ESG INTEGRATION FRAMEWORK

DECEMBER 2023

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EXECUTIVE SUMMARY

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The “ESG integration framework” explains the commitments, the implementation and governance for integrating ESG considerations into the Bank’s activities and operations.

• General framework

The framework is directly applicable to all employees of BIL Luxembourg. Entities can launch specific initiatives linked to sustainable development but need to discuss them with the Sustainable Development department. These initiatives are followed-up by the Sustainable Development team to ensure global consistency and alignment to the bank’s overall Sustainability Strategy.

• Principles

- To align banking operations with sustainability and to ensure ESG best practices as a standard practice, BIL is progressively integrating ESG considerations in the bank’s decision making and operations.
- ESG integration leads to considering ESG risks and opportunities.
- Main stakeholders are: Risk Management, Financial Markets, Value Chains, Compliance, Front offices, Finance, Corporate Real Estate, PCC (People, Culture and Communication) and Procurement.
- BIL’s integration of ESG considerations takes place throughout different processes in the Bank and is progressively reflected in the dedicated policies. This framework gives a global overview of the progressive integration.

1. PURPOSE AND SCOPE OF APPLICATION

1.1. Purpose

BIL (the Bank hereafter) is a key player in the Luxembourgish financial market and has also dedicated wealth management offices in Switzerland and China. We offer a broad range of services – from retail banking to insurance going through private banking, corporate banking and financial markets – to meet the needs of our local and international clients.

The purpose of this document is to give a global overview on the Bank's initiatives to incorporate environmental, social and governance (ESG) issues in its financial services. It describes how the Bank assesses ESG Risks and how it conducts ESG impact assessments.

Details of ESG integration in each process can be found in the respective policies.

Through this framework, the Bank intends to be transparent on its commitments, strategy and governance for integrating ESG criteria into the Bank's activities and operations.

1.2. Scope

This framework is relevant to all BIL Group and subsidiaries. The framework is directly applicable to all employees of BIL Luxembourg. Entities can launch specific initiatives linked to sustainable development but need to discuss them with the Sustainable Development department.

These actions are followed-up by the Sustainable Development team through a dedicated ESG Program.

Key objectives of the ESG Program are to centralize, monitor and deliver all ESG Bank initiatives while raising awareness around sustainability.

The ESG Strategic Steering Committee monitors the implementation of the ESG Program, to ensure global consistency and reporting.

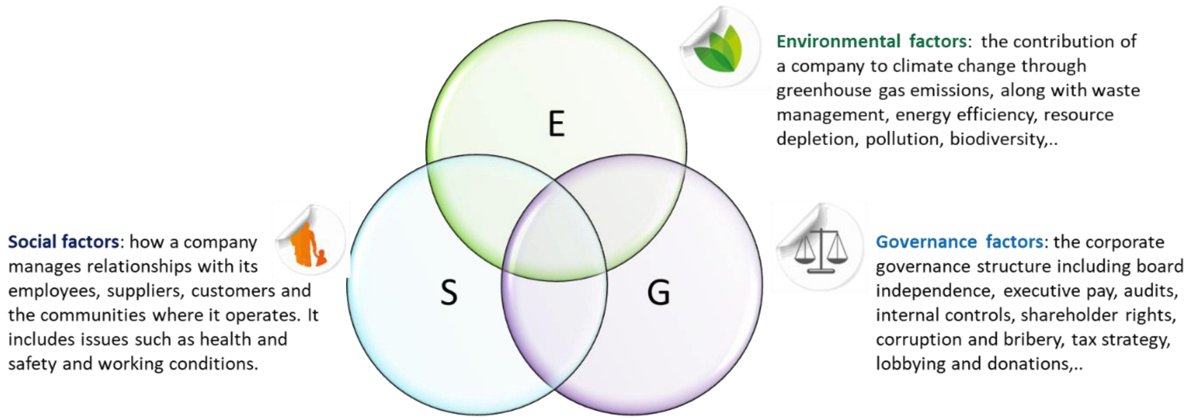
BIL will always comply with applicable local laws that are in force.

2. ESG DEFINITION

ESG stands for Environmental, Social and Governance. It's a framework used to assess a company's performance and impact in areas related to the environment, social responsibility, and corporate governance.

ESG integration refers to the incorporation of Environmental, Social, and Governance factors into the decision-making processes of businesses and investors. It involves considering ESG criteria alongside traditional financial analysis and using environmental, social and governance factors to assess how a company deals with sustainable issues.

- Environmental criteria consider how a company performs as a steward of nature.
- Social criteria examine how it manages relationships with employees, suppliers, subcontractors, customers, investors, NGOs, public authorities and the communities where it operates.
- Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights…etc.



What is the difference between Sustainability, Corporate Social Responsibility (CSR) and ESG?

In 1987, the United Nations Brundtland Commission defined **sustainability** as *"meeting the needs of the present without compromising the ability of future generations to meet their own needs*."

In business, sustainability refers to doing business without negatively impacting the environment, community, or society as a whole. Sustainability in business generally addresses two main categories: the effect business has on the environment and the effect business has on society.

CSR is a company's framework of sustainability plans and responsible cultural influence, whereas **ESG** is the assessable outcome concerning a company's overall sustainability performance. Companies integrate ESG factors as part of their analysis process to identify material risks and growth opportunities.

3. ESG INTEGRATION AT BIL

BIL's Executive Committee and Board of Directors are fully aware of the strategic role, the Bank, as a financial actor, must play in the transition to a sustainable world, and ESG factors will progressively be incorporated to evaluate our broader impact beyond just financial returns.

The bank also needs to assess ESG risks that could affect its performance and reputation. ESG risks are related to issues such as climate change, labour practices, diversity, data security and ethical governance.

By assessing ESG Risks and conducting ESG impact assessments, the Bank enhances resilience by considering long-term risks and opportunities.

What sets the bank apart from companies in other sectors is that its role is twofold; it must address ESG issues within its own company, but also and above all as a financial intermediary:

- **ESG Impacts at corporate level**, this means reviewing the bank's own processes and related policies and determining to what extent it makes sense to incorporate ESG factors, whether in terms of product creation, human resource management, procurement processes, risk management, or management of the environmental impact of the bank's buildings, etc.

- **ESG impacts as financial intermediaries**, banks play a crucial role in transforming corporate models, because they hold financial instruments offered to clients and therefore contribute towards the transition through the investments offered to clients and the projects they finance. ESG considerations will therefore be integrated to screen and develop the bank's products and services.

Furthermore, ESG risks, such as the threat of climate change or major changes in client behaviour, present growing areas of risk for the bank's business activities.

For **environmental risks**, we broadly distinguish between 'physical risk' and 'transition risk'. The term 'physical risk' is closely related to risks arising from climate change impacts and climate-related hazards, while the term 'transition risk' typically refers to risks associated with transition to a low carbon and sustainable economy.

- **Physical risks** involve risks from climate change including risk to facilities and infrastructure, impact on operations, water and raw material availability and supply chain disruptions. Literature on physical risks separates acute short-term events or chronic long-term changes in weather and climate.

- **Transition risks** typically refer to risks associated with transition to a low carbon economy. Transitioning to a lower-carbon and sustainable economy can entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial, technological, regulatory, compliance and reputational risk to organizations. The nature and magnitude of risks will depend upon how rapidly organisations develop resilience attributes (awareness, objectiveness, diversity and flexibility). Transition risks could include Policy; Legal; Technology; Market; Liability; and Reputational risks. Transition risks, if realised, can result in stranded assets, loss of markets, reduced returns on investment and financial penalties. A key issue is the stranding of assets that may not provide the expected financial returns and may end up as large financial liabilities.

Integrating ESG considerations and having a responsible approach are crucial to ensuring that these risks are properly identified, assessed, and managed in order to ensure BIL's resilience and long-term stability. Our processes for providing finance and investments must take these environmental, social and ethical factors into account. This change in the scope of our priority risks forces us to consider a longer-term approach.

To resume, ESG integration is about reporting and managing how sustainability issues might create financial risks for the bank (financial materiality), but also on the bank's own impacts on people and the environment (impact materiality).

4. KEY STAKEHOLDERS

The Bank is progressively integrating ESG factors into relevant functions, processes, and role description, leading to specific ESG policies and/or updating existing policies specifying the integration of ESG factors. The progressive integration of ESG considerations mainly concerns the following departments, for which dedicated objectives have been set since 2022:

- **RISK MANAGEMENT**
  - Quantify, analyse and respond proactively to latent and emerging ESG risks
  - Integrate ESG (and particularly climate) capabilities into existing risk frameworks
  - Enhance existing risk modelling and develop new approaches and stress testing capabilities for ESG risk
  - Contribute to ESG culture

- **COMPLIANCE**
  - Ensuring "Business ethics" and preserving the integrity of business control frameworks
  - Approving new or significant changes of existing products, services, activities and processes and their alignment with applicable laws and regulations
  - Support ESG development and project implementation on regulatory issues

- **FINANCIAL MARKETS**
  - Review investment processes to ensure compliance to regulatory requirements and ensure market competitivity
  - Identify strategy partnerships for value added products & services
  - Integrate ESG risk into pricing
  - Develop ESG product dashboards for ESG monitoring

- **PEOPLE CULTURE and COMMUNICATION (or Human Resources)**
  - Define ambition and action plan on employee value proposition and ensuring that the overall employee value proposition is in line with BIL's stated values and engagements (health, well-being, professional development, diversity, dialogue)
  - Aligning incentives, renumeration on ESG issues
  - Develop measurement & monitoring of key "social" performance indicators
  - In the every-day-HR agenda execution, act as role model and supporter of ESG principles and action plans

- **<u>FRONT: RETAIL / WEALTH / CIB</u>**
  - Understand customer ESG preferences and incorporate these in the sales of products and provision of advice in a rapidly-developing regulatory environment
  - Respect upcoming guidelines for counterparty assessment on ESG aspects
  - Manage ESG risk in the lending process & the client advisory process

- **<u>COPRPORATE REAL ESTATE</u>**
  - Measure & monitor impacts on environment (eg. carbon footprint)
  - Launch Initiatives to reduce bank's negative impacts (incl. measuring and monitoring)
  - Areas to be covered: Carbon footprint, Energy reduction, Plastic & Waste Reduction, Water usage

- **<u>PROCUREMENT</u>**
  - Managing supply chain ESG risks by ensuring BIL does business with suppliers with consistent values and standards

- **<u>VALUE CHAINS</u>**
  - Design new and innovative products and services to support sustainability, in line with regulatory requirements, ESG business strategy and market practices
  - Identify strategy partnerships for value added products & services
  - Manage ESG risks in investment processes
  - Integrate ESG into banking book management & long-term funding
  - Define green bond framework

- **<u>COMMUNICATION & MARKETING</u>**
  - Communicating credibly and effectively to the market the sustainability of the firm's operations and financing, ESG impacts and the resilience of BIL's strategy to climate change
  - Provide transparency over BIL's product offer to avoid greenwashing
  - Systemic Integration of ESG consideration in Communication / Marketing plans

- **<u>STRATEGY</u>**
  - Integrate ESG considerations, by understanding ESG risks and opportunities, when determining and implementing the bank's business model and strategy.

- **<u>IT</u>**
  - Deploying IT assets to help the rest of the firm develop innovative ESG products and respond to regulatory requirements, notably reporting
  - Start integrating ESG considerations in outsourcing activities
  - Start reflections on green IT

- **<u>DATA</u>**
  - Define ESG Data Governance
  - Deploying Data assets to help the rest of the firm develop innovative ESG products and respond to regulatory requirements, notably reporting

- **<u>FINANCE</u>**
  - Contribute to pricing reflections on green products
  - Incorporate climate-related financial-risks into forecasting and budgeting
  - Respond to evolving reporting standards

5. ESG TARGETS

In 2023, the Bank defined an initial set of ESG targets, enabling the Bank to better manage ESG risks and exploit opportunities through high-level engagement.
The targets address both a better ESG risk assessment and view of ESG impacts.

They concern different activities, products and services, notably the monitoring of key indicators related to:

- ***The Bank's real estate Lending portfolio:*** As real estate properties contribute to GHG emissions mainly through their energy consumption, this involves gradually improving the average energy performance class of the real estate portfolio, either by gradually increasing the proportion of high energy classes in the loans granted, or by encouraging customers to carry out energy efficiency work (renovations).

- ***The Bank's Corporate Lending Portfolio***: BIL is indirectly exposed to ESG risks through its corporate portfolio as poor ESG performance can lead to financial losses, reputational damage, and regulatory issues. With regards to Climate & Environmental (C&E) risks, the main risks come from high emitting clients through their exposure to transition risks. The Bank therefore monitors financed emissions and ambitions in 2024 to engage with high emitting clients as a first step of its climate strategy.

- ***The Bank's Motor Vehicle Lending Portfolio***: As a facilitator of its customers' transition, the Bank accompanies its customers in their e-mobility transition by supporting an increase of the share of electric cars.

- ***The Bank's own Investment Portfolio***: In addition to applying ESG investment strategies, BIL has set a target of sustainable investments within its portfolio, thereby supporting transition across its own portfolio, and reducing the likelihood of reputational damage while strengthening the overall resilience of the portfolio.

- ***The Bank's client investment Portfolio***: To mitigate ESG risks on clients' investment portfolios and with the objective to achieve higher risk-adjusted returns, BIL has integrated ESG consideration into its investment processes (as described in its Sustainability Risk Policy), implemented under SFDR. The consideration of Principal Adverse Impacts (PAIs) also allows the Bank to consider negative impacts of the Bank's investment decision processes. On top of applying ESG investment strategies, BIL commits to developing ESG products and progressively increase the assets under management of its ESG in-house products, in line with market demand and clients' sustainability preferences.

- ***The Bank's operational Carbon Footprint***: The operational carbon footprint refers to the total amount of GHG emissions produced as a result of an organization's day-to-day operations. A high carbon footprint poses several risks, ranging from financial and regulatory concerns to reputational and operational challenges. Positioning itself as a transition facilitator, the Bank therefore needs to lead by example and address its own operational footprint.

The targets apply to the areas of the bank most exposed to ESG issues. The integration of ESG considerations applies to a wider selection of areas. This document aims to provide as comprehensive an overview as possible.

6. COMMITMENTS

To align banking operations with sustainability and to ensure ESG best practices as a standard practice, the Bank is progressively developing this ESG integration into the different functions of the Bank.

We are convinced that financing responsible business models, clean technologies and mainly the transition of economic activity will lead to new business opportunities.

To live up to these commitments, we must:

- Conduct thorough ESG risk assessment before engaging in transactions to ensure alignment with our sustainability goals.
- Collectively develop our culture of positive impact, diversity and listening to our community.
- Integrate social and environmental responsibility into the bank's operational processes and major projects.
- Invent new solutions and partnerships, combining support for our customers and benefits for the world around us.
- Provide transparent reporting on our ESG performance.

In addition, we will mobilise for causes where we have strong leverage, by bringing together our commercial offer, partnerships, employer, employer actions, purchasing policies and solidarity projects, sponsorship, volunteering and intrapreneurship.

BIL is committed to analyze companies – exposure to risks and opportunities and the management of these challenges – in three pillars : Environment, Social, Governance (ESG).

We are committed to base this assessment on the most demanding universal texts and standards including the United Nations Global Compact, the UN Principles of Responsible Banking, the OECD's guiding principles on corporate governance, the International Labour Organization (ILO) as well as the most stringent regulations including the European Taxonomy for the alignment of sustainable activities.

7. OVERVIEW OF ESG INTEGRATION WITHIN THE BANK

7.1. ESG IN RISK MANAGEMENT

In accordance with the guidelines of the European Central Bank (ECB) and the European Banking Authority (EBA) through the ECB Climate and Environmental Risk Guide and the EBA Report on Management and Supervision of Environmental, Social and Governance Risks the Risk Management function is gradually integrating the management of ESG risks throughout the whole organization via the following themes:

- *Risk identification and materiality assessment*
- *Business model and strategy*
- *Risk appetite and governance*
- *Risk management framework*
- *Reporting*

7.1.1. ESG Risk Cartography

BIL Group's Risk Cartography covers the risks to which the Bank is or might be exposed and is forward-looking to take into account the future developments which may affect its internal capital adequacy and risk management framework.

The Risk Identification and Assessment exercise is conducted on an annual basis and encompasses both Financial Risks and Non-Financial Risks. It leverages on scenario analysis concepts, relying also on subject matter experts' opinion and facts.

Since 2022, the Risk Cartography covers ESG features. A dedicated quantification of ESG risks is required, especially including the medium to long-term horizon in all areas of climate-related and environmental risk assessments.

In 2023, the ESG Cartography exercise has been built following the same approach used for the Bank's Global Risk Cartography. The merged process ensured a unified methodology and a common list of stakeholders contributing to the exercise, based on the collection of questionnaires provided to various departments, requesting their assessment of ESG risk drivers, with greater focus on Climate and Environmental risks but also including social and governance aspects.

In fact, a dedicated section was added, consisting of 60 ESG-related scenarios (45 covering the Environmental part, 15 on Social and Governance features) to the overall global scenarios.

Following ECB and EBA guidance, ESG factors are not included in the Bank's Risk Taxonomy as "stand-alone" risks but considered as drivers, hence assessed through their impact on all other existing risks. This approach allows to manage ESG factors in every aspect of all the activities in the scope of the Bank Risk Taxonomy.

The Bank's response to the management of ESG-related risks will be embedded in the existing mitigation techniques for traditional risks.

The main elements of the 2023 ESG Cartography are the following:

- Even if ESG factors are considered as drivers, they are managed based on the risk management methodology for the risk materiality assessment levels. This approach is built on the expertise of several departments, with a materiality threshold for the determination of the Gross Risk (frequency/monetary impact), the key controls/mitigation actions to deduce the Net view.

- The impact (frequency and severity) of each scenario should be identified and assessed on the existing classical risks (financial and non-financial), which are documented in the Bank's internal risk taxonomy. Then, the controls and actions that could mitigate the risks will determine the residual level of risks.

- The participants have been selected from the different business lines and control functions among the entities at BIL Group level, to ensure that most Bank activities are covered within the scenario drafting. The questionnaires are collected from a list of selected experts requested to participate, from both the first and second lines of defense.

7.1.2. Stress Testing

In line with the lesson learned from the 2022 ECB Climate Risk Stress Testing Exercise and the ESG Thematic review recommendation to introduce the use of advanced and forward-looking quantification methods to measure climate-related risk exposure for different sectors with a focus on transition risk, the Risk teams have performed a set of ESG stress testing scenarios to challenge the business strategy.

This exercise provides a high-level view of the potential impacts of ESG drivers (focusing on the Climate & Environmental side) on classical financial risks: Credit Risk, Market Risk and Liquidity Risk.

These projections are currently done in a quarterly fashion.

A detailed description of these new processes and the results are to be found in the Bank's Risk Management Report and in the 2023 Semi-Annual Pillar 3 Report: https://www.bil.com/en/bil-group/documentation/Pages/financial-reports.aspx.

7.2. ESG IN THE BANK'S BUSINESS MODEL

The starting point of integrating environmental factors and risks was the Global Risk Cartography.

When considering ESG factors and risks in its financing and lending activities, BIL gives priority to following scopes:

- *The Bank’s Lending Portfolio*
- *The Bank’s client investment portfolio*
- *The Bank’s own investment portfolio*

7.2.1.Managing ESG risk drivers in the Bank’s lending processes

- ***ESG integration in the Bank’s Credit Risk Appetite***

As part of the Credit Risk framework, the Bank implemented a Credit Risk Appetite Statement, including quantitative limits per key economic sectors which is part of the overall Risk Appetite Statement documented in the **Bank’s Global Risk Charter.**

It is reviewed annually and validated by the Board. The Credit Risk Appetite includes Environmental, Social and Governance (ESG) factors based on the Sustainable Accounting Standard Board (SASB)’s Materiality Map. This process aids the Bank in identifying vulnerable and material sectors and quantify exposures and set limits. In the last version of the appetite, a specific limit for transitions deals was added to be able to assist the Bank’s clients in their transition journey. A specific analysis has also been done on the exposure to the sectors most exposed to biodiversity risks.

The exposure to high-risk sectors and the respect of defined limits are monitored through the ESG Dashboard and through the quarterly sector review of the bank’s Credit Risk Dashboard.

The details of this process can be found in the internal **Credit Risk Appetite Framework** procedure. The results are disclosed in the Bank’s Risk Management Report , the Pillar 3 Report (https://www.bil.com/en/bil-group/documentation/Pages/financial-reports.aspx) and Sustainability Report (https://www.bil.com/sustainability/rapports-en.html).

- ***ESG integration in Real Estate Portfolio***

BIL’s Real Estate Portfolio is exposed to physical and transition risks, as well as some social risks. To address C&E risks linked to BIL’s real estate portfolio, it is essential to work towards the “greening” of the portfolio.

As real estate properties contribute to GHG emissions mainly through their energy consumption, this involves gradually improving the average energy performance class of the real estate portfolio, either by gradually increasing the proportion of high energy classes in the loans granted, or by encouraging customers to carry out energy efficiency work (renovations). The EPC (Energy Performance Certificate) becomes a mandatory data to ensure an efficient monitoring.

The bank therefore:

- Collects climate-related data on financed properties (EPC, location…) for all new real estate loan on a mandatory basis and monitors the collection through its ESG Dashboard.

- Assesses the carbon intensity and environmental performance of properties in the portfolio to identify properties that are most exposed to transition risks due to their high carbon footprint or energy inefficiency.
- Conducts scenario analysis to model potential impacts of different physical and transition risks on its real estate portfolio.

In 2023, Housing Advisors have been trained on physical and transition risks linked to real estate properties allowing them to consider climate-related risks when advising clients on real estate financing and ensure they include these aspects in their due diligence process. In terms of renovation support, please refer to the Sustainable Finance Initiatives chapter.

The Bank has also integrated environmental considerations in its real estate pricing strategy. Indeed, since September 2023, the EPC class may have an impact on the pricing.

Regarding physical risks, although these are considered to be low given that the vast majority of the collateral portfolio is based in Luxembourg, the Bank is in the process of gathering data (including addresses, zip codes and cadastral numbers) concerning the real estate assets (buildings) used as collateral in order to carry out a physical risk analysis. In 2024, the Bank plans to enrich its data sets by using third-party data providers to supply physical risk information to complete the analysis.

Details on exposure and on assessment processes can be found in the Bank's Risk Management Report, the Pillar 3 Report (https://www.bil.com/en/bil-group/documentation/Pages/financial-reports.aspx) and Sustainability Report (https://www.bil.com/sustainability/rapports-en.html).

- ***ESG integration in Corporate Lending***

ESG risks linked to a bank's corporate portfolio can lead to financial losses, reputational damage, and regulatory issues. Banks therefore need to assess and manage these risks, involving due diligence, monitoring and engagement with portfolio companies.

ESG risks can vary widely within each sector and depending on the specific company, its practices, and its geographical context. They also vary over time as regulations, societal expectations and industry dynamics evolve.

ESG risks that a company faces also vary based on its size. Indeed, larger companies often have more complex operations, supply chains and stakeholder interactions, which can expose them to different types and magnitudes of ESG risks compared to smaller companies. On the other hand, big companies might have more means to invest in their ESG transition.

Considering the variety of ESG risks, the Bank needs to assess them accordingly to evaluate the companies' performance and potential risks they are exposed to.

On top of the SASB matrix which helps identifying which ESG issues are the most material to a company's sector, the bank has defined due diligence processes to aid in identifying and assess potential ESG risks in corporate portfolios.

1) *ESG Borrower Assessment*

The Bank developed an ESG assessment for all new MidCorp and Corporate transactions on a risk-based approach where counterparties are subject to an ESG assessment according to both their ESG risk level by sector and their transaction amount. The ESG assessment is a qualitative approach developed to provide an ESG classification of the new credit transaction being considered. The assessment's result is a final "ESG Credit Impact Score" which can be used alongside the credit score of the borrower. It will be considered separately in the credit decision to inform the loan pricing process and set recommendations for a rating override.

The materiality of ESG factors to credit risks is assessed at sector level, counterparty level and transaction-level (i.e., three dimensions assessment), and used to determine an ESG Score. The ESG Score is a combination of 3 sub-scores: (i) the Sector Materiality Score, (ii) the Counterparty Score and (iii) the Transaction Score.

2) *Transition Assessment*

Since 2022, BIL calculates the emissions of its bank investment and lending portfolio and discloses them in its Sustainability report on an annual basis.

The calculation of financed emissions is mainly used to assess transition risk exposure.

As far as the lending portfolio is concerned, this calculation targets a full coverage of existing clients in terms of borrowers in the following asset classes: real estate loans, motor vehicle loans and business loans.
Most of these emissions were attributable to business loans. An in-depth analysis helped us identify the highest emitting sectors and clients, for which our transition risk is greatest and therefore in need of mitigation.

In Q4-2023, BIL worked on a client engagement model, based on the ACT (Assessing Carbon Transition) Initiative. This client's engagement model will enable BIL to actively support its clients' low-carbon transition plans and integrate sustainability considerations into its relationship management practices.

One of the deliverables will be a "Low Carbon Transition Plan Assessment Tool" respecting CDP's assessment criterion and inspired by the ACT Initiative methodology. The tool will enable the bank to assess clients' transition plans in a meaningful and comprehensive manner. The assessment will primarily focus on qualitative client information and maturity matrices to limit subjectivity, with quantitative aspects based on absolute reduction benchmarks as explained above.
Based on this questionnaire and specific training, a pilot phase will take place during the 1st half of 2024 for two dedicated teams to meet our most emitting customers on the most emitting sectors which are identified thanks to the carbon footprint annual calculation.

7.2.2. Managing ESG risk drivers in the bank's investment processes

The European Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector, the so-called Sustainable Finance Disclosure Regulation (SFDR), requires financial market participants and financial advisors in the EU, to disclose on the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes.

By integrating ESG consideration into investment decisions, banks can enhance risk-adjusted returns and contribute to sustainable and responsible investing. ESG risks are multiple and vary according to the company the bank decides to invest in.

At BIL, responsible portfolio construction is ensured through:

- **Exclusion**: to minimize ESG related risks arising from exposure to certain sectors or activities that run a high reputational risk and unsustainable business models, BIL investment services are using an exclusion list targeting individual companies (and their respective bonds and equities) and countries (sovereign debt).

- **ESG integration**: ESG integration at BIL, means that our investment services apply ESG non-financial factors as part of their analysis to identify material risks and growth opportunities. The analysis is based on several dimensions, including:

  - **Environmental dimension**
    The bank is committed to assess how issuers manage positive and negative, direct and indirect impacts on the environment. It goes through reducing energy consumption, limiting greenhouse emissions, fighting resource depletion and phasing out waste as well as protecting biodiversity. It also goes through a positive contribution to build a circular economy in the territories in which issuers operates.

  - **Social dimension**
    The bank is committed to assess how issuers manage positive and negative, direct and indirect impacts on its workforce and on society in general. It goes through developing human capital, ensuring occupational health & safety, fair labour conditions and non-discrimination, maintaining constructive social relations, guaranteeing product responsibility as well as respecting and enhancing human rights of local communities.

  - **Governance dimension**
    The bank is committed to assess how issuers manage positive and negative, direct and indirect governance impacts. It goes through integrating stakeholders in the development model – shareholders, employees, clients, suppliers, local communities and the environment – to organize a collaborative process between the different stakeholders that guarantees issuers' long-term success. It also goes through preserving ethics as well as sharp audit & control practices.

The details of the integration of ESG factors in our investment processes are described in the dedicated "**Sustainability Risk Policy**".

The policy seeks to ensure that the investment products and services we provide to our customers do not result in an unacceptable, adverse impact on people or the environment, while helping them understand and manage their environmental and social impact.

At BIL we recognize the importance of taking into account sustainability risks and opportunities in the portfolios we manage as well as to the clients we advise and of carefully considering principal adverse sustainability indicators for our products and services that promote ESG characteristics or have sustainable investment as an objective.

Acknowledging this “double materiality”, and associated mitigation and adaptation priorities, BIL, as an entity, not only evaluates the financial impact of ESG criteria, it also seeks to measure the impact of the assets in which it invests on key sustainability factors.

As such, BIL decided to consider PAI (Principal Adverse Impacts) on sustainability factors at entity level (SFDR Art. 4), and at the level of specific in-house investment products and services (SFDR Art. 7 for our products classified as Art. 8 or Art. 9 of the SFDR).
It is important to highlight that, for some specific in-house products falling under either Art. 8 or Art. 9, the prioritization of selected PAIs may deviate from those determined at the entity level. BIL products and services that are neither Art. 8 (promoting environmental or social, or a combination of both, characteristics) nor Art. 9 (having a sustainable investment objective) don’t consider PAI in their respective investment processes.

New risks may arise, public opinion may change, and new market standards may be introduced. Our sustainable investment framework will, as such, be reviewed and, if necessary, adjusted on a recurring basis to incorporate these changes.

Detailed information and SFDR related disclosures are available via BIL’s website: https://www.bil.com/sustainability/sfdr.html.

7.2.3. Managing ESG risk drivers in the bank’s own investment portfolio

BIL’s bank Investment Portfolio is aligned with BIL’s Sustainable Risk Policy and Sustainable Investment Framework and as such limits controversies around potential divergences between eligible investments for clients and itself.

In addition, BIL deems as unsustainable investing in government bonds (federal & local) of countries where a collapse of the governance structure took place. BIL follows applicable sanctions of the UN, EU or the Office of Foreign Assets Control (OFAC) to which it is subject and follows any mandatory restrictions deriving therefrom.

Furthermore, a target minimum share of Green, Social or Sustainable bonds in the portfolio was introduced. A minimum share will be built in a step-up mode with the objective to reach a minimum share of 30% at the end of 2025. This minimum share is an ambitious target since that, given the current maturity profile of the Investment Portfolio, at least half of the maturities each year should be reinvested in Green, Social or Sustainable bonds.

Table below presents the target implementation dates.

Year End	Minimum Share	Maximum Share
2021	10%	100%
2023	20%	100%
2025	30%	100%

The details of the integration of ESG factors in our investment portfolio can be found in the internal Charter **Investment Portfolio Guidelines.**

7.3. ESG & REMUNERATION

The bank progressively integrates ESG issues in employees' feedback and objectives. The sustainability of the bank also is a key element of the executive remuneration.
The Remuneration Charter has been updated accordingly (https://www.bil.com/Documents/documentation-legale/RemunerationCharter-en.pdf).

The Bank gave the priority to ESG upskilling and employee contribution to the bank's Sustainability Journey (eg: contribute to the development of new products, integrate ESG considerations in bank processes…etc), as described in chapter 3.

In 2023, the bank started identifying key performance indicators and defined ESG Targets (please refer to chapter 4), which will be monitored by the ESG Steering Committee in the Bank's ESG Dashboard. These targets address ESG data collection issues (collection of EPCs, client sustainability preferences...), sustainable finance initiatives and ESG risk related issues (eg. Engagement with high emitting clients).

Please refer to the bank's Remuneration Charter for details (https://www.bil.com/Documents/documentation-legale/RemunerationCharter-en.pdf) as well as to the Bank's Sustainability report (https://www.bil.com/sustainability/rapports-en.html).

7.4. ESG TRAINING & UPSKILLING

The Bank integrates environmental, social and governance factors to identify related risks and opportunities, thereby identifying positive and negative ESG impacts of the counterparties being assessed.

To perform these analyses, the bank commits to:

- train and empower its staff on sustainable finance by deploying multiple training paths for its employees, to achieve upskilling and reskilling of BIL human capital in sustainable education and training.
- equip employees with the knowledge and the skills to integrate ESG factors into decision-making processes and to support clients in their own transition, ensuring that the bank not only meets regulatory requirements but also contributes positively to the broader community and environment.

7.5. SUSTAINABLE FINANCE INITIATIVES

In July 2022 BIL's Executive Committee was supported by the bank's Board in its ambition to become a "key transition facilitator". This mainly implies:

- Developing the green transition financing offer and advice to support our individual and corporate clients in their own transition journeys.
- Progressively adapt our ESG investment to guarantee a complete range of ESG or sustainable solutions.

As an important player in the Luxembourg economy and a signatory of the UN Principles of Responsible Banking, BIL **supports Luxembourg's National Integrated Energy and Climate Plan (PNEC).** The PNEC defines national climate objectives for the coming years, compatible with European Union targets.

Intermediate targets for the period up to 2030 include:

- a 55% reduction in greenhouse gas emissions compared with 2005, excluding the European Emissions Trading Scheme and LULUCF,
- achieve a 35-37% share of renewable energies in final consumption,
- improve energy efficiency by 44%,
- to reinforce targets for renewable energies and energy efficiency (ambitious deployment of wind power, solar power, heat pumps and electromobility).

The long-term objective is to achieve climate neutrality, or "zero net emissions" in Luxembourg by 2050 at the latest.

BIL supports the country's green transition by making efforts in its own operations and by encouraging its customers to reduce their emissions and invest sustainably.

At the same time, we always seek to adopt an approach that considers the social aspects of our decisions. Indeed, it is also our role to contribute to societal well-being and contribute to economic growth and our challenge relies in finding the right balance between economic prosperity, social well-being, and environmental health.

7.5.1. Product Governance

ESG is now integrated in the "**Products and Services Governance Policy"** which makes it compulsory to consider ESG factors when describing the business case/strategic fit of a new product. These considerations have been integrated in the Products and Services Governance Policy as well as the two templates supporting the New Product Committee process: Business Request and New Products Checklist.

7.5.2. ESG investment solutions

BIL recognizes the growing significance of ESG investing, viewing the financial system as the lifeblood of the economy. The financial products and services are an essential lever for action and an important part of the toolbox to create solid foundations for future generations.

Considering the evolution of the different ESG regulations, the current market demand and taking into account current operational and data difficulties, in 2023, BIL has established its **Sustainable Investment Framework** in accordance with SFDR requirements and has identified points of improvement to continue enhancing its alignment with regulatory guidelines for defining “sustainable investments”.

The Sustainable Investment Framework is integrated into the **Sustainable Investment Policy** (the “SI Policy”). The SI Policy aims to establish a consistent and comprehensive methodology for categorizing financial instruments within two distinct categories: sustainable and non-sustainable. By carefully outlining the definition, criteria and indicators, the SI Policy enhances the clarity and transparency of the categorization process. This SI Policy gives a foundation to accommodate the objectives and needs of investors with sustainability preferences, aligning with the requirements set forth by MiFID II (Markets in Financial Instruments Directive II). Furthermore, it aims to establish a unified and consistent definition of sustainable investment criteria within the Bank’s investment portfolio. This consistency ensures that the Bank operates in line with a standardized set of principles when it comes to defining whether an investment is sustainable or not. The Policy strengthens the Bank’s ability to meet the growing demand for sustainable investment products and services in compliance with regulatory standards.

Within the BIL Invest product range, in 2021 four products were classified as SFDR Art 8, products that promote ESG characteristics: “BIL Invest Patrimonial Defensive”, “BIL Invest Patrimonial Low”, “BIL Invest Patrimonial Medium” and “BIL Invest Patrimonial High”. Those four products obtained the **LuxFLAG ESG label** for the first time in 2021. In 2023 BIL achieved a new milestone towards responsible investment practices by renewing its four “BIL Invest Patrimonial” LuxFlag ESG Label accreditations and obtaining two new LuxFlag ESG Label accreditations for “BIL Invest Bonds EUR Corporate Investment Grade” and “BIL Invest Equities Europe”, which are, since 2023, classified as SFDR Art 8.

All these BIL Invest Funds consider Principal Adverse Impacts and show our commitment towards responsible investing.

BIL is continuously working on the development of new ESG products and services.

- **Client ESG preferences**

The scale of investment needed to transition to a sustainable and green economy is beyond the capacity of the public sector. Banks and investors have a role to play in driving positive change for the better by rechannelling capital towards sustainable businesses and innovations, contributing to the creation of a low-carbon, climate-resilient and circular economy, while strengthening efforts to eradicate social injustices across the globe.

A dedicated project has been launched to identify and clarify impacts from the Commission Delegated regulations amending the Delegated Regulation as regards the integration of ESG factors, risks and preferences. In accordance with this regulation BIL considers ESG preferences since of August 2022 and is progressively enhancing the questionnaire and processes. BIL will continue to develop investment services to raise awareness among its clients about sustainable finance solutions.

- **Green Bond Framework**

As part of its sustainability strategy, BIL has established in April 2022, a **Green Bond Framework** dedicated to the issuance of green bonds.

Under this Framework, BIL is able to issue different instruments, including, but not limited to, public bonds or private placements. BIL has established this Framework with a primary focus to channel financing towards energy-efficient real estate in Luxembourg. Since in Europe buildings account for 40% of consumed energy and 36% of energy-related direct and indirect greenhouse gas emissions it is clear that the real estate sector has an important role to play in achieving the objectives set by the Paris Agreement.

The green bond framework has become an essential tool to enlarge our investor base, strengthen our access to liquidity and offer our clients investments that support the transition to an environmentally sustainable future. Since its inception in April 2022, the demand for green bonds has corroborated the pertinence of this investment proposal beyond our expectations.

The detailed framework can be found on BIL's Website, under https://www.bil.com/Documents/EMTN/Green-Bond-Framework.pdf.
The allocation and impact report can be found on BIL's Website, under https://www.bil.com/Documents/EMTN/Allocation-and-Impact-Report-31122022.pdf

7.5.3. ESG financing solutions

In 2022, BIL formalized its ambition to become "a key transition facilitator" in ESG lending and advisory to support the Bank's individual and corporate clients in their own transition journeys.

The bank plays an important role in funding sustainable projects. Measuring the impact of this funding is a priority for the bank, both to ensure proper risk management and above all to support clients who want to make their own contribution in the transition to a more sustainable world.

In 2023, BIL showcased its entire range of products contributing to the ecological transition of its customers under the BIL Green Loans banner.

These loans focus on three key areas:

- **Eco-Responsible cars**: BIL offers advantageous loans to encourage the adoption of environmentally friendly cars. Whether buying an electric, hybrid or clean energy vehicle, customers will now be able to make an active contribution to reducing the carbon emissions associated with their journeys.
- **Renewable Energy**: BIL's product also finances renewable energy projects, such as the installation of solar panels or domestic wind turbines. By supporting these initiatives, BIL give their customers the opportunity to produce their own clean energy and reduce their dependence on non-renewable sources.
- **Energy Renovation:** Green Loans can also be used to invest in energy renovation projects, such as improving insulation, installing sustainable heating systems, and

much more. This allows customers to make their homes more energy efficient and reduce their carbon footprint.

Financing options for sustainable projects represent a growth area for the coming years. To that end, the bank will progressively support it clients in their transition by making them aware of the advantages of energy retrofitting, and assisting them in their efforts, through dedicated product offers as well as helping the clients in their applications for public and private subsidies. BIL's relationship managers are continuously trained on these aspects to best advise their clients in their transition journeys.

7.5.4. Other products and services

While the bank gives priority to its financing and lending solutions, ESG considerations will progressively impact the rest of its products and services.

7.6. ESG INTEGRATION AT CORPORATE LEVEL

As a financial intermediary, the Bank gives priority to integrating ESG considerations in its business activities, meaning its financing and investment activities. Nevertheless, as a company, the Bank commits to sustainability and needs to integrate ESG considerations at corporate level. This holistic approach ensures that every facet of our operations aligns with the principles of sustainability, reinforcing our dedication to not only financial excellence but also the well-being of our planet and communities.

When considering ESG factors and risks at corporate level, BIL gives priority to following scopes:

- The calculation of its operational carbon footprint
- The Bank's Human capital management
- The Bank's procurement process

7.6.1. Operational Carbon Footprint

Being an environmentally responsible company means investing in reducing our own environmental footprint. Being aware of the challenges this represents allows us to adopt the same approach as some of our clients and to support those who wish to take the same direction. Our initiatives will allow us to be credible, to present tangible results and to serve as an example.

Since 2021, BIL has calculated its annual greenhouse gas operational direct and indirect emissions:

- **Direct emissions** are those originating from sources owned or controlled by the bank.
- **Indirect emissions** are those that are generated through the bank's activities but occur at sources owned or controlled by another entity.

The direct and indirect emissions are divided into three scopes:

- **Scope 1** includes all carbon emissions that can be directly managed by the bank (direct GHG emissions). This includes emissions from the combustion of fossil fuels in mobile and stationary sources (e.g. owned or controlled boilers, power generators and vehicles), carbon emissions generated through chemical and physical processes, and fugitive emissions from the use of cooling and air conditioning (AC) equipment.
- **Scope 2** includes indirect GHG emissions from the generation of purchased electricity, such as, but not limited to, steam, heat or cooling purchased by the bank from external energy providers.
- **Scope 3** includes other indirect emissions, such as emissions from the extraction and production of purchased materials and services, vehicles not owned or controlled by the bank, activities, waste disposal, etc.

Developing reliable and comprehensive corporate GHG footprint accounting is the first step in managing climate performance. Understanding our GHG footprint is the basis for developing a successful climate strategy and progressively reduce our negative impacts. The exercise is coordinated by the Sustainable Development team in coordination with the Risk teams, Financial Markets, Data, Corporate Real Estate and PCC.

Corporate Real Estate also monitors paper, water & waste consumption and launches regular optimization initiatives which are globally reported in the bank's sustainability report.

The details related to the calculation and the Bank’s commitment to reduce these can be found in the Bank’s Sustainability Report (https://www.bil.com/sustainability/rapports-en.html).

7.6.2. Human capital management

The Bank recognizes the critical importance of assessing social risks and effectively managing its human capital. The bank therefore commits to comprehensively evaluate social risks, including issues such as diversity, inclusion and employee health and well-being and to launch programs to address material risks. This should allow the bank to enhance its overall resilience and performance, ensuring a harmonious balance between financial success and social responsibility.

Details to the Bank’s Human Capital Management can be found in the Bank’ Sustainability Report (https://www.bil.com/sustainability/rapports-en.html).

7.6.3. Responsible Procurement

BIL is committed to work with suppliers who meet the minimum labor, health and safety, environmental, and ethical standards to protect human rights. The handling of these criteria with the suppliers of the bank is detailed in the Responsible Procurement Policy.

8. GOVERNANCE

The governance related to the processes and policies mentioned in this document is described in the dedicated process policies. The ESG Governance is described in BIL's Sustainability Strategy: https://www.bil.com/Documents/documentation-legale/Sustainability-Strategy.pdf.

9. ESG REPORTING & ESG DASHBOARD

The Bank will monitor and report, whenever it is possible and, on a regular basis relevant indicators related to the issues covered along this framework.

In 2023, the Bank elaborated an ESG Dashboard, aimed at monitoring key qualitative and quantitative indicators in relation to ESG risks and ensuring that ESG opportunities are monitored and seized.

With current disclosure, regulatory and investor trends, the dashboard intends to give a complete overview of ESG challenges, risks and opportunities. The objective is to ensure that ESG topics are discussed at senior management level, to progressively enhance ESG competences of management bodies and key stakeholders and ensure that ESG is embedded in overall board processes. This should enable better-informed investment decision-making, more systematic thinking, and an integrated approach to implementing business strategy that is informed by consideration of ESG impacts in both the short and long term.

In 2023, the Bank decided to conduct a solicited non-financial rating exercise to get an external view on its ESG performance, risk exposure and management. The exercise enables the bank to validate its material issues and to identify the improvements to be made through the implementation of its ESG program. Results of the 2023 exercise can be found on its Sustainability website: https://www.bil.com/Documents/brochures/RiskRatings.pdf.

For more information on the steps, we take to ensure that our operations uphold our commitment to sustainability and how we measure progress to those commitments, please consult our Sustainability report available on our website at: https://www.bil.com/sustainability/reports.html.

10. REVIEW

The Bank will periodically review this framework to evaluate its continued relevance, monitor compliance and drive continual improvement. We also welcome feedback from, and dialogue with, interested parties. All feedback and comments on this framework should be sent to sustainability@bil.com