ESG INTEGRATION FRAMEWORK

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The "ESG integration framework" explains the commitments, the implementation and governance for integrating ESG criteria 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 Department of Sustainable Development. These actions are followed-up by the Sustainable Development team to ensure the consistency of the program as a whole and global reporting.

• Principles

- In order to align banking operations with sustainability and to ensure ESG best practices as a standard practice, BIL is progressively integrating ESG factors in the functions of the Bank.
- ESG integration leads to considering ESG risks and opportunities
- Main stakeholders are Risk management, Financial Markets, CTO, Compliance, Front offices 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 explain the commitments, strategy and governance for integrating ESG criteria into the Bank's activities and operations.

1.2. Scope

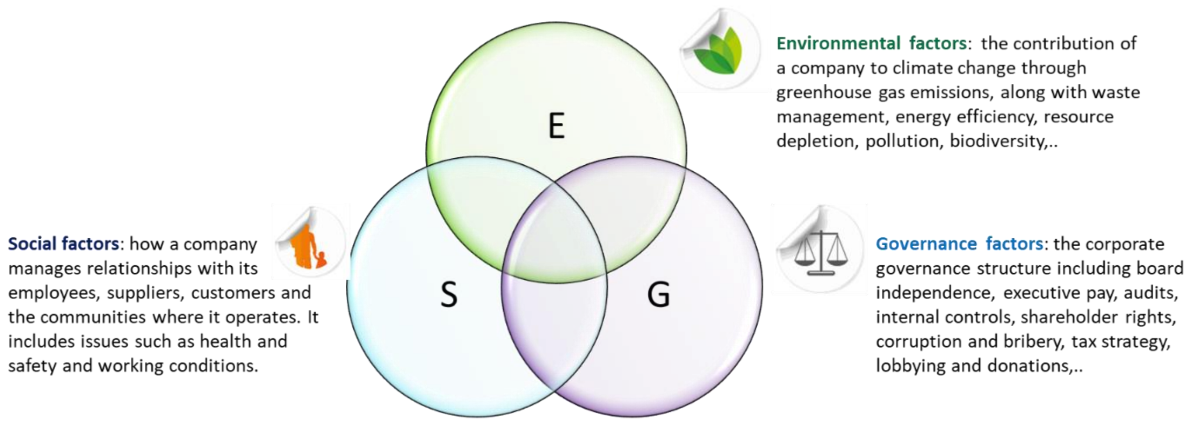
This framework is relevant to all BIL Group and subsidiaries. The framework is directly applicable to all employees of BIL Luxembourg. Entities can launch specific Initiatives linked to sustainable development but need to discuss them with the Department of Sustainable Development. These actions are followed-up by the Sustainable Development team to ensure the consistency of the program as a whole and global reporting.

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

2. ESG Definition

Considering ESG criteria means using environmental, social and governance factors in order 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, BIL, as a financial actor, has to play in the transition to a sustainable world, and ESG factors will progressively be incorporated at two levels:

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

3. 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:

- **RISK MANAGEMENT**:

  - **Identifying, quantifying, managing** and responding to latent and emerging ESG risks
  - Integrating ESG (and particularly climate) capabilities into existing **risk frameworks**: manage all types of risk (credit, market, liquidity, reputational…), Risk Appetite Framework…
  - Enhancing **existing risk modelling and develop new approaches** and stress testing capabilities for ESG risk

- **COMPLIANCE**:

  - Ensuring "Business ethics" and preserving the integrity of business control frameworks
  - Approving new products and their alignment with applicable laws and regulations
  - Managing liability risks from inadequate or inaccurate non-financial disclosures

- **FINANCIAL MARKETS :**

  - Integrate ESG in **Banking Book** Management & Long Term Funding
  - Integrate ESG considerations in **investment processes**
  - Defining a green bond framework

- **PEOPLE CULTURE and COMMUNICATION (or Human Resources)**:

  - 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

- **FRONT: RETAIL / WEALTH / CIB :**

  - **Identifying** client, counterparty and transactional **ESG risks**, and integrating these into investment, underwriting and lending decision-making
  - Understanding customers ESG preferences and incorporating into these into the **sale of products, target markets and provision of advice (appropriateness and suitability)**, in a rapidly developing regulatory environment

- **COPRPORATE REAL ESTATE and PROCUREMENT:**

  - Reduce **negative impacts** of the bank's facilities and operational activities
  - Managing **supply chain** ESG risks ensuring BIL does business with suppliers/subcontractors with consistent values and standards.

- **PRODUCT DEVELOPMENT / PRICING :**

  - **Designing new and innovative** products that support our sustainability roadmap
  - **Incorporate ESG risks** into pricing

- **COMMUNICATION & MARKETING:**

- 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

- **STRATEGY:**

  - Integrate ESG considerations, by understanding ESG risks and opportunities, when determining and implementing the bank's business model and strategy.

4. COMMITMENTS

In order to align banking operations with sustainability and to ensure ESG best practices as a standard practice, we are developing progressively this ESG integration into these 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 :

- 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.

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 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.

5. OVERVIEW OF ESG INTEGRATION WITHIN THE BANK

5.1. ESG IN RISK MANAGEMENT

In 2021, BIL started working on the foundation of ESG risk management via a materiality analysis that identified the most important ESG factors and risks for the company. In 2021, the Global Risk Cartography was supplemented with ESG features through a dedicated process, clearly distinguishing between physical and transition risks. The focus in 2021 was on the E of ESG. The other dimensions will be assessed later in 2022.

The integration of ESG factors in the risk management process is managed through a dedicated project.

A detailed description of these new processes is to be found in the Risk Management Report 2021.

5.1.1. Managing ESG risk in the bank's investment processes related to our products & services

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. At BIL, Sustainable portfolio construction is ensured in three ways:

- **Exclusion**: in order 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.

- and **Engagement:** Our first and foremost engagement is to embrace research and education on sustainable finance, in pursuit of continuous improvement in understanding the full range of opportunities available to our clients, our investment strategies, our instruments selection and more broadly our business models in this field. Over the past years, BIL has been very active in promoting awareness, acceptance and implementation of the ESG principles within its community of investment professionals. At a later stage, BIL's greater ambition is to publicize our engagement priorities and corporate stewardship beliefs. This will include the publication of an annual review detailing our voting activity and engagement.

The details of the integration of ESG factors in our investment processes are described in the dedicated **"Sustainable & Responsible Investment Policy".** Responsible investment practices are constantly developing and evolving. 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.

5.1.2. Managing ESG risk in the bank's investment portfolio

BIL Investment Portfolio is aligned with the Sustainable and Responsible Investment Framework and as such limit controversies around potential divergences between eligible investments for clients and our self. 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.

To reach the objective of 30% of ESG bonds as a share of the Investment Portfolio, Investment efforts in ESG bonds is expected to amount to 50% of the maturing bonds from 2022 onwards.
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".**

5.1.3. Managing ESG risk in the lending processes

ESG considerations are progressively been integrated in the loan origination processes, in order to create a detailed counterparty evaluation based also on ESG criteria. This assessment permits to manage ESG risks and to support the clients towards a transition to sustainable development. So far, the environment and energy performance are taken into consideration as sub-criteria in the rating for financing in the Bank's segment dedicated to real estate: the real estate development (ADC) and the professional investment (IPRE).

As part of the Credit Risk & ECL Roadmap, the Bank also 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. The Credit Risk Appetite includes Environmental, Social and Governance (ESG) factors based on the Sustainable Accounting Standard Board (SASB)'s Materiality Map. This process allows the Bank to identify vulnerable and material sectors and quantify exposures, notably as part of the Sector Review in the quarterly Credit Risk Dashboard.

The details of this process can be found in the internal "Credit Risk Appetite Framework" procedure.

5.1.4. Integrate ESG in Remuneration policy

The bank will progressively integrate 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. In a first step, 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) will be the priority. In a second step, the bank will identify key ESG metrics that relate to company strategy making the objectives more quantifiable.

5.1.5. Risks and opportunities assessment through upskilling

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

In order to perform these analyses, the bank commits to:

- train and empower its staff on sustainable finance by deploying multiple training paths for its employees, in order to achieve upskilling and reskilling of BIL human capital in sustainable education and training.
- to identify the needs in ESG and impact measurements and to industrialize the data collection process, as well as defining the ESG Data Governance.
- to comply with the standards and regulations of sustainable finance

5.2. ESG IN PRODUCT DEVELOPEMENT

BIL commits to developing products and services that both create value for its clients and support the transition to a sustainable world.

5.2.1. 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.

5.2.2. ESG investment solutions

ESG investing is increasingly important for BIL, with the idea that the financial system is the bloodstream of the economy, and that financial products and services are an essential lever for action and an important part of the toolbox to create solid.
Within the BIL Invest product range, four products are so far 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 in 2021, as a first concrete example of BIL's commitment to responsible finance. In 2022 a dedicated project is in charge of defining the evolution of the ESG investment offer.

- *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 in order 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 will need to consider ESG preferences as of August 2022
- BIL will develop investment services to raise awareness among its clients about sustainable investment

- *Green Bond Framework*

As part of its sustainability strategy BIL is establishing a Green Bond Framework. Under this Framework, BIL will be 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. 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.
The detailed framework can be found on BIL's Website, under https://www.bil.com/Documents/EMTN/Green-Bond-Framework.pdf

5.2.3. ESG financing solutions

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 to the transition to a more sustainable world. The bank already offers solutions enabling clients to commit to this goal:

- ***Climate loans*** (at a reduced rate and zero): loans subsidized by the Luxembourg government to promote energy renovations
- ***Photovoltaic loans***: a dedicated product at a preferential rate focused on the financing of solar panel installations (especially for retail clients)

The bank also supports green mobility solutions for which preferential terms apply:

- **Financing for electric and hybrid cars**
- **Leasing of electric and hybrid cars**

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.

5.2.4. Other product and services

ESG considerations will progressively also impact the rest of the products and services.

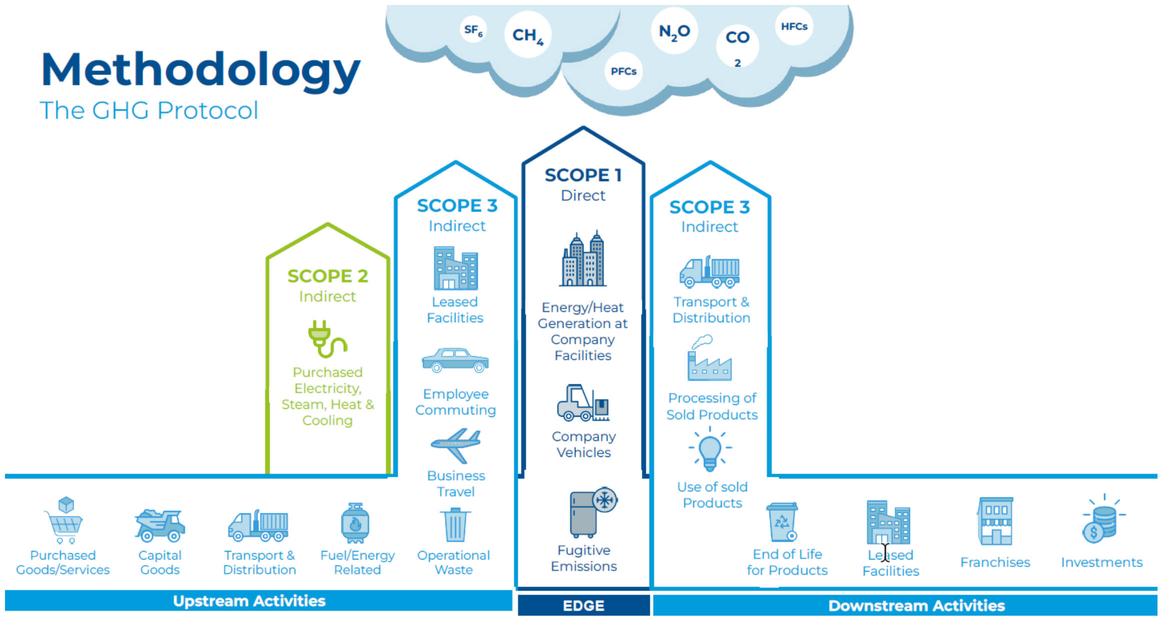
5.3. ESG IN CORPORATE REAL ESTATE

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.
From 2021 onward, BIL annually calculates its 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 the 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, 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.



Scope	Sources of Emissions
Scope 1	• Company-owned vehicles (propane floor scrubber) • Refrigerant leakage from building A.C. units
Scope 2	• Electricity • Natural gas • District steam/heating
Scope 3	• Business travel (air travel, ground travel, accommodation) • Purchased goods and services (e.g. plastics, packaging, consumables, food) • IT equipment & cloud services • Waste • Upstream and downstream transport / courier services • Investments • Employee commuting • Well-to-tank emissions (from fuels and electricity) • Transmission and Distribution (T&D) losses from electricity

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.

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

5.4. ESG & PROCUREMENT

BIL is committed to work with Suppliers who meet the minimum labour, 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.

6. GOVERNANCE

The governance related to these process evolutions is described in the dedicated process policies.

7. REPORTING

The Bank will monitor and report, whenever it is possible, on a regular basis relevant indicators related to the issues covered along this framework. For more information on the steps we take to ensure that our operations uphold our commitment to responsible investment and how we measure progress to those commitments, please consult our Sustainability report available on our website at: https://www.bil.com/sustainability/rapports.html

8. REVIEW

The Bank will periodically review this framework to evaluate 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