



# GREEN BOND FRAMEWORK

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BANQUE  
INTERNATIONALE  
À LUXEMBOURG

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# INTRODUCTION

## Banque Internationale à Luxembourg

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Founded in 1856, Banque Internationale à Luxembourg (BIL) is the oldest multi-business bank in Luxembourg. Recognised as a cornerstone of the Luxembourg financial sector, the Bank plays an active role in the financing and development of the Luxembourg economy and its neighbouring regions.

BIL provides retail, private, corporate and institutional banking, as well as treasury and financial market services. BIL has trading floors in Luxembourg and Zurich and has dedicated wealth management offices in Luxembourg, Switzerland and China.

As Luxembourg's third largest bank in terms of market share, BIL is considered a systemically important institution by the European Central Bank. Since 2018, BIL is majority owned, 90% by Legend Holdings Corporation and 10% by the Grand Duchy of Luxembourg.

With over 2,000 employees and thanks to its local and international network, BIL offers innovative, customised financial services that contribute to growth in private and corporate wealth as well as helping businesses to flourish and supports financial professionals in developing their activities.

BIL believes that in order to offer a healthy and sustainable business environment, Luxembourg must be able to support a climate of economic and social well-being.

The Bank has always fostered economic growth in Luxembourg and the Greater Region by providing financial support to a range of projects. Whether directly or indirectly, its CSR policy affects clients, employees, service providers and shareholders, as well as the society as a whole.

## SustainaBILity Strategy

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As a major bank in Luxembourg and aware of its role in contributing to a balanced economic growth and the construction of a more sustainable and ecological economy, BIL has defined in 2021 its SustainaBILity Strategy<sup>1</sup>, integrating fully the bank's "Energise Create Together" 2025 Strategy. This SustainaBILity Strategy is built on 4 pillars of commitment and responsibility (*as described below*), which will progressively guide BIL's strategic decision-making and day-to-day management.

Its definition was based on an extensive engagement plan that has involved the bank's key stakeholders, including its customers (retail, wealth and corporate), employees and shareholders.

BIL has decided to link those pillars with the UN Sustainable Development Goals (SDG) and position them at the core of its sustainable strategy. The bank has selected 9 Sustainable Development Goals (SDGs) for which it is committed to make tangible contributions.

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<sup>1</sup> <https://www.bil.com/CSR/index.html>



Since the approval of its SustainaBILity Strategy, more than 40 initiatives have been launched in line with these 4 pillars and the UN SDGs. As a result, 2021 marked a real turning point in BIL's sustainability transformation. BIL's ambition is to set clear quantitative targets for the implementation of this new strategy and its follow-up.

### Sustainable Governance and Strategy

To make sure public commitments are translated into a business strategy, embedded into business-as-usual processes, and then monitored and managed across a wide range of departments, a real transformation programme, known internally under the "Towards Sustainability Programme" has been implemented.

The programme is led by the Head of Sustainable Development who reports directly to the Executive Committee Member in charge of the Bank's Strategy. The Group Head of Sustainable Development ensures the proper application of the sustainability policy at BIL, coordinates the Sustainability Steering Committee, ensures dialogue with stakeholders, and organizes the non-financial reporting, in line with the Global Reporting Initiative (GRI) standards<sup>2</sup>. The department also aims to ensure the consistency of the "responsible" initiatives launched within the bank's various areas of activity, thereby contributing to the local and international objectives of a more sustainable world.

BIL's recent sustainability strategy priority was to comply with new European ESG regulations starting with the European Regulation (EU) 2019/2088, the so-called Sustainable Finance Disclosure Regulation (SFDR). In this context BIL published on its website<sup>3</sup> in 2021 its

<sup>2</sup> <https://www.bil.com/CSR/reports.html>

<sup>3</sup> [https://www.bil.com/fr/groupe-bil/documentation/Documents/BIL\\_SustainablePortfolioManagementFramework\\_09\\_21\\_EN.pdf](https://www.bil.com/fr/groupe-bil/documentation/Documents/BIL_SustainablePortfolioManagementFramework_09_21_EN.pdf)

Sustainable and Responsible Investment Statement, describing how sustainability risks are integrated into its investment decision processes via an exclusion list targeting individual companies and countries and by integrating Environmental, Social and Governance considerations into its investment products and services.

BIL is also working towards addressing the requirements of phase 2 of SFDR as well as the assessment of clients' ESG preferences as required by the Delegated Regulations amending organisational requirements (including suitability assessments) under the Markets in Financial Instruments Directive (MiFID II) and Insurance Distribution Directive (IDD) Delegated Regulations.

Furthermore, in 2021, BIL has become an official Signatory of the *UN Global Compact* and *UN Principles for Responsible Banking (UN PRBs)* – a single framework for a sustainable banking industry developed through a partnership between banks worldwide and the United Nations Environment Programme Finance Initiative (UNEP FI).



To fulfil its commitment to the UN Principles for Responsible Banking, BIL is required to undertake the following steps:

- To measure where BIL has significant positive and negative impacts on society, the environment and the economy inside core business areas;
- To identify where BIL can realize the greatest positive impacts and reduce significant negative impacts;
- To set and implement SMART targets on where it has the most significant impact;
- To publicly report on its progress.

BIL's Sustainable and Responsible Investment Statement also applies to the Bank's Investment Portfolio, as it is committed to integrate environmental and social due diligence into its investment process, notably by excluding potential investments that do not respect ESG principles. Furthermore, the portfolio guidelines include a minimum target portion of investments into green, social and sustainable bonds which must be at least 30% by the end of 2025<sup>4</sup>.

The Bank has also started to implement EU recommendations on the handling of ESG risks. The primary focus was on defining a robust risk cartography, which will form the basis for further progress, mainly the definition of the Bank's ESG risk governance, the revision of its risk management frameworks, including stress-testing exercises.

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<sup>4</sup> As of 31<sup>st</sup> December 2021 Green, Social and Sustainable bonds account for 10.5% of the total Portfolio, for a total amount of EUR 800 million.

## Sustainable Products and Services

In line with the second pillar of its SustainaBILity strategy, BIL is continuously working on the development of its product offering, which is an essential lever for taking action and having a positive impact.

In this context, BIL already offers a range of sustainable loans:

- **Climate Loans** (at a reduced rate and zero rate): loans subsidized by the Luxembourg State to promote energy renovations ;
- **Photovoltaic Loans**: a dedicated product and a preferential rate focused on the financing of solar panel installations (especially for retail customers) ;
- **Consumer loans, cars loans and leasing**: BIL offers preferential rates for financing an ecofriendly vehicle (electric and hybrid).

At the end of 2021, four of the BIL Invest Sicav Patrimonial sub-funds, promote Environmental and/or Social characteristics within the meaning of Article 8 of the SFDR and had obtained the Luxembourg Finance Labelling Agency (LuxFLAG) ESG label for a period of one year, with the ambition to extend this strategy to additional funds overtime.



**ESG**

The primary objective of the LuxFLAG ESG Label is to reassure investors that the Investment Product actually incorporates ESG (Environmental, Social, Governance) criteria throughout the entire investment process. BIL is also a founding member of LuxFLAG label.

BIL has also established a structure to efficiently address ESG issues and promote the development of its product range, joining forces with leading players, such as Candriam (since 2020) to gain access to ESG data. Today, BIL is in a position to understand and integrate ESG factors into investment choices, thereby adding an additional aspect to its risk/return analysis framework.

## Responsible Employer

BIL's focus is on employee development, notably focusing on sustainable training. BIL's ambition is to upskill the majority of BIL employees by offering different ESG training formats with the ambition that all financial decisions at BIL take into account climate change and that every BIL employee can develop knowledge and understanding of climate change, green finance and sustainability as relevant to their respective role within the organisation (starting with 70 'priority' employees trained in ESG in 2021).

BIL also regularly organises "Sustainability Days" to raise awareness of sustainability issues within the Bank. Following a successful first "SustainaBILity Week" launched in November 2021, the Bank will organise monthly "SustainaBILity Days" going forward.

Several initiatives were launched around health and well-being, with a focus on the management of the COVID-19 crisis with measures put in place at BIL to protect the Bank, its employees and its customers. The Bank is also working on the definition of an ambitious dedicated action plan on the theme of Diversity<sup>5</sup>. Continuous efforts to raise awareness of the importance of these issues among all employees and to continue to train key people are implemented. BIL is also a signatory of the Luxembourg Diversity Charter<sup>6</sup>.

Finally, the Bank participates on a recurring basis in a large number of local initiatives, mainly in the field of education and health.

## Positive Impact

As a main financial player in Luxembourg, BIL's sustainable strategy strives to impact positively local economy and communities and to prepare ground for future generations. In that sense, for several years now, BIL has been involved into many initiatives as a founder.<sup>7</sup>

For instance, for more than 10 years, IMS (Inspiring More Sustainability), partly initiated by BIL, has been the leading network of Luxembourg companies involved in Corporate Social Responsibility (CSR) initiatives. IMS explores new solutions and concretely tests sustainable alternatives, thanks to working groups and pilot projects with positive impacts.

BIL is also a signatory of IMS Luxembourg's Zero Single-Use plastic pledge, a formal commitment to eliminate single-use plastic within the company.

BIL's CSR strategy and action plan are independently assessed, every 3 years by the Institut National pour le Développement durable et la Responsabilité sociale des entreprises (INDR, National Institute for Sustainable Development and Corporate Social Responsibility). In 2021 BIL was awarded the INDR label, which covers the activities of BIL's head office and the activities of the national subsidiaries: BIL Lease, BIL Manage Invest and Belair House.

As part of its Corporate Social Responsibility policy, BIL produces a guide for its suppliers in which BIL explains its requirements and encourages them to adopt best practices in terms of

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<sup>5</sup> [https://www.bil.com/Documents/brochures/BIL\\_Diversity.pdf](https://www.bil.com/Documents/brochures/BIL_Diversity.pdf)

<sup>6</sup> <https://www.chartediversite.lu/en>

<sup>7</sup> <https://www.bil.com/CSR/index.html#initiatives>

respect for human rights, protecting the health and safety of their employees and respect for the environment.

Additionally, in order to deeply impact its local business environment, BIL is also a signatory to the most stringent charters in terms of corporate social responsibility, such as “SuperDrecksKëscht Fir Betriber” (SDK) environmental management label<sup>8</sup> and Collective bargaining agreement for the financial sector in Luxembourg<sup>9</sup>.

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<sup>8</sup> <https://guichet.public.lu/fr/entreprises/commerce/labels/labels-ecologiques/sdk-fir-betriber.html>

<sup>9</sup> [http://www.ogbl.lu/syndicat-banques-et-assurances/files/2021/06/CCT\\_Finance\\_Banques\\_EN-cover.pdf](http://www.ogbl.lu/syndicat-banques-et-assurances/files/2021/06/CCT_Finance_Banques_EN-cover.pdf)

# **GREEN BOND FRAMEWORK**

By issuing Green Bonds, BIL has the opportunity to promote and support the long-term development of sustainable solutions through financing sustainable innovations and services in line with the UN Sustainable Development Goals (SDG) 2030 agenda.

As part of its sustainability strategy BIL has established this Green Bond Framework (“the Framework”) with the goal to ensure that its clients have access to financing that helps them to pursue the transition to an environmentally sustainable future. The purpose of this Framework is to have a single robust methodology in place for the future issuance of green bonds.

With the implementation of this Framework BIL is committed to support the growth of the sustainable finance market, which it sees as a critical tool to meet the commitments of the Paris Agreement on global climate action and to address investors’ willingness to finance sustainable activities.

As in Europe buildings account for 40% of energy consumed and 36% of energy-related direct and indirect greenhouse gas emissions it is clear the real estate sector has an important role to play in achieving the objectives set by the Paris Agreement. In this context BIL has established this Framework with a primary focus to channel financing towards energy-efficient real estate in Luxembourg.

Under this Framework BIL may issue different bond instruments including public bonds or private placements.

This Framework has been designed with the intention to reflect current best market practice. It is aligned with the Green Bond Principles, 2021 version (GBP), as published by the International Capital Market Association (ICMA)<sup>10</sup>.

In accordance with the Green Bond Principles, the Framework is composed of the four following core components:

- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

The Framework also follows the key recommendations for heightened transparency of the Green Bond Principles regarding (i) Green Bond Frameworks and (ii) External Review as further outlined under the External Review section below.

The Framework may be further updated or expanded from time to time to reflect future updates to the Green Bond Principles, best market practices, the evolving regulatory landscape (such as the EU Taxonomy Regulation (Regulation (EU) 2020/852)<sup>11</sup>, the EU Taxonomy Climate Delegated Act<sup>12</sup> and the planned EU Green Bond Standard) and evolutions in BIL’s activities. These potential changes will either keep or improve the current levels of transparency and reporting described in the Framework.

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<sup>10</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

<sup>11</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC)

<sup>12</sup> [https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

## Use of proceeds

An amount equivalent to the net proceeds of BIL's Green Bonds will be allocated exclusively to finance or refinance, in full or in part, new or existing loans (together "the Eligible Portfolio") that seek to achieve positive environmental impacts, notably substantially contribute to climate change mitigation, in accordance with the following eligibility criteria:

- a) Eligible loans must be located in Luxembourg;
- b) Eligible loans should meet at least one of the Eligibility Criteria as described in the table below.

Eligible Project Category	Eligibility Criteria
Green Buildings	<p><b>Financing of refurbishment, acquisition and ownership of existing and/or future residential buildings in Luxembourg which meet at least one of the following eligibility criteria:</b></p> <ul style="list-style-type: none"><li>• Buildings either with an Energy Performance Certificate (EPC) level at least equal to "A" or belonging to the top 15% most energy-efficient buildings of the national building stock and demonstrated by adequate evidence<sup>13</sup></li><li>• Buildings with Primary Energy Demand (PED) at least 10% lower than the relevant national threshold set for nearly zero-energy building (NZEB) requirements</li><li>• Buildings that will achieve or have achieved, after refurbishment a reduction of primary energy demand (PED) of at least 30 % in comparison to the performance of the building before renovation or comply with the applicable requirements for major renovations of the EPBD (Energy Performance of Buildings Directive)</li></ul>

## Exclusion criteria

On top of the exclusions specified in the BIL's SFDR policy regarding activities considered to be especially of high controversies due to their negative implications, loans that fall under the following activities will be ineligible as Use of Proceeds of a Green Bond issue:

- Nuclear or fossil fuel generation (notably including thermal coal (extraction & power generation) and oil sands extraction)
- Controversial weapons (anti-personnel landmines, cluster bombs, depleted uranium weapons, chemical weapons, biological weapons and white phosphorous weapons)
- Gambling, casinos and related businesses
- Tobacco

<sup>13</sup> BIL has engaged an external consultant to define the top 15% of the national building stock and NZEB-10% in Luxembourg. The results of the assessment will be published on BIL's website in the following section: <https://www.bil.com/en/bil-group/investor-relations/Pages/index.aspx>

BIL also excludes companies that violate the UN Global Compact principles.

## Contribution to the United Nations Sustainable Development Goals and European Union Environmental Objectives

Eligible loans included in the Eligible Portfolio aim to support key sustainability objectives for BIL in line with its commitment of tangible contribution to Sustainable Development Goals. In accordance with the “High-Level Mapping to the Sustainable Development Goals” published by the International Capital Market Association (ICMA) in June 2020<sup>14</sup>, BIL presents hereunder the correspondence between the Eligible portfolio and the targeted Sustainable Development Goals:

Eligible Project Category	Sustainable Development Goals Contribution and some relevant UN SDG official targets
<p><b>Green Buildings</b></p>	<p><b>7 – Affordable and clean energy</b> 7.3 By 2030, double the global rate of improvement in energy efficiency</p> 
	<p><b>11 – Sustainable cities and communities</b> 11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries</p> 
	<p><b>13 – Climate action</b> 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning</p> 

In addition, the Eligible Portfolio also aims to substantially contribute to the EU Taxonomy environmental objective n°1 “Climate Change Mitigation” (Article 10) by improving energy efficiency, except for power generation activities as referred to in Article 19(3)<sup>15</sup>, notably focusing on the financing of the following economic activity, Acquisition and ownership of buildings (7.7).

## Process for project evaluation and selection

The Eligible Portfolio is expected to comply with local and international laws and regulations, including any applicable regulatory environmental and social requirements.

In addition, loans included in the Eligible Portfolio must comply with BIL’s policies aimed at mitigating known material social risks including an anti-bribery and corruption policy,

<sup>14</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/mapping-to-the-sustainable-development-goals/>

<sup>15</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>

whistleblowing charter, and conflicts of interest charter<sup>16</sup>. BIL has also recently extended the scope of its internal processes in order to mitigate potential Environmental risks and additional social risks with the implementation of a Code of Ethics, CSR Policy, ESG Policy and Sustainable Procurement Policy (in addition to a guide to the implementation of CSR policy by suppliers<sup>17</sup>). Potentially eligible loans are also assessed against BIL's regular credit policies including a strict code of conduct regarding tax transparency, security, confidentiality and the fight against money laundering, discrimination and the financing of terrorism.

The process for evaluation and selection of potentially eligible loans is set up as follows:

- The ALM department will make a pre-selection of eligible loans, based on the eligibility criteria as described in the Use of Proceeds section of the Framework.
- Based on the selected eligible loans provided by the ALM department, a dedicated Green Bond Committee will review whether the eligible loans qualify for the Eligible Portfolio.
- The Green Bond Committee will review and approve allocations of Green Bond proceeds to the Eligible Portfolio.

BIL has set up a dedicated Green Bond Committee, which among other tasks will ensure that the selected eligible loans comply with the criteria in this Framework. The Green Bond Committee is chaired by the Chief Financial Officer (chair of the Committee) and composed of the ALM Committee<sup>18</sup> completed by the Head of Sustainable Development and Head of Long Term Funding. The Green Bond Committee meets at least annually and is responsible for the following:

- Review and approve the selection of eligible loans included in the Eligible Portfolio based on the process for the evaluation and selection of the Eligible Portfolio described above;
- Monitor external reviews (Second Party Opinion and Independent Verifier) and external advisor(s);
- Review and approve the annual Green Bond reporting;
- As the case may be, address changes in the Eligible Portfolio and put forward potential alternative eligible loans;
- Monitor the evolutions of the sustainable finance regulation, such as the EU Taxonomy Regulation and the EU Green Bond Standard (EUGBS), on a best effort basis, with a view of potentially updating the Framework to the extent necessary. Such updates would only apply to Green bonds issued after the publication of the updated framework and new Second Party Opinion.

## Management of Proceeds

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BIL's Green Bond Committee will track the proceeds and will monitor the allocation of the proceeds from Green Bonds to finance the Eligible Portfolio in in line with the commitments outlined in the Framework, in an aggregated portfolio approach. BIL aims to allocate the

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<sup>16</sup> <https://www.bil.com/en/BIL-group/documentation/Pages/legal-documentation.aspx>

<sup>17</sup> <https://www.bil.com/Documents/brochures/charte-fournisseur-en.pdf>

<sup>18</sup> The ALM Committee is currently composed of the Chief Executive Officer - Chief Financial Officer - Chief Risk Officer - Chief of Luxembourg Market and CIB – Head of Financial Markets - Head of Financial Risk Management - Head of Asset & Liability Management

proceeds of bond Instruments to the Eligible Portfolio rapidly after issuing bond instruments, ideally, and on a best effort basis, within 2 years of issuance.

BIL will strive, over time, to maintain an aggregate amount of eligible loans in the Eligible Portfolio that matches or exceeds the balance of net proceeds of all outstanding green bonds issued under the Framework. If for any reasons, any eligible loan or investment is no longer eligible or prematurely repaid, the Green Bond Committee will substitute such eligible loan or investment with other eligible loan(s) or investment(s) for an amount at least equivalent, as soon as practical once an appropriate substitution option has been identified.

Pending the allocation of proceeds to the Eligible Portfolio, unallocated proceeds will temporarily be invested in accordance with BIL's investment guidelines in cash, deposits and money market instruments or any other liquid short-term marketable instruments.

In case of refinancing, loans included in the Eligible Portfolio will have been originated no more than 3 calendar years prior to the issuance of Green Bonds.<sup>19</sup> An external auditor appointed by BIL will verify, on an annual basis, the proceeds allocated to the Eligible Portfolio and the remaining balance of unallocated proceeds.

## Reporting

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Within one year from issuing any green bond under the Framework and annually thereof, BIL will report on the allocation of the proceeds of the green bond(s) in proportion to the Eligible Portfolio and associated environmental impact metrics, at least until an amount equal to the proceeds of all the outstanding green bonds has been fully allocated to the Eligible Portfolio, and in case of material changes to the Eligible Portfolio thereafter.

This reporting will be published on BIL's website in the following section: <https://www.bil.com/en/bil-group/investor-relations/Pages/index.aspx>

### Reporting on the allocation of the proceeds (allocation report)

BIL commits to report on the allocation of the proceeds of the green bonds issued under the Framework. The report will include indicators such as:

- An overview of the green bond(s) outstanding under the Framework;
- The size of the Eligible Portfolio;
- The balance of unallocated proceeds, if any;
- The amount or percentage of new and existing eligible loans , including the split by year of origination as well as the share of financing vs refinancing.

### Reporting on the environmental benefits (impact report)

BIL will provide reporting on relevant impact metrics for the Eligible Portfolio where available.

The impact report will include qualitative and, where feasible, quantitative information on the environmental outcomes of the Eligible Portfolio including output and impact indicators as detailed in the indicative indicators table provided below with a view of outlining the contribution of the eligible loans to the relevant EU Environmental Objective(s). This

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<sup>19</sup> For the avoidance of doubt, loans originated from the 1<sup>st</sup> January of the year of issuance will be considered as new financing.

environmental impact assessment will be performed with the assistance of external advisor(s) with relevant expertise on the basis of data provided by BIL.

BIL will aim to align its reporting with the model proposed by the Handbook - Harmonized Framework for Impact Reporting as published by the International Capital Markets Association (ICMA)<sup>20</sup>.

Eligible Project Category	Indicative Impact indicators
<b>Green Buildings</b>	<ul style="list-style-type: none"><li>• Estimated annual financed GHG emissions and avoided GHG emissions (tCO<sub>2</sub>e)</li><li>• Estimated ex-ante annual energy consumption and energy savings (KWh/sqm)</li><li>• Number of buildings and estimated total floor area (sqm) financed</li></ul>

## External review

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### Second Party Opinion

Sustainalytics was commissioned to evaluate the Framework, its transparency and governance as well as its alignment with the Green Bond Principles, 2021 version (GBP), as published by the International Capital Market Association (ICMA).

The results of the evaluation are presented in a Second Party Opinion which is made available on BIL's website in the following section: <https://www.bil.com/en/bil-group/investor-relations/Pages/index.aspx>

BIL commits to have the Second Party Opinion reviewed in case of any material changes to the Framework.

### External Verification

BIL's annual Green Bond reporting will also be subject to verification by an external auditor until full allocation of the proceeds and in case of any material changes to the allocation.

The external auditor's assurance reports will be included in the annual reporting as disclosed on BIL's website in the following section: <https://www.bil.com/en/bil-group/investor-relations/Pages/index.aspx>

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<sup>20</sup> <https://www.icmagroup.org/sustainable-finance/impact-reporting/>

## Disclaimer

The information and opinions contained in this green bond framework are provided as at the date of this document and are subject to change without notice. Banque Internationale à Luxembourg does not assume any responsibility or obligation to update or revise any such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise.

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