

# ESG Exclusion Policy Creilan

02/2025

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# 1. Introduction

## 1.1. Purpose of the policy

In its ESG Policy, Crelan describes how ESG matters are integrated in its governance structure. It also explains how Crelan builds its strategic direction on the outcome of a double materiality analysis. One of the material topics identified is business conduct. Within the ESG strategy on business conduct, Crelan states that it “excludes harmful activities from its own activities

and banking services.” In this ESG Exclusion Policy, Crelan details which activities it excludes from which services and activities, because they cause harm to environmental, social or governance factors in society.





## 1.2. Scope of the policy

The ESG Exclusion Policy is part of the ESG Policy, and therefore has the same scope. It covers the Crelan Group (also referred to as “Crelan” in this document) as a whole, embracing all entities included in the consolidation through full integration. Crelan Group is formed by the cooperative company CrelanCo, the public limited company Crelan, the public limited company Europabank and other subsidiaries. Where subsidiaries diverge from this policy, Crelan’s ESG Office is consulted and the subsidiary’s Board of Directors (in which Crelan is represented) is required to validate the divergencies.

## 1.3. Structure of the policy

Firstly, the overarching principles behind the exclusion policy are explained. Then, for each of the four levers identified in the ESG Policy (Crelan as a company, as a lender, as an investment advisor and as an institutional counterparty) the ESG exclusion policy is detailed.

## 1.4. Implementation of the policy

This policy is the overarching ESG Exclusion Policy which applies to the entire bank. All business lines and support functions integrate in their policies and procedures – where necessary – references to this policy. The bank’s Internal Control framework and three lines of defence governance will ensure regular review of the policy’s implementation.

## 2. Context

This section sketches Crelan's context and how that impacts how this policy should be read. Next, the balance between exclusion and engagement

is discussed. Finally, this balance is made concrete using the different ESG levers of Crelan.

### 2.1. Crelan's business context

Crelan is a Belgian bank, which provides banking services to Belgian retail, SME and agriculture customers. This is important to keep in mind, as various exclusions mentioned in this policy (e.g. the financing of oil extraction, or activities with child labour) are simply not in Crelan's business

scope. In reading this policy, it needs to be kept in mind that some exclusions are "passive" due to Crelan's business profile and do not lead to missed business opportunities, while others are "active" and Crelan is actively rejecting potential business opportunities due to this ESG Exclusion Policy.

### 2.2. Implementation: exclusion vs. engagement

#### 2.2.1. Exclusion vs. engagement

Crelan recognizes that a sustainable business approach should carefully balance between engagement and exclusion. As a cooperative bank, an approach of engagement is usually the preferred option: Crelan wants to work together to create change, rather than exclude. However, an engagement-only policy would require immense efforts and is also unlikely to generate change with business counterparties where Crelan has little influence. Crelan therefore opts for an engagement-oriented approach for core activities where there is potential for a high sustainability return on effort and an exclusion-oriented approach for non-core activities where engagement would have a low sustainability return on effort. This is made concrete in section 2.3.

#### 2.2.2. Existing contractual engagements vs. new contractual engagements

Crelan honours existing contractual relationships. In case any of those relationships are linked to activities excluded as described in this policy, Crelan will engage with the counterparty to remediate the harmful activities where possible, prioritising in line with the fifth column in the table in section 2.3. When contracts are up for renewal, or requests are made for new contractual relationships, exclusion applies and incumbents as well as new candidates are subject to exclusion.

## 2.3. Differentiating between levers

In its ESG Policy, Crelan distinguishes between four different levers. For each of these levers, relevant activities for ESG exclusion are identified. Based on the impact an exclusion by Crelan can have on the

counterparty on the one hand and the number of counterparties on the other hand, a focus is put on exclusion or engagement.

Lever: Crelan as a(n) ...	Relevant activity	Impact on counterparty	Number of counterparties	Focus on exclusion or engagement?
Company	Purchaser of goods and services	Mostly immaterial: Crelan is rarely a substantial revenue source for its suppliers.	High, but concentration on roughly one hundred	Exclusion-first, but some engagement for most material existing relationships
	Sponsorship (marketing), CrelanCo Foundation	Material, as there may be a significant dependency on Crelan	Low	Engagement-first
Lender	Lender to small businesses	Material, as Crelan is likely to a significant or even sole lender to its customers	Very high	Engagement-first for existing contracts and relationships, exclusion for new ones
Investment adviser	Investment advice for private individuals and small businesses	Mostly immaterial as Crelan's customers are unlikely to be substantial shareholders in the companies their investments land in	Very high	Exclusion-first, with engagement by asset managers encouraged
Institutional counterparty	Own investment book	Mostly immaterial as Crelan is unlikely to be a significant investor for the companies and countries it invests in.	Low	Exclusion-only

## 3. Crelan as a company

### 3.1. Sponsorship & CrelanCo Foundation

This section applies to all sponsorship activities undertaken by the company, including but not limited to events, programmes, and initiatives. It also covers the activities of CrelanCo Foundation.

Crelan is committed to ethical business practices and corporate social responsibility. As such, it will not provide sponsorship or other kind of support to any activity, organisation, or individual that is involved in the activities described in chapter 4 – Crelan as a lender.

### 3.2. Procurement

Crelan distinguishes between its contracts with suppliers in terms of materiality and risk of the relationship according to the Vendor Risk Framework (VRF): Critical or non-Critical agreements. Subsequently, suppliers themselves are also categorized as Critical or non-Critical.

ESG criteria will be incorporated into the VRF via an ESG rating.

The ESG rating will be translated into 4 zones

- very low ESG performance -> Black Zone
- low ESG performance -> Red Zone
- medium ESG performance -> Orange Zone
- high ESG performance -> Green Zone.

For new Critical Suppliers/Contracts, in the sourcing phase

- new Critical suppliers that score in Black Zone will be excluded
- new Critical suppliers that score in Red Zone will be scored negatively in the evaluation

- new Critical suppliers that score in Orange Zone will be scored neutral in the evaluation
- new Critical suppliers that score in Green Zone will be scored positively in the evaluation.

For existing Critical Suppliers/Contracts, a regular ESG review will take place.

- existing suppliers will be encouraged to improve their ESG score
- existing suppliers with decreasing ESG score (to Red/Black Zone) will be further reviewed and if relevant excluded from future sourcing exercises (Black Zone).

For Critical Suppliers/Contracts, where there is also an ESG sensitive service/product procured

- contractual ESG obligations will be added to the contract
- failure to comply with ESG obligations shall be considered as a (material) breach of the contract.

## 4. Crelan as a lender

The underlying principle is that loans are granted in a responsible manner and activities with a potentially harmful impact are excluded. Under no circumstances does Crelan finance companies that derive direct income from the activities, companies and sectors excluded below. No derogations to these exclusions are possible.

The guidelines also apply to “partner companies”<sup>1</sup> that derive indirect income from the excluded activities.

For example: we also do not grant credit to a patrimonial company that manages the building in which a partner company that belongs to one of the excluded sectors operates.

### 4.1. Illegal activities

Crelan only finances activities in full compliance with current legislation, standards and norms. All companies or activities linked to illegal practices are excluded. The items below are obvious examples, but do not aim to represent an exhaustive list.

#### 4.1.1. Drug industry

Crelan does not provide financing to activities involved in illegal drugs, such as the production, trafficking and packaging of illegal drugs.

#### 4.1.2. Tax evasion

Crelan does not provide financing to businesses or activities linked to tax evasion.

#### 4.1.3. Money laundering

Crelan does not provide financing to businesses or activities with the purpose of concealing the origin of money and making criminal proceeds invisible to the law.

#### 4.1.4. Terrorism

Crelan does not provide financing to activities linked to terrorism.

<sup>1</sup> Partner companies are companies between which there is a participating relationship - directly or together with one or more related companies - of 25% or more of the capital or voting rights.



## 4.2. Climate change

Mindful of the impact of borrowers' activities on the environment and the surrounding area, Crelan does not provide financing to the following carbon-intensive activities.

### 4.2.1. Fossil fuel: oil and gas

Crelan does not provide financing to

- companies that generate at least 5% of sales from retail sales of unconventional oil and/or gas<sup>2</sup>
- companies that generate at least 5% of sales from wholesale<sup>3</sup> of oil and/or natural gas
- suppliers that generate at least 5% of sales from trading with the unconventional oil and gas industry
- oil refineries
- companies that extract both conventional and unconventional oil and/or gas (only relevant for international activities, as these activities do not exist in Belgium)
- companies that generate at least 5% of revenue from exploration and production of oil and gas from the Arctic region<sup>4</sup> (only relevant for international activities, as these activities do not exist in Belgium)
- companies engaged in the exploration and development of new oil and gas fields (only relevant for international activities, as these activities do not exist in Belgium).

### 4.2.2. Fossil fuel: coal

Crelan does not provide financing to

- companies that generate at least 5% of sales from wholesale of (thermal) coal
- suppliers that generate at least 5% of sales from trading with the (thermal) coal industry.



<sup>2</sup> Unconventional oil and gas are: Shale oil, shale gas and tar sands.

<sup>3</sup> Thus, the retailing of conventional oil and/or gas is not excluded. E.g. A local supplier of fuel oil may receive a credit.

<sup>4</sup> Definition of Arctic region according to the Arctic Monitoring and Assessment Program (AMAP)

### 4.2.3. Power generation

Crelan does not provide financing to

- companies involved in the development of new coal power plants
- companies whose sales from generating electricity from coal is at least 10%
- existing professional customers who have no plan to phase out their coal-based power generation capacity by 2030
- new professional customers with coal-based power generation capacity of more than 10%
- new professional customers with coal-based energy production capacity of maximum 10% of its total capacity and no plan to phase it out by 2030
- new nuclear power plants unless they are essential to the energy transition and meet International Atomic Energy Agency (IAEA) standards.

## 4.3. Biodiversity

Crelan recognizes the pressure on nature due to human activity, and therefore does not want to finance activities harmful to nature.

### 4.3.1. Animal welfare

Crelan does not provide financing to companies

- or activities that deal in endangered species covered by the CITES Convention and/or the IUCN Red List of Threatened Species
- that generate at least 5% of sales from the production, manufacture and/or wholesale<sup>5</sup> of fur and exotic leather (and products derived therefrom)
- that breed animals intended for entertainment activities involving animal fighting
- or activities that use endangered species or non-human primates for testing/experimental purposes, unless approved by the relevant governmental Ethics Committee
- that generate at least 5% of sales from the production of cosmetic products tested on animals
- or activities that do not respect EU regulations on animal welfare and protection.

### 4.3.2. Fisheries

Crelan does not provide financing to companies or activities

- linked to the use of driftnets > 2.5 km
- linked to electric fishing
- linked to overfishing
- linked to illegal, unregulated and unreported fishing practices
- engaged in or linked to fishing and/or trading of endangered species not covered by the CITES Convention
  - that do not comply with EU regulations on marine life and fisheries
- linked to shark fin hunting (only relevant for international activities, as these activities do not exist in Belgium)
- To businesses or activities linked to commercial whaling (only relevant for international activities, as these activities do not exist in Belgium)
- To businesses or activities linked to the use of dynamite to capture marine (only relevant for international activities, as these activities do not exist in Belgium).

<sup>5</sup> Retailers of fur and exotic leather (and derived products) are not excluded.

### 4.3.3. Forestry

Crelan does not provide financing to companies or activities

- that illegally harvest wood
- that use illegally logged timber
- executing deforestation in High Carbon Stock areas
- executing deforestation in High Conservation Value areas
- in production forests and timber plantations that do not have a plan to be Forest Stewardship Council (FSC) certified by 2030.

### 4.3.4. Nature

Crelan does not provide financing to companies or activities

- that have a negative impact on UNESCO protected areas through their operations and/or through the areas they manage
- that have a negative impact on Ramsar Convention on Wetlands protected areas through their business operations and/or through the areas they manage
- located in or significantly impacting International Union for the Conservation of Nature (IUCN) Category 1 and 2 protected areas (only relevant for international activities, as these areas do not exist in Belgium).

## 4.4. Labour rights and human rights

When granting a credit, conditions are also imposed with regard to labour and human rights, which are encapsulated in the ESG scorecard (social section).

Crelan does not provide financing to companies

- that use forced labor
- that use child labor
- that do not recognize the right to collective bargaining
- that do not have safe and healthy working conditions<sup>6</sup>
- that do not pay their workers a sectoral minimum wage

### 4.3.5. Mining

Crelan does not provide financing to companies or activities

- linked to deep sea mining
- linked to the development of new (thermal) coal mines
- in (thermal) coal mining
- linked to asbestos mining
- in mining via mountaintop removal.

### 4.3.6. Palm oil

Crelan does not provide financing to companies linked to palm oil that are not members of the Roundtable on Sustainable Palm Oil (RSPO).



- that regularly or seriously violate the principles of labor and human rights from the UN Global Compact principles/ labor standards from ILO guidelines
- that do not respect human rights

- or activities linked to human trafficking
- that discriminate<sup>7</sup> in employment and occupation
- that do not have zero tolerance policies regarding gender-based violence in the

workplace, including verbal, physical and sexual harassment

- that do not have zero tolerance policies regarding all forms of gender discrimination in the workplace.

## 4.5. Weapons

Before further specifying exclusions related to weapons, an understanding of specific terminology is necessary.

- Controversial weapons are: anti-personnel mines, cluster munitions, biological weapons, chemical weapons, depleted uranium and nuclear weapons.
- Conventional weapons are traditional weapons designed for military purposes without being classified as weapons of mass destruction.
- Civilian firearms are firearms that are imported, exported, transited or transferred for other than military or paramilitary use, excluding automatic firearms and firearms of caliber classified as military by the Permanent International Portable Firearms Testing Commission. For example, hunting and sporting weapons.

Crelan permits the financing of civilian firearms (e.g., the arms dealer of hunting rifles may receive credit). Consequently, the exclusion criteria described below relate only to controversial and unconventional weapons.

Crelan does not provide financing to companies or activities

- involved in or activities linked to the use, production, development, maintenance, testing, storage or trade of controversial weapons
- involved in producing or trading conventional weapons that do not meet the following conditions<sup>8</sup> :
  - the end user must be a government agency of a NATO member state, an EU member state, Switzerland or of Ukraine (in the current political situation)
  - the parties involved must all be unambiguously identifiable
  - all the geographical stages of the shipment must be identifiable
  - the companies or activities must comply with international regulations
  - to companies that do not treat dual-use goods as military goods when they have a non-civilian purpose
  - to companies or activities that supply military goods to countries subject to a United Nations arms embargo or a relevant multilateral arms embargo.

## 4.6. Corruption

Crelan does not provide financing to companies or activities

- that violate the principle of anti-corruption from the UN Global Compact
- linked to abuse of power.

<sup>7</sup> Discriminate on the grounds of: race, color, nationality, ancestry, ethnicity, disability, religion, sexual orientation, age, ability, marital status, political beliefs, union beliefs, health status, a physical/genetic characteristic, birth, social origin, gender and/or language.

<sup>8</sup> This exclusion rule applies to producers and traders as well as those involved in the production or trade of conventional weapons. E.g. a producer of conventional arms may receive credit provided he meets the four conditions set forth. A producer who provides the infrastructure for calibrating weapons can receive credit only if the producer of conventional weapons meets the four conditions.

## 4.7. Other societal issues

### 4.7.1. Sex Industry

Crelan does not provide financing to companies or activities related to prostitution or pornography.

### 4.7.2. Gambling Industry

Crelan does not provide financing to companies whose share of sales from gambling activities or products is greater than or equal to 5%, excluding the Belgian National Lottery.

### 4.7.3. Tobacco Industry

Crelan does not provide financing to companies

- that produce tobacco or tobacco-based products
- that produce e-cigarettes
- that generate at least 5% of their sales from wholesale<sup>9</sup> of tobacco(s products) and/or e-cigarettes
- that generate at least 5% of their sales from trade with the tobacco and/or e-cigarette industry.

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<sup>9</sup> Retail sales of tobacco (products) and/or e-cigarettes are not excluded.



## 5. Crelan as an investment adviser

Both private and professional customers can receive advice from Crelan on how to invest in financial products. Crelan considers exclusion criteria for the products that can be offered by Crelan bank agents to its clients. Crelan also offers

its customers to trade in financial instruments without receiving advice from a Crelan bank agent (“execution-only”). As it is the client that decides independently, Crelan does not apply exclusion criteria for this service.

### 5.1. Investment funds

Crelan is a distributor of investment funds, managed by third-party asset managers. Crelan requires those asset managers to:

- exclude from their investment universe companies that do not respect the 10 principles of the UN Global Compact (UNGC). These cover four categories: 1) human rights, 2) labor, 3) environment and 4) anti-corruption
- exclude from their investment universe companies that cause, contribute to or are linked to significant violations of international norms and standards, such as (non-exhaustive and non-cumulative list) the activity-based exclusion list of the International Finance Corporation, a subsidiary of the World Bank, the conventions of the International Labour Organization (ILO), the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs). These standards cover human rights, society, labor and the environment
- exclude from their investment universe companies active in controversial weapons (anti-personnel mines, cluster bombs, depleted uranium, chemical and biological weapons, white phosphorus, etc.) as well as companies in breach of the Treaty on the Non-Proliferation of Nuclear Weapons;
- exclude tobacco-producing companies from their investment universe
- have implemented a credible approach to combating deforestation and the conversion of natural ecosystems to protect biodiversity
- have a clear and restrictive approach to fossil fuels, namely coal, oil and gas (including tar sands, shale oil and gas, and the Arctic). A clear and restrictive approach can be either the total exclusion of investments in fossil fuels (exploration, extraction, refining or transport), or being a signatory to the “Net Zero Asset Managers initiative”
- have defined an exclusion policy for countries exposed to serious human rights violations
- have an exclusion policy for companies involved in serious controversies, so as not to “cause significant harm”.

Additional exclusion may be applied by fund managers.

### 5.2. Bonds

For the selection of government and corporate bonds that may be advised on by Crelan agents, the Norwegian Government Pension Fund Global’s exclusion list is used. See section 6 for more detail. This exclusion list’s principles largely align with those of the asset managers described in section 5.1, and is practical to implement.

## 5.3. Structured notes

The Norwegian Government Pension Fund Global's exclusion list is also used, where appropriate, when selecting indices for the construction of structured notes. As, due to regulation, these indices must be benchmark indices, Crelan accepts that a maximum of 10% of the companies making

up the index may appear on the exclusion list. However, whenever possible, the Bank will favour the use of an index that does not include excluded companies.



## 6. Crelan as an institutional counterparty

Crelan has an investment portfolio, whose primary objective is to manage its liquidity buffer while also optimizing profitability. The investment portfolio is built while taking into consideration the Norwegian Government Pension Fund Global's exclusion list<sup>10</sup>.

This exclusion list is based on the "Guidelines for Observation and Exclusion of companies from the Government Pension Fund Global"<sup>11</sup>. Crelan uses this exclusion list as it covers the investment universe for Crelan's own investment portfolio and it is generally considered as a market best practice to exclude companies involved in:

- the development or production of weapons or key components of weapons that violate fundamental humanitarian principles through their normal use
- significant activities linked to mining of thermal coal or electricity production via thermal coal
- serious or systematic human rights violations
- serious violations of the rights of individuals in situations of war or conflict
- the sale of weapons to states engaged in armed conflict that use the weapons in ways that constitute serious and systematic violations of the international rules on the conduct of hostilities
- the sale of weapons or military materiel to states that are subject to investment restrictions
- severe environmental damage
- acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions
- gross corruption or other serious financial crime
- other particularly serious violations of fundamental ethical norms.

<sup>10</sup> <https://www.nbim.no/en/responsible-investment/ethical-exclusions/exclusion-of-companies/>

<sup>11</sup> [https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05\\_gpfg\\_guidelines\\_observation\\_exclusion.pdf](https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05_gpfg_guidelines_observation_exclusion.pdf)

