The deal originators are strictly obliged to go through the process without evading intermediary steps. The following steps come after the deal origination and need to be performed by the deal originator:

- 1.) Verify whether the deal is in scope of the local Responsible Financing policy. In case the deal is:
 - a. not in scope, no further activities related to the Group Responsible Financing Policy are required
 - b. in scope, then the deal needs to be assessed according to the principles outlined in chapter 4 and 5 of this policy
- 2.) Assess whether the deal is compliant to the policy. First evaluate if an expert opinion from Group AO is needed for the assessment. If:
 - a. an expert opinion is needed than the deal originator has to provide complete data on the deal for the assessment to be possible (i.e. beneficiary, originator, underlying goods or project, destination country, etc.) in order for the Group AO to assess the deal's eligibility under the policy. Based on the provided data, the Group AO shall provide their opinion within max 1 working day.
 - b. an expert opinion is not needed, then the eligibility of the deal can be assessed directly by the deal originator. In this case the Group AO needs to be informed within one working day that the deal was processed and assessed compliant.

In case the planned deal is

- c. **compliant** with the Group Responsible Financing Policy, then the Risk Return Decision (RRD) process is followed further in order to assess the Non-financial risk profile of the transaction (see [Annex 2 Ref 1](#)).
- d. **not compliant** with the Responsible Financing policy, the deal originator could escalate to higher decision levels, in which case the involvement of the Group AO and Non-financial risk management function is required to give the expert opinion. The final decision and approval authority is reached according to the criteria and process set out in the RRD procedure.

Figure 1: Responsible Financing Policy Process Overview



- 1) Depending on the level of the non-financial risk assessed by Business and challenged by Group or Local NFR according to the criteria set out in the Risk Return Decision procedure, either a simplified documentation (via email) or a full documentation via an RRD template is needed. For details see the Risk Return Decision Procedure (see Annex 2 Ref 1)

3.1 Responsible Financing Country Index

The RFCI bundles a number of internationally accepted indices measuring the status of the covered country regarding legal, political and economic standards¹. A predetermined procedure by Group Non-financial risk management function assesses a final score for the Defense/Weapons industry and the Energy Sector for each country. This is used as input for the decision grid allowing transactions with different types of goods in different geographies. In case there is no value in the RFCI for a country, the local reputational risk management function needs to be consulted.

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

For the specific countries’ decision grid for Defense/Weapons industry see Chapter 4.4 and for Energy Sector see Chapter 5.4. The precise application of the decision grids are explained in the respective chapters.

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

4. Defense / Weapons Industry

4.1 Defense / Weapons Industry Objectives

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

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

Erste Group does not provide financing, advisory or any other financial services to any part of the above mentioned Defense/Weapons Industry, if the weapons concerned are currently prohibited by international law.

4.2 Defense/Weapons Industry Scope

The Defense/Weapons Industry includes on the one hand certain types of weapons that are necessary to support ethical, sound and internationally accepted goals such as UN and/or EU mandated missions or national self-defense. On the other hand it includes weapons that are prohibited by international law like biological weapons, anti-personnel mines, cluster bombs and munitions as well as weapons containing depleted uranium.

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

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

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

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

4.3 Guidelines

Erste Group will only provide financing, financial advisory or other banking services to the Defense / Weapons Industry if such projects or transactions can reduce potential human casualties.

Erste Group will not finance transactions linked to nuclear weapons, biological weapons, chemical weapons, anti-personnel and land mines, cluster munitions.

This premise is reflected in the joint mode of operation of the RFCI (see Chapter 3.1) and the related Decision Grid (see Chapter 4.4). The decision grid determines whether certain types of potential relevant deals to certain destination countries are eligible.

The underlying principles of the Decision grid ensure that:

- there is no risk that the weapons are to be used for violations of international humanitarian treaties and human rights.
- the deal beneficiary and / or the destination of the underlying goods is located in a country that is not subject to an United Nations, European Union or relevant national weapons embargo and that complies with all international treaties and conventions on the following topics:
 - Nuclear weapons
 - Biological weapon & chemical weapons
 - Conventional weapons¹
 - Dual-use goods (for military use)
- the deal is not involving the manufacturing, maintaining, storing or trading of nuclear, biological and chemical weapons of mass destruction, anti-personnel mines, cluster munitions, weapons containing depleted uranium and uranium 238 or its essential components

Additional criteria must be fulfilled regarding all the transaction partners:

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

4.4 Defense / Weapons Industry – Decision Grid

Armament deals are categorized into 3 groups. The main rule is that if a weapon has a feature which enables its upgrading into a more aggressive item, it then falls into the more dangerous category. The categories are:

(1) Active military products: such as Conventional Weapons¹ separated in:

- Large arms i.e. manufactured to military specifications (e.g. large calibers cannons, grenades, rocket launchers, missiles, tanks, assault helicopters and airplanes etc.)
- Small arms i.e. any man-portable lethal weapon designed for individual use as defined by UN Report of the Panel of Governmental Experts on Small Arms A/52/298 27 August 1997 i.e.:
 - (i) Revolvers and self-loading pistols;
 - (ii) Rifles and carbines;
 - (iii) Sub-machine-guns;
 - (iv) Assault rifles; and
 - (v) Light machine-guns.

¹ Conventional weapons are not weapons of mass destruction (e.g. nuclear, biological, and chemical weapons). They include small arms and light weapons, as well as (non-weapons of mass destruction) bombs, shells, rockets, missiles

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

(2) Neutral military products: Disarmament equipment e.g. mine detectors, bomb squad robots etc.

For avoidance of doubt, spare parts and components (i.e. software and electrical components) that are used in the assembling of a military product shall be assessed together and in the same way as the respective product e.g. spare components such as software or wiring used to assemble an active weapon shall also be considered active military products.

Dual use goods – products which can serve both a civilian and a military purpose – can be categorized into the following categories and have to be assessed accordingly either by the deal originator or the Group AO if the expert opinion is asked for:

- Active dual use goods if they can be equipped or be part of an active weapon / military product (e.g. a drone that can be equipped or upgraded with a weapon)
- Passive dual use goods if they are not part of an active weapon but are used by a military organization (e.g. radar or air traffic control equipment when used by military aviation or in a military airport)

Large arms shall only be permitted for financing within our home market i.e. end user: national army of Erste Group countries and EU member countries.

All arms shall only be permitted for financing in case end users are governments, governmental organizations and state owned organizations (e.g. police forces) in accordance with RFCI and the below figure depending on individual Risk Return Decision as described in Section 3 of the Risk Return Decision procedure.

In general the eligibility for financing for the different types of goods is described in the figure below

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

Goods / country eligibility matrix for Defense / Weapons Industry

	Controversial weapons	Large arms	Small arms	Passive	Neutral	
Sanctions& Embargoes [10] Country XYZ	✗	✗	✗	✗	✗	Controversial weapons: nuclear, biological, chemical weapons, anti-personnel, sea and land mines and cluster munitions
...						
High RFCI [8-9] Country XYZ	✗	✗	✗	✗	✓	Large arms: e.g. large calibers cannons, grenades, rocket launchers, missiles, tanks, assault helicopters and airplanes etc.
...						
Medium RFCI [5-7] Country XYZ	✗	✗	✗	✓	✓	Small arms: any man-portable lethal weapon designed for individual use e.g. revolvers, pistols, rifles, carbines, assault rifles, light machine-guns
...						
Low RFCI [1 -4] Country XYZ	✗	✗	✓	✓	✓	Passive: Helmets & bullet-proof vests, combat clothing etc.
...						
EU countries Country XYZ	✗	✓	✓	✓	✓	Neutral: Disarmament Equipment e.g. Mine detectors, bomb squad robots etc.
...						

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

5. Energy Sector

5.1 Objectives

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

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

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

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

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

5.2 Scope

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

- (1) The exploitation, production, transportation, storage, distribution, waste management, trading and refining of oil & gas (including processing of other hydrocarbons), solid fossil fuels and nuclear energy sources
- (2) Production, transportation, storage, distribution of biofuels and other renewable sources
- (3) The generation of power and/or heat/cold by means of fossil-fired power plants (such as oil, gas and coal-fired power plants), nuclear power plants and power plants based on renewable energy sources (hydro, wind, thermal solar and photovoltaic solar, geothermal, biogas and biomass energy)
- (4) The transmission and distribution of power or heat/cold generated by such power plants
- (5) The production of technical components (i.e. semi-finished and finished products, incl. spare parts) for plants of the aforementioned energy sources. Financing of production of components in general is not in scope, the components shall only be considered in scope when the components can be assigned to only a specific type of power plant (e.g. transformers for a nuclear power plant or transformers for a gas thermal power plant)
- (6) Projects in connection with the phase-out/closing of power plants (nuclear, thermal, hydro, etc.)
- (7) Services related to the aforementioned activities under (1), (2), (3), (4), (5) and (6) (e.g. maintenance, construction of access road to a power plant)

For the avoidance of doubt:

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

5.3 Guidelines

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

- are in compliance with international i.e. European environmental laws or the International Union for Conservation of Nature (IUCN) and human rights standards, including UN / EU sanctions or embargos are eligible to the destination country according to Group Non-financial risk management function 's RFCI - Decision grid (for nuclear energy sector)
- are in line with state of the art technology for emission and security performance
- are using equipment that complies with the Best Available Technology (BAT) standard; if this is not the case, the information is included in the RRD and such exception is sufficiently justified and approved
- are not located in protected areas such as those designated as part of Natura 2000¹ in accordance to EU Directive 92/43/EWG² or any locally designated protected areas

and **in particular**, concerning

5.3.1 Oil & Gas

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

5.3.2 Oil Sand / Tar sand

- no project related to oil/tar sand shall be financed

¹ [see Annex 2](#) Ref 4

² [see Annex 2](#) Ref 5

5.3.3 Biofuels

- have no adverse effects on the sustainable usage of soils, critical natural habitats such as rain forests or critical freshwater resources,
- do not substantially increase water usage compared to the previous usage of the area from which biomass originates,
- clearly identify the source of the biomass they use, and in compliance with EU Directive 2009/28/EC Art 17 3ff (see [Annex 2](#) Ref 3) have no negative impact on food supply security and bio diversity;

5.3.4 Coal

Erste Group has a very restrictive approach concerning projects related to coal (as a fossil fuel). In order to reduce CO₂ emissions and to comply with the various international climate agreements (e.g. COP21, Paris Agreement) a strict categorization is set. This divides coal related projects and transactions into eligible and non-eligible to financing.

The main aspect is whether the deal leads to any improvement or at least to the preservation of the environment. This includes deals which target to implement physical (e.g. better security system against accidents or violent attacks etc.), efficiency increase (more efficient turbines, transformers etc.) or environmental safety measures (e.g. more efficient filters etc.) related to the energy production.

In conclusion, the transactions are categorized into:

1. Non-Eligible (i.e. prohibited)

- a) "Mountain top removal" due to mining activities
- b) Project / acquisition financing of new or extended mining of hard coal and lignite, support activities of mining and quarrying
- c) Project finance of new coal-fired power plants (unless they are replacing old, less efficient capacities and are vital for the stability of the electricity supply in the country/region which will be treated as environmental upgrades of existing power plants)
- d) Financing of traders of coal as commodity on national and international commodity exchange markets (having more than 1/3 of business turnover from coal trading)

2. Eligible

- a) Industries linked to Coal mining (e.g. "equipment industry" – Manufacture of machinery for mining and quarrying which can be used for other than coal as well); except for companies having most of business (higher than 50% of total business revenues) in coal mining equipment
- b) Investments that would increase the safety and environmental standards for the existing coal power plants with reduced or at least the same total CO₂ emissions (e.g. electricity/heat co-generation); taking also into consideration if the project replaces other less efficient plants. See table below for gCO₂/kWh emissions thresholds

The following thresholds need to be fulfilled for new or material upgrading of fossil fired power plants (FFPPs) in order to ensure a sufficient efficiency. (Total CO₂ emissions compared with the total energy production: (electric energy, heat, cool, transmission energy) (to be reviewed yearly)

	Lignite Coal / Brown Coal	Hard Coal / Black Coal	Crude Oil	Natural Gas	Fracking Oil / Gas
Limits for total Carbon Intensity (gCO ₂ /kWh) for new / upgraded old FFPPs	750	750	700	500	-

- c) Machinery, spare parts for coal power plants (e.g. transformers, boilers, turbo-generators etc.) including trade and export finance
- d) Coal-related activities when used in different industries (e.g. steel production, pharmaceuticals, coke oven products etc.).
- e) Transportation of coal
- f) Coal trading (i.e. Buying and Selling) , including trade finance connected with imports and exports of coal (e.g. letters of credit, guarantees)

The client relationship with a group which has existing coal related activities shall be continued, but ensuring that specific transactions done with the respective group are compliant with the principles of the policy (i.e. new project finance deals).

5.3.5 Nuclear

Erste Group has a very restrictive approach concerning projects in the nuclear energy industry. Due to the long radioactive half-life of nuclear waste and its difficult final isolation, it is in Erste Group's interest not to extend nuclear energy capacities.

Therefore, transactions (defined as financing, advisory or other banking services) in this sector can be categorized as follows:

1. Non-Eligible (i.e. prohibited)

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

2. Eligible

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

5.3.6 Hydro Power and other Renewables

- Hydro plant shall comply with the World Commission on Dams (WCD) Framework (see [Annex 2 Ref 6](#)) and international conventions such as the European Union Water Framework Directive (see [Annex 2 Ref 7](#)),
- has no adverse effects on critical natural habitats or critical freshwater resources, while projects in protected areas (e.g. Natura 2000¹ as set by the EU Directive 92/43/EWG¹) are to be considered un-eligible for any financing, advisory or banking services

¹ See [Annex 2 Ref 4](#)

5.4 Energy Sector – Decision Grid

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

- i) Nuclear,
- ii) Coal, Oil & Gas
- iii) Renewable and others

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

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

- Nuclear: 1 to 4 and limitations as stated for non-eligible cases (see Chapter [5.3, Nuclear, Non-eligible transactions](#))
- Coal, Oil and Gas: no limitation except non-eligible cases (see Chapter [5.3 Coal, Non-eligible transactions](#))
- Renewable and other: no limitation

The RFCI for the Energy Sector is to be found in the [Annex 1](#).

¹ See [Annex 2](#) Ref 5

6. Abbreviations

AML – Anti-Money-Laundering

AO – Assignment Office

BAT – Best Available Technology

C&M – Corporates and Markets

CEE – Central-and Eastern Europe

CFO – Chief Finance Officer

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

CRE – Commercial Real Estate

CRO – Chief Risk Officer

EG – Erste Group

FI – Financial Institutions

FFPP - Fossil Fired Power Plants

GOCC - Group Operational Conduct Committee

GLC – Group Large Corporates

GM – Group Markets

KYC – Know Your Customer

LLC – Local Large Corporates

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

PS – Public Sector

RFCI - Responsible Financing Country Index

ROCC - Regional Operational Conduct Committee

RRD – Risk / Return Decision

SE&E – Social, Environmental and Economic development

SME – Small and Medium-sized Enterprises

SPoC - Single Point of Contact

7. Annex

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Annex 1 Responsible Financing Country Index (RFCI)

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

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

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

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

Annex 2 Related Documents and References

Ref	Document (name/title)	Link or Detail
1	Risk Return Decision Procedure (EG_CRO_C_0040)	https://intranet.ersteopen.net/Portal.Node/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Risk_Management/Compliance/Group_Risk_Return_Decisions_Procedure.en.html
2	Anti-Money Laundering, Know Your Customer, Foreign Account Tax Compliance Act and Common Reporting Standard Policy (EG_CRO_A_0021)	https://intranet.ersteopen.net/Portal.Node/groups/Business/SF_POLICIES/9999_Group_Policies_and_Procedures/Risk_Management/Compliance/Anti-Money_Laundering_Know_Your_Customer_and_Foreign.en.html
3	EU Directive 2009/28/EC	http://www.buildup.eu/sites/default/files/RES%20Directive%202009-28-EC.pdf
4	Natura 2000	http://ec.europa.eu/environment/nature/natura2000/index_en.htm
5	EU Directive 92/43/EWG	http://ec.europa.eu/environment/nature/legislation/habitatsdirective/index_en.htm
6	World Commission on Dams (WCD) Framework	http://www.unep.org/dams/WCD/report/WCD_DAMS%20report.pdf
7	European Union Water Framework Directive	http://ec.europa.eu/environment/water/water-framework/index_en.html

Table 1: Related Documents and References

Annex 3 Change Log

Version History	Approval Date	Section(s)	Changes	Author(s)	Approved by
1.0	2016-10-20	All	Origin	Józsa Máté	C&M Board
	2017-02-27				Holding Board
1.1	2018-06-26	3	clarification and update of process	Irina Podani Teglas	C&M Board Member (J. Sikela)
		4.4	update of classification of active military products as well as dual-use products		
		5	Clarification of eligible and non-eligible transactions for Nuclear segment		
	2018-09-20	applicability	Scope reduction -applicability of the policy- for sIT AT and EGIT INT	C&M Board Member (J. Sikela)	