

## Responsible lending policy in detail

### I. Introduction

Van Lanschot Kempfen (VLK) has had a responsible lending policy in place since 2010. Effective from early 2011, we have – where possible and where relevant – assessed all new and existing commercial loans, filtering them for any involvement in ten different corporate social responsibility (CSR) themes. If a borrower does not or does not fully meet the requirements of its responsible lending policy, we will attempt to achieve improvement by pursuing an engagement strategy.

Our responsible lending policy is underpinned by the following guidelines and principles, among other resources:

1. Our core values<sup>1</sup> and the outcomes of engagement with our stakeholders
2. The United Nations Global Compact (UNGC)
3. The OECD Guidelines for Multinational Enterprises (OECD Guidelines)
4. The United Nations Guiding Principles on Business and Human Rights (UNGPs)
5. The conventions and standards of the International Labour Organisation (ILO)

Drawing on these resources, we have identified the following themes to inform our responsible lending policy:

1. Human rights violations
2. Fundamental labour rights
3. Environment
4. Anti-corruption
5. Weapons
6. Tobacco
7. Fur
8. Gambling
9. Pornography
10. Animal testing
11. Nuclear energy

The following sections (II-1 through II-11) go into these themes in more detail.

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<sup>1</sup> Our core values are entrepreneurial spirit, craftsmanship, dedication, discretion and specialisation.

## II-1 Human rights violations

### Background

Human rights are universal to all people regardless of their nationality, place of residence, gender, ethnicity, race, religion, language, etc. Human rights are not limited to civil rights; they also include political, economic, social and cultural rights. These rights are typically expressed in terms of freedoms: freedom of religion, expression, association and education. Other universal human rights include the right to be free from slavery or servitude, torture, prejudice, discrimination and racism. Also, the right to work, to free choice of employment, to just and favourable conditions of work, and to protection against joblessness. This list of human rights is not exhaustive.

The first two of the ten principles of the United Nations Global Compact, to which Van Lanschot Kempfen is a signatory, are human rights statements:

- 1) Signatories should support and respect the protection of internationally proclaimed human rights;
- 2) Signatories should make sure that they are not complicit in human rights violations.

The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights also contain various provisions on human rights.

### Our position on human rights

As a responsible wealth manager, we recognise that we have a responsibility to respect human rights, together with governments, companies/organisations and individuals. Human rights are as set out in the International Bill of Human Rights, consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.<sup>2</sup> These human rights are also enshrined in the international standards that VLK supports, i.e. the UN Global Compact<sup>3</sup>, the UN Guiding Principles on Human Rights (UNGPs)<sup>4</sup> and the OECD Guidelines for Multinational Enterprises (OECD Guidelines)<sup>5</sup>.

We aim to respect human rights (as defined above) at all times, in all our different roles, including in our capacity as a lender. This also means that – in so far as relevant and possible – we will engage our borrowers on respecting the human rights as set out above (in addition to complying with local legislation).

### *The nature of our borrowers*

Our business loan portfolio is highly concentrated and primarily involves lending to Dutch small and medium-sized companies and professionals in sectors that typically show no or little involvement in (potential) human rights violations (business professionals, health care professionals, etc.), with only a handful of borrowers operating in manufacturing and/or running production sites outside the Netherlands. Most of our borrowers have their businesses and manufacturing operations in the Netherlands and are therefore covered by the relatively strict Dutch rules on human rights (and the enforcement of these rules).

### Due diligence

To identify, prevent and mitigate actual and potential negative human rights impacts related to our lending, we have created an ongoing due diligence process. This due diligence focuses primarily on borrowers with potentially high-risk profiles on (material) human rights violations (“salient risks”), including their supply chains. In the real world, this typically translates to additional reviews being imposed on borrowers in high-risk sectors, such as agriculture, clothing and textiles, toys, furniture and other manufacturing, oil/gas and mining). These borrowers are periodically required to complete a special loan screening, both prior to and

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<sup>2</sup> For much greater detail on international human rights, see the International Covenant on Civil and Political Rights (1966), the International Covenant on Economic, Social and Cultural Rights (1966) and the ILO principles.

<sup>3</sup> <https://www.unglobalcompact.org/>

<sup>4</sup> [http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

<sup>5</sup> See <http://mneguidelines.oecd.org/guidelines/>

during the term of the loan. If this finds them in breach of human rights, or if they run their own manufacturing units outside the Netherlands or the industrialised west<sup>6</sup> or have their key suppliers in such regions, these borrowers will be considered as “potentially high risk” and we will embark on an engagement process with these borrowers.

### Engagement

The purpose of engagement with “potentially high risk” borrowers is to arrive at a better idea of their involvement or potential involvement<sup>7</sup> in human rights violations, and of the substance and application of their human rights policies. What we will do next depends on the situation:

- If our loan screening reveals that the borrower causes or contributes to a human rights violation, VLK will be directly linked to this violation (in the parlance of the OECD Guidelines and UNGPs). In keeping with the OECD Guidelines and UNGPs, we will then use our leverage to encourage the borrower to end the violations, to take up complaints from the affected parties and to put in place remedies where appropriate. In addition, we will engage with the borrower on their human rights policy, also with an eye to the longer-term future. We will expect such policies to meet the requirements of the OECD Guidelines and UNGPs, meaning that the borrower should be capable of identifying, preventing and/or mitigating actual and potential human rights violations.<sup>8</sup> We also expect the borrower to set up – in so far as they have not already done so – adequate grievance mechanisms (in line with the OECD Guidelines/UNGPs) or to participate in a similar mechanism already in place and to henceforth actively point the affected parties to the existence of these mechanisms. In summary, we expect the borrower to come up with a concrete plan of action – within the space of six months – on how it proposes to implement improvements. If the borrower does not comply with our requests, we will reconsider the lending arrangements. Ending the loan agreement, as soon as contractually possible, then becomes one of the options.
- If the “potentially high-risk” borrower does not itself cause or contribute to human rights violations, but at the same time has no clear human rights policies in place, we will use our influence to ensure that such policies are drawn up in line with the OECD Guidelines and UNGPs.

### Large and small borrowers

The policy requirements we impose on borrowers might, in practice, also depend on the size of the company, with more demanding requirements imposed on larger borrowers than on smaller ones. This essentially requires a case-by-case approach.

- **Large, international borrowers** will preferably have a human rights policy in place that meets the UNGPs and OECD Guidelines. They should be able to demonstrate how they have translated these guidelines into responsibilities, (risk) management systems and procedures, including grievance and remedy mechanisms. These borrowers should also show how they report on their human rights policy, its implementation and the outcomes.
- **Smaller (family) companies** will, in many cases, be unlikely to have such policies, or be able to demonstrate implementation and reporting. However, that does not automatically mean that these borrowers do not have the ability to identify, prevent and mitigate any involvement in human rights violations. They may well have taken precautions but not set these down in policies and reporting. In these cases, VLK will ask the borrower to provide additional information that shows they are attempting to identify, prevent and mitigate their (potential and actual) involvement in human rights violations. Grievance and remedy mechanisms will also feature in such a request for information, addressing in particular the question of whether the borrower is causing or contributing to a negative human right impact.

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<sup>6</sup> The industrialised west is defined as “high income OECD countries”, and comprises 31 countries. For more details, see <https://www.oecd.org/tad/xcred/48405330.pdf> (pp. 13-14).

<sup>7</sup> The UNGPs and the OECD Guidelines distinguish three types of involvement in negative human rights impacts: causing, contributing to or being directly linked to. In view of the nature of our commercial lending activities, we only consider the latter (“directly linked to”) to be a real possibility, and would put the chances of the other two types of involvement at nil.

<sup>8</sup> Where relevant, borrowers will also be encouraged to embrace relevant codes of conduct, certification opportunities and sustainable supply chain initiatives.

## II-2 Fundamental labour rights

### Background

The International Labour Organisation (ILO) has drawn up a set of international labour rights that are considered the standard across the world. The purpose of these rights is to promote equal opportunities for men and women in the workplace, to ensure freedom of association, and to counteract child labour and forced labour. In addition, the ILO has adopted a whole raft of conventions and recommendations covering all aspects of the world of work, such as labour conditions, health and safety on the work floor, working hours, wages, education and training, etc. (not exhaustive).

Labour rights are also enshrined in the United Nations Global Compact, as signed by VLK:

- 1) Signatories should honour freedom of association and the effective recognition of the right to collective bargaining;
- 2) Signatories should eliminate any type of compulsory or forced labour;
- 3) Signatories should work on the effective abolition of child labour;
- 4) Signatories should combat discrimination linked to employment and profession.

The OECD Guidelines and UNGPs also contain various provisions on labour rights (see also II-1, Human rights).

### Our position on fundamental labour rights

We endorse the ILO labour standards<sup>8</sup> and aim to comply with them at all times, in all our different roles, including in our capacity as a lender. This also means that – in so far as relevant and possible – we will engage our borrowers on respecting the ILO labour standards as set out above, including the tripartite ILO declaration<sup>10</sup> (in addition to complying with local legislation).

### *The nature of our borrowers*

Our business loan portfolio is highly concentrated and primarily involves lending to Dutch small and medium-sized companies and professionals in sectors that typically show no or little involvement in (potential) labour rights violations (business professionals, health care professionals, etc.), with only a handful of borrowers operating in manufacturing and/or running production sites outside the Netherlands. Most of our borrowers have their businesses and manufacturing operations in the Netherlands and are therefore covered by the relatively strict Dutch rules on labour rights (and the enforcement of these rules), including rules on health and safety at work.

### Due diligence

To identify, prevent and mitigate actual and potential negative labour rights impacts related to our lending, we have created an ongoing due diligence process. This due diligence focuses primarily on borrowers with potentially high-risk profiles on (material) labour rights violations (“salient risks”), including their supply chains. In the real world, this typically translates to additional reviews being imposed on borrowers in high-risk sectors, such as agriculture, clothing and textiles, toys, furniture and other manufacturing, oil/gas and mining). These borrowers are periodically required to complete a special loan screening, both prior to and during the term of the loan. If this finds them in breach of fundamental labour rights, or if they run their own manufacturing units outside the Netherlands or the industrialised west<sup>9</sup> or have their key suppliers in such regions, these borrowers will be considered as “potentially high risk” and we will embark on an engagement process with these borrowers.

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<sup>8</sup> This is a step further than Global Compact requirements, which only impose endorsement of some of the ILO principles. For a list of all ILO principles, conventions and recommendations, see [www.ilo.org/global/standards/lang--en/index.htm](http://www.ilo.org/global/standards/lang--en/index.htm).

<sup>9</sup> See: [www.ilo.org/empent/Publications/WCMS\\_094386/lang--en/index.htm](http://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm).

<sup>10</sup> See footnote 6.

<sup>9</sup> The industrialised west is defined as “high income OECD countries”, and comprises 31 countries. For more details, see <https://www.oecd.org/tad/xcred/48405330.pdf> (pp. 13-14).

### Engagement

The purpose of engagement with “potentially high risk” borrowers is to arrive at a better idea of their involvement or potential involvement<sup>10</sup> in labour rights violations, and of the substance and application of their labour rights policies. What we will do next depends on the situation:

- If our loan screening reveals that the borrower causes or contributes to a labour rights violation, VLK will be directly linked to this violation (in the parlance of the OECD Guidelines and UNGPs). In keeping with the OECD Guidelines and UNGPs, we will then use our leverage to encourage the borrower to end the violations, to take up complaints from the affected parties and to put in place remedies where appropriate. In addition, we will engage with the borrower on their labour rights policy, also with an eye to the longer-term future. We will expect such policies to meet the requirements of the ILO, the OECD Guidelines and UNGPs, meaning that the borrower should be capable of identifying, preventing and/or mitigating actual and potential labour rights violations.<sup>11</sup> We also expect the borrower to set up – in so far as they have not already done so – adequate grievance mechanisms (in line with the OECD Guidelines/UNGPs) or to participate in a similar mechanism already in place and to henceforth actively point the affected parties to the existence of these mechanisms. In summary, we expect the borrower to come up with a concrete plan of action – within the space of six months – on how it proposes to implement improvements. If the borrower does not comply with our requests, we will reconsider the lending arrangements. Ending the loan agreement, as soon as contractually possible, then becomes one of the options.
- If the “potentially high-risk” borrower does not itself cause or contribute to labour rights violations, but at the same time has no clear labour rights policies in place, we will use our influence to ensure that such policies are drawn up in line with the ILO, the OECD Guidelines and UNGPs.

### Large and small borrowers

The policy requirements we impose on borrowers might, in practice, also depend on the size of the company, with more demanding requirements imposed on larger borrowers than on smaller ones. This essentially requires a case-by-case approach.

- **Large, international borrowers** will preferably have a labour rights policy in place that meets the ILO standards, the tripartite ILO declaration, as well as the UNGPs and OECD Guidelines. They should be able to demonstrate how they have translated these guidelines into responsibilities, (risk) management systems and procedures, including grievance and remedy mechanisms. These borrowers should also show how they report on their labour rights policy, its implementation and the outcomes.
- **Smaller (family) companies** will, in many cases, be unlikely to have such policies, or be able to demonstrate implementation and reporting. However, that does not automatically mean that these borrowers do not have the ability to identify, prevent and mitigate any involvement in labour rights violations. They may well have taken precautions but not set these down in policies and reporting. In these cases, we will ask the borrower to provide additional information that shows they are attempting to identify, prevent and mitigate their (potential and actual) involvement in labour rights violations. Grievance and remedy mechanisms will also feature in such a request for information, addressing in particular the question of whether the borrower is causing or contributing to a negative labour right impact.

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<sup>10</sup> The UNGPs and the OECD Guidelines distinguish three types of involvement in negative labour rights impacts: causing, contributing to or being directly linked to. In view of the nature of our commercial lending activities, we only consider the latter (“directly linked to”) to be a real possibility, and would put the chances of the other two types of involvement at nil.

<sup>11</sup> Where relevant, borrowers will also be encouraged to embrace relevant codes of conduct, certification opportunities and sustainable supply chain initiatives.

## II-3 Environment

### Background

All companies have a (negative) impact on the environment, to a greater or lesser degree. To manage this impact the United Nations Global Compact has drawn up the following three principles:

- 1) Signatories should support a precautionary approach to environmental challenges;
- 2) Signatories should undertake initiatives to promote greater environmental responsibility;
- 3) Signatories should encourage the development and diffusion of environmentally friendly technologies.

The OECD Guidelines for Multinational Enterprises also contain various provisions on the environment.

### Responsible lending policy on the environment

We endorse the environmental principles of the Global Compact and OECD, and aim to comply with these principles at all levels of our own organisation.

Where relevant and possible, we will also engage our borrowers on their compliance with the Global Compact and OECD environmental principles, as well as – at the very minimum – any relevant local legislation. Note that our business loan portfolio is highly concentrated and primarily involves lending to Dutch small and medium-sized companies, and that these typically have their businesses and manufacturing operations in the Netherlands and are therefore covered by the relatively strict Dutch rules on the environment.

### Impact on the environment

First and foremost, we expect our borrowers' business activities not to have a negative impact on protected natural areas as identified in three key international agreements: the UNESCO World Heritage Convention, the Ramsar Convention on Wetlands and areas identified by the World Conservation Union (categories I through IV). Likewise, business activities should not have any adverse impact on animal species on the IUCN's Red List of Threatened Species or the CITES list of threatened species. Trading in threatened plant and animal species (as featured in these lists) is equally unacceptable. In addition, we expect our borrowers to use water as sparingly as possible, to prevent water pollution and reduce their toxic and GHG emissions (both in relative and in absolute terms, and in line with current and future climate legislation). They should also prevent the introduction of exotic species into ecosystems.

### Due diligence

To identify, prevent and mitigate actual and potential negative environmental impacts related to our lending, we have created an ongoing due diligence process. This due diligence focuses primarily on borrowers with potentially high-risk profiles on (material) environmental violations ("salient risks"), including their supply chains. In the real world, this typically translates to additional reviews being imposed on borrowers in high-risk sectors, such as agriculture, clothing and textiles, toys, furniture and other manufacturing, oil/gas and mining). These borrowers are periodically required to complete a special loan screening, both prior to and during the term of the loan. If this finds them in breach of environmental legislation, or if they run their own manufacturing units outside the Netherlands or the industrialised west<sup>11</sup> or have their key suppliers in such regions, these borrowers will be considered as "potentially high risk" and we will embark on an engagement process with these borrowers.

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<sup>11</sup> See footnote 6.

### Engagement

The purpose of engagement with “potentially high risk” borrowers is to arrive at a better idea of their involvement or potential involvement<sup>12</sup> in environmental breaches, and of the substance and application of their environmental policies. What we will do next depends on the situation:

- If our loan screening reveals that the borrower causes or contributes to environmental breaches, VLK will be directly linked to this violation (in the parlance of the OECD Guidelines). In keeping with the OECD Guidelines, we will then use our leverage to encourage the borrower to address the breaches, to take up complaints from the affected parties and to put in place remedies where appropriate. In addition, we will engage with the borrower on their environmental policy, also with an eye to the longer-term future. We will expect such policies to meet the provisions of the OECD Guidelines, meaning that the borrower should be capable of identifying, preventing and/or mitigating actual and potential environmental breaches.<sup>13</sup> We also expect the borrower to set up – in so far as they have not already done so – adequate grievance mechanisms (in line with the OECD Guidelines) or to participate in a similar mechanism already in place and to henceforth actively point the affected parties to the existence of these mechanisms. In summary, we expect the borrower to come up with a concrete plan of action – within the space of six months – on how it proposes to implement improvements. If the borrower does not comply with our requests, we will reconsider the lending arrangements. Ending the loan agreement, as soon as contractually possible, then becomes one of the options.
- If the “potentially high-risk” borrower does not itself cause or contribute to environmental breaches, but at the same time has no clear environmental policy, we will use our influence to ensure that such policies are drawn up in line with the OECD Guidelines.

### Large and small borrowers

The policy requirements we impose on borrowers might, in practice, also depend on the size of the company, with more demanding requirements imposed on larger borrowers than on smaller ones. This essentially requires a case-by-case approach.

- **Large, international borrowers** will preferably have an environmental policy in place that meets the OECD Guidelines. They should be able to demonstrate how they have translated these guidelines into responsibilities, (risk) management systems and procedures, including grievance and remedy mechanisms. These borrowers should also show how they report on their environmental policy, its implementation and the outcomes.
- **Smaller (family) companies** will, in many cases, be unlikely to have such policies, or be able to demonstrate implementation and reporting. However, that does not automatically mean that these borrowers do not have the ability to identify, prevent and mitigate any involvement in environmental breaches. They may well have taken precautions but not set these down in policies and reporting. In these cases, VLK will ask the borrower to provide additional information that shows they are attempting to identify, prevent and mitigate their (potential and actual) involvement in environmental breaches. Grievance and remedy mechanisms will also feature in such a request for information, addressing in particular the question of whether the borrower is causing or contributing to a negative environmental impact.

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<sup>12</sup> The OECD distinguishes three types of involvement in negative environmental impacts: causing, contributing to or being directly linked to. In view of the nature of our commercial lending activities, we only consider the latter (“directly linked to”) to be a real possibility, and would put the chances of the other two types of involvement at nil.

<sup>13</sup> Where relevant, borrowers will also be encouraged to embrace relevant codes of conduct, certification opportunities and sustainable supply chain initiatives.

## II-4 Corruption

### Background

Corruption is the phenomenon in which a person or an organisation in a position of power grants improper favours in return for some kind of action (or just to help a friend). This is a highly complex issue, as it takes on many guises. Examples include giving work or contracts to specific people or parties, or sponsoring political parties in return for specific policies. Also, corruption is seen differently across cultures. In some countries, for instance, it is quite common to give officials minor incentives to carry out or speed up their work; in the Netherlands such facility payments are not at all common.

Under Dutch and international law, businesses should not offer or take kick-backs or other “unlawful benefits”, whether directly or indirectly. This view also features in the Global Compact statement of which VLK is a signatory: “Signatories should combat all types of corruption, including extortion and bribery.”

The OECD Guidelines for Multinational Enterprises also contain various provisions on anti-corruption.

### Responsible lending policy on anti-corruption

We endorse the above anti-corruption principles as set out in the Global Compact and OECD Guidelines, and aim to comply with these principles at all levels of our own organisation. For our clients, we have incorporated the anti-corruption statements of the Global Compact and the OECD in our client acceptance policies in particular (see elsewhere). As part of our responsible lending policy, we will also engage our borrowers – in so far as relevant and possible – to encourage them to comply with these anti-corruption principles, and with – at the very minimum – relevant local legislation. Note that our business loan portfolio is highly concentrated and primarily involves lending to Dutch small and medium-sized companies, and that these typically have their businesses and manufacturing operations in the Netherlands and are therefore covered by the relatively strict Dutch anti-corruption rules.

### Due diligence

To identify, prevent and mitigate actual and potential involvement in corruption related to our lending, we have created an ongoing due diligence process. This due diligence focuses primarily on borrowers with potentially high-risk profiles on (material) labour rights violations (“salient risks”), including their supply chains. In the real world, this typically translates to additional reviews being imposed on borrowers in high-risk sectors, such as agriculture, clothing and textiles, toys, furniture and other manufacturing, oil/gas and mining). These borrowers are periodically required to complete a special loan screening, both prior to and during the term of the loan. If this finds them involved in corruption, or if they run their own manufacturing units outside the Netherlands or the industrialised west<sup>14</sup> or have their key suppliers in such regions, these borrowers will be considered as “potentially high risk” and we will embark on an engagement process with these borrowers.

### Engagement

The purpose of engagement with “potentially high risk” borrowers is to arrive at a better idea of their involvement or potential involvement<sup>15</sup> in corruption, and of the substance and application of their anti-corruption policies. What we will do next depends on the situation:

- If our loan screening reveals that the borrower causes or contributes to corruption, VLK will be directly linked to this violation (in the parlance of the OECD Guidelines). In keeping with the OECD

<sup>14</sup> The industrialised west is defined as “high income OECD countries”, and comprises 31 countries. For more details, see <https://www.oecd.org/tad/xcred/48405330.pdf> (pp. 13-14).

<sup>15</sup> The UNGPs and the OECD Guidelines distinguish three types of involvement in corruption: causing, contributing to or being directly linked to. In view of the nature of our commercial lending activities, we only consider the latter (“directly linked to”) to be a real possibility, and would put the chances of the other two types of involvement at nil.

Guidelines, we will then use our leverage to encourage the borrower to end the corruption, to take up complaints from the affected parties and to put in place remedies where appropriate. In addition, we will engage with the borrower on their anti-corruption policy. We will expect such policies to meet the requirements of the OECD Guidelines and that the borrower should be capable of identifying, preventing and/or mitigating actual and potential corruption.<sup>16</sup> We also expect the borrower to set up – in so far as they have not already done so – adequate grievance mechanisms (in line with the OECD Guidelines) or to participate in a similar mechanism already in place and to henceforth actively point the affected parties to the existence of these mechanisms. In summary, we expect the borrower to come up with a concrete plan of action – within the space of six months – on how it proposes to implement improvements. If the borrower does not comply with our requests, we will reconsider the lending arrangements. Ending the loan agreement, as soon as contractually possible, then becomes one of the options.

- If the “potentially high-risk” borrower does not itself cause or contribute to corruption, but at the same time has no clear anti-corruption policy in place, we will use our influence to ensure that such policies are drawn up (in line with the OECD Guidelines).

#### Large and small borrowers

The policy requirements we impose on borrowers might, in practice, also depend on the size of the company, with more demanding requirements imposed on larger borrowers than on smaller ones. This essentially requires a case-by-case approach.

- **Large, international borrowers** will preferably have an anti-corruption policy in place that meets the OECD Guidelines. They should be able to demonstrate how they have translated these guidelines into responsibilities, (risk) management systems and procedures, including grievance and remedy mechanisms. These borrowers should also show how they report on their anti-corruption policy, its implementation and the outcomes.
- **Smaller (family) companies** will, in many cases, be unlikely to have such policies, or be able to demonstrate implementation and reporting. However, that does not automatically mean that these borrowers do not have the ability to identify, prevent and mitigate any involvement in corruption. They may well have taken precautions but not set these down in policies and reporting. In these cases, we will ask the borrower to provide additional information that shows they are attempting to identify, prevent and mitigate their (potential and actual) involvement in corruption. Grievance and remedy mechanisms will also feature in such a request for information, addressing in particular the question of whether the borrower is causing or contributing to a negative corruption impact.

In addition to the above four policy issues – which are an extension of the Global Compact, OECD Guidelines, UNGPs and ILO standards – we have drawn up seven **additional policy issues**, based on our engagement with our stakeholders and our own core values. These additional issues are the subject of Sections 4.5 through 4.11.

As with the previous four policy issues 4.1 through 4.4, policy issues 4.5 up to and including 4.11 are also predicated on the assumption that we will investigate and engage if there are serious indications that a borrower or prospective borrower does not meet our requirements. Here, too, we will pursue the **engagement strategy** as described above, observing a term of six months. And in the absence of any improvement, we will review the matter and – where necessary – take our responsibility, with a termination of the relationship one of the options open to us.

## II-5 Weapons

### Background

Weapons are as old as humanity and are manufactured, traded and used across the world. In fact, in many countries the weapons industry is a significant economic sector and it is hard to think of a world without weapons. At the same time, there is a growing social movement across the world that demands attention for the negative social impact of weapons production, trade and usage. Detractors frequently point to the illegal arms trade or the use of so-called

<sup>16</sup> Where relevant, borrowers will also be encouraged to embrace relevant codes of conduct, certification opportunities and sustainable supply chain initiatives.

controversial weapons such as cluster bombs – which don't just hit soldiers but often also large groups of innocent civilians.

#### Responsible lending policy on weapons

We will only provide funding to borrowers directly or indirectly involved in weapons if:

- 1) They operate within applicable (local) laws and regulations related to the production, storage, trade and use of weapons; and
- 2) These weapons are not controversial weapons; and
- 3) These weapons are not supplied to countries or people on the EU's sanctions list, to fragile or failing states, countries engulfed in civil war, dubious and/or corrupt buyers, terrorist organisations and (organised) crime.

#### *Further to point 1: Applicable (local) laws and regulations*

These laws and regulations also include all international resolutions, treaties, sanctions and rules as drawn up and/or signed/ratified by Netherlands. Leading examples are the United Nations Charter, the definitions in the European Union's Common Military List and the European sanctions list pertaining to weapons.

By the *production* of weapons, we mean the manufacture and assembly of end-products, semi-manufactures or weapons systems, munitions, weapons guidance systems and munitions carriers.

By *trade* in weapons, we mean the direct trade between the manufacturer and the end-user of weapons or parts of weapons, as well as any type of activity brokering such weapons or parts of weapons.

#### *Further to point 2: Controversial weapons*

In line with international humanitarian law, we take a strong stand against controversial weapons. These are weapons whose impacts are disproportionate and/or which do not or cannot distinguish between military and civilian targets. We will not lend to organisations or individuals involved in developing, manufacturing, testing, storing and/or maintaining such weapons and munitions. We consider anti-personnel landmines, cluster bombs, nuclear, biological and chemical weapons to be controversial weapons.

We apply dual use criteria to prevent commercial borrowers that only develop, manufacture, test, store, maintain or trade generic parts (e.g. steel) from being excluded from funding because their products are used in the production of controversial weapons. This way, we also make sure that borrowers exclusively developing, manufacturing, testing, storing, maintaining or trading essential parts<sup>17</sup> are considered to be involved in controversial weapons.

On cluster munitions and ammunition carriers, we follow a tertiary involvement approach. This means that we do not invest in ammunition carriers which are involved in cluster munitions, where we do not make a distinction between carriers specifically versus not specifically built as delivery platform for cluster munitions. However, the ammunition carrier needs to fulfil the following criteria: (1) our data provider has evidence ('documented examples') that the aircraft can be used as a delivery platform for these weapons; and/or (2) the carrier has been tested and certified for the use of these weapons.

In the weapons trade, we will exclude organisations which wholly or partially rely on trade in controversial weapons and munitions for their revenues or a proportion of their revenues.

#### *Further to point 3. Exclusions list of buyers and countries*

We are against the funding of weapons and munitions – both conventional and controversial – if there is a substantial risk of these weapons being used for serious violations of international human rights. Neither

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<sup>17</sup> Essential parts are parts that are specifically made for application in controversial weapons and that do not therefore have any other, generic use.

will we condone the supply of weapons to fragile or failing states,<sup>18</sup> countries engulfed in civil war, dubious and/or corrupt buyers, terrorist organisations or (organised) crime. To identify which countries and people meet the above definitions, we will adhere to the European sanctions list<sup>19</sup> among other resources.

Neither controversial weapons, nor conventional weapons may be supplied to the countries and people on the EU sanctions list, and we will exclude manufacturers and traders guilty of doing so.

## II-6 Tobacco

### Background

Tobacco has negative social consequences. The World Health Organisation (WHO) considers it one of the biggest threats to public health. Every year, around seven million people across the world die from the consequences of tobacco consumption. In addition, tobacco is a risk factor in multiple diseases such as cancer, diabetes, chronic lung conditions, and cardiovascular ailments.

The extent of tobacco's negative impact has led to the first international, public and legally binding treaty on the reduction of tobacco consumption: the WHO Framework Convention on Tobacco Control (WHO FCTC, 2005). The treaty has been signed by 181 governments.

### Responsible lending policy on tobacco

We recognise that tobacco has major adverse impacts on people and nature across the world, and therefore pursue an exclusion policy for tobacco.

### *Exclusion*

We do not have any direct business relationships with manufacturers of tobacco and smoking products. This means that VLK does not grant any loans to these businesses.<sup>20</sup>

We may, however, be or become indirectly involved with producers of tobacco and smoking products, as follows:

- We may have relationships with clients, buyers or suppliers of producers of tobacco and smoking products;
- We may, on behalf of our clients, invest in financial instruments issued by producers of tobacco and smoking products.

## II-7 Fur

### Background

Fur is a controversial issue, particularly in the Netherlands. Although the production of and trade in many types of fur is legal, large swathes of the Dutch population consider fur to be an unnecessary luxury product, often pointing to animal welfare and the fact that the fur industry breeds and kills animals only for their pelts. These anti-fur arguments

<sup>18</sup> Defined by the World Bank as "low income countries under stress".

<sup>19</sup> For restrictive measures (sanctions) in force, see: [http://eeas.europa.eu/cfsp/sanctions/docs/measures\\_en.pdf](http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf). (most recent version). To identify corrupt countries, we use such resources as Transparency International's Corruption Perception Index ([www.transparency.org](http://www.transparency.org)).

<sup>20</sup> We also exclude tobacco from our other activities, such as advising on capital markets transactions, investing in our private equity portfolio and in our own portfolio of investments. For our tobacco policy, see <https://www.vanlanschotkempfen.com/responsible/core-banking-activities>.

do not quite pass muster, of course, as there are other sectors of industry in which animal welfare is a major concern or in which animals are only reared for their meat, such as factory farming.

#### Responsible lending policy on fur

We do not lend to fur producers. However, we may be involved indirectly through loans to retail companies in the clothing and textiles sector, but any such position is likely to be very minor indeed.

To be able to monitor our exposure to fur – and, where applicable, link it to an engagement process – we have included fur in our CSR risk screening.

### **II-8 Gambling**

#### Background

Public opinion on gambling is far from clear-cut. For some, gambling is a pleasurable way to spend time, whereas others see it as a potential hotbed of money laundering. Compulsive gambling is also an issue.

#### Responsible lending policy on gambling

Gambling is defined (not exhaustively) as lotteries, bingo and bookmakers on sports results. Producers/sellers of slot machines and owners of gambling halls and casinos are also covered by this definition.

To prevent any involvement in money laundering, we have in place a rigorous compliance/CDD policy, while our responsible lending policy has also led us to decide that we will only finance gambling firms in countries with strict laws and law enforcement, which should also cover the issue of compulsive gambling. In practice, this means that we only allow gambling financing in the Benelux region.

That said, we do not allow funding for gambling companies that offer their services via the internet, television or telephone, even in the Benelux region. This decision reflects the nature of these media: gambling via the internet, television and telephone may be offered from countries where this is prohibited, while the identity and age of the client cannot be adequately established, and where the provenance of gambling money cannot be adequately verified.

If we provide finance to a gambling firm, the borrower will need to meet the following requirements:

- It runs its gambling business in the Benelux region only (strict rules and enforcement);
- It has demonstrable policies in place to prevent money laundering;
- It has, where relevant, demonstrable policies in place (including implementation and reporting) to combat compulsive gambling (including by minors).

### **II-9 Pornography**

#### Background

Pornography is a global business with many ethical issues. In addition to human rights violations (e.g. human trafficking) and poor labour conditions, money laundering often comes into play. At the same time, pornography is a key economic sector permitted by law in many countries, albeit that the legal framework and concomitant enforcement diverges widely from one country to the next.

#### Responsible lending policy on pornography

Pornography is defined (not exhaustively) as: brothels, escort services, window prostitution, sex cinemas, sex saunas, pornography internet sites, pornography film producers, pornography film studios, pornography magazines, pornography television, pornography phone services, etc.

To prevent involvement with human rights violations, poor labour conditions and money laundering, our policy approach to pornography is best described as “preferably not”. This policy choice does not apply to pornography via the internet, television and telephone, as this will never be eligible for funding. This decision reflects the nature of these media: pornography via the internet, television and telephone may be offered from countries where this is prohibited, while the identity and age of the client cannot be adequately established.

When screening borrowers or potential borrowers in this sector for corporate social responsibility, we will impose at least the following criteria:

The borrower or potential borrower:

- Does not provide the pornography-related products or services via the internet, television or telephone;
- Only provides the pornography-related products or services in countries with strict laws and enforcement (in practice: the Benelux region);
- Has, where relevant, developed policies (including implementation and reporting) to prevent labour and human rights violations, as well as money laundering.

#### **II-10 Animal testing**

##### Background

Animal testing is often a subject of fierce debate in society. And yet, animal testing, if done correctly, is not illegal. In fact, many countries legally require certain products/materials to be tested on animals for reasons of consumer safety. Besides this, there are virtually no widely accepted alternatives to animal testing, i.e. tests that do not involve animals in any way. Although many people would like to eradicate animal testing altogether, this is nearly impossible in practice. Countless organisations and economic sectors are directly or indirectly involved in animal testing. Many universities, for instance, do their own research, food manufacturers use animal-tested ingredients in their products, and chemicals companies put animal-tested intermediate products and chemicals in their pesticides and paints. Meanwhile, the pharmaceutical sector also uses a lot of animal-tested products, while countless cleaning products and cosmetics are tested on animals in the household products and personal care industries.

The debate raging around animal testing typically focuses on research institutions, with animal testing for cosmetics a more sensitive issue than for medicines, and tests on larger animals – monkeys, cats, dogs – coming in for more flak than tests on single-cell organisms or mice.

#### Responsible lending policy on animal testing

We only provide finance to research institutions and companies that do their own animal testing (direct involvement) if all of the following criteria are met.

The institution/company:

- Is licensed to conduct animal testing;
- Has an independent committee in place to assess the necessity of its tests;
- Has internal procedures guaranteeing the well-being of the animals as far as possible;
- Conducts its tests in keeping with applicable laws and can demonstrate this (audit reports);
- Does not conduct any animal testing for the cosmetics industry in Europe (where it is against the law);

- Does not use any protected animal species for its tests (see IUCN red list);<sup>21</sup>
- Actively invests in the three Rs: replacement (i.e. searching for alternatives to animal testing, such as computer models), reduction (cutting back on the number of tests run and animals used) and refinement (improving methodology);
- Adopts an open approach towards special interest and pressure groups.

Substances tested on animals are processed in many economic sectors and such indirect involvement in animal testing is not therefore grounds for exclusion.

## II-11 Nuclear energy

### Background

*In the Netherlands, nuclear energy has long been an issue of public debate, fading into the background from time to time and then flaring back up. Some consider nuclear energy a relatively clean method of energy generation (few or no carbon emissions), while others criticise the dangers – mostly focusing on inadequate management in the event of disasters, radiation hazards etc. and waste issues (nuclear waste needs storing for hundreds of years and so threatens the environment and future generations). This debate does not rage in the same way in other parts of the world. In France, for instance, nuclear energy is much more broadly accepted and less subject to debate.*

### Responsible lending policy on nuclear energy

The nuclear energy sector is a global industry featuring large multinational players and governments. In view of our company model – i.e. providing loans to primarily Dutch small and medium-sized businesses, often family businesses – the chances are slim that we are or will get involved in nuclear energy, either directly or indirectly.

VLK has no business loans outstanding with nuclear energy producers. To be able to monitor our exposure to nuclear energy – and, where applicable, link it to an engagement process – we have included it in our CSR risk screening.

### In closing

Our business lending focuses primarily on the Netherlands and is concentrated in a handful economic items. As the table shows, our clients mainly break down into financial institutions and insurance activities (51% of loans), real estate activities (15%), professional, scientific and technical activities (13%; lawyers, accountants, consultants, etc.), human health (4%; particularly dentists, orthodontists and other health care professionals), and agriculture (6%).

Our lending does not see us materially involved in sectors/themes that typically involve the biggest sustainability challenges: oil and gas, mining, chemicals, pharmaceuticals, large scale forestry, agriculture, animal husbandry, fisheries, dams, nuclear power plants or other types of power generation, food production, genetic modification, etc.\*\* The same applies to animal-related activities such as circuses, dolphinariums and pet breeders.

In view of our non-material involvement, we have no specific sector or theme-based policies for these sectors and themes, but that does not in any way imply that we would ignore any sustainability issues cropping up in these sectors. If one of our individual borrowers or potential borrowers has direct or indirect relationships with these sectors/themes, we will take into account their CSR policies in our lending process. In doing so, we will observe our responsible lending policies as outlined above, the international guidelines and standards mentioned, as well as all international laws and regulations applicable to the relevant sectors.

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<sup>21</sup> For more information, see [www.iucnredlist.org/](http://www.iucnredlist.org/).

“Health” may serve as a good example here. We have no separate policies in place, not least because we feel that this particular theme – in view of our loan portfolio – is adequately covered by other parts of our responsible loan policies, for instance in our themes fundamental labour rights (e.g. health and safety in the workplace) and environment (e.g. production and handling of hazardous substances/chemicals). Other health-related CSR issues, such as access to medicines and the WHO international code for marketing of breast-milk substitutes, are irrelevant for our lending business, as we do not finance producers of infant formula or of medicines.

Occasionally, a stakeholder will demand that we develop separate policies for cross-sector issues such as animal welfare, nature or health, despite the fact that VLK is not materially involved in the underlying sectors. Although respecting these views, we feel our responsible lending policies are adequate.

\* The table may be found here: <https://www.vanlanschotkempfen.com/en/financial/financial-results/2018>. ‘Appendix to the Pillar 3 disclosures 2018’, page 3.

\*\* If we have any client assets in these sectors, these total less than €1 million per sector.

Composition of loan portfolio excl. Households Item	31/12/2020		31/12/2019	
	Amount (€ million)	%	Amount (€ million)	%
<b>Agriculture</b>				
Crop and animal production, hunting and related service activities	0	0%	93	7%
Other	0	0%	0	0%
<b>Manufacturing</b>				
Construction	0	0%	0	0%
Construction of buildings	25	2%	15	1%
Other, including rubber and plastic products	11	1%	14	1%
<b>Wholesale and retail trade</b>				
Wholesale trade, except of motor vehicles and motorcycles	28	3%	27	2%
Retail trade, except of motor vehicles and motorcycles	27	2%	37	3%
Other	0	0%	0	0%
<b>Transport and storage</b>				
Other, including warehousing and support activities for transportation	1	0%	0	0%
<b>Accommodation and food service activities</b>				
Other, including accommodation	1	0%	7	0%
<b>Information and communication</b>				
Other, including computer programming, consultancy and related activities	7	1%	6	0%
<b>Real estate activities</b>				
Real estate activities	197	17%	202	15%
<b>Professional, scientific and technical activities</b>				
Legal and accounting activities	90	8%	95	7%
Activities of head offices, management consultancy activities	138	12%	167	12%
Other, including other professional, scientific and technical activities	5	0%	4	0%
<b>Administrative and support service activities</b>				
Other, including rental and leasing activities	10	1%	8	1%
<b>Education</b>				
Other	1	0%	1	0%
<b>Human health services and social work activities</b>				
Human health activities	43	4%	51	4%
Other, including residential care activities	7	1%	7	1%
<b>Arts, entertainment and recreation</b>				
Other, including libraries, archives, museums and other cultural activities	2	0%	5	0%
<b>Other services</b>				
Other, including activities of membership organisations	7	1%	9	1%
<b>Financial and insurance activities</b>				
Trusts, funds and similar financial entities	106	9%	110	8%
Other credit granting	70	6%	149	11%
Activities auxiliary to financial services and insurance activities	350	31%	382	27%
Other	3	0%	5	0%
<b>Total</b>	<b>1.129</b>	<b>100%</b>	<b>1.395</b>	<b>100%</b>