Climate Risk Policy & Framework *(Compilation from selected banks, & other businesses)*

Compiled by
Gaby Frangieh
Risk Management, Finance and Banking – Senior Advisor
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https://www.linkedin.com/in/gaby-frangieh-1873aa11

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Integrating climate risks in the risk management framework

Introduction

Financial institutions are at the heart of the economy and play a key role in financing the transition towards a more sustainable society. Politicians have formulated ambitions to reduce carbon emissions by reorienting capital flows towards carbon-neutral investments. But asset management companies, insurance firms, pension funds and banks also face financial and operational risks themselves from climate change. In this light, it is no surprise that recently, the banking supervisor in the European Union focused on the integration of climate risk management in the enterprise risk management framework. It can be expected that other companies in the financial services sector will have to follow suit. What can financial institutions (hereafter: FI) do now to ensure the integration of climate risks in their risk management processes? This article gives recommendations on what risk professionals in the financial services sector can do to timely and properly identify, assess, mitigate and monitor climate-related risks, based on recent supervisory and regulatory publications, guidance papers and market practices (see below for an overview of these papers and how they touch the risk management framework).

We have seen that adequately responding to climate-related risks is a comprehensive exercise for FIs, which starts with setting the institution's strategy and determining the risk appetite, and extends to governance and culture, risk management policies and procedures, and required disclosures. For risk management, integrating climate-relating risks means a comprehensive re-assessment of the risk management framework, meaning that FIs need to identify and assess climate-related risks in a timely manner to be able to monitor them and, if needed, mitigate them. In addition, FIs need to have an enterprise-wide and well-documented view of the impact of climate-related risks on other risk types. They should map climate risks as drivers of prudential risk types. To be integrated into stress testing frameworks to ensure capital and liquidity adequacy, climate risks require quantification and the need to oversee a time horizon that is sufficiently long. FIs also need to include climate risks when categorising clients in terms of their risk profiles.

In this article, we focus on the integration of climate risks in FIs existing risk management frameworks, aligned with the institution's strategy and forthcoming targets. We have seen that this is challenging in practice. Hence, we recommend actionable steps to start with, around four inherent functions of risk management: risk identification, risk assessment, risk mitigation and risk monitoring. This framework constitutes an iterative risk management cycle which serves as an appropriate basis to understand which actions may be required to manage material climate-related risks effectively.

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Such enterprise-wide integration allows financial institutions to go beyond compliance and enables them to leverage opportunities (for more, see sustainable finance as a strategic opportunity). For example, operating in a carbon-neutral way can drive long-term value for financial institutions. Climate factors are in this context often seen within the realm of ESG, Environmental, Social and Governance. Reality is that currently, market practices as well as standards and regulations focus mostly around climate-related risk factors (as part of the 'E' component). Therefore, the focus of this article is on climate-related risks. (For a more detailed description of the ESG risks, see: Six key challenges for financial institutions to deal with ESG risks.)

Multi-point impact of climate risks

Physical risks

Physical climate risks caused by extreme weather events or chronic changes to the climate can lead to damage assets in, for example, the agricultural sector. FI's may face losses if they are exposed to activities, via loans, investments or financial products. For instance, insurance companies may face increased underwriting risk due to higher than expected claims on damaged assets. Banks may have to deal with elevated credit risks as counterparties might be unable to repay their loans.

Transition risks

In addition to the physical risks, FI's also need to take the energy transition and its potential risks and opportunities into account. Transition risks can stem from regulation aimed at climate change mitigation, from new technologies enabling low-carbon production, or from an increased demand for sustainable products and services. And such trends will affect existing business models of counterparties. Market risks may materialise, as the energy transition will negatively impact carbon-intensive industries, through the write-downs of assets. This increases through the potential for a deprivation of an asset portfolio, especially if there is concentration in a single sector or area. In addition, transition risks could lead to adverse changes in financial markets, for example in commodity prices. Such credit and market losses may negatively impact an institution's capital and liquidity adequacy. In addition, FIs may incur losses due to not being compliant with regulation, resulting in fines and sanctions. Reputational risk is another issue, as customers may hold institutions responsible for lending to or investing in counterparties that negatively impact the environment and decide to end their business relation.

To fully understand the impact of climate-related risks on the risk management framework, and to understand the view of regulators, supervisors and other relevant organisations for financial markets on how these risks should be embedded within risk management, we have looked into a broad range of frameworks, papers and legislation. We mainly investigate how the different papers touch the risk management framework. See the table below for the overview. Based on these papers, we carefully formulated eight recommendations (two per stage of the risk management framework) on the integration of climate-related risks in the risk management framework.

Table 1:

Papers and publications on the management of climate-related risks and their relation to the risk management framework

Legislation/frame-work/ guidelines/ initiative	Scope and objective	How it touches the risk management framework
Task Force on Climate-related Financial Disclosure (TCFD) Guidance on Risk Management Integration and Disclosure	*Recommendations on uniform disclosures on climate-related financial risks to enable effective climate-related reporting for all sectors. The 2020 guidance includes recommendations tied to governance, strategy, risk management, and metrics and targets that are supported by key climate-related financial disclosures - referred to as recommended disclosures. Supplemental guidance is provided for the financial sector to assist. The Task Force also developed supplemental guidance to provide additional context for the financial sector when preparing disclosures consistent with the TCFD recommendations. A key element of the Task Force was the development of climate-related disclosures that "would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."*	*Includes recommendations on how to integrate climate risks into strategy, governance and ambitions settings, with concrete recommendations for methodologies and tools for risk identification (e.g. heat mapping) and risk assessment (e.g. scenario analysis).*
Science Based Targets initiative (SBTi)	*Initiative that prescribes committing companies from all sectors CO2 emission reduction target pathways in line with the 1.5 degrees scenario.*	*Determines the CO2 emission reduction pathway for committed companies, hence it identifies (transition) risks as well as sets the strategy and risk appetite.*
Sustainable Finance Disclosure Regulation (SFDR)	*Regulation targeted at financial markets participants on integration of sustainability risks and opportunities, with the aim to integrate ESG in companies' strategies. This includes disclosure of sustainability risks on entity-level and product-level and 'due diligence' policies. Sustainability risks need to become part of remuneration policies.*	*Increased transparency due to more detailed and consistent disclosures on sustainability risks will in the future also lead to more accurate risk identification and risk monitoring.*
Non-Financial Reporting Directive (NFRD), Guidelines 2019	*The 2014 Directive prescribes rules on disclosures of non-financial and diversity information (including environmental information) for large-public interest companies, including banks and insurance companies. The (non-binding) 2019 supplement guidelines for disclosing climate-related risks and opportunities are further detailed out, with a direct link with TCFD. The supplement introduces the double materiality concept: climate-related information should include both the principal risks to the development, performance and position of the company resulting from climate change, and the principal risks of a negative impact on the climate resulting from the company's activities. The proposed disclosures in these guidelines reflect both these risk perspectives.*	*The guidelines for climate risk disclosures clarify climate risk triggers, which enable risk identification, monitoring and mitigation. In the future, risk identification and risk monitoring will be facilitated by increased transparency due to increased data availability.*
Corporate Sustainability Reporting Directive (CSRD)	*The CSRD is a proposed Directive which amends the existing reporting requirements of the NFRD, including an extension of the scope to all large companies and a specification of more detailed reporting requirements in line with mandatory EU sustainability reporting standards which build on existing frameworks.*	*The climate reporting requirements will increase data availability and data reliabilty as a result of mandatory limited assurance, and thereby enable climate risk identification and monitoring.*
Principles for Responsible Investment (PRI)	*Six investment principles describing possible actions for investors, with the aim of incorporating ESG factors into investment and ownership decisions, policies and practices and disclosures. Signatories have the obligation to report on the progress of PRI implementation in their annual reporting.*	*Enables risk mitigation through the integration of climate issues into investment analysis and decision-making processes.*
EU Taxonomy for sustainable activities	*Uniform EU-wide criteria for determining whether an economic activity is environmentally sustainable. The taxonomy sets mandatory requirements companies subject to NFRD to disclose on how and to what extent their activities are associated with environmentally sustainable economic activities. The main KPIs for financial companies (banks, investment firms, asset managers, insurers/reinsurers) relate to the proportion of taxonomy-aligned economic activities in their financial activities, such as lending, investment and insurance.*	*The disclosure of Taxonomy-aligned proportion of activities enables transparency and comparison of companies and investment portfolios, which enables risk identification and risk mitigation (through transparent investment decisions).*
ECB Guide on climate-related and environmental risks	*ECB expectations relating to climate-related and environmental risk management and disclosure for banks (also expected for insurers and asset managers), serving as basis for supervisory dialogue.*	*Explains ECBs ambitions, target and timelines for banks for risk identification (expectation #1 and 2), risk monitoring (expectation #4 relates to the risk appetite framework) and the overall risk management framework (expectation #7) per prudential risk type (expectation #7 - 12).*
European Banking Authority (EBA) Report on management and supervision of ESG risks for credit institutions and investment firms	*Report presenting EBA's understanding of ESG risks for credit institutions and investment firms, with definitions of ESG factors, ESG risks and transmission channels, indicators, metrics and methods to evaluate ESG risks, ESG risk management recommendations and ESG risk supervision recommendations.*	*Recommendations on risk monitoring (through e.g. the risk appetite and forthcoming risk limits), risk identification, risk assessment (by e.g. climate stress testing and ESG evaluations of counterparties) and risk mitigation (through e.g. customer engagement or excluding policies) of climate-related risks*

Risk monitoring is neither the beginning nor the end of the risk management cycle. Climate-related risks and their impact on current market positions and future investments are to be monitored on an ongoing basis. This requires a full update of the Risk Appetite Framework (RAF) and collection of (granular) risk data on climate factors.

Recommendation 1:

Calibrate the Risk Appetite Framework ,monitor portfolios on climate-related risks

The appetite for all risks identified as material to an organisation needs to be delimited. Only then, firms can steer and determine how much risk they can and cannot take. The risk appetite framework (RAF), defined in conjunction with strategy setting and business planning, allows FIs in the monitoring phase to assess their current risk profiles against their appetites. As the ECB defines climate-related as drivers of existing risk types (in particular credit, operational, market and liquidity risk), climate-related indicators need to be mapped to existing risk categories within the RAF. To further calibrate the RAF, FI's should use quantitative Key Risk Indicators (KRI) as much as possible, such as credit risk acceptance parameters, cascaded down to exposure, counterparty and portfolio level. KRIs could be a combination of backward-looking and forward-looking indicators that take the business model into account. In addition, this should be supported by limits (e.g. to investing in certain high-risk sectors) and checkpoints. Follow-up processes within the risk management framework should be in place in case these limits are breached (see risk mitigation). Setting limits to investment decisions could lead to a reassessment of the composition of the asset portfolio and to lower concentration risks. One of the main difficulties is to reconcile the long-term horizon that characterises climate-related risks with the typical capital planning time horizons of FIs.

Recommendation 2:

Collect climate risk data

To monitor climate-related risks adequately, FIs should have appropriate data at their disposal. Climate data extends to both qualitative information, such as sustainability policies, as well as quantitative metrics, for example figures on carbon emissions. Availability and quality of climate risk data are among the key challenges for financial institutions. The EBA states that FI's should start with taking remedial action with respect to the data gaps. Sourcing data from external vendors is an attractive potential option, for example for data on climate-related extreme weather events. This data could then be combined with information on the geolocation of clients and issuers, which is challenging when considering the fact that this data is needed for all components within a counterparty's legal structure. Another challenge is that data institutions need to fully leverage existing contact moments with clients and issuers. Banks, for instance, are recommended by the EBA to actively engage with borrowers at onboarding, loan origination and revision stages. Similarly, insurers can source data from policyholders. Asset managers can explore possibilities to receive information from corporations as their shareholders. Climate-risk data can then be used to conduct a targeted due diligence assessment of the sustainability risk profile as part of the non-financial analysis of a counterparty.

Risk identification

As part of their risk identification process, FIs should integrate climate risks in their risk taxonomy as drivers of existing risk types. For example, counterparties may have to deal with higher costs in the future resulting from increased taxes on carbon emissions. This then translates for an FI into a financial risk. In order to get to a comprehensive risk taxonomy, we recommend taking the following actions, which combine a top-down (recommendation 3) and bottom-up (recommendation 4) approach.

Recommendation 3:

Screen portfolios using heat maps

Heat maps, segmenting portfolios across locations and sectors, are recommended by the ECB, TCFD and SBTi as a useful tool to quickly and efficiently screen portfolios for climate-risk exposure. Heat maps indicate which investments or loans are more vulnerable to transition or physical risks, by focusing on inherent sector sensitivities to climate-related risks. The sensitivity of sectors and/or locations is determined based on vulnerability factors. Examples include for physical risks the reliance on natural resources and secure and continuous supply of power, and for transition the impact of emissions costs on production costs. Sectors or locations that have high sensitivity to climate-risk factors and in which there is a considerable exposure can be selected for further (scenario) analysis. The heat mapping output determines which sectors are to be prioritised in terms of risk mitigation, and can serve as input for the RAF calibration.

Recommendation 4:

Use climate-related scenarios to identify risks to the business model

Climate-related risk data needs to be translated into expectations for financial performance (see also risk assessment). Both TCFD and the ECB strongly recommended to use climate scenarios for this. Scenario analysis helps to identify emerging risk drivers in the short and long run and is particularly useful due to the uncertainty of the future course of climate change. Traditional risk identification methodologies rely on historical data, which will not allow for the potential impact of climate change, as there is no or limited precedent that is reflected in the historical data. Ideally, scenarios cover the conventional business planning cycle (3-5 years) as well as longer term horizons (5+ years). The results of these scenario analyses are relevant input for strategic decision-making and risk assessments. Insurers, under Solvency-II, need to use climate scenarios for the ORSA, and similarly, under IORP-II, pension funds are to do the same for the ORA.

Risk assessment

There are multiple ways to quantify climate-related factors to enable an informative risk assessment. In this section, the focus is on assessment methodologies on two different levels: portfolio-level (recommendation 5) and company-level (recommendation 6).

Recommendation 5:

Extend current stress testing frameworks with climate scenarios

Stress testing with climate scenarios brings the future climatic environment to today's balance sheets. Due to the dynamic nature of scenarios, it allows for interaction between sectors, economic and climate variables. Climate scenarios with temperature pathways can be applied, but FIs can also model event-based scenarios that reflect policy shocks, technology shocks or shocks related to changing consumer behavior impacting demand for certain products and services. Supervisors are gradually developing pilot climate stress testing frameworks, however, currently, there is no single universally accepted methodology. Most commonly, pre-defined climate scenarios, based on certain temperature pathways are applied, issued by for example the Intergovernmental Panel on Climate Change. In 2020, the EBA did the first EU-wide stress testing exercise for a sample of 29 volunteer banks. Bank data was mapped to different classification approaches, including the EU taxonomy and scenario analysis based on a joint EBA/ECB tool was used to model transmission mechanisms. The main challenge appeared the lack of granular disclosures on transition strategies and greenhouse gas emissions, which are needed to assess climate risk accurately. The Bank of England (BoE) launched in June its climate stress test for both banks and insurers, with a sample of general insurers that collectively represent 60% of the market. The methodology applies three scenarios of early, late and no policy action, with a focus on invested assets and insurance liabilities.

Recommendation 6:

Calibrate climate risk ratings at company-level

This so-called exposure method can be used to complement standard risk assessment methods with a climate-related due diligence. ESG, and specifically sustainability, ratings are to be calibrated at company level. For the loan portfolio, this method creates an opportunity for banks to engage in a dialogue with individual counterparties in the loan origination process. For the asset manager's portfolio, such ratings can be used to integrate the assessment of climate-related risks of financial products and their fund counterparts. There are several ESG ratings and evaluation sources available, created by specialised rating agencies, traditional rating agencies or (ESG) data providers. However, applying multiple ratings from different agencies currently leads to discrepancies in outcomes. The different methodologies behind the various ESG rating vendors assess ESG risks heterogeneously. Increasing the effectiveness of the exposure method requires standardisation of the ESG risks and their underlying factors across industries and firms, which is currently in progress by the Sustainability Accounting Standards Board. In the meantime, FI's should add counterparty data they source themselves to their climate-related risk assessments of their counterparties.

Risk mitigation

Which mitigation measures are most effective, depends on the source of the risk. If climate change mainly impacts credit risk, guarantees and collateral can be considered. For market risk mitigation, diversification of portfolios with financial instruments or hedging, thereby reducing concentration risks, is advisable. To mitigate operational risks, FIs can impose obligatory insurance on, for instance, counterparties that are disproportionately exposed to extreme weather events. Underwriting risk can be mitigated by adjusting insurance policies' pricing strategies or by reinsurance. However, due to the multipoint impact of ESG risks, institutions need to combine different mitigation strategies. Here, two specific corrective measures are highlighted.

Recommendation 7:

Adjust pricing strategies

A way to mitigate climate-related risks is to account for them in pricing strategies. Climate-related risks may affect policyholders and their claims for example in the case of transport or liability insurance. Insurers can amend their underwriting policies by increasing the price of insurance contracts in order to mitigate these risks. Banks can differentiate loan pricing or the maximum loan amount that is extended based on climate risk exposure. For example, in retail banking, mortgage clients with collateral that does not meet the energy efficiency standards can be subjected to a lower LtV limit. Corporate clients in the manufacturing industry that do not take sufficient measures to limit carbon emissions can be subjected to a higher interest rate or other disadvantageous loan conditions. FIs can adjust their pricing strategy by adopting a two-step approach, starting with a traditional model-driven credit risk or underwriting risk-based price and then applying a climate overlay.

Recommendation 8:

Integrate climate-related risk assessment in due diligence process

FIs will have to include climate-related factors in the conditions for counterparty acceptance. Such an assessment extends to physical and transitional risks the counterparty is exposed to, but also to potential reputational risks. This results in a climate-risk rating for each client (for example red, amber, green). Clients with red ratings are rejected unless additional approval of a specialised climate risk officer is provided. Amber clients can be actively assisted by FIs with the development of an action plan and designated funding to implement such a plan. Approval or decline of a loan application or investment will hence partially depend on the counterparty's sustainability performance. Institutions could also choose to introduce climate factors in their investment criteria, directed at certain sectors or regions that are, for example, particularly vulnerable to a transition towards a more sustainable economy or more prone to corruption or money laundering. This is where risk management is the starting point of a more active role for FIs in the energy transition: applying a climate overlay on a (credit) risk assessment points out which counterparties in a portfolio need advice and support in becoming future-proof, and FIs can then hence bring this to the real economy.

The Way Forward

Adopting the 8 recommendations will help FIs to integrate climate-related risks into their risk management frameworks. This will in turn enable them to maintain or even improve the long-term resilience of their business models, which would lead to FIs playing the key role that is expected of them in financing the transition towards a more sustainable society.

Contact

Joukje Janssen
Partner ESG team, PwC
Tel: +31 (0)65 378 2645

Julien Linger
Partner, FRM & Balance Sheet Management, PwC
Tel: +31 (0)63 094 4519

CLIMATE FINANCIAL RISK FORUM

CLIMATE FINANCIAL RISK FORUM GUIDE 2021

CLIMATE RISK APPETITE STATEMENTS

October 2021

Contents

This chapter represents the output from the Risk Management Working Group of the Climate Financial Risk Forum (CFRF).

The document contains information constructing a risk appetite statement and metrics.

1 Overview

Developing a climate risk appetite statement (RAS) is an essential aspect of climate risk management, to align understanding of the level and type of risk that is accepted in pursuit of a firm's strategy.

This document builds on the information in the CFRF 2020 guide. The aim is to offer practical advice on writing, implementing and maintaining an effective RAS, factoring in different aspects of climate risk.

The CFRF Risk Management Use Case document outlines practical steps in specific use cases for developing and embedding the RAS. This builds on the principles outlined in this RAS document.

The content in the document comprises a range of example practices from firms, leading thinking and industry papers. It is not intended to signify a benchmark for best practice.

The document is structured by industry grouping, covering:

- Insurance
- Asset management
- Corporate Banking
- Retail Banking

In the document we have focused on a number of specific risks aspects of climate risk appetite:

- the impact of climate change on the firm through physical and transition risk;
- the impact of the firm on the climate through net zero (or other) alignment; and
- the most widely applicable financial risk categories, e.g. credit risk.

Wider sustainability and corporate social responsibilities are not considered here in line with the focus of the PRA's Supervisory Statement SS3/19 on climate-related financial risks. The operational and non-financial risk aspects of the RAS will be considered for development in future sessions of the CFRF given the ongoing development of FCA guidance in this area.

The UK Climate Financial Risk Forum: Climate Data & Metrics Report contains additional information on use cases and metrics, that are introduced throughout this document.

Integration with existing Risk Appetite Framework

Different firms may take different approaches to how climate risk appetite is presented internally. For example, a subset of metrics may be included within a RAS (at either enterprise or entity level); or there may be a standalone Climate, ESG or Sustainability RAS. These approaches are not exclusive and may even be combined.

Good practice is to align the approach for addressing climate within the risk appetite with the approach adopted for existing risk categories or cross-cutting risks.

A climate RAS should ideally consider the following elements:

- Transition risk
- Physical risk

- Alignment (to either net zero, a temperature target or some other strategic/scientific-based climate-related objective)

Ownership and Integration in Governance

The approach to establishing ownership for climate risk and integrating it with the RAS should mirror the approach for other risks. However, given the cross-cutting nature, a mechanism should be in place to ensure there is a holistic view of the climate risk. Whether this is a designated individual with formally delegated responsibility, or a full team will depend on the complexity and materiality of the risks to the organisation.

There is a clear expectation of ownership in the First Line of Defence, and a dependency on the detailed definition of strategy and business objectives.

Note: An outline of roles and responsibilities across the three lines of defence can be found in the CFRF *2020 Risk Management Chapter*.

Longer term enhancements

More advanced firms will develop, over time, a climate RAS which incorporates insights from scenario analysis (including transition glide paths) and financial and strategic planning. A mark of success over a 3-5 year timeframe, will be the ability to cascade and embed RAS metrics into business practices, scorecards, and financial and operating plans which help steer the balance sheet.

2 Insurers

Ownership and integration into governance

Ultimately, an insurer's board of directors should own the highest level of the climate change risk governance. But the actual risk takers should assume responsibility for the more granular, concrete measures.

Climate risks should be embedded in existing governance frameworks as much as possible, and potential approaches for doing this include the following:

- Developing a defined climate strategy as part of a wider sustainability or ESG strategy;
- Incorporating climate risks into the firmwide RAS, through either qualitative or quantitative articulation of which risks to pursue;
- Integrating climate risk limits into the existing Limit Framework (where limits may be owned by either the first or second line); and
- Integrating within governance policy documents that are owned by the respective functions - for example: risk management, actuarial reserving, investment, and underwriting.

While additional oversight may be needed to ensure a comprehensive coverage of climate risks, incorporating within the firm's existing governance structures rather than by creating new ones is likely to achieve more sustainable embedding.

As both the science and risk management of climate change is evolving, firms should expect to review their approach regularly to ensure it remains up to date.

Approaches and metrics

The first stage in developing a climate risk appetite is to assess the firm's exposure to the risks from climate change. The next step is to consider the best approach to defining RAS for those exposures.

Impacted risk categories

The risk categories most impacted by climate change will largely depend on the business model of the firm and the regions in which it operates. While the impact of climate risks may be quantified, there remains significant limitations on data and models and uncertainty over the timing of when these risks will become material.

For example, for general or Property and Casualty (P&C) insurers, the potential physical losses from climate change are seen today, but may not materialise fully for 20+ years. That said, the potential transition risks within their investment portfolio may be more immediate.

For Life and Health (L&H) underwriting, climate change remains a potential, emerging risk, because of the material uncertainty of the timing and magnitude of the physical impacts.

To support the assessment of the different types of climate risks, the impacts of climate risks can be bucketed into two categories:

- **Traditional business risks** comprise climate risks that materialise through changes to the risks typically captured in existing categories, resulting in higher losses.
- **New risks and opportunities** include transitional risks that are proportionate to the carbon intensity of the underlying activity. These risks may be related to an insurer's own emissions footprint or those associated with their assets or liabilities. This includes strategic risks that change the risk profile of the firm's long-term strategic objectives.

Traditional business risks

The traditional/established risk categories of P&C insurers that are most likely to be impacted are shown below. The materiality of the impact will depend on the underlying business model of the enterprise and should be assessed individually on a firm-by-firm basis.

- **Underwriting catastrophe risk**. Climate change is increasing the uncertainty of catastrophe risk for P&C insurers, due to the potential for the frequency and/or severity of events to deviate from long-term average for perils such as flood (pluvial, coastal and fluvial) or wildfires (see IPCC report).

  Reflecting long-term gradual change represents a challenge for P&C insurers, who typically take short-term underwriting risk, over one to two years. Some P&C insurers are already quantifying the likely trend in extreme flood and prolonged or repeated events, and reflecting these in business plans and reinsurance strategy.

  As the risk of increased catastrophe losses from climate change grows, insurers will have the ability to re-price the risk (charge increased premiums at renewal) or walk away. At the same time, they are likely to continue to work with public authorities on mitigation (e.g. flood defences) and market solutions (e.g. risk pools).

  For mortality underwriting, future changes in assumptions may lead to material impacts on current reserving assumptions. (It's important to keep in mind, though, that the time horizons are long, and there is uncertainty around how long-term demographic assumptions may be impacted by changing physical impacts.)
- **Reinsurance default**. Climate change is exacerbating the extremes more than the average, and is also believed to make clustered or prolonged losses more likely. Any significant unexpected loss, including one exacerbated by climate change, could weaken reinsurance counterparties, leading to downgrades or default.
- **Reserving**. There may be an increase in litigation against companies viewed as contributing to climate change. As attribution science develops, the litigation may spread and intensify. This may lead to inadequate reserves within longer-tail casualty classes.
- **Legal**. In addition to litigation against companies, there is the potential that insurers could be sued directly for contributing to climate change.
- **Operational**. Offices or other physical locations near the coast or rivers may be at increasing risk of flooding or physical disruption.
- **Asset-side market/Investment.** On the asset side of the balance sheet, market values of equities and property risk may be affected by climate risks. Asset values could be exposed, for example, to a potentially sudden re-pricing, reflecting the

impacts of, or anticipation of physical and/or transition risks.

- Similarly, **credit risk** may also be impacted, both through movements in credit spreads and moreover, it is possible that an **enterprise's net-zero ambitions** may impact any of the above risk categories.

New risks and opportunities

Insurers are faced with the conundrum that their own underwriting activities may contribute to, or mitigate, climate change.

Supporting greenhouse-gas-intensive business activities in the short term may lead either to losses in another class of business or to losing business opportunities in the future. For example, generally one could expect that writing insurance for coal-powered energy plants today may contribute (albeit indirectly) to future wildfire claims in the next decades, although the impact may be difficult to assess for an individual company. Or, as another example, reputational risks could arise as a result of needing to disclose financed emissions.

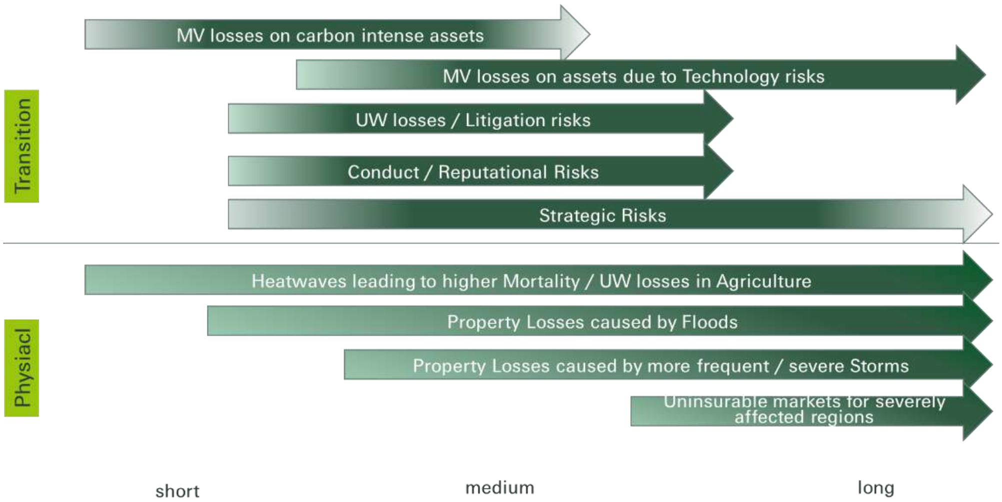
Insurers may positively contribute to climate trends by providing their know-how and capacity to support more sustainable business activities, such as renewable energy.

Insurers can choose to avoid certain carbon-intensive risks as part of their climate risk strategy, but can also seek more sustainable alternatives for meeting their net-zero ambitions. These considerations should inform firms' climate RAS, particularly with respect to the following:

- **Regulatory conduct risk and own litigation risk.** Risks related to compliance failures and/or the emergence of new regulations;
- **Reputational risk.** Failure to meet stakeholder expectations or deliver on own net-zero targets, leading to loss of market share and company value; and
- **Strategic risk.** Failure to adapt product offerings to changes in the environment, technology, risk profiles and demand. These risks could materialise through acting too soon or too late, or via a failure to take the right actions.

The figure below illustrates how certain transition and physical risks may materialise and affect risk categories over the short, medium, and long term. Materiality of impact and timing largely depends on the firm's exposures and the geographical region of the risks.

Figure 1: Evolution of Transition and Physical Risks Across Varied Time Periods



RAS Considerations

After carrying out an assessment of its exposure to the risks from climate change, an insurer needs to consider the best approach to defining RAS for the exposure. There are four general considerations that apply to insurers' RAS.

i. **RAS should be used to articulate the types of risks to pursue and to avoid**. Strategy, risk-return, and solvency objectives should be considered, supported by a set of measures and controls. RAS may be dedicated to climate risks, or firms may consider the impacts of climate risks on existing risk categories that do not have a specific climate RAS. And a hybrid approach could also be used.

ii. **Definition of risk appetite may be qualitative or quantitative, supported by limits for the most material risks**, including certain underwriting and financial market risks. An example of a quantitative risk limit is a limit on mortality insurance based on shortfall. To manage climate risks, metrics that can be clearly linked to the risk may be needed to enhance existing RAS.

iii. **Firms may apply a strategic approach to climate risks.** Within the wider context of environmental, social and governance (ESG) risks insurers may, for example, follow a "no harm" approach.

iv. **Risk appetite for climate change might be defined hierarchically,** with more general principles at the top level and more concrete measures at the level of risk takers. The highest level should be owned by the firm's board.

(Refer to next section for more information about risk metrics.)

When existing RAS do not adequately cover climate risks, additional RAS may need to be developed. To determine whether supplemental RAS is needed, insurers should consider the following factors:

- **Time horizons.** Will climate change related factors or risk characteristics be captured as they materialise over the short, medium and long term?
- **Carbon intensity.** Do current risk appetites adequately capture or integrate the new requirements or risk related to carbon-intensive activities?
- **New risks.** Does the existing risk control framework capture all aspects of the risks from climate change, or do separate RAS need to be developed? In the latter case, these will need to be aligned with the existing risk control framework.

The table below (see Figure 2) provides an overview of how the identified RAS gaps may be addressed. This approach reflects the initial separation of risks into traditional risks – where the approach is to focus on assessing and developing the underlying methodologies – and new risks – where the approach is to identify new data sources (e.g., carbon measures that can be used in scenario analysis).

Thresholds or limits should be practical and aligned to both short-term and long-term strategy and corporate plans. Stress testing exercises should be run for a range of scenarios to assess potential thresholds and limits. In particular, insurers should perform stress testing to consider different climate pathways and consider the impacts each pathway would have on the shape of their underwriting portfolio.

Figure 2: Potential RAS Gaps and Options for Better Integration

Potential Gaps	Options for better integration
Impacts on existing business risks are not captured For example, the impact of heatwaves on mortality assumptions, due to insufficient data or research about sensitivities to a heatwave, the time horizon, and the region that may be affected	• Review modelling of risk factors to assess how much of the impact from climate change factors is incorporated • Companies may use existing risk factors and limits or introduce new ones. For example, the same mortality limit might still be workable but will lead to lower business volumes that can be written to stay within a risk limit. • Define forward-looking risk limits – i.e., the anticipated increase in impact from physical risks and/or transition risks when determining limits applicable for future business.
Shortcomings in RAS for carbon-intensive activities • No explicit risk appetite statement • Exposure to carbon-intensive activities is not clearly identified, thereby making it hard to manage • In some situations, it is difficult to steer portfolios under carbon intensity targets.	• Firms might define a separate risk appetite statement for carbon-intense business activities or fully integrate measures within existing appetite frameworks. • TCFD framework may be leveraged for metrics and supporting steering. • Targets may be defined over a certain time horizon, either per year or a target date in the future. • Risk appetite may be defined as a tolerance range around the target for each year.

<table>
<tr><th>Potential Gaps</th><th>Options for better integration</th></tr>
<tr><td>The RAS does not capture well the potential trade-offs between risk appetite for traditional business risks and risk appetite for carbon-intensive risks.

For example, should the firm insure a carbon-intensive manufacturer against property damage?

Can the RAS capture the trade-off between the strategic ambition to meet a net zero target, and thereby preserve the market in the longer term, versus a shorter term profit perspective?</td><td>Qualitatively define the firm's sustainability/climate strategy in a way that provides the objective for all risk taking.
Introduce steering:
exclusions for risks that should not be tolerated on an individual basis – e.g., unacceptable reputational/conduct risk.
use capacity limits for carbon intensity – e.g., employ forward-looking metrics for multi-year engagements.
Allocation of capacities left to risk takers (e.g., allocate capacity considering profit/risk optimisation).</td></tr>
</table>

Climate risk metrics will be refined over time. To begin, firms can use a range of relatively simple metrics that can support initial analysis and provide useful insight into the materiality of their climate risk exposures. This analysis can be used to support the development of more sophisticated metrics to assess the insurer's material risk categories.

Where climate risk impacts established risk factors, existing metrics may be used – e.g., average loss, shortfall, 1-in-200-year return period, aggregate exceedance probability (AEP), value-at-risk (VaR), shortfall and loss ratios. The impact of climate risks should be measured through assessing the sensitivity of these metrics to climate-related factors and the underlying climate assumptions underpinning the metrics.

Insurers can utilise stress testing for a range of climate pathways, to understand the impact on the shape of their underwriting portfolio and to inform setting tolerances. Several timeframes should be considered, with the analysis centred on transition risks in the shorter term – assuming that the more significant physical risks will emerge on a longer time horizon.

While it is important to understand and take into consideration these sensitivities, insurers' attribution of observed losses in any particular year to climate change may be subject to uncertainty (e.g. around weather events, time horizons that risks may emerge over). New metrics will need to be developed for new risks, such as how a company is aligning to net zero. Useful metrics that can be used include the proportion of the portfolio that has set (and verified) science-based targets that align with Paris Agreement objectives, or independent sustainability ratings (e.g., from CDP or TPI); and the transparency and extent of a company's climate disclosures (e.g., TCFD reporting).

Temperature alignment metrics and mapping of the portfolio to the EU taxonomy are more complex alternatives. In the future, more developed metrics will include a quality review of the company's carbon disclosures; benchmarking against peers or sector; and assessment of transitional plans. The IFRS Foundation and IOSCO are also looking at establishing an International Sustainability Standards Board (ISSB) which could also create greater expectation for companies to disclose climate-related financial disclosures in their financial reports[1]

Specific examples of metrics that can be used to manage climate risk – for both assets and liabilities – are shown below.

For assets

- Carbon intensity of the asset;
- Carbon footprint of underlying counterparty;
- Benchmarking carbon footprint against sectorial averages;
- Scenario VaR;
- Credit impacts from scenario analysis; and
- Temperature alignment metrics.

For liabilities:

- Average loss, shortfall, 1-in-200 year, return period, aggregate exceedance probability (AEP);
- P&C: severity and frequency of weather events; and
- L&H: increase in excess mortality, monitoring early warning indicators (EWIs) for longevity/ future mortality assumptions.

The above examples can be broken down by asset class, such as equity, debt, real estate, sovereign and mortgages.

To assess the physical impact of climate change, insurers can use heat maps of directly-held assets – as well assessments of the physical risk exposure of underlying companies in which investments are held.

Thresholds

Where climate risk factors impact existing risk measures that have defined limits, no changes may be needed to thresholds, if these limits are already aligned with the risk tolerance objectives (e.g., capital impact).

Where carbon-intensive business is covered under (new) governance, ‘hard’ and ‘softer’ targets and metrics can be considered when setting thresholds. Initially, ‘softer’ targets may be rolled out with the expectations that over time, as the business’ understanding of dynamics of the metric increases, the thresholds will become harder. With respect to harder steering limits, less sophisticated but more concrete metrics can be set from an earlier date.

The time horizon for achieving limits/targets (to ensure that targets remain achievable) is among the other factors that should be considered before setting thresholds.

To create proper risk tolerances, insurers can also take the following steps:

- Prioritise mitigating risks where there is a higher loss potential due to materialisation of climate risks for certain carbon-intensive assets;

- Allocate carbon intensity capacities to first line - i.e., decentralise optimisation of risk vs. return; and

- Define triggers, that will require expert oversight and input, to build experience and inform future setting of thresholds. (These thresholds need to evolve to reflect the pace of change in this area of risk management.)

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[1] https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/

When limits are breached or are close to being breached, the general protocol in the policy for limit breaches should be followed. For example, depending on type of limit, there may be various possibilities, including management awareness/consideration of actions; review of limits; de-risking; and mitigation/offsetting.

How can risk appetite be cascaded?

It is important that climate risk appetites are integrated into existing frameworks. The actions of each firm impact climate change, which in turn affects its business, strategy and, ultimately, profitability and long-term viability. There should therefore also be sufficient steps taken to ensure that the climate-driven RAS actions have an impact on the external environment – a consideration that is not typically accounted for in a traditional enterprise risk management (ERM) framework.

Climate risk appetite can be cascaded using the steps below:

- The board sets a climate strategy. This may be part of a wider sustainability or ESG strategy;
- The board articulates which types of business to pursue and objectives to be taken into account qualitatively, and eventually quantitatively, at the company level;
- Group-level risk managers provide a breakdown (such as capacities) for certain risk-taking (business) units, wherever quantitative limits are defined;
- Business units consider capacity limits for risk taking, and balance these limits with other objectives for risk taking; and
- Risk management, underwriting, and asset management incorporate principles into their governance frameworks to control their limits, monitor adherence to the limits, and describe escalation procedures (as necessary).

3 Asset Managers

Ownership and integration into governance

The chief investment officer (CIO) typically owns and is responsible for climate risks impacting client portfolios and funds managed by the asset manager.

In smaller firms, this may be assigned to the chief executive officer (CEO) or a director of the board. In any case, the board of directors are ultimately accountable and should be aware of potential risks and opportunities from climate change through their embedded risk processes, governance and oversight.

Asset managers distinguish risks they are managing on behalf of clients, in portfolios and funds, from risks they take which impact the performance of their business. Whilst these are often closely related, the setting of risk appetite for client portfolios is part of the commercial process of providing a service, whilst the setting of risk appetite for the asset manager (or firm) itself is a key governance mechanism for oversight and control of the business. It is important to both distinguish these and understand where they overlap.

Climate risks impacting the firm – i.e., risks that could harm the firm such as physical and transition risks – may have a variety of owners. Ultimately, however, they should be covered at the board level and/or by a delegated risk committee.

Physical risks should be addressed through existing business resiliency/ operational resilience plans, while transition risks have a wide range of uncertain business risk outcomes. These risks are likely to be addressed and owned by the CEO, the chief operating officer (COO), or the chief sustainability officer (CSO).

Climate risks will typically be escalated and monitored through existing risk governance. Portfolio/investment risks are monitored by the first line, while the board and the risk committee have oversight of all other climate risks.

Additionally, asset managers face product risks associated with offering funds and client portfolios with stated climate related aims. These product risks bring the climate risks impacting client portfolios into the set of risks impacting the firm. The risk is that commitments made to clients are not fulfilled, that the actual portfolios are found to be inconsistent with the stated investment position, and that this causes damage to the firm's reputation. This may arise from many causes including: through using erroneous emissions data which allow inappropriate investment in high-carbon companies; through having a marketing and product approach which over-promises relative to research and portfolio management capabilities; through making incorrect judgements of the timescale for climate effects to become recognised as problematic for a particular sector or issuer. Each of these could lead to individual client dissatisfaction and potentially wider reputational damage and franchise loss.

Approaches and metrics

The key dimension to consider for asset managers is balancing climate risk management with fiduciary and agency responsibilities. Firms will need to balance what client mandates allow and what the firms' desired outcomes are in relation to climate risks. For example, a passive fund cannot simply divest out of a security because it is a high-carbon emitter, if the security is within the benchmark of the fund mandate.

Asset managers provide their services based on an agreed portfolio / fund strategy and mandate to deliver against specified performance commitments and targets. There is limited scope for an asset manager to deviate from portfolio guidelines, and assets managed are subject to tolerances set (with prescribed thresholds monitored).

Asset owners will therefore need to clearly articulate their appetite towards climate risks. The challenge will be using appropriate data and a methodology that will measure or attribute performance returns in the context of climate risk outcomes. This is compounded further by the timeframe to model risks and scenarios with a wide range of uncertain outcomes of when climate risks will impact client assets.

For asset managers, this creates a high level of potential liability if products or mandates do not perform to objectives – especially if they are based on methodologies and data that are not yet mature. Climate risk appetite for investments will need to be agreed upon with clients (and varied by asset class), through the mandate or fund product processes, with achievable and measurable targets.

It is important to note that, without consistent and universally-accepted practices, it will be difficult to conduct typical performance return attribution due to certain climate-risk factors. Again, it is up to asset owners to specify what exposure and appetite they have to climate risks and opportunities.

Propriety trading is generally limited on asset manager balance sheets, so the focus should be on the potential harm to clients, i.e. the impact of negative financial and investment risk to client assets that are exposed to climate risk. Fiduciary responsibilities may include making clients aware that these risks could materialise, or that there are opportunities in assets better suited for potential climate pathways or outcomes.

The risk of declining portfolio asset values due to climate risk factors will need to be integrated into the investment management process. There are also opportunities to innovate in an environment demanding lower carbon outcomes – and to generate alpha in investments that are expected to transition well.

Furthermore, the asset manager's appetite for decarbonising portfolios – either proactively or via client requests – may require them to approach climate risks through influencing clients, stewardship, engagement and proxy voting.

The most impacted risk categories will be business and strategic risks. The asset manager's ability to prepare for and mitigate risks for investor assets will present reputational impacts; if poorly managed, these risks will create negative outcomes for their client relationships and reduce opportunities for new business growth.

Other climate-driven risk exposures asset managers will face are operational in nature:

- **Product development and sales**. Asset managers must provide suitable products that meet client expectations and client's climate risk appetite;
- **Legal/regulatory risks**. Adherence to regulatory disclosure requirements and fulfilment of asset-owner mandates are necessary;
- Potential **product risks** and tarnished **reputation of 'greenwashing'**;
- Client take-on and ongoing engagement / proxy voting **conflicts**; and
- Potential **Business disruption**.

Determining firms' preparedness to measure carbon emissions, and to assess temperature alignment metrics for client portfolios, is an important first step. Some firms may be further along, and it is clear that such firms have invested in resourcing.

Eventually, all firms will need to determine their capacity to start analysing and disclosing climate information. This reporting could be performed at client, portfolio, asset class and/or firm levels – and may also include results of stress tests and other types of climate risk analysis.

This requires business risk appetite decisions to be set at the board level. Asset managers will need to set a risk appetite for the risks associated with offering products with stated climate related aims. The risk that the product outcomes are not aligned with the objectives set is a risk for every product. Climate risk adds an extra dimension to these product risks. Asset managers should set a, likely low, risk appetite with respect to not fulfilling the objectives, commitments and promises that are made on client-related products.

Asset managers will also be expected to disclose their own carbon emissions (operational emissions), and targets that will be measured and monitored. One approach to this is to include an integrated climate risk disclosure within the financial report. [2]A firm may make pledges (such as being net-zero for their own business operations) by a set date, but the greater challenge is whether this can be aligned with the objective and mandate of client portfolios.

A firm wishing to be net-zero for all assets under management (financed emissions) will be challenged to consider how their business risk appetite aligns with these statements – i.e., via either turning away clients where mandates do not meet desired outcomes, or /and influencing existing clients into lower carbon impact mandates, products and assets.

The asset owners/investors, too, will increasingly apply filters to asset managers, if their appetites do not align with those of the asset owner – or if the asset manager is unable to demonstrate climate risk awareness and be able to produce reporting of climate risk metrics on their portfolios.

Case Study:

The Net Zero Asset Managers Initiative, an international group of 87 asset managers (as of April 2021) with almost £37tn under management, have committed to:

- *work in partnership with asset owners on decarbonisation goals consistent with an ambition to reach net zero by 2050 (or sooner) across all assets under management;*
- *set interim targets for proportions of assets to be managed in line with attainment of this ambition; and*
- *review interim targets regularly with a view to ratcheting upwards until 100% of assets are included.*

However, the Initiative acknowledges that the scope for asset managers to meet these commitments depends on the mandates agreed with clients and clients' and managers' regulatory environments, and relies on governments following through on their own commitments to ensure the objectives of the Paris Agreement are met.

There will also be data consistency and methodology difficulties, which can be pronounced between different asset classes. Risk appetite may diverge with varying methodologies or data sources – for example, it may differ for corporates (fixed income/equities), real assets (real estate, infrastructure), sovereigns, securitized assets, derivatives and other alternatives.

Asset managers will, moreover, need to determine their risk appetite for providing more

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[2] For examples, see https://cdn.ifrs.org/content/dam/ifrs/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en or https://www.cdsb.net/climateaccounting

products and strategies that will meet asset owners' demand for climate-focused outcomes. This is a business risk appetite decision at the board level, and should be decided based on client demand and the ability to deliver based on measurable thresholds.

The tables below consider risks to clients, firms and the broader market, with initial considerations for risk appetite.

Figure 3: RAS Drivers, Impacts, Considerations, Actions and Ownership

Risks Drivers and Impacts		Risk considerations		Action	Proposed Owner / Business Lead
		Physical Risks	Transitional Risk		
Harm to Clients (Asset Owners)	How climate change could financially impact client portfolios.	Client assets impacted negatively by physical risks of climate change, e.g. floods or more frequent weather disruptions that destroy asset values.	Client assets impacted negatively by the transition to a lower carbon economy, e.g. Government Policy, legal costs and changing consumer behaviour.	• Measure portfolio climate impact for Asset Owners. • Determine ability and requirements to publish data. • Scope of assets under management. • Ability to influence: Set thresholds to manage targets. • Client take on process – engagement / clarity of strategic objectives in line with firms' risk appetite.	Chief Investment Officer, and/or assigned Board member
Harm to Firm	How climate change could impact the operational resiliency of services, reputation and firms financial position.	Office location and operational disruption from severe weather event, e.g. power disruptions.	Financial impact to firm e.g. loss of Assets Under Management and revenue / increased costs / loss of new opportunities as a result of the firm's ability to: • Demonstrate appropriate ESG integration / Climate risk governance and action. • Product range unsuitable and unable to meet climate risk investor appetite and preferences of investors. • Significant legal costs from potential product misrepresentation, e.g. "Greenwashing" where product does not meet climate objectives of investor.	Define metrics that lead to a responsible and sustainable climate risk strategy, e.g. defining strategic targets over time horizon such as: a) target to be net zero by year X in respect of its own operations; b) target to be net zero across all its activities and including investment portfolios by year X. Risk appetite statement to support the delivery of these strategic objectives, e.g. "firm has no appetite to deviate from publicly disclosed targets", with interim measurements required to demonstrate progress against these targets.	Chief Executive Officer, or Chief Sustainability Officer, or Chief Risk Officer, and/or assigned Board member
Harm to Market (and firms' impact to climate change)	How firms' operations and activities impact climate change agenda, the broader financial market and its ability to influence Asset Owners' investment strategies.	Firms' operations e.g. office and travel are primary contributors to their carbon emissions.	• Lack of appropriate climate disclosures and action demonstrated by the firm resulting in reputational impact. • Lack of progress to reduce AM industry carbon emissions. • Firms inability to influence asset owners under scrutiny.	• Disclosure of firm's carbon footprint. Noted above in Harm to Firm. • Consider if changes / divestments disrupt the market? • Consider if disclosures could impact reputation of the Asset Management Industry as whole?	Chief Executive Officer, or Chief Sustainability Officer, or Chief Risk Officer, and/or assigned Board member

Figure 4: RAS Examples, Metrics and Constraints

	Risk Appetite Statement considerations	Risk Appetite Example Data; complexity to implement?	Risk Appetite metrics (consider time bound) 5 year (built into ICAAP), 10 year and 20+ (aspirational appetite)	Data and metrics to measure / Data traps / other constraints
Measure and Disclose	• Firms' preparedness to measure carbon emissions of client portfolios. • Appetite towards resource allocation Internal capacity / allocation of resources and. • Client / Fund mandate. Required vs proactive. Third party assets.	• To provide portfolio carbon intensity reporting for (x% clients, client types, asset classes) by X date. • Outperform target benchmark + reduce carbon intensity of portfolio over 1, 3, & 5 year period. • Outperform target benchmark + increase green rated assets by X %.	e.g. portfolio X should have no more than Y% loss under a 2 degree warming scenario over a timeframe of Z years (more difficult) e.g. Investing in corporate issuers having an emission intensity per million USD sales above X (data more available and easier to do). e.g. portfolio X % of green rated buildings or number of green building certifications.	Data consistency for different asset classes. Risk Appetite for different asset classes e.g. Corporates (Fixed Income / Equities), Real Assets (Real Estate, Infrastructure), Sovereigns, Securitized Assets, Derivatives and other Alternatives
	• Firms' preparedness to disclose carbon emissions data at firm level and at portfolio level as well as results of stress tests and other types of climate risk analysis.	• Firm to be net zero by X date (e.g. 2050) • Assets under management to be net zero by X date (Difficult without client alignment). • X% Paris aligned temperature benchmarks.	% of portfolios with net zero targets Degree warming metric reductions by x date Deviation from portfolio targets	Client mandates or funds not within control of asset manager can not reach outcome of net zero without client willingness. No common method for assessing degree warming metric.
Engagement / Influence / Stewardship	• Appetite for decarbonising portfolios (proactively or on client requests) or improving real world impact of assets (e.g. through engagement/ proxy voting / stewardship). • Commitments and targets. Ability to implement and measure deviation. Will action negatively impact performance return. i.e. is there a trade off between climate outcomes vs performance return? • Exposure to defined investments.	• Engagement with investors to address the issue. Ability to influence climate transition plans the extent is reasonable and measurable climate related targets. • The firm has X appetite for exposures to certain defined excluded investments, e.g. high polluters/ emitters which have shown low / no willingness to engage with investors to address climate risks.	Disclose x % of proxy voting? "Stewardship to divestment pathways" from carbon intensive corporates? Influence impact of carbon emitters Disclosure of X% of voting records	What the firm controls in terms of assets vs funds where there may be independent boards or specified investment mandates. Impact of portfolio for decarbonising? E.g. taking high carbon sector (such as energy) out of target benchmark involves risk / uncertainty where decision of who bears risk and how it can be measured. Attribution of portfolio return to climate risk factors still immature.
Product	Firm's appetite to increase product availability for climate / ESG focused strategies.	Funds offered with climate / ESG focused strategies to increase by X%.	Develop x % of products by y date.	

4 Retail Banking

Ownership and integration into governance

Responsibility for climate risk should be owned at the executive level, as per the Senior Management Function requirement in the PRA's supervisory statement SS3/19. The CRO is typically the key owner of this risk category, but some firms have assigned aspects of the responsibility to the CEO and/or CFO to encourage first-line ownership of risks.

Approaches and metrics

For retail banking, the risk categories most impacted by climate risk include credit risk, conduct risk, and operational risk – particularly business continuity risk (BCR) and reputational risk. Regulatory requirements are also likely to increase model risk and capital risk.

Climate risk can be treated as a separate risk category, but the general view is that this would be a short-term solution, intended to increase focus while processes mature. Integrating climate risk as a driver within existing risk frameworks is more likely in the medium term. This will enable alignment within existing risk management processes, while simultaneously encouraging first-line ownership.

Given the nature of climate change to cut across multiple risk types, it is likely that there will also need to be a holistic consideration of a firm's climate risk approach. This will not only help a bank avoid unintended consequences but also ensure that broad impacts on customers – including conduct – are fully considered.

Key risks to be considered are:

- **The impact of a decline in asset values in the longer term, as a result of physical or transitional risks being experienced**. Whether assets will be insurable in the future needs to be considered, as does current valuation practices that do not account for longer-term climate risk. This risk will be observed through increased loss given default (LGD) over time.
- **Borrowers' ability to repay loans as a result of direct or indirect links to physical risk or transition risk.** This risk can result from items such as elevated energy prices, carbon taxation and the costs of mitigating physical risks or improving the energy performance of homes. This risk will be observed through increased probability of default (PD) over time.
- **Conduct-related risk.** Customer losses as a result of climate impacts can create conduct risk. Product lifecycle management and customer disclosure will likely be factors to consider in assessing and managing this risk.

  Climate risk will also drive the potential for creating 'mortgage prisoners' in higher-risk properties. This potential risk will increase once financial institutions can measure risks at a property level over the longer term. The industry will most likely be better able to interpret the data than customers, raising the prospect of potential conduct concerns. It is likely that regulators' expectations of how the industry should protect and inform customers will evolve.
- **Operational risk**. There may be a number of different operational risks, but the main impact is expected to be Business Continuity Risk (BCR). Climate impacts on business continuity through affected property, infrastructure or suppliers could

all drive operational risk.

- **Model risk**. Increased use of models that extend out over a long timeframe will increase the level of model-related risk, and the uncertainty in model outputs will be greater than with shorter-term forecasts**.** Some of this will be driven by assumptions and data availability (e.g., for external natural catastrophe models and internal mortgage models).
- **Capital risk.** Banks may eventually have to allocate additional capital to reflect climate risks
- **Reputational risk.** Broader expectations of stakeholders, including customers and investors, could lead to a bank facing greater pressure to protect its reputation. ESG-linked issues are setting expectations against which firms will be measured in the future, through the quality of their disclosures and outcomes noted in them.

It is likely that all firms will start with high-level qualitative statements, possibly linked to externally-disclosed commitments on the intent of the firm.

Risk metrics could either be portfolio-level risk measures or more granular measures. Portfolio-level metrics – such as the proportion of properties with an Energy Performance Certificate (EPC) rating at E and above or the proportion of the book at high physical risk.

Some banks are already measuring the proportion of their mortgage portfolio that has a higher risk of flooding. To create metrics, firms will first need to understand the current risk exposure of their portfolios, and then decide the level of potential risk the organisation is willing to accept.

Standard metrics will likely form over time, but the proportion of the book at high risk – across both physical and transitional risk dimensions – is likely to be a way of benchmarking firms against each other.

Thresholds

Climate-risk thresholds for retail banks will be developed over time, and are likely to include:

- **Portfolio-level measures of the proportion of the book at higher risk**. One example is the proportion of properties with an Energy Performance Certificate (EPC) rating at E and above, which could provide a good proxy for the transition risk of a given property, or portfolio of properties when aggregated.
- **Granular-level views measuring overall levels of risk and implications**. Banks should consider the level of potential loss in certain scenarios (examples can be found in the PRA's Climate BES exercise), incorporated into stress testing and driven by a property-level view of risk, likelihood and losses.
- **Potential flow-level limits on higher-risk assets**. Criteria may be set to reduce or avoid risk from a new business flow perspective. For example, specific limits may be set at transaction level for criteria such as energy efficiency ratings. It is worth noting that this may not provide a solution to improving the energy efficiency of housing stock; therefore, to mitigate climate risk, a bank may need to consider other ways in which it can encourage the low-carbon transition.
- **Remedial actions to make housing stock more energy efficient**. This will likely be managed through a range of possible options, including: (i) Softer

measures, such as watchlist monitoring and mortgage-product construction; or (ii) Firmer options, such as limiting the flow of business of higher-risk stock – via, e.g., exclusions from lending criteria or increased pricing (to reflect the risk).

There are a number of challenges to consider when setting risk appetite. Housing stock cannot be split easily in the same way as other industry segments. Also it is challenging to categorise unsecured products, like credit cards, by the level of carbon emissions they generate. These challenges should not be a cause for inaction in these areas, but it is anticipated that the greatest level of focus will be on mortgages initially – as they are the products that drive the greatest level of long-term climate risk in a retail portfolio.

Very granular data will be required, but this level of data is not readily available today. Areas where external data is likely to be needed include:

- **Physical risk data** for specific geographical areas or properties.
- **Up-to-date EPC data** for each property. (While this is likely the best proxy for measuring transition risk, the proportion of properties without an EPC is relatively high, and there will likely be issues in accessing EPC data in some parts of the UK.)
- **Measurement and benchmarking of high risks**. It would be beneficial to the industry if banks could agree upon a definition of high risk. This type of consensus would enable more consistent measurement and benchmarking, but would also likely increase the risk of a two-tier market.

A separate challenge is how to map physical and transition risk over an extended time horizon into risks such as credit risk, where the probability of default and the loss-given-default are not typically measured over that longer time horizon. Indeed, over the extended time horizon, customer behaviour, capital paydown, inflation and house price inflation (HPI) all have much greater impacts than are typically seen over shorter-term reporting.

Secondary and tertiary impacts, such as knock-on impacts to customer employability or changes to markets, are not currently being considered but as approaches mature it is likely that these will be considered as part of risk assessments.

How can risk appetite be cascaded?

Climate risk appetite cascades through existing governance framework and policies, as with other risks faced by the organisation.

Other factors that support a cascade of climate-risk awareness include the TCFD (seen through the lens of external disclosures), integrating climate-related financial disclosures into financial reports, a strategic commitment towards net zero and a bank's desire to align with the goals of the Paris Agreement.

5 Corporate Banking

Ownership and integration into governance

Depending on a firm's operating model and approach to other risks, a climate RAS may either be a standalone document or a subset of bounding metrics that are incorporated in the bank-wide RAS.

Note that this section focuses on corporate level assessment, as opposed to asset/project finance level risk appetite statements.

Approaches and metrics

Developing a qualitative statement

The qualitative statement should be as explicit as possible, covering both the impact of the firm on climate change and the impact of climate change on the firm. It should outline a firm's strategic goals and commitments relating to climate, policy/framework/disclosure commitments and commitments to customers and shareholders, considering all financial risks from climate change.

Commitments, moreover, should be made with regards to the bank's own operations, including its supply chain. Metrics can still be used to track progress against these targets – e.g., timeframes met and scope of coverage.

Developing Quantitative Metrics

To develop bounding quantitative climate risk metrics, a bank can employ the following four-step approach:

1. For any stated commitments under the qualitative statement, consider metrics that can be used for measurement – e.g., progress to achieving net zero.
2. For transition and physical risks, identify materially-impacted risks in the risk taxonomy – e.g., credit risk through the devaluation of assets and unviability of counterparty business models.
3. For materially-impacted risks (say three to five risk categories), identify the key risks to the business.
4. Establish risk-monitoring metrics (see categorisation, below). Consider what additional information – such as data mined through existing reports or sourced through questionnaires – is needed.

Standard Metrics

Current views are that there are no standard metrics that should be used for all banks to monitor transition and physical risk. A bank's definition of metrics should be aligned with its existing risk management practices and the nuances of its individual risk profile. Standardised metrics are currently more likely to measure strategic risk and alignment; because these are a cornerstone of external disclosures, where there is a drive towards comparability across firms.

Further guidance can be found in the CFRF Data & Metrics Report.

Figure 5: Developing RAS at Corporate Banks

Risk Appetite Statement: Bank X is committed to (i) managing the transition and physical risks faced today and under future scenarios; and (ii) managing the risks associated with the strategic commitment to align to net zero.	
Transition risk	In client portfolio • Transition Risk Scores for customers in high transition risk sectors. • Carbon asset risk of portfolio. • Impairment/ECL to high risk sectors under a specified stress scenario • RWA utilisation of high-risk sectors. • Where the above metrics are not available, consider existing metrics (such as those below) with a high-risk client overlay. *This simpler approach does not take into account readiness and could be more effective for portfolio review.* • Impairment charges as % advances for high transition risk sectors. • % limit on exposures or investments in high transition risk industries. • Client on-boarding and transaction level risk assessment processes/coverage measures. • Specific credit, concentration and sectorial policies. Note: Conduct / greenwashing risks would be considered here but are not developed further in this document.
Physical risk	To client portfolio • e.g., % of portfolio exposure to high physical risk locations under scenario X. • Specific credit, concentration and sectorial policies. • To operations (direct) or supply chain: • Annual loss under 1/250 scenario to be within $X.
Alignment/ Strategy	Alignment metrics: • Portfolio Warming Potential. • Portfolio Temperature Alignment Tools. • Weighted-average carbon intensity. • % of portfolio with green taxonomy See further information at https://www.tcfdhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf Strategic Metrics that track against firms' commitments: • % of commitment reached on renewables/sustainable financing. • Reduce its thermal coal exposure to zero by 2030.

Thresholds

Setting thresholds

Once a bank has decided its longer-term, qualitative RAS, and implemented the infrastructure to measure the aforementioned quantitative metrics, it should measure the current baseline.

The first step is deciding the target values of those metrics, in line with announced commitments, strategy and corporate plans. For example, when a bank commits to reduce its coal exposure, it must measure its current level of financed coal exposure, before committing to a target level that must be achieved by a certain year with a detailed plan agreed for implementing this objective.

Subsequently, to track compliance with these commitments, a series of annual targets can be developed. The time-bound interim targets could be in the shape of limits to overall exposures. Alternatively, they may trigger a series of thorough risk acceptance analyses that are aligned with the bank's strategy and current business practices.

To ensure the feasibility of interim targets, a bank can use stress testing to assess threshold levels under a range of scenarios.

Managing within thresholds

There should be a scope for balancing conflicting trade-offs – for example, financing of high-carbon initiatives that provide a near-term social benefit (through energy supply or jobs). A longer term, mature RAS allows for the flexibility to tighten the thresholds in some business lines where there is greater availability of mitigating actions. This can be done while still adhering to the group-level risk thresholds.

However, since board-level thresholds will also get gradually tighter in a pathway to meet the group-level commitments, the flexibility will diminish and more stringent thresholds will be cascaded down to all business lines and, eventually, to the counterparty level.

Thresholds may be implemented as triggers or soft limits to explain breaches (as opposed to caps) for certain metrics while climate risk appetite is maturing. Systems and data can then be further developed – via, e.g. segmenting 'green', 'transition' and 'non-green' lending. These can then become hard limits over time, to support steering of the portfolio.

Escalations and breaches of risk appetite metrics should be managed in accordance with existing risk appetite governance.

Integration of Scenario Analysis

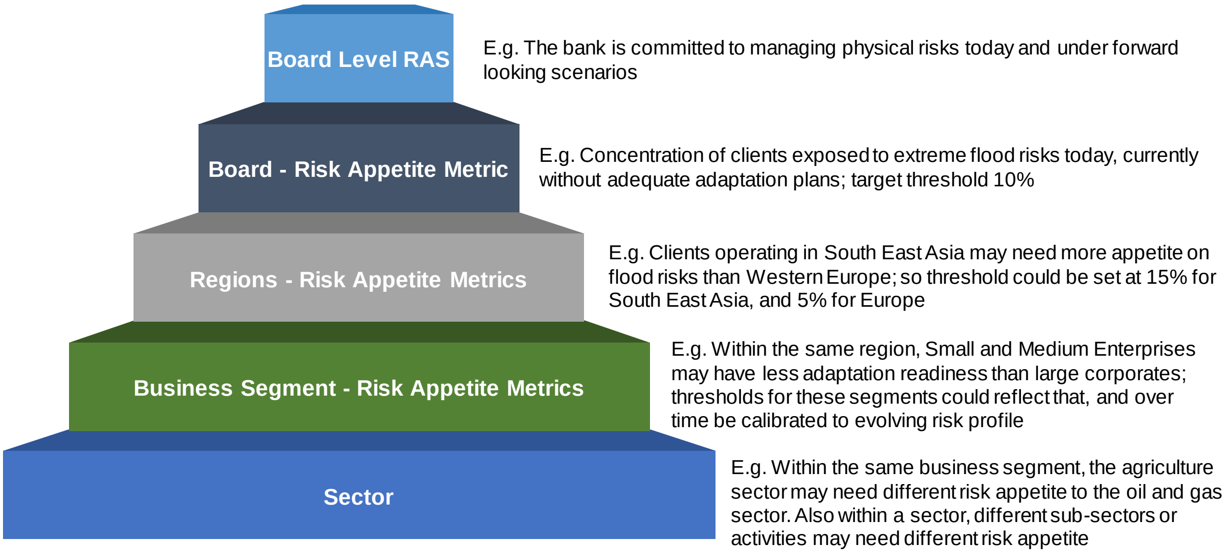
Integration of scenario analysis can be achieved via four mechanisms – in order of growing maturity: (i) calibration of thresholds through scenario analysis; (ii) projection of existing metrics; (iii) development of new metrics; and (iv) embedding in financial and strategic planning processes.

How can risk appetite be cascaded?

Whilst the board will monitor the overall loan book against thresholds or limits (via bounding metrics), these will be cascaded down to more granular sector limits, caps and policies split by business line or geographies, before shifting to individual operational limits per counterparty. These will be monitored and reported through key indicator dashboards.

There should also be a defined process for escalating and addressing risk limits breaches, together with an appropriate follow-up procedure.

Figure 6: Cascading Effects of Climate Risk



For corporate banks, the key principles of cascading include the following:

- Proportionate allocation of risk appetite and returns – e.g., more risk appetite may be needed in businesses with high revenue contribution.
- Allocation of risk appetite in line with strategy – e.g., certain risks (like storm risk in HK or flood risks in some parts of southeast Asia) are inevitable when operating in some markets.
- Measurement of both gross and readiness levels - e.g. adaptation measures implemented or planned to be implemented – is important.
- Since climate risk may have a disproportionate impact on different businesses, implementation of risk appetite statements can be more *or* less granular, allowing for tailoring to the risk identification process. For example, for a client in the agriculture sector, physical risks may require more attention in the shorter term, whereas transition risk may be more relevant for a client in the oil and gas sector.
- Based on both feasibility and importance, targeted and granular sector-level risk appetite can follow a series of interim targets with varied timelines for different business lines. For example, if governments announce stricter policies for the power sector to favour the renewable sources of energy, a bank's risk thresholds can be adjusted to more aggressively reduce exposure to power companies with a high-carbon energy mix.

The cascading of risk appetite and thresholds should be implemented over a timeline aligned to a bank's commitments. Implementation should start with board-level thresholds, then move to regional-level and business-segment- level thresholds – before finally shifting to country-level or counterparty-level thresholds.

Considering that climate risk is still an evolving field, the risk metrics specific for climate risks are also expected to evolve over time. To update measurements on a periodic basis (with frequency to be determined by internal governance, based on risk materiality), a bank should plan for investments in new data sources and infrastructure upgrades. In addition, it is also noted that data availability will be more challenging in some sectors, and also for small and medium enterprises (SMEs) and certain regions. A proportionate, materiality based, approach is recommended in these cases.

ROBECO
The Investment Engineers

ROBECO INSTITUTIONAL ASSET MANAGEMENT

Sustainability risk integration & operational impact

January 2025

Contents

1. Introduction

Robeco's corporate mission is to enable our clients to achieve their financial objectives through superior returns and solutions. Sustainability is key in fulfilling that duty and a key pillar of Robeco's corporate strategy. We are convinced that investee companies with sustainable business practices have a competitive advantage and are more successful in the long term. A proactive approach to measuring, managing and mitigating sustainability risk is therefore an essential part of our sustainable investing approach.

Robeco integrates relevant sustainability risks in all aspects of its investment strategies, client solutions and organization. This includes investment analyses and decisions, investment advice, risk management, product governance & client suitability assessment processes, as well as the organizations governance of these processes.

This document aims to provide a comprehensive overview of Robeco's sustainability risk integration approach. It is based on underlying policies, procedures and tools, which are outlined in this document.

The document is made publicly available on Robeco's website and updated on a regular basis[1].

1.1 Regulatory framework

Our sustainability integration measures comply with relevant provisions of the EU Sustainable Finance Framework, e.g.:

- Information disclosure requirements with respect to sustainability risk integration at entity and product level (regulation on sustainability- related disclosures in the financial services sector - SFDR).
- Provisions to integrate sustainable risks in investment due diligence and risk management policies & processes, and governance structures (UCITS Delegated Directive 2021/127, AIFMD Delegated Regulation 2021/1255 and MIFID Delegated Regulation 2021/1254).
- Provisions to integrate ESG factors in mandatory client suitability assessment & product governance processes (MIFID II Delegated Regulation 2021/1254 and MIFID Delegated Directive 2021/1269).

The European Securities Markets Authority (ESMA) and national competent authorities have conducted a Common Supervisory Action (CSA) on sustainability-related disclosures and the integration of sustainability risk in 2023 and 2024.

1.2 Evolving field

This document outlines our current measures for integrating sustainability risks. However, this field is evolving. The available data, expertise and technology to identify, measure and mitigate sustainability risks will probably increase over time. Therefore, we will regularly review and, where relevant, recalibrate our sustainability risk integration processes to ensure that these remain fully in line with these innovations.

1. Art 3 SFDR requires financial market participants and financial advisers publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process and their advice

2. Sustainability risk identification

2.1 Definition of sustainability risks

Sustainability factors – such as environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters – may have a positive or negative impact on the financial performance of our investments[2]. While sustainability factors can also have positive impacts (opportunities), the sustainability risks for the purpose of integration are defined as the negative materialization of the factors. Sustainability as a risk factor is relevant to all investments, while sustainability opportunities are typically relevant to the products that have an ESG objective. For its sustainability risk integration approach Robeco applies the definition of sustainability risk included in the EU Sustainable Finance Disclosure Regulation (SFDR).

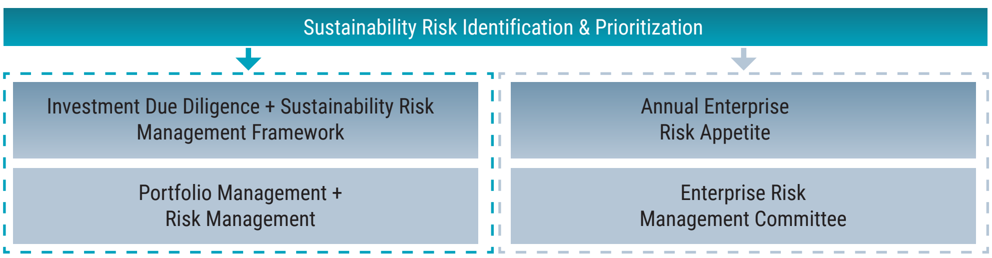
'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.[3]

This definition is also used in the amended rules under UCITS, AIFMD and MIFID II frameworks, which cover the majority of the mandatory policies and process requirements, as well as the organizational related requirements regarding sustainability risks. The definition has two core elements (1) an event/condition from the broad ESG spectrum that (2) could (potentially) cause a material negative impact on the value of the portfolio. This means that Robeco is expected to identify relevant ESG risks and subsequently determine which of them are material in the short, medium and long term regarding its investment strategies.

2.1.1 Identification

Sustainability risks can be climate-related, or related to other environmental, social and governance practices. Sustainability risks can be identified across asset classes, sectors and geographies, or on the basis of length and maturity. Robeco uses various proprietary and external tools to identify and evaluate sustainability factors and related risks. Our Investment Due Diligence and Risk Management frameworks are the basis for the different investment teams and risk management functions to identify and evaluate potential sustainability risks for our investment portfolios.

Once identified and evaluated as financially material for an individual investment portfolio, sustainability risks and the mitigation thereof are directly integrated in the related investment and risk management processes.



In parallel, we run a holistic materiality analysis at entity level – as part of our annual internal risk appetite review – of potential risks, including sustainability risks, relevant to our business activities. Integrating climate-related and environmental risks into the internal risk appetite increases Robeco's resilience to such risks and improves its ability to manage those risks. This company wide risk assessment provides an additional source/ check to the sustainability risk evaluations made by the different investment teams and risk management functions within Robeco and is used to confirm that all potential risks have been properly identified and prioritized.

The sustainability component of our internal risk appetite, currently primarily focusing on carbon emission mitigation, is adopted by the Enterprise Risk Management Committee (ERMC) after consultation with Robeco's Sustainability Impact & Strategy Committee (SISC).

Robeco runs an Internal Capital Adequacy Assessment process and internal Risk Assessment Process (ICARAP) to assess the level of capital that adequately supports all relevant current and future risks in their business. The potential financial impact of climate risk is incorporated in this assessment.

2. Art 2(24) SFDR.
3. Art 2(22) SFDR.

2.2 Sustainability risks

Climate-related risks are the financial risks posed by the exposure to an investment that may potentially contribute to, or be affected by, climate change. Following the adoption of the Paris Agreement, governments are endeavoring to transition to low-carbon and more circular economies on a global scale.

We assess climate risks for all investments. Transition to a low-carbon and more circular economy entails, beyond opportunities, risks for the regions, industries and companies in which Robeco invests, whilst physical damage caused by climate change can have significant impact on those regions, industries and companies as well as the wider financial system.

Robeco seeks to take a forward-looking and comprehensive approach to considering climate-related risks. To run climate change scenario analyses and measure climate risk, Robeco has developed proprietary tools in addition to possible third-party data provider solutions. To assess the impact of climate change, Robeco primarily uses (forward looking) scenario analysis available via Climate Value-At-Risk which is a measure of the likely impact climate change can have on the return of a portfolio's holdings.

Risks related to climate-related factors are t well-known, and methodologies and data to calculate and apply these are relatively mature. However, our sustainability risk identification and prioritization assessments are not solely restricted to climate issues. Other environmental factors (such as air pollution, water pollution, scarcity of fresh water, biodiversity loss and deforestation), social issues and governance practices may also present serious risks to the value of our portfolio investments and are therefore also considered.

Environmental and social risks are closely interrelated. The continuous deterioration of environmental conditions implies heightened social risks, such as when climate-related physical changes or water stress affect deprived parts of a geographical area and already disadvantaged populations. Reputational impacts are then also possible. Poor governance practices and/or significant social issues may also have material financial impact on portfolio investments if the probability of their occurrence is not sufficiently priced into the valuation of the affected assets or liabilities.

Therefore, Robeco's sustainability risk identification covers a broad range of ESG factors, including (but not limited to):

Key sustainability Factors

Environmental	Social	Governance
Climate change vulnerability	Compliance with recognized labor standards	Risk & Business continuity management
Carbon pricing	Compliance with employment safety and health protection	Integrity and ethical behavior
Biodiversity	Fair working conditions, diversity, and training and development opportunities	Information security and data protection
Environmental waste & pollution	Product safety and customer wel-fare	Board composition and remuneration
	Infectious diseases	Regulatory and Tax Compliance
		Political instability

2.2.1 Sustainability risk characteristics

The relevance of a sustainability risk type for a portfolio depends on both the investment strategy and the risk type characteristics. Some sustainability risks may potentially have a negative impact on all investment strategies, while others may only affect specific companies or sectors. The time horizon, likelihood of occurrence, likely impact and ability to control some sustainability risks are often uncertain.

Sustainability risks may become relevant and lead to pressure for action in the short term, as well as over the medium and long-term.

2.3 Relation with established risk categories

Sustainability risks are often related to and may have an impact on other risk categories or may be a factor to their materiality. Examples of the relation of sustainability risks with established risk categories include:

1. Credit risk/counterparty default risk: The business model of an issuer of a bond may be severe-ly damaged by transition risk.
2. Market risk: An investee company that does not demonstrate management for transition to-wards a sustainable economy may lose value due to a decline in market sentiment (reflecting transition cost expectations)
3. Liquidity risk: If climate-related and environmental risks materialize (e.g. natural disaster) we may experience substantial outflows and/or a fund liquidity mismatch related to the financially material impact of physical risks on our operations in one or more relevant markets.
4. Operational risk: events like extreme weather conditions and epidemic diseases may impact our operations in one or more regions.
5. Data availability risk: sustainability risk integration underscores the need for reliable and high quality ESG information. ESMA has acknowledged that there are operational challenges in-volved with 'getting reliable data on sustainability risks and factors'[4]. The ECB has highlighted this as an impediment to the consistent use of ESG data by market participants and stresses that unreliable ESG data and ratings limit users in their capacity to conduct granular financial risk analyses[5].

Robeco acknowledges the relation of sustainability risks with established risk categories and therefore holds an integrated view on sustainability risk management. Robeco incorporates sustainability risks as drivers of aforementioned established risk categories into Robeco's existing risk management framework, with a view to managing and monitoring these risks over a sufficiently long-term horizon.

4. In its 2019 final report on ESG risk integration in UCITS and AIFMD, p. 18 (ESMA34-45-688).
5. Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive (https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf).

3. Sustainability risk governance & remuneration

3.1 Governance

Robeco's management board and key officers appointed to manage Robeco (together the Executive Committee, ExCo) bear overall responsibility for monitoring the implementation of the business, risk strategy and governance arrangements. Accordingly, the Executive Committee is also responsible for the strategic considerations of integration of sustainability risks connected to its business activities and governance and control.

Collectively, the members of the Executive Committee are equipped with sufficient knowledge to ensure that sound and well-informed decision are taken. Key function holders of the Executive Committee – in particular the Chief Investment Officer and the Chief Financial Risk Officer - are individually suitable including that they have sufficient knowledge, skills and experience with regard to sustainability factors and related risks in their management function. For a full overview of our internal risk governance we refer to our integrated annual report

3.2 Remuneration policy

Robeco's remuneration policy is consistent with, and promotes, sound and effective risk management and does not encourage risk taking which exceeds the risk profiles of the portfolios we manage[6]. We consider appropriate incentives-based mechanism vital to support achieving our investment performance goals within an appropriate risk culture and to account also for relevant sustainability risks. Sustainability related KPIs are set to ensure decisions are taken in line with the relevant sustainability risk considerations related to investment strategies and also facilitate the implementation of relevant ESG risk-related factors consistent with our sustainability risk policy.

6. Art 14b (1)(a)(b) UCITS Directive, Annex II AIFMD.

4. Investment Due Diligence

Our Investment Due Diligence policy sets out how it is ensured that investment decisions are carried out in compliance with the objectives, the investment strategy, the sustainability profile and, where applicable, the risk limits of the portfolio. We have integrated sustainability risks in the investment decision-making process in the belief that this leads to better-informed investment decisions and better risk-adjusted returns throughout an economic cycle.

Portfolio managers and analysts are primarily responsible for conducting investment due diligence on their strategies on a daily basis. With respect to investment guidelines and restrictions monitoring, they are supported by independent monitoring, performed by the Financial Risk Management and Investment Restrictions departments.

4.1 Methods used for assessment and evaluation of sustainability risks

Overall sustainability risks are integrated in Robeco's investment due diligence processes by using the Exposure Method[7]. This means that we directly assess the performance and risk exposure in terms of E, S and G at the individual investment level. This is done both (i) at point of security selection and (ii) during the monitoring of investments.

The evaluation of ESG sustainability takes place through Sustainable Development Goals impact and ESG integration policies, exclusions and engagement dialogues with investee companies. Strategies may also have specific sustainability related objectives or investment themes. These different sustainability criteria are implemented to varying degrees, depending on the investment strategy. The sustainability data and criteria used for managing these strategies are addressed in the following paragraphs of this section.

To assess the impact of climate change, Robeco uses available (forward looking) scenario analyses provided by MSCI.

4.2 Sustainability research as a key research pillar

Within Robeco, every investment decision is research driven; this may include fundamental, quantitative and sustainability research. Integrating sustainability risk means systematically integrate financially material ESG issues into the investment processes. This includes both the impact an investment has on society and the impact of the society on the investment. The portfolio managers can leverage on analysts, including analysts in the SI research team, and the expertise of other investment teams within Robeco. Quantitative investment strategies are largely model based. Portfolio managers of Robeco's Quantitative strategies benefit from the expertise of quantitative researchers in managing their strategies.

Important input for analyzing companies' corporate sustainability are external sustainability resources, environmental data providers and a range of other sources like company disclosures, industry reports and meetings with investee companies' management. For countries we make use of the proprietary Country ESG Ranking methodology.

More information can be found in the Sustainability Integration document on our website: Sustainability policies and positions.

4.2.1 Exclusion policy and negative screening

The Robeco exclusion policy entails the exclusion of companies based on controversial behavior (based on breaches of the UNGC, UNGP, ILO standards and OECD Guidelines for Multinational Enterprises) and excludes or applies criteria for controversial products (including controversial weapons, tobacco, unsustainable produced palm oil and certain fossil fuels). In addition, we consider investing in government bonds (federal or local) of countries where serious violations of human rights or a collapse of the governance structure take place as unsustainable. In addition, we follow applicable Sanctions of the UN, EU or US to which it is subject and follows any mandatory (investment) restrictions deriving therefrom.

In all funds managed by Robeco over which it has full discretion, the general exclusion policy applies as standard. For funds with an enhanced sustainability profile stricter exclusions may apply. Towards its discretionary mandates clients, Robeco advocates applying the Robeco exclusion policy.

For selected strategies, additional negative screening might be applied tailored to the sustainable characteristics or objective pursued by the strategy.

More information on exclusions can be found in our exclusion policy on our website: Sustainability policies and positions.

4.2.2 ESG Integration

The vast majority (>95%) of our investment strategies integrate ESG factors into the investment process. This can be done via corporate ESG scores and / or by analyzing the impact of financially material ESG factors to a company's competitive position and value drivers. For fundamental equities, if ESG risks are significant, the ESG analysis could impact a stock's fair

7. EBA 23 June 2021 Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18).

value and the portfolio allocation decision. The Country ESG Ranking is used to determine the country ESG risk. For investment strategies that are implemented for almost 100% by derivatives, we do not integrate ESG.

4.2.3 Climate focused investing
Certain strategies aim for having, next to providing long term capital growth, a lower environmental footprint than their index on greenhouse gas emissions, water use and/or waste generation, and/ or may be managed against a climate transition or a Paris Aligned benchmark.

4.2.4 SDG Investing
SDG (Sustainable Development Goals) investing aims at producing both an attractive return and alignment with the Sustainable Development Goals. To measure a company's alignment with the SDGs, Robeco has developed a three-step framework. SDG strategies focus on multiple goals by investing in companies with a neutral to positive contribution to the UN SDGs and/ or helping business to achieve positive impact through engagement.

More information on the Robeco SDG framework can be found in SDG Investing | Robeco Global.

4.2.5 Transition investing
Investing in companies that can enable climate, biodiversity or social transition by providing products and services that are needed to make the transition possible, in companies that make the transition by transforming their business models and by selecting securities through which we can finance the transition. Examples are green and social bonds.

More details can be found How to invest in the transition | Robeco Global.

4.2.6 Sustainability-themed investing
Sustainability-themed investments contribute to address social or environmental challenges by aiming to invest in companies offering solutions to these issues. These issues may be, but are not limited to, population growth, food security, natural resource scarcity, energy security and climate change.

4.2.7 Green/ Social & Sustainability labelled bonds
For certain strategies we invest in green, social and/ or sustainability bonds whose proceeds are used towards environmental and/ or social objectives. Green, social and sustainability bonds are analyzed based on an internally developed five-step framework.

More details can be found ESG Bond Frameworks.

4.2.8 Active ownership
As a signatory to the United Nations Principles for Responsible Investments, Robeco's dedicated Active Ownership team conducts engagement activities based on clearly stated objectives. A relevant subset of companies globally in clients' equity and credit portfolios are targeted for a constructive dialogue on environmental, social and governance factors. The Active Ownership department engages with the aim of increasing long-term value for investors.

More information can be found in Stewardship approach and guidelines.

4.3 Implementing sustainability across investment strategies

4.3.1 Equity strategies
Equity strategies (quantitative and fundamental) incorporate ESG integration, exclusions and a voting and engagement overlay in the investment process. In addition to this there can be portfolio specific sustainability objectives, which can be found in the pre-contractual disclosures. Sustainability objectives are applied in a consistent way across our fund range. The sustainability profile may include limits or additional requirements (see also paragraph 5.2.5).

4.3.1.1 Fixed Income strategies
For fixed income investment funds, ranging from government debt to credit and from fundamental to quantitative, a similar approach is followed compared to the equity strategies. Fixed income strategies incorporate ESG integration, exclusions and an engagement overlay in the investment process. The portfolio specific requirements can be found in the pre-contractual disclosures.

4.3.1.2 Multi-Asset strategies
Robeco multi-asset strategies primarily invest in Robeco funds, for which the integration of sustainability risks is described above. For direct investments the same investment due diligence is performed as described in the relevant paragraph for equity and fixed income. Capabilities from other asset managers might be selected if no comparable Robeco product is available. An ESG analysis will be part of the selection process.

4.3.1.3 LDI and Buy & Maintain strategies
Insurers and pension funds face the imperative of finding investment solutions that generate sufficient returns while also managing risk and being compliant with regulations. The LDI strategies hold positions in Core Euro government bonds and related entities for reasons of liquidity and creditworthiness. The Country Sustainability Ranking and underlying research is

used as input for assessment of the structural outlook for a country. Furthermore, the LDI strategies may have a minimum aggregate allocation to Green, Social, Sustainable and Sustainability-linked bonds.

Buy-and-maintain portfolios are bespoke by nature, they are ideally suited for incorporating impact investing and can be customized to meet investors' sustainable investing requirements very precisely, including net-zero commitments, focus on UN SDGs and sustainable bond investments. Extensive proprietary tooling, which includes portfolio optimization and monitoring, is in place to ensure that the portfolio meets the client preferences on risk and return, but also on the sustainability characteristics.

4.4 Monitoring adherence to investment guidelines

Each portfolio conforms to a series of internal guidelines and restrictions to promote diversification and minimize material risk, including risk stemming from sustainability factors, while facilitating the actively managed nature of the portfolio. These portfolio and investment guidelines are monitored by the investment team. There are pre- and post-trade compliance checks in place for the sustainability binding elements monitored by the restrictions team. There is an annual quality control process in place to ensure ESG integration is done according to the frameworks described above.

4.5 Principle Adverse mpacts

Investment decisions can lead to negative, material or likely to be material effects on sustainability factors. These negative impacts are also referred to as Principal Adverse Impact (PAI). On an entity and portfolio level, Robeco has identified and prioritized adverse impacts and indicators on sustainability factors relevant to the organization's overall investment strategy.

Analysts and portfolio managers consider the adverse impacts in investment due diligence procedures through various methods ranging from exclusions, information from SDG contributions, reduction (emission) thresholds, and voting and engagement. Robeco has published a Principal Adverse Impact Statement on its website to explain to investors and prospective investors its due diligence policies on how it takes the principal adverse impacts which investee companies have on sustainability factors into account when making investment decisions.

5. Risk management framework

5.1 Independent monitoring of sustainability risk

Robeco's Portfolio management teams in the first line are responsible for the daily management and monitoring of portfolios, including any sustainability risks. From the second line, the Financial Risk Management (FRM) department performs an independent monitoring function, overseeing market, liquidity and sustainability risks and applying stress tests to capture potential extreme losses. The monitoring of sustainability risks is described in the Sustainability Risk Policy (SRP). This policy describes sustainability risk limits and controls and the way any possible exceedances of these risks are coped with.

5.2 Sustainability Risk Policy

The Sustainability Risk Policy (SRP) sets out procedures that enable the risk management function to assess the material sustainability risks and addresses tools and arrangements to measure, calculate and manage the sustainability risks. Furthermore, the SRP describes the governance around escalation of exceedance in sustainability risk exposures.

5.2.1 Governance structure

The SRP is managed and maintained by Risk Management (RM). Approval of the policy takes place by the Risk Management Committee (RMC). Evaluation and ratification of the policy takes place each year. The RMC is informed about sustainability risks of portfolios each quarter.

5.2.2 Scope

The policy applies to all funds of which Robeco has full discretion. In case of mandates, the monitoring primarily takes place based on client preferences stated in the Investment Management Agreement (IMA). Sustainability risk targets and controls defined in the IMA are directly monitored from the second line. Additionally, the mandates are by default monitored in line with the related fund strategy. This is shared with the client by a SFDR disclosure document. In case the client actively decides not to make use of this additional control, the mandate is exempted from monitoring of sustainability risk restrictions. Aside the investment restrictions, all funds and mandates are monitored on a variety of metrics and characteristics by FRM (See paragraph 5.2.6).

5.2.3 Approach

The Sustainability Risk Policy is based on three pillars that together form the policy:

- The first pillar entails the minimum sustainability requirements that are applied to all Robeco strategies.
- The second pillar entails the promotion of environmental or social characteristics by addi-tional sustainability related investment restrictions.
- The third pillar entails an assessment of sustainability risks for all portfolios which may lead to further in-depth analysis of individual portfolios. In this analysis special attention is paid to sustainability themes such as climate risk, biodiversity, and social risks.

The first two pillars entail strict sustainability risk limits, while the third pillar entails an active dialogue based on financial risk assessments between the first and second line instead of limits.

5.2.4 Pillar 1: Minimum sustainability requirements

All funds managed by Robeco are subject to an exclusion list which prevents the exposure towards controversial issuers, hereby mitigating sustainability risk. Exclusions are based on two types of criteria: type of activities and type of behavior (governance). Table 2 shows an overview of the binding elements related to the exclusion policy.

Table 2: Pillar 1 – Binding elements

Exclusion Type	Category	Description
Activity based exclusions	Corporates	Companies are excluded based on certain exclusion criteria with regards to prod-ucts (including controversial weapons, tobacco, palm oil, and fossil fuel) and business practices that Robeco believes are detrimental to society and incompati-ble with sustainable investment strategies.
Behavior based exclusions	Corporates	Companies that do not act in accordance with the United Nations Universal Declara-tion of Human Rights, the International Labor Organization's (ILO) labor standards, the United Nationals Global Compact (UNGC), and the OECD guidelines for multina-tional enterprises are excluded from the portfolios, unless they are part of Robeco's enhanced engagement program.
	Governments	Robeco deems investing in government bonds (federal or local) of countries where serious violations of human rights or a collapse of the governance structure takes place as unsustainable. Robeco applies a country exclusion test. To identify these countries, Robeco makes use of our Country Exclusion Framework in which we use data from World Bank, Freedom House, Fund for Peace, and internation sanction lists.

The activity-based exclusions that are applied may differ depending on the type of strategy. All funds are subject to the Robeco exclusion list. Depending on the fund strategy sustainability characteristics, the exclusion list is extended and becomes more stringent. Adherence to the exclusion list is monitored by the Investment Restrictions (IR) department.

5.2.5 Pillar 2: Promoting E/S characteristics

Based on the strategy's commitment to sustainability, risk limits and thresholds are determined. Based on the sustainability activities and commitments, monitoring takes place to check whether strategies are compliant with these sustainability targets and objectives. The table below, gives an insight in the way this is done.

Table 3: Pillar 2 – Binding Elements

Restriction type	Description
ESG Targets	Minimum ESG criteria can be incorporated in several ways, such as relative versus a benchmark or in absolute portfolio targets. There are three types of binding elements that are part of the strategy to enhance the ESG profile measured by an ESG Risk Rating System.
ESG profile versus the benchmark	Products may need to adhere to a minimum the overall ESG profile versus its benchmark. The lower the sustainability risk appetite, the stricter the limit. The ESG profile is assessed using the Sustainalytics ESG Risk Rating methodology
Elevated risk profile	Products may commit to a maximum exposure to companies with an elevated risk profile. Additionally, an investment case needs to be discussed and approved by the controversial behavior committee. The elevated risk profile is evaluated using Sustainalytics ESG Risk Ratings and represent a company with a score higher than 40.
Country sustainability profile	Funds that invest in government bonds commit to a minimum average sustainability score of the portfolio. The data used to assess a government's sustainability profile is the Robeco Country Sustainability Ranking.
Carbon footprint reduction	Products may commit to a maximum carbon footprint relative to their benchmark, including Paris-alignment. For products that apply a maximum carbon footprint relative to their benchmark, measurement takes place by normalizing the greenhouse gas (GHG) emissions by Enterprise Value Including Cash (EVIC). The GHG emissions are derived from the Robeco Carbon database of which Trucost is the prime underlying data vendor. For products that follow a Paris-aligned benchmark, the same metrics and data are used as in the index methodology which in practice entails ISS for fixed income and MSCI for equities.
Water footprint reduction	Products may commit to a maximum water footprint relative to their benchmark. The water footprint is measured by normalizing the cubic meters of water used by EVIC. The water footprint is based on Trucost data.
Waste footprint reduction	Products may commit to a maximum water footprint relative to their benchmark. The waste footprint is measured by normalizing the tons of waste generated by EVIC. Trucost is the vendor of the waste data used.
Sustainable Development Goals	Robeco's SDG Framework is a tool for explaining whether a fund attains a sustainable investment objective in line with the Sustainable Development Goals, and if it is avoiding harming environmental or social objectives. Products may incorporate SDG scores by excluding assets with low scores or by solely investing in positive SDG contributors. Furthermore, products may limit concentrations to lower SDG scores and aim for a weighted average score better than the benchmark. Based on the sustainability category and the SFDR classification monitoring takes place.
Minimum allocation measures	Strategies may incorporate additional measures to enhance the E/S profile by committing to a minimum allocation towards sustainable assets.
Green, social, sustainable, and sustainability-linked bonds	Funds may commit to a minimum exposure to either Green, Social, Sustainability bonds, or a combination of all. These positions are identified by using the International Capital Market Association (ICMA) definitions of these types of bonds.

As results of the binding elements, our products contain to a minimum percentage of investment that are classified as either being an Environmental or Social investment. The classification of an investment to the E or S category is based on the underlying SDG Scores of the company and also monitored by the Investment Restrictions department.

5.2.6 Pillar 3: Sustainability risk analysis & awareness

The third pillar of the sustainability risk policy entails independent sustainability risk identification and measurement by Risk Management. The analyses are used for reporting to stakeholders and creating a dialogue with portfolio managers about the sustainability profiles of the portfolios. The third pillar does not involve any investment restrictions since the analyses' purpose is to create sustainability risk awareness and get a deeper understanding of sustainability risks.

The sustainability risk analysis & awareness is based on two elements, (1) a Sustainability Oversight Dashboard and (2) Sustainability Deep Dives & Thematic Assessments.

5.2.6.1 Sustainability Oversight Dashboard
Integrating Environmental, Social and Governance ("ESG") risks has a broad range of criteria and can be difficult to measure. Robeco applies a comprehensive integration of such risks in the investment process. Robeco uses different methods to measure sustainability risks, described in paragraph 5.2.5. To provide an insight and overview of the sustainability performance of all portfolios, Financial Risk Management monitors the sustainability profiles using an Sustainability Oversight Dashboard.

In this dashboard, all portfolios are evaluated using the multiple types of sustainability metrics described above. Also, several climate risk scenarios are part of the dashboard. The set of scenarios are both internally developed scenarios as well as scenario provided by a vendor and the Dutch Central Bank. The primary metric to assess climate risk is MSCI Climate Value-at-Risk (VaR). The climate VaR methodology incorporates climate transition risks and opportunities, and physical risk based on a 1.5-degree pathway.

The internally developed scenarios are based on literature review and modelled into Robeco's risk platform. The scenarios focus on transition risk and follow both a bottom-up and top-down approach to assess the impact of climate risks on the portfolios versus their benchmark. The results of these scenario assessment are internally shared with all stakeholders through a monthly sustainability risk report. This dashboard also serves as input for the Risk Management Committee and for the selection of portfolios for further analysis of sustainability risks

Apart from understanding the impact of climate risk factors in companies' valuation and their risk-return characteristics, mapping companies' contribution to the global warming is an important non-financial risk indicator. Robeco is makes use of the Implied Temperature Rise ("ITR") metric of MSCI. The implied temperature risk is included in Sustainability Oversight Dashboard.

5.2.6.2 Sustainability deep dives and thematic assessments
Based on the Sustainability Oversight Dashboard and discussions held in the governing bodies, the risk management function applies risk deep dives and thematic assessments. In a risk deep dive, a portfolio is selected for further analysis and turned inside out using a variety of sustainability and market risk metrics. Results are shared and discussed with the portfolio matter to get a better understanding of the strategy approach and sustainability profile.

The risk management function applies thematic assessments to get a better understanding of specific topics that being discussed either internally or externally. There is no fixed approach or format to apply such an assessment since each topic differs in terms of impact, complexity and availability of data. Topics such as biodiversity, social issues, materiality of sustainability decisions, and/or regulatory developments are elements that the risk function takes in mind. Each assessment is logged and presented to and discussed with the relevant stakeholders.

5.3 Escalation & reporting process

5.3.1 Monitoring of sustainability risk limits
The monitoring of sustainability risks takes place in a similar way as other financial risks monitored from the second line. The Investment Restrictions department codes the sustainability risk limits This way, a pre-trade and post-trade compliance check takes place. In case a limit is breached, all relevant stakeholders are informed, and the portfolio manager is required to adjust the portfolio to get back within limits.

5.4 Sustainability risk profiles
For each portfolio a Sustainability Risk Profile is determined and communicated through the prospectus or SFDR disclosure document. The sustainability risk profile consists of multiple scores that reflect the materiality of the ESG related risks in the portfolio and how those risks may affect performance. For company and government ESG risks, and climate transition risk, the distinction is made in different categories, ranging from the lowest risk to the highest risk. Furthermore, the three most relevant physical climate risks are disclosed.

6. Distribution chain & client sustainability preferences

6.1 Alignment across the Distribution Chain

The integration of sustainability risks in Robeco's investment strategies, products and organization is not conducted in isolation. As clients justify our existence, we are determined to focus on their needs and interests, including any sustainability preferences they may have. Across the distribution chain, we have implemented several measures to ensure that investment services and products properly reflect the needs and objectives of our clients with regard to sustainability.

6.2 Investment Advice

As with performing discretionary portfolio management, integrating sustainability risks is also relevant in those cases where Robeco provides investment advice. When selecting investments for advisory portfolios, portfolio managers and analysts apply the same research, methods and procedures for integrating sustainability risks and considering adverse sustainability impacts, as described in the Investment Due Diligence section. Following the delivery of the advice portfolio to the client, the latter is responsible for constructing and managing an investment portfolio (whether or not in line with the advice). Also, the continuous managing of the sustainability risks within the investment portfolio and, if necessary, carrying out active ownership activities with investee companies, will be the responsibility of the advisory client. Furthermore, the measures referred to in this chapter will contribute to managing sustainability risks in line with the needs and interests of the client.

6.3 Product Governance

The MiFID Product governance requirements aim to prevent mis selling of financial products and other product issues from occurring, and to improve the quality of investment products through their lifecycle. A key element is that product manufacturers are responsible for determining the right target market for the product and to ensure that products do not (structurally) end up outside the target market.

- Robeco ensures that its procedures remain in accordance with the applicable MiFID Product governance requirements, safeguarding that our products, investment advice and portfolio management services continue to be fully offered in the interest of clients and that sustainability factors are taken into account in the target market assessment. On the basis of said procedures, Robeco ensures that sustainability- related client objectives are taken into account when specifying the appropriate target market of a fund it manufactures and of a financial instrument it may distribute as part of an investment advice or portfolio management service. This supports Robeco in ensuring that products and services remain compatible with the needs, characteristics and objectives of the identified target markets. In addition, Robeco provides its fund distributors with the necessary sustainability-related information, on the basis of which distributors are able to match our funds with the sustainability preferences as expressed by their clients. Robeco communicates such information to distributors through the new standardized European ESG Template (EET), which is aligned with the SFDR EU classification. This facilitates distributors to conduct their own suitability assessment.
- Robeco also ensures that sustainability-related elements of a product or service are explicitly taken into account during product reviews.

6.4 Client Suitability Assessment

When providing investment advice or portfolio management services, Robeco performs a MiFID client suitability assessment on the basis of the respective individual client's investment objectives, risk tolerance and ability to bear losses. We have modified our suitability assessment procedure in order to incorporate a client's sustainability preferences as part of its investment objectives.

Based on information obtained from clients, Robeco takes the client's sustainability preferences into account when providing an investment advice or managing a portfolio

6.5 Avoiding Conflicts of Interest

Preventing and controlling conflicts of interest at Robeco is an important element in ensuring that the interest of clients is protected. Based on Robeco's Conflict of Interest Policy, Robeco structurally analyzes potential conflicts of interest and takes additional measures in case it is concluded that a (potential) conflict of interest is not being managed effectively. We have modified our Conflicts of Interest Policy to ensure that our analyses explicitly take into account any conflicts of interest that may arise as a result of the integration of sustainability risk in our processes, systems and internal controls, the existence of which may damage the interest of any clients.

Please visit the Robeco website
for more information

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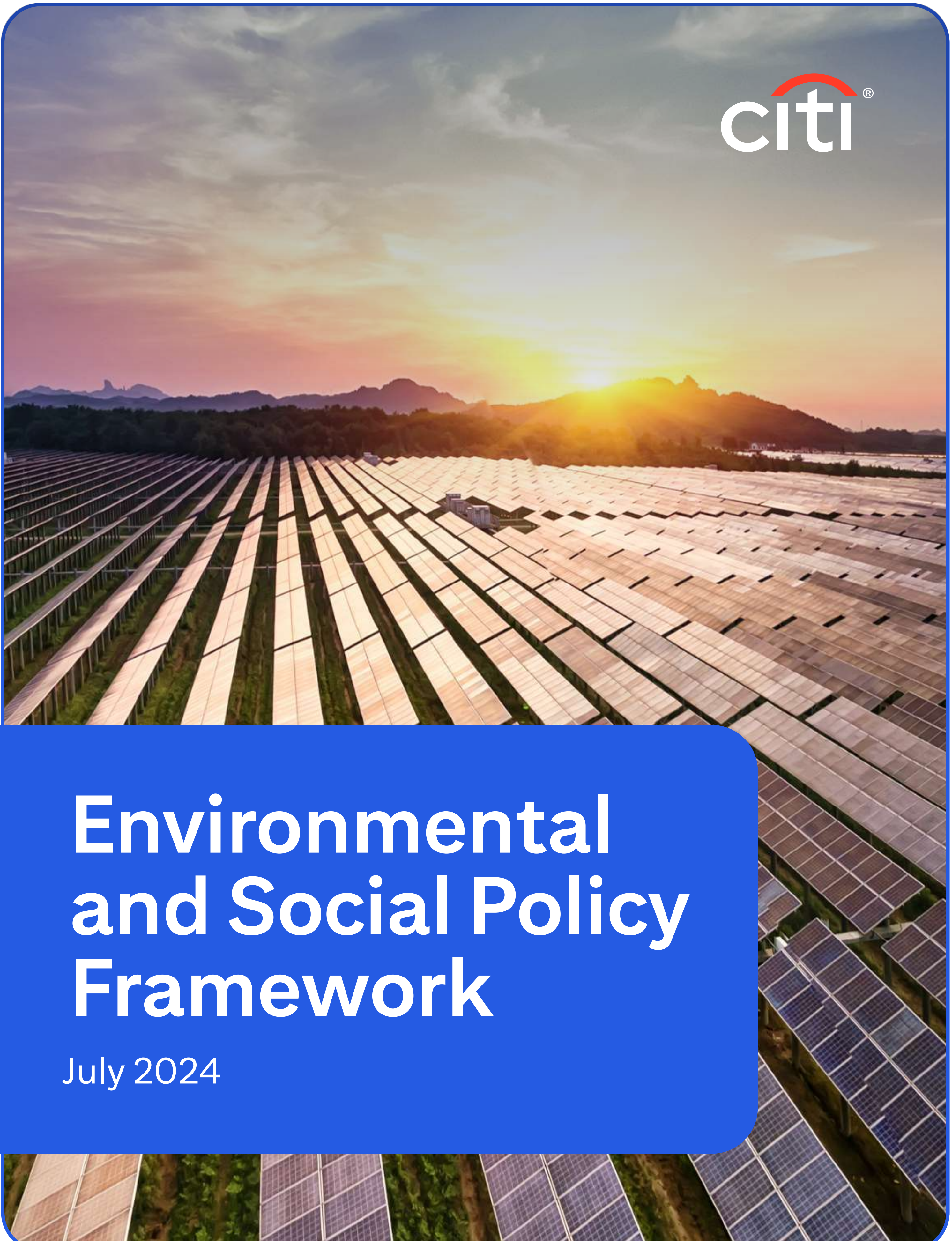

Environmental and Social Policy Framework

July 2024

Contents

Introduction

We believe that working to promote sustainability — both for our firm and for our clients — is good business practice. Our commitment to sustainability is also aligned with, and contributes to, Citi's Mission and Value Proposition to serve as a trusted partner to our clients. This belief is reflected in our dedication to financing business opportunities with positive environmental and social impacts, actively mitigating environmental and social risks associated with client transactions which may give rise to credit, reputation and/or legal risks for Citi, and reducing our operational footprint.

Our Environmental and Social Policy Framework describes our approach to net zero, sustainable operations, sustainable finance, and human rights, and outlines our commitment to identify, measure, and monitor environmental and social risks associated with our clients' activity. In our pursuit to generate enduring value for our clients, shareholders, and employees, Citi integrates comprehensive environmental and social risk management policies into our core business strategies and expects clients to mitigate the risks of their operations. Updates on our sustainability progress, including achievements and goals, are detailed in our annual Environmental, Social and Governance reports and Climate reports.

Principles, Standards and Frameworks

To advance our sustainability goals and the best interests of our clients, and to encourage responsible financial practices, we have adopted, joined or publicly endorsed the external principles, standards and industry groups listed below, which help inform our approach to sustainable finance and risk management:

- Amazon Finance Network
- European Clean Hydrogen Alliance
- Glasgow Financial Alliance for Net Zero (GFANZ)
- Global Investors for Sustainable Development Alliance (GISD)
- Green Bond Principles
- International Labour Organization's (ILO) Core Conventions
- Partnership for Carbon Accounting Financials (PCAF)
- Pegasus Guidelines
- Poseidon Principles
- Principles for Responsible Banking
- Roundtable on Sustainable Palm Oil (RSPO)
- United for Wildlife Financial Taskforce
- United Nations Environment Programme Finance Initiative (UNEP FI)
- United Nations Global Compact
- United Nations Guiding Principles on Business and Human Rights
- United Nations Universal Declaration of Human Rights
- Sustainable Aluminum Finance Framework
- Sustainable STEEL Principles
- Wolfsberg Principles

Furthermore, our internal policies and procedures reference additional international, industry-wide good practices such as the World Bank's International Finance Corporation (IFC) Performance Standards and Environmental Health and Safety Guidelines, the Voluntary Principles on Security and Human Rights, the Forest Stewardship Council, the Roundtable on Responsible Soy and the Accountability Framework initiative. A description of our policies and programs, and how Citi is organized to achieve maximum impact in our areas of focus, follows.

Citi's Sustainability Journey

Citi has been engaging in sustainability and environmental initiatives for more than two decades, and we continue to advance our leadership and partnerships across the industry.

Citi's Sustainability Journey

1997
Joined the **UN Environment Programme Finance Initiative (UNEP FI)**

2000
Published **first Global Citizenship Report**

2003
Founding Signatory to the **Equator Principles;** established our broader **ESRM Policy**

2006
Issued world' **first local investment grade microfinance bond**

2007
First U.S. bank to publish **Statement on Human Rights**
Issued our first **Climate Change Statement,** supporting a globally connected market-based climate policy
First major U.S. bank to set a **GHG reduction target**
Launched 10-year **$50B Climate initiative**
Participated in the **first ever global IPO in microfinance**

2008
Structured **first securitization of microfinance assets** in the world

2010
Joined **UN Global Compact**

2014
Participated in the development of **The Green Bond Principles**

2015
Launched **Sustainable Progress Strategy** and **$100B Environmental Finance Goal**

2016
Commenced 2020 (3rd generation) **environmental footprint goals**

2017
Announced goal to source **100% renewable electricity for our facilities by 2020**

2018
Published **first TCFD Report**

2019
Issued inaugural **€1B green bond**
Participated in the development of the **Poseidon Principles**

2020
Joined **Partnership for Carbon Accounting Financials (PCAF)**
Launched updated **Sustainable Progress Strategy**
Published **2020 TCFD report**
Achieved **100% renewable electricity** for all facilities
Joined the **European Clean Hydrogen Alliance**
Issued **$1.5B green bond**
Launched 3 year **Action for Racial Equity** $1B commitment
Launched **$200M Imapct Fund**

2021
Joined the **Sustainable Markets Initiative** Financial Services Task Force
Announced **Net-Zero Emissions by 2050** commitment
Announced **$1T in sustainable finance by 2030** commitment
Founding member of the **Net Zero Banking Alliance**
Partnered with the **UN Framework Convention on Climate Change (UNFCCC)**
Issued **$1B social finance bond**
Joined **Breakthrough Energy Catalyst and RMI Center for Climate-Aligned Finance**

2022
Published **third TCFD Report and initial Net Zero Plan**
Added **Energy and Power loan portfolios** to our Net Zero Plan
Founding signatory of the **Sustainable 2023 STEEL Principles with RMI**

2023
Added **Auto Manufacturing, Commercial Real Estate, Steel and Thermal Coal Mining loan portfolios** to our Net Zero Plan
Participated in the development of the **Sustainable Aluminum Finance Framework with RMI**

2024
Disclosed **Facilitated Emissions for Energy and Power**

Citi's Approach to Climate Change

Climate change is one of the most critical challenges facing our global society and economy in the 21st century. The data is irrefutable, and the world's climate scientists agree that urgent action must be taken to address the current and potential impacts of climate change, including chronic changes to temperature and precipitation, rising sea levels, and more intense and frequent extreme weather events. Some of these impacts are already being felt in communities across the globe, and longer-term climatic changes have the potential to cause wide-ranging impacts affecting business and society, including disrupted supply chains, damaged infrastructure, reduced crop yields and a decline in biodiversity. These risks and impacts are exacerbated by inequality and unsustainable economic development, which put additional pressure on land, water, forests and other natural resources. These interconnected challenges endanger the vitality of communities all over the world and present a threat to global prosperity if not managed properly. The financial sector has an important role to play in addressing this challenge by supporting the transition to a sustainable, low-carbon economy that balances the environmental, social and economic needs of society. Citi understands these critical sustainability issues and believes we must respect and support the environment and human rights in our operations, supply chain and client transactions.

We also understand the complexity of developing solutions to these challenges, which require a combination of strong governmental policy and regulatory frameworks, corporate leadership, investor engagement and individual actions. As one of the largest financiers of carbon-intensive sectors such as energy, power and industrials, we know that the ambition to bring our business into alignment with the ambitions stated in the Paris Agreement will not be easy. Moreover, aligning the global economy with the Paris Agreement will require rapid and far-reaching transitions in energy systems, industrial processes, land-use, buildings, transport and other infrastructure, all supported by an enabling policy environment. We also know that delaying this transition could increase the costs, lock in carbon-emitting technology and infrastructure, increase the risks of stranded assets and reduce the range of effective responses to the challenge in the medium and long term. In light of these opportunities and risks, in 2021 we announced our intent to achieve net zero GHG emissions associated with our financing by 2050 and net zero for our own operations by 2030. For details on our Net Zero Plan and the underlying interim targets, please see our climate reporting.

Achieving a low-carbon economy will also require increased financing of climate solutions. Building on our previous $50 billion climate initiative from 2007-2013 and our $100 billion environmental finance goal from 2014-2019, in 2021 Citi announced a commitment to $1 trillion in sustainable finance by 2030. This commitment extends our previous environmental finance goal from $250 billion and includes environmental and social criteria such as renewable energy, sustainable transportation and circular economy as well as affordable housing, economic inclusion, education, food security and healthcare.

More than 20 years of working with clients, partners, employees and other key stakeholders to address the growing risks and opportunities related to climate have positioned us to respond to this challenge. We have participated in or contributed to the development of market-based frameworks, such as the Equator Principles, Green Bond Principles, the Poseidon Principles, the Pegasus Guidelines, Sustainable Aluminum Finance Framework, and the Sustainable STEEL Principles, and are reporting Citi's financed emissions for certain carbon intensive sectors per the Partnership for Carbon Accounting Financials (PCAF) Standard, and supporting the development of evolving methodologies from PCAF and the market to enhance understanding of financed and facilitated emissions[1]. We know

[1] 96% Financed emissions are the GHG emissions generated by the operations and entities that financial institutions lend money to or invest in.

there is more to do and we will continue to learn, engage and report on our progress, but we cannot do it alone. We support responsible and interconnected governmental action on climate to align incentives across the economy to support a low-carbon future, including robust approaches to carbon pricing and disclosure of climate risks.

Citi's Net Zero Commitment

In March 2021, we announced our intent to achieve net zero GHG emissions associated with our financing by 2050 and net zero for our own operations by 2030. Our Net Zero Plan provides the foundation for us to implement our goal of achieving our net zero commitment. Our Net Zero Plan is summarized in the graphic below. Details on each of the elements in this plan, our interim 2030 targets for select sectors, and our year-on-year progress toward meeting our net zero objectives are available in our 2023 Citi Climate Report.

Citi's Net Zero Plan

Governance

- Board of Directors and relevant Board Committees
- ESG Council
- Climate and Sustainability Council
- Climate Risk Steering Group
- Climate Risk Working Group

Implementation Strategy

- Internal policy development and implementation
- Internal training and capacity building
- Establishment of specialized teams within business units
- Sustainable and Transition Finance

Engagement Strategy

- Investor and stakeholder engagement
- Regulator and policy-maker engagement
- Client engagement and review

Metrics and Targets

- 2030 sectoral targets
- Absolute emissions and emissions intensity metrics (including baselines)
- Sectoral exposures
- $1 Trillion Sustainable Finance Goal
- Climate Risk Assessment & Scorecard Output

Foundations

- Net zero emissions by 2030 commitment for operations
- Net zero emissions by 2050 commitment for financing
- Citi's Net Zero Transition Principles

Sustainable Operations

Citi remains committed to reducing the environmental footprint of our facilities around the world. As of December 2023, we have facilities across 95 countries. Our global operations give us an opportunity to positively impact the communities where we live and work.

For our operations, we are targeting net zero emissions by 2030. Additionally, we set 2025 Operational Footprint goals, which help drive performance improvements related to greenhouse gas (GHG) emissions, energy use, water consumption, waste reduction and diversion, and sustainable building design. These goals are aligned with a pathway to limit global temperature rise to 1.5°C. Our efforts to further integrate sustainable practices across our geographic footprint also include renewable electricity sourcing, employee engagement and seeking opportunities for efficiency in business travel. Citi also purchases voluntary third-party verified carbon credits consisting of a portfolio of nature-based, energy efficiency and methane destruction credits in an amount equivalent to our Scope 1 direct GHG emissions. Progress toward these operational footprint goals is provided in our annual ESG reporting.

Sustainable Finance

The financial sector has an important role to play in helping to address climate change by providing access to the capital needed for the transition to a low-carbon economy.

We have committed $1 trillion to sustainable finance by 2030 to finance and facilitate a wide array of climate solutions, such as renewable energy, clean technology, water conservation and sustainable transportation and in social finance, which includes activity in affordable housing and basic infrastructure, diversity and equity, economic inclusion, education, food security and healthcare. Our $1 trillion goal aims to support the transition to a sustainable, low-carbon economy that balances society's environmental, social and economic needs.

Tracking Progress

Each transaction we finance or facilitate must meet at least one of our criteria for environmental or social finance to be counted toward the overall $1 trillion goal. These criteria were informed by external standards and may therefore be subject to changes as industry guidelines are further developed. Definitions of our environmental finance and social finance criteria are included below.

We track our sustainable finance activities using third-party financial league table credit, where applicable. The industry league tables track public financial activities and rank financial institutions based on their role (i.e., lead arranger, bookrunner, etc.) in each transaction. For financial products for which there are no established league tables, we count the amount that reflects Citi's financial involvement in the deal.

For additional details on progress toward our $1 Trillion Sustainable Finance Goal, please see our annual ESG reporting.

Environmental Finance Goal Criteria

Criteria	Definition
Circular Economy	Substitution of virgin raw materials with recycled or recyclable materials, elimination and replacement of hazardous/toxic materials with sustainable or recyclable materials, or recovery of materials from previously discarded products or projects
Clean Technology	Products, equipment, methods and projects that mitigate greenhouse gas (GHG) emissions
Energy Efficiency	Residential and commercial energy efficiency improvements that reduce energy consumption
Green Buildings	Construction or renovation of certified buildings for reduction or efficiency in energy use, resource consumption or for low GHG emissions
Renewable Energy	Generation and/or storage of energy from renewable energy sources
Sustainable Agriculture and Land Use	Sustainable ecosystem management leading to carbon removal from the atmosphere, reduced emissions, improvement of soil fertility and conservation of natural resources. Activity related to sustainable agriculture, which includes work with clients in the agricultural tech space and focused on alternative proteins.
Sustainable Transportation	Zero- and low-emissions vehicles, public transportation or related infrastructure construction and efficiency improvement
Water Quality and Conservation	Improve water quality, improved efficiency and increased availability and conservation of freshwater resources

Social Finance Goal Criteria

Criteria	Definition
Affordable Basic Infrastructure	Improve and/or expand access to clean drinking water, sanitation, clean energy, sustainable transportation, and telecommunications infrastructure in low-income or developing countries
Affordable Housing	Construction, rehabilitation, and/or the preservation of quality affordable housing for low- and moderate-income populations
Diversity & Equity	Promote and support equitable participation in the market, asset ownership and access to opportunities for racial, ethnic, LGBTQ+ and gender minorities and/or other underrepresented populations
Economic Inclusion	Improve access to credit and financial services in vulnerable or underserved communities, including micro, small, and medium enterprise (MSME) financing. Generate employment opportunities. Improve public spaces and community resources
Education	Improve access to, affordability of, and/or quality of primary, secondary, and vocational education facilities and programs
Food Security	Enhance agricultural productivity and access to safe, nutritious, and sufficient food
Healthcare	Improve access to, affordability of, and/or quality of healthcare services

Exclusionary Criteria

Financing for projects specifically focused on the following activities are not eligible toward the $1 trillion goal:

- Large scale hydropower plants that have a generation capacity of over 25 MW, unless the project has lifecycle GHG emissions intensity of no greater than 100g CO_2 /kWh or power density of at least 5 W/m^2
- Fossil fuel projects, including:
  – Refined or alternative coal technologies
  – Gas-to-liquid projects
  – Natural gas projects

Human Rights

Citi supports the protection and fulfilment of human rights around the world and is guided by fundamental principles of human rights, such as those in the U.N. Universal Declaration of Human Rights[2] and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work (including the fundamental core conventions)[3]. We engage with a range of stakeholders to support our efforts to respect human rights in line with the U.N. Guiding Principles on Business and Human Rights — a global framework for preventing and addressing the risk of adverse impacts on human rights linked to business activity. To learn more about our commitment to human rights and our approach to human rights protections see our Statement on Human Rights.

Environmental and Social Risk Management

Citi lends and mobilizes billions of dollars of capital toward a variety of companies and projects, including sectors that may be associated with environmental and social impacts and risks. Before making a financing decision, our Environmental and Social Risk Management (ESRM) Policy guides our assessment of these risks and impacts. We then engage with our clients as they work to apply international standards and responsible industry practice to mitigate and manage environmental and social risks which can generate credit, reputation and/or legal risks to Citi.

Citi's global ESRM Policy, which is regularly updated in response to emerging risks, applies across the firm any time one of the following criteria is met:

1. A transaction is above relevant financial thresholds for the financial product type that has an identified use of proceeds directed to a specific physical asset or project

2. Clients or transactions covered by one of Citi's ESRM sector- specific requirements (see page 14-18), or

3. Transactions that trigger one of the ESRM Areas of High Caution (see page 12-14).

[2] The Universal Declaration of Human Rights was adopted by the United Nations in 1948 and is widely regarded as the international community's fundamental human rights framework. The rights it recognizes are implemented in international law by the International Covenant on Civil and Political Rights (1966) and the International Covenant on Economic, Social and Cultural Rights (1966). As explained in the Guiding Principles on Business and Human Rights, we also recognize that other international instruments can inform the responsibility to respect, particularly those articulating the rights of vulnerable groups.

[3] The ILO core conventions cover the freedom of association and collective bargaining, elimination of forced and compulsory labor, elimination of discrimination, abolition of child labor, and a safe and healthy working environment.

ESRM Policy Implementation

Implementation of the ESRM Policy is a shared responsibility across Citi business and risk teams globally when any of the above listed policy triggers apply.

Updates to the ESRM Policy are reviewed by internal governance forums or committees and subject to review and challenge. Application of the ESRM Policy is subject to internal controls to ensure adherence by Citi businesses. Citi policy governance allows requests for exceptions in exceptional cases, with reasons for the exception clearly articulated and a formal request sent to the Policy Owner.

Risk Screening of Transactions

When potential transactions are first referred to the ESRM unit, we start by evaluating if it falls within the scope of the ESRM Policy. We work to identify any relevant environmental and social risks associated with the proposed transaction and based on the risks identified determine whether any additional due diligence or client engagement is required in order to move forward. As one part of a holistic review and approval process for all transactions and client relationships covered under the ESRM Policy, Citi considers a client's commitment, capacity and track record related to its environmental and social performance.

Risk Screening for Project- Related Transactions

Our approach to project-related transactions is informed by internationally recognized standards and frameworks including those articulated by the World Bank, the International Finance Corporation (IFC) and the Equator Principles. At the marketing stage for project-related transactions, the ESRM unit works closely with bankers to categorize the magnitude of potential impacts associated with a transaction using criteria in part defined by the IFC and to screen for any environmental or social risks associated with the transaction. These categories include:

- Category A — use of proceeds is likely to have potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented;
- Category B — use of proceeds is likely to have potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
- Category C — use of proceeds is expected to have minimal or no social or environmental impacts.

The chart in the Appendix provides an illustrative summary of steps taken in a typical Citi project-related finance transaction.

For projects in countries who are not members of the Organization of Economic Cooperation and Development (OECD), Citi requires benchmarking against the relevant IFC sector-specific Environmental, Health and Safety (EHS) Guidelines, which address topics including, but not limited to, pollution prevention and abatement and worker and community health and safety, as well as the issue-based IFC Performance Standards, which include:

- PS 1 — Assessment and Management of Environmental and Social Risks and Impacts
- PS 2 — Labor and Working Conditions
- PS 3 — Resource Efficiency and Pollution Prevention

- PS 4 — Community Health, Safety and Security
- PS 5 — Land Acquisition and Involuntary Resettlement
- PS 6 — Biodiversity Conservation and Sustainable Management of Living Natural Resources
- PS 7 — Indigenous Peoples
- PS 8 — Cultural Heritage

For transactions in high-income OECD countries, Citi requires compliance with all relevant local and national environmental laws, such as those on impact assessment, public consultation and stakeholder engagement processes, and permitting conditions. Furthermore, we evaluate projects in these countries against relevant responsible industry practice.

Independent Review

All Category A and certain higher risk Category B project finance and project-related corporate loans require review by an independent environmental and/or social expert with relevant expertise, not associated directly with the borrower. Independent Review may also be required of other ESRM high risk transactions or client relationships, especially those involving Areas of High Caution (see page 12-14). Independent Review contributes to Citi's due diligence by reviewing the environmental and social assessment documentation and consultation process documentation, assessing ESRM Policy alignment, identifying gaps and proposing corrective actions to fill those gaps.

Action Plans

Following either ESRM internal review or Independent Review, if gaps are identified between a client's current plans or operations and ESRM Policy requirements, an Environmental and Social Action Plan (ESAP) is developed. The ESAP contains targeted environmental and social actions with timelines and deliverables to demonstrate completion that bring the project into alignment with the ESRM Policy over a reasonable timeframe. In project-related loans, the ESAP becomes a binding covenant of the loan agreement and alignment with it is monitored, either by an independent consultant or by the client's environmental team members, with results reported to Citi on a regular basis.

Policy Prohibitions

Citi does not do business with companies when our due diligence indicates that they are active in the following activities, which we have determined expose Citi to unreasonably high risk:

- Production or activities involving modern slavery, human trafficking or forced labor, defined as all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty;
- Production or activities involving harmful or exploitative forms of child labor. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or interfere with, the child's education, or be harmful to the child's health, or physical, mental, spiritual, moral or social development;
- Illegal logging;
- Production or trade in any product or activity deemed illegal under the host country laws or

regulations (including those ratified by host countries under international conventions and agreements);

- Production or trade in wildlife or products regulated under CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora);
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Production or shipment of cluster munitions.

Furthermore, please refer to the ESRM sector-specific requirements and Areas of High Caution for additional project-related requirements.

Areas of High Caution

Consistent with the precautionary principle of “do no harm,” Citi recognizes that there are certain Areas of High Caution that require special attention, focus and respect due to heightened risks which may also subject Citi to associated credit, reputation and legal risks. These Areas of High Caution apply where these risks are identified, regardless of financial product or sector. Citi only proceeds with transactions that impact such Areas of High Caution after a careful review of impacts and risks, and confirmation that mitigation measures have been or will be designed to align with international responsible industry practice. Where applicable, Citi considers relevant national laws and international standards such as the U.N. Guiding Principles on Business and Human Rights, and, for emerging markets, the IFC Performance Standards.

In addition, in project-related transactions where these risks are present, Independent Review of social and environmental assessment documentation by a qualified independent consultant with the relevant expertise may be required, as determined by the ESRM unit, to evaluate whether risks and impacts are being appropriately managed. These Areas of High Caution include the following thematic areas.

High Biodiversity Risk

Biodiversity refers to the variability, complexity and interdependence of species and ecosystems on land and in the ocean. Biodiversity risk analysis considers the potential impacts activities can have on the health and integrity of global biodiversity and ecosystem services. This risk is of particular concern in areas of high biodiversity with critical habitat to support species and/or areas of high conservation value, such as those found in the Amazon rainforest, other tropical rainforests, Ramsar Wetlands, mangroves, etc. In addition, biodiversity degradation and deforestation exacerbate the problem of climate change. Transactions with high biodiversity risk require close review of the client’s biodiversity management. For project-related lending in non-OECD countries, this includes assessment of project biodiversity management plans against IFC Performance Standard 6 on biodiversity and natural resource management. Citi will not finance mining projects that utilize submarine waste disposal due to heightened risks.

Significant Cultural Heritage Value

Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic, and/or religious significance. It also refers to unique environmental features and cultural knowledge, as well as intangible forms of culture embodying traditional lifestyles that should be preserved for current and future generations. Projects or transactions that may impact cultural heritage require close review by the ESRM unit. Citi will not finance projects that negatively impact UNESCO World Heritage Sites.

Project-Related Conflict Risk

Project development in sectors with large land requirements, such as mining, oil & gas and agribusiness, may trigger conflict due to land conversion needs. This need for resources and land may also trigger company-community conflict presenting risk to rights holders. In these project-related financing cases, Citi carefully considers key conflict factors such as sources of tension, root causes of conflict, different stakeholders' perspectives and motivations, and ability to address such risks. In addition, projects in fragile and conflict-affected areas present risk in the management of project security, for example mining projects involving "conflict minerals." In these cases, we recommend our clients use the Voluntary Principles on Security and Human Rights as guidance for managing their engagement of security forces.

Elevated Human Rights Risks

Certain risk factors in client activities can lead to elevated human rights risks that require special attention and enhanced human rights due diligence. Some factors that may increase human rights risks include activities or projects:

- In countries or regions with both the presence of significant vulnerable populations and with a history of known human rights abuses relevant to the sector. Vulnerable groups may have increased difficulty in adapting to changes brought by projects and may not have access to adequate protection, respect and remedy for their human rights, and thus significant presence of these groups in the project area of influence increases the social risks;
- In countries or regions with a history of known human rights abuses related to the sector and weak enforcement of labor laws, especially occupational health and safety and freedom of association;
- Involving in-migration of large labor forces, which can lead to a higher risk of human trafficking or forced labor;
- With environmental justice concerns due to disproportionate adverse environmental or health impacts on racial or ethnic minority communities, or economically disadvantaged communities;
- Related to constructing or operating private prisons.

Indigenous Peoples

Citi recognizes and respects the unique historical treatment and collective rights of Indigenous Peoples, and understands that these communities' languages, beliefs, cultural values and lands are often under threat, representing a higher degree of vulnerability than other project-affected communities. Citi will use extra caution and conduct enhanced due diligence (which may require Independent Review by a qualified social expert) when the transaction may pose adverse effects to:

- An area used or traditionally claimed by an Indigenous community;
- Their communal self-preservation based on traditional ways of life; or
- Their use or enjoyment of critical cultural heritage that is essential to their identity and/or the cultural, ceremonial or spiritual aspects of their lives.

Building upon government efforts, companies must not infringe upon the rights and protections for Indigenous Peoples contained in relevant national law, including those laws implementing host country obligations under international law. Globally, in project-related lending for projects involving involuntary resettlement of indigenous communities, significant impacts on land and natural resources traditionally used by the community, or significant impacts on critical cultural heritage, project sponsors are expected to have engaged in meaningful consultation with directly affected Indigenous Peoples, with the goal of achieving Free Prior and Informed Consent (FPIC).

Large-scale Resettlement

All transactions involving large-scale resettlement or displacement of people require special attention and enhanced due diligence.

Sector- Specific Requirements

Citi recognizes that there are a number of important areas that require increased attention via sector-specific standards or guidance as described below to help mitigate heighted environmental and social risks and associated credit, reputation and/or legal risk. Citi's sector-specific requirements apply at the client relationship level regardless of financial product or threshold.

Agribusiness

We review agribusiness clients within the scope defined in the subsectors below for direct and supply chain deforestation or land conversion risks, commitments to strong environmental and social policies, relevant sustainability certifications, and/or supply chain traceability programs. As part of these reviews, the external standards Citi refers to in the subsectors below address a number of Citi's Areas of High Caution such as biodiversity risk, human rights risks, and the respect and protections for the unique cultural values and vulnerability of Indigenous Peoples in activities that affect their territorial lands and livelihoods.

Forestry

Citi requires environmental and social risk assessments prior to onboarding and at annual review for all forestry clients that are directly involved in logging or primary processing of timber from either natural forests or plantations. We review all forestry clients' policies, practices and track record on forestry management to evaluate alignment with responsible industry practice, including labor, community engagement, systems to avoid deforestation or land conversion of high conservation value and high carbon stock forests, and proper prevention of fire risk. To help mitigate associated risks, all forestry clients operating in tropical forests are required to be members of the Forestry Stewardship Council (FSC) and commit to a time bound action plan to achieve FSC certification within three to five years of client onboarding or new land acquisition, which includes establishing management systems consistent with the principles of No Deforestation, No Peat and No Exploitation. FSC certification may be required in other geographies if concerns of impacts to high conservation value forests are identified thereby increasing risk. Forestry clients are reviewed annually by Citi to confirm ongoing certification status and management practices. Citi also has a long-standing public commitment not to engage in business with companies that we know to be in violation of local or national forestry and logging laws. If any forestry client is unable or unwilling to pursue the required certification or undertake corrective actions, ESRM would escalate the relationship to the relevant risk committees for consideration to exit the relationship.

Palm Oil

Citi is a member of the Roundtable on Sustainable Palm Oil (RSPO), a respected global multistakeholder forum setting environmental and social criteria for the palm oil industry. We have long required all palm oil clients involved in the upstream production of palm oil (e.g., growers and mills) to become members of the RSPO. These clients must commit to a time-bound action plan to achieve full RSPO certification within three to five years of becoming a Citi client. Downstream palm oil refiners and traders are reviewed for RSPO membership, zero deforestation policies, as well as links to Areas of High Caution in their supply chain and encouraged to obtain RSPO certification if relevant. Citi ESRM team monitors progress annually on alignment with RSPO Principles and Criteria to ensure palm oil clients' operations are consistent with the principle of No Deforestation, No Peat and No Exploitation. We evaluate our clients' identification and preservation of high conservation value areas (including peatlands and high carbon forests), implementation of responsible industry practice fire prevention and management systems, adherence to international labor standards, and the implementation of FPIC for project-affected communities. Any palm oil producer client who has not achieved certification by 2025 will be escalated to the Head of ESRM and relevant risk committees for consideration to exit the relationship.

Soy

The production of soy presents risks of deforestation and biodiversity loss in sensitive ecoregions across South America, including the Amazon Forest, the Cerrado tropical savanna, the Atlantic Forest and the Gran Chaco Forest. To address these risks, clients that are soy producers in these countries, or processors and traders who source from these countries, must be escalated to the ESRM unit to understand if their operations overlap with sensitive ecoregions. Clients that are identified as producing in or sourcing from the above ecoregions will be reviewed for membership and certification with the Roundtable on Responsible Soy (RTRS) or equivalent environmental and social management systems to address deforestation. Existing clients in these ecoregions who are not already certified will be encouraged to pursue RTRS membership or other relevant certifications. New clients in these ecoregions will be evaluated for membership and certification of RTRS or equivalent certification with a goal of working toward full certification.

Beef

The beef industry can act as a driver of deforestation and land clearance in biodiverse ecoregions of Argentina, Bolivia, Brazil, Colombia, Ecuador, Paraguay and Peru. Citi evaluates clients directly involved in cattle rearing, fattening and finishing in these countries, as well as slaughterhouses and meat processing plants sourcing from these countries, to determine if their operations or supply chains overlap sensitive ecoregions – specifically the Amazon Forest, the Cerrado tropical savanna, the Pantanal grasslands and the Gran Chaco Forest. For these clients, Citi reviews their policies and management plans for clear commitments to 100% traceability of their supply chain in alignment with the Accountability Framework Initiative. This framework provides guidance based on international norms and responsible industry practices for companies to prevent deforestation driven by the production of agricultural commodities, including livestock, in their operations and supply chains. Citi reviews these clients annually and encourages time-bound improvement in alignment and traceability commitments.

Coal

As a carbon intensive energy source, global alignment with a low-carbon economy calls for a rapid transition away from thermal coal as a fuel source. This trend increases the risk of stranded assets which leads to increased credit risk related to financing coal.

Coal Mining

Citi will not provide project-related financing for new thermal coal mines or significant expansion of existing mines, and has set targets to phase out our financing of mining companies deriving ≥25% of their revenue from thermal coal mining:

- By the end of 2025, we will reduce our credit exposure to these companies by at least 50% from a 2020 baseline;
- After 2025, we will no longer facilitate capital markets transactions or mergers and acquisition advisory and financing for these companies;
- By the end of 2030, all remaining exposure to these companies will be reduced to zero.

Approval for any transaction for a coal mining company requires escalation for review of the company's transition away from coal.

Coal-fired Power Generation

Citi is committed to helping our Power clients transition to a Paris Agreement-aligned future. Globally, Citi will not provide project-related financial services for transactions supporting the construction or expansion of coal-fired power plants, including refinancing recently constructed plants. This includes transactions supporting the supply of all components, equipment, materials and services directly required for the construction of such plants.

In addition, in line with our net zero targets we have established a set of increasing expectations over time for our clients with coal-fired power generation.

Citi expects clients with coal-fired power generation to:

- Publicly report their GHG emissions annually consistent with the GHG Protocol; and
- Engage with Citi as requested on their low-carbon transition strategy to diversify away from coal-fired power generation. It is our expectation that such strategies will align with Paris Agreement decarbonization pathways by 2030 (for clients with power generation in OECD countries) and by 2040 (for clients with power generation in non-OECD countries).

Furthermore, Citi commits to:

- Not provide acquisition financing or acquisition advisory services related to coal-fired power plants. Exceptions may be considered if the proposed transaction is being pursued in the context of a low-carbon transition strategy or managed phaseout.
- Not onboard any new clients with ≥20% of power generation from coal-fired power plants unless such client meets the above criteria; i.e., is pursuing a low-carbon transition strategy.

- Not onboard any new clients that have plans to expand coal-fired power generation.

After 2025, Citi commits to:

- No longer extend capital and/or provide other financial services to clients that do not have a low-carbon transition strategy to diversify away from coal-fired power generation and align with Paris Agreement decarbonization pathways by 2030 (for clients with power generation in OECD countries) or by 2040 (for clients with power generation in non-OECD countries). Exceptions may be considered, with escalated senior management review, for regulated utilities or state-owned entities that are not able to decarbonize in line with the policy due to legal and/or regulatory requirements, or if the proposed transaction is being pursued in the context of a low-carbon transition strategy or managed phaseout.
- Not onboard any new clients with a material business line in power generation unless they align with a Paris Agreement decarbonization pathway as described above.

After 2030, Citi commits to:

- For clients with power generation operations in OECD countries, no longer extend capital and/or provide other financial services unless the share of power generation from coal-fired power plants is less than 5%.
- For clients with power generation operations in non-OECD countries, no longer extend capital and/or provide other financial services unless such clients have a low-carbon transition strategy that is designed to reduce the share of power generation from coal-fired power plants to less than 5% by 2040.

Commercial Firearms

Citi is committed to promote the adoption of responsible industry practices with our applicable business relationships regarding the manufacture, distribution and retail sale of firearms. This commitment is designed to respect the rights of responsible gun owners and the responsible businesses that serve them, while promoting community and individual safety. In pursuit of this goal, Citi requires U.S. Firearms Retailers and Firearms Manufacturers who sell through U.S. retail channels to conform to responsible practices regarding the sale of firearms. For retailers, these responsible practices include only selling firearms to individuals who have passed a completed background check with a “Proceed” response; placing additional requirements on the sale of firearms to individuals under 21 years of age (such as firearms training as active or former military or law enforcement, or successful completion of a gun safety or hunter safety training by a certified instructor); and not selling bump stocks or high-capacity magazines (e.g., for long guns, magazines that hold more than 10 rounds, and for hand guns, magazines that either extend beyond the bottom of the pistol grip or attach outside of the pistol grip, and hold more than 10 rounds). For manufacturers, this entails ensuring that they sell firearms and ammunition only through retail channels that follow the retailer responsible practices identified by the policy.

Military Equipment

Citi will not directly finance the production, distribution or sale of cluster munitions, biological or chemical weapons, or nuclear weapons. In the rare case where we may be asked to provide direct financing of the production or shipment of other military equipment such as munitions, missiles, fighter aircraft, armored vehicles or warships, escalation and senior consultation is required to determine if allowed.

Nuclear Power

Citi recognizes the complexities involved in the responsible management of nuclear power. Project-related transactions will be evaluated against host-country environmental laws, regulations, and permits, and in emerging markets, against the international nuclear environmental guidelines that are set forth by the International Atomic Energy Agency (IAEA) and IFC standards. Construction of new nuclear power plants will be subject to independent review by qualified consultants.

Oil and Gas

The oil and gas sector presents a number of sensitive environmental and social risks that must be carefully assessed to evaluate whether companies' policies and management approach align with responsible industry practice. Our due diligence approach to any project-related transaction in this sector includes the risk management policy implementation (see Risk Screening for Project- Related Transactions on page 10 or the appendix) and focuses on oil and gas sector-specific risks such as emergency response and spill response plans, methane and other emissions management, and the experience and operational track record of the company, prior to making a decision whether to proceed.

Beyond project-related lending, the ESRM unit evaluates the risk profile of oil & gas clients based on the geographic locations of their assets, the risks associated with their activities (such as frontier exploration, oil sands, LNG terminals, midstream pipelines, developments in sensitive areas), potential overlaps with ESRM's Areas of High Caution, any patterns of regulatory violations or safety incidents, and large-scale community opposition or litigation related to environmental or social issues.

Citi does not provide project-related financial products or services to oil and gas exploration, development or production in the Arctic Circle due to heightened risks including elevated operational risk, technical complexity, credit risk, and environmental risk. In addition, Citi does not provide project-related financial products or services for expansion of oil and gas operations in the Amazon due to sensitive biodiversity risks in the region and heightened risks. Any general corporate purposes transaction for clients with operations in the Amazon requires enhanced ESRM due diligence.

Supply Chain

Citi strives to maintain sustainable practices in its supply chain. Suppliers must adhere to all applicable laws and comply with Citi's Requirements for Suppliers which communicate relevant Citi policies and mandate, among other requirements, supplier policies and practices designed to prohibit discrimination in the workplace and address the risk of forced labor, child labor or other indicators of modern slavery.

Citi's Statement of Supplier Principles outlines aspirational guidelines in the areas of ethical business practices, human rights in the workplace and environmental sustainability which it encourages its suppliers to maintain.

Citi maintains a process to identify risks related to its suppliers, including risks of modern slavery. Through this Corporate Responsibility Questionnaire process, Citi also seeks information from suppliers on sustainability-related matters addressed in the Statement of Supplier Principles.

Citi's commitment to a sustainable supply chain includes creating mutually beneficial business relationships with diverse suppliers. Citi's Supply Chain Development, Inclusion and Sustainability Program also aims to increase opportunity and development of diverse-owned and small business suppliers through training and engagement.

Sustainability-Related Governance

The Citi Board of Directors has ultimate oversight of our work to identify, assess and integrate environmental- and social-related risks and opportunities throughout Citi, including our climate-related work and diversity, equity and inclusion and talent efforts. The Board receives reports from key personnel on our progress and key issues on a periodic basis.

The Nomination, Governance and Public Affairs Committee of the Board receives reports from management on Citi's activities pertaining to environmental sustainability, climate change, human rights and other environmental and social issues, as well as Citi's strategy for engagement with external stakeholders. For more information on the roles and responsibilities of this committee, see the Nomination, Governance and Public Affairs Committee Charter.

The Audit Committee of the Board has oversight over the controls and procedures related to Citi group-level ESG and climate-related reporting. For more information on the roles and responsibilities of this committee, see the Audit Committee Charter.

The Risk Management Committee of the Board provides oversight of the Citi Risk Management Framework and risk culture and reviews our key risk policies and frameworks, including receiving climate risk-related updates. For more information on the roles and responsibilities of this committee, see the Risk Management Committee Charter.

Citi's full Board provides oversight of Citi's net zero strategy and related metrics and activities.

Citi's ESG Council provides a senior management level forum for oversight of our ESG-related commitments. The ESG Council, which meets quarterly, is chaired by the CEO and includes members of the Executive Management Team as well as subject matter experts. Other steering groups, including the Climate Risk Steering Group and the Climate and Sustainability Council, also exist to provide forums for discussion, debate and deep dives into key topics, and the leads of those steering groups are members of and/or provide reports to the Global ESG Council.

The senior-executive level Climate Risk Steering Group consists of Citi leaders from across the firm who provide guidance, feedback and support with regards to the integration of climate risk management. The Steering Group is chaired by the Head of Climate Risk and facilitates engagement with senior global leadership, ensuring senior management commitment and provides assistance to help coordinate resources across the firm.

The Climate and Sustainability Council provides input and guidance on relevant policies and initiatives and helps drive sustainability through the businesses. The committee is chaired by the Chief Sustainability Officer (CSO) and includes other executives from Banking, Risk, Public Affairs, Operations, and ESRM. Committee meetings are held approximately bi-monthly.

Appendix

Illustrative steps in risk screening process for project-related finance transactions.

Project Review Stage	Client Actions	Citi Banker Actions	Citi Independent Risk Review & Approval
Business Opportunity Identified	• Client seeks competitive financing terms from banks • Preparing or finalizing environmental and social assessment documentation	• Business opportunity identified for internal review and discussion	• Banker notifies risk teams, including Environmental and Social Risk Management ("ESRM"), of early-stage client discussions prior to formal approval
Greenlight Memo & Marketing Stage	• Receives and reviews marketing letter or proposal from Citi and other banks	• Initial approvals required from appropriate Senior Business Heads to submit proposal/marketing letter to client	• Approval to send marketing letter or proposal required from Independent Risk as well as ESRM unit • Project screened for potential environmental and social risks, including human rights risks • Applicable ESRM Policy requirements identified, which in emerging markets includes alignment with IFC Performance Standards and IFC EHS Guidelines
Discussion of Citi Proposal with Client	• Reviews and seeks clarification on Citi proposals, including ESRM requirements • Accepts, modifies or rejects Citi proposal • If proposal accepted, Citi is mandated by the client to provide financing	• Includes discussion of ESRM requirements, if requested by client • For higher risk transactions, an Independent Environmental and Social Consultant (IESC) is appointed to review documentation and review compliance with Citi's ESRM Policy and applicable IFC Performance Standards and IFC EHS Guidelines	
Detailed Due Diligence Process, Including Term Sheet Negotiations	• Client provides to Citi ESRM-related documentation (e.g., Environmental and Social Impact Assessment Management Plan, Action Plan, stakeholder consultation information)	• Banker, ESRM and IESC (when required) review environmental and social documentation, including documentation on any human rights risks and climate risks if relevant to transaction • When gaps exist between current plans and Citi ESRM Policy requirements, ESRM/IESC prepare an Environmental and Social Action Plan ("ESAP") with recommended actions to properly mitigate and/or manage any environmental, social and human rights risks	

Project Review Stage	Client Actions	Citi Banker Actions	Citi Independent Risk Review & Approval
Closing & Disbursement	• Final facility terms agreed • Signs loan documentation • Receives first disbursement	• Citi confirms conditions precedent met, including any ESRM-related conditions • Citi signs loan documentation and disburses loan	• Timeframe and condition set for IESC monitoring and reporting on ESAP items, if required dependent on transaction risks
Ongoing Monitoring	• If monitoring is required based on previously agreed terms, client plans for and submits monitoring reports to lenders regarding compliance with environmental and social conditions	• Ongoing monitoring takes place during agreed upon intervals (annually or more frequent depending on risks) if needed	• Receives and reviews ongoing environmental and social monitoring reports from client and/or IESC • Engages with the client and/ or IESC if needed to understand progress on actions • If significant areas of noncompliance are identified, senior approvers are notified and a corrective action plan devised to bring client back into compliance

Note: This chart provides an illustrative summary of steps taken in a typical Citi project-related finance transaction. All transactions are not identical, and the review, approval and monitoring steps described above may be tailored, reduced or supplemented based on the facts and circumstances of a particular transaction.

Introduction to HSBC’s Sustainability Risk Policies

February 2025

HSBC

Introduction to HSBC’s Sustainability Risk Policies

Purpose

This Introduction explains the rationale, objectives and processes that inform HSBC’s sustainability risk policies and is intended to help external stakeholders to understand our broader risk management framework, our policies and how we seek to implement them.

The primary role of risk management is to protect our customers, business, colleagues, shareholders, and the communities we serve, while executing our business strategy and delivering sustainable growth. Our appetite to do business in some sectors and jurisdictions will vary based on business strategy, credit risk and other risk-based considerations.

Our Policies

Our sustainability risk policies form part of our broader risk management framework and are important mechanisms for managing risks, including delivering our net zero ambition. Our sustainability risk policies focus on mitigating reputational, credit, legal and other risks related to our customers’ environmental and social impacts.

The sustainability risk policies that form part of our broader risk management framework are comprised of our core net zero-aligned policies:

- Energy Policy
- Thermal Coal Phase-Out Policy

as well as our broader sustainability risk policies:

- Agricultural Commodities Policy
- Forestry Policy
- Mining and Metals Policy
- World Heritage Sites and Ramsar Wetlands Policy

Our net zero-aligned policies aim to identify the major sectoral shifts that are required to achieve net zero, align with a risk-driven and science-based approach, and focus on client engagement in support of this transition. Our other sustainability risk policies focus, consistent with our risk-based approach, more broadly on mitigating the risks inherent in specific sectors, targeting geographies where we have a high concentration of clients in these sectors facing credit and reputational risk and applying materiality considerations as appropriate.

In developing our policies, we consult with a number of our clients, investors, wider industry bodies, shareholders, non-government organisations (NGOs), as well as certain governments, to both inform our approach and better understand potential impacts.

HSBC takes a risk-based approach when identifying transactions and clients to which our sustainability risk policies apply, and, where relevant, when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps us to focus our efforts on areas which we consider are most critical to focus on, whilst taking into account experience from policy implementation over time.

HSBC’s policies apply to corporate clients, the majority of which are managed in Corporate and Institutional Banking. They apply to the main financing products we provide, such as loans, trade finance and debt and equity capital market services. They do not apply directly to our asset management business (see Transparency section for further details).

In 2003, HSBC adopted the Equator Principles, which provide a framework to assess and manage environmental and social risks when financing large projects. We apply the Equator Principles when financing applicable projects. The Principles apply to project finance transactions over a certain threshold, as well as project-related corporate loans, advisory work on projects, refinancing and bridge loans. As an Equator Principles financial institution, HSBC reports annually on our implementation of - and the financing completed under - the Principles.

Implementation

Our relationship managers are primarily responsible for assessing relevant considerations under our risk management framework, including whether our clients may be in scope of applicable sustainability risk policies, with input from technical experts in our Sustainability Centre of Excellence and second line review and challenge from Risk colleagues. We use and support credible independent certification schemes where available in our policy approach. We also commission independent consultants, as appropriate, including where required under the Equator Principles.

For net zero-aligned policies, engagement on client transition plans is key to our approach. These aim to help us to identify opportunities, manage climate risks and define areas to drive strategic engagement with each client.

Where, for clients in scope of our sustainability risk policies, we identify activities that could cause material negative impacts we expect clients to demonstrate that they are identifying and mitigating risks responsibly and will look to take actions as outlined in our policies, which, as appropriate, may include conducting enhanced due diligence or applying financing restrictions. Such instances may require additional review and approval by our sustainability risk specialists and risk committees.

Oversight of the development and implementation of policies is the responsibility of relevant governance committees comprised of senior members of the Group Risk and Compliance function and global businesses.

Transparency

Relevant information is published on the Sustainability Risk page and the ESG Reporting Centre on HSBC.com.

In addition, we disclose additional relevant information about our sustainability risk policies in our Task Force on Climate-related Financial Disclosures (TCFD). Further details are provided in the Environmental, Social and Governance section of our Annual Report and Accounts and in our Net Zero Transition Plan.

The policies do not apply to investments where HSBC acts on behalf of customers and where, consequently, the underlying investment decision is not made by us. For example, personal customers who buy shares via our electronic dealing account may have their shares registered in HSBC's name to minimise administration, while some corporate clients request that we hold shares on their behalf in nominee accounts. We do not believe that our customers want us to restrict their choice of investments other than where we offer an investment product which excludes certain sectors or activities. Our asset management business has separate policies covering sustainability issues. These policies are published in the Responsible Investing section of the HSBC Asset Management website, on a market-by-market basis.

Our duty of confidentiality prevents us from commenting on specific customers or transactions.

Additional Notes

This Introduction explains how HSBC approaches sustainability risk management. It is intended to help our external stakeholders understand HSBC's broader risk management framework.

This Introduction should not form the basis of any third party's decision to undertake, or otherwise engage in, any activity and third parties do not have any right to rely on it. The Introduction, by its nature, is not comprehensive and has not been independently verified. It contains various statements that are or could be "forward-looking" statements including as to HSBC's intentions and objectives. However, a number of risks, uncertainties and other important factors could cause actual developments and / or results to differ materially from HSBC's expectations. These include, among others, the risks and uncertainties we identify in our Annual Report and Accounts filed with the Securities and Exchange

Commission (“SEC”) on Form 20-F and interim reports and earnings releases furnished to the SEC on Form 6-K from time to time.

In making the assessments and determinations further described in the Introduction, HSBC will use such information as it determines necessary and relevant in its sole discretion. However, there can be no guarantee of the accuracy, currency or completeness of such information, which may not have been independently verified.

Neither HSBC nor any of its officers, employees, agents or advisers (“HSBC Group”) accepts any duty of care, responsibility or liability in relation to the Introduction or its application or interpretation, including as to the accuracy, completeness or sufficiency of it or any outcomes arising from the same. No representations or warranties, express or implied, are made by the HSBC Group as to the fairness, accuracy, completeness or correctness of the Introduction, the information herein, HSBC’s application or interpretation of it or as to the achievement or reasonableness of any forward-looking statements.

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Bank of America Corporation Environmental and Social Risk Policy (ESRP) Framework

December 2023

BANK OF AMERICA

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Additional resources

For additional information on our approach to environmental and social topics that affect our business, please see the following:

Enterprise reporting & disclosures	Codes of Conduct	Transition to a low-carbon economy	Nature & forestry	Human rights & racial equality
Annual Reports and Proxy Statements Environmental, Social and Governance Reports (including TCFD) Performance Data Summary	Code of Conduct Supplier Code of Conduct	Approach to Zero™ Our Commitment to Environmental Sustainability	Forests Practices Policy Paper Procurement Policy Position on Forest Certification	Driving Racial Equality and Economic Opportunity Human Rights Statement Modern Slavery Statement

Introduction

At Bank of America, we drive our business by focusing on Responsible Growth, the core tenets of which we discuss in our Annual Report. Among these core tenets is to grow with the right risk principles and to grow in a sustainable manner.

Our leadership in sustainability enables us to pursue growing business opportunities and manage risks associated with addressing the world's biggest environmental and social challenges. It defines how we deploy our capital and resources, informs our business practices and helps determine how and when we use our voice in support of our values. Integrated across our eight lines of business, our focus on sustainability reflects how we hold ourselves accountable and allows us to create shared success with our clients and communities.

Our approach

Risk management

As a financial institution, risk is inherent in all of our business activities. At Bank of America, the principles of sound risk management are embodied in our values, operating principles and Code of Conduct, which all employees are expected to follow. Our Risk Framework describes our risk management approach and provides for the clear ownership of and accountability for managing risk well across the company. Key to this philosophy is that all employees are accountable for identifying, escalating and debating risks facing the company.

We have established this Environmental and Social Risk Policy (ESRP) Framework to provide additional clarity and transparency around how we approach environmental and social risks, which touch almost every aspect of our business. Like all risks, environmental and social risks require coordinated governance, clearly defined roles and responsibilities, and well-developed processes to ensure they are identified, measured, monitored and controlled appropriately and in a timely manner.

This ESRP Framework is aligned with our Enterprise Risk Framework, which outlines Bank of America's approach to risk management and each employee's responsibilities for risk management. As articulated in our Enterprise Risk Framework, there are seven key risk types that we face as an organization: strategic, credit, market, liquidity, operational, compliance and reputational. Increasingly, environmental and social issues have the potential to impact many of these risk areas.

Building off the Enterprise Risk Framework, in 2023 we created our internal Climate Risk Framework, which addresses how we identify, measure, monitor and control climate risk, including examples of how it manifests across different risk types and details the roles and responsibilities for climate risk management across the three lines of defense.

Materiality

Bank of America takes a proactive approach to identifying and managing risks, which includes an ongoing and rigorous process for identifying the issues that are most material to our company. This process includes formal and informal engagement with both internal and external stakeholders, including clients, shareholders, socially responsible investment firms, and experts from civil rights, consumer, community development and environmental organizations. We weigh the importance of risk issues in relation to our stakeholders and to our business success.

Our initial lens has been and continues to be our seven key risk types, but our materiality assessments[1] help us to better understand that enterprise risk also includes risks that threaten the safety, human dignity and equal treatment of our employees, clients and the communities where we do business. These broader risks include issues such as climate change and human rights. Due to the extensive and complex role we play in the local and global economy, these issues can and will impact our future business performance, making our management of them a business imperative.

Our ESRP Framework guides our approach to managing material issues.

Governance

To strengthen our oversight of environmental and social concerns and focus on sustainable finance solutions, we established our Responsible Growth Committee, a management-level committee comprised of senior leaders across every major line of business and support function. The Responsible Growth Committee reports to the Corporate Governance, ESG and Sustainability Committee of the Board of Directors on environmental and social activities and practices. The Corporate Governance, ESG and Sustainability Committee has overall responsibility for reviewing the company's activities and practices relating to environmental and social sustainability matters, other than human capital matters.

The Responsible Growth Committee also engages other management committees as necessary. On matters of environmental and social risk, the Responsible Growth Committee reports to the Management Risk Committee, which in turn reports to the Enterprise Risk Committee of the Board of Directors. Bank of America's Global Climate and Environmental Risk Executive updates the Management Risk Committee on matters related to climate risk.

We review the ESRP Framework at least every two years. If at that time, or any other time in the interim, significant[2] changes need to be made to the ESRP Framework, they will be reviewed and approved by the Responsible Growth and Management Risk Committees and will be reflected, as appropriate, in internal policies and procedures.

Our relationship with individual clients

We serve individual consumers and small businesses with a full range of banking products and services, including retail financial centers and digital banking options. We focus on helping individuals navigate every stage of their financial lives and we work to provide education and support to meet our clients' needs.

We also support communities in becoming more financially resilient by delivering access to products, resources and capital at scale. Serving clients and partners in low- and moderate-income (LMI) communities is part of our broader business strategy, and our continued investment in a tailored community-centered approach means that we can make a meaningful impact by advancing economic mobility for our clients and making neighborhoods stronger.

This approach includes connecting communities to local financial centers, offering safe and transparent products, enabling digital banking and providing resources that build financial literacy among clients. We provide loans, tax credit equity investments and other real estate development solutions to help create affordable housing for individuals, families, seniors, veterans, the formerly homeless and those with special needs. To extend the reach of what we can do on a direct basis, we provide loans and grants to community development financial institutions (CDFIs) to help drive small business and community development.

Wealth management

Our wealth management clients are increasingly interested in the role that sustainability criteria can play in evaluating portfolio risks and long-term investment opportunities. They are also interested in the positive societal impact their investments may have.

Our wealth management business has developed — and continues to expand — an offering that provides our clients access to strategies across multiple asset classes that integrate sustainability criteria into their investment approach. We are committed to continuously providing education and thought leadership to advisors, portfolio managers and clients on the benefits of incorporating sustainability criteria into investment strategies and portfolios.

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[1] Our approach to materiality is guided by our commitment to Responsible Growth and growing in a sustainable manner, which helps us deliver returns to our clients and shareholders and help address society's biggest challenges. We use these principles to evaluate the environmental, social and governance issues that are most material to our company. Our ESG Materiality Assessment can be found here.

[2] Significant changes generally involve implementing new or making modifications to existing people, process and/or technology solutions, resulting in implementation activities.

Our relationship with business clients

A key aspect of our strategy is active and extensive engagement with our clients. This engagement allows us to deepen our collective understanding of issues, learn and share perspectives, and, often, create connections between stakeholders with differing views. While this engagement can be conducted in conjunction with due diligence related to a specific transaction, it is ongoing and in addition to the due diligence and risk review processes highlighted below.

As part of our Know Your Customer (KYC) Policy, due diligence and other onboarding processes, front line units and risk teams will determine if a proposed transaction or relationship presents any potential environmental or social risks. This determination is driven by a number of factors, including understanding our clients' business, industry, management and reputation; the consideration of public information/news related to the issues pertinent to this risk framework; application of our policies; adherence to regulation, including state, federal and international regulations; cross-referencing our business restrictions and escalations and any areas of heightened sensitivity where enhanced due diligence should be conducted; and consultation with subject matter experts (SMEs) and teams focused on client screening and onboarding.

Due diligence, business restrictions and escalations

Standard due diligence

Standard due diligence is conducted when environmental and social risks are well understood or expected to be relatively low for the client, business activity, industry or geography. Due diligence begins with the front line unit, and this process may include, but is not limited to, client engagement, media searches and other screening tools. This standard review may result in a client relationship or transaction being approved, conditionally approved subject to specific mitigating actions or declined in line with the line of business approval process. If, during this due diligence process, the client, business activity, industry or geography is identified as posing heightened risk, then enhanced due diligence will be conducted.

Enhanced due diligence

A client relationship or transaction may require enhanced due diligence related to environmental and social issues due to a policy or standard, because a front line unit or risk manager made a referral after standard due diligence; or if the client, business activity, industry or geography is deemed sufficiently sensitive. In these instances, enhanced due diligence is conducted before the relationship or transaction can proceed toward approval.

Enhanced due diligence includes a deeper analysis of issues related to client transactions and associated stakeholders. While each client opportunity is unique and therefore requires a customized due diligence process, there are common elements to enhanced due diligence as it relates to the environmental and social areas identified in this ESRP Framework. Enhanced due diligence is conducted by individuals with subject matter expertise and an understanding of a range of stakeholder perspectives. We recognize that environmental and social issues can be interrelated and both need to be considered. Evaluation of environmental matters may include land and water use impacts, a remediation/reclamation track record (if applicable), climate risk reporting, community and stakeholder engagement, and overall transparency. Evaluation of social issues may include a review of the client's relationship with relevant civil society organizations, and a particular focus on stakeholder engagement with local communities including Indigenous Peoples and First Nations relations.

The enhanced due diligence process is tailored to provide a deep analysis of risk issues for specific transactions; thus each analysis varies. These analyses may include, but are not limited to, direct client discussion on related environmental and social risks, review of client disclosures, a comparison of the client's practices to industry peers' and consultation with and assessment by additional SMEs. Reviewed material may include regulatory filings, environmental and social impact reports and assessments, Task Force on Climate-related Financial Disclosure (TCFD) reporting, sustainability and corporate social responsibility (CSR) reports, and a media search that is focused on environmental and social reputation risk.

Issues that have additional enhanced due diligence specific to this topic are detailed in the section below "Managing environmental and social areas of heightened sensitivity." Like the standard due diligence review, this enhanced review may result in a client relationship or transaction being approved, conditionally approved subject to specific mitigating actions or declined in line with the line of business approval process.

Committee review of reputational risk

If due diligence reveals that a business activity presents significant environmental and social risk, that activity — including client relationships, transactions, new products or other corporate activities — may be escalated to the appropriate committee responsible for reputational risk management for further evaluation. These committees are comprised of the business heads and senior executives from our Global Risk, Compliance, Legal, Global Environment and Public Policy, Corporate Social Responsibility and other groups, and can approve, conditionally approve or decline a business activity. If the committee does not approve a business activity, the business head may appeal the matter to the executive management team.

Business restrictions

Bank of America will not knowingly engage in illegal activities including:

- Bribery — including giving, offering, receiving or requesting bribes
- Child labor, forced labor or human trafficking — including engaging with companies or transactions in which a client is directly involved in child labor, forced labor or human trafficking
- Illegal logging or uncontrolled fire — including transactions in which a client engages in illegal logging or uncontrolled use of fire for clearing forest lands
- Transactions for illegal purposes — including transactions involving internet gaming in certain jurisdictions

Business escalations

The purpose of the ESRPF is to help us reach informed decisions about transactions and client relationships in sensitive areas in an efficient and consistent fashion. There are certain business activities which carry significantly heightened risks across the seven key risk types outlined in our Enterprise Risk Framework discussed above and have increased investor, client, employee and regulator scrutiny. As such, any client relationship or transaction related to the below areas must go through an enhanced due diligence process and be escalated to the senior-most risk review body of the applicable line of business ("Senior-level Risk Committee") for decisioning. This process is client-specific, deal specific and subject to governance review that considers a range of risks that are evaluated through our Risk Framework, as are all transaction and client decisions, in the ordinary course of business.

- Providing services to businesses with significant payday lending activities
- Financing the manufacture of military-style firearms for non-law enforcement, non-military use
- Financing private prisons and detention centers — including companies that provide prisoner and immigrant detention services for U.S. federal and state governments
- Direct financing of petroleum exploration or production activities in the Arctic
- Direct financing of the construction of new coal-fired power plants or expansion of existing — unless those facilities employ technology that is focused on complete or near elimination of atmospheric carbon emissions
- Direct financing of new thermal coal mines or the expansion of existing mines
- Natural resource extraction in UNESCO World Heritage Sites — engaging in transactions focused on natural resource extraction within UNESCO World Heritage Sites, unless there is prior consensus between UNESCO and the host country's governmental authorities that activities will not adversely affect the natural or cultural value of the site
- Transactions designed to manipulate financial results — including transactions or activities designed to artificially or unfairly manipulate or change the reported value of a client, instrument or transaction, or inappropriately reduce tax liabilities

General purpose financing

As part of our ongoing client engagement process, we regularly monitor our client relationships. We recognize that some clients use general purpose financing to support the development of specific projects and that environmental and social risk can be elevated in a specific project. In some cases, it can even be elevated in an entire sector or industry. We actively engage with clients and prospective clients with significant exposure to highly associated environmental and social risks and, in some circumstances, conduct enhanced due diligence as part of our normal KYC practices.

Subject matter experts (SMEs)

Bank of America employs a variety of internal SMEs who participate in the environmental and social risk management process. These SMEs include employees from our front line units, as well as our Global Environmental and Corporate Social Responsibility groups and our Global Risk Management and Public Policy teams. Risk assessments may be conducted by consultants along with internal or external experts, and the assessments range from simple questionnaires to complex evaluations that may include geological, engineering and other analyses.

Positions on key issues

United Nations (UN) Sustainable Development Goals (SDGs) and sustainable finance

At Bank of America, we support the aims of the 17 UN SDGs to ensure a sustainable future for everyone. Our sustainable finance goal is to mobilize and deploy financial capital and human innovation to accelerate financing of companies and projects that are aligned with the SDGs. Our efforts are focused through our goal to mobilize and deploy $1.5 trillion in sustainable finance by 2030. Of this $1.5 trillion goal, $1 trillion is committed to the Environmental Transition to address climate change and promote the circular economy including low-carbon solutions for renewable energy, energy efficiency, clean transportation, water & sanitation, recycling, sustainable agriculture, and carbon capture & sequestration. The balance of $500 billion is dedicated to Inclusive Social Development to advance community development, affordable housing, healthcare, education, financial and digital inclusion, access to basic services, racial and gender equality, and to promote environmental justice. More details on how we achieve these objectives are detailed in our Performance Data Summary and TFCD report.

Climate change and energy

Climate change is no longer a far off risk but rather a global concern with impacts that are already beginning to unfold, including increased frequency and severity of extreme weather conditions, melting glaciers, loss of sea ice, accelerated sea level rise and longer, more intense heat waves and droughts. As evidenced by the UN Intergovernmental Panel on Climate Change's Sixth Assessment Report, urgent action is needed to address climate change and prevent its increasingly devastating impacts from accelerating further.

At Bank of America, we recognize that climate change poses a significant risk to our business, our clients and the communities where we live and work. As a global financial institution, we are working to meet regulatory expectations on managing climate risk that apply to our international entities, including those under the supervision of the European Central Bank and the Bank of England. As part of this effort, we have developed methodologies to assess climate-related risks at the industry, country and obligor-level, as well as developing climate scenario stress test capabilities, among other initiatives.

Addressing climate change and helping our clients and communities transition to low- and no-carbon technologies and business models also presents a substantial opportunity for us. As one of the world's largest financial institutions, we have a responsibility and an important role to play in helping to mitigate and build resilience to climate change by using our expertise, resources and influence. In alignment with more than 190 countries, we support the Paris Climate Agreement on climate change, its commitment to take action to keep global temperature rise this century to well below 2°C above pre-industrial levels, and its efforts to limit the temperature increase to no more than 1.5°C.

Bank of America set a goal to achieve net zero emissions across our operations, supply chain and financing activities before 2050, in alignment with climate science. Achieving this goal will be challenging: our success will require technological advances, clearly defined roadmaps for industry sectors, public policies that improve cost of capital for net zero transition and better emissions data reporting. And it will require ongoing, strong and active engagement with clients, suppliers, investors, government officials and other stakeholders. In July 2020, we joined the Partnership for Carbon Accounting Financials (PCAF), to collaborate with other banks to determine a consistent methodology to assess and disclose emissions associated with our financing activities. We are working internally to collect data and implement the methodology requirements, which are not inconsequential.

Meeting global climate goals and our own net zero commitment will require changes in all sectors of the economy, particularly in those that are the highest-emitting. In light of that, in April 2022 we announced our first emission reduction targets related to our financing activity to be met by 2030. We continue to set additional sector-specific targets to be met by 2030 on our journey to net zero by 2050. We publish progress toward these and other targets—including those related to our operational and supply chain emissions—in our annual TCFD report.

Achieving these targets will not be possible without supportive public policy and significant private investment. We are supportive of policies that will help accelerate investment in climate alignment and have continuously stated our support for a price on carbon. Carbon pricing regimes, including carbon taxes, are seen by many policymakers and business leaders as a critical step in promoting a shift to a low-carbon economy. Bank of America supports approaches to pricing carbon that are economy-wide and market-based.

Human rights and racial equality

Bank of America is committed to respecting human rights and demonstrating leadership in responsible workplace practices across our enterprise and all regions where we conduct business. We aim to align our company policies with international standards including the principles laid out in the United Nations Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights and the International Labour Organization's (ILO) Fundamental Conventions. Our commitment to fair, ethical and responsible business practices, as we engage with our employees, clients, third parties and communities around the world, is embodied in our values, Code of Conduct, Human Rights Statement and Supplier Code of Conduct. We believe that human trafficking, slavery and exploitative practices such as servitude, forced labor and child labor are egregious human rights abuses. To learn more, visit our Modern Slavery Statement.

We also recognize that respecting human rights includes working to address issues related to racial equality and economic opportunity in the U.S., where we are headquartered and conduct the majority of our business. We are committed to focusing our efforts, dedicating resources and collaborating with others to address systemic racism and to remove barriers to equality and economic opportunity for all. For more information on how we are driving efforts to address racial equality, please see our Driving Racial Equality and Economic Opportunity webpage.

External standards

Bank of America is a participant in or signatory to the following principles (listed alphabetically) and we use these principles to help inform our approach to lending, investing and other financing decisions relating to critical environmental and social issues.

Equator Principles

The Equator Principles provide a framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. They are primarily intended to establish a minimum standard for due diligence in project-related lending and finance. Through the Equator Principles, we gain insights into responsible social and environmental management practices. Bank of America continues to support these principles as an industry best standard.

Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ is a global alliance tasked with bringing together existing and new net zero-related financial sector initiatives into one forum, bringing together all components of the financial industry under one umbrella to share perspectives. . Bank of America is a member of GFANZ as well as the Net Zero Banking Alliance (see below). Our CEO is a member of the Principals Group guiding GFANZ.

Green, Social and Sustainability Bond Principles

In June 2013, Bank of America co-authored a white paper called "A Framework for Green Bonds." We then co-led a consortium of banks to publish the Green Bond Principles, using the Framework document as a blueprint. The document was subsequently passed to the International Capital Market Association (ICMA), the newly named Secretariat. As an inaugural member of ICMA's Green Bond Principles Executive Committee, Bank of America also contributed to the release of ICMA's Social Bond Principles and Sustainability Bond Guidelines. These principles are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the green, social and sustainability bond market by clarifying the approach for issuance of these bonds. We align our own ESG-themed bond issuances to these principles and encourage our clients to do the same. We currently are a member of the executive committee of ICMA's Green and Social Bonds Principles, reflecting our leadership in this market.

Net Zero Banking Alliance (NZBA)

NZBA, convened by the UN Environment Programme Finance Initiative, includes the world's leading banks to support their efforts to align their financing and investment portfolios with net zero emissions by 2050. Bank of America was a founding member of NZBA, joining in April 2021. Our Global Environmental executive serves on the steering group for NZBA, which develops guidelines for science-aligned net zero commitments and interim targets for banking members.

Partnership for Carbon Accounting Financials (PCAF)

Bank of America joined PCAF in 2020, where we collaborated with other financial institutions to develop the Global GHG Accounting and Reporting Standard for Financial Institutions, a common framework to assess greenhouse gas (GHG) emissions from financing activities ("financed emissions"). We are one of the largest and most diversified global financial institutions to join the group to date and are a member of the PCAF Core Team. By joining PCAF, we have committed to begin to disclose our financed emissions no later than 2023.

Task Force for Climate-related Financial Disclosures (TCFD)

In 2017, the TCFD launched its recommended voluntary, consistent financial disclosures designed to be used by investors, lenders and insurance underwriters in understanding material climate-related risks. Bank of America has signed on to support the TCFD recommendations alongside many of our peers and clients. We annually produce and publish a TCFD report, reflecting our focus on disclosure and transparency of climate-related business risks and ensuring climate-related risks and opportunities are properly managed within our business. Our TCFD Report articulates how we evaluate the impact of climate change on our business, how we effectively manage those risks, and how we continue to enhance our understanding of measuring and modeling climate-related risks and their potential significance.

UN Guiding Principles on Business and Human Rights

The United Nations Guiding Principles on Business and Human Rights (UNGP) provide guidance on a corporation's responsibility to respect human rights. Bank of America uses the UNGP and other external frameworks to help inform our policies and practices in this area, as articulated in our Human Rights Statement.

The Wolfsberg Principles

Environmental crime and social crime, such as human trafficking, can be forms of financial crime, as both create profits for transactional criminal groups. The Wolfsberg Group is an association of thirteen global banks that aims to develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer (KYC), Anti-Money Laundering (AML) and Counter

Terrorist Financing policies. Bank of America has been part of the Wolfsberg Group since 2015 and has completed the Wolfsberg Financial Crimes Questionnaire, for use by any financial institution that requires more detailed information about Bank of America's AML compliance program.

Managing environmental and social areas of heightened sensitivity

This section contains a summary (in alphabetical order) of environmental and social topics that Bank of America recognizes as being of heightened sensitivity and importance to us and our stakeholders, along with our approach to each area. While we expect our clients to comply with environmental laws and regulations, we also take additional measures to identify, evaluate and mitigate environmental and social risks for certain clients, business activities, industries and geographies. Issues that need additional enhanced due diligence are detailed in the sections below.

Arms and munitions

Our Arms and Munitions Policy establishes an enhanced due diligence standard for clients and transactions involved in arms and munitions trade finance. The maintenance and implementation of this policy is conducted by SMEs with specialized industry knowledge and follow a clear process with senior executive checkpoints, escalation routines and risk management. As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving the manufacture of military-style firearms for non-law enforcement, non-military use must be escalated to the Senior-level Risk Committee for decisioning.

Biodiversity and ecosystems

There are many areas of the planet with rich biodiversity and sensitive ecosystems that are particularly vulnerable to the negative impacts of irresponsible development and unsustainable practices. Recent reports show that the world's natural systems are in decline. Oceans in particular are impacted by climate change, overfishing and pollution. The growing deterioration of the ocean and marine life can present a range of challenges in the future, from the collapse of fish stocks to increasing ocean temperatures that contribute to stronger storm systems. We continue to monitor these issues as they evolve and relate to our clients and our business.

We recognize the importance of biodiversity and its environmental, cultural, religious and health contributions to societies. When issues of concern are identified by the front line unit or a control function, they are escalated for further review.

Agricultural commodity trading

We recognize the risks associated with trading in agricultural commodities, where certain types of financial trading or speculation have the potential to increase the cost of food and/or food poverty, especially in developing economies. Our Commodities Trading Group periodically reviews these aspects and has determined that we do not take significant market risk. However, we continue to monitor for exposure in this regard.

Forestry

The world's forests play a vital role in the carbon cycle and can significantly help mitigate global climate change. We developed our Forests Practices Policy, including our position on Forest Certification and Paper Procurement Policy, in consultation with our clients who have expertise in the sector, and with environmental partners focused on developing best practices, including forestry certification. Our Forests Practices Policy places additional value on forestry certification by using it as a due diligence tool. The Forests Practices Policy also includes an explicit prohibition of illegal logging and practices involving uncontrolled fire.

Palm oil

The increased use of palm oil has raised serious concerns regarding the impacts on forests and land use in sensitive tropical environments. We require clients whose business is focused on ownership and management of palm oil plantations and operations, including growers and mills, to have their operations certified, or have in place an outlined action plan and schedule for certification. We use the Roundtable on Sustainable Palm Oil (RSPO) certification or equivalent certification standards as a minimum requirement for clients, and closely monitor developments relating to the sustainable sourcing of palm oil.

Energy, power and extractives

We have a comprehensive, pragmatic strategy for supporting the transition of our energy and power generation systems. At the same time, we recognize that activities involving natural resource extraction elevate the risk of disturbing sensitive environments which can lead to impacts on both biodiversity and the human communities that depend on them. In addition, certain energy generation can result in increased environmental risk, including climate change. Accordingly, Bank of America has developed client and transaction standards and guidance, informed by international standards and best practices, to govern particularly sensitive situations where energy and extractive activity occurs.

In addition to the following specific policies, we are engaging with clients in the energy and power generation sectors to enhance GHG emissions disclosure and management. As indicated previously, in April 2022, we set emission targets for our energy, power generation and auto manufacturing portfolios, aligned to a 1.5ºC scenario.

Arctic drilling

Bank of America recognizes that the Arctic is a unique region with specific considerations to take into account including those of marine and wildlife, a fragile ecosystem and the rights of Indigenous Peoples. As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving direct financing of oil and gas exploration or production activities in the Arctic must be escalated to the Senior-level Risk Committee for decisioning.

Coal extraction

Companies focused on coal extraction, particularly coal used in power generation ("thermal coal"), face significant challenges. The focus of power utility clients, investors, regulators and other stakeholders on addressing global climate change — combined with the recent proliferation of natural gas, solar, wind and other lower carbon energy sources — is intensifying and accelerating these challenges. Any client or transaction involving companies deriving ≥ 25% of their revenue from thermal coal mining must be escalated to the Senior-level Risk Committee for decisioning. With the application of our Risk Framework and a range of risks associated with this area, since 2018 we have significantly reduced financing (including facilitating capital markets transactions and advising on mergers and acquisitions) of companies deriving ≥ 25% of their revenue from thermal coal mining and are on a trajectory to phase out such financing by 2025. As part of the enhanced due diligence process, we give consideration to whether a company has a public commitment to align its business (across Scope 1, 2 and 3 emissions) with the goals of the Paris Climate Agreement and the transaction would be facilitating the diversification of the company's business away from thermal coal.

In addition, as previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving direct financing of new thermal coal mines or the expansion of existing mines must be escalated to the Senior-level Risk Committee for decisioning.

As recognized by the Energy Transition Commission, the use of metallurgical coal in steel production continues to be one of the harder to abate areas of global carbon emissions as the development of technology solutions is still in its early stages. We conduct enhanced due diligence for any transaction that provides direct financing for a metallurgical coal mine. Additionally, as a founding member of Rocky Mountain Institute's Center for Climate Aligned Finance, we will be working with peers and the industry to explore climate aligned solutions for steel production.

Coal extraction companies that engage in mountain top removal mining (MTR) in the Appalachian region of the U.S. have been subject to both enhanced regulatory oversight and criticism related to MTR's impacts. The practice involves removal of a mountain top in this geography to allow for near complete recovery of coal seams and the associated filling in of nearby valleys and streams with overburden and is thus subject to our enhanced due diligence review. Any transaction involving lending, capital markets or advisory services to coal extraction companies involved in MTR mining must be escalated to Senior-level Risk Committee.

Ongoing transactions involving companies focused on coal extraction are subject to enhanced due diligence that incorporates evolving market dynamics, specific risks and regulations related to coal extraction, and the client's commitment, capacity and track record on environmental and social sustainability performance.

Coal-fired power generation

As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving direct financing of the construction or expansion of new coal-fired power plants must be escalated to the Senior-level Risk Committee.

Energy transport

Bank of America supports the responsible and safe delivery of energy that powers our society. We recognize the environmental and safety issues connected to transporting natural gas and oil by pipeline, rail, truck or tanker. We also recognize that some of these fuels, such as natural gas, are helping society transition away from more carbon-intensive forms of energy. And while expanded infrastructure is needed for projects such as new pipelines, it often has an impact on local communities. Rather than pivoting away from these issues, we are engaging more deeply to understand our clients' challenges in the energy transport space and to support our clients' efforts to increase safety, reduce impacts and improve community and stakeholder engagement.

Large dams

Bank of America recognizes that the construction of dams to control water flow can bring much needed economic opportunity and development to certain regions of the world. Dams can also affect the ecological systems in which they are located and to which they are connected, as well as causing potential social impacts to the surrounding communities. Any transactions in which the majority use of proceeds is identified as supporting large scale dam construction for hydroelectric generation or lands involved in such construction are subject to enhanced due diligence. This scrutiny includes adherence to the Equator Principles, which we have adopted, and the Hydropower Sustainability Assessment Protocol as guidance.

Nuclear energy

Nuclear power delivers an important part of many nations' energy portfolios. Nearly all comprehensive roadmaps for reducing GHG emissions and limiting impacts of global warming include significant increases in nuclear power as an alternative to carbon-intensive fuels and an important source of on-demand power and enabler of power-intensive industries. Bank of America understands the particular sensitivities regarding the use of nuclear energy, including the safety and handling of nuclear fuel and waste. Transactions in which the majority use of proceeds is identified as clearly intended for the development of nuclear projects are subject to enhanced due diligence, which includes a requirement that clients adhere to regional, national, international and industry best practices, as well as a review of the client's track record on environmental compliance, safety and training.

Oil sands

We recognize the concerns raised over the extraction of bitumen from oil sands, particularly in sensitive ecosystems such as those found in Northern Canada. Accordingly, Bank of America conducts enhanced due diligence on all relationships with companies that are focused on oil sands extraction. Site visits to client operations are conducted periodically. These due diligence trips may include meetings with impacted Indigenous Peoples and First Nations communities. These actions are in addition to meeting requirements of the Equator Principles, if applicable.

Renewable energy

We have increased our focus on renewable energy sources as part of our efforts to finance the transition to a low-carbon, sustainable economy through our $1 trillion Environmental Business Initiative, which is part of our broader sustainable finance goal of $1.5 trillion to support both environmental transition and inclusive social development. We recognize that some renewable energy projects present other environmental and social challenges, such as the impacts on wildlife, land use, and indigenous peoples, and we include a review of these issues in our due diligence processes. When environmental or social issues of concern are identified, they undergo enhanced due diligence as appropriate.

World Heritage Sites

We respect the designation of United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Sites, including areas of cultural and natural value that are deemed to be of national or international significance. As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving natural resource extraction within UNESCO World Heritage Sites must be escalated to the Senior-level Risk Committee, taking into account all applicable risks, and whether there is prior consensus between UNESCO and the host country's governmental authorities such that the activities will not adversely affect the natural or cultural value of the site.

If client activity is known or anticipated to directly impact a World Heritage Site, relationship managers are directed to notify SMEs within Bank of America's Global Environmental Group for further guidance. Review of these situations involves client engagement, a deep review of the client activity, and internal escalation and discussion among senior risk committees.

Financial products and services

Our product review and business review committees — together with external input that we solicit from clients, consumer advocates and other stakeholders — ensure that our products and services are responsible, in line with Bank of America's values, and are clear and easily understood.

Artificial Intelligence

Artificial Intelligence (AI) refers to the capability of a machine to imitate intelligent human behavior. It does so by using mathematical models based on sample training data to make predictions or reach conclusions based on patterns and inference without being specifically programmed to perform the task. At Bank of America, we define AI as any model built using the advanced statistical techniques of deep learning, ensemble learning, natural language processing, neural networks or reinforcement learning.

We know that AI, used responsibly, can help inform business decisions and improve our individual client experience. For example, Erica®, our AI-driven, virtual financial assistant, helps clients tackle complex tasks and provides personalized guidance to help our Consumer clients stay on top of their finances. We work with internal and external stakeholders to tackle critical questions surrounding AI and its rapidly evolving application for data and technology.

In addition to improving services, we recognize that the use of AI may have unintended adverse effects, including unintentional bias, and have established an AI - Enterprise Policy to mitigate risks in every use of AI. Our AI - Enterprise Policy outlines how we understand, monitor and manage AI risks at Bank of America, consistent with the prevailing laws, regulatory guidance and Bank of America's Risk Framework.

Consumer debt sales

Bank of America does not sell our clients' consumer debt. In addition, given the range of risks, including risk to consumers, we will not knowingly provide credit to buyers of consumer debt who employ predatory practices. For advisory or capital markets transactions in which a client is involved in consumer debt sales or purchases, we conduct enhanced due diligence.

Consumer protection

Bank of America offers a suite of simple, safe and transparent banking products to help clients manage their financial lives and goals. All of our consumer banking products and services are subjected to a rigorous review process and are designed to address client needs at a fair and equitable cost, with terms our clients understand. We constantly solicit external feedback to help ensure that our products, solutions and services meet the needs of our clients. We are committed to fairly and consistently meeting the credit needs of our clients and to complying fully with our fair lending policies, and any other applicable consumer laws and regulations. This includes fair and non-discriminatory access to credit products, terms and conditions, and services throughout the entire credit life cycle. Our commitment to fair lending is the cornerstone of our culture and is clearly articulated in our Fair Lending Policy. All Bank of America employees must comply with the policy, and failure to do so may result in disciplinary action up to and including termination. Our employees participate in mandatory Fair Lending training.

Overdrafts

Our overdraft policies are informed by our company's commitment to Responsible Growth, and we continue to evolve our overdraft policies and procedures to help our clients avoid unanticipated fees, reduce their reliance on overdraft, and provide resources to help clients manage their deposit accounts and overall finances responsibly. Beginning in 2010, we eliminated overdrafts on non-recurring debit card purchases — if the client has insufficient funds we simply decline the transaction with no overdraft fee. Since then, we introduced courtesy low balance alerts; launched the SafeBalance "no overdraft fee" account; eliminated the extended overdrawn balance charge; created Balance Assist, a low-cost solution to manage short-term liquidity needs; and enhanced our overdraft protection service Balance Connect™ for overdraft protection, which lets clients link up to five backup accounts to avoid overdrafts. Most recently, we eliminated non-sufficient funds fees and removed the ability to overdraw an account at the ATM. In May 2022, we reduced overdraft fees from $35 to $10 and eliminated the fee for transfers through our Balance Connect service.

Payday lending

A payday loan is a short-term loan, generally for $500 or less, that is typically due on the borrower's next payday and requires the borrower to give lenders access to his or her checking account, or to write a post-dated check for the full loan balance that a lender may deposit when the loan is due. As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving a business that is significantly engaged in payday lending must be escalated to the Senior-level Risk Committee. At Bank of America, we do not offer payday lending services directly to our clients.

Subprime lending

Bank of America is committed to providing responsible lending products to clients who have the ability to repay their obligations. There has been significant public focus on financial products with unaffordable, unfair or predatory terms provided to consumers with certain higher risk characteristics, such as low credit scores, previous bankruptcies or foreclosures, recent loan delinquencies or legal judgment. Bank of America does not offer subprime products to clients. For credit, advisory and capital markets transactions with business clients involving a pool of assets, a significant portion of which is from consumers with higher risk characteristics such as described above, we conduct enhanced due diligence.

Gaming

To reflect the regulatory determination that gaming establishments are vulnerable to manipulation by money laundering and other financial risks, Bank of America has long maintained an industry-focused approach to the gaming sector. Gaming activities include legal businesses providing gambling activities and operations designed to attract wagering (e.g., gaming devices like slot machines, table games, etc.). Bank of America conducts enhanced due diligence on this sector and requires that all credit requests be underwritten and approved in designated specialty units within Bank of America.

Human rights

In addition to our larger approach to human rights, as noted above in *Positions on key issues*, Bank of America has an enhanced due diligence process for transactions that may raise questions related to human rights.

In addition to the enhanced due diligence outlined above, other specific enhanced due diligence elements for these transactions may include the identification of company practices and comparison of these to acceptable standards including industry best practices, in-country laws, standards and norms, and developed country standards; consideration of mitigation steps taken by the client; client policies related to or addressing the issue; level of company transparency; a review against Bank of America's Code of Conduct; and consistency with the principles of the United Nations Universal Declaration of Human Rights, the ILO's Fundamental Conventions and the United Nations Guiding Principles on Business and Human Rights.

Indigenous Peoples

Bank of America recognizes that Indigenous Peoples, Native and First Nations communities have cultural beliefs, values and lands that are often under threat. We conduct enhanced due diligence for transactions in which the majority use of proceeds is attributed to identified activities that may negatively impact an area used by or traditionally claimed by an indigenous community. For these transactions, we expect our clients to demonstrate alignment with the objectives and requirements of the International Finance Corporation (IFC) Performance Standard 7, which addresses impacts to Indigenous Peoples including free, prior and informed consent.

Private prisons and detention centers

The U.S. federal and many state governments currently contract with a small number of private companies to manage certain prisons and detention centers. The growth in this sector has been driven by public and governmental policy that many, including Bank of America, agree require reform. We have evaluated these issues as a company, and we understand they pose many challenging questions, as well as risk to our company. As previously articulated in the "Due diligence, business restrictions and escalations" section, any client or transaction involving companies that provide prisoner and immigrant detention services for U.S. federal and state governments must be escalated to the Senior-level Risk Committee for decisioning.

Tobacco

We recognize the focus on health impacts associated with tobacco products. Particularly challenging is the rapid increase in usage of and potential addiction to tobacco products by minors through use of next generation products such as vaping. There are many differing views on the benefits of next generation products for smoking cessation for adults, as is evidenced by the current debates in the U.S. and around the globe. We are working to examine these issues and manage our related risk.

To ensure we are engaging our clients on best-in-class practices in this sector, we conduct enhanced due diligence on clients that manufacture and focus on distribution of tobacco-related products. Enhanced due diligence includes reviewing product design, packaging, marketing and sales practices. Our evaluations include understanding client safeguards to prevent the sale of their products to minors, and whether clients employ the same overall practices in developed and developing countries, where consumer protection laws may be less robust.

Stakeholder engagement

Bank of America consistently engages external stakeholders for advice and guidance in shaping our environmental and social practices and priorities. One way we do this is through our National Community Advisory Council (NCAC), a forum made up of senior leaders from civil rights, consumer advocacy, community development, environmental, research and other organizations who provide external perspectives, guidance and feedback on our business policies and products. NCAC members meet with members of our senior leadership team at least twice annually.

Our operations and suppliers

Operations management

Bank of America recognizes that a focus on environmental and social issues must begin with addressing impacts from our own operations. We are therefore committed to tracking and managing our progress toward ambitious targets to reduce GHG emissions, and energy, paper, waste and water consumption, as well as increasing the percentage of space that is LEED certified. More information can be found in our Performance Data Summary and our TCFD report.

Environmental management system (EMS)

We employ an EMS that relies on a comprehensive compliance processes, procedures and compliance database to help the Global Real Estate Services Environmental Risk team identify, manage and mitigate risk and improve performance across our corporate real estate portfolio. Our EMS encourages:

- Stringent compliance with applicable environmental laws and regulations
- Pollution prevention and environmentally sustainable practices
- Continuous improvement in all areas of environmental management

Our EMS includes roles and responsibilities, training, inspections, inventory procedures, formal targets, documentation, measurement, complaint response and emergency procedures. One component of our EMS — Integrated Data for Environmental Applications (IDEA) — is an online tool that enables our employees and suppliers to understand and manage environmental compliance across our global real estate footprint. Bank of America's strong record of compliance across our real estate portfolio is a direct result of the successful implementation of our EMS.

Our suppliers

We recognize the environmental and social impact of our procurement activities and are dedicated to doing business with suppliers that respect ethics, human rights, diversity and inclusion, and the environment. We set environmental and social expectations of our suppliers through our Supplier Code of Conduct, which we expect all suppliers to adhere to while conducting business with or on behalf of Bank of America, and reiterate those expectations in our standard contract templates. We manage environmental and social risk in our supply chain using a thorough and individualized approach, engaging with new and existing suppliers regularly to review suppliers' policies and processes and monitor adherence with our environmental and social expectations.

We are also committed to spending Bank of America procurement dollars with diverse-owned businesses, including minority, women, veteran, disabled, service-disabled veteran, LGBT+ and other diverse-owned suppliers. We fund capacity building and development opportunities to help diverse business owners overcome barriers and expand their business. We also drive non-diverse owned businesses to use diverse-owned businesses in their supply chains. We are corporate members of several non-governmental organizations, including the Billion Dollar Roundtable, that focus on diverse-owned supplier development.

Our responsible procurement practices aim to drive meaningful and lasting impact within the diverse communities we serve, while promoting competition and resilience throughout our supply chain. More information can be found in our Annual Report, our Performance Data Summary and our TCFD report.

Reporting and disclosure

Bank of America reports on our progress in delivering Responsible Growth in our Annual Report. The Annual Report includes our Stakeholder Capitalism Metrics disclosure as well as the Sustainability Accounting Standards Board (SASB) and the UN Global Compact (UNGC) reporting frameworks. We believe this disclosure demonstrates how our sustainable business model drives progress towards inclusive capitalism and the U.N.'s Sustainable Development Goals. To complement this disclosure, we also annually publish our Performance Data Summary covering areas relevant to this ESRP Framework, including the development of products and services to address the needs and concerns of low- and moderate-income communities, our financing in support of environmental and social goals, and our progress toward public goals. This reporting provides transparency to stakeholders on the nature of the transactions and issues that are escalated and demonstrates robust risk management routines and governance. As part of this, we report and disclose:

- Details of transactions subject to the Equator Principles
- Case studies of specific transactions that were reviewed and issues identified, with client information removed

In our Annual Report, we also provide updates on our human capital management, detailing the many programs and resources, as well as supporting data, that contribute to making our company a great place to work.

Our workforce and employment practices

Being a great place to work is a foundational component of growing in a sustainable manner. Central to that is building and being an inclusive workplace for all our employees, creating opportunities for growth and development, recognizing and rewarding performance, and supporting our employees' physical, emotional and financial wellness.

Creating an inclusive environment starts at the top. Our Board of Directors, Board committees and CEO play a key role in the oversight of our culture, expecting management to be accountable for ethical and professional conduct and meeting our commitment to being a great place to work. Our CEO and management team drive the diversity and inclusion strategy of the company. Each management team member has aspirational diversity goals, which are subject to our quarterly business review process, talent planning and scorecards reviewed by the Board. Management team members cascade their goals in order to drive commitment and accountability across the company and foster an inclusive work environment.

We believe that our diversity makes us stronger, and our leaders embrace diversity and inclusion as integral to our business success. The Global Diversity & Inclusion Council (GDIC) promotes diversity and inclusion at all levels of the organization. The GDIC consists of senior executives from every line of business, has been in place for over 20 years and has been chaired by our CEO since 2007. The Council sponsors and supports business, operating unit and regional diversity and inclusion councils to help align to enterprise diversity strategies and goals.

In line with our strategy to be the best place to work, our pay-for-performance compensation approach strives to recognize and reward performance with competitive and fair pay for the work done, at all levels of our company. We are committed to equal pay for equal work. We believe our pay-for-performance approach—combined with our focus on workforce representation—will continue to propel the advancement and representation of women and people of color in our company.

Additionally, we provide employees with access to leading benefits and programs that help teammates be well—physically, emotionally and financially. When our employees have the tools and resources to manage their lives and careers, they can better deliver for our clients, communities and each other.

For more information about our human capital management, see the Bank of America website and our Annual Report.

Training on the ESRP Framework

Bank of America employees across the enterprise receive high-level awareness of our ESRP Framework as part of our annual training. As necessary, we also conduct specialized training on the ESRP Framework and related policies for relevant employees who regularly deal with specific environmental and social issues.

Conclusion

Environmental and social issues affect all companies operating in today's global economy. Properly managing these risks is a critical component of business success. Equally important is communicating the process by which those risks are managed to stakeholders. This ESRP Framework outlines Bank of America's approach to environmental and social issues, and how that aligns with Responsible Growth. Moving forward, we will continually review this framework in light of feedback from stakeholders, future materiality assessments, market developments, evolving best practices and regulatory developments.

Our sustainability and climate risk policy framework

Sustainability and climate risk policy framework

Our sustainability and climate risk policy framework is embedded in our culture and:

- is being extended to the combined firm, following the acquisition of the Credit Suisse Group;
- is integrated into management practices and control principles and overseen by senior management; and
- supports the transition toward a net-zero future.

Introduction

At UBS, sustainability and climate risk (SCR) is defined as the risk that UBS negatively impacts, or is impacted by, climate change, natural capital, human rights and other environmental, social and governance (ESG) matters. Sustainability and climate risk may manifest as credit, market, liquidity, business and non-financial risks for UBS, resulting in potential adverse financial, liability and reputational impacts. These risks extend to the value of investments and may also affect the value of collateral (e.g., real estate). Climate risks can arise from either changing climate conditions (physical risks) or from efforts to mitigate climate change (transition risks).

Group Risk Control (GRC) is responsible for our firm-wide SCR policy framework and the management of exposure to sustainability and climate (financial) risks on an ongoing basis as a second line of defense, while our Group Compliance, Regulatory & Governance (GCRG) function monitors the adequacy of our control environment for non-financial risks (NFR), applying independent control and oversight.

Our principles and standards apply across all the business divisions, Group Functions, locations and legal entities and are being progressively extended to cover Credit Suisse's activities. These principles and standards define roles and responsibilities for first line of defense (1LoD, i.e., client and supplier onboarding, transaction due diligence, and periodic know-your-client reviews), second line of defense (2LoD i.e., sustainability and climate risk transaction assessments) and the Group Executive Board (that sets the sustainability and climate risk appetite standards for the firm). Our work in key societal areas, such as minimizing the effects of climate change, protecting the environment and respecting human rights, is all part of this. Living up to our societal responsibilities contributes to the wider goal of sustainable development. As a global firm, we take responsibility for leading the debate on important societal topics, contribute to the setting of standards and collaborate in and beyond our industry.

Managing sustainability and climate risk is a key component of our corporate responsibility. We apply a sustainability and climate risk policy framework to all relevant activities. This helps us identify and manage potential adverse impacts on the climate, environment and human rights, as well as the associated risks affecting our clients and ourselves.

We have set standards and guidelines for product development, investments, financing and supply-chain management decisions, as well as guidelines and frameworks for sustainable lending and bond and GHG emissions trading products and services. These guidelines support UBS's growth strategy for sustainable products and services and our work to ensure that sustainability-related criteria are met. These guidelines are being applied to Credit Suisse products and services in the course of the integration process.

We have identified certain controversial activities where we will not engage, or will only engage subject to stringent criteria. As part of this process, we are committed to engaging with clients and suppliers to better understand their processes and policies and to explore how climate-, environment- and human-rights-related risks and impacts may be mitigated.

Our standards

We have set standards in product development, investments, financing and supply-chain management decisions. These include the stipulation of controversial activities and other areas of concern where we will not engage, or will only engage subject to stringent criteria.

Following the acquisition of the Credit Suisse Group, the sustainability and climate risk appetites of UBS and Credit Suisse were revised to define combined standards for the combined firm, aimed at supporting mitigation and de-risking the joint risk profile. UBS's approach was chosen as the blueprint for the combined risk appetite because of its broader scope of application across sectors and its generally stronger risk-mitigants. Former Credit Suisse standards were adopted in areas where UBS did not have a large business footprint before the acquisition, including shipping and project financing, as well as for certain metals and mining areas where UBS did not have a specific standard. UBS is to become a member of the Equator Principles and the Poseidon Principles, the industry's international standards for projects and ship finance.

› **Refer to the "Supporting our strategic goals – our engagement in partnerships" section of the Supplement to the UBS Group Sustainability Report 2023, available at *ubs.com/sustainability-reporting*, for an overview of our external commitments and memberships**

Controversial activities – where UBS will not do business

UBS will not knowingly provide financial or advisory services to clients whose primary business activity, or where the proposed transaction, is associated with severe environmental or social damage to or through the use of:

- world heritage sites as classified by the UN Educational, Scientific and Cultural Organization;
- wetlands on the Ramsar list;
- endangered species of wild flora and fauna listed in Appendix 1 of the Convention on International Trade in Endangered Species;
- high conservation value forests as defined by the six categories of the Forest Stewardship Council (the FSC);
- illegal fire: uncontrolled and/or illegal use of fire for land clearance;
- illegal logging, including purchase of illegally harvested timber (logs or roundwood);
- child labor according to International Labor Organisation (ILO) Conventions 138 (minimum age) and 182 (worst forms);
- forced labor according to ILO Convention 29; and
- indigenous peoples' rights in accordance with International Finance Corporation (IFC) Performance Standard 7.

The same standards apply when UBS purchases goods or services from suppliers.

In addition, UBS does not directly or indirectly finance the development, production or purchase of controversial weapons of such companies determined to fall within the Swiss Federal Act on War Materials.

On the topic of cluster munitions and anti-personnel mines, UBS does not provide credit facilities to, nor conduct capital market transactions for, companies that are involved in the development, production or purchase of cluster munitions and anti-personnel mines. UBS does not include securities of affected companies in its actively managed retail and institutional funds and in discretionary mandates. UBS draws upon external expertise to decide whether a company is subject to the restrictions imposed by Swiss law.

Areas of concern – where UBS will only do business under stringent criteria

We apply specific guidelines and assessment criteria to transactions with corporate clients engaged in the areas of concern listed below. The guidelines and assessment criteria apply to loans, trade finance, direct investments in real estate and infrastructure, securities and loan underwriting transactions, investment banking advisory assignments and the procurement of goods and services from suppliers.

Transactions in the areas listed below trigger an enhanced due diligence and approval process. In addition to the assessment of regulatory compliance and adherence to UBS's controversial activities standards, as well as consideration of past and present environmental and human rights performance and concerns of stakeholder groups, these transactions require an assessment of the following criteria:

Soft commodities	
Palm oil	Companies must be members of the Roundtable on Sustainable Palm Oil (the RSPO) and not subject to any unresolved public criticism from the RSPO. Production companies must further have some level of mill or plantation certification and be publicly committed to achieving full certification (evidence must be available). Companies must also be committed to "No Deforestation, No Peat and No Exploitation."
Soy	Companies producing soy in markets at high risk of tropical deforestation must be members of the Round Table on Responsible Soy (the RTRS) or similar standards such as Proterra, ISCC, CRS, and not be subject to any unresolved public criticism from these standards. When a company is not certified, it must credibly commit to the RTRS or a similar standard, providing a robust time-bound plan or demonstrate a credible commitment toward an equivalent standard, to be independently verified.
Forestry	The producing company must seek to achieve full certification of its production according to the Forest Stewardship Council (FSC) or a national scheme endorsed against the Programme for the Endorsement of Forest Certification (PEFC) within a robust time-bound plan. The producing company must also have fire prevention, monitoring and suppression measures in place.
Fish and seafood	Companies producing, processing or trading fish and seafood must provide credible evidence of no illegal, unreported and/or unregulated fishing in their own production and supply chain.
Power generation	
Coal-fired power plants (CFPP)	We do not provide project-level finance for new CFPP globally and only support financing transactions of existing coal-fired operators (>20% coal reliance) if they have a transition strategy that aligns with the goals of the Paris Agreement or if the transaction is related to renewable energy or clean technology.
Large dams	Transactions directly related to large dams include an assessment against the recommendations made by the International Hydropower Sustainability Assessment Protocol.
Nuclear power	Transactions directly related to the construction of new, or the upgrading of existing, nuclear power plants include an assessment of whether the country of domicile of the client/operation has ratified the Treaty on the Non-Proliferation of Nuclear Weapons.
Extractives	
Arctic drilling and oil sands	We do not provide financing where the stated use of proceeds is for new offshore oil projects in the Arctic or greenfield[1] oil sands projects, and only provide financing to companies with significant reserves or production in arctic oil and/or oil sands (>20% of reserves or production) if they have a transition strategy that aligns with the goals of the Paris Agreement or if the transaction is related to renewable energy or clean technology.
Coal mining and mountain top removal (MTR)	We do not provide financing where the stated use of proceeds is for greenfield[1] thermal coal mines and do not provide financing to coal-mining companies engaged in MTR operations. We only provide financing to existing thermal coal-mining companies (>20% of revenues) if they have a transition strategy that aligns with the goals of the Paris Agreement, or if the transaction is related to renewable energy or clean technology.
Liquefied natural gas (LNG)	Transactions directly related to LNG infrastructure assets are subject to enhanced sustainability and climate risk due diligence considering relevant factors, such as management of methane leaks and the company's past and present environmental and social performance.
Ultra-deepwater drilling	Transactions directly related to ultra-deepwater drilling assets are subject to enhanced sustainability and climate risk due diligence considering relevant factors, such as environmental impact analysis, spill prevention and response plans, and the company's past and present environmental and social performance.
Hydraulic fracturing	Transactions with companies that practice hydraulic fracturing in environmentally and socially sensitive areas are assessed against their commitment to and certification of voluntary standards, such as the American Petroleum Institute's documents and standards for hydraulic fracturing.
Metals and mining	Transactions directly related to precious metals or minerals assets that have a controversial environmental and social risk track record are assessed against commitment to and certification of voluntary standards, such as the International Council on Mining & Metals (the ICMM), International Cyanide Management Code, the Conflict-Free Smelter Program and the Conflict Free Gold Standard of the World Gold Council, the Responsible Gold Guidance of the London Bullion Marketing Association (the LBMA), the LBMA or London Platinum and Palladium Market (the LPPM) Good Delivery Lists, the Chain-of-Custody and Code of Practices of the Responsible Jewellery Council, the Fairmined Standard for Gold from Artisanal and Small-Scale Mining of the Alliance of Responsible Mining, the Voluntary Principles on Security and Human Rights, and the International Code of Conduct for Private Security Providers. Transactions directly related to precious metals sourcing, custody, distribution and trading are assessed against precious metals' production by refineries that are listed on the London Good Delivery List (the LGD) or the Former London Good Deliver List (the FLGD) for precious metals produced up to refineries' removal from the LGD, as maintained by the LBMA and the LPPM. We do not provide financing where the stated use of proceeds is for mining operations that utilize tailings disposal in the sea or in rivers. We do not provide financing where the stated use of proceeds is for the exploration or extraction of mineral resources of the deep seabed. Transactions with companies that mine uranium are assessed against the companies' strategy and actions to manage water contamination, waste, and worker and community health and safety, especially in regard to radiation. Consideration is also given to the designated use of the mined uranium (or other radioactive material).

Diamonds	Transactions with companies that mine and trade rough diamonds are assessed on the client's commitment to and certification of voluntary standards, such as the ICMM, and rough diamonds must be certified under the Kimberley Process.
Project Finance	Project finance transactions, including project finance advisory services, project-related corporate loans, bridge loans, project-related refinance and project-related acquisition finance, are subject to enhanced due diligence in alignment with the Equator Principles.
Shipping	Transactions involving marine transportation are assessed against relevant factors such as greenhouse gas emissions and energy efficiency, human rights, safety and pollution prevention policies, and responsible ship recycling, in line with applicable international conventions and standards (e.g., International Maritime Organization conventions, the Hong Kong Convention and the Poseidon Principles). The carbon intensity and climate alignment of the ship financing portfolio are measured and reported in accordance with the Poseidon Principles.

1 Greenfield means a new mine/well or an expansion of an existing mine/well that results in a material increase in existing production capacity.

Sustainable Financing Guideline

Introduction

This groupwide guideline applies to all loans and bonds that are labelled, marketed, or promoted[1] as having intentions or objectives to achieve environmental, social or governance ("ESG") outcomes for which UBS acts as a lender, intermediary or issuer.[2] It sets out applicable Sustainable Product Labels as well as a set of minimum requirements for labelling purposes.

Sustainable Product Labels

The labels of sustainable loan and bond products are largely based on the definitions used by the Loan Market Association (LMA), Loan Syndication & Trading Association (LSTA), Asia Pacific Loan Market Association (APLMA) and the International Capital Market Association (ICMA).

Green, Social and Sustainability Loans and Bonds are instruments made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green and/ or Social Projects that form part of a credible program of the borrower/issuer to improve its environmental and/or social footprint.

Sustainability-Linked Loans and Bonds are any types of instruments which incentivize the borrower/ issuer's achievement of ambitious, predetermined Sustainable Performance Targets (SPTs) that are measured using predefined sustainability KPIs.

Other sustainable labelled products include but are not limited to:

- Loans or bonds with sustainability features that do not match the definition of any of the industry categories;
- Mortgage products linked to sustainability which are not covered by the Green Loan Principles.

1 "Labelled, marketed or promoted" should be construed broadly, including the name or label of the product and explicit statements and any related UBS documentation, and needs to be considered in its entirety to ascertain what a client or other external stakeholder may reasonably assume from reading the material. 2 For UBS issued bonds, the term "UBS", as used in this guideline, refers to the Investment Bank business division assuming the role of the intermediary, whereas the term "issuer" refers to UBS as issuer.

UBS minimum requirements

This guideline sets out UBS minimum requirements for sustainable lending and bond products and transactions. UBS must carry out due diligence procedures in accordance with the Group policy on sustainability and climate risks.

Product and transaction level requirements

		Green, Social, Sustainability Loan/Bond	Sustainability-linked Loan/Bond	Other labelled Loan/Bond
1	Each business division offering products and services in scope of this guideline must define and document one or several product standards ensuring compliance with UBS policies, alignment with market standards, product documentation, reporting and monitoring.	X	X	X
2	UBS must ensure that green/social projects to be financed or refinanced with the proceeds of green, social or sustainability loans/bonds are aligned with industry standards, referenced in the product's legal documentation and form part of a credible program of the borrower/issuer to improve their environmental and/or social footprint. Additionally, UBS must ensure that the borrower/issuer has adequate procedures (e.g., annual reporting) in place to ensure proceeds are exclusively used for the specified green/ social projects; and associated risks are managed accordingly.	X		
3	UBS must ensure that an external review is obtained by the borrower/issuer prior to the loan/bond being made available to ensure that KPIs are measurable and material to the borrower/ issuer's core sustainability and business strategy; represent a material improvement in the respective KPIs beyond a "Business as Usual" trajectory and are determined on a predefined timeline, set before or concurrently with the issuance of the loan/bond, and reflected in the legal documentation. Additionally, the external verification of the borrower/issuer's performance against the KPIs/SPTs should take place on an annual basis thereafter. Where the borrower opts out from such external review, the justification on KPIs materiality and SPTs ambitiousness must be articulated.		X	
4	UBS must structure the product in such a manner that it is meaningful (e.g., promoting one or several UN SDGs) and sufficiently material (in relation to the size and duration of the product), measurable and has a verifiable expected impact. For labelled real estate loans, UBS must ensure that the labelled real estate loan is intended to improve the environmental footprint and align greenhouse gas emissions of the property to UBS's decarbonization ambition.			X
5	UBS must ensure that the borrower/issuer has adequate incentives (e.g., margin incentives for SLL) to adhere to agreed objectives e.g., SPTs or project goals.	X	X	X

Greenhouse Gas Emissions Trading Guideline

Introduction

This groupwide guideline applies to all greenhouse gas emissions trading instruments and activities for which UBS engages in as an advisor, broker, issuer, investment manager or platform (co-)owner. It sets out instruments and activities UBS may engage in, as well as a set of minimum requirements.

Greenhouse gas emissions trading instruments and activities

Voluntary carbon credits (VCC) are issued by carbon projects to either reduce greenhouse gas emissions or to increase carbon sequestration. Projects that meet a set of verification standards can be certified by independent certification bodies and issue carbon credits denominated as a unit of carbon (i.e., one metric ton of CO_2 or the equivalent of any other greenhouse gas). These credits can be purchased in the voluntary carbon market by companies / organizations who wish to compensate (or 'offset') their own carbon footprint.

Carbon emission allowances (CEA) are standardized rights to generate a pre-defined quantity of carbon emissions e.g., one metric ton of CO_2, that can be traded in compliance carbon markets. They are issued by national or international governmental organizations in a fixed volume, which is determined based on national or international emission targets, and then either sold or allocated to market participants.

Derivatives and structured products may be structured with underlying features linked to VCCs or CEAs.

Other carbon-related/ labelled products and services include but are not limited to banking products and services labelled, marketed or promoted[1] as "net zero aligned", "carbon neutral", "carbon compensated" etc.

1 "Labelled, marketed or promoted" should be construed broadly, including the name or label of the product and explicit statements and any related UBS documentation, and needs to be considered in its entirety to ascertain what a client or other external stakeholder may reasonably assume from reading the material.

UBS minimum requirements

The guideline sets out UBS minimum requirements for GHG trading products and transactions. UBS must carry out due diligence procedures in accordance with the Group policy on sustainability and climate risks.

		VCC	CEA
1	Each business division engaging in the activities or offering products and services in scope of this guideline must define and document one or several product standards ensuring compliance with UBS policies, alignment with market standards, product documentation, reporting and monitoring.	X	X
2	Any VCC that UBS purchases, trades or invests in on its own account or on behalf of clients or uses as underlying asset in a derivative or structured product must be approved by internationally recognized registries and underlying projects must be verified in accordance with established international standards to provide assurance that the VCC comply with the ICVCM Core Carbon Principles.	X	
3	Voluntary offsetting of physical or financed emissions must adhere to the following principles: · REDUCE: Science-based climate targets and credible trajectories to achieve these targets must be clearly articulated with direct emission reductions being the priority · REPORT: Physical or financed greenhouse gas emissions must be measured and reported at least annually in accordance with accepted third-party standards for corporate greenhouse gas accounting and reporting · OFFSET: Offsets must be purchased by the borrowers / investees themselves, not by the bank.	X	
4	If UBS purchases VCC to offset its own or a client's emissions, UBS must make sure to retire these VCC permanently and not trade them any longer nor use them to offset further emissions.	X	
5	Any CEA that UBS purchases, trades or invests in on its own account or on behalf of clients or uses as underlying must be issued by an authorized Emissions Trading System (ETS).		X
6	Any transactions in CEAs in authorized Emissions Trading System (ETS) must be structured in a manner that: The purchase should not trigger any foreseeable counteracting responses by stabilization mechanisms built into the emissions trading system (e.g., new CEA being added or planned cancellations of CEA not taking place as a consequence of the purchases). If CEA are to be purchased with the intention to accelerate the path of reduction in the overall amount of carbon emissions allowed by the respective ETS, the CEA purchased cannot be traded anymore. Where supply reduction is not an explicit goal, the holding and trading of CEAs is permissible in line with relevant rules and policies of respective ETSs.		X

Sustainability and climate risk framework

UBS annually performs a sustainability and climate risk materiality assessment of its products, services and supply chain (in accordance with the ISO 14001 standard and UBS's Risk Control Self-Assessment). Products, services and activities deemed high risk are subject to the following framework.

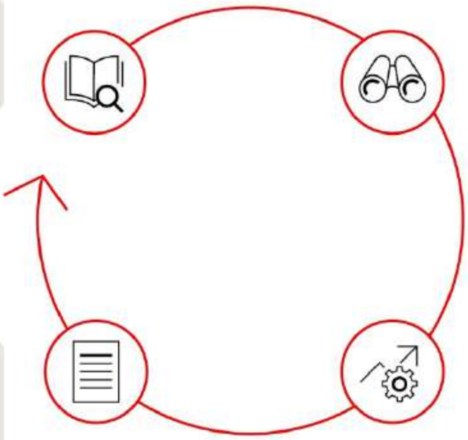
Sustainability and climate risk framework

1 Identification and measurement

Sustainability and climate risks are identified and their materiality is measured

2 Monitoring and risk appetite setting

Sustainability and climate risks exposures, emerging risks and regulations are monitored and metrics reported internally to enable risk appetite setting



4 Reporting

Key sustainability and climate risks considerations are included in internal reporting and external disclosures

3 Management and control

Management and control processes ensure that material sustainability and climate risks are identified, measured, monitored and escalated in a timely manner

Standard financial and non-financial risk processes ensure that material sustainability and climate risks are identified, assessed, approved and escalated in a timely manner. These include controls during client onboarding, transaction due diligence and product development, and as part of investment-decision processes, own operations, supply-chain management and portfolio reviews.

Governance

Given the many sustainability- and climate-related challenges globally, these topics will continue to increase in relevance for banks. These developments therefore require regular and critical assessment of our policies and practices, based on accurate monitoring and analysis of societal topics of potential relevance to UBS.

The management of sustainability and climate risk is steered at the GEB level. Reporting to the Group CEO, the Group Chief Risk Officer is responsible for the development and implementation of control principles and an appropriate independent control framework for sustainability and climate risk within UBS, and its integration into the firm's overall risk management and risk appetite frameworks. The Chief Risk Officer (the CRO) for Sustainability supports the GEB by providing leadership on sustainability in collaboration with the business divisions and Group Functions.

Integration in financial and non-financial processes

- *Client onboarding:* Potential clients are assessed for sustainability and climate risks associated with their business activities as part of UBS's know-your-client (KYC) processes.
- *Transaction due diligence:* Sustainability and climate risks are identified and assessed as part of standard transaction due diligence and decision-making processes.
- *Product development and investment-decision processes:* New financial products and services are reviewed before their launch in order to assess their compatibility and consistency with UBS's environmental and human rights standards. Sustainability and climate risks are also considered where relevant as part of the firm's overall ESG approach to investment-decision processes and when exercising ownership rights, such as proxy voting, and engagement with the management of investee entities.
- *Own operations:* Our operational activities and employees, and contractors working on UBS's premises, are assessed for compliance with relevant environmental, health and safety, and labor rights regulations.
- *Supply chain management:* Sustainability and climate risks are assessed when selecting and dealing with suppliers. UBS also evaluates goods and services that pose potential environmental, labor and human rights risks during the life cycle (production, usage and disposal) as part of its purchasing processes.

– *Portfolio review:* At the portfolio level, we regularly review sensitive sectors and activities prone to bearing sustainability- and climate-related risks. We assess client exposure and revenue in such sectors and attempt to benchmark the portfolio quality against regional and/or sector averages. Such portfolio reviews give us an accurate aggregated exposure profile and an enhanced insight into our transaction and client onboarding processes. Based on the outcome of these reviews, we can explore ways to improve the future portfolio profile along a range of risk parameters.

Clients, transactions or suppliers potentially in breach of our standards, or otherwise subject to significant climate, environmental and human rights controversies, are referred to our Sustainability and Climate Risk unit, which approves or rejects the cases after assessing their compliance with the firm's risk appetite standards. Advanced data analytics on companies associated with such risks is integrated into the web-based compliance tool used by our staff before they enter into a client or supplier relationship, or a transaction. The systematic nature of this tool significantly enhances our ability to identify potential risk.

In 2023, 3,297 referrals were assessed by our Sustainability and Climate Risk unit, of which 251 were rejected or not pursued, 356 were approved with certain qualifications and 419 were pending. The overall number of SCR referrals increased by 16% compared with 2022.

Sustainability and climate risk assessments

	UBS				Credit Suisse	
					Step Trace[2]	CETF[3]
	For the year ended			% change	For the year ended	
	31.12.23	31.12.22	31.12.21	31.12.22	**31.12.23**	**31.12.23**
Cases referred for assessment[1]	**3,297**	2,834	2,919	16	**316**	**830**
Cases referred for assessment: UBS Europe SE	**126**	88				
by region						
Americas	**611**	548	496	11	**85**	**151**
Asia Pacific	**785**	729	631	8	**93**	**18**
Europe, Middle East and Africa (excluding Switzerland)	**513**	481	556	7	**26**	**51**
Switzerland	**1,388**	1,076	1,236	29	**112**	**610**
by business division						
Global Wealth Management	**178**	151	278	18		
Personal & Corporate Banking	**1,209**	1,151	1,345	5		
Asset Management	**13**	11	24	18		
Investment Bank	**1,815**	1,443	1,162	26		
Group Functions[4]	**82**	78	110	5		
Credit Suisse Swiss Bank					**86**	**285**
Credit Suisse Investment Bank					**152**	**214**
Credit Suisse Wealth Management					**78**	**331**
by sector[5]						
Agriculture[6]	**419**	466	536	(10)	**44**	**17**
Industrials[7]	**439**	321	353	37	**55**	**81**
Financial services[8]	**509**	341	209	49	**17**	**0**
Real Estate[9]	**212**	76	82	179	**11**	**0**
Metals and mining	**583**	578	689	1	**38**	**10**
Fossil fuels	**320**	350	318	(9)	**55**	**291**
Services and technology[10]	**142**	144	190	(1)	**22**	**0**
Transportation	**91**	85	80	7	**11**	**340**
Utilities	**240**	204	225	18	**55**	**91**
Others[11]	**342**	269	237	27	**8**	**0**
by outcome[12]						
approved[13]	**2,123**	1,981	1,989		**278**	
approved with qualifications[14]	**356**	413	396		**4**	
rejected or not further pursued[15]	**251**	301	137		**20**	
pending[16]	**419**	125	17		**14**	
assessed[17]	**148**	14	380			**830**

1 Transactions and client onboarding requests referred to the SCR function. 2 StepTrace records all referrals, which Sustainability Risks considers having a nexus to significant environmental and/or social risks for the purposes of internal monitoring and reporting, internal training and awareness, and discretionary engagement with external stakeholders. 3 Client Energy Transition Framework (CETF) was developed to engage with clients on their approach to managing environmental and social risks as well as their transition strategy. The framework consists of the identification of priority sectors/industries and a methodology to categorize clients that operate in these sectors according to their energy transition readiness. 830 names have been assessed (new or updated categorization) for the year 2023. As CETF categorizations have been assigned at a counterparty level, in some cases different CETF categorizations can be linked to a parent group. 4 Relates to procurement / sourcing of products and services. 5 Amendment in sector calculation: sector is selected based on main assessed counterparty, following UBS GIC2 code approach. 6 Includes, e.g., companies producing or processing fish and seafood, forestry products, biofuels, food and beverage. 7 Includes e.g. chemical and pharmaceutical companies. 8 Includes, e.g., banks, commodity traders, investments and equity firms. 9 Includes e.g., real estate and construction and engineering companies. 10 Includes technology and telecom companies. 11 Includes, e.g., aerospace and defense, general industrials, retail and wholesale. 12 "By outcome" 2023 data is from 25 January 2024. Outcomes from 2022 and 2021 were also recalculated. 13 Client / transaction / supplier transactions approved at SCR. 14 Client / transaction / supplier subject to an SCR assessment and approved with qualifications. Qualifications may include ring-fencing of certain assets, conditions toward client / supplier or internal recommendations. 15 Client / transaction / supplier subject to an SCR assessment and rejected or not further pursued. 16 Decision pending. 17 Assessed companies related to portfolio reviews.

Key memberships and commitments of pertinence to the SCR policy framework

Topic	Relevance to UBS	Initiatives/commitment
Environment and climate change	Our approach to climate, as set out in the UBS Group Climate and Nature Report 2023. UBS Group AG excluding Credit Suisse is certified according to ISO 14001, the international environmental management standard.	1992 One of the first financial institutions to sign up to the UN Environment Programme bank declaration. 2002 CDP founding signatory. 2015 Founding member of the Task Force on Climate-related Financial Disclosures. 2020 Founding member of the Net Zero Asset Managers initiative. 2021 Founding member of the Net-Zero Banking Alliance.
Forestry and Biodiversity	Our approach to nature, as set out in the UBS Group Climate and Nature Report 2023	2012 Member of the RSPO. 2014 Endorsed the "Soft Commodities" Compact from the Banking Environment Initiative and the Consumer Goods Forum.
Human Rights	Our commitment to respecting human rights, as set out in the UBS Human Rights Statement	2011 Founding member of the Thun Group of Banks on banking and human rights.
Industry- wide sustainability topics	Our progress in implementing Group Sustainability and Impact objectives, as set out in the UBS Sustainability Report 2023 (externally assured in accordance with the Global Reporting Initiative (GRI) Standards)	2000 One of the first companies to endorse the UN Global Compact. 2000 Founding member of the Wolfsberg Group of Banks on financial crime prevention. 2019 Founding signatory of the UN Principles for Responsible Banking (the PRB).

UBS Group AG
P.O. Box
CH-8098 Zurich

ubs.com

بنك الإمارات دبي الوطني
Emirates NBD

Emirates NBD Group

Climate Risk Policy Summary

Friday, 6 September 2024

بنك الإمارات دبي الوطني
Emirates NBD

Climate Risk Policy Summary

1.Introduction

Emirates NBD Bank (P.J.S.C) and its subsidiaries (together referred to as the Group) recognise the impact of climate-related risks on both its operations and the broader financial system. To mitigate these risks, we conduct materiality assessments to understand and assess the exposure to various risk associated with climate change, which includes, among other aspects, stress testing. These assessments guide our risk management strategies, allowing us to proactively address climate-related challenges, support the transition to a low-carbon economy and safeguard our stakeholders' interests while aligning with applicable regulatory frameworks.

2.Purpose

This Climate Risk Policy (the CRP or the Policy) outlines the Group's approach to identifying, assessing, managing, and reporting climate-related risks. The CRP is designed to integrate climate risks within the Group Risk Management framework. It defines policies to enhance the resilience to and management of climate risks through sound risk management practices. The policy serves to inform the Group to integrate climate risk considerations into its overall risk management framework, aligns with regulatory requirements, and contribute to efforts to mitigate climate change.

3. Scope

This policy addresses the material climate risks, and the potential impacts due to the same emanating from the Groups' credit facility counterparties and vendors. The CRP is applicable to all Group entities (Head Office, domestic and international branches, and subsidiaries) across all countries of operations. In accordance with relevant local guidelines and requirements, the international entities of the Group will define specific addendum to address local regulatory and compliance requirements that are not covered by the CRP.

4. Governance

- Board Oversight: While the Board of Directors (BoD) has the ultimate responsibility of overseeing the aspects of this Policy, it has delegated the responsibility of governance and oversight to the Board Risk Committee (BRC). At an operational level, the Group Risk Committee (GRC) is responsible for ensuring that the Policy is institutionalised within the Group.
- Roles and Responsibilities: The Group will institute a clear three lines of defense (3LOD) risk management model across the climate risk lifecycle.

5. Risk Management

- Risk Identification and Assessment: The Group will regularly assess climate-related risks, focusing on both physical risks and transition risks.
- Stress Testing: The Group will conduct stress testing to understand the potential impacts of different climate-related scenarios on its credit portfolio. The Group is in the process of developing a framework to assess the impact of acute climate perils on its liquidity soundness.
- Risk Mitigation: Depending on the materiality of the climate risk exposure and Environmental and Social (ES) risk rating of the counterparties, business units may, in future, define mitigation plans or consider the use of financing conditions or covenants to reduce the customer's exposures to climate risks. If in place, mitigants will be reviewed and amended based on the changes in the counterparty's climate risk profile.
- Materiality Assessment: The Group conducts materiality assessments to understand and assess the exposure to various risk associated with climate change.

6. Reporting and Disclosure

- Transparency: The Group commits to transparent reporting of climate risks and related financial impacts in its annual disclosures, following the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).
- Regular Updates: The Group Risk Committee will provide periodic updates to the Board Risk Committee on the Group's adherence to climate risk measures included in the Group's risk appetite.

7. Capacity Building

- Training: The Group will ensure that concerned individuals at all levels are adequately trained on climate risk and its implications on the risk profile of the Group. The training will comprise both general awareness training on climate risk targeted at a wider audience and role-specific training targeted at specific business units.
- Collaboration: Collaboration with industry peers, regulators, and experts to stay informed about best practices and emerging trends in climate risk management.

8. Monitoring and Review

- Ongoing Monitoring: Climate risk measures will be periodically monitored and reported through the Group's risk appetite and quarterly risk reports.
- Policy Review: Policy is reviewed annually or more frequently in the event of any significant updates due to regulatory changes or changes to Group's strategy by BRC.

9. Compliance

All employees are expected to comply with this policy.

This policy is a critical component of the Group's commitment to sustainable banking practices and its role in supporting a low-carbon, resilient economy.

CORPORATE SOCIAL RESPONSIBILITY

BNP PARIBAS

ENVIRONMENTAL FRAMEWORK

May 2024

BNP PARIBAS

The bank for a changing world

Classification : External

TABLE OF CONTENTS

1. CONTEXT

Human activities put various pressures on our planet which disrupt the climate and natural ecosystems, degrading living conditions on Earth. This observation, based on a scientific consensus established by international reference bodies such as the IPCC[1] and the IPBES[2], calls for a strong commitment from all stakeholders.

Human-induced pressures on the environment are multiple and interconnected. Emissions of greenhouse gases into the atmosphere, mainly linked to the burning of fossil fuels, disrupt the climate system. Changes in land use, over-exploitation of certain organisms, climate change, pollution and the displacement of species cause an unprecedented decline in biodiversity, nature and the services it provides. The use of natural resources, such as soil, water or minerals, approaches or exceeds their availability or renewal limits.

As a leading financial institution, BNP Paribas aims to contribute to the transition of the economy towards a responsible and sustainable system that meets the needs of the population without damaging ecosystems, in line with the 17 United Nations Sustainable Development Goals (SDGs).

As a signatory of the United Nations Global Compact in 2003, BNP Paribas is gradually strengthening its environmental commitments and actions. Since 2010, BNP Paribas has implemented financing and investment policies governing its activities in the economic sectors with the greatest environmental impact. Since 2011, BNP Paribas has fully integrated environmental issues into its strategy and is specifically committed to fighting climate change. Since 2017, the Group has stated its ambition to align its activities with the objective of the 2015 Paris Climate Agreement. In 2021, BNP Paribas formalised and strengthened its climate ambition and committed to steering its financing and investment activities in order to align them with trajectories compatible with a carbon neutral world in 2050. In 2023, BNP Paribas further strengthened its ambition by accelerating its disengagement from fossil fuels and adopting an exit path from financing their production with the objective that low-carbon energy account for at least 90% of the Group's credit exposure to energy production by 2030. In addition to its total withdrawal from coal (to be complete by 2030 in all OECD and EU countries and by 2040 in the rest of the world), the Group no longer provides funding of any type (project finance, Reserve Based Lending – RBL, FSPO) for projects to develop new oil or gas fields. In addition, the Group published in 2019 a position on the protection of the Ocean and in 2021 a position on the preservation of Biodiversity.

This document is a general information document designed to describe BNP Paribas' approach to environmental issues driving the policies and commitments undertaken by the Group.

[1] Intergovernmental Panel on Climate Change
[2] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services

2. GENERAL APPROACH

2.1 Principles for action

To address the complex environmental challenges, BNP Paribas relies on the latest scientific knowledge and endeavours to apply a systemic approach, using the following principles:

- identifying and making its best effort to limit both the **impacts** of BNP Paribas on the environment and the **risks** posed by the environment on BNP Paribas' business, directly or through its clients and the companies in which the Group invests, depending on the available information on these stakeholders;
- **considering the various environmental issues** (climate, biodiversity, natural resources...) **simultaneously**, in order to support approaches that maximise co-benefits and avoid those that improve one environmental dimension to the detriment of another;
- considering the social consequences of the energy and ecological transition, **for a fair and just transition**;
- **acting simultaneously on the supply and demand** of resources, through innovation, technological developments and change of practices (circular economy, sufficiency);
- supporting both the **reduction of risks** related to environmental degradation and **the development of opportunities** related to environmental actions.

2.2 Governance

Environmental issues are at the heart of BNP Paribas' company purpose, which aims to "contribute to a responsible and sustainable economy".

The environmental strategy is determined by the General Management and validated by the Group's Board of Directors, supported by two of its specialised committees, the Corporate Governance, Ethics, Nominations and CSR Committee ("CGEN") and the Internal Control, Risk Management and Compliance Committee ("CCIRC").

2.3 Dialogue with stakeholders and whistleblowing framework

BNP Paribas' desire to maintain an open, constructive, and fruitful dialogue with its stakeholders is reflected in the measures taken by the Bank to structure and facilitate this dialogue. The manner in which BNP Paribas gathers and processes inputs from its stakeholders is detailed in the regularly updated 'Dialogue with stakeholders" position[3].

A Group-level whistleblowing system, under the responsibility of dedicated points of contact within the Compliance and Human Resources functions depending on the subject, can be activated by external stakeholders of BNP Paribas, using a whistleblowing form available on the Group's website [link: BNP Paribas whistleblowing framework].

2.4 Risk management

The Group integrates environmental risks, particularly those related to climate change, into its risk management process. It gradually strengthens their assessment as the methodologies for measuring and analysing these factors and their impact on traditional risks, including those related to credit quality, progress.

Since 2021 (starting with strategic clients), the Group analyses the exposure of its corporate clients to ESG[4] risks through the ESG Assessment. This assessment framework is adapted according to the issues

[3] "How BNP Paribas listens to and takes into account expectations of its stakeholders", available online.
[4] ESG: Environment, Social, Governance

that are the most salient to the business sectors of the Group's clients and covers five dimensions, two of which are related to the environment (Climate, and Pollution and biodiversity). The ESG Assessment is based on sector questionnaires, accounting for the material stakes of the client's activity and integrating, when appropriate, the criteria defined in the Group's financing and investment policies, supplemented by an analysis of controversies affecting the client. The ESG Assessment is designed to be adapted and extended to other customer segments in a continuous improvement approach, taking into account the availability and reliability of existing customer information.

Considering the ESG dimension as one of the Group's major issues and a fundamental component of customer knowledge, the Group generalises the integration of ESG assessment criteria throughout the business relationship (Know Your Client – KYC process), during the onboarding processes and at various stages of the relationship.

2.5 Transparency

BNP Paribas communicates in a transparent manner about its direct and indirect environmental impacts, its environmental risks and opportunities, its action plans, and its progress. The Group endeavours to provide sincere information, which is representative of its impacts and activities, in accordance with its regulatory obligations and reference reporting standards. It relies on independent third parties to verify key information.

BNP Paribas publishes this information in its financial documentation in application of its regulatory obligations and in various voluntary reports. Moreover, BNP Paribas actively contributes to the development of collective reporting frameworks (TCFD[5], TNFD[6]…).

The Group's publications and positions on the environment, and more broadly on Corporate Social Responsibility, are available on the BNP Paribas corporate website's Publications page.

2.6 Continuous improvement

BNP Paribas' approach to the environment is part of a drive for continuous improvement. The Group will supplement its approach as necessary.

[5] Taskforce on Climate-related Financial Disclosures
[6] Taskforce on Nature-related Financial Disclosures

3. ACTION LEVERS

BNP Paribas acts in favour of the environment in several ways: 1) as a committed financial institution at the heart of the economy, 2) as a responsible company and 3) as an influential player within society.

3.1 As a financial institution, BNP Paribas supports the ecological transition of the economy

BNP Paribas' main lever for action is to use its position as a financial institution to support the ecological transition of economic players. To this end, BNP Paribas directs the financing and investments it grants or facilitates in favour of an economy compatible with the planetary boundaries and supports the clients of its various business lines in their ecological transition.

This action takes several forms:

- **BNP Paribas integrates environmental issues into its activities and processes,** including the analysis of its clients, the credit granting process, its investment decisions, its data management, its reporting and its risk management.
- **BNP Paribas reduces its support to activities with the greatest negative impact on the environment.** The Group thus excludes from its activities clients and projects with the most serious environmental impacts (particularly in the coal and unconventional oil and gas sectors) and reduces its credit exposure to high-emission activities (such as oil and gas exploration and production), notably through dedicated financing and investment policies.
- **At the same time, BNP Paribas increases its support to low-carbon and environmentally respectful alternatives.** This dual evolution helps BNP Paribas **align its financing and investment activities with reference transition pathways**[7].
- **BNP Paribas supports the ecological transition of all its customers across its various businesses in charge of financing.** To this end, BNP Paribas maintains a strategic dialogue with its customers, helps finance energy and environmental transition projects and offers its customers adapted financial products and services such as: green and sustainable bonds, sustainability-linked loans (SLL), mortgages for more energy-efficient properties, consumer loans for energy renovation or the purchase of less polluting vehicles, etc.
- **BNP Paribas helps direct investment flows towards environmentally positive activities.** Group entities in charge of investment and asset management integrate environmental criteria into their investment products, develop an issuers' influence approach in favour of the ecological transition through dialogue and a voting policy, and create and manage investment funds and general funds geared to the ecological transition.

3.2 As a company, BNP Paribas seeks continuous improvement within its operational scope

As a service company, BNP Paribas' impact on the environment is essentially indirect through its role in the economy. BNP Paribas nonetheless carries out actions to reduce its direct environmental impacts, seeking continuous improvement and the involvement of its employees.

Thus, BNP Paribas has been measuring its energy consumption and operational greenhouse gas (GHG) emissions (Scope 1, Scope 2 and business travels) since 2012. It has reduced them gradually, through the reduction of energy consumption linked to its premises, IT equipment and business travels, as well as the use of low-carbon energy. In addition, since 2017, BNP Paribas contributes to carbon sequestration or GHG reduction projects for an amount equal to its residual operational emissions.

[7] such as the Net Zero Emissions 2050 scenario developed by the International Energy Agency (IEA).

BNP Paribas also supports its employees in their eco-conscious efforts by facilitating sustainable mobility, promoting more responsible and less meat-based food in the Group's restaurants, excluding the use of single-use petroleum-based plastics on its premises and raising awareness on sustainable digital use.

Lastly, the Group works with its suppliers to develop more sustainable supply chains, as described by the environmental clause of its Sustainable sourcing charter. BNP Paribas has structured its ESG risk management system for its suppliers and subcontractors around two main levers of actions: the use of ESG questionnaires in calls for tenders, with a minimum of 15% ESG criteria taken into account in the evaluation of offers, and specific trainings for the Purchasing Function.

3.3 As an actor in society, BNP Paribas supports the collective ecological transformation

Convinced that joint action by all stakeholders (public authorities, companies, financial institutions, scientists, citizens, and civil society) is necessary, the Group actively contributes to numerous collective actions in favour of the environment:

- **BNP Paribas supports research, development, and innovation in support of the ecological transition**: the Group, notably through its Foundation, support scientific research programmes in the area of climate and biodiversity. It invests, directly or through dedicated funds, in start-ups and SMEs providing innovative solutions to environmental challenges.
- BNP Paribas undertakes to ensure that **the Group's public representation activities do not contradict its environmental commitments**, in particular its support to the objectives of the Paris Agreement[8].
- **BNP Paribas carries out activities aimed at raising awareness on the environment among its stakeholders** (employees, customers, the general public)[9].
- **BNP Paribas actively contributes to methodological initiatives** aimed at defining environmental reporting standards **and the structuring, standardisation and integration of** environmental impact measurement data.
- **BNP Paribas actively participates in numerous collective actions with economic actors** supporting the energy and ecological transition.

[8] Refer to the Charter for responsible representation with respect to the public authorities, available online.
[9] For example, through the deployment within BNP Paribas of the Climate Fresk, a climate awareness game, or through the organisation of client events providing information on environmental issues.

4. AREAS OF ACTION

BNP Paribas structures its environmental action around three areas: climate change and energy transition, natural capital and biodiversity, resources and circular economy.

4.1 Climate and energy transition

The mitigation of climate change is the Group's first area of environmental action.

BNP Paribas acts within the framework and objectives set by governments in international agreements, including the Paris Agreement (2015) and the European Green Deal (2019).

BNP Paribas relies on the scientific syntheses of the IPCC, particularly those of its 6th assessment cycle on impacts, adaptation and vulnerability (WGII, 2022) and climate change mitigation (WGIII, 2022).

The BNP Paribas Group is committed to steering its financing and investment activities towards the objective of a carbon-neutral world by 2050. Regarding its financing activities, this commitment consists in aligning the loan portfolios to the largest emitting sectors with the reference transition scenarios. This involves financing the players committed to the transition and transition projects and no longer financing the development of new oil and gas fields. Concerning investment activities, BNP Paribas Asset Management and BNP Paribas Cardif commit to developing investment portfolios to be consistent with the objective of carbon neutrality in 2050. BNP Paribas Real Estate is committed to offering sustainable, and hence low-carbon, real estate by acting at all stages of the building's lifecycle, from its construction to its energy consumption, for a low-carbon trajectory.

BNP Paribas uses recognised low-carbon transition scenarios, such as the International Energy Agency's (IEA) Net Zero Emissions (NZE) 2050 scenario and the IPCC scenarios adapted by the NGFS[10]. Furthermore, BNP Paribas applies reference tools, such as transition alignment pathway methodologies for credit activities.

BNP Paribas recognises the following sequencing of levers against climate change:

1. energy sufficiency (adapting practices to reduce demand);
2. energy efficiency (producing, transporting and using energy more efficiently);
3. the use of low-carbon energy, including renewable energy sources[11];
4. the sequestration of residual emissions; BNP Paribas is particularly cautious on carbon sequestration projects: while carbon capture is essential to achieve global carbon neutrality it must only be implemented in a context of robust, sustainable projects that do not harm biodiversity and local communities.

BNP Paribas offers its clients products and services on each of these levers of action.

BNP Paribas takes into account physical risks related to climate change, by integrating them into its risk assessment and management system and by supporting adaptation to climate change, notably by funding research projects that aim to anticipate its effects[12].

4.2 Natural capital and biodiversity

Fighting the decline in biodiversity, nature and the ecosystem services they provide is another area of BNP Paribas' environmental action.

BNP Paribas relies on the scientific assessments and syntheses prepared by the IPBES, particularly its Global Assessment Report on Biodiversity and Ecosystem Services (2019).

[10] The Network for Greening the Financial System (NGFS) has adapted IPCC scenarios to help central banks and supervisors explore the impacts of climate change on the economy and the financial system.
[11] Wind and marine energy, photovoltaic solar, concentrating solar, hydro, geothermal and bioenergy (including biofuels except for the first generation).
[12] See the Climate & Biodiversity Initiative of the BNP Paribas Foundation.

BNP Paribas' actions follow the Kunming-Montreal Global Biodiversity Framework adopted at the United Nations Conference on Biodiversity in December 2022 (COP15).

BNP Paribas' approach is based upon the pressures identified by the IPBES (in descending order of global impact):

1. Changes in land and sea use;
2. Direct exploitation of organisms;
3. Climate change;
4. Pollution;
5. Invasive alien species.

In addition to the climate change mitigation actions already mentioned, BNP Paribas' main initiatives aiming at supporting biodiversity include:

- fighting against deforestation;
- protecting the ocean, particularly with the prohibition of certain fishing practices, the support for the ecological transition of ships and the prevention of marine pollution;
- implementing specific restrictions in different biodiversity-rich areas;
- banning particularly polluting practices;
- supporting the transition towards a more sustainable agriculture.

BNP Paribas Group's Position on Biodiversity and BNP Paribas Asset Management's Biodiversity Roadmap provides further details on these actions.

4.3 Circular economy

BNP Paribas actively supports initiatives aimed at reducing the consumption of natural resources and the production of waste, which are brought together under the concept of circular economy.

BNP Paribas relies on the works made by the circularity platform of the United Nations Environment Programme (UNEP).

BNP Paribas offers products and services or supports players linked to one or more fields of the circular economy[13]:

- circular design, i.e. the design of products to facilitate their repair, reuse and recycling;
- the use of recycled rather than virgin raw materials (circular input);
- sharing economy business models;
- the sale of the goods' use rather than of the goods themselves (product-as-a-service)[14];
- product lifetime extension ;
- the recycling and reuse of resources;
- the facilitation of the circular economy (e.g. through networking platforms).

In addition, BNP Paribas seeks to ensure that its investment and financing activities do not contribute to increased water scarcity or pollution, with special attention given to regions where water stress is high.

[13] On these different fields, BNP Paribas is vigilant that an impact measure confirms the environmental benefit of the proposed circular approach.

[14] Two subsidiaries of the Group, Arval and BNP Paribas Leasing Solutions, offer long-term leases of vehicles and logistical, agricultural, IT and medical equipment.

State Bank of India

Climate Change Risk Management Policy

(Abridged Version)

Risk Management Department
Corporate Centre, Mumbai.

Climate Change Risk Management Policy

Contents

1. Objective and Scope of the Policy

The primary objective of Climate Change Risk Management Policy is to guide the Bank to transition towards low carbon and climate resilient operations and investments. The Climate Change Risk Management Policy shall be applicable to all national and international operations as well as the Bank's lending portfolio.

2. Climate Change Risk Management

The Bank is committed towards integrating climate change concerns into its operations and decision-making to lend momentum towards transitioning to a greener and more climate resilient business.

2.1 Risk Governance

The Bank has a well-established risk governance structure in place.

- **Board oversight**: The Central Board shall have the primary responsibility of overseeing climate change related matters through the Risk Management Committee of the Board.
- **Management oversight**: The Executive Committees of the Bank shall be responsible for overseeing climate change risk related matters at senior management level.
- **Implementation of Policy**: The Climate Change Risk Management Policy shall be implemented by heads of all business units by integrating climate change considerations into their specific areas of business and operations.

2.2 Risk Identification and Assessment

Risks that climate change might present shall be identified at the operational and portfolio levels. Recognizing the uncertainty associated with the impact of climate change, suitable scenario analysis and stress testing mechanism for assessment of forward-looking climate change risks shall be developed.

2.3 Climate-related Opportunities

In addition to climate-related risks, business opportunities presented by climate change shall also be explored, allowing the Bank to better position itself in not only reducing costs for own operations but also meeting growing demand for low carbon lending. The Bank has adopted a target of achieving carbon neutral status by 2030 and is focusing on aligning its products and services with the United Nations Sustainable Development Goals (SDGs).

2.4 Risk Measurement

Climate-related risks can affect financial performance and position of the Bank now and in the future. Thus, while measuring business implications of climate change, the manner in which climate-related risks and opportunities are likely to affect current and future financial performance in terms of major impact categories (e.g. Revenues, Expenditure, Assets etc.) need to be assessed.

2.5 Internal Controls

The Bank shall implement adequate internal control measures and climate risk management policies/strategies, in line with the various board approved policies, with the aim of offsetting the potential impact and/or reducing the severity of impact of the identified climate-related risks.

2.6 Risk Reporting and Monitoring

Regular, periodic progress reports showcasing the Bank's exposure to identified climate-related risks and its performance in managing them shall be presented to the senior management and to the Board.

2.7 Metrics and Targets

The Bank is currently monitoring and reporting climate-related metrics such as GHG emissions, energy consumption, waste generation & recycling and water management as part of the larger sustainability programme.

However, additional metrics that can enable qualitative and/or quantitative assessment of the Bank's exposure to climate-related risks and opportunities shall also be monitored and reported.

2.8 Disclosures

Going forward, the Bank shall annually disclose its approach for managing climate-related risks covering relevant climate-related information that is deemed material for investors, customers, and other stakeholders.

3. Review of policy:

This policy will be reviewed annually.

Standard Bank Group

CLIMATE POLICY

March 2025

Standard Bank Group Policy	
Name	Standard Bank Group (SBG) Climate Policy
Abstract:	The SBG Climate Policy sets out the principles under which SBG aims to achieve net zero across our lending and investment portfolio by 2050, and net zero in respect of our own operations by 2040. It includes a description of our approach to managing climate opportunity and risk, and a summary of commitments per priority sector.
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Contact:	GroupSustainability@standardbank.co.za +27 11 721 5681

Classification

This document has been issued strictly for internal and external business purposes of Standard Bank Group Limited and its subsidiaries.

Standard Bank Group Climate Policy

Contents

1 Policy Statement

1.1 Objectives

Our approach to managing climate-related opportunity and risk is grounded in our Group purpose: Africa is our home; we drive her growth. We take Africa's environmental, social, and economic context, and the imperative of a just energy transition, as our starting point.

Our role in leading Africa's energy and infrastructure development is central to maximising positive impact. We partner with Africa's governments and businesses to mobilise the investment needed to enable access to affordable and reliable energy, with a strong focus on renewable energy, together with water, roads, transport and telecommunications. At the same time, we implement appropriate risk management to protect the functioning of the environmental ecosystems on which we depend.

As an African bank, with a deep understanding of Africa's economic and developmental challenges, we take a considered and responsible approach to decarbonisation. In 2022, Africa was responsible for just 3.7% of global energy-related carbon emissions. However, Africa's share of global GHG emissions could rise to between 5% and 20% by 2100, even with moderate economic and population growth.[1] Guided by the need for a just energy transition, and the Paris Agreement's principle of 'common but differentiated responsibilities', we recognise that while there is a duty on all countries to take climate action, the types of action they take will depend on their national circumstances. Many African economies depend on non renewable exports for government revenues, economic stability, and public services. Transitioning away from these resources requires careful planning to avoid economic disruptions and ensure a just transition[2] Rapid disinvestment in coal, oil and gas production is neither practical nor responsible in African economies with a heavy reliance on these fuels.

While we support the transition to lower-carbon energy sources, we believe that energy security and economic growth still require substantial non-renewable inputs. An integrated approach that considers renewable energy, battery storage, and some capacity from carbon-based fuels, is prudent to ensure energy reliability, access and efficiency in harmony with preserving our environment and climate. In this context, SBG will continue to support the development of affordable, reliable and sustainable

[1] International Energy Agency (IEA) 'Africa', https://www.iea.org/regions/africa; Wang J et al (2024), Investigating the fast energy-related carbon emissions growth in African countries and its drivers, https://www.sciencedirect.com/science/article/pii/S0306261923018585; Kalvin, C (2014) The effect of African growth on future global energy, emissions, and regional development, https://www.cmcc.it/wp-content/uploads/2015/02/rp0214-cip-01-2014.

[2] IEA Africa Energy Outlook 2022" https://iea.blob.core.windows.net/assets/220b2862-33a6-47bd-81e9-00e586f4d384/AfricaEnergyOutlook2022.pdf

energy infrastructure for Africa's people, while ensuring that all projects are designed and implemented with robust environmental and social impact and risk controls, as part of clients' transition strategies, and within the parameters of our Group climate policy and targets.[3]

1.2 Approach

Climate risk mitigation and adaptation is one of SBG's four impact areas and is recognised as a material risk and opportunity by the Group. Physical and transition risk are present across our presence countries and operations, with varying levels of intensity. Our most material exposure to climate risk is through our credit risk exposures that arise from the loans and advances that we make to clients who are impacted by climate-related physical and transition risks. We are also analysing the impact of climate risk on other financial risk types such as market risk and assessing the impact on business continuity and reputational risk.

We depend on complementary mechanisms to achieve our net zero ambitions, inclusive of:

- Active portfolio management, as we work toward reducing the physical intensity of our financed emissions, inclusive of certain exclusions and restrictions on lending and investing in specific high-emissions sectors, and targets to decrease the physical intensity of our financed emissions in high carbon emitting sectors such as oil and gas [4]
- Mobilisation of sustainable finance, including green finance, and active pursuit of a low-carbon energy mix, with a target to increase our lending and investment in sustainable, gas and low-carbon energy technologies
- Robust due diligence and responsible client selection, together with ongoing client engagement regarding sector transition pathways and the potential for technological developments to support and accelerate Africa's clean energy transition
- Advocacy for supportive policy and regulatory frameworks at national and regional level.

[3] The IEA's Announced Pledges scenario (APS; limiting temperature increase to 1.7 degrees Celsius) recognises an ongoing need for oil and gas resources. It estimates oil investments will average USD378 billion each year from 2022 to 2050 globally in the APS, making a cumulative oil investment total of approximately USD11 trillion globally. The sector is expected to be consolidated to include a smaller number of low-cost, responsible producers. The scenario recognises that changes in the energy system will take time, as energy infrastructure components have long asset lives and require cross-sector, system-wide changes and retrofits to meet new specifications.

[4] As per the IEA definition, gas primarily includes natural gas, liquefied petroleum gas, methane-rich gas, biogas and renewable natural gas

When assessing the materiality of climate-related risks and opportunities, and in setting targets to address these, we use the following timeframes:

- Short-term: <5 years
- Medium-term: 5 to 10 years
- Long-term: >10 years

Our approach is two pronged:

Maximising climate-related opportunities

- We partner with our clients to support their transition journeys and strengthen their resilience to climate risk.
- We are a leading financier of Africa's transition to renewable energy solutions, including grid-tied and decentralised infrastructure and solutions for businesses and homes.
- We partner with Africa's farmers and agro-processors to support the adoption of climate-smart agriculture practices, including renewable energy solutions, water-saving solutions, energy efficient equipment and sustainable technologies.
- We partner with businesses across Africa to assist clients seeking sustainable power, water and waste management solutions.
- We partner with our clients in the residential and commercial property sectors to incentivise green developments and retrofits to support energy efficiency, renewable energy solutions, emissions reduction and water efficiency, and explore options to enable climate adaptation and risk mitigation.
- We actively identify opportunities to support the energy transition and expand our sustainable finance offerings.

  We have launched a carbon trading business equipped to trade carbon credits aligned with internationally recognised standards, ensuring a secure and reliable trading environment.

Managing climate-related risks

- We prudently manage climate risk in relation to our business activities, aligned to our risk appetite.
- We have set targets for the reduction of financed emissions in relation to our oil and gas portfolio and look to expand this to other sectors.
- We are steadily reducing emissions associated with our direct operations, with a commitment to achieving net zero emissions for our own operations by 2030 for newly built facilities and by 2040 for existing facilities.
- We provide training for board members and relevant employees on climate-related issues.

We have taken a phased approach to setting climate targets at sector level, taking into account government policy and regulatory frameworks, sector transition pathways and available technologies, and the level of material exposure to risk and opportunity within our lending portfolio. Our 2022 climate policy included targets in relation to:

- The mobilisation of sustainable finance solutions, including financing for renewable energy infrastructure
- Mobilisation of finance for climate smart agriculture
- Reduction of emissions associated with our direct operations (scope 1 and 2 emissions)
- Limiting our lending exposure to high-emitting sectors, namely thermal coal, coal-fired power, oil and gas (focusing on upstream exposures), in the medium to long-term.

In 2023, we adopted additional targets, in relation to the mobilisation of finance to support climate-risk mitigation in relation to residential and commercial property. We also assessed climate-related risk in relation to short-term insurance. In 2024, we expanded our focus to include downstream oil and gas and assessed potential risk in relation to long-term insurance, asset management and transport. We have also begun to assess risk in relation to the industrials sector, with a focus on steel and cement.

Phase 1 (2022)	Phase 2 (2023)	Phase 3 (2024)	Phase 4 (2025)
Sustainable finance Renewable energy Thermal coal Coal-fired power generation Oil and gas Agriculture Own emissions	Residential real estate and personal lending Commercial real estate Short-term insurance	Downstream oil and gas Long-term insurance Asset management Transport	Industrials sector, including steel and cement

1.3 Approach to target setting

Over the past three years, we have improved the quality of our data and made progress on measuring financed emissions in respect of priority sectors. We have set financed emissions reduction targets for our upstream oil and gas portfolio, and plan to set reduction targets for other priority sectors. Our efforts to maximise positive climate action are reflected in our targets for the mobilisation of sustainable finance, including green finance. Our activities in multiple sectors, including renewable energy, residential and commercial real estate and asset management, contribute to these targets.

Steps and considerations for setting of sector-based financed emissions targets

We have engaged external experts to support us in developing appropriate targets for the reduction of financed emissions in relation to our oil and gas portfolio. We will adopt similar processes for other priority sectors. We note that our reductions targets must be considered in the context of SBG's presence in a number of countries that are currently pursuing the growth of energy infrastructure, our role as a major financier of African infrastructure projects, and the need to continue to provide services to state-owned electricity companies, some of which are heavily dependent on carbon-based fuels, to maintain energy security and the stability of national grids.

Approach to decarbonisation activities

We have identified a set of decarbonisation activities that support the climate and transition strategies of our clients in high emissions sectors. These activities support our view that gas plays an important role as a transition fuel. They include gas production, distribution and storage, which we see as important activities that will reduce emissions, alongside an accelerated rollout of renewable energy on the continent.

While we will continue financing these decarbonisation activities, only a subset of these count towards our sustainable finance mobilisation targets. In collaboration with an independent consultant, we have identified eligible transition finance activities that will count towards our sustainable finance mobilisation targets in sectors like energy, chemicals and cement.

Decarbonisation activities	Transition Finance (TF)*
All Transition Finance eligible activities	Energy (blending of low carbon fuels, use of gas for heating, cooling and electricity generation)
Renewable energy generation for use in existing coal, oil and gas activities	Infrastructure (efficiency improvements, gas related)
Gas production and use	Cement: input substitution/ energy efficiency in cement production
Liquid Petroleum Gas (LPG)	Chemicals
Transport and distribution of gas	Metals (aluminium, iron, steel)
Early decommissioning of coal assets	CCUS
Water and wastewater management for existing coal, oil and gas activities	Blue hydrogen Transportation
Transportation (efficiency improvements, or coal, oil and gas related)	
Reduced GHG emissions for sectors lacking credible transition pathways (e.g. blending low carbon fuels in thermal power plants, eliminating flaring, methane emission reduction and elimination)	
Agriculture: reduction of GHG emissions	
Carbon Capture, Utilisation and Storage (CCUS) for coal, oil and gas	
Critical minerals	

* Summary of sectors with eligible activities counting toward SF mobilisation target (reviewed by independent external consultant)

2 Climate commitments and targets

The climate commitments described below inform SBG's selection of and engagement with clients, and the allocation of financial resources. Commitments include certain exclusions and restrictions on lending in high emissions sectors.

2.1 Sustainable finance

SBG promotes positive impact through the mobilisation of sustainable finance, including green and social finance. Our Sustainable Finance frameworks ensure consistency, transparency and credibility in reporting on progress against our sustainable finance targets.

a) The Sustainable Finance Framework (“SFF”) covers eligibility requirements for use of proceeds from treasury transactions and supports green, social and sustainable bonds and loans raised by the Group or its subsidiaries. The SFF benefits from a second party opinion.

b) The internal Sustainable Finance Product Framework (“SFPF”) details the eligibility requirements for use of proceeds (green, social, sustainable, transition) and general purpose (sustainability-linked and pure play) transactions, aligned with the SFF for green and social eligibility. The green and social eligibility criteria aligns with the SFF. Transition eligibility criteria has been reviewed by an independent external consultant.

c) The internal Sustainable Finance Governance Framework (“SFGF”) details the governance process in relation to the labelling of sustainable finance transactions.

d) SBG has set ambitious targets for the mobilisation of sustainable finance by 2028, as well as sub targets focused on green finance and social finance mobilisation. These targets and our progress against them are published in the annual Climate-related Financial Disclosures report and are subject to independent verification.

2.2 Renewable energy

SBG prioritises the mobilisation of finance for the construction, generation and maintenance of renewable power and associated infrastructure, including wind, solar, hydro and ocean power. This includes:

- Large-scale renewable energy infrastructure
- Decentralised, off-grid, captive power including embedded power generation, wheeled power and aggregator models, particularly for energy intensive users such as the mining, industrials, consumer and cement sectors
- Solar-based mini-grids and stand-alone systems in areas under-served by transmission networks
- Solutions to enable households and small to medium sized businesses to adopt energy efficient and renewable energy solutions.

The mobilisation of finance for renewable energy contributes to SBG’s target for mobilisation of sustainable finance (green finance) and is tracked and reported publicly.

2.3 Thermal coal

SBG is committed to supporting economies to transition away from a dependence on coal-fired power generation over the short to medium term. We commit to providing finance for coal only where the use of such an energy source can be justified as part of a clear and identifiable energy transition pathway as outlined in the South African Integrated Resource Plan.

SBG's thermal coal exposures are predominantly in Southern Africa. South Africa's proposed Integrated Resource Plan 2023 proposes completing 1 440 MW of new coal (already under construction), indicating that South Africa's transition away from coal is likely to be over a longer period and that energy security in the Southern African region will remain dependent on coal-fired power for some time.

SBG is committed to limiting exposure to this sector in the medium term, while continuing to engage and support our existing clients as they transition to a low carbon economy. We are committed to limiting our thermal coal exposures as a percentage of Group loans and advances 0.5% by 2030, and to reducing finance (as a % of total Group advances) to existing power sector clients generating power predominantly from coal to 0.15% by 2026, and 0.12% by 2030.

a) SBG has established a financed emissions baseline.
b) SBG will consider finance for the refurbishment of existing coal-fired power stations where the purpose is to improve efficiency and reduce carbon emissions and where refurbishment is part of a clearly defined decarbonisation plan aligned to net zero by 2050.
c) SBG will continue to support engineering and services industries providing inputs to the coal value chain.

a)

SBG will not finance:

a) The construction of new thermal coal-fired power plants
b) Expansion in generating capacity of existing coal-fired power plants
c) New coal mines, except where such a development improves operational efficiency.

2.4 Oil and gas

SBG recognises the need to actively manage our exposures to oil and gas over time as part of a broader transition to net zero, while continuing to support and prioritise social and economic development in Africa. Our focus is on upstream oil and gas clients. Upstream oil and gas producers account for a significant share of the operational emissions across the oil and gas value chain. Within Standard Bank's oil and gas portfolio, upstream producers account for almost 80% of Scope 1 and Scope 2 operational emissions.

Our target is for a 10% improvement in the average physical intensity ($kgCO_2e$/boe) of the upstream oil and gas portfolio, focusing on operational emissions (2024 base year and 2030 target year), combined with a target to limit exposure to upstream oil and gas to less than 30% of the energy book and less than 3% of SBG's total loans and advances by 2030.

In setting our target, we referenced the IEA's Announced Pledges Scenario (APS). The APS is a global decarbonisation scenario that assumes all governments around the globe meet their climate-related commitments on schedule. This pathway is consistent with a temperature rise of 1.7°C in 2100 (with a 50% probability). The IEA Net Zero by 2050 scenario (NZE scenario) assumes a more ambitious decarbonisation pathway that achieves a temperature rise of 1.5°C in 2100 (with a 50% probability). The APS assumes a 31% improvement in operational emissions intensity and the NZE assumes a 56% improvement in operational emissions intensity by 2030.

a) SBG will continue to finance oil and gas-fired power within the parameters described below, to ensure energy reliability, sustainability, and efficiency.
    - Clients receiving financing for oil and gas projects must follow a physical intensity reduction pathway. This includes a demonstrable emissions reduction strategy, including a net zero by 2050 strategy.
    - We commit to monitor these strategies annually to assess progress against client targets and alignment to net zero by 2050.
    - Any oil or gas transaction with a tenor of over 12 months must be assessed for alignment with the SBG climate policy and to determine climate-related risk and energy transition opportunities. If the assessment identifies areas of concern, these must be discussed with the client, to clarify what we expect from them before we can provide financing. If conditions cannot be met, financing will not proceed.

b) In the medium to long-term, we will provide finance for oil only where the use of such an energy source can be identified as an enabler to an energy transition pathway, or where future advances in technology emerge to mitigate environmental impacts.

c) We recognise gas as a transition fuel[5] and support medium term investment in this sector, prior to phasing down finance from 2045. We will prioritise:
    - Gas-related projects that have zero routine emissions and are committed to a pathway that reduces the carbon intensity of liquified natural gas plants

[5] IEA confirms that natural gas, which emits less carbon than most other fossil fuels, has a limited role as a transition fuel from coal to renewable energy sources. It also notes that natural gas power generation may still be needed as back-up for variable wind and solar power (https://www.iea.org/energy-system/fossil-fuels/natural-gas).

- Construction of gas-fired power plants that provide backup services as part of an integrated renewable energy power solution; or to enable the conversion of existing coal or oil-fired power plants as part of a clearly defined decarbonisation plan aligned to net zero by 2050. Such plants will have zero routine emissions.

d) Transnational pipelines will require enhanced due diligence:

e) The following activities will not be financed due to their high emissions intensity and misalignment with APS targets:

- New oil-fired power plant construction or the expansion in the generating capacity of existing oil-fired power plants, except where such plants provide backup services as part of an integrated renewable energy power plant
- Companies with unrestricted flaring for new assets. We require clients to provide timebound plans to eliminate flaring for existing assets
- Any activity that requires significant induced stimulation, mechanical intervention or unconventional extraction techniques in order to primarily produce the resource (i.e. shale gas and shale oil extraction)
- Any project outside Africa.

2.5 Agriculture

SBG aims to lead the transition to climate smart agriculture across the value chain, enabling our clients to build climate resilience and grow and contribute to a low carbon economy. We aim to substantially grow our lending exposure to the agriculture sector, while reducing our financed emissions, by supporting the implementation of sustainable, climate-smart agricultural practices across our client base.

a) We are working with our clients to help them reduce their carbon emissions and improve their resilience to climate change risk, by adopting sustainable practices that conserve land, water, and biological resources, do not degrade the environment and are technologically appropriate, economically viable and socially acceptable.

b) Our approach to climate smart agriculture includes:

- Enabling sustainable practices in the agriculture value chain
- Supporting farmers to earn carbon credits for regenerative agriculture practices
- Mobilising sustainable finance solutions that accelerate growth and resilience in the sector
- Developing governance frameworks to manage, monitor, and mitigate risks

- Establishing relevant partnerships to enable our ability to drive climate smart agriculture objectives

c) Enhancing and entrenching capabilities for thought leadership in climate smart agriculture.

d) SBG will not finance:

- Deforestation of natural forests and indigenous trees (excluding de-bushing in farming blocks where grazing and cropping will have a positive impact)
- Production or trade in wood and other non-indigenous forestry products other than from sustainably managed forests
- Unsustainable fishing methods.

2.6 Residential real estate, personal lending and retail products

SBG will work with our clients to support emissions reduction and strengthen resilience to physical climate risk. By providing innovative financial solutions we will partner our clients on their sustainability journey. We will continue to grow our home loans portfolio, across our markets. We will achieve this by:

a) Being a leading provider of green-aligned lending[6]

b) Providing physical solutions and financing to support clients to retrofit their homes to improve energy efficiency (includes site visits by energy advisors, correct sizing of solar and battery equipment for maximum savings and efficiency, installations and after-sales service)

c) Providing finance for rooftop solar and other efficiency technology for homes

d) Exploring opportunities to strengthen resilience to physical climate risk.

e) Mitigating risks aligned with municipal by-laws and regulations, including ensuring that:

- Lending is not approved for properties located within flood lines
- In South Africa, construction must adhere to the National Building Regulations, and builders must be registered with the NHBRC (National Home Builders Registration Council)
- New homes must be enrolled with the NHBRC.

Our targets for the mobilisation of finance to support rooftop solar, energy efficiency and green building certifications will contribute to our overall sustainable finance mobilisation target.

6 Loans and advances used to finance products or houses that are designed, built, or have solutions that have a favourable, or less harmful impact on the environment, and are verified or certified

2.7 Commercial real estate

SBG will work with our clients to support emissions reduction and strengthen resilience to physical climate risk. This includes supporting clients in reducing reliance on the national grid, which remains heavily dependent on coal. We will achieve this by:

a) Providing green financing and sustainability-linked instruments to support clients to improve energy efficiency, water efficiency, and waste management
b) Providing finance for renewable energy solutions, with a focus on solar PV
c) Providing finance for refurbishments, retrofitting and repurposing to reduce emissions and improve climate resilience.

Our targets for the mobilisation of finance to support construction and retrofitting of green buildings, as well as sustainability linked instruments, contribute to our overall sustainable finance mobilisation target.

2.8 Insurance

SBG's short-term insurance business provides home and vehicle insurance. Our exposure to climate risk is foremost an exposure to severe weather events and other physical climate risks in our short-term insurance business, with a focus on home-owners cover. We also face transition risk across the insurance businesses, as asset values may be written-down owing to physical or transition risk (including carbon taxes).

a) We aim to remain the leading homeowners' insurance cover provider in South Africa. We continue to explore and develop opportunities for energy efficient insurance solutions (including smart geysers and GHG emission assessments), while simultaneously monitoring the frequency and severity of climate-related events.
b) We provide commercially viable insurance solutions that support the transition of our existing residential real estate portfolio towards the use of renewable energy.
c) We continue to expand our climate-related insurance offerings in partnership with underwriting management agencies and insurers and leveraging the internal brokerage business.
d) Our short-term insurance business has no exposure to carbon-intensive activities, which fall outside underwriter risk appetite. Risk is serviced through the brokerage platform for specialist cover.
e) We have geo-coded our home-owners insurance portfolio and are using this information to review exposure limits.

SBG's long-term insurance business provides life, disability and health insurance. We continue to monitor developments in the life and disability insurance subsector. We participate in the Actuarial Society of South Africa's Climate Change Committee and the climate change impacts on mortality and morbidity working party.

2.9 Investment and asset management

SBG's assets under management comprise assets where we are the asset owner, and assets where we are the asset manager or agent.

Where we are the asset owner, we dictate the investment mandate including decisions on investing or extending credit based on set emissions criteria. These assets primarily reside within the Libfin credit portfolio.

a) We aim to reduce carbon intensity within the portfolio and mobilise sustainable finance to support the decarbonisation strategies of our borrowers, particularly in carbon intensive sectors.
b) We will limit further funding to high-risk sectors on an absolute basis. We will not provide new financing to clients in the following sectors unless specific conditions are met:
   - Thermal coal power: No new finance
   - Mining: No new financing to thermal coal mining where it comprises most of the revenue mix and included as any part of the value chain
   - Oil and gas: No new finance unless it is intended for green projects or there is a clear energy transition pathway to cleaner fuels or credible sustainability plan
   - Agriculture: We only consider counterparties that practice sustainable farming methods
   - Cement: No new finance, except in cases of ring-fenced finance to green or decarbonisation projects linked to cement sector companies e.g. captive power generation where power source is renewable, or green hydrogen projects
   - Power: Finance to be assessed in the context of South Africa's Just Energy Transition Strategy. New investments in power related projects other than green energy will be assessed in conjunction with government policies on climate adaptation and mitigation measures and NDCs.
c) We are committed to the establishment of funds and products to contribute to the just energy transition, and to setting sector-based commitments to mobilise sustainable funding
d) We are committed to developing an emissions baseline as the first step toward setting targets for financed emissions reduction.

e) Where we are the asset manager, we take direction from the client (the asset owner) via their investment mandate, which may or may not have emissions criteria/restrictions. These businesses include STANLIB, Liberty Investments and Africa Regions Asset Management. For these assets, we take direction from the client.

f) Unless mandated otherwise by the client, our approach to responsible investing is active engagement, as opposed to disinvestment, with the underlying investee companies.

2.10 Own emissions

a) Emissions reduction and operational decarbonisation: SBG's commitments to reducing GHG emissions from our direct operational footprint include:

- Targets for the annual reduction of absolute Scope 1 and 2 GHG emissions across all operations, including Standard Bank operations in South Africa, Liberty Holdings, Africa Regions, and Offshore and International
- Increasing the use of renewable energy through on-site and off-site solutions, across all operations.

b) Energy efficiency and renewable energy first approach: SBG prioritises a hierarchical approach to emissions reduction, ensuring that direct emissions reductions take precedence before any compensatory mechanisms are considered. Our strategy includes:

- Optimising energy efficiency through sustainable building design, retrofits, and the deployment of energy efficient technologies, measured against industry-defined benchmarks
- Expanding investment in on-site renewable energy generation to increase the proportion of clean energy in our consumption mix
- Reducing reliance on non-renewable energy by integrating low-carbon technologies into our operations
- Adoption of off-site renewable or low carbon energy procurement.

c) Responsible use of carbon offsets and Renewable Energy Certificates (RECs): While our primary focus is direct emissions reduction, we acknowledge that some residual emissions may remain.

In such cases:

- RECs will be used to compensate for electricity-related emissions where direct procurement of renewable energy is not viable, ensuring alignment with Scope 2 market-based reporting standards.

- Carbon credits will only be used as a last resort to address residual emissions, once all reasonable efforts to reduce emissions at source have been exhausted or to reduce our carbon tax liability within the boundaries of carbon tax allowance threshold in the national carbon tax regulations.
- Any carbon credits procured will be high-quality and verified by reputable standards ensuring additionality and permanence.
- SBG will publicly disclose carbon credit purchases and the outcomes of the projects from which they derive.

d) Waste management and upstream emissions: We actively manage our environmental footprint through:

- Waste reduction strategies, to minimise landfill contributions and promote circular economy practices
- Measures to reduce the environmental impact of employee travel, including sustainable mobility options and digital collaboration tools
- Tenant engagement initiatives, ensuring that buildings under our management provide access to energy-efficient solutions and infrastructure that enable emissions reduction.

e) Adaptation and water management: SBG recognises that climate change poses physical and operational risks to its facilities. As part of our climate adaptation strategy, we:

- Conduct climate risk assessments to understand the exposure of our operations to extreme weather, rising temperatures, and water scarcity.
- Implement climate resilience measures, including flood protection, heat adaptation, and improved infrastructure design.
- Optimise water efficiency by reducing consumption, reusing water where feasible, and exploring alternative water source.

f) GHG Accounting and disclosure: To ensure accountability, we:

- Align our emissions measurement and reporting with internationally recognised GHG accounting standards
- Disclose Scope 2 market-based emissions, reflecting the emissions intensity of procured electricity and our renewable energy investments
- Implement third-party verification of emissions data where applicable, reinforcing transparency and credibility in our climate disclosure reporting.

3 Managing climate risk

SBG defines climate-related risk as exposure to the physical and transition risks associated with climate change, in respect of our own activities and operations, and through the transmission of climate risk into credit, market, reputational and other risk exposures from lending to, investing in and otherwise transacting with our clients and counterparties. Our risk assessments are informed by internal and external expert knowledge on the inherent risks in relevant sectors and industries, assessment of potential future transition pathways informed by climate scenarios and relevant decarbonisation pathways, and the potential impact of acute and chronic physical risk events on the performance of our counterparties and countries of operation.

We are signatories to the Equator Principles and apply IFC performance standards to ensure our management of ESG related risks including climate risks are aligned to international best practice standards.

We require business units and legal entities to consider material climate risk and opportunity as guided by our ESMS and governance frameworks. This includes:

- Developing new products and services
- When completing the E&S risk screening tool and determining the client risk assessment and transaction risk assessment results, at origination and during credit review processes and annual client and portfolio reviews. When considering a new transaction or client relationship, business units and legal entities must consider:
  - Exposure of SBG counterparties, and assets and operations underlying a transaction, to climate-related physical risks and transition risks.
  - Risks related to climate change for specific transactions/projects related to the project's sector activities and location.
  - Alignment with the commitments set out in this climate policy and international best practice
  - Impact on SBG's ability to meet our climate-related targets.
- Managing own operations.

4 Governance

Our governance structures, at board and management level, ensure effective oversight of our climate policy and commitments. Our enterprise-wide risk management framework defines the structures and accountability for the oversight, governance and execution of climate risk management.

SBG board

SBG's board is responsible for guiding the Group's strategy and overseeing our progress against our strategic priorities and related value drivers, including delivery of positive impact. The board is also responsible for assessing the effectiveness of our risk management processes, including climate risk management.

Responsibilities are delegated to several board subcommittees. Board committees meet quarterly and provide feedback to the full board. All committees are chaired by independent non-executive directors.

- The Group social, ethics and sustainability sub-committee approves climate commitments and targets per sector, and monitors progress against the Group climate policy, commitments and targets.
- Management of climate-related risk and opportunity is a standing agenda item for the board's risk and capital management subcommittee.

SBG executive management

The Group Leadership Council (GLC) approves Group policies and standards, including the climate policy and monitors adherence to commitments and progress against targets. The GLC ensures appropriate governance structures, policies and processes are in place to identify and resolve climate-related risks and maximise positive impact in relation to climate mitigation and adaptation. The GLC drives business alignment with the policy and ensures business ownership and accountability.

Business units and legal entities

Business units and legal entities are required to incorporate the Group's climate commitments and targets into their strategies and report to existing BU governance committees on progress. These committees are responsible for recommending climate targets and commitments to group-wide governance committees for approval.

Scope of this policy

This policy applies to all client segments and legal entities within SBG. It provides minimum standards to be adhered to when considering the financing of priority sectors as defined by the policy. Business units and legal entities must ensure that their lending and investment decisions align with the policy and support the achievement of the Group's climate commitments.

5 Monitoring, review and reporting

Progress against our climate targets and commitments is regularly monitored and disclosed publicly in the Group's annual reporting suite. Climate targets and commitments are reviewed, at a minimum, on a three-year cycle from the date of adoption. The Climate Policy is reviewed and revised where necessary every three years at a minimum.

Transactions designated as high-risk must be referred to the appropriate committees for enhanced due diligence and transaction screening in compliance with SBG's procedures. Post-finance monitoring will be required on an ongoing basis. Reporting on financing activities will be in accordance with regular internal requirements and external regulatory reporting as and when applicable.

6 Related information

This policy should be interpreted and applied in conjunction with all other SBG, and applicable legal entity, standards, policies, procedures, and guidelines including:

a) SBG Environmental and Social Risk Governance Standard and Policy and supporting policies
b) SBG Third-party Code of Conduct
c) SBG Human Rights Policy Statement
d) SBG Credit Risk Standard and Policy
e) SBG Reputation Risk Governance Standard
f) SBG Risk Appetite Statement
g) SBG Code of Ethics and Conduct
h) SBG Exceptions List
i) SBG Stress Testing Framework
j) SBG Sustainable Finance Frameworks

NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

Climate Risk Statement

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Next Review Due: November 2026

Contents

1. Introduction

1.1. Climate change is a global challenge for governments, corporations and investors alike. Through this statement, NILGOSC acknowledges that the changing climate will have a significant impact on the global economy, corporations and society, whether through direct physical impacts, tighter regulations or reputational damage suffered by those who fail to adequately address the risks posed.

1.2. As the Local Government Pension Scheme for Northern Ireland, with approximately 160,000 members, NILGOSC expects to be paying pensions to its beneficiaries into the next century and aims to deliver a sustainable Fund, both financially and as a responsible investor. NILGOSC therefore considers it to be in the long-term interests of its members to promote climate risk mitigation and adaptation in the implementation of its investment strategy. By working together with like-minded investors, NILGOSC seeks to create an investment environment which contributes to a low-carbon economy.

1.3. This statement sets out the climate risk framework within which NILGOSC operates.

2. Investment Beliefs

2.1. NILGOSC has a fiduciary duty to act in the best long-term interests of its members, and recognises that environmental, social and governance (ESG) issues can materially impact on the financial performance of its investments. It has incorporated such considerations into its risk management and investment decision making framework.

2.2. NILGOSC believes that climate change presents a material financial risk to the Fund and will therefore take climate risk considerations into account as part of its investment policy. NILGOSC considers that this approach is consistent with its legal duty to act in the best long-term interests of its members and to deliver the long-term returns necessary to ensure an affordable and sustainable pension fund.

2.3. NILGOSC supports the aims of the Paris Agreement and will work with others to encourage the action necessary to limit global temperature rise to below 2°C above pre-industrial levels. NILGOSC demonstrates its support through the various engagement activities it undertakes, as well as investment decisions.

2.4. NILGOSC has classified climate risks into three broad categories, which are applicable across the range of asset classes in which it invests: policy risk; technology risk; and physical risk. The first two risks fall under the bracket of ‘transition risk’, which is the risk to underlying assets in a portfolio resulting from changing policies, practices and technologies as countries move towards reducing their carbon reliance. The other key climate-related risk is ‘physical risk’, which can be either acute or chronic in nature. Different asset classes will be susceptible to different risks, over different time frames, with some assets demonstrating more sensitivity than others, even within a particular asset type or sector. As a general rule, assets such as equities and bonds are likely to see a much quicker impact of policy change, than real assets such as property or infrastructure.

(i) Policy risk: the impact of policy decisions and regulatory change on global economies, companies and individual investments is considered to be both a short and medium-term risk as the exact timescales of necessary changes remains unclear. Current global policy is not aligned with the aims of the Paris Agreement, which is to keep a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. It is not clear how quickly, if at all, governments will act to meet their commitments.

(ii) The implementation of long-term global climate stabilisation targets and securing sufficient investment in future low carbon patent revenues is considered an opportunity for investors. However, Technology risk covers the risk that key low or no carbon technologies do not deliver as planned, as well as the risk incurred if the costs of transitioning to lower emissions technology are more extensive than expected. Technology risk is considered a short to medium term risk and is linked to the pace of policy change.

(iii) Physical risk: the impact of extreme weather, flooding, droughts and rising sea levels on industry, physical assets, companies and infrastructure is considered a medium to longer term risk. Physical risks will have financial implications for schemes, such as direct damage to assets and indirect destabilising impacts from supply chain disruption. Other potential impacts of physical changes in the climate are wider economic and social disruption, including mass displacement, environmental-driven migration and social strife.

2.5. NILGOSC believes that robust management of these risks, together with sound governance practices and responsible behaviour can contribute significantly to the long-term performance of investments.

2.6. NILGOSC believes that active engagement is the most effective way to bring about change, both at a policy level and in respect of individual investments. NILGOSC considers divestment can be a blunt instrument which removes the ability to engage effectively with a company or government. Therefore, NILGOSC does not exclude investments or divest solely on ESG grounds within its actively managed mandates.

3. Our Approach

3.1. NILGOSC's Corporate Plan includes the strategic objectives of: investing scheme funds in accordance with the Statement of Investment Principles; ensuring effective stewardship in line with the Statement of Responsible Investment; and managing the investment risks posed by climate change. The Plan includes a number of climate-related operational actions to assist in meeting those objectives.

3.2. NILGOSC has established a robust risk management framework as a means of identifying, recording and managing those risks which could prevent it from achieving its Corporate Plan strategic objectives. NILGOSC has a single corporate risk register which is subject to formal quarterly reviews to ensure it remains relevant and accurately reflects the risks facing the organisation.

NILGOSC's Risk Management Policy sets out the organisation's risk control framework and appetite to risk. There are two risks on the Risk register that relate specifically to responsible investment.

3.3. The Statement of Investment Principles and Statement of Responsible Investment set out NILGOSC's approach to incorporating responsible investment considerations, including systemic risks such as climate risk, into its investment strategy and decision-making process across the range of asset classes in which NILGOSC invests. To supplement these statements, this Climate Risk Statement sets out the steps NILGOSC will take to address climate risk at both a policy and portfolio level.

Policy and Procedure Level

3.4. NILGOSC has developed a suite of procedures and policy documents which set out how climate risk is incorporated into its investment processes and practice. This will vary across asset types however the high-level principles remain consistent.

3.5. NILGOSC delegates the selection of individual investments held to its externally appointed managers and does not impose restrictions on environmental, social or governance (ESG) grounds alone. NILGOSC has however instructed its active managers to take account of climate risk considerations in their decision-making processes, provided the primary financial obligation is not compromised. Where climate change produces a financial risk for a particular investment, NILGOSC expects this to be a fundamental part of the investment decision-making process and will monitor such decisions accordingly. Managers are asked to account for how climate risk is integrated into decision making.

3.6. The Committee reviews performance on a quarterly basis by way of a balanced scorecard, which assesses investment managers against a range of qualitative criteria, one of which relates to the inclusion of ESG factors in the decision-making process.

3.7. All active investment managers are instructed to engage, on NILGOSC's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company. NILGOSC requires its investment managers to provide regular reporting on such engagement activity and assesses compliance through the quarterly balanced scorecard monitoring process.

3.8. NILGOSC seeks to ensure that the managers and advisors it appoints have the necessary expertise in assessing climate risk. NILGOSC assesses these capabilities at the selection and appointment stage via the tender process by applying mandatory ESG criteria. NILGOSC will only appoint managers and advisors who have demonstrated that they meet an acceptable threshold and NILGOSC encourage its managers to address climate risks and opportunities in their investment research, analysis, decision-making and engagement activities.

3.9. NILGOSC has instructed its investment advisors to consider the impact and opportunities of climate change in the provision of advice, including the proactive consideration of opportunities to invest in low carbon assets.

3.10. NILGOSC has developed a bespoke Voting Policy which sets out its expectations for good governance, including how companies manage their impact on society and the environment. This policy is reviewed annually and sets out how NILGOSC addresses sustainability-related resolutions, including specific reference to climate risk and climate related financial disclosures. NILGOSC actively supports the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and uses its voting rights to encourage investee companies to comply.

3.11. As a means of demonstrating its commitment to responsible investment practices, NILGOSC has adopted the United Nations supported Principles of Responsible Investment (PRI). NILGOSC seeks to collaborate with like-minded investors, and shares knowledge and resources on managing climate risk through its membership of industry initiatives, including: the PRI; the Institutional Investors Group on Climate Change (IIGCC); the CDP (formerly the Carbon Disclosure Project); the UK Pension Scheme Responsible Investment Roundtable; the Occupational Pensions Stewardship Council (OPSC); and Climate Action 100+.

3.12. NILGOSC will continue to work together with like-minded investors on initiatives which seek to reduce the threat and impact of climate change. A full list of climate change related initiatives are listed on the Engagement and Initiative section of the NILGOSC website: https://nilgosc.org.uk/pension-fund/being-a-responsible-investor/engagement-initiatives/

Portfolio Level

3.13. The assessment of climate related risks and opportunities will vary across asset classes, sectors and individual portfolio holdings. NILGOSC seeks to ensure that climate risk is taken into account across its investment portfolio on a consistent and proportionate basis.

3.14. NILGOSC is an active investor and seeks to use its influence to engage with policy makers, governments, asset managers and individual investee companies in respect of its actively managed holdings. NILGOSC recognises that many companies have begun the transition to a lower carbon world, including many companies whose traditional business models had been carbon intensive. NILGOSC is supportive of companies seeking to diversify their business into renewables and low-carbon technologies and will support calls for greater disclosure of climate change risks and robust company strategies aligned with the Paris Agreement. NILGOSC considers such action to be consistent with its fiduciary duty and is essential to achieve the goals of the Paris Agreement.

3.15. NILGOSC utilises its ownership rights globally to ensure that corporations provide accurate and timely disclosure of the material risks and opportunities associated with climate change. Through the exercise of its voting rights and through targeted engagement, NILGOSC aims to encourage companies to be transparent and accountable in respect of their impact on the environment, for example via setting targets and timeframes for the reduction of greenhouse gas emissions. NILGOSC also expects remuneration committees to consider ESG factors when setting the remuneration of company directors.

3.16. A portion of NILGOSC's assets are held passively. Passively managed funds are designed to follow an index, which means no active decision-making is undertaken when selecting stocks and therefore ESG risks cannot be taken into account. However, a decision can be made as to which index to track. Therefore, as a means of mitigating climate risk in the Fund's passive equity portfolio, NILGOSC's passive equities track the climate-tilted 'Solactive L&G Low Carbon Transition Developed Market' index. The strategy behind the index is to self-decarbonise by reducing exposure to carbon emissions over time. The index aims to reduce carbon intensity by 70% relative to the starting universe, and to reach the goal of achieving Net Zero carbon emissions by 2050, along a decarbonisation pathway of 50% at the outset and a further 7% each subsequent year.

3.17. NILGOSC encourages its real asset managers (e.g. infrastructure and property managers) to consider investment opportunities in low carbon infrastructure and real estate where appropriate. NILGOSC recognises that real assets have a greater negative sensitivity to physical damage and resource availability, and through its infrastructure investments seeks to increase its exposure to renewable assets.

3.18. NILGOSC also encourages its real asset managers to adopt sustainable asset management practices with respect to its infrastructure and property holdings and monitors their progress, at appropriate intervals.

Disclosure

3.19. NILGOSC considers the disclosure of climate risks and opportunities to be essential if shareholders are to determine whether the companies in which they invest are adequately addressing the changing climate. Improving the quality, consistency and transparency of climate-related financial disclosures will allow economies to have the necessary information to better assess the impact and effects of an organisation on climate change. NILGOSC supports calls for greater disclosure of carbon emissions and the impact of climate change on a company's business activities through the targeted exercise of its voting rights.

3.20. NILGOSC actively supports the recommendations of the TCFD, demonstrating that, alongside other supporters, it is taking action to help build a more transparent and resilient financial system through climate-related disclosure. Reporting is not mandatory for NILGOSC, but as an official supporter, NILGOSC prepares annual TCFD-aligned reports. Disclosures are organised around the TCFD's four thematic areas, representing the core elements of how organisations operate: governance; strategy; risk management; and metrics and targets; providing a framework around which to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into its investment process.

3.21. As a supporter of and signatory to the PRI, NILGOSC reports on its implementation of the principles via the PRI reporting framework on an annual basis.

3.22. NILGOSC also monitors stewardship data, publicly disclosing: quarterly voting records; an annual Voting Review; and a comprehensive annual Stewardship Report, prepared in compliance with the UK Stewardship Code. Principle 7 of the Code necessitates that signatories demonstrate the systematic integration of stewardship and investment (including climate change) to fulfil their responsibilities. Stewardship reports are submitted to the Financial Reporting Council (FRC), which assesses each report and if a report meets the FRC's reporting expectations, the organisation will be listed as a signatory to the Code. Once listed, organisations must continue to report annually in order to remain signatories. NILGOSC's reports are published on its website.

4. Review

4.1. This document is reviewed every three years. It will be updated sooner if required.

O-Bank Climate Risk Management Policy

Approved by the 8th meeting of the 9th Board of Directors on Apr 9, 2024

Article 1 Purpose

According to the "Guidelines for Domestic Banks' Climate Risk Financial Disclosures " issued by the Financial Supervisory Commission, the " Supervisory Policy Manual Unit GS-1 Climate Risk Management” issued by the Hong Kong Monetary Authority (HKMA) ,the "Task Force on Climate-related Financial Disclosures (TCFD)" announced by the International Financial Stability Board (Financial Stability Board; FSB) and other relevant regulations, the Bank has formulated Climate Risk Management Policy to reduce the impact of climate change on the Bank's various businesses and operations, improve information transparency, and achieve the goal of a low-carbon economy.

Article 2 Scope of application

The scope of application of this policy includes the credit extension and investment positions of the domestic and foreign business units of the bank, as well as the bank's own operating activities. Given that climate risk assessment and analysis methods are still in the development stage, the Bank will gradually introduce and continue to improve climate risk management assessment methods and related promotion projects, taking into account actual business and relevant regulations of the competent authority.

Article 3 Risk Types of Climate Change

Due to the continuous emission of greenhouse gases from various economic activities, resulting in extreme climate caused by global warming, climate risk (or climate change risk) is formed; according to TCFD’s classification of climate risk sources, it can be divided into two categories, namely transition risk and physical risk described as follows:

1. Transition risk: In order to achieve the goal of low-carbon economy, the Bank will face risk factors such as external policies and regulations, technical transition, market preference and reputation.
    (1) Policies and regulations: Competent authorities formulate policies and regulations to mitigate climate change or promote adaptation to climate change. For example, control greenhouse gas emissions, implement carbon pricing mechanisms, etc.
    (2) Technical transition: Turning to low-carbon, high-efficiency energy technology improvement or innovation, facing uncertain risks such as increased development expenditure costs and technology development failures.
    (3) Market preference: a global consensus on energy conservation and carbon reduction has been formed, and the market supply and demand structure has changed. For example, consumers' demand for high-energy-consuming products has declined, and their interest in investing in high-carbon emission industries has declined.
    (4) Reputation: industry stigma or negative feedback from stakeholders increases.
2. Physical risk: The risk factors of impacts caused by climate change or extreme weather can be divided into immediate and long-term risks according to the time scale of risk events.
    (1) Imminent risk: The imminent physical risk is mostly a single event. For example, typhoon or rainstorm cause flooding, drought, etc.
    (2) Long-term risk: refers to long-term changes in climate patterns. For example, global warming causes sea levels to rise.

Article 4 Opportunities created by climate change
Mitigating and adapting to climate change will create opportunities for banks, for example, through improving resource efficiency, adopting low-carbon energy sources, developing new products and services, entering new markets and adapting to climate change.

Article 5 Climate risk transmission (relevance)
Climate risk is not a new and independent risk. It is transmitted to various businesses and operating activities undertaken by the bank through the above-mentioned types of climate risk, directly or indirectly exacerbating the traditional risks of the bank, such as credit risk, market risk, operational risk and liquidity risk, etc. When measuring traditional risks, the Bank should consider the correlation with climate risks, such as the impact of carbon taxes or carbon border tariffs on corporate operations, increasing credit risks; government policies and regulations, resulting in increased legal liabilities or compliance costs; The withdrawal of deposits or the use of credit lines due to factors such as climate risk compliance and transformation will affect the liquidity of the Bank.

Article 6 Governance Structure and Three Lines of Defense

1. According to the Bank's "Risk Management Policy", the Board of Directors is the highest authority for risk management of the Bank, responsible for monitoring the Bank's climate risk exposure and disclosure, and is responsible for ultimate management. The risk management mechanism, risk appetite, strategy, and business plan approved by the board of directors shall take climate risk into consideration, including identifying and evaluating climate-related risks and opportunities, recognizing the possible impact of climate risk on the Bank’s finances, and taking relevant international The goals of the agreement and the time frame required by the national policy are taken into consideration.
2. The Sustainability Committee under the Board of Directors is responsible for reviewing climate change development strategies, supervising annual plans and the achievement of various goals.
3. The ESG Development Working Committee under the chairman is the coordinating and promoting unit of the Bank's climate risk management and assists the Bank in introducing climate risk management.
4. In order to implement climate risk management, the Risk Management Committee is responsible for reviewing climate risk-related issues, supervising and reviewing the climate risk management mechanism, so as to improve the Bank's climate risk management system.
5. The Risk Management Division shall establish a climate risk management system and monitoring indicators to ensure the effectiveness of implementation and the resilience of the bank to face different climate scenarios, and allocate sufficient manpower to effectively implement the management process.
6. According to the three lines of defense structure of the bank's internal control, each should be responsible for climate risk management.
   (1) The first line of defense is to identify and assess climate risks when handling related businesses, especially customers and asset positions in industries with high climate risks.
   (2) The risk management unit of the second line of defense should effectively monitor the implementation of climate risk management by the first line of defense; the legal

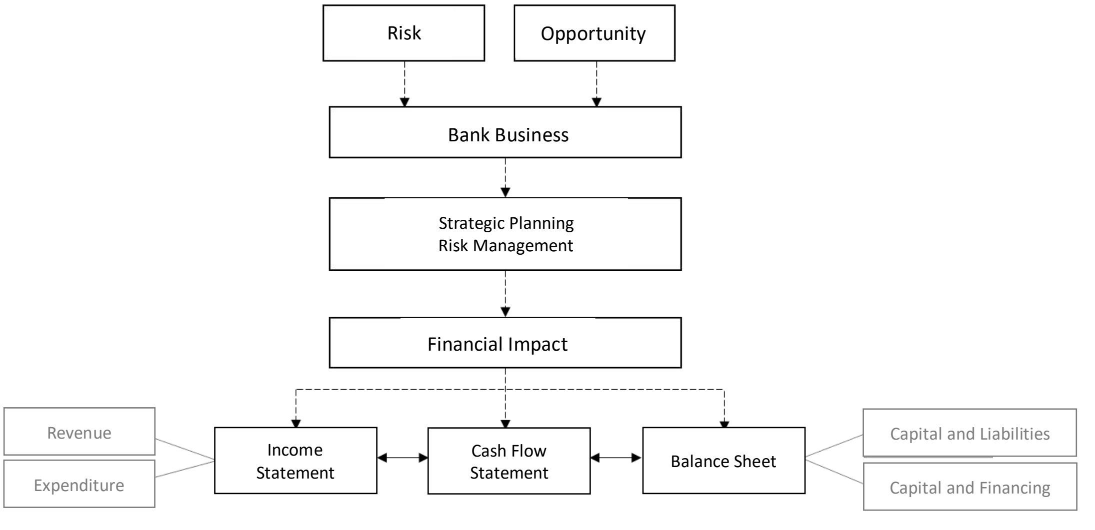
compliance unit should ensure that all units operate in compliance with laws and regulations.

(3) The third line of defense should evaluate the effectiveness of climate risk monitoring conducted by the first and second lines of defense, and provide suggestions for improvement in a timely manner.

7. Risk management units should report climate risk-related information to the board of directors and the risk management committee at least annually, so that the board of directors and senior management can take it into consideration when formulating strategic planning and monitoring business. In the process of monitoring climate risks, if major abnormalities or special circumstances are found, corresponding measures should be taken immediately in accordance with internal regulations and reported to the board of directors.

Article 7 Strategic Planning

1. The Bank shall identify climate-related risks and opportunities based on short, medium and long-term time intervals, assess the impact on the bank's operations, strategies, products and financial planning, incorporate them into strategic planning, and conduct the impact of climate risks and opportunities on the bank As shown below. The aforementioned short-term refers to the period of business planning outlook (1-3 years), medium-term (3-5 years), and long-term refers to the period when the impact exceeds the current asset portfolio of the bank (5-10 years).



2. Assessing climate risk impacts should state the current status and impact of carbon-related assets. Carbon-related assets include, but are not limited to, high-carbon-emitting industries and industrial risk risks that are vulnerable to climate change.

3. When formulating business, strategy, and financial planning, factors such as the impact and frequency of climate risks should be taken into consideration, and coping strategies and measures should be formulated.

4. Incorporate climate risks and opportunities into strategic planning, assess the financial impact on the bank, and use various climate change scenario tests to understand whether the resilience and adaptability of its own climate risk-related strategies are appropriate,

and adjust strategies according to the results of climate change scenario tests.

Article 8 Risk Identification and Measurement

1. The risk management process begins with the identification of existing and potential risks. When conducting climate risk assessment, relevant laws and regulations (such as the Climate Change Response Act) and internationally recognized standards should be referred to for identification and assessment.

2. The occurrence of climate risk mainly comes from carbon emissions. In order to identify the climate risks faced by the whole bank, the bank should conduct carbon inventory of the bank's own operations, credit and investment positions every year to calculate financial carbon emissions. The scope of the inventory should at least include scope 1 (direct emissions) and scope 2 (indirect emissions).

3. In view of the fact that in the process of low-carbon transformation of economic activities, enterprises will be the first to be impacted by high climate risk industries. Facing the transition risks, they should prioritize the establishment of an industry list for monitoring. Identification of high climate risk industries, such as carbon-intensive industry, environment-intensive industry, and high carbon emission enterprises disclosed by the enterprise greenhouse gas emission information platform.

4. When handling credit business, it is necessary to identify whether it is an industry with high climate risk, and evaluate the transition risks faced by the borrowers; in addition, evaluate the physical risks faced by the borrowers and the collateral collected, including but not limited to, such as rainstorm flooding, slope disaster, drought and water shortage, etc. Due to physical risks, the credit account's operating loss or the loss of collateral value.

5. When handling investment business, an assessment should be made on the investment target, whether the price fluctuation or value loss is caused by transition risks and physical risks.

6. The bank's own operation management should also incorporate climate risk into its management and assess physical risks, such as damage to buildings or interruption of operations due to extreme weather.

7. When identifying and assessing climate risks for individual investment and financing cases, comprehensively assess the level of risk and the order of importance, and conduct differentiated management. For businesses or transactions with high climate risks, relevant information should be retained in the system to facilitate differentiated management and disclosed in relevant risk management reports.

8. For customers and asset positions with high climate risks, evaluation methods, procedures, and management measures should be formulated. Control measures should at least consider the significance of climate risks, the willingness and ability of customers to improve their own climate risks, and alternatives to offset risk risks practice. For customers who fail to effectively manage their own climate risks, countermeasures may be taken, such as reflecting additional costs in risk pricing, setting exposure limits for high climate risk loans, and reassessing the relationship with customers. If the bank fails to effectively

manage the climate risk asset portfolio, it may take measures such as transferring the climate risk losses the bank has suffered, setting investment limits for high climate risk assets, and controlling the concentration of high climate risk areas or industries.

9. The Bank shall conduct scenario analysis and stress testing on the physical risks and transition risks of climate risks every year to assess the impact of climate risks on its business and finance, and measure the bank's resilience to climate risk under different climate scenarios. The scenarios adopted should include forward-looking information, avoid relying solely on historical data and underestimating potential future risks. Relevant documents should be kept for at least 5 years, including scenario selection, reasonable assumptions, evaluation results, considered actions, and actual countermeasures.

Article 9 Indicators and Target Setting

1. To manage climate risks, the Bank should select representative historical data to qualitatively or quantify transition risks and physical risks, and establish key indicators of climate risks, so as to manage climate risks. The indicators should be set in consideration of the short-term, medium-term, and long-term impacts of climate risks, and the differences in relevant factors such as industry, geographical location, and risk level.
2. The Bank conducts carbon emission calculations for bank operations, credit granting, and investment positions to determine key climate risk indicators. The calculation and disclosure methods should first follow the relevant domestic regulatory requirements, and secondarily adopt international calculation methods.
3. The Bank shall, according to the key climate risk indicators set, respectively set the achievement goals, monitor and disclose the achievement of the goals every year, properly evaluate the implementation progress of each indicator, and provide explanations and improvement measures for lagging projects.

Article 10 Risk Monitoring and Reporting

1. The risk management unit shall monitor the key climate risk indicators and targets set by the Bank, so as to submit reports in a timely manner.
2. The risk management unit shall report to the board of directors and the risk management committee at least annually on the implementation progress of key climate risk indicators and goals, and explain lagging projects and improvement measures.

Article 11 Supplementary Provisions

1. Matters not covered in this policy shall be handled in accordance with the relevant laws and regulations of the competent authority and the Bank's regulations.
2. In order to implement this policy, according to the implementation needs, additional implementation rules or key points may be formulated and authorized to the general manager for approval.
3. This policy will be implemented after being approved by the board of directors, and it will be the same when it is revised.

Summary of Climate risk policy, Carbon measurement and Carbon reduction

30 December 2022

Approved by APG AM Investment Committee (APG AM IC)
Owner APG AM IC
Version 2

apg

Change log			
Version	Date	Author	Change log
1.0	10 March 2021	Project Group SFDR	
2.0	30 December 2022	Project Group SFDR	

Summary of Climate risk policy, Carbon measurement and Carbon reduction

As a fiduciary manager for Dutch pension funds whose goal is to provide their beneficiaries with a good retirement income that they can enjoy in a sustainable world, all our investment processes are geared towards ensuring they can deliver on this objective. Our fully integrated Responsible Investment Approach encompasses a comprehensive approach towards making a material positive social, economic and environmental contribution in the real economy by investing responsibly for the long-term.

The specific and diverse characteristics of the portfolio of assets we invest in on behalf of our clients require a clear overarching but also a customized approach to integrating responsible investing objectives for each asset class. Thereby we can ensure that they all contribute to the fullest extent possible to the overall objective of the Responsible Investment Approach.

This document describes the APG AM Approach to climate risk, carbon measurement & carbon footprint reduction and how it is implemented, applied[1] and maintained.

Global climate change is one the greatest challenges of our time. As a long-term investor we are acutely aware of the exposure of companies to the risks and opportunities associated with climate change, and subsequently to our investment portfolio, either through the physical consequences of global warming and/or through changes in government policy, technology and markets aimed at reducing global warming. It is therefore critical that companies adequately assess and manage climate risks and opportunities as part of their business strategies and risk management. We engage and have continuous dialogues with companies to communicate our expectations and understand how they deal with climate risks and opportunities from a low-carbon transition and how these affect their ability to create sustainable value.

APG is committed to contribute to the goal of the Paris Climate Agreement to keep global warming limited to 1.5 ºC. We aim for a Net Zero emissions portfolio by 2050 or sooner.

APG has made a number of commitments to substantiate our commitment to the goals of the Paris Climate Agreement:

- APG is a signatory to the Climate Commitment of the Financial Sector (hereafter: Climate Commitment)[2] – Requiring disclosure of financed emissions of 'relevant' investments, including formulating action plans to decrease the impact of investments on climate change;
- APG is a signatory to the Net Zero Asset Manager (NZAM) initiative[3] – Which is a commitment to achieving Net Zero emissions by 2050, and requires setting interim targets commensurate to the attainment of a Net Zero portfolio in 2050;

[1] We aim to apply the APG AM Climate Risk Policy progressively to all assets under management, methodological approaches permitting.
[2] https://klimaatcommitment.nl/about/
[3] https://www.netzeroassetmanagers.org/

- APG is a supporter of the Task Force on Climate-related Financial Disclosures (TCFD)[4] – A framework for enhanced climate-related corporate and investor disclosures.[5]

APG's overarching objectives regarding climate change are:

- to identify, assess, manage and disclose climate-related risks and opportunities in the portfolio;
- to take meaningful action to contribute to mitigating climate change in line with the commitments made by APG and its clients, and align the portfolio with the goals established in the Paris Climate Agreement – the climate targets established and instruments applied are described in detail in our Climate Action Plan[6].

Principal Adverse Impacts

The Climate risk policy, Carbon measurement and Carbon reduction target consider a number of Principal Adverse Impacts (PAIs) as prescribed by SFDR, such as GHG emissions (PAI #1). Carbon footprint (PAI #2), GHG intensity of investee companies (PAI #3), Exposure to companies active in the fossil fuel sector (PAI #4), Energy consumption per high impact climate sector (PAI #6). GHG intensity of investee countries (PAI #15), and Exposure to energy-inefficient real estate assets (PAI #18).

In our annual principal adverse impacts (PAIs) statement, which can be found on the APG AM website, we provide further detail about the way we consider these PAIs by applying the Climate risk policy, Carbon measurement and the Carbon reduction target.

Climate Risk Policy

In 2019, APG AM adopted a formal climate risk policy and added climate risk to the risk taxonomy for investments overseen by the APG AM Risk Committee. The policy was approved by the Investment Committee of APG AM and entered into force on 1 January 2020.

The Climate Risk Policy describes the way APG AM defines, measures, manages and reports on climate-related risks and opportunities, both at the total client portfolio level as well as for specific investment strategies. It covers the entire investment process on behalf of our clients - from investment beliefs towards evaluation. Climate-related considerations are included in Strategic Asset Allocation, the mandating process, portfolio management, and in the Annual Mandate Review cycle. The implementation of the climate risk policy is dependent on the availability of tooling and measurements, and hence will evolve continuously.

Methodology and instruments

Measurement in Asset Liability Management (ALM) and Strategic Asset Allocation (SAA)

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[4] https://www.fsb-tcfd.org/
[5] APG AM's annual TCFD report can be found on the APG AM website.
[6] The APG Climate action plan can be found on the APG AM website.

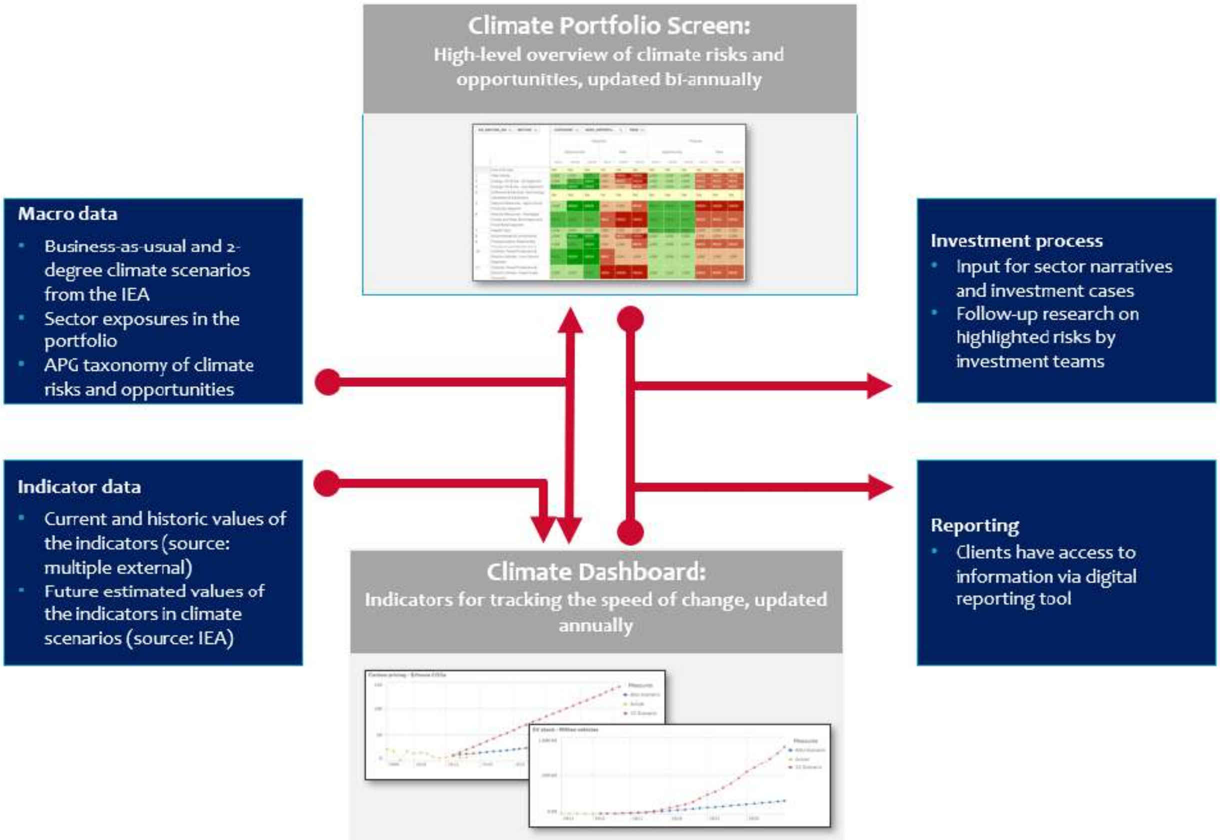
Deterministic climate scenarios are used in the periodic ALM studies performed for our clients with the aim of evaluating the sensitivity of client portfolios for these deterministic scenarios.

Climate stress tests are performed to evaluate the potential effects and implications for the Strategic Asset Allocation. Due to the multi-faceted and non-linear characteristics of climate risks, we do not apply a quantitative modelling approach. Instead, we use analogies based on situations in the past featuring physical destruction and heavy government intervention (e.g. natural disasters and wars). These analogous situations give us a rough sense of the range of possible impacts of climate change on asset classes.

Measurement at portfolio level

- Climate-related risks and opportunities are measured in the portfolio using the Climate Portfolio Screen (CPS). The CPS identifies sector-level climate risks and opportunities against external expert scenarios.
- We used a business-as-usual scenario (IEA Stated Policies Scenario, 3°C) and two climate scenarios with different levels of ambition (IEA Sustainable Development Scenario, 1.65°C, and IEA Net Zero Scenario, 1.5°C).
- Two external consultants have assessed climate risk of sectors evaluating the climate scenarios against the business-as-usual scenario using their proprietary methodology. The final APG AM sector ratings have been constructed by combining the ratings of both consultants, and calibrating them based on feedback of the APG investment teams.
- The results of the climate scenario analysis have been captured in the CPS, which creates insights into the most prominent climate-related risks and opportunities in 2025, 2030 and 2040. For each of the economic sectors, in each of the time horizons, the traffic light model depicts the assessed transition risk and opportunity as ‘high’, ‘moderate’ or ‘low’.
- A similar analysis has been done for sovereign bonds at country level. For each country we looked at physical risk (based on the Notre Dame GAIN database) and at transition risks (based on HSBC indicators). This resulted in a low-medium-high risk profiling of the sovereign bonds portfolios.
- Investments in areas with ‘high’ transition risk within the investment horizon, as indicated by the CPS, require further investigation into the nature of the risk/opportunity and the potential financial impacts by the investment teams.

The CPS is updated every two years in order to incorporate the latest developments in climate scenarios (last update was in 2021). On a more frequent basis, key signpost indicators and the overall speed of the low-carbon transition are tracked through the Climate Dashboard. As such, the Climate Dashboard provides an indication whether the world is leaning more towards a Business-as-Usual or a 2-degrees scenario, and it flags the areas in the portfolio where this may signal more immediate risks or opportunities.



Carbon footprint measurement

APG has been measuring the carbon footprint of the listed equity portfolio since 2013. Since then, carbon footprint measurement and disclosure has been expanded to other asset classes, including real estate, credits and private equity. We measure the carbon footprint on an annual basis.

APG aims to measure the carbon footprint of all relevant[7] investments. We use the Global Standard developed by the Partnership for Carbon Accounting Financials (PCAF) as a basis[8] for measuring the carbon footprint. In our Responsible Investment Report (pages 60-66) we report on the carbon footprint of APG's investments, and provide a detailed explanation of how we measure the carbon footprint, including data sources used.

Carbon reduction target

APG aims to reduce the absolute carbon footprint of the listed equity and credit portfolios by 50 percent in 2030 (compared to 2019). The target considers direct and indirect emissions of a company's own activities (scope 1 and 2).In line with our commitment to contribute to limiting global warming to

[7] The APG AM Climate Action Plan lists the asset classes that are deemed to be relevant and that are in scope for phasing-in carbon footprint measurement.
[8] In case no guidance from PCAF is available for a specific asset class, we use an equivalent definition and methodology. Please see the methodology document.

1.5 °C, we have used the 1.5 °C scenarios (with limited or no overshoot) developed by the International Panel on Climate Change (IPCC) and the International Energy Agency (IEA) to determine the reduction target for the listed equity and credits portfolios.

To achieve real world impact, we take a multi-pronged approach to reducing the carbon footprint of our portfolio through portfolio change (i.e. selling high-emitting companies in favor of low-emitting companies) and through emissions-reductions by portfolio companies. Therefore, a combination of the following instruments is applied to reduce the carbon footprint of our portfolio:

- Allocate carbon budgets per relevant investment strategy.
- Assess the investable (corporate) universe based on climate indicators.
- Perform stewardship activities, in particular engagement and voting.
- Invest in climate solutions.

The carbon footprint of applicable portfolios is calculated on a regular basis for the purpose of monitoring progress against the carbon reduction targets, and integrated into key portfolio management systems. Progress against the carbon reduction targets as established by APG's pension fund clients is monitored by the Investment Committee.

Governance of the Climate Risk Policy

The roles and responsibilities in relation to managing and controlling climate risks and opportunities are based on the "Three Lines of Defense" model.
The APG AM Climate Risk Policy has been approved by the APG AM Investment Committee (IC). The APG AM Climate Steering Group - which is composed of six Managing Directors (from Global Responsible Investment & Governance, Risk and Portfolio Management (4)) and chaired by the MD Global Responsible Investment & Governance (GRIG) - established the APG AM Climate Risk Policy. The Climate Steering Group is responsible for monitoring and ensuring coherence and continued development and oversees the implementation of APG AM's overall approach to climate-related risk management. In addition, the Climate Steering Group identifies, prioritizes and monitors research and development initiatives with respect to climate-related risk management and integration into the investment process.

The Global Responsible Investment (RI) & Governance team (part of portfolio management) is responsible for the development and maintenance of the overall APG AM RI framework at APG AM and acts as the secretariat of the APG AM Climate Steering Group. In this role, the RI team manages the implementation of the policy on a day-to-day basis and coordinates the periodic update and review of the climate risk policy. Initially the policy is reviewed on a yearly basis.

The IC, in its role as acting governing body of this policy, approves all RI related frameworks including the climate policy. In addition, the IC is overall responsible for the monitoring and managing of the risk and opportunity factors described in the policy over the full investment process and across the overall client portfolios. The AM Risk Committee will affirm the part of the APG AM climate risk policy related to the risk appetite when this can be explicitly defined and measured.

Portfolio Management (first line) is responsible and accountable for managing ESG risks and opportunities at the asset class level. Any applicable limits set as a result of this policy are managed by

PM and they report on a regular basis on climate-related risks and opportunities to the IC as governing body. Chief Financial Risk Officer/ Internal Risk Management is responsible for the second line measuring and monitoring of climate risk levels.

Fiduciary Management is responsible for advising clients on their mandates. They monitor and review the implementation of client policies and mandates in the portfolio, including climate risk.

Insight into impact on risk and return

APG AM is developing methods to assess the likely impacts of sustainability risks on the returns for its financial products and gain further insight into the impact of the various policy instruments, such as inclusion, exclusion, Sustainable Development Investments, and the Climate risk policy on the ability to meet risk and return targets. Our aim is to be able to measure and monitor any impacts on an ongoing basis, initially for liquid investments and extending it to other asset categories at a later stage.

Reporting

On an annual basis, APG AM reports on the APG AM website about climate-related risks and opportunities identified in the portfolio, the carbon footprint, and progress against climate targets.

CABS CLIMATE RISK POLICY

Risk Policy Owner

Deputy Managing Director

Contacts

Head of Credit & Head of Operations

Version/Date

Version 1/Approved 30 August 2024

Effective Date

This Policy was approved by the CABS Board. It is effective from 30 August 2024.

This Policy must be read in conjunction with the CABS Enterprise Risk Management Policy.

1. What is the Purpose of this Policy?

1.1. The objective of this policy is to set the CABS-wide principles for the management of Climate risk.

1.2. The Bank is committed to integrating climate change impacts into its operations and decision-making to lend momentum towards transitioning to a greener and more climate resilient business. The Policy guides the bank to transition towards low carbon and climate resilient operations and investments.

1.3. Climate risk management is an integral component of the sustainability initiatives; thus, this Policy is subordinate to the CABS Environmental Social and Governance (ESG) Policy (to be renamed the Sustainability Policy at the next policy review).

1.4. The Deputy Managing Director (DMD) is accountable for overseeing the implementation of this Policy as the CABS Climate Risk Policy Owner. The DMD will also assist in coming up with minimum standards for associated processes, methodologies, and tools, including the proportional application of requirements and related waivers. The DMD will be primarily assisted or supported by the Head of Credit (given the proportion of climate risk that is credit risk related); and the Head of Operations (given the number of operational related climate risk metrics). In addition, the Compliance and Commercial Services Departments contribute to processes to adhere to climate risk policies.

1.5. This policy must be managed and maintained as per the requirements set out in the CABS ERM Policy. This Policy must be reviewed at least annually to ensure it remains relevant or more frequently if circumstances require it.

1.6. In addition to climate-related risks, business opportunities presented by climate change shall also be explored, allowing the bank to better position itself in not only reducing costs for own operations but also meeting growing demand for low carbon lending.

2. Who Does the Policy Apply to?

2.1. This Policy is applicable to CABS.

3. What risks are managed by this policy?

3.1. Climate risk, which is defined as the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.

3.2. Climate risk is usually divided into two (2) broad categories: physical risk and transition risk.

3.2.1. Physical risks arise from the physical climate (and weather) impacts that result from the changing climate. Physical risks result from hazards that are usually subdivided into acute and chronic hazards. The former includes weather-related or weather-exacerbated events, whose incidence are increasing with climate change, such as floods, hurricanes, droughts, and wildfires. The latter includes gradual, long-term trends such as rising average temperatures and sea levels.

3.2.2. Transition risks arise from the economic transformation and any dislocation needed to drastically reduce, and eventually eliminate, net greenhouse gas emissions to reach net zero emissions - a goal that many countries including Zimbabwe have set for themselves to reach by 2050. The drivers of transition risk include factors such as tighter government policies to reduce emissions (e.g., through carbon taxes), technological changes (e.g., cheaper renewables making fossil fuel–based power generation less economical by comparison), and bottom-up consumer pressures for sustainable products.

3.3. For the purposes of this policy, it is key to consider the following:

a) Climate change which is a change in the climate system which is caused by significant changes in the concentration of greenhouse gases arising from human activities and which is in addition to natural climate change that has been observed during a considerable period.

b) Climate-related financial risks which are the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts, and their economic and financial consequences.

4. What Risk Appetite Statements Apply to this Policy?

4.1. The CABS risk preferences and appetite limits are set out in the CABS Risk Strategy document which describes specific risk preferences and metrics. This Risk Strategy is reviewed at a minimum at least annually by the CABS Board.

4.2. We have a **low** appetite for climate risks, as these risks have a marginal risk/return trade-off in relation to the business objectives. Of particular consideration would be the physical risk impacts of climate risk for which CABS has a **limited** preference for given their adverse impact.

5. What are the Minimum Mandatory Requirements of this Policy?

5.1. Model Governance Roles and Responsibilities

Board…

5.1.1. The CABS Board is responsible for climate risk management within CABS. In overseeing the management of climate risks, the Board needs to:

a) ensure an appropriate understanding of, and opportunity to discuss, climate risk at board meetings and sub-committees;

b) set clear roles and responsibilities of senior management in the management of climate risks;

c) re-evaluate the risks, opportunities and accountabilities arising from climate change on a periodic basis, and consider these risks and opportunities in approving the institution's strategies and business plans;

d) approve changes to the Climate Risk Policy at least annually;

e) take both a shorter-term view (consistent with the institution's regular business planning horizon) and longer-term view when assessing the impact of climate risks and opportunities;

f) ensure that, where climate risks are found to be material, the institution's risk appetite framework incorporates the risk exposure limits and thresholds for the financial risks that the institution is willing to bear; and

g) set the risk appetite thresholds for climate and climate-related risks.

5.1.2. Reporting to the Board on climate risk is to be done at least quarterly. Reporting to the Board should include, among others:

a) changes in business strategy, climate risk strategy/risk appetite;

b) the bank's performance and financial condition;

c) breaches of risk limits or compliance rules;

d) internal control failures; and

e) legal or regulatory concerns.

Board Committees…

5.1.3. The Board will be supported by the Board Risk and Compliance Committee (BRCC) in executing their mandate to oversee climate risk. Reporting to the BRCC on climate risk related matters will be done quarterly.

5.1.4. The Board Loans Review Committee (BLRC) will oversee credit related climate risk aspects. Reporting to the BLRC to be done quarterly.

Executive Committee (Exco)…

5.1.5. Exco is responsible for:

a) applying the risk management framework to assess and manage climate risk exposures on an ongoing basis, including developing and implementing appropriate policies;

b) regularly reviewing the effectiveness of the framework, policies, tools, and metrics and targets, and making appropriate revisions;

c) providing recommendations to the Board on the institution's objectives, plans, strategic options, and policies as they relate to climate risks that are assessed to be material. This may include the establishment and use of relevant tools, models, and metrics and targets to monitor exposures to climate risks so as to enable the board to make informed decisions in a timely manner; and

d) ensuring that adequate resources, skills, and expertise are allocated to the management of climate risks, including thorough training and capacity building amongst relevant staff.

5.1.6. Reporting to Exco on climate risk is to be done monthly.

Sustainability Committee…

5.1.7. The main function of the Committee is to develop the Society's ESG (including climate) Strategy which is aligned to the Society's overall business strategy and goals; monitor progress against the Climate Risk Implementation Plan as well as implementation of the Climate strategy; and climate metrics against the agreed thresholds.

5.1.8. The committee also identifies climate risk and strategic opportunities for the Society that arise for the Society's operations or initiatives and oversees the Society's approach to external communication relating to climate risk and ensure a good dialogue with stakeholders on climate risk is maintained.

5.1.9. The Sustainability Committee will meet monthly to deliberate on sustainability (including climate risk) matters. The Sustainability Committee is assisted by the Sustainability Working Group which is comprised of representation from various departments within CABS. The Sustainability Working Group also meets monthly.

5.2. Risk Management

5.2.1. The board is ultimately responsible for the institution's risk management framework, and for the oversight of its operation by management.

5.2.2. Senior management of the institution monitor and manage all material risks consistent with the strategic objectives, risk appetite statement and policies approved by the Board.

5.2.3. Climate risks are to be considered within the risk management existing framework, including the Board approved risk appetite statement, risk management strategy and business plan.

5.2.4. Arrangements to identify, measure, monitor, manage, and report on exposure to climate risks are to be conducted in a manner proportionate to the bank's size, business mix and complexity of its operations.

5.2.5. Risk identification

5.2.5.1. CABS will seek to understand climate risks and how they affect its business model, including being able to identify material climate risks and assess their potential impact on the institution. Scenario analysis with both a short- and long-term time horizon, may be used to inform the risk identification process.

5.2.5.2. CABS will consider climate risks within the established risk categories as identified in the risk categorisation model. In addition, the bank will determine the materiality of climate risk within each of the established risk categories.

5.2.5.3. CABS will identify economic sectors with higher or lower exposures to physical and/or transition climate risks. Assessment of economic sectors may be used to develop sector specific interventions. An integrated approach to climate risks is to be taken across different business lines. The criteria for this identification may include a range of factors, such as:

a) vulnerability to extreme weather events;
b) the level of greenhouse gas emissions;
c) potential exposure to changes in climate-related policy or technology;
d) vulnerability to climate-related supply chain changes or disruption;
e) vulnerability to climate-related disruption of business activities; and/or
f) linkages to unsustainable practices.

5.2.5.4. CABS needs to:

a) consider and record any material impact on capital adequacy as a result of climate risks. The Internal Capital Adequacy Assessment Process (ICAAP) will be used for this purpose;
b) evaluate the impact of climate related risk drivers on the credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks;
c) identify and understand how climate-related risk drivers could impact the value of financial instruments in its portfolio, evaluate the potential risk of losses on and increased volatility of the portfolio, and establish effective processes to control or mitigate the associated impact;
d) consider the impact of climate-related risk drivers on its liquidity risk profile and ensure that liquidity risk management systems and processes incorporate material climate-related financial risks; and
e) ascertain the impact of climate-related risk drivers on operational and other risks should be ascertained. The bank should, therefore, assess the impact of climate-related risk drivers on its operations and on business resilience particularly for critical operations.

5.2.6. Risk Monitoring

5.2.6.1. Both a qualitative and quantitative approach, including developing metrics to measure and monitor climate risks appropriate to the institution's size, business mix and complexity of business operations will be employed by CABS. Such metrics might be used to assess portfolio exposures to geographical areas and economic sectors with higher or lower climate risk.

5.2.6.2. More advanced quantitative risk metrics may take a variety of forms, such as direct and indirect emissions (usually classified into scope 1, scope 2 and relevant scope 3 emissions), exposure to physical risks, monitoring potential impacts to core business metrics such as credit risk, losses or investment returns, modelling the impact of climate scenarios on project returns and/or quantifying the impact of adaptation measures.

5.2.6.3. Data from both publicly available and proprietary sources may be utilised, and in need assistance from external experts will be sought.

5.2.6.4. Climate-related targets for the various activities will be determined (this will be done as per the timelines outlined in the Climate Strategy). The metrics and targets are to be updated regularly to support decision making by the Board and senior management. At times, circumstances arise which might trigger a review of the strategy or engagement with customers and counterparties.

5.2.6.5. Risk monitoring extends to monitoring the impacts that climate risks may have on outsourcing arrangements, service providers, supply chains and business continuity planning.

5.2.7. Risk controls

5.2.7.1. CABS will document and implement plans to mitigate climate risks and manage exposures, as well as regularly review and assess the effectiveness of those plans.

5.2.8. Risk reporting

5.2.8.1. CABS should have procedures to routinely provide relevant information on material climate risk exposures, including monitoring and mitigation actions, to the Board and senior management.

5.2.8.2. Reporting to the Board, BRCC, BLRC will be done quarterly whilst reporting to Exco and the Sustainability Committee will be done monthly.

5.3. Internal Controls & Internal Control Framework

5.3.1. The Bank shall implement adequate internal control measures, in line with the various Board approved policies, with the aim of offsetting the potential impact and/or reducing the severity of impact of the identified climate-related risks.

5.4. CABS use the three (3) lines of assurance model in Climate risk management.

a) The first line of assurance being business line management. Business line management have the primary responsibility for identifying and managing climate risks inherent in the products, activities, processes, and systems for which they are accountable.

b) The second line of assurance, the risk function, will undertake independent climate-related risk assessments and monitoring, including challenging the initial assessment conducted by the frontline, while the compliance function will ensure adherence to applicable rules and regulations.

c) The third line of assurance, Internal Audit is an independent assurance function which challenges the Society's climate risk management controls, processes and systems and provides assurance that the lines of assurance are working effectively and efficiently. The internal audit function should carry out regular reviews of the overall internal control framework and systems in the light of changes in methodology, business, and risk profile, as well as in the quality of underlying data.

5.5. Scenario Analysis[1]

5.5.1. CABS is to undertake climate risk scenario analysis and stress testing. This analysis assists in informing the risk identification process over both the short and long term.

5.5.2. Scenario analysis and stress testing for climate risks needs to be proportionate to the bank's size, business mix and complexity.

5.5.3. In the event that CABS lacks the data, resources, or expertise to conduct climate risk stress testing with appropriate quantitative assessments, the Society may employ a narrative driven scenario. Qualitative scenarios can provide insights into the operations and channels of risk transmission, and findings from such an assessment can be reflected in business plans, strategies, and risk management practices.

5.5.4. When conducting more advanced quantitative climate risk analysis, CABS will seek to identify and simulate scenarios which are both plausible and relevant to its operations.

5.5.5. Factors to consider when undertaking climate risk stress testing:

a) Shorter-term assessment of current exposures to climate risks, in line with current business planning cycles.

b) Longer-term assessment of future exposures based on a range of different climate related scenarios, potentially extending to 2050 or beyond. Key considerations when building such scenarios include, among others:

- Future temperature rise:
  - global average temperatures continuing to rise in the absence of mitigating actions and policies, leading to greater physical climate risks; and
  - limiting global average temperature increase to well below 2˚C by 2100, consistent with the Paris Agreement, reducing the magnitude of longer term physical risks;
- Economic transition pathway:
  - an orderly transition to a lower-emissions economy, with policies and activities to address climate change being introduced early and gradually

[1] This section is to be read in conjunction with the CABS Stress Testing Framework.

- becoming more stringent, minimising both physical and transition risks; and
- a disorderly transition to a lower-emissions economy, with delayed action to reduce emissions leading to an increase in acute transition risks.

c) Incorporating both qualitative and quantitative factors into the scenarios used to project the future financial conditions of an institution

d) Assessing both physical and transition risks within each scenario used.

e) Seeking input from external experts, as required (or in need), while maintaining appropriate internal knowledge and oversight to ensure that the results of any outsourced analysis are credible, realistic, and understood by CABS.

f) Measuring the impact of climate risks on a range of business obligations and considerations, including, among others, capital adequacy, liquidity, and the ability (as appropriate) to meet obligations to depositors.

g) Incorporating forward-looking information into scenario analysis, such as considering future trends in catastrophe risks, technology innovation or policy development. Analysis that relies solely on historical data has the potential to systematically underestimate the impacts of climate risks, due to the complex dynamics of interconnected lines of business and the non-linear and unprecedented levels of disruption.

5.5.6. When selecting inputs into climate assessments, CABS should pay due regard to:

a) the time horizon of datasets used, including the need for appropriate longer-term timeframes as well as sufficient temporal resolution for the risks assessed (for example, some physical risks might require seasonal data, while annual or decadal data may be appropriate for other risks);

b) geographic specificity, ensuring that local extreme weather events and locations to which CABS may be exposed are represented;

c) the impact of multiple extreme weather events arising concurrently; and

d) the range of global emissions pathways included in a dataset and the capacity for a model (where in use) to evaluate simulations and projections, noting that testing scenarios at the extreme ranges is more likely to identify risks.

5.5.7. Where climate risk scenario analysis or stress testing results are disclosed, significant design features should be disclosed to enable stakeholders to effectively interpret results and compare them between institutions.

5.5.8. Appropriate documentation of the method and results of climate risk scenario analysis and stress testing, including an assessment of the limitations of the analysis for assessing the climate risks faced by CABS, should be in place. Material results are to be communicated to the institution's Board and senior management, and used to inform business planning and strategy setting, as well as setting and reviewing the overall climate risk management approach.

5.5.9. Climate scenario models, frameworks and results should be regularly reviewed by internal and/or external experts and independent functions.

5.6. Disclosure

5.6.1. The disclosure of climate risk information allows interested stakeholders to assess an institution's resilience to climate risks.

5.6.2. The disclosures are to be guided by the requirements outlined in the Reserve Bank of Zimbabwe, Bank Supervision Division Guideline No.01-2023/BSD: Climate Risk Management as well as best practice requirements - Global Reporting Initiative ("GRI") Standards

5.6.3. At a minimum, the bank's disclosure should incorporate the following:

a) Governance, including the Board's oversight and management's role in assessing and managing climate-related risks and opportunities;

b) Strategy, in relation to the actual and potential impact of climate-related risks and opportunities on the regulated institution's businesses, strategy and financial planning, where such information is material;

c) Risk management, regarding identification, assessment, and management of climate-related risks; and

d) Metrics and targets, to assess and manage relevant climate-related risks and opportunities where such information is material.

5.6.4. CABS should continually look to evolve its disclosure practices, and to regularly review disclosures for comprehensiveness, relevance, and clarity.

6. The Role of Management Information Systems (MIS)

6.1. From time-to-time CABS shall adopt an appropriate management information system to allow for data collection, management, and reporting.

7. What Needs to be Escalated?

7.1. CABS is responsible for immediately escalating material non-compliance with this policy to Exco, and where applicable, to BRCC and the Board, within one (1) day of discovery of the matter[2].

8. Appendix 1 - Document Version Control

Document Version Control			
Version	**Details / Description**	**Author / Reviewer**	**Date of Edition / Approval**
1.0	Draft Policy	DMD and Head of Risk	August 2024
1.1	Initial Policy version	Exco & Sustainability Committee	August 2024
1.2	Consideration by BRCC	BRCC	August 2024
1.2	Consideration by Main Board	Main Board	August 2024

[2] Section also to be read in conjunction with the CABS Escalation and Risk Event Policy which stipulates how escalation within CABS is to be done.

China Merchants Land Asset Management

Climate-Related Risk Policy

January 2024

CONTENTS

The REIT Manager identifies any relevant and material physical and transition climate-related risks for CMC REIT and actively incorporates ESG issues, including any relevant and material climate-related risks and opportunities, into its overall business strategy and investment decisions. (pg. 4)

INTRODUCTION

This is the climate-related risk policy (this "**Policy**") of China Merchants Land Asset Management Co., Limited (the "**REIT Manager**"), the manager of China Merchants Commercial REIT ("**CMC REIT**").

This Policy is prepared based on the climate-related risks provisions under the Fund Manager Code of Conduct issued by the Hong Kong Securities and Futures Commission ("**SFC**"), and the related circulars and frequently asked questions issued by the SFC (collectively the "**Requirements**"). Unless otherwise stated, this Policy is adopted by the REIT Manager for all assets under management and applied in relevant jurisdictions in which CMC REIT operates.

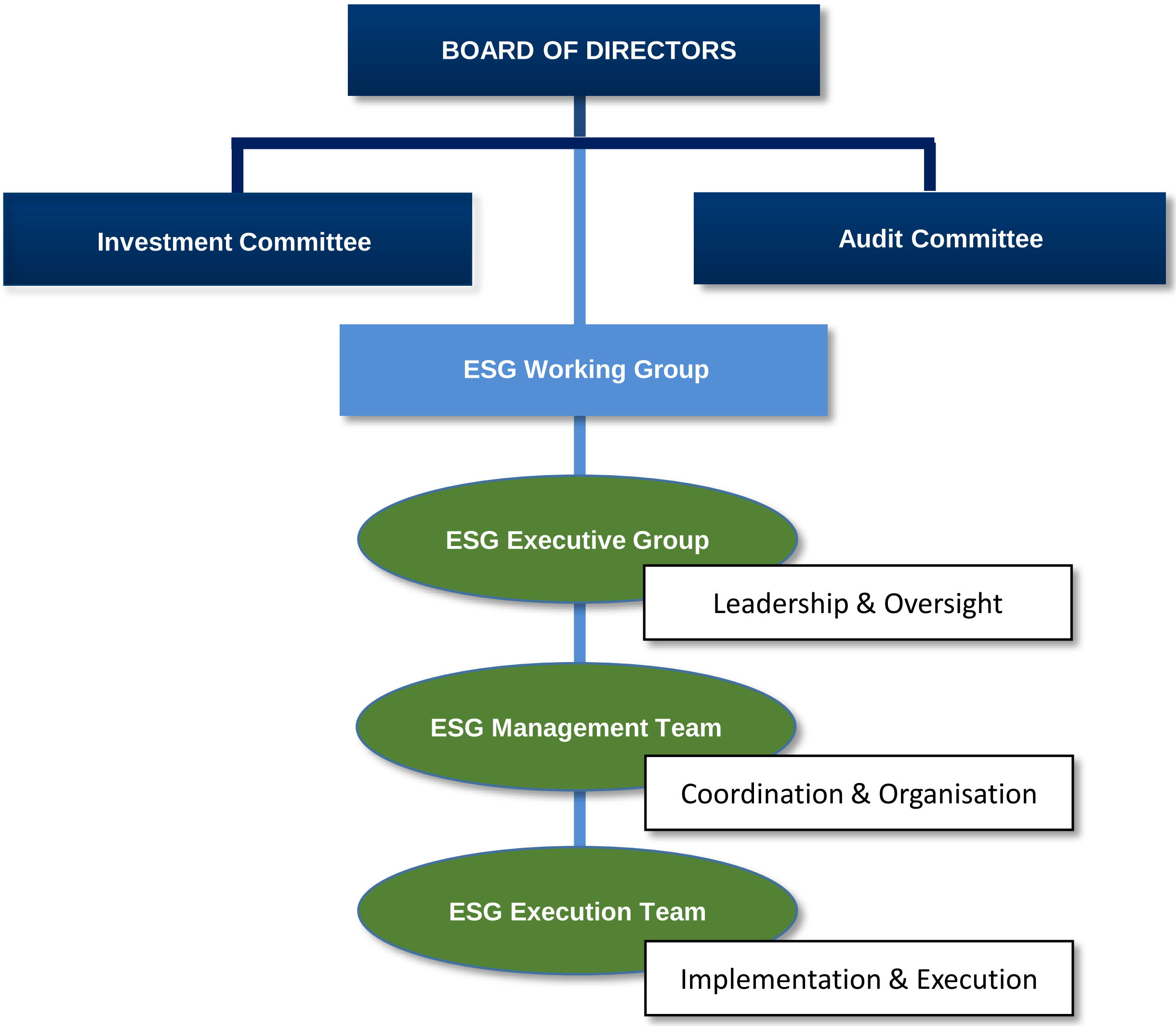
To manage climate risks effectively, the REIT Manager will devote resources to promote sustainability, embed Environmental, Social and Governance ("**ESG**") issues in its business development strategy, and implement measures to continuously strengthen its resilience to climate change. The REIT Manager approaches climate-related risks from the perspective of four pillars:

GOVERNANCE
Establishment of a robust ESG management structure for management on climate-related issues and risks and implementation of various ESG practices in accordance with the established terms of reference.

INVESTMENT MANAGEMENT
Integration of ESG factors into the management processes and ownership practices and consideration of climate risks and opportunities in the stakeholder engagement and investment analysis processes.

RISK MANAGEMENT
Formulation of the risk management process in identifying, analysing and managing climate risks and devising plans to mitigate identified risks.

DISCLOSURE
Timely and transparent information on climate-related disclosures and updates to stakeholders having regard to the Requirements and with reference to recommendations from the Task Force on Climate-Related Financial Disclosures ("**TCFD**").



GOVERNANCE

The REIT Manager maintains a robust and effective governance structure to effectively manage and monitor issues, risks and opportunities (including those related to ESG and climate change) and keep track of performance, in order to pursue its sustainability objectives and address stakeholders' concerns and expectations during the decision-making processes. Please see above the governance structure of the REIT Manager on ESG (including climate related matters):

The REIT Manager regularly analyses and monitors various risk areas relevant to real estate investment trusts.

The board of directors of the REIT Manager ("**Board**") has the overall responsibility for overseeing the risk management (including climate-related risks) and internal control systems to ensure that relevant management systems, policies and practices are effectively implemented and maintained. The Board meets at least annually to review the risks to the assets and operations across the portfolio of CMC REIT ("**Portfolio**") and discuss the implementation of risk mitigation measures.

The Board is responsible for setting applicable ESG objectives, reviewing the progress of their implementation, developing action plans as well as improving the effectiveness and appropriateness of related measures. The Board is also responsible for reviewing the ESG reports of CMC REIT to ensure compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Delegated by the Board with the responsibility for implementing risk management activities, the Investment Committee and the Audit Committee have been set up with clear terms of reference to review investment and risk management issues and submit their findings and recommendations to the Board for consideration and endorsement. The Investment Committee will assess and make recommendations on exposure to various risks including climate risk for acquisitions proposed by the REIT Manager. The Audit Committee is tasked to maintain an effective system of internal control and risk management, in respect of both the REIT Manager and CMC REIT. The Audit Committee assists the Board in its monitoring of the overall risk management profile of CMC REIT and setting policies to govern risk assessment and risk management. The Audit Committee meets at least annually to review the climate risks to the assets and operations across the Portfolio and discuss the implementation of risk mitigation measures.

The ESG Working Group, comprising three levels, namely the ESG Executive Group, the ESG Management Team and the ESG Execution Team, is charged with responsibility for overseeing ESG strategies and plans, evaluating ESG risks (including climate-related risks) and implementing ESG practices across day-to-day operations, respectively. The ESG Executive Group is composed of certain staff of the REIT Manager. The ESG Management Team is composed of certain staff of the operations manager which provides operations management services in respect of the Portfolio ("**Operations Manager**"), whereas the ESG Execution Team is composed of certain staff of the property manager(s) which provide local property management services in respect of the Portfolio ("**Property Manager**"). The ESG Working Group is chaired by a member of the Board. The ESG Working Group assists the Board in reviewing and monitoring the policies and practices to comply with ESG-related legal and regulatory requirements, as well as providing findings and recommendations on ESG development trends and performance for continuous improvement. The ESG Working Group will report material ESG-related issues and risks (if any) to the Board. The ESG Working Group meets at least annually to discuss ESG issues of CMC REIT and reports to the Board at least annually.

The REIT Manager maintains human and technical resources for the proper performance of its duty to manage climate-related risks, including the following:

(a) organising training sessions related to ESG and climate competence, both for the Board and employees in order to bolster their professional capabilities in the context of the ever-changing market environment; and

(b) seeking professional advice from external consultants when necessary to better facilitate the assessment of risk, enhance decision-making processes, the compliance of the REIT Manager with various provisions of the FMCC, the Code on Real Estate Investment Trusts issued by the SFC ("REIT Code") and other relevant rules and regulations on climate resilience and disclosure.

INVESTMENT MANAGEMENT

The REIT Manager's objective is to provide investors with stable distributions, the potential for sustainable long-term distribution growth and enhancement in the value of the Portfolio. As the responsible manager for CMC REIT, the REIT Manager identifies any relevant and material physical and transition climate-related risks for CMC REIT and actively incorporates ESG issues, including any relevant and material climate-related risks and opportunities, into its overall business strategy and investment decisions.

The REIT Manager has integrated its investment objectives, guidelines and processes into its Compliance Manual. The REIT Manager's investment processes govern the overall approaches in identifying potential property investments and restrictions on the investment portfolio, maintaining dialogue with counterparty companies and fairly managing actual and potential conflicts of interest.

The REIT Manager carries out screening and due diligence processes (including ESG and climate-related issues) when commencing any new acquisition or disposal, as well as key business transactions, ensuring property assets comply with all of the applicable laws and regulations, including but not limited to the REIT Code and the SFC''s requirements for fund managers on climate-related risks. The investment team of the REIT Manager also engages with vendor companies during the investment analysis process to understand the quality and depth of the potential target asset's management, financial and non-financial performance and social and environmental impact, in order to assess ESG factors and incorporate findings into the overall investment analysis.

The Investment Committee of the REIT Manager is responsible for reviewing investment proposals put forward by the investment team and considering if any potential climate related risks are relevant and will impact the REIT Manager's future operations or CMC REIT. At least annually, the Investment Committee will review the REIT Manager's investment strategy, particularly in the areas of asset management, acquisitions, capital management and risk management and where appropriate, recommend changes to its policies and procedures for climate-related issues to the Board.

The REIT Manager engages with a wide variety of stakeholders and conducts a materiality assessment each year to seek feedback from them when the REIT Manager makes decisions about how it manages ESG risks and opportunities facing CMC REIT's business. Based on the analysis of the results of the materiality assessment, climate change and response are deemed relevant and material ESG topics to CMC REIT.

The REIT Manager understands the impact of the business operations of CMC REIT on stakeholders such as tenants, employees, investors, government and suppliers. To this end, the REIT Manager actively maintains open and two-way communications with different stakeholders to better understand their concerns and expectations on different ESG issues. The REIT Manager also takes into account the views of the stakeholders of CMC REIT when developing relevant strategies and Policies to continuously improve the ESG performance of CMC REIT.

RISK MANAGEMENT

Risk Management Approach

Recognising the risks and threats posed by climate change, the REIT Manager proactively optimises its climate risk management approach and policies for CMC REIT to enhance the climate resilience of its properties.

The REIT Manager identifies, analyses and mitigates ESG-related (including climate change) risks and opportunities through its risk management and internal control framework. The REIT Manager has adopted a risk matrix to prioritise material ESG issues based on the likelihood and severity of the issues. Those risks with a high probability of occurrence and which might have a severe impact on CMC REIT are considered critical risks and mitigation measures and/or action plans for such critical risks are determined to reduce such risks to acceptable levels. The REIT Manager regularly reviews and where appropriate, updates the processes associated with risk management in order to account for environmental and climate- related risks.

Risk Identification and Assessment

The REIT Manager conducts qualitative climate risk assessments by analysing peer benchmarks and studying the historical climate data and local policies of its main operating areas, to identify physical and transition climate-related risks for each investment strategy and assess the potential implications to its business activities, asset operations and performance of CMC REIT. Records are kept to demonstrate the risk assessment undertaken.

Below is an illustration of such assessment:

PHYSICAL RISKS

Category	Risk	Financial Implications
Acute	Extreme weather events (e.g. typhoon, flooding, etc.)	• Reduced revenue and higher costs from increased health and safety risks to personnel, including loss of workforce and absenteeism • Reduced revenue from business interruptions, such as supply chain interruptions due to traffic difficulties • Increased capital costs from the maintenance and replacement of damaged and/or destroyed assets
Chronic	Rising temperatures (e.g. heatwaves)	• Reduced revenue from lower productivity due to extreme heat, including restrictions on working outdoors • Higher operating costs for cooling
	Rising sea levels	• Increased capital costs from adaption measures, such as additional water proofing of basement areas in buildings • Increased insurance premiums and decreased availability of insurance on assets in “high-risk” locations

TRANSITION RISKS

Category	Risk	Financial Implications
Policy and legal	Carbon pricing Enhanced climate-related reporting obligations	• Increased taxes • Higher operating costs from compliance with new standards and disclosure requirements • Write-offs and early retirement of existing equipment and appliance due to policy changes
Technology	Technological improvements in assets	• Increased capital investments and operating costs for deploying new technologies or practices (e.g., the use of renewable energy)

Risk Management Processes (Green Operations)

At the operational asset level, the REIT Manager ensures that all Operation Manager and Property Managers have implemented a common ISO 14001 certified environmental management system across the Portfolio , and this system serves as a tool to monitor identified environmental and climate risks and its ESG performance on a regular basis. Standardised environmental management manuals, operational procedures, and work guidelines for the Operations Manager have been developed to manage the operational issues pertaining to climate change, energy consumption and water efficiency, in order to strengthen climate adaption across the Portfolio and support CMC REIT's transition to a green and low-carbon operation.

During the property renovation process, the REIT Manager works with Operations Manager, the Property Managers and consultants to design and incorporate green elements into properties to achieve eco-efficiency. Wall and roof greenery are widely used in the properties to reduce indoor air temperature, thereby reducing the cooling requirements and electricity consumption of the buildings. The REIT Manager's objective is to provide a pleasant environment for the tenants and visitors while reducing the carbon footprint with green designs.

Risk Management Processes (Contingency Plans)

In response to various extreme weather events, the REIT Manager ensures that contingency plans and response systems for all the properties in the Portfolio are in place. An emergency response team is set up in each property to ensure the effective implementation of various contingency plans. In case of an emergency, the person in charge of the property is responsible for the coordination of emergency rescue operations, while each department provides support in their corresponding fields. This enhances the properties' ability to handle critical disasters and accidents, minimising the potential damage caused by disasters and protecting the safety of customers, employees and the properties.

The REIT Manager conducts an industry-level risk review on an annual basis, including assessing the relevance and utility of scenarios analysis in evaluating the resilience of its investment strategies to climate-related risks based on the latest global and scientific developments. If the assessment result for the scenario analysis is deemed to be relevant and useful, the REIT Manager will develop a plan to implement scenario analysis within a reasonable timeframe. The REIT Manager continues to optimise its climate risk management and response measures to enhance its resilience of the investment strategies.

Portfolio Carbon Footprints

The REIT Manager takes reasonable steps to assess the portfolio carbon footprint of CMC REIT based on the positions as of the financial year end. This assessment encompasses both Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased electricity) greenhouse gas emissions associated with the Portfolio, to the extent that the relevant data is available or can be reasonably estimated.

The REIT Manager has developed toolkits for each property within the Portfolio to collect ESG-related data. Each year, the REIT Manager collects energy consumption data for each property to calculate Scope 1 and Scope 2 emissions of the Portfolio. Scope 1 emissions include direct greenhouse gas emissions from purchased electricity. The calculation methodology is derived from sources including Greenhouse Gas Protocol: A Corporate Accounting and Reporting issued by the World Resources Institute, and How to prepare an ESG Report — Appendix 2: Reporting Guidance on Environmental KPIs issued by The Stock Exchange of Hong Kong Limited, and by reference to emission factors provided by power companies.

The portfolio carbon footprint is calculated with reference to the Global GHG Accounting & Reporting Standard of the Partnership for Carbon Accounting Financials (PCAF Standard). The value of the Portfolio and individual properties is defined by third-party certified valuer and is disclosed in the "Valuation Report" section of CMC REIT's annual reports. The portfolio carbon footprint is determined by dividing the combined Scope 1 and Scope 2 greenhouse gas emissions by the total value of the Portfolio.

DISCLOSURE

The REIT Manager continues to provide timely and transparent climate-related risk disclosures for stakeholders via its official website and other publications. When making disclosures, the REIT Manager observes the following:

(a) the information disclosed should be proportionate to the degree climate-related risks are considered in the investment and risk management processes;

(b) adequate disclosures of information should be made in writing and communicated to unitholders of CMC REIT through electronic or other means; and

(c) the disclosures should be reviewed on at least an annual basis and disclosures should be updated where considered appropriate and the investors should be informed of any material changes as soon as practicable.

The REIT Manager takes into consideration the disclosure related requirements under the FMCC and other Requirements in preparing the disclosures. In so far as the portfolio carbon footprints disclosures are concerned, such disclosure is made within four to six months after the fiscal year end on 31 December and in any case not later than the usual due date of CMC REIT's annual reports.

招商局置地資管有限公司
China Merchants Land Asset Management Co., Limited

Room 2603-2606, 26/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong

E.SUN Financial Holding Co., Ltd./Subsidiaries Climate-Related and Environmental Risk Management Policy

Approved on the 17th meeting of the 7th Term by the Board of Directors on January 14, 2022
Amended on the 23rd meeting of the 7th Term by the Board of Directors on November 11, 2022
Amended on the 7th meeting of the 8th Term by the Board of Directors on November 11, 2023
Amended on the 15th meeting of the 8th Term by the Board of Directors on September 27, 2024

Article 1 Purpose

Pursuant to the “E.SUN Financial Holding Co., Ltd. Sustainable Finance Policy” and the “Recommendations of the Task Force on Climate-Related Financial Disclosures” (TCFD), and refer to Taskforce on Nature related Disclosures (TNFD), this Policy is adopted to ensure that the Company can effectively assess the potential risks and opportunities presented by climate change and natural environment moreover to develop related mitigation and adaptation measures, thereby enhancing its capacity for managing climate-related and environmental risk (hereafter “climate environmental risk”).

Article 2 Scope of Application

This Policy applies to all the business operations of the Company and its subsidiaries.

Article 3 Definitions

1. Subsidiaries refer to business units or sub-subsidiaries wholly owned by the Company.
2. Climate and environmental risks refer to the physical and transition risks from direct impacts caused by climate or environmental factors and changes in related regulations or economic factors. These risks can negatively affect operations and business activities (such as investments and financing). For example, excessive damage to the natural environment could lead to the collapse of climate systems or ecosystems, causing systemic risks. Climate and environmental risk can be assessed through impacts and dependencies.
3. Dependencies are aspects of environmental assets and ecosystem services that a person or an organization relies on to function.
4. Impacts refer to changes in the state of nature (quality or quantity), which may result in changes to the capacity of nature to provide social and economic functions.
5. Physical risk refers to the financial impact of a changing climate and environment, including more frequent extreme weather events and gradual changes in climate and environment.
6. Transition risk refers to the financial impact that can result from the process of

adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

Article 4 Roles and Responsibilities

The Company's climate environmental risk-related organizational structure and division of roles and responsibilities shall be as follows:

1. The Company

   (1) Board of Directors

      a. As the Company's highest decision-making body for creating an effective climate environmental risk management mechanism, the Board of Directors shall shoulder the ultimate responsibility for its climate environmental risk management policies.
      b. Based on the Company's overall strategy and business environment, the Board of Directors shall approve its climate environmental risk management policy and other key decisions to ensure an effective climate environmental risk management mechanism.

   (2) Risk Management Division

      a. Implement climate environmental risk management decisions and compile significant risk topics quarterly for reporting to the Board of Directors and the Board Risk Management Committee.
      b. Supervise and coordinate the establishment and implementation of climate environmental risk management mechanisms across subsidiaries and perform ongoing monitoring and management.
      c. Assist in internal development of relevant quantitative methods and indicators to formulate management measures aimed at mitigating or adapting to the impacts of climate and environmental risks.

2. Subsidiaries

   (1) Subsidiaries should assess the integration of business process management and decision analysis with climate change and environmental issues applicable to their respective business endeavors. This includes identifying and evaluating climate and environment-related risks and opportunities relevant to their business operations, measuring the impact of these risks and opportunities on their business, strategy, and financial planning, setting management metrics and targets, and take appropriate process adjustments or risk mitigation and

adaptation measures.

3. Audit Division of the Company and its subsidiaries

   All such Divisions shall audit the climate environmental risk management of their respective companies to ensure compliance with existing policies and control guidelines.

Article 5 Climate Environmental Risk Management Mechanism

1. The Company and its subsidiaries shall refer to domestic and overseas laws and regulations, guidelines, and research reports with regard to climate and environment, identify the channels and mechanisms through which the physical and transition risks of climate environmental risk may aggravate traditional risks, and develop countermeasures accordingly.
2. The Company and its subsidiaries shall consider climate and environmental risks over different time frames and their potential impacts on operations and business development (including physical risks and transition risks) and may adopt risk-based management measures. For customers, assets, or business activities with high climate environmental risks, stricter management measures must be assessed and established. For those with lower risk association or impact as determined by risk assessments, existing risk management measures may be maintained.

Article 6 Monitoring, Reporting, and Internal Control

1. The Company and its subsidiaries shall routinely track climate environmental risk threatening their operations and business over different periods of time, adjust management measures when warranted, and report their climate environmental risk and management thereof to the Risk Management Division.
2. The Company shall submit a climate environmental risk report to the Board of Directors at least every six months. If a climate environmental risk impact threatens to affect overall or business operations, the Company shall immediately take proper actions and report the incident to the Board of Directors.
3. The Company and its subsidiaries shall check if they are following the approved policies and procedures using established self-assessments/self-audits or other review methods.
4. The Audit Division of the Company and its subsidiaries shall implement audits of climate environmental risk management procedures to ensure the effectiveness of their assessment and control of such management.

Article 7

This Policy shall undergo review at least once a year, when warranted, in accordance with changes in internal and external conditions, international trends, business objectives, and applicable laws and regulations.

Article 8

If a subsidiary adopts a related policy or regulations of its own, these shall prevail.

Article 9

All matters not specified in this Policy shall be dealt with in accordance with applicable regulations of the competent authority and the Company.

Article 10

The Policy shall become effective upon approval of the Board of Directors.

Climate Risk Management Policy of Chang Hwa Commercial Bank

Formulated by the 26th Board of Directors at the 34th meeting on December 29, 2022

Revised by the 27th Board of Directors at the 7th meeting on December 4, 2023

Article 1 Purpose of the Policy

The Bank adheres to international agreements, such as the United Nations Framework Convention on Climate Change and its protocols, and the Task Force on Climate-related Financial Disclosures (TCFD). These agreements are utilized to identify and evaluate climate risks and opportunities, improve our management of climate risks, and increase transparency of information. Our policy was developed in accordance with the “Climate Change Response Act”, the Financial Supervisory Commission's "Guidelines for Climate related Financial Disclosures by Banks in Taiwan", and the relevant management regulations and policies of the Bank.

Article 2 Management Policy and Scope of Application

The Bank acknowledges that climate risks must be an essential component of the Integrated Risk Management framework and that climate risk factors be taken into account when determining our risk appetite, strategy, and business plans. Identifying and evaluating climate-related risks and opportunities based on their impact on the bank. By doing so, we can improve our resilience through appropriate response strategies.

The Bank and its subsidiaries shall comply with this policy in all operational activities and business developments. However, our overseas branches and subsidiaries may establish relevant policies and regulations in compliance with local laws and regulations.

Article 3 Definitions Related to Climate Risk

The term "climate risk" as used in this policy refers to the potential risks that may arise from natural disasters, regulations, or economic factors related to climate change that may cause physical or transition risks leading to direct or indirect losses for the Company during our operations and business development. The management of climate risk involves the Bank's mechanisms for managing these risks, the development and implementation of climate adaptation and climate mitigation, and the effective management of the impacts and opportunities brought about by climate change. The following definitions are relevant to this policy:

I. Physical risk: Financial implications risks caused by acute extreme weather events or chronic climate patterns change brought by climate change.

II. Transition risk: Financial implications risks that arise from the extensive policy, legal, technological, and market changes that may be required to transitioning to a lower-carbon economy.

III. Climate adaptation: Appropriate strategies that mitigate negative impacts or develop favorable opportunities in response to climate impacts or influences.

IV. Climate mitigation: Human intervention aiming to reduce greenhouse gas emissions or increase greenhouse gas storage in order to mitigate the potential impacts of climate change.

V. Greenhouse gas emissions: Refers to the total amount of various greenhouse gases multiplied by the warming potential of each substance, expressed in carbon dioxide equivalents.

VI. Greenhouse gases: Refers to CO_2, CH_4, N_2O, HFC_s, PFC_s, SF_6, NF_3 and others announced by the Central authorities.

Article 4 Organization and Responsibilities

The organizational structure and responsibilities within the Bank related to climate risk management are as follows:

I. Board of Directors

(I) Approving climate risk management policies and guiding, monitoring, and managing climate risks accordingly to ensure that the Bank's qualitative and quantitative measures are in line with risk appetite.

(II) The Board of Directors should recognize the potential financial impacts of climate risks on the Bank and bear the ultimate responsibility for establishing and maintaining adequate and effective mechanisms for managing those risks.

(III) The Board of Directors should consider the goals of relevant international agreements and the schedule of national policy requirements, and continue to monitor the bank's management and disclosure of climate risks effectively.

II. Sustainable Development Committee

(I) The Sustainable Development Committee is a specialized unit for sustainable development and is responsible for supervising and reviewing the Bank's efforts to achieve its sustainable development goals, including climate risk management.

(II) Periodically reviewing the climate-related financial disclosures of the Bank.

III. Risk Management Committee

(I) Implementing climate risk management policies and major decisions, management mechanisms, and monitoring indicators approved by the Board of Directors, and regularly reviewing their effectiveness and implementation status.

(II) Continuously monitoring exposures to climate risks and reviewing the resilience of the Bank's response strategies under different climate scenarios.

IV. Climate-Related Financial Disclosure Working Group

A working group was established to identify or assess climate risks and opportunities, develop environmentally friendly policies, supervise their implementation, and report periodically to the Board of Directors, the Sustainable Development Committee, and the Risk Management Committee according to respective responsibilities.

Article 5 Management Mechanism

To effectively identify, measure, monitor, and report climate risks and opportunities, the Bank has established the following management mechanisms:

(I) Identification of Climate Risks and Opportunities:

Taking into account relevant domestic and international laws, guidelines, and research reports related to climate change, the Bank identifies climate risks and assesses their potential impact on its operations, strategies, products, and financial planning in different time horizons (e.g. short, medium, and long-term). Response strategies and measures are formulated accordingly, while also considering market development potential to identify potential climate business opportunities.

(II) Climate Risk Measurement:

Climate scenario testing is conducted through various approaches to qualitative and quantitative assessment of climate risks. Analyses of potential climate-related losses are also performed in a timely manner and evaluate the resilience and adaptability of our climate risk-related strategies, which are adjusted based on the results of climate scenario testing.

(III) Climate Risk Monitoring:

Measurable and actionable key metrics for climate risk have been established based on our core business activities. These metrics take into account the duration of the climate risk impact (short, medium, or long term) as well as other relevant factors such as industry, geographic location, and credit rating. Individual key metrics contain specific targets, and we regularly monitor progress towards achieving them. Additionally, we conduct appropriate assessments to evaluate the execution progress of each metric.

(IV) Climate Risk Report:

The status of climate risk management execution is regularly consolidated and reported to the Board of Directors, following a report to the Risk Management Committee. This is done to assist in the development of strategic plans and the monitoring of business operations. In the process of monitoring climate risks, appropriate response measures shall be taken immediately, and reported to the Board in the event of any significant abnormalities or special circumstances.

The Bank's climate-related financial disclosures are regularly reported to the Sustainable Management Committee and the Board of Directors.

Article 6 The Three Lines of Defense in Climate Risk Management

Clear allocation of responsibilities for climate risk management across each line of defense shall be in place to effectively manage climate risks for the Bank:

I. In the first line of defense, risk-bearing units shall evaluate climate risks in their operations, especially for industries that are significantly impacted by climate risks.

II. In the second line of defense, risk management units shall effectively monitor the implementation of climate risk management in the first line of defense, while the compliance units shall ensure that all operations comply with legal regulations.

III. In the third line of defense, internal auditing units shall evaluate the effectiveness of the first and second lines of defense in monitoring climate risks and provide improvement suggestions in a timely manner.

Article 7 Evaluation Methods and Procedures

The Bank has established climate risk assessment methods and procedures based on its own operations, clients and asset portfolios to identify and evaluate the severity of climate risks, prioritize risks, and define material climate risks.

The Bank should identify the correlation between climate risks and other risks, such as credit, market, operational, and liquidity risks, and adopt differentiated risk management measures based on the assessed level and priority of climate risks.

The Bank should establish management measures for its own operations and clients who pose high climate risks. Factors to consider should include the materiality of the climate risk, willingness and ability to improve climate risk, and whether there are alternative measures to offset the Bank's risk. If a client or supplier fails to effectively manage their climate risks, the Bank may take responsive measures, including but not limited to reflecting additional risk costs in risk pricing, setting exposure limits for high-risk loans, and re-evaluating the business relationship with the client or supplier.

The Bank shall establish management measures for assets with high climate risk, considering factors such as the materiality of the climate risk, the Bank's management capability over such assets, and the availability of alternative measures to mitigate risk. In cases where climate risks have not been effectively managed for assets, the Bank may take responsive measures, including but not limited to transferring losses from climate risks borne by the Bank, setting investment limits for high climate risk assets, and controlling the concentration of high-risk regions or industries.

Article 8 Scenario Analysis

As a part of our business operations, we conduct scenario analysis regarding physical and transition risks to evaluate our risk exposure and assess the impact of climate risks on our business. This includes assessing our resilience to climate risks under various climate scenarios.

The Bank shall select reasonable scenarios related to its operations and explain how climate risks are transmitted and affect its financial risks. The selected scenarios should include forward-looking information to consider the uncertainty and long-term outlook of climate change, and avoid underestimating potential future risks solely based on historical data.

Documentation related to key assumptions or variables in scenario analyses, including scenario selection, reasonableness of assumptions, evaluation results, necessary actions to be taken, and actual measures taken to address risks, should be kept for 5 years.

Before the end of June each year, the climate change scenario analysis of the previous year is conducted and disclosed in accordance with the "Domestic Banks' Planning for Climate Change Scenario Analysis".

Article 9 Metrics and Targets

To implement climate risk management, the Bank should set climate change or greenhouse gas emission-related metrics and short-, medium-, and long-term targets, regularly monitor the achievement of targets, properly evaluate the progress of each metric. The Bank should propose improvement measures if progress falls behind.

Greenhouse gas emissions should be calculated in accordance with common domestic and international inventory standards, guidelines or methods. In order to improve the quality of relevant data disclosure, external agencies recognized by the Central authorities may be regularly commissioned to verification (or assurance) greenhouse gas emissions.

Article 10 Reward Mechanism

In order to promote the implementation of climate risk management, greenhouse gas reduction, and mitigation of the impact of climate change throughout the bank, and jointly achieve the set metrics and targets, appropriate rewards may be provided to units or personnel with performance.

The implementation method should be handled in accordance with the relevant regulations of the Bank.

Article 11 Public Disclosure

The bank shall disclose its management of climate risks based on aspects such as governance, strategy, risk management, metrics, and targets. It shall periodically review climate-related financial disclosures to gradually enhance the completeness, accuracy, and relevance of disclosure content.

Article 12 Establishment of Operation Guidelines

The Operational Guidelines related to this policy are authorized to be implemented after approval by the President, and the same applies to amendments.

Article 13 Implementation and Amendment

This policy should be reviewed and amended in a timely manner based on internal and external environmental factors, global trends, business development directions, and relevant laws and regulations.

This policy shall be implemented upon approval by the Board of Directors and shall be amended in the same manner.

ENVIRONMENTAL, SOCIAL & CLIMATE CHANGE RISK MANAGEMENT: ACTIVITIES THAT REQUIRE SPECIAL ATTENTION AND PROHIBITED ACTIVITIES

Policy

Santander Group

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1 INTRODUCTION

1.1 Purpose and context

Banco Santander, S.A. and its Group ("Santander" or "Santander Group") recognises that Environmental and Social (E&S) issues pose significant challenges to the long-term prosperity of the global economy, people and communities, and the natural environmental.

Santander is committed to supporting clients and economies in their transition to a low carbon economy, providing financial products and/or services to business activities that are environmentally and socially responsible in line with its sustainability commitments[1]. This is a continuous endeavour, at different speeds for different countries, and with multiple external dependencies across public policy, technological developments and consumer needs amongst other factors, requiring ongoing engagement with clients in their transition to a low carbon economy. Attention must also be paid to the social problems that may arise such as the involuntary displacement of the local and/or indigenous population, the health, safety and human rights of the workers who carry out the business activities, and the impacts on local communities and other stakeholders affected by these activities.

To support our fight against climate change, the Group will promote supporting customers navigate the transition to a low carbon economy.

Santander Group has committed to:

- By 2030, stop investing in, and/or providing financial services to clients for whom coal fired generation represents directly more than 10% of revenues on a consolidated basis.
- No exposure to thermal coal mining worldwide by 2030.
- Support international standards and treaties[2].

This policy sets out certain activities that are prohibited and those that require special attention from an environmental, social and climate change perspective in the Oil & Gas, Power Generation and transmission and Mining & Metals sectors and those arising from businesses specifically engaged in soft commodities.

1.2 Definition

This document sets out Santander Group's criteria for (i) investing in entities, and/or (ii) providing financial products and/or services to clients[3] who develop the following activities:

- **Oil & gas:** Exploration, extraction, production and treatment including refining, transportation, storage and wholesale distribution[4].

For the sake of clarity, any reference to a year will be considered as of 31 of December of that year.

[1] Support the goals of the Paris Accord

[2] See annex with non-exhaustive list of external references, regulations, standards and best practices

[3] Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the prohibited entity) and/or to other subsidiaries within the conglomerate.

[4] Excluding distribution to the final consumer

- **Power generation and transmission:** All power plants regardless of energy source and the construction and maintenance of electricity transmission lines[5].
- **Mining**: prospecting and mining research, mining development and exploitation, restoration and recovery of the exploited natural space.
- **Metals:** processing of ores to extract the metal they contain, production of alloys from ingots, processing of by-products: scree, gangue, slag and sand.
- **Soft Commodities:** production and wholesale distribution of: timber products for processing into lumber, wood-based cellulose, paper and textiles; soy; palm oil; rubber; cocoa; coffee; cotton; sugarcane; biomass[6] or biofuels, as well as beef production in High-Risk Geographies[7]. Including those Santander Corporate and Investment Banking clients who acquire these commodities directly from plantations or ranches, and they represent over 10% of their total purchases.

For the purpose of this policy, financial products and/or services are defined as: transactions giving rise to credit risk, insurance, asset management[8], equity and advisory services.

Assessments of the relevant environmental social and climate change risk impacts will be required for Santander Corporate and Investment Banking clients whose business activities relate to this policy.

This assessment of impacts should also be conducted in investment decisions for asset management and insurance products.

1.3 Scope

This policy is prepared by Banco Santander, S.A., as parent company of Santander Group, establishing the rules to be applied to the entire Group.

Group entities are responsible for their own internal regulations, and for developing and approving in their respective governing bodies their own internal regulation that allows the application within its scope of the provisions contained in the Group regulation, with the absolutely essential adjustments, if any, to make them compatible and meet regulatory and management requirements or the expectations of their supervisors.

Such approval must contain the validation of the Corporation.

[5] Excluding distribution to the final consumer
[6] Biomass is defined as "the biodegradable fraction of biological products, residues and waste from agriculture (including vegetable and animal substances), forestry and similar industries (including fisheries and aquaculture)".
[7] High Risk Geographies are defined as: Any country in Africa, Argentina (only the Provinces of: Chaco, Formosa, Santiago del Estero, Salta and Tucumán) Bolivia; Brazil (only the Legal Amazon and Northeast regions); Cambodia; China; Colombia; Ecuador; Estonia; Guatemala; Guyana; Honduras; India; Indonesia; Laos; Latvia; Lithuania; Madagascar; Malaysia; Mexico; Myanmar; Nicaragua; Panama; Paraguay; Papua New Guinea; Peru; Russia; Solomon Islands; Thailand; Vietnam; and any customer stating "unknown".
[8] For asset management activities, the application of these prohibition is subject to the availability of information by the providers.

2 PROHIBITED ACTIVITIES[9]

Santander Group will not directly invest in and/or provide financial products and/or services to the following activities in any client segment:

- Any projects or activities for oil & gas extraction, power generation or transmission, mining, manufacturing, plantations or other major infrastructure projects which put areas classified as Ramsar Sites[10], World Heritage Sites[11] or by the International Union for Conservation of Nature[12] (IUCN) as categories I, II, III or IV at risk.
- Projects that, in accordance with IFC Performance Standard 7 - Indigenous Peoples[13], require Free, Prior and Informed Consent (FPIC) and do not meet IFC Performance Standard 7 and there is not a credible action plan to achieve compliance.
- Client activities, business relationships or facilitation of transactions that are or can be proven to be linked to the commission of serious or gross violations of human rights[14] or international human rights law.

Oil & Gas:

Clients:

- New oil upstream clients, except for transactions for the specific financing for new renewable energy facilities.
- Clients involved in exploration and production for whom the activities derived from the combination of fracking[15], tar sands, coalbed methane and Arctic oil & gas represent a significant part of their reserves, or account for more than 30% of their activity.

Projects:

- Project-related financing to Oil upstream greenfield projects[16].
- Any projects, or expansion of existing facilities, north of the Arctic Circle.
- Projects involved in the exploration, development, construction or expansion of oil & gas extraction from tar sands, fracking[15] or coal bed methane.

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[9] To the extent required by applicable law, customers and transactions involving activities enumerated in this section will be subject to an enhanced due diligence process to determine the unique risks presented prior to decisioning.

[10] The Convention on Wetlands, called the Ramsar Convention, is the intergovernmental treaty that provides the framework for the conservation and wise use of wetlands and their resources. (https://www.ramsar.org/)

[11] World Heritage Sites: http://whc.unesco.org/en/list

[12] The International Union for Conservation of Nature (IUCN) (https://www.iucn.org) classifies protected areas according to their environmental management objectives: Category I: Nature Reserve and Wilderness Areas, Category II: National Park, Category III: Natural Monument or Feature, Category IV: Habitat/Species Management Area

[13] https://www.ifc.org/en/insights-reports/2012/ifc-performance-standard-7

[14] Considering child labour, forced labour, discrimination at work, freedom of association, working conditions, grievance mechanisms for workers, occupational health and safety issues, impacts on communities and land grabbing.

[15] Due to the necessity to support the energy transition, energy security and affordability, and in situations where there can be exceptional social and economic implications, that could ultimately enable the transition and may play a crucial role in the economic and social local development (developing countries/emerging economies), exceptions in relation to fracking may be considered in jurisdictions where these activities are permissible under local regulation, subject to enhanced due diligence and appropriate approval.

[16] Defining Greenfield as those fields whose approval for development is after May 2021.

Power generation:

Clients:

- By 2030, any client with more than 10% of revenues, on a consolidated basis, directly derived from coal fired power generation.
- New clients with more than 25% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for transactions for the specific financing for new renewable energy facilities. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones, have a robust, credible plan, with verifiable targets, which show the client will reduce its revenues coming from coal power generation to 10% or below by 2030. Onboarding new clients with less than 25% of their revenues, on a consolidated basis, derived from coal-fired power generation is allowed, if they have a credible plan to reduce its revenues coming from coal power generation to 10% or below by 2030; and if they are not developing new coal power plants and/or expanding existing ones.
- Nuclear Power Plants if:
  - The host country[17] is not a member of the International Atomic Energy Agency (IAEA).
  - The host country has not ratified the Convention on Nuclear Safety, the Convention on the Physical Protection of Nuclear Materials or the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (or has not taken the appropriate measures to be aligned with the requirements included in these conventions).
  - The host country has not ratified the Non-Proliferation Treaty (NPT) and the International Convention for the Suppression of Acts of Nuclear Terrorism.
  - The host country does not have a national safety agency (NSA) for nuclear activities that:
    - Is established, independent and capable (in terms of creating a regulatory environment that requires good environmental and social performance throughout the life cycle of the facility).
    - Is authorised to conduct inspections and impose sanctions if required.
    - Has rules in line with the recommendations of the IAEA.

Projects:

- Project-related financing for new coal-fired power plants projects worldwide, or for the upgrade and/or expansion of existing coal-fired plants.
- Project-related financing for the construction or development of infrastructure projects whose expected revenues from coal power generation-related activities will be more than 30% of the project's revenues in the first five years.

Mining & Metals:

Clients:

[17] The Host Country is the country/ies where the facility/reactor/nuclear activities are located and where the client company (and its parent if different) is incorporated.

- By 2030 clients that own thermal coal mines worldwide.
- New clients that own thermal coal mining operations and projects worldwide, except for transactions for the specific financing for renewable energy. In these exceptions, the client must have a robust, credible plan, with verifiable targets, which show the client will have no thermal coal by 2030.
- Extraction, processing or wholesale distribution of asbestos.
- Extraction or wholesale distribution of rough diamonds not certified by the Kimberley process[18].
- Mining activities without a specific treatment to avoid tailings disposal in riverine or shallow sea environments (such as tailings storage facilities or dry stack).

Projects:

- Project-related financing for new, or the expansion of thermal coal mines.
- Project-related financing for the construction or development of infrastructure projects whose expected revenues from thermal coal mining-related activities will be more than 30% of the project's revenues in the first five years.
- Mining activities relating to the so-called "conflict minerals" extracted from conflict areas and not included in the corresponding certification processes[19].

Soft commodities:

Clients:

- Extraction of native tropical wood species not certified to FSC.
- Palm oil processors that are not member or certified to RSPO.

Projects:

- Developments in forested peatlands in High-Risk Geographies.

3 ACTIVITIES REQUIRING SPECIAL ATTENTION

The sectors included in this policy (oil and gas, power generation and transmission, mining and metals, and "soft commodities") have been selected based on their potential environmental, social, and climate change impact and they require special attention. For Santander Corporate and Investment Banking clients whose business activities relate to these sectors, a detailed analysis is performed, including the following relevant activities:

- Any activities that involve the resettlement of indigenous people and/or other vulnerable groups.

Oil & Gas:

[18] The Kimberley Process Certification Scheme (KPCS) is the process established in 2003 by the UN General Assembly to prevent "conflict diamonds" that may be used to finance war or human rights abuses, from entering the mainstream rough diamond market

[19] https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/ -

- Exploration, development, and production (including drilling activities).
- Midstream and downstream activities[3].
- Any other activities in the O&G sectors that are not prohibited activities.

Power Generation:

- Transactions involving nuclear power generation.
- Transactions involving solid and gaseous biomass power plant for heat and electricity generation in order to assess the sustainable use of biomass.
- Transactions relating to large dams, as defined by International Commission of Large Dams.

Mining:

- Management of tailings.
- Precious minerals and metals.
- Activities related to Uranium[20].
- Those activities involving the removal of mountain tops.

Soft commodities:

- Forestry plantations in forests listed as protected by official bodies. Developments in any forested areas that have suffered forest fires or mass deforestation in the last five years.
- Financing of activities that create the expansion of the agricultural/plantations frontier to the detriment of natural forest.
- Activities with an impact on tropical forests, tropical savannahs, and savannah biomes or located in High-Risk Geographies[6].
- Deforestation risk with agribusiness clients in the Amazon biome.

Activities potentially exposed to risks of Human Rights violations:

Santander promotes respect for human rights in its relationship with clients, and therefore pays special attention to these risks within and beyond the sectors included in this policy.

Should human rights risk concerns be identified throughout customer and/or transaction lifecycle, enhanced due diligence must be performed.

4 GOVERNANCE AND DELEGATED AUTHORITIES

Environmental, social and climate change risk analysis is carried out in accordance with established procedures.[21]

[20] Must also meet the criteria included in the Santander Defence Sector Policy.

[21] Environmental, social and climate change risk screening procedure, procedure of environmental, social and climate change risk management in projects

This analysis must be integrated into the workflow and governance structures established for the management and control of risks such as credit admission or investment decision. It is the responsibility of the risk approver (committee or individual authorizer) to ensure that decisions are made taking into account the environmental, social and climate change risks, and the criteria defined in this policy.

5 GOVERNANCE OF THE POLICY

5.1 Ownership of the policy

The ESG Risk function is responsible for drawing up this policy.

The owner of this policy is the Board of Directors of Banco Santander, S.A.

5.2 Interpretation

The ESG Risk function is responsible for interpreting this policy.

In the event of conflict between the Spanish version and the English version, the Spanish version shall prevail.

5.3 Effective date and review of the policy

This policy will come into force on the date it is published and it replaces the previous version.

Its contents will be reviewed on a regular basis, and any changes or modifications considered appropriate will be made.

ANNEX: Non-exhaustive list of external references, regulations, standards and best practices:

- The Equator Principles.
- The standards for social and environmental performance and the explanatory notes of the International Finance Corporation (IFC).
- The United Nations Global Compact, the Universal Declaration of Human Rights; the International Labour Organization Declaration; the Convention on the Rights of the Child; the Rio Declaration on Environment and the United Nations Convention against corruption.
- Task Force on Climate-related Financial Disclosure (TCFD).

Oil & Gas:

- The International Petroleum Industry Environmental Conservation Association (IPIECA).
- The International Association of Oil & Gas Producers (IOGP).

Power generation:

- The Recommendations of the World Commission on Dams (WCD).
- The International Hydropower Association (IHA).
- The International Atomic Energy Agency (IAEA) and, more specifically:
  - The IAEA Safety Standards (i.e., the Safety Fundamentals, the General Safety Requirements and the General Safety Guides).
  - The Convention on Nuclear Safety.
  - The Convention on the Physical Protection of Nuclear Materials, the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.
- The Non-Proliferation Treaty (NPT).

Mining & Metals:

- The EU Conflict Minerals Regulation (EU 2017/821).
- UN Environmental Programme and GRID Arendal report on Mine Tailings Storage.
- International Council on Mining and Metals Review of Tailings Management Guidelines and Recommendations for Improvement.
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.
- The Kimberley process in the mining and trade of diamonds.
- International Cyanide Management Code for the Manufacture, Transport, and Use of Cyanide in the Production of Gold.

Soft commodities:

- The Forest Stewardship Council (FSC).

- The Programme for the Endorsement of Forest Certification (PEFC).
- The Roundtable on Sustainable Palm Oil (RSPO).
- The Round Table on Responsible Soy (RTRS).
- Bonsucro.
- The Better Cotton Initiative.
- The Common Code for the Coffee Community (4C).

YORKSHIRE BUILDING SOCIETY

ENVIRONMENTAL AND CLIMATE CHANGE RISK POLICY OVERVIEW

Updated March 2024

Contents

YORKSHIRE BUILDING SOCIETY

1. Purpose

The Purpose of the Policy

The Enterprise Risk Management Framework (ERMF) classifies climate risk as a cross-cutting risk across the Society's identified Tier 1 risk categories. The purpose of the Environmental Climate Change Risk Policy (ECCRP) is to set out the requirements for the Society's approach to environmental and climate risk management. The ECCRP sets out responsibilities for the identification, assessment, and management of environmental and climate risks across each Tier 1 risk category as defined within the Society's ERMF

Applicable Regulations and Legislation

Key environmental legislation and regulatory requirements that may impact the Society include:

- Climate Change Act 2008
- CRC Energy Efficiency Scheme Order 2013. Phased out in January 2020, records of compliance must be kept until 2025.
- The Waste (England and Wales) Regulations 2011
- Environmental Protection Act 1990
- Environment Act 1995
- The Waste Electrical and Electronic Equipment Regulations 2006
- The Hazardous Waste (England and Wales) Regulations 2005
- Climate Change (Scotland) Act 2009
- The Waste (Scotland) Regulations 2012
- Energy Savings Opportunity Scheme Regulations 2014
- Minimum Energy Efficiency Standards 2018
- The Companies Act 2006 – 2013, 2018 and 2022 Regulations
- Prudential Regulation Authority Supervisory Statement SS3/19 (2019)
- Financial Conduct Authority Listing Rule (LR) 9.8.6 R(8)

The regulatory and legislative environment is constantly evolving. As a result, the Environmental Sustainability Team (EST) hold a central document that is pertinent to upcoming regulation and the potential impacts and actions of the Society.

Requirements of the Policy

The requirements outlined in this policy must be understood and followed by all colleagues and contractors.

All colleagues are responsible for minimising their impact on the environment, while specific teams are responsible for managing the financial risks that climate change poses to the Society. While these risks and their mitigation are embedded and integrated into the Society, there must be sufficient cooperation with Environmental Sustainability Team in all aspects relating to environmental or climate risk management and strategic decision making.

ESG Committee has delegated authority to support the Board in the overseeing and delivery of the Group's ESG strategy, ensuring alignment with the Group's purpose, ambitions, and responsible business priority areas, covering people, environment, and operations.

Asset & Liability Committee (ALCO) is the Society governance committee with responsibility for financial risk management. Under its delegated Board authority, it retains responsibility for monitoring the Society's risk positions and recommending/approving as appropriate, actions. However, committees cannot, in themselves, provide effective day-to-day management or monitoring and therefore individuals/functions mentioned within this document are responsible for ensuring appropriate analysis, monitoring and actions are in place, identified and/or acted upon.

Executive Risk Committee (ERC) is responsible for the oversight of day-to-day risk management activity. It has authority to direct business in relation to mitigating actions and to approve to endorse risk acceptance within defined levels.

2. Scope

This policy applies to all colleagues, temporary and self-employed contract staff, including all brands and subsidiaries of the Society.

This policy covers the principles by which the Society manages its climate and environmental regulatory and legislative requirements.

3. Definitions

In line with regulatory and industry definitions, the following definitions apply to this Policy:

- **Physical risks:** These are either acute or chronic. Acute risks include droughts, floods, extreme precipitation, and wildfires. Chronic risks include rising temperatures, the expansion of tropical pests and diseases into temperate zones, and an accelerating loss of biodiversity.
- **Transition risks**: Business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks.
- **Net Zero**: a long-term goal that denotes the practice of reducing CO_2e emissions in accordance with the most current climate science, such as aligning to 1.5 degrees warming.
- **Transition Plan:** incorporates a business' carbon reduction plan with a comprehensive strategy that involves transitioning from the current high-carbon economy to a low-carbon economy.
- **Location vs Market-based emissions:** Location based emissions are calculated using the average emissions intensity of the National Grid, whereas market-based emissions reflect electricity that companies have purposefully chosen or contracted.
- **Time frames:**
  - **Short Term:** 1-5 years
  - **Medium Term:** 5-15 years
  - **Long Term**: 15+ years.
- **Operational Emissions:** The emissions associated from operating to provide the services offered to members and customers. These emissions include the emissions associated with the supply chain.
- **Financed Emissions:** The emissions associated with retail lending, commercial lending, and Treasury activities.
- **The Society**: The Society represents Yorkshire Building Society and subsidiaries.

4. Policy Statements

The Society considers Environmental and Climate Change Risk as a cross cutting risk, meaning the risk impacts all areas of the business. The PRA state in SS3/19 that firms take a strategic, holistic, and long-term approach, considering ECCR in all accepts of the Society's risk profiles. Specifically, the ERMF lays out the expectation of the relevant Tier 1 Risk Category Owners consider ECCR within their own policies to ensure that the risks are fully understood, embedded, and therefore controlled. This policy sets out the expectations for these risk owners.

Overarching Principles

While implementing climate and environmental risk throughout the business, and noting the Society's purpose to provide 'Real Help with Real Life', the following objectives apply:

- Environmental standards integrated into all business operations and decision-making points,

- The Society will comply with all relevant environmental legislation and requirements,
- The risks and opportunities climate change presents to the Society are understood,
- The Society's operations are managed in a way that prevents pollution and the generation of waste,
- Opportunities are taken to embed knowledge and awareness of environmental issues and climate change into the culture of the Society.

The Environmental Sustainability Team (EST) will lead on the delivery of these objectives; however, all colleagues are required to support, and where appropriate, implement actions that support their delivery.

Approach to Net Zero

The Society has made a public commitment to aligning with the UK Government law on reaching Net Zero by 2050. Three commitments have been made:

- Target: Net Zero for Scope 1 and 2 emissions by 2035,
- Ambition: Net Zero for Scope 3 Category 1 – 14 ("operational") emissions by 2050,
- Ambition: Net Zero for Scope 3 Category 15 ("financed") emissions by 2050.

To support these statements, the following principles apply:

- The use of carbon offsetting or carbon credits, of any form, cannot be undertaken without consultation with EST, this includes Employee Value Propositions.
- Decisions relating to the renewal of energy and waste contracts must be discussed with EST.
- Measurement of emissions will be conducted on a location based, carbon dioxide equivalent basis using the most appropriate and up to date methodology.
- The Society's lending operations must be aligned to the Society's climate commitments and overarching strategy. In this regard the Society will not lend directly to the following environmentally damaging and carbon intensive sectors; Oil & Gas, Electric Utilities, Metals & Mining, Chemicals, Quarrying, Landfill, Airlines, Aerospace and Shipping.
- The Society's calculation of Scope 3 Category 15 Financed Emissions must be in accordance with the most recent Partnership for Carbon Accounting Financials (PCAF) Standard. Environmental Sustainability are responsible for ensuring the Standard remains relevant to represent the emissions profile of its Financed Emissions.

As the plan to meeting these targets and ambitions develops, these principles will be expanded.

Financial risks from climate change

The Society has developed capabilities against the PRA requirements published in SS3/19, these are outlined below:

Governance:

- The Board includes one standing item covering EST updates, which Group Risk Committee has two standing items.
- ECCR is included in the Terms of Reference for ESG Co, ERC and ALCO. In addition, the Audit Committee Terms of Reference includes a wider responsibility of reviewing and approving content for the annual ESG report and mandatory environmental disclosures.
- Forums, working groups and Senior Manger Function Accountability as discussed in this document.

Risk Management:

- EST are working with risk owners to implement climate risk considerations into risk policies.
- The Society restricts lending on commercial properties with certain Energy Performance Certificate ratings.
- It is the responsibility of risk owners to determine where risk appetites to capture the impact of climate change on their risk area, are needed.
- Where the risk owner and EST determine a risk worthy of noting, although not yet relevant for risk appetite statements, both parties will work together to collate a climate change dashboard for monitoring.

- EST will work with relevant risk owners to ensure learnings from scenario analysis are reflected in; risk appetite statements, key risk indicators and lending and underwriting requirements.

Scenario Analysis:

- Scenario analysis is used by the Society as a key tool to identify and assess climate-related risk.
- The Society employs a dedicated Climate Modeller within the Model Management & Development (Capital and Credit) team. This team is responsible for the development and running of the climate scenario models.
- Scenario models are run annually as input to the ICAAP and at least every two years to meet the requirements of the Taskforce for Climate-related Financial Disclosures.
- Analysis must cover both physical and transition risks, over a 30-year period, utilising different warming pathways, including one where no transition occurs. These scenarios can utilise industry standard, or be internally derived, if the appropriate governance process has been met.
- The outputs from the Scenario analysis must be presented to the relevant Board subcommittee.
- Scenario outputs will be used to inform strategic decision making where appropriate.

Disclosure:

- The Society will comply with climate related disclosure requirements through publication in the Annual Report and Accounts or ESG Report.
- The Society’s approach to disclosure will be proportionate to the relevant disclosure requirements and the materiality of ECCR to the Society.
- The Society’s EST and Regulatory Strategy and Change functions are responsible for keeping abreast of upcoming regulatory disclosure requirements that may impact the Society.
- Disclosures must be in line with the governance framework set out within this policy.
- Disclosures must also align to the appropriate standards and methodologies practiced within the wider industry.
- Any environmental related disclosures require approval from EST prior to being released. This includes Non-Financial Rating Agency, Environmental Agency and Investor requests for information.

Policy Trigger Events

EST will review this policy at least annually. Further to this EST have identified the following events that would trigger a review of this policy:

- UK Government’s implementation of a new environmental or climate-related regulation that will impact YBS.
- Material or major re-work of existing regulation that is environmental or climate related that YBS currently complies with.
- Independent audit finding in relation to climate related regulation.
- Breach of an environmental or climate-related regulation.

Should a trigger be initiated but no change required to this policy an appropriate version update and note will be applied.

Restatement of Emissions Data

The Society may revise emission information where there is a change to a model, data or underlying methodology that leads to a significant difference in the presentation of our climate commitments, metrics, and the progress therefore toward them.

EST will be responsible for monitoring this with approval to be sort in line with the governance framework within this policy document.

5. Implementation and Monitoring

Implementation

Following approval, this Policy must be made available through the intranet for all colleagues to access. It will also be circulated to the relevant business areas, committee members and attendees. It is maintained as a working document, with a full review being undertaken on at least an annual basis.

The EST take responsibility for circulating to and upskilling relevant risk owners to support the implementation of this policy and will inform owners of other related policies where new or significant changes are made to the policy. The Society has a governance structure for environmental and climate change risk management, with defined responsibilities and clear lines of escalation. The Society's committee governance structure is outlined below:

YBS Board	Ultimate accountability for financial risks of climate change and associated responsibilities
Group Risk Committee	Provides climate risk oversight and sets Group risk appetite.
Audit Committee	Approves non-financial disclosures.
Executive Risk Committee	Management of governance framework for climate risk.
Executive Committee	Oversees the implementation of environmental strategy and approval of climate risks
Asset & Liability Committee	Focus on the financial risks arising from climate change.
Environment, Social and Governance Committee	Delegated authority from Executive Committee to support the Board in overseeing the environmental strategy and direction.

The Board assumes ultimate accountability and therefore full responsibility in relation to ECCR to the Society. To support this the Chief Finance Officer and Chief Risk Officer, share responsibility for managing the physical and transitional financial risks from climate change (Additional Business Activity ABA11).

To assist ESG Co. in understanding ECCR and providing relevant updates and progress on ECCR metrics the Society holds an Environmental Sustainability Forum (ESF) bi-monthly. Further to this, to ensure a thorough understanding of the Society's risk profile the Climate Change Risk and Strategy Working Group (CRWG) and the Environmental Sustainability Working Group (ESWG) each feed direct reports to the ESF. A breakdown of the roles and responsibilities of the ESF, CRWG and the ESWG are detailed below.

ESF - ESF brings together directors and senior leaders from across the Society to drive climate strategy and challenge approach and deliveries prior to presentation at ESG Co.

CRWG - CRWG utilises SMEs from the across the Society to deliver tactical and strategic change with regards to understand and reducing our exposure to the physical and transitional risks of climate change alongside, the reduction of financed emissions.

ESWG - ESWG consists of SMEs across the Society to deliver tactical and strategic change with regards to understanding and reducing our operational emissions.

Monitoring

Activities are undertaken across the Society to monitor adherence to the Policy. These activities reflect the adoption of the Society's 'three lines of defence' model and are summarised below:

- **1LoD**: EST, within Balance Sheet Strategy & Analytics, will monitor compliance across the business against the requirements set out within this policy. This monitoring will be via the relevant working groups and forums outlined within the Implementation and Governance sections of this policy document.
- **2LoD**: The Prudential Risk Team is responsible for second line oversight of the financial risk of climate change. Where appropriate, Compliance Monitoring may review the policy's application with regard to Regulatory expectations.
- **3LoD**: Internal Audit as the third line of defence provides assurance on the effectiveness of 1st and 2nd LoD risk management.

Non-compliance must be reported to the Policy Sponsor and ERM team.

In addition to the above, non-compliance will be relayed through the Society's relevant working groups and forum to ensure appropriate discussion and strategy can be implemented to limit future non-compliance.

6. Approval

The Environmental and Climate Change Risk Policy is owned by Senior Manager – Environmental Sustainability. It is subject to endorsement from the Policy Sponsor prior to being submitted to the Executive Risk Committee (ERC) for formal approval in line with the review frequency or in the event of any interim amendments.

Appendix 1 – Roles and Responsibilities

Policy Owner

The Policy owner is responsible for:

- Writing the policy document and ensuring that it always remains up to date.
- Reviewing the policy periodically and in the event of any significant change (e.g. legislative, regulatory, organisational, operational etc.).
- Seeking approval/re-approval from the Policy Sponsor and the relevant governance committee.
- Communicating the policy to all affected colleagues, ensuring that adequate supporting training is developed and delivered as required.
- Ensuring steps are taken to meeting compliance with the policy and report non-compliance to the Policy Sponsor and Enterprise Risk Management team.
- Align with, and respond to, changes with the ERMF.
- Ensuring the relevant policy guides are aligned to the policy.

Policy Sponsor

The Policy sponsor is accountable for all aspects of the policy, including:

- Providing direction to the Policy owner as required.
- Supporting the Policy owner in discharging their responsibilities, specifically ensuring sufficient investment is made available to enable implementation and monitoring of policy adherence.
- Endorsing the Policy prior to it being submitted to the relevant governance committee for approval.

Senior Management Function (SMF) Responsibilities

PRA SS3/19 stated the need to allocate responsibility for identifying and managing financial risks from climate change to the relevant SMF most appropriate within the Society's organisational structure and risk profile, and to ensure that these responsibilities are included in their Statement of Responsibilities.

In the Board meeting on 26th June 2019, it was agreed that responsibility for managing these risks would be split between the Chief Finance Officer (SMF2) and Chief Risk Officer (SMF4). Statements of Responsibilities and Responsibilities Maps were updated and submitted to the PRA in line with their deadline, 15th October 2019. A new Additional Business Activity (ABA11) management of the financial risks from climate change – was created (see below).

Chief Finance Officer	Chief Risk Officer
The CFO is responsible for managing the physical and transitional financial risks stemming from climate change. This includes accountability for leading the development and implementation of: • Identification, measurement, monitoring and reporting of the financial risks of climate change, in line with our risk appetite including our risk exposure limits and thresholds. • Scenario analysis (including a catastrophe modelling approach) to determine long-term financial risks and assess the impacts on our balance sheet. • Disclosing the financial risks of climate change to the PRA. • The climate related inputs into the wider ESG reporting owned by the Chief People Officer.	The CRO has accountability for ensuring the development and implementation of: • A governance framework to ensure that the Board understand and assess the financial risks from climate change which affect the Society, and address and oversee these risks within our overall business strategy and risk appetite.

Chief Officer Direct Reports (CODRs)

CODRs (compromising Directors and Senior Managers) must ensure appropriate management of ECCR within their areas of responsibility. Local controls must be effectively assessed and evidenced. For owners of risk policies, ECCR should be considered in context of their risk.

Where ECCR are not deemed material, this must be documented within their risk policy with appropriate justification.

All Colleagues

All colleagues are responsible for:

- Ensuring adherence to the requirements and duties placed upon them by this Policy.
- Taking proactive measures to prevent unnecessary use of energy, water, and generation of waste.
- Have general awareness of any environmental opportunities and/or risks, and where appropriate, taking action to reduce the Society's exposure to said risks.
- Taking proactive measures in supporting the communication of environmental goals and aspirations across their divisions.
- Offering feedback to further the Society's environmental agenda through the Environmental Sustainability team.

Defined business areas have responsibility and accountability for delivery of environmental objectives, this includes but is not limited to:

- Property: changes to the Society's owned and leased assets with regards to type and method of energy use; utility and waste contracts.
- Propositions: development of products to ensure the Society can be active in providing solutions to members and customers in their home decarbonisation efforts. This activity will also support the Society's climate commitments.
- Credit Risk: monitoring of underwriting and lending decisions in relation to climate risk ensuring policy compliance in this regard is maintained. Integration of relevant updated lending and underwriting standards/appetites in relation to climate-risk. Monitoring of relevant climate-risk metrics within the lending portfolios of the Society while ensuring appropriate Key Risk Indicators and Risk Appetite Statements w.r.t ECCR are maintained and updated in relation to credit risk.

Environmental and Social Risk Policy

ESR Policy Summary

Macquarie's purpose is to "Empower people to innovate and invest for a better future". Macquarie's approach to environmental and social risk identification, assessment and management supports this purpose statement.

Macquarie recognises the importance of identifying, assessing and managing material environmental and social risks as an integral part of conducting business.

Macquarie's group-wide Environmental and Social Risk Policy (ESR Policy) provides a robust framework for embedding environmental and social risk management into investment decision making. The policy is reviewed annually

What is the ESR Policy?

The ESR Policy establishes processes for identifying, assessing, managing, mitigating and reporting material environmental and social risks across the business. The policy details requirements for client on-boarding and a broad range of transactions including equity investments, financing, leasing and advisory mandates.

Environmental and social risk areas covered by the ESR Policy include labour and employment practices, human rights, resource efficiency, pollution prevention, biodiversity and cultural heritage. The policy is based on international guidelines including the International Finance Corporation Performance Standards.

We are committed to complying with environmental and social laws, regulations and recognised international standards:

Macquarie is committed to conducting its business in accordance with all environmental and social laws, regulations, and recognised international standards, and in a way that enhances our reputation in the market.

Where local legislation conflicts with the principles and processes described in this policy, Macquarie will comply with the law, while also seeking ways to uphold environmental protection and human rights principles within its sphere of influence.

We support fundamental human rights:

Macquarie supports fundamental human rights as set out in the Universal Declaration of Human Rights and core International Labour Organisation Conventions. Macquarie recognises the duty of States to protect human rights and the responsibility of businesses to respect human rights. These include rights related to:

- Non-discrimination and equal opportunity
- Freedom from child labour, forced and compulsory labour
- Freedom of association and collective bargaining Community health, safety and security practices
- Indigenous peoples and cultural heritage

Macquarie endeavours to identify and prevent or mitigate potential and actual adverse human rights impacts resulting from its business activities and the relationships connected to those activities through the application of the ESR Policy.

We manage environmental risk and seek to improve environmental performance:

Macquarie applies a precautionary approach to environmental risk, and seeks to make a positive contribution to environmental performance, including considering our direct and indirect impacts on:

- Resource efficiency and pollution prevention
- Biodiversity and natural resource management
- Environmentally sensitive or protected areas
- Climate risk and energy transition

The requirements in the ESR Policy are designed to ensure consistent identification and responsible management of environmental and social risks in our business.

The ESR Policy requirements include:

- Screening new clients for material environmental and social risks
- Assessment, categorisation, mitigation and management of environmental and social risks in new transactions, investments and products
- Due diligence requirements guided by Macquarie's Environmental and Social Risk Assessment Tool, which may include environmental and social impact assessments, human rights impact assessments, action and management plans
- Escalated decision-making and approval processes, alongside the credit approval process, for material environmental and social risks. Transactions may be reviewed by Macquarie's Chief Risk Officer, Chief Executive Officer, Macquarie Board Chair or Macquarie Board
- Identification and compliance with applicable environmental and social laws and regulations
- Monitoring and reporting requirements.

Business application

The ESR Policy is applicable to the Macquarie Group. Macquarie businesses are required to maintain business-specific due diligence and approval processes consistent with the group-wide ESR Policy.

Fund asset investments are reviewed for environmental and social risks as part of their investment process.

Businesses with direct and indirect equity interests in operating businesses are also required to have, at a minimum, a procedure to manage and report on environmental and social risks and escalate and report on environmental and social incidents.

Governance and reporting

Aligned with Macquarie's risk management approach, the Risk Management Group (RMG) provides oversight of ESR Policy operation and compliance. Within RMG, the Environmental and Social Risk Team provides specialist advice and support on the ESR Policy application and is responsible for reporting to the Macquarie Group Board.

A Whistleblower Policy and Program enable Macquarie staff and external parties, including suppliers, to confidentially report concerns about improper conduct by Macquarie or suppliers to the Integrity Office, an internally independent and confidential function that oversees Macquarie's Whistleblower Program. Improper conduct includes breaches of laws, breaches of Macquarie's internal policies including the ESR policy, as well as conduct that endangers (or may endanger) the health and safety of any persons (for example, any instance or suspicion of modern slavery or human trafficking).

Gulf International Bank

Taskforce for Climate-related Financial Disclosure Report

2023

Contents

Introduction

"Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations. As financial intermediaries, banks may assume exposure to material climate-related risks through their borrowers, customers, or counterparties. Banks that provide loans or trade the securities of companies with direct exposure to climate-related risks (e.g., fossil fuel producers, intensive fossil fuel consumers, real property owners, or agricultural/food companies) may accumulate climate-related risks via their credit and equity holdings. In particular, asset-specific credit or equity exposure to large fossil fuel producers or users could present risks that merit disclosure or discussion in a bank's financial filings. In addition, as the markets for lower-carbon and energy-efficient alternatives grow, banks may assume material exposures in their lending and investment businesses. Banks could also become subject to litigation related to their financing activities or via parties seeking damages or other legal recourse. Investors, lenders, insurance underwriters, and other stakeholders need to be able to distinguish among banks' exposures and risk profiles so that they can make informed financial decisions."

TCFD Supplemental Guidance for Banks

This document sets out disclosures on climate-related risks and opportunities for Gulf International Bank B.S.C. (GIB), excluding Gulf International Bank (UK) Limited. Gulf International Bank (UK) Limited has been reporting against Taskforce for Climate-related Financial Disclosures (TCFD) for several years, and equivalent disclosures can be found here: https://gibam.com/about/governance

This document covers the reporting year 1 January 2023 – 31 December 2023.

We disclose in line with the recommendations set out by TCFD. We draw on the supplementary guidance for banks.

This report has been approved by the Group Chief Sustainability Officer.

Glossary

the Bank	Gulf International Bank B.S.C
the Board	Gulf International Bank B.S.C Board
BRPC	Board Risk Policy Committee
BSCCC	Board Sustainability & Climate Change Committee
Council	Sustainability Council
CO2e	Carbon Dioxide equivalent
ESG	Environmental, Social and Governance
FTE	Fulltime Equivalent
GCC	Gulf Cooperation Council countries
GIB	Gulf International Bank B.S.C.
GNRC	Board Governance, Nomination and Remuneration Committee
Group	Refers to all legal entities within the Gulf International Bank Group
KSA	Kingdom of Saudi Arabia
SEAC	Sustainability Evaluation and Assessment Committee
STFF	Sustainable and Transition Finance Framework
TCFD	Taskforce for Climate-related Financial Disclosures

Governance

We believe that an effective governance structure is imperative to mitigating climate-related risk and capitalising on opportunities.

a) The Board's oversight of climate-related risks and opportunities

Sustainability is a key pillar in GIB's strategy and embedded into entity and divisional strategies. GIB views climate as one component of sustainability.

The Board is responsible for oversight of sustainability-related risks and opportunities. Within that, climate-related issues are treated as a sub-set of sustainability. It responsibilities specifically include:

- reviews, approves and oversees the execution of the Group's strategy, business model, business plan, budgets and financial plans, and performance objectives, having taken into account sustainability-related risks and opportunities
- ensures that sustainability-related risks and opportunities are taken into account when making decisions on major transactions and in its risk management processes and related policies, including any trade-offs associated with those risks and opportunities
- reviews, approves and monitors Key Performance Indicators (KPIs), including ones relating directly and indirectly to sustainability
- regularly informed about, and monitors, sustainability-related risks and opportunities
- oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets
- approves the Group Sustainability Framework governing GIB's activities relating to sustainability

The Board meets at least quarterly.

The Board established the **Board Sustainability and Climate Change Committee (BSCCC)**, which plays an advisory role in the design of GIB's sustainability (which includes Environmental, Social Governance (ESG) and climate change strategy and ensures that sustainability and climate change risks and opportunities are effectively embedded into the Bank and Group businesses. The BSCCC is informed about sustainability matters at the Group level (including climate-related) issues at its meetings, which usually take place twice a year.

The BSCCC is responsible for – among other matters – overseeing:

- The Sustainability Framework
- The Sustainable and Transition Finance Framework and other related sustainability frameworks and policies
- Endorsing sustainability targets and monitoring associated metrics

The **Board Risk Policy Committee (BRPC)** has been mandated by the Board to maintain oversight of the management of non-financial risks, including but not limited to: regulatory compliance, sustainability (ESG) risks, and outsourcing and 3rd party risks. It ensures the development of the governance, framework, policies, processes, and responsibilities within this area, in line with global and local developments. The Board Risk Policy Committee meets at least quarterly.

The **Board Governance, Nomination and Remuneration Committee**:

- determines whether appropriate skills and competencies are available, or will be developed, to oversee strategies designed to respond to sustainability-related risks and opportunities.
- ensures that relevant sustainability-related performance metrics are included in remuneration policies

The Governance, Nomination and Remuneration Committee meets at least twice a year.
The Board and its Committees keep up to date on sustainability-related regulations, in particular they consider:

- International Financial Reporting Standards (IFRS)
- International Sustainability Standards Board (ISSB)
- International Accounting Standards Board (IASB)
- any local regulatory requirements with respect to climate-related issues with which the Bank is required to comply

b) Management's role in assessing climate-related risks and opportunities

The **Group Management Committee** is the most senior decision-making committee in the Bank's management structure. The Committee receives an ESG update, including in relation to climate, usually every quarter.

The main management body with responsibility for climate change is the Sustainability Council. The purpose of the Sustainability Council is to provide high-level steering, guidance, support and challenge to drive and enable the implementation of GIB's vision to be a sustainable finance provider. The Council works to ensure alignment, internally and externally, with respect to GIB's sustainability initiatives and commitments, including those relating to the Principles for Responsible Banking and Taskforce for Climate-related Financial Disclosure. The Council is primarily an information sharing, socialisation and advisory body. It works alongside other management bodies and decision-makers, and the Board Sustainability and Climate Change Committee.

The **Risk Committee** receives inputs on climate risk as and when it pertains to matters under discussion. Although not yet formally included within the relevant terms of reference, the Committee is aligning with the other management bodies to progress development of the climate risk agenda. This includes any matters regarding review and discussion of climate risk considerations pertaining to current and potential customers of GIB, which falls under the responsibility of the entity Credit Committees.

GIB has a **Sustainability Evaluation and Assessment Committee**. The purpose of the Sustainability Evaluation and Assessment Committee (SEAC) is to ensure that GIB's suite of sustainable finance products maintain their integrity and alignment with GIB's Sustainable and Transition Finance Framework (STFF) which is itself based on best practice. The SEAC has a particular focus on mitigating sustainability-related risk, including that relating to climate change and reputational risk ("green-washing").

GIB considers that sustainability is every employee's responsibility. In 2023, a decision was made to include certain responsibilities relating to sustainability, including climate, into the job descriptions of all senior management.

Management sustainability responsibilities – text included in senior management role descriptions

The bank has a responsibility to manage sustainability including climate-related risk by:

- Identifying and assessing sustainability and climate-related risks and opportunities in the Bank's operations and finance & investment activities
- Developing strategies to mitigate and adapt to these risks, including investing in low-carbon or sustainable projects
- Reporting on the bank's exposure to sustainability, including climate-related risk and progress towards reducing its carbon footprint
- Engaging with stakeholders, including customers, regulators, and investors, on sustainability and climate-related issues
- Developing & maintaining material to showcase GIB's sustainability credentials whilst avoiding greenwashing

Strategy

a) The climate-related risks and opportunities GIB has identified over the short, medium and long-term

In this report, GIB has chosen to focus on disclosure of risks and opportunities relating to its banking business, specifically its wholesale banking financing activities. This covers financing activities across all relevant jurisdictions. Detailed information about its asset management and treasury business conducted in its subsidiary GIB UK can be found here. GIB has low exposure to mortgage, consumer auto, card or other consumer business; hence the decision to prioritise wholesale banking for this initial set of disclosures.

Climate risks

GIB has developed a climate risk heatmap to identify climate risks across its wholesale banking portfolio segments. The heatmap exercise assesses the bank's loan exposures as at 31 December 2022.
The heatmap covers two types of climate risk:

- Physical risk: the change to climate patterns, including acute and chronic climate events, pose material, immediate and long term risks to investors, lenders and insurers and can also give rise to sentiment risk
- Transition risk: the transition to a net zero economy presents financial risks that can arise from a range of factors, including changes in policy, regulation, technology and customer sentiment

It utilises the following scoring definition:

POSITIVE IMPACT	NO IMPACT	1 – LOW RISK	2 – MODERATE RISK	3 – HIGH RISK	4 – VERY HIGH RISK
Improvement of credit ratings from climate-related effects Slight benefit to segment credit portfolios that will likely manifest in the future (e.g. renewables)	No adverse credit impact from climate-related effects No likelihood of any direct or indirect credit risk to materialize in the future	De-minimis level of climate-related credit risks Little pressure on segment credit portfolios currently, and a low likelihood that it will manifest in the future	Level of climate-related credit risks is moderate, or roughly on par with the national average risk level Credit pressures from climate risks are less pronounced or are less likely to develop in a way that is influential in the future, as segments can diversify, adapt to or manage these risks over the medium/long run	Meaningfully higher level of climate-related credit risks than national average risk level Credit pressures are present or are likely to crystallise in the future, but are less influential for the segment credit portfolios than very high-risk segments	Reserved for segments with the highest level of climate-related credit risks Material climate risk pressures for the segments' credit profiles currently or in the near future, and the segments have limited mechanisms to manage these risks in the near term without structural changes

The scores capture the marginal credit risk of GIB's exposure from climate-related impacts due to physical and/or transition risk.

The number of segments was chosen to: align with the level of granularity GIB typically uses in management information; deliver relatively high levels of consistency of risk level within the segment; and to provide sufficient granularity to aid informative insights.

The risk score was assessed through industry perspectives, quantitative data and qualitative judgement overlays from subject matter experts. This included adjusting for regional and portfolio specific dynamics, and incorporating input from business representatives.

Industry	Heatmap Segment	Transition risk	Physical risk
Agriculture and Mining	Protein and Agriculture	3	4
Communication and Media	Advertising and marketing	1	1
	Hardware manufacturer	2	2
	Telecommunications Services	1	2
	Media	1	1
Construction and Engineering	Construction & Contracting	2	2
	Construction Materials	3	2
	Other – construction	2	2
Energy, Oil and Petrochemical	Chemicals	2	2
	Electric, oil and gas utilities with production and generation	2	2
	OFS	2	2
	Refining	2	2
	Midstream	2	2
	Petrochemicals	2	2
	Infrastructure construction	2	1
	Integrated O&G	2	2
	Pharmaceuticals	2	2
	Power Generation	1	1
	Electric and Gas Utilities without Generation	2	2
	Steam & Air Conditioning	1	1
	Waste Disposal	1	2
	Water	1	1
Financial	Financial institutions and funds	2	1
Government	Government	2	2
Manufacturing	Aircraft Lessors	2	1
	Electrical Equipment Manufacturing	2	2
	Food, Beverage & Tobacco	2	2
	Industrial products	2	2
	Medical products and devices	2	2
	Metal and metal products	2	3
	Other Light Industry	2	2
	Packaging & Paper	2	2
	Software	1	1
	Telecommunications	1	2
Other	Conglomerates	2	2
	Other	2	1
Real Estate	REIT/REIF	2	2
	Real Estate	2	2

Industry	Heatmap Segment	Transition risk	Physical risk
Trading and Services	Auto Dealers	2	2
	Retail	2	2
	Hospitals and medical services	1	2
	Hospitality	2	1
	Services	1	1
	Wholesale and services	2	2
	Consumer products	2	1
Transportation	Airlines	2	2
	Other Transportation	2	3
	Shipping	3	2
	Transportation Services	2	2

Overall, the analysis identified the sectors in which GIB is most likely to see climate risks impact its financing portfolio.

Heatmap insights

- The most common score was 2 – moderate risk.
- Levels of physical risk and transition risk were generally assessed to be similar, with the modal score for both being moderate risk.
- There were few differences in risk exposure of the portfolio between Saudi Arabia (KSA) and exposures to the remainder of the GCC.
- Transition risk was notably lower for GIB's exposures relative to the exposure levels suggested by the industry heatmaps. This largely reflected an assessment that the GCC governments are less likely to impose a carbon tax relative to other countries. Furthermore, given the low marginal cost of oil production in the Gulf region, GCC oil producers are likely to be the last to reduce production in response to climate transition-driven energy switching.

High and very high risk sub-sectors

- The highest risk sector was protein and agriculture. The largest companies within the portfolio were mostly feedstock, livestock and dairy companies, which are considerably emissions intensive and stand to suffer more from carbon tax policies.
- There were several high-scoring segments within the energy, oil and petrochemicals sector for physical risks. It was noted that oil refineries typically operate on coastlines, where flooding and hurricanes can adversely affect operations. Generally, KSA has significantly above-average vulnerability scores in coastal / energy infrastructure. Similarly, oilfield equipment and services businesses are vulnerable to lengthy business disruptions from hurricanes affecting offshore drilling as well as delays in drilling due to weather and strong winds. Petrochemicals companies are vulnerable to direct asset damages as well as supply chain disruptions caused by physical climate risk.
- Construction was assessed as having high transition risk. This was because GIB's exposure is concentrated in cement companies, which have very high emissions through their manufacturing. Moreover, the transition pathway and decarbonisation technology for cement companies is still under development.

- Within the transportation sector, maritime cargo shipping has a relatively high emissions intensity and limited decarbonisation technology. Carbon taxation and other regulatory pressures are expected to have an impact on this segment globally, with limited opportunities for a differentiated approach within the GCC. 'Other' transportation includes public transportation and is impacted more by physical risks than other transportation segments within GIB's portfolio. Although Saudi Arabia has higher human habitat vulnerability than other portfolio countries, Bahrain and Qatar have particularly high sensitivities to climate change.

Climate opportunities

The heat-mapping exercise indicated sectors with low climate risks that could potentially be opportunities for financing. In particular, these included: advertising and marketing, media, steam and air conditioning, software, and other consumer trading services.

The heatmap analysis did not find any areas of net positive impact from climate on GIB's financing portfolio.

More generally, GIB considers that there are opportunities where GIB can support its clients in transitioning to net zero. This would include through the provision of 'green' finance (i.e. finance that meets environmental criteria) or sustainability-linked financing with climate-related targets.

b) The impact of climate-related risks and opportunities on GIB's businesses, strategy and financial planning

GIB has a vision to accelerate a positive global transition for people and the planet. Within that, its goals are:

- To provide compelling sustainable finance and investment solutions to our clients
- To embed sustainability considerations into our business model, decision-making, and how we run our business
- To report transparently on our activities and plans
- Proactively and responsibly, to consult, engage and partner with the relevant stakeholders to achieve society's goals

As a result, GIB has incorporated its assessment of climate opportunities – through provision of sustainable finance – into its business model, strategy and financial planning. This includes the development of new products and services, and the ongoing financial planning, costs and revenues associated with that. With respect to operational emissions, see the section on metrics and targets.

c) The resilience of GIB's strategy, taking into consideration different climate-related scenarios including a 2° or lower scenario

GIB has not yet conducted scenario analysis to understand the resilience of its lending strategy and business model to climate change. This is an area for future work, and will be likely to build on the heat-mapping analysis conducted for the wholesale banking portfolio and cover both physical and transition risks in a range of scenarios.

Risk Management

a) GIB's process for identifying and assessing climate-related risks

GIB conducts risk evaluation and assessment for all material risks to which it is exposed. A holistic view of risk is adopted on an enterprise-wide basis. A review of its risk profile is conducted on a periodic basis to ensure that it remains current and in recognition of emerging and escalating risks.

GIB considers a number of categories of risk in its risk profile and assessment. It has self-defined this risk classification, and the list includes ESG risks, which in turn includes:

- **Environmental**: the natural environment (including climate), such as its carbon emissions, energy use, waste management, and water usage.
- **Social**: society, including its treatment of employees, customer relations, community engagement, and human rights policies.
- **Governance**: internal management and oversight, including issues such as executive compensation, board diversity, and transparency.

However, GIB considers that ESG risk has probable impacts across other risk categories.

GIB assesses ESG risks at a client level and, where relevant, transaction level. It does this using information provided during the transactions, internal ESG Scorecard analysis and external ESG scoring (where available). This includes methodologies for assessing the potential size and scope of climate-related risks. The heatmap described earlier is one input to the overall assessment of climate risk.

b) GIB's processes for managing climate-related risks and integration into its overall risk framework

GIB is in the process of systemically integrating climate-related risks into its risk framework. However, from a risk strategy perspective, ESG risk has been identified for consideration with respect to each of GIB's main business lines.

For sustainable finance products, GIB has a systematic process in place to assess ESG-related risks. This is overseen by the SEAC.

Metrics and targets

a) The metrics used by the organisation to assess climate-related risks and opportunities

The metrics used by GIB include:

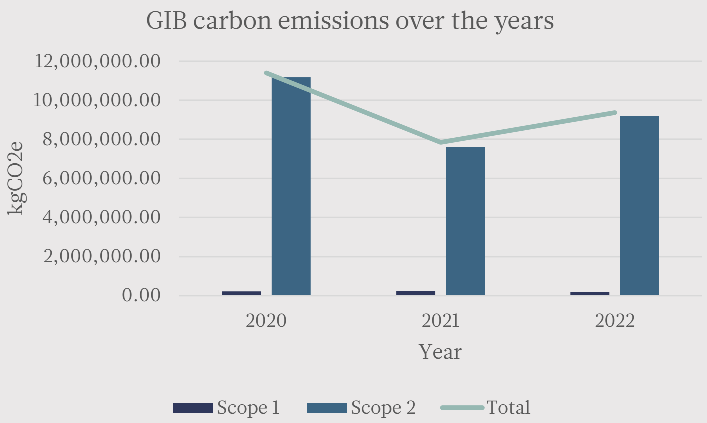
- Carbon emissions
- Heatmap scores (see above) and portfolio exposure to segments by risk score, split by physical and transition risk and by geography
- ESG scorecard
- Number and volume of transactions categorised as sustainable finance
- Number of sustainable finance products being offered

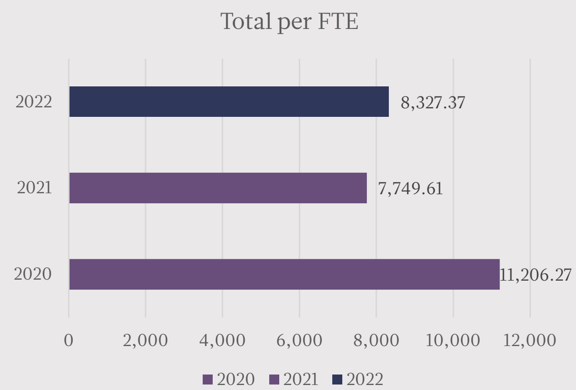
b) Greenhouse gas emissions and related risks

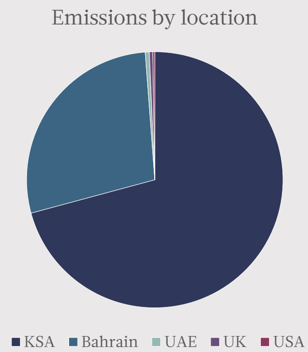
GIB has published its Scope 1 and Scope 2 data in line with the Greenhouse Gas Protocol. Further information on the methodologies and results can be found in its Sustainability Report (link)

GIB kgC02e emission estimates

	2020	2021	2022	Change YoY	Change since 2020
Scope 1	219,172.26	233,220.47	187,282.31	-20%	-15%
Scope 2	11,177,600.86	7,609,379.95	9,181,009.48	21%	-18%
Total	**11,396,773.12**	**7,842,600.42**	**9,368,291.78**	**19%**	**-18%**
Total per FTE	11,206.27	7,749.61	8,327.37	7%	-26%







GIB is at varying stages of maturity in measuring Scope 3 emissions across our business, and hence we are not yet in a position to capture accurately past emissions on a consolidated basis. For our Wholesale Banking business, we have sought to collect carbon emissions data from our clients via our ESG Scorecard; however, data availability has proved poor. We are working on addressing data gaps and applying a consistent methodology for Scope 3 emissions.

c) GIB's targets to manage climate-related risks and opportunities

GIB set itself carbon reduction targets using the Absolute Contraction approach. According to the Science Based Target for the Financial Sector, this approach is the most straightforward method to link reduction targets to the Paris Agreement goal of limiting global temperature rise to below 2˚C.

Under this method, a minimum of 2.5 per cent annual absolute emissions linear reduction is required to be in line with the 2˚C target. GIB committed to reduce its Scope 1 and 2 emissions by 11.89 per cent by 2025 compared to 2020 baseline to be in line with the 2˚C target, which is equivalent to a 2.5 per cent per year reduction.

According to the Science Based Target for the Financial Sector, base and target years must cover a minimum of five years and a maximum of fifteen years. For GIB, a five-year target was set using 2020 as the base year and 2025 as a target year. The reason for choosing a five-year target was that GIB wanted to ensure that it focuses on making a difference in the short and medium term, consistent with the need to halve global emissions by 2030.

Conclusion

This report outlines the ways in which we have considered climate risk and opportunities in our governance, strategy, risk management, have set targets and monitor progress against them.

The reason for providing this document is that we believe in the power of disclosure of climate-related risks and opportunities to encourage companies (including ourselves) to take action that will ultimately help to raise our chances of meeting the Paris Agreement commitments and limit global temperature rise. Understanding the implications of climate change for our business, and how we ourselves impact the environment, is not easy. Climate risk is complex and interconnected with other risk factors, and remains challenging to assess given data issues, lack of sophisticated models / tools and given the uncertainties inherent in climate analysis. We will look to build on the disclosure in this report in future publications.

Manulife Environmental Risk Policy

1. Objectives and Scope

Manulife recognizes the threats that climate change and nature degradation pose to our business, public health, the livelihoods of the communities in which we operate, and the urgent need to preserve the quality of our natural environment.

The objective of the Environmental Risk Policy (the "Policy") is to set out an enterprise-wide framework to address the management of environmental risks to business activities and owned assets of Manulife Financial Corporation ("Manulife", "MFC", the "Company", or "we")[1]. Manulife employs an enterprise-wide approach to all risk-taking, risk appetite, and risk management activities that is documented in the Company's **Enterprise Risk Policy**.

This Policy provides guidance for identifying, assessing, monitoring, and reporting environmental risks in support of the Company's financial, risk, capital, and strategic objectives. It includes elements relating to the identification and management of the following types of environmental risks:

- Climate change-related risks (**"climate risks"**) to the Company that could result in financial loss, reputational damage, or both; and
- Nature degradation-related risks (**"nature risks"**) from the Company's business operations that could result in financial loss, reputational damage, or both.

Climate Risks

Climate risk is a type of environmental risk driven by potential impacts from climate change, and these impacts can generally manifest as physical risks, transition risks, or systemic risks. **Physical risk** includes acute risks that are event-driven (e.g., severe weather events) or chronic risks which are longer-term shifts in climate patterns (e.g., higher temperatures). Physical risks also arise when natural systems are compromised, due to the impact of climatic events. **Transition risk** includes risks associated with transitioning to a lower-carbon economy and may entail extensive policy (including regulatory), legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. This also includes developments aimed at halting or reversing damage to the natural system. **Systemic risk** includes failures in and/or cascading effects of physical and transition risks, which could trigger instability.

Climate risk is unique given the diverse set of pathways in which risks can manifest. As such, it is a transverse risk, since it has the potential to impact any of our principal risks, including strategic, market, credit, product, or operational risk, as well as legal and reputational risk.

Nature Risks

For this Policy, nature risk is another type of environmental risk driven by direct harm on the natural environment (e.g., living and non-living) as a result of our operations. These risks may originate from our own real assets which include commercial real estate, infrastructure, timberland, and agriculture properties, and in certain buildings which we lease, where applicable.

[1] The management of environmental risks (and other social and governance risks) by our third-party investment management activities (e.g., management of third-party client assets) is governed by our separate Manulife Investment Management sustainable investing policies.

Direct harm to the environment can include intentional or unintentional actions causing air pollution, water or soil contamination, land degradation, resource depletion, biodiversity loss, etc. leading to financial loss or reputational damage (e.g., fines, penalties, settlements, remediation costs). It could also be due to non-compliance with applicable environmental permits or the failure to obtain required environmental permits prior to conducting business operations.

We look to align this Policy with developing industry best practices including the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and will be updated to reflect changes in this and other emerging industry frameworks and regulatory expectations.

2. Key Principles

We recognize and accept that environmental risks are an inherent part of the business, and we aim to monitor and manage a wide range of environmental issues which can have material adverse impacts on our financial position or our ability to operate. The Company's strategic direction and its overall risk appetite are mutually reinforcing, and we have established an initial set of principles to articulate our ambition to mitigate the impacts from climate change to our business, as well as to actively contribute to the transition towards a low-carbon economy. We anticipate that our ambitions will evolve and mature as our own understanding of climate change impacts and internal capabilities for environmental risk management further matures.

Climate Risk Management Principles

- We seek to reduce the Company's overall carbon emissions footprint by pursuing decarbonization plans but accept that the criteria used by our stakeholders to measure our performance may differ from our own criteria.
- We seek to better understand the impact of climate transition risks on our General Account invested assets and develop strategies to reduce our exposure to climate transition risks as part of our overall General Account investment strategy.
- We seek to understand the impact that climate risks will have on our customers and other stakeholders, their needs and preferences, which could impact the design and delivery of the Company's products and services.
- We endeavor to avoid any misrepresentation of our sustainability or climate-related disclosures. Similarly, we will apply the same approach to product labeling as we seek to develop products and services that support a more sustainable future and create investor value.
- We accept that there are climate-related physical events which may disrupt operations until business continuity plans restore service within a reasonable timeframe. We maintain business continuity plans to reasonably mitigate the risks associated with disruptive events.
- We are committed to adopting business practices that comply with regulatory expectations, and we look to adopt best practices and guidance on climate risk management, in jurisdictions in which we operate.

Nature Risk Management Principles

- We seek where possible to avoid, mitigate and offset harm caused on the natural environment as a direct result of our operations.
- We are committed to complying with applicable environmental laws and regulations in jurisdictions in which we operate.
- We seek to understand the impact that nature risks and opportunities could have across our investing and underwriting activities.
- We seek to manage our natural capital investments according to the region-specific best practices recommended by third-party sustainability certification, which includes best practices on biodiversity and the protection of threatened and endangered species.
- We seek to promote environmental responsibility and conservation to all employees.

3. Environmental Risk Management

Businesses activities that are most impacted by environmental risks include:

- General Account investing activities (including acquisitions, financing, lending, asset management, etc.)
- Corporate operations (including office and sales operations, staffing, data centres, third-party vendors, etc.)
- Underwriting activities (including reinsurance activities)

Environmental risks are transversal in nature and can manifest across any of the Company's key risk types, including strategic, market, credit, product, operational, and reputational risks. Through the activation of this Policy and other tools and resources, we will increase organizational climate change awareness, which better enable us to incorporate the potential impacts from climate change into strategic and business planning, and existing risk management activities.

This Policy sets out key overarching principles for the Company as it further contemplates environmental-related risks and opportunities across its various business activities (e.g., investments, operations, underwriting). The adoption of this Policy will vary across the Company, based on the scope, nature, and size of the business activity as well as our ownership interest in certain assets where we do not have full operational control; however, reasonable efforts should be used to pursue relevant aspects of the Policy into business practices, including but not limited to the establishment of business-specific policies, guidelines, or standards consistent with the key principles set forth in this Policy.[2]

We expect all our businesses to promptly escalate any material environmental-related risks to senior leadership where such risk may have a significant impact on current business operations or is anticipated to have a significant impact on business strategy. This may include any instances of significant non-compliance with applicable environmental laws, regulations, permits, etc. Issues should be reported to the appropriate management committees, risk and compliance functions, or executive and Board-level committees as needed to discuss impacts, and any remediating or mitigating actions.

The Company's Chief Risk Officer is the owner of this Policy. It is reviewed at a minimum every three years and approved by the Company's Executive Risk Committee. We recognize this is a fast-developing topic and expect our policy to evolve as the industry overall matures its understanding of climate and nature-related risks.

[2] This Policy is not intended to apply to assets managed directly or indirectly by Manulife Investment Management on behalf of third-party clients. This Policy also does not directly apply to third party accounts managed by the General Account, General Account assets managed by external parties, or Manulife Investment Management-advised General Account assets unless specifically obligated by contract. However, clients that engage in co-investments with the General Account may indirectly benefit from the underwriting of relevant material risks associated with the firm's joint investment process.

Manulife

MBPSCS0124EN FBB 05/23 AODA

Sustainability Risk Policy

Background and scope

European Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, otherwise known as the Sustainable Finance Disclosure Regulation (SFDR), requires financial market participants and financial advisors in the EU to make disclosures regarding the integration of sustainability risks and on their consideration of adverse sustainability impacts in their investment processes.

“Sustainability risk” is defined as “an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment”.

Sustainability risks can be broken down into three categories:

- Environmental: environmental events may give rise to physical risks and transition risks for companies. Physical risks include the tangible effects of climate change for a company (direct damage to assets from floods, wildfires or storms, for example, and the indirect impact on the company’s supply chain), whereas transition risks include business-related risks that follow societal and economic shifts towards a low-carbon and more climate-friendly future. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks.
- Social: refers to risk factors related to the human capital supply chain and how businesses manage the impact of these factors on society. A broad range of factors (e.g. gender equality, diversity, compensation policies, health & safety, working conditions) can impact a company’s operational effectiveness and resilience, as well as its public image, and social license to operate.
- Governance: these aspects are linked to the governance structure and may include, but are not limited to, risks relating to board independence, ownership & control, audits, compliance and tax practices. A business that overlooks these risks could potentially incur large financial penalties and lose investors, customers, and stakeholder support.

In accordance with Article 3 of the SFDR, this Sustainability Risk Policy applies to Banque Internationale à Luxembourg, Banque Internationale à Luxembourg (Suisse) SA, and BIL Wealth Management Limited (referred to collectively as “the Group” or “BIL”) in the following contexts:

(i) for discretionary portfolio management and in-house fund management investment decision making process,
(ii) for the provision of investment advice and
(iii) for the provision of insurance advice.

A Sustainability Risk Policy and well-defined procedures are essential for responsible investing. At BIL, sustainability is an integral part of our investment strategy and processes.

BIL addresses sustainability risk within the investment process and advisory services through a comprehensive approach:

- For indirect investments, BIL conducts thorough due diligence and verifies the investment strategies.

It's important to note that as of today, BIL does not engage with invested companies on sustainability-related matters.

BIL manages sustainability risk by integrating the aforementioned approach into its risk/return assessment during the security selection process. This selection process applies to our discretionary portfolio management and in-house BIL Invest funds. In advisory services, our advisors rely on BIL's carefully selected investment universe, which undergoes the selection process described in this document, and enables advisors to provide clients with information about potential sustainability risks.

For insurance brokerage, BIL's policy on the integration of sustainability risks is based on due diligence processes when selecting insurance companies and the associated product types. In line with the SFDR, our due diligence process includes information on product disclosures and on the way sustainability risk is integrated into the investment decision process, as well as how each product is classified as promoting environmental or social characteristics, as a sustainable investment objective, or is a mainstream product doing neither of the above.

The approach described in this document means that financial instruments and issuers with high sustainability risks might not be systematically disregarded as BIL may consider that a higher sustainability risk might result in higher returns, or might be acceptable when regarding other factors and risks.

Disclaimer: In the context of the recently growing implementation of EU regulatory requirements on sustainable finance – and given the reasonable expectation that requirements will continue to evolve over the next years – as well as of rapidly evolving practices, it is possible that new risks may arise, public opinion may change, and new market standards may be introduced. As such, the approach presented in this policy is subject to being reviewed and, if necessary, may be adjusted without notice.

BIL Exclusion Policy

BIL's Exclusion Policy commits to reducing ESG factors related risks exposure to controversial activities by excluding certain sectors or activities that run unsustainable business models. BIL investment services are using an exclusion list targeting individual companies (and their respective bonds and equities) and countries (sovereign debt).

Excluded companies are identified as those presenting unacceptable harm to society and are ineligible for investment. Regularly revisiting exclusion criteria in accordance with societal trends and priorities is part of our engagement.

The exclusion list is based on available information supplied by a third-party provider. For further information, please refer to the "ESG data source" section. It should be noted that this exclusion list only applies to the process of selecting and analysing direct investments in securities that are part of the BIL

Group Investment Universe. This process does not apply to indirect investments or BIL products managed by a third party.

BIL takes clients' best interests into account when applying the Exclusion Policy. If a company is added to the exclusion list, portfolio managers will seek to disinvest as soon as possible, while considering portfolio impacts based on market conditions, liquidity, and portfolio construction constraints. For Advisory services, the advisor should contact clients, inform them about the excluded securities and recommend an alternative investment.

BIL excludes companies based on the following principles:

Our approach towards fossil fuels:

- **Thermal coal:** exclusion of companies that generate more than 10% of their revenues from coal extraction and/or power generation from coal. BIL has implemented a thermal coal restriction, with the objective of de-risking portfolios in the long term by reducing exposure to thermal coal, while supporting the UN Principles of Responsible Banking (UNPRB) and the transition to a low-carbon economy.

  Oil sand: restriction of companies that generate more than 5% of their revenues from oil sand extraction. BIL believes that the development of oil sand is not consistent with the fight against global warming and the effort to limit the rise in temperatures within the limits of the Paris Agreement targets.

Our approach towards weapons:

- **Controversial weapons**: no tolerance towards investing in companies involved in controversial weapons activities or provisions to such companies. This principle is applicable to any involvement in the development, testing, maintenance, and sale of anti-personnel landmines, cluster bombs, depleted uranium weapons, chemical weapons, biological weapons, and white phosphorous weapons**.**

Our approach towards controversial behaviour:

- **Controversial behaviour**: BIL excludes companies that are not compliant with the United Nations Global Compact (UNGC) Principles. BIL assesses companies on the extent to which they cause, contribute to or are linked to violations of the below UNGC Principles:

  Human Rights

  Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
  Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Our approach towards countries exclusions:

- **Countries:** BIL excludes countries that have serious violations with regard to political stability or where the governance structure is deemed as unsustainable; in addition, 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.

Exclusions for investment products with LuxFLAG Label

BIL investment products labelled by LuxFLAG are aligned with the exclusions set out by the LuxFLAG Exclusion Policy. For more information, please refer to https://luxflag.org/

BIL Manage Invest S.A. ("BMI")

Regarding BIL Funds / Sub-Funds for which BIL performs the function of Portfolio Manager, BMI Exclusion Policy applies. For more information, please refer to https://www.bilmanageinvest.lu/offer.php

ESG Integration

Integrating environmental, social and governance (ESG) factors results in better-informed investment decisions and/or recommendations, with the objective of achieving higher risk-adjusted returns.

ESG factors can broadly be broken down as follows:

- Environmental considerations related to the conservation of the natural world: carbon emissions, energy efficiency, waste management, pollution, biodiversity, water scarcity, etc.
- Social considerations related to the consideration of people, relationships and social cohesion: labour standards, relations with workforce and the community, gender & diversity, education, childcare, etc.
- Governance considerations related to best practices and standards for running a company: board composition and independence, management and audit structure, remuneration, compliance policy related to bribery and corruption, whistle-blower schemes, fiscal practices, etc.

Although there isn't a single exhaustive list of ESG factors, they are often interlinked, and it can be difficult to classify ESG factors as solely environmental, social, or governance related.

ESG factors have an impact on a company's financial outlook, and therefore its value. The consistent fundamental analysis of ESG factors is a key component that enables us to adjust forecasts about significant security price drivers and potential liabilities.

As part of ESG integration at BIL, our investment-decision processes apply ESG factors as part of the analysis to identify and assess material risks and growth opportunities.

In the case of direct investments, ESG scores are integrated into our investment decision-making processes. This integration helps us identify companies that are better equipped to address ESG factors related challenges and leverage opportunities related to sustainability and responsible business practices. ESG scores are supplied by third-party providers and are converted into an equivalent BIL ESG Scores applying an internal methodology. BIL ESG Scores are updated on a quarterly basis and are used to identify companies in terms of ESG factors risk. A Company with a "A" score is perceived as being less risky in terms of ESG factors than a Company with a "E" Score. ESG scores are considered through a "Best-in-class" approach to facilitate company comparisons within industries. "Best-in-class" approach selects the best companies by ESG score within each sector of the investment universe. To apply an objective assessment of the importance of each ESG factor to different industries, ESG scores apply different weights for Environment, Social and Governance to determine the relative materiality of each theme to each individual industry.

For indirect investments, our approach involves a comprehensive due diligence procedure. During this process, BIL considers SFDR categorisation, assesses how sustainability risks are integrated into investment decisions, which ESG methodologies are used (if any), reviews exclusion policies, and examines active ownership strategies. This information is analysed and documented in order to produce a comprehensive overview. BIL does not perform a look-through analysis for indirect investments.

For in-house products, which are classified as Article 8 under SFDR, the minimum ESG scoring is C based on BIL's proprietary methodology.

ESG data source

BIL sources ESG data from two contracted third-party data provider, namely Refinitiv and Sustainalytics with which the institution has established partnerships in recent years. When essential ESG information is not accessible through our contracted third-party data providers, BIL resorts to ESG data publicly available at the time of investment from other external providers, including but not limited to Morningstar or MSCI. As such, BIL does not guarantee the accuracy, adequacy, completeness, fairness or reasonableness of such information, and no representation, warranty or undertaking, whether express or implied, is made, nor responsibility or liability accepted, as to the aforementioned qualities of such information.

The information sought by BIL from these data providers primarily includes:

i. For direct investments: ESG scores, exposure to exclusions as defined by BIL, and comprehensive ESG factors analysis.
ii. For indirect investments: SFDR classification of Article 6, Article 8 and Article 9, Principal Adverse Impacts consideration and other information in relation to the due-diligence analysis

The ESG factors information obtained from third-party data providers is used for the implementation of our exclusion policy and the integration of ESG factors at BIL.

Access to sustainability information is crucial. All relevant BIL employees have access to ESG information and are provided with regular ESG training, where required.

Refinitiv

In 2023, BIL decided to contract with Refinitiv, a leading third-party data provider of Environmental, Social, and Governance (ESG) data and solutions for financial markets and organisations worldwide. The company offers a comprehensive suite of ESG data, analytics, and insights to help investors, companies, and other stakeholders make informed decisions and assess the sustainability and ethical performance of companies and assets.

Refinitiv offers one of the most comprehensive ESG databases in the industry, covering over 85% of the global market cap, across more than 630 different ESG metrics, with records dating back to 2002.

The Refinitiv ESG scores are data-driven, accounting for the most material industry metrics, with minimal company size and transparency biases. The scores are based on relative performance of ESG factors with the company's sector (for environmental and social) and country of incorporation (for governance).

Refinitiv's ESG scoring methodology has several key calculation principles, as follows:

1. Unique ESG magnitude (materiality) weightings have been included – as the importance of ESG factors differs across industries, each metric's materiality has been mapped for each industry on a scale of 1 to 10.
2. Transparency stimulation – company disclosure is at the core of Refinitiv's methodology. With applied weighting, not reporting 'immaterial' data points doesn't greatly affect a company's score, whereas not reporting on 'highly material' data points will negatively affect a company's score.
3. ESG controversies overlay – companies' actions are verified against commitments, to magnify the impact of significant controversies on the overall ESG scoring. The scoring methodology aims to address the market cap bias from which large companies suffer by introducing severity weights, which ensure controversy scores are adjusted based on a company's size.
4. Industry and country benchmarks at the data point scoring level – to facilitate comparable analysis within peer groups.
5. Percentile rank scoring methodology – to eliminate hidden layers of calculations. This methodology enables Refinitiv to produce a score between 0 and 100, as well as easy-to-understand letter grades.

BIL uses Refinitiv ESG Scores as equivalent to BIL ESG Scores for BIL ESG Integration. Refinitiv data is also employed to identify companies not compliant with BIL ESG Exclusion Policy.

For further information on Refinitiv, we invite you to visit their website: https://www.refinitiv.com/en

Morningstar Sustainalytics

In 2024, BIL contracted with Morningstar Sustainalytics, a leading independent ESG and corporate governance research, rating, and analytics firm. The company offers support to investors worldwide with the development and implementation of responsible investment strategies. Morningstar aims to provide market-leading data, products, and services across investment processes to enable investors to make decisions in the ways they believe are best.

Sustainalytics' Global Standard Screening (GSS) qualitatively assesses companies' compliance with the United Nations' Global Compact Principles, identifying companies violating or at risk of violating these principles.

The non-compliant assessments are based on:

- Severity of the impact, which includes: the gravity of the impact, the extent and consequences of the impact, and the level of difficulty of restoring the situation of those impacted to their prior state;
- Company responsibility, considering: whether the company has caused, has contributed to, or is directly linked to the negative impact through its operation, to what degree the impact of the

incident stands out relative to other companies in the sector, the level of negligence, the existence of a pattern/recurrence of similar impacts and the duration of the incident;

- Company management, analysing: the steps taken by the company to address those affected or the concerns raised, the quality of a company policy and management systems on the relevant issue, and the policy implementation to prevent similar impacts from occurring in the future.

BIL makes use of the Sustainalytics GSS data for excluding companies that are not compliant with have serious violations with regards to the United Nations Global Compact (UNGC) Principles as per BIL ESG Exclusion Policy.

Further information on Sustainalytics Global Standards Screening can be found on their website https://www.sustainalytics.com/investor-solutions/esg-research/esg-screening/global-compact-norms-based-screening

Application of this policy

To conclude, BIL's sustainability risk policy comprises several key components: exclusion policy and ESG integration for direct investments, and due-diligence and investment strategy verification for indirect investments. This approach allows us to align investments with our values, while also considering the potential impact of ESG factors on risk management and financial performance.

To support discretionary portfolio management and in-house fund management, the ESG in-house methodology is integrated into the underlying asset selection process. To support advisory services, BIL provides its advisors with an investment universe that undergoes thorough screening via our ESG in-house methodology. Our advisors are sufficiently and regularly trained, enabling them to leverage the information at their disposal and, if required, effectively communicate relevant ESG-factors details to our clients.

This policy in updated on an annual basis by the Investment Office team and approved by the "New Product Committee" (NPC).

Date of the initial publication: September 2021
Date of revision: 30 December 2024

EFG Entrepreneurial thinking. Private banking.

TCFD Report

2023

About this Report

This is the second annual TCFD Report of EFG International AG and its subsidiaries ("EFG Group", "EFG" or "we"). As stated in our 2022 TCFD Report, we recognise the urgent need to transition to a more sustainable world. In 2023, we made further progress in our efforts to embed sustainability considerations throughout EFG and to further implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This TCFD Report, which builds on the information in our Sustainability Report 2023, is designed to help our stakeholders understand both the climate-related opportunities and the climate-related risks facing our bank.

EFG has enhanced its climate-related risk monitoring activities and is continuously strengthening its internal control framework and operational capabilities to define appropriate metrics for assessing climate-related risks. As stated in our Sustainability Report 2023, EFG has committed to five strategic climate-related measures in the areas of sustainable finance and greenhouse gas (GHG) reduction. The publication of our TCFD Report fulfils one of these strategic climate-related measures.

EFG is therefore committed to supporting the Paris Agreement and its goal of keeping the rise in global temperatures to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

Since we first began measuring GHG emissions from our own operations, EFG has set a specific target to reduce those emissions by 50% by 2030 and to achieve net zero emissions by 2050. Further, EFG is implementing a GHG reduction path for its own assets and expanding its responsible investment offering to enable clients to invest in assets that support the transition to a more regenerative economy.

This report provides an overview of the 11 disclosures* recommendations associated with the 4 central TCFD thematic areas (Governance, Strategy, Risk Management, and Metrics & Targets), as defined by the Financial Stability Board (FSB). It explains how EFG evaluates, monitors, and manages climate-related opportunities and risks in each of these areas.

This report covers EFG International and its asset allocation and asset management activities, including those activities carried out by its wholly owned subsidiary EFG Asset Management Ltd. (EFGAM), which operates as an asset allocator. EFGAM publicly endorsed the TCFD recommendations in 2019.

As a global private banking group, EFG may, at times, be exposed to various climate-related risks that might also affect business, credit, operational, liquidity, market, and compliance risks. The potential consequences of climate-related factors on various risk categories could also affect the organisation's financial performance, business objectives, reputation and other strategic goals. EFG therefore considers prudent risk management to be a critical part of its approach to business and an essential requirement to safeguard its reputation. At the same time, EFG sees new opportunities arising in the form of new markets and clients that it can serve, as well as new products and services that it can offer.

This TCFD Report covers the financial year 2023, which ran from 01 January 2023 to 31 December 2023 (in line with our Annual Report 2023 and Sustainability Report 2023).

The TCFD Report 2023 was approved by the Executive Committee of EFG International and was acknowledged by the Audit Committee and by the Board of Directors in February 2024.

Read more in our Annual Report.

Read more in our Sustainability Report.

Governance

How our Board oversees climate-related risks and opportunities.

The overall governance of EFG is described in the Sustainability report 2023. Current section focuses on Climate-related aspects.

Two governing bodies play an essential role in climate-related governance at EFG:
(i) the Board of Directors, in its capacity as the highest governing body, assumes responsibility for providing guidance and oversight of the organisation; and
(ii) the Executive Committee manages risks and opportunities, including those related to climate aspects. Their respective roles are described below:

Board of Directors:
The effectiveness of the overall risk management strategy is monitored by the Board of Directors through regular internal risk assessments, audits and the internal control framework. In addition, the Board approves risk policies, the risk management framework and the risk appetite framework in which the relevant risk metrics are embedded.

Executive Committee:
When managing risks, including climate-related risks, the Executive Committee and its delegated committees act in accordance with EFG's risk strategy and the risk appetite and management framework.

EFG's governing bodies are supported by a Sustainability Advisory Board (ESAB). The ESAB is co-chaired by the Chair of EFG International and the CEO. Members of the ESAB include Executive Committee members, as well as one further member of the Board of Directors and an external specialist.

The ESAB was established in July 2021. Its role is to provide strategic advice, recommendations and guidance to assist and support decisions of the governing bodies for topics related to sustainability initiatives, targets, frameworks and strategies. In doing so, it can help to embed sustainability and ESG-related factors within EFG's business strategy, governance and risk management framework.

For further details:

Sustainability Report 2023

See section
"Governance structure and composition" (GRI 2-9; 2-10) page 9

How our management assesses and manages climate-related risks and opportunities.

The Executive Committee is further supported in its activities by the Sustainability Steering Committee (SSTC). The Executive Committee also has several dedicated risk management sub-committees to ensure cross-functional alignment on risk topics.

The Financial Risk Committee, which is a delegated committee of the Executive Committee, regularly monitors climate-related financial risks in loans, own investments and securities in assets under management by analysing key risk indicators and evaluating exposures across a series of stress scenarios.

On the investment side, the ESG Product Committee defines ESG investment policy for asset and wealth management services and products.

Additionally, EFGAM conducts routine monitoring of GHG emissions and other ESG data for a subset of the New Capital funds and Discretionary mandates.

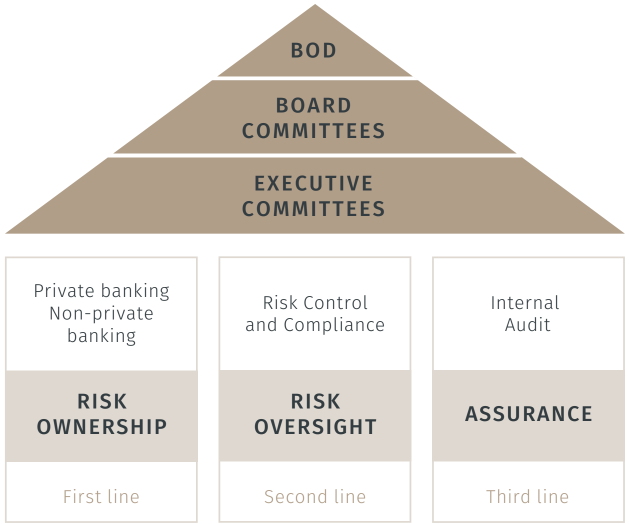
In November 2023, the Executive Committee and the Risk Committee approved the updated Group risk management and risk appetite frameworks, which also include ESG-related elements. The frameworks were approved by the Board of Directors in December 2023.

Also in December 2023, the Executive Committee approved a General Directive on ESG-related Risks, which sets out the strategy, governance and risk management process around ESG-related aspects.

EFG's risk management strategy is founded on the three lines of defence model with:

- First line: Risk ownership across all regions, divisions and support functions
- Second line: Risk oversight by the Risk Control and Compliance functions
- Third line: Risk assurance by Internal Audit

EFG aims to further incorporate climate-related factors into the three lines of defence model, as needed.



For further details:

Sustainability Report 2023

See sections "Risk management and risk governance" – How we manage risk: strategy, policies and governance (GRI 3-3 c and d) page 26 – 27

See sections "Responsible Investments" in Policies and governance paragraph page 40

Strategy

Climate-related risks and opportunities that we have identified over the short, medium, and long term.

The identification and management of climate-related risks and opportunities are important elements of EFG's corporate strategy. EFG's definition of climate-related risks and opportunities is set out below. This is followed by an overview of the five strategic climate-related measures that EFG formulated in 2022 and began implementing in 2023. The next section describes generic impacts of climate-related risks and opportunities and a final section addresses the topic of resilience.

I) Risks

EFG distinguishes between physical risks, which result from climate change, and transition risks, which are associated with the uncertain financial impacts that could result from a rapid low-carbon transition. Transition risks have the potential to affect EFG's operations, reputation, regulatory exposure, financial results and opportunities. These categories of risks, including their time horizons, are described in more detail in the "Climate Action" section of the Sustainability Report2023.

II) Opportunities

Potential opportunities may arise as a result of the adverse effects of climate change or climate-related risks. Opportunities relating to resource efficiency, energy sources, products and services, clients, markets and resilience may arise in the case of EFG (see section IV) "Climate Transition".

III) Measures

EFG formulated five strategic climate-related measures (see illustration below) in 2022 and began implementing them in 2023:

1) Measure and disclose GHG emissions (Scope 1, 2 and 3) in our own operations.
2) Achieve a 50% reduction in our GHG emissions per full time equivalents (FTE compared to our 2023 baseline) by 2030; we have set an interim GHG reduction target of 20% per FTE by 2028 and aim to reach net zero in our operations by 2050.
3) Publish Task Force on Climate-Related Financial Disclosures (TCFD) at Group level from the reporting year 2022 onwards.
4) Further develop innovative transition and climate-related offerings for our clients, creating opportunities to invest in the move toward a more regenerative economy.
5) Define a GHG reduction path for EFG assets (treasury book) by 2030/2050

EFG's strategic climate-related measures consider the priorities regarding sustainable finance and the reduction of GHG emissions defined by the Association of Swiss Wealth and Asset Managers (VAV), of which EFG is an active member.

For further details:

Sustainability Report 2023

See section "Climate action" (GRI 3-3 a-d) page 51–52

Measure and disclose GHG emissions in our operations	Net zero in our operations	TCFD disclosures	Transition offering	GHG reduction path for our own assets
Measure and disclose carbon emissions resulting from all aspects of own operational processes (Scope 1, 2, 3)	Define and pursue a GHG reduction path to achieve a net zero target based on the 1.5° scenario, as outlined by the Science Based Targets initiative	Endorse the recom-mendations of the TCFD by becoming a signatory and by providing disclosure in line with its recommendations	Guide our clients through transition Further enhance offering and services dedicated to transition and climate-related investments	Pursue a GHG reduction path for treasury, aiming for a reduction of CO_2 emissions in line with market standards
Responsibility as a firm			Responsibility as an asset allocator	

EFG may be adversely affected directly by physical and transition risks, and indirectly through its counterparties, clients or collateral. Key portfolios, including loans, own investments (including the trading portfolio) and securities in assets under management are being monitored for climate-related financial risks by EFG.

If markets and regulators fail to implement policies to mitigate the impacts of climate change, the probability of a disorderly transition may increase. The severity of the impact of physical risks on our operations would be much greater in this scenario than in an orderly transition scenario.

IV) Climate transition

Climate transition may not only have negative impacts (risks), but may also generate opportunities. Some of these opportunities may relate to products and services, such as those offerings that help to address sustainability risks, while others may be related to practices that companies put in place to progress towards net zero, to avoid or reduce emissions risks, and to eventually gain a competitive advantage by better serving the environment as a stakeholder.

Climate transition is the transition from today's mostly linear economy with a predominant focus on profit to a regenerative economy that takes a holistic perspective, focusing on the economy as well as the environment and society. The transition to a regenerative economy is expected to create a positive balance between the different systems, as opposed to one being traded off against the other.

For example: The aim of the New Capital Climate Transition Equity Fund and EFGAM's Climate Transition Strategies is to capture these transition opportunities by investing in companies that are either aligned or are in the process of aligning to climate transition goals, or those that provide solutions for the transition to a regenerative economy.

Potential impacts of climate-related risks and opportunities on our organisation's businesses, strategy and financial planning.

Principal climate-related risks and opportunities

The following table shows the main climate-related risks and opportunities over a short- (5 years), mid- (5-10 years) and long-term (+10 years) horizon.

Climate risk	Risk categories affected	Potential risks	Potential opportunities to explore
Physical risks			
Acute and chronic climate change (medium to long term)	• Credit risk • Market risk • Liquidity risk • Operational risk	• Climate-related events cause damage to financed properties, reducing value. • Clients are unable to repay mortgages. • Damage to own facilities • Potential direct or indirect impact on clients' assets.	• Reduce climate-related risk exposures through integration of acute and chronic climate change factors into credit analysis and asset allocation strategies.
Transition risks			
Policy and legal risk (short to medium term)	• Credit risk • Market risk • Reputational risk • Compliance risk • Legal risk	• Government actions to promote the transition to a low-carbon economy that impact exposed sectors and related client investments. • Increased reporting obligations and related costs (e.g. enhanced emissions-reporting obligations, Green Taxonomy reporting).	• Integrate ESG criteria along the investment process to improve risk-return profiles in client investment portfolio more resilient to shocks resulting from climate risks. • Structure climate-related products to fund projects or assets that mitigate climate change.
Technology risk (short to medium term)	• Business and strategic risk • Operational risk	• Costs related to new technologies with lower emissions products and services for own operations.	• Increase supply of renewable energy to offices. • Transition to zero carbon heating: Replace fossil fuel-based heating with efficient electrical systems using water, are or ground source heat pumps powered by renewable electricity.
Market risk (short to medium term)	• Market risk • Liquidity risk • Credit risk	• Reduction of income related to clients or issuers in carbon-intensive sectors. • Negative impact on the value of financial instruments of issuers in exposed sectors, affecting the value of client and bank portfolios which in turn affects the bank's revenues, credit and liquidity profile.	• Expand product offering and own investments to include strategies aligned with the objectives of the Paris Agreement and transition objectives. • Provide investment advice and solutions to enable clients to better understand and manage their exposure to climate risks and enhance their resilience to both physical and transition risks
Client risk (short to medium term)	• Business and strategic risk • Credit risk • Liquidity risk	• Decrease in income resulting from the demand for controversial goods and services. • Shifting client demand • Loss of funding if the bank is perceived as not being aligned with clients' preferences.	• Integrate client ESG interests and preferences into the advisory process. • Provide ESG reporting at portfolio level to identify climate-related risks and opportunities that can lead to investment proposals.

EFG assumes that many physical climate risks will only become more significant in the long term, while the prevailing approach to strategic capital planning usually involves three-year forecasts.

The impacts of climate-related risks can be extensive in terms of the sectors and regions that are affected. EFG considers the characteristics of these risks, and their related impact on its financial, capital and liquidity objectives, as well as the possible interplay between physical and transition risks.

For further details:

Sustainability Report 2023

See section "Responsible Investment" page 38 – 42

Assessing climate-related risks of countries and corporations within EFG's proprietary ESG-rating methodology
The EFG investment framework incorporates multiple measures to gain a better understanding of ESG-related and, more specifically, climate-related risks affecting investments in securities. These aspects, along with other considerations of a financial or other nature, are used to evaluate the attractiveness and risk of investments.

With regard to investments in sovereign debt, EFG is continuing to evaluate the vulnerability of countries and corporations to ESG-related and CO_2 risks with the assistance of EFGAM. This assessment is carried out with the support of proprietary models that incorporate external data sources, such as the Notre Dame-Global Adaptation Index (ND-GAIN), which provides a summary of the readiness of countries to implement adaptation solutions and their degree of vulnerability to climate change.

Similarly, with reference to corporates, EFG's proprietary ESG rating methodology – the Global Responsibility Investment Platform (GRIP) – considers CO_2 emissions to be one of the main risk factors that varies depending on their materiality for the different industries.

Spotlight analysis: Carbon Border Adjustment Mechanism and Net-Zero assessment
Two specific methodologies that show EFG's approach to managing climate-related risks from an opportunity or risk perspective are: The Climate Engine framework and the new EU Carbon Border Adjustment Mechanism (CBAM) model, which we are deploying to improve and update previous models.

Climate Engine framework
The Climate Engine framework is used to forecast companies' future emissions and to assess the extent to which they are aligned with the objectives of the Paris Agreement. The framework considers a range of variables, including Scope 1 and 2 emissions, revenues, sectors and emission reduction targets, and it uses linear regression to estimate the future GHG emissions of companies and compare them with net-zero pathways calculated by the Sector Decarbonization Approach (SDA) to assess the feasibility of achieving net-zero emissions within the required timeframe.

The model is based on carbon intensity, which is the ratio between emissions and revenues. We believe that carbon intensity has some advantages over a model based on absolute emissions. For example, an intensity model can adjust for revenue growth with stable emissions, signaling that a company has become more efficient in its production. This model also ensures that M&A and other corporate events do not have a negative impact on climate alignment per se, which could otherwise happen. The outcome of the analysis is one of the main tools used to determine the selection of sustainable securities and is particularly relevant for climate transition products.

EU Carbon Border Adjustment Mechanism (CBAM) model
CBAM aims to prevent carbon leakage across geographic areas and to ensure a level playing field for EU industries. CBAM will impose a carbon price on certain imported goods from countries outside the EU. Its main objective is to address the risk of carbon-intensive industries relocating to regions with lower climate standards, which could undermine the EU's efforts to reduce GHG worldwide.

The CBAM model is available to all analysts and portfolio managers and allows them to estimate carbon prices and the impact of a possible broadening of the tax to other CBAM geographies, as well as the effect of an increase in the cost of using products through a demand elasticity mechanism applied to Scope 3 emissions.

EFGAM Voting Guidelines
Finally, for its equity funds, EFGAM already implemented a climate voting policy in 2021 to encourage investee companies to improve transparency around climate change. We believe that through our voting and engagement activities, we can positively influence the behaviour and corporate governance of investee companies. EFGAM ranked first in the "Voting Matters 2023" Report published by the UK non-profit organisation ShareAction, reflecting the strength of our voting and engagement framework and our adherence to our own engagement policy commitments.

For further details:

2021 EFGAM voting policy

Risk management

Our organisation's processes for identifying and assessing climate-related risks.

Our organisation's processes for managing climate-related risks.

By incorporating the most substantial risks into its business and capital planning processes, EFG aims to achieve an adequate level of resilience and protection against external risks, pressures and disruptions.

EFG's risk categories are defined in the risk taxonomy included in the risk management framework and are described in the related risk policies and general directives. EFG's risk categories establish a common denominator for risks across EFG and thereby enable alignment across regions, divisions and support functions.

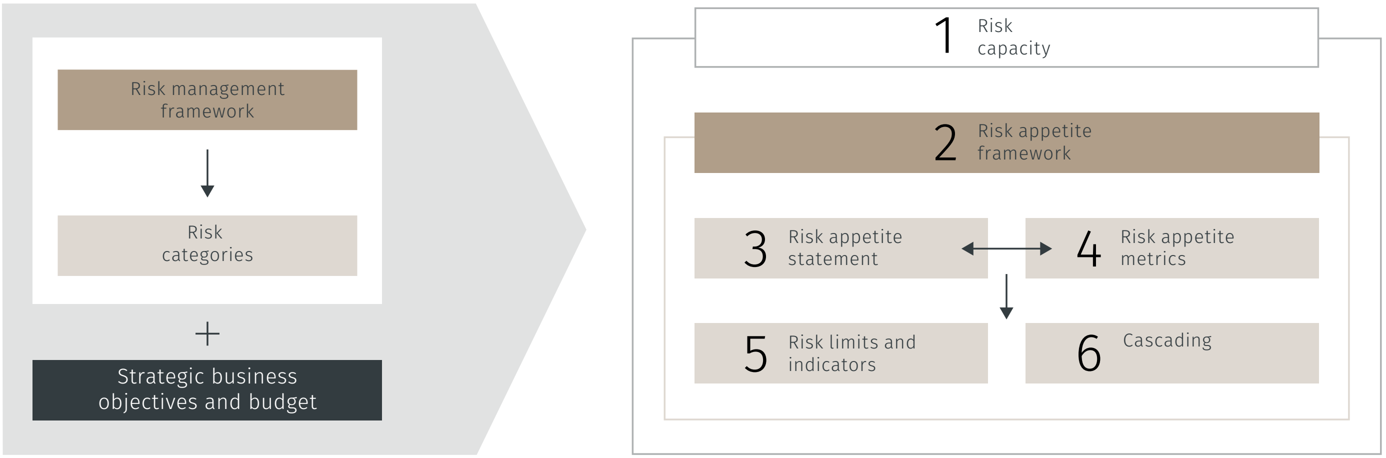
The new General Directive on ESG-related Risks provides further guidance on ESG-related risk management process and governance.

EFG's risk appetite framework (see below) is of key importance in the identification and management of risk. It is closely linked to the risk management framework and defines the overall risk appetite, setting out the level of risk that EFG is prepared to incur to achieve its strategic objectives, in line with the available risk capacity. It includes:

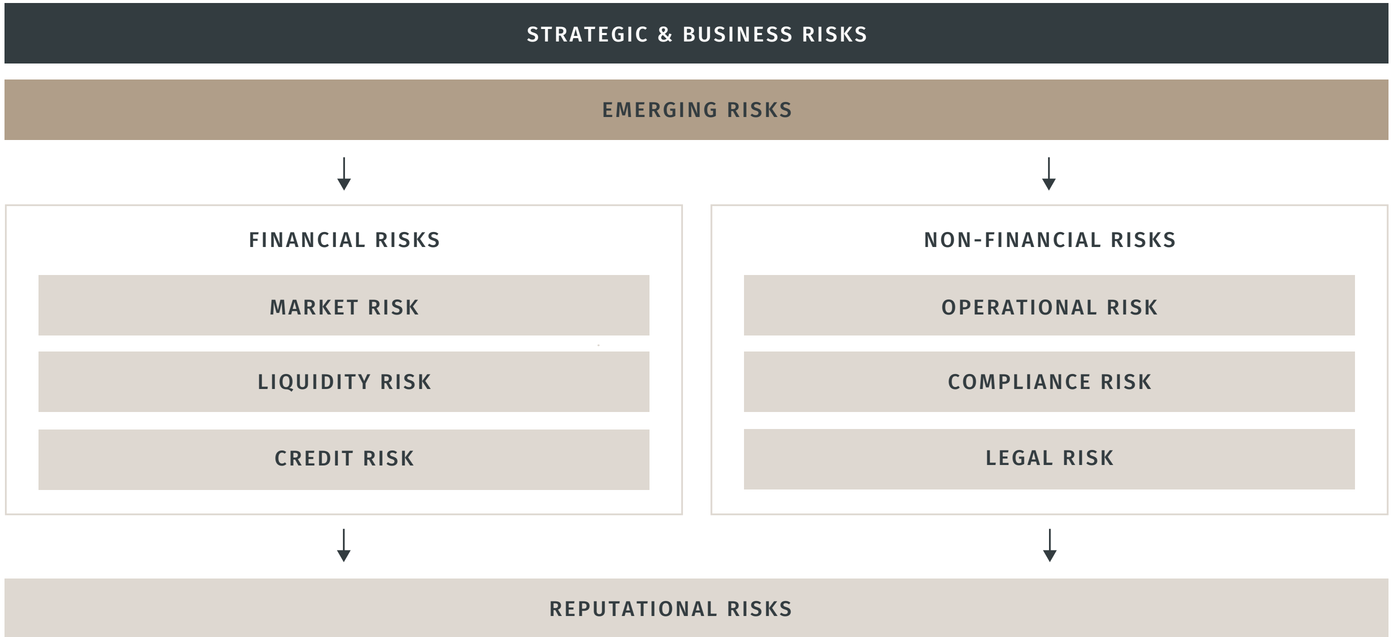
- Risk capacity
- Risk appetite statement
- Risk metrics and limits framework
- Process to cascade and embed the above in the business units
- Responsibilities of Group and local bodies overseeing the implementation and monitoring of the risk appetite framework
- Risk appetite process, including the escalation of risk metrics exceeding pre-determined thresholds.

The risk appetite framework is linked to the risk limit system and is influenced by the overarching available risk capacity, the risk management framework and strategic business objectives.

How we integrate processes for identifying, assessing and managing climate-related risks into the organisation's overall risk management.



EFG classifies climate-related factors as elements within the existing risk categories. These categories currently include credit risk, operational risk, reputational risk, market risk, business risk and liquidity risk.



Climate-scenario analysis

Evaluating a business's long-term resilience to climate-related risks is a highly complex undertaking. For this purpose, TCFD recommends that companies should apply scenario analysis as a tool that links strategy with risk management. In 2022, EFG started to work on an evaluation of the viability of various climate change scenarios.

Due to the high degree of uncertainty around the timing of climate risks, EFG takes a prudent approach in its scenario analysis. EFG is currently considering three main scenarios defined by the Bank of England (BoE) based on the scenario elaborated by the Intergovernmental Panel on Climate Change (IPCC).

a) Sudden disorderly transition

In this scenario, action to address climate change is delayed by ten years. To compensate for the delay, a more severe adjustment is required, with a steeper increase in global carbon prices, as the Bank of England suggested[1] in a late attempt to meet the climate target. Companies and consumers change their behaviour in response to these dramatic shifts, and asset prices see a sharp repricing as a result, leading to a macroeconomic shock.

The climate target is still met. However, the achievement of the target causes a significant degree of disruption to the economy.

Scenario	Key assumptions	Physical risk	Transition risk	Temperature rise	Paris agreement	Point in time
Scenario A Sudden disorderly transition	A sudden disorderly transition ensuing from rapid global action and policies	Lower +	Maximised +++	Below 2°C	Compliant	Short term
Scenario B Orderly transition	Orderly transition scenario that is broadly in line with the Paris Agreement	Moderate ++	Moderate ++	Below 2°C	Compliant	Mid term
Scenario C No transition	A scenario with failed future improvements in climate policy	High +++	None	Above 4°C	Not compliant	Long term

[1] Bank of England (2019).

b) Orderly transition
Under this scenario, early and decisive action is taken to reduce global emissions in a gradual way, with clearly signposted government policies implemented relatively smoothly. Companies and consumers gradually align their behaviour with a carbon-neutral economy under the scenario. Financial markets price in the transition in an orderly fashion and take advantage of the opportunities that the transition provides. In this scenario, there is a structural reallocation but no other macroeconomic shock. These actions are sufficient to limit global average temperature increases to below 2°C. However, even this moderate increase in global temperatures leads to higher physical risks.

c) No transition
Under this scenario, governments fail to introduce policies to address climate change other than those already announced. Companies and consumers do not change their behaviour to reduce emissions compared to current trends. There is also only a limited technological transition. As a result, the climate target is not met, and the global average temperature increases substantially by 2080. This scenario is characterised by chronic changes in weather (e.g. rising sea levels), as well as more frequent and extreme weather events (e.g. flash floods). Consequently, under this scenario, there are limited transition risks but significant physical risks.

EFG's ongoing efforts to integrate climate-related risk assessments and mitigation into its risk management processes and strategy will strengthen the organisation's inherent resilience to the effects of climate change.

Stress tests are an integral part of EFG's capital planning process and allow the organisation to identify potential impacts on revenue, capital and liquidity that could affect the income statement and balance sheet positions. Material risks that must be taken into account in particular duress scenarios are estimated using the top risk assessment approach. Climate-related factors are included, like other risks in the process of assessing top risks.

Further, EFGAM employs a proprietary methodology to evaluate the impact of ESG risks with a specific emphasis on climate risks for the most exposed industries. Besides incorporating the GHG profiles of individual companies and ESG criteria for rating purposes across the invested universe, EFGAM regularly reviews the most relevant New Capital funds with respect to their carbon footprint. The process involves both a comparison of the emissions of a portfolio with those of the relevant benchmark and an assessment of the average scores related to emissions management for both the fund and the benchmark. When both indicators result in outcomes that are worse than the benchmark, additional screening is performed to better understand the possible CO_2 risks of portfolios.

In addition, EFGAM New Capital funds that are classified as Article 8 or Article 9 funds under the Sustainable Finance Disclosure Regulation (SFDR) are also monitored with regard to several Principal Adverse Impact (PAI) indicators, such as CO_2 emissions, waste or water.

Financial risks influenced by and associated with climate-related factors

Risk family	Risk category	Definition	Portfolios/activities
Financial risk	Market risk	Climate-related drivers may have a significant impact on the value of financial assets. Specifically, physical and transition risks can alter or reveal new information about future economic conditions or the value of real or financial assets, resulting in downward price shocks and an increase in market volatility in traded assets. The market risk could be direct (i.e. own nostro positions) or indirect through client positions (see business risk) or in client collateral (see credit risk).	• Financial investments book • Trading book
	Liquidity risk	Climate-related drivers may impact banks' liquidity risk directly, through its ability to raise funds or liquidate assets, or indirectly through client demands for liquidity. Climate-related factors can lead to asset liquidity risk (e.g. loss in value of liquidity reserve financial instruments), together with funding liquidity risk (e.g. deposits withdrawals), generated by a change in clients' preferences or reputational damage.	• Client funding • Financial investments book • Trading book
	Credit risk	Climate risk drivers can impact clients, corporate or income and/or wealth. Physical and transition risk drivers increase the bank's credit risk as soon as they have a negative effect on a borrower's ability to repay and to service debt (the income effect) or on the bank's ability to fully recover the value of a loan in the event of default because the value of any pledged collateral or recoverable value has been reduced (the wealth effect). The bank is exposed to credit risk in two principal portfolios: loans and mortgages.	• Lombard loans • Commercial loans • Mortgages
	Business risk	In addition to the risk on the bank's own investments, climate-related factors could also impact client investments (e.g. transition risk) and therefore the bank's revenues (e.g. decrease in value of securities in Assets under Management impacting fee and commission revenues).	Assets under Management: • Execution only • Advisory • Discretionary

Non-financial risks influenced by and associated with climate-related factors

Risk family	Risk category	Definition	Portfolios/activities
Non-financial risk	Operational risk	For climate risk, physical hazards can disrupt business continuity by negatively impacting the bank's infrastructure, systems, processes, and employees.	• Own buildings • Leased buildings • Operations
	Compliance risk	EFG may be exposed to increasing compliance risk (financial crime and conduct risk), as well as legal, litigation and liability costs associated with climate-related aspects. Greenwashing is the practice of marketing a company or financial product, for example, so it appears more environmentally friendly or more ecological (more natural, recyclable, or less wasteful of natural resources) when in practice its activities pollute the environment.	Overall bank activities
	Legal risk	Climate-related lawsuits could target the bank due to its past environmental conduct.	Overall bank activities
	Reputational risk	EFG may be exposed to reputational risk as a consequence of other risk categories. Indirect reputational risks may as a result of business activities with companies that have an exposure to climate-sensitive industries.	Overall bank activities

Metrics and targets

Metrics used by our organisation to assess climate-related risks and opportunities in line with our strategy and risk management process.

Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

In 2022, EFG systematically measured GHG emissions in its operations for the first time with the support of an external consultant. We continued these efforts in 2023, conducting a carbon footprint analysis. EFG measured Scope 1, 2 and 3 emissions in its operations according to guidelines issued by the GHG Protocol:

- GHG Scope 1 (from using combustibles in the company's own heating systems),
- GHG Scope 2 (from the production of electricity and district heat obtained from third parties), and
- some impactful categories of GHG Scope 3 (which encompasses all other indirect emissions that occur in EFG's value chain), for which EFG currently discloses emissions occurring from business travel activities (Scope 3, Cat. 6 "Business travel") to gain a clear view of current consumption patterns in our own operations.

The carbon footprint analysis involved systematically requesting data on our global consumption of electricity and fuels, as well as business travel activities, from our locations worldwide. The number of locations covered in the analysis increased from 29 at the end of 2022 to 38 at the end of 2023, resulting in wider reach and systematic data coverage.

In 2023, EFG further improved environmental data collection processes in terms of reporting and methodology. The processes include the use of an internal IT platform that facilitates environmental data collection at a local level, its consolidation at Group level, and verification and reporting on an annual basis.

Energy consumption in MWh	2022 [1]	2023 [1]
Total energy consumption	**16,556**	**16,448**
Electricity	**12,438**	**9,721**
Electricity [2]	12,438	9,721
Heating	**4,117**	**6,679**
Heating oil	841	1,145
Natural gas	2,372	1,440
District heating and cooling [3]	904	4,094
Other	**n.a [4]**	**48**
Diesel	n.a	13
Petrol	n.a	36
Energy intensity (MWh/FTEs) [5]	**6.0**	**5.6**

[1] The indicators are calculated using 12 months actual data collected by 38 locations representing 99,543 m² (2022: 35 locations, representing 98,973 m²), unless otherwise stated.
[2] 2022 data restated (for the exclusion of Shaw and Partners Limited, Australia).
[3] 2022 data was collected for 1 location, with a total floor area of 9,935 m². 2023 data was collected for all 8 locations using district heating and cooling (with a total floor area of 67,183 m²).
[4] n/a as comparative data from the previous year was not presented.
[5] Energy intensity has been calculated using the reported energy consumption in MWh divided by total FTEs, as per the below perimeter. FTE perimeter: Permanent employees (excluding exiting) and temporary employees (including apprentices, interns, trainees), excluding Shaw and Partners Limited, Australia. 2022 (restated): 2,772 FTEs; 2023: 2,949 FTEs.

For further details:

Sustainability Report 2023

See section
"Climate Action" page 51 – 52

Targets used by our organisation to manage climate-related risks and opportunities and performance against targets.

GHG emissions in tCO_2e	2022 [1]	2023 [1]
Total GHG emissions	**4,730**	**6,253**
Scope 1 [2]	**698**	**617**
Fossil fuels	698	617
Scope 2 [3]	**2,107**	**2,556**
Electricity [4]	1,953	1,821
District heating and cooling	154	735
Scope 3 [5]	**1,924**	**3,080**
Business travel [6]	1,924	3,080
GHG intensity (tCO_2e/FTEs) [7]	**1.7**	**2.1**

[1] The indicators are calculated using 12 months actual data collected by 38 locations representing 99,543 m^2 (2022: 35 locations, representing 98,973 m^2), unless otherwise stated.
[2] Scope 1 emissions are generated using combustibles for EFG's own heating systems and vehicle fleet. Emission factors sourced from Defra 2023.
[3] Scope 2 emissions are generated by the production of electricity and district heat that EFG obtains from third parties. Scope 2 emissions were calculated using a location-based approach. Emission factors sourced from Defra 2023 and IEA 2023.
[4] 2022 data restated (for the exclusion of Shaw and Partners Limited, Australia).
[5] Scope 3 emissions are all other indirect emissions that occur in EFG's value chain. EFG currently discloses only Scope 3 emissions from business travel (Category 6), which are considered as relevant and constitute a small part of our Scope 3 emissions. The majority of our Scope 3 emissions are associated with our investments, as defined by the Greenhouse Gas Protocol (Scope 3, Category 15). EFG is working towards broader reporting of its Scope 3 emissions but is not yet in a position to disclose them. Scope 3 emissions Category 6 Business Travel are calculated with Exiobase 2023 using a spend-based method or reported from the locations directly.
[6] 2022 data covers 32 locations while 2023 data covers 38 locations. GHG emissions Scope 3 Category 6 Business Travel for 2022 were restated to account for a methodology enhancement following the adoption of a new tool. 2022 restated data and 2023 data are calculated with Exiobase 2023 using a spend-based method.
[7] Greenhouse gas (GHG) intensity has been calculated using the reported Scope 1, Scope 2 and Scope 3 (Category 6 Business Travel) emissions divided by total FTEs, as per below perimeter. FTE perimeter: permanent employees (excluding exiting) and temporary employees (including apprentices, interns, trainees), excluding Shaw and Partners. 2022 (restated): 2,772 FTEs; 2023: 2,949 FTEs.

In 2023, we continued to implement measures to achieve our goals of reducing GHG emissions by 50% by 2030 and of reaching net zero in our own operations by 2050. These measures include optimising the settings of our power, heating, cooling, ventilation and lighting systems in our own buildings – primarily those located in Switzerland – to lower energy usage. This resulted in energy savings of more than 10% in 2023 compared to our building in 2022. We also aim to install energy-saving technologies and to implement energy-efficient measures and materials where possible when renovating offices, in line with green energy standards.

In terms of building capacity, in 2023 we further developed internal knowledge about a suitable methodology and defined data collection and calculation processes in consultation with an external partner.

We are also mindful of the carbon footprint of our own operations. We therefore monitor the impacts of business travel – especially air travel – on the environment and encourage employees to make use of telephone and video conferencing where possible.

In view of the impacts of business travel – especially air travel – on the environment, we encourage employees to make use of telephone and video conferencing where possible. In 2023, the use of video conferencing was therefore extended to include larger-scale meetings (e.g. virtual townhalls) at a regional and global level. Video and audio tools now also form an integral part of the flexible office set-up. Nevertheless, as a global banking group, we recognise the need for our Client Relationship Officers to maintain direct and personal contact with our clients around the globe.

In 2023, EFG recorded a marked increase in business travel. This partly reflects the complete removal of travel restrictions that were imposed during the Covid-19 pandemic. Where business travel is essential, we encourage employees to use public transport whenever possible, especially for shorter distances. In addition, and depending on the availability of local public transport, EFG supports local initiatives to provide partially subsidised annual tickets for public transport for employees who commute to work (e. g. Arcobaleno programme in Switzerland). EFG is in the process of evaluating possible approaches to lower emissions from business travel in the future.

EFG also promotes the responsible use of natural resources and encourages all employees to actively contribute to these efforts.

Selected investment teams received training on financed emissions (Scope 3, Cat. 15) that was delivered in conjunction with an external consultant to help them understand the scope and calculation methodologies of different asset classes.

In addition, in line with regulatory requirements and expectations, EFG is monitoring a set of climate-related risk metrics at single entity and Group level for key portfolios (loans, own investments and securities in assets under management) via dedicated dashboards that enable the organisation to assess the main exposures and track key risk indicators pertaining to market risk, liquidity risk (own investments), credit risk (loans), and business risk (securities in assets under management).

Cautionary statements

EFG International's business is exposed to different risks that could adversely impact its climate transition and its sustainability related results. These risk factors are described in detail in the "Risk Management" Section of the 2023 TCFD report. As a result of our strategic review announced on 12 October 2022, our climate-related commitments, targets and metrics may be reviewed and adjusted accordingly depending on future changes which may result in restatements in future reporting periods. Practices evolve quickly with regards to climate-related reporting. The disclosures contained in this report are inherently limited by the emerging science and market practices, the requirement to use estimates for certain figures, the dependence on management judgments in the absence of established methodologies, including in the context of ever-evolving regulatory disclosure requirements and expectations, and the reliance on third-party and other data that may be immature in some instances. The assumptions and estimates we use in our 2023 TCFD reporting may change over time, and the information in our Report includes non-financial metrics, estimates or other information that remain subject to significant uncertainties, such as the collection and verification of data, and assumptions, as well as underlying data, obtained from third parties, some of which may not be independently verifiable. We strive to be transparent on these limitations to our disclosures throughout the report. We are committed to advancing our non-financial disclosures and we recognise that greater comparability insight in the future will further aid our readers' understanding. We continue to review and enhance our approach to data, frameworks, and methodologies to align with ever-evolving regulatory standards and market principles as this subject area matures, and we provide the disclosures in this Report as a means of being transparent about our climate-related initiatives and activities. In conclusion, while our 2023 TCFD report shows progress, we note that this should also be viewed as preliminary progress in some areas, as a result of the above-mentioned factors. The information we have provided in this Report reflects our approach to the climate-related disclosures at the time of this Report being published and is subject to change without notice. We expect that certain disclosures, including our climate-related disclosures may be amended, updated, recalculated, and restated in the future based on continued improvements to the quality and comprehensiveness of our data and methodologies.

This Report contains certain forward-looking statements that can generally be identified by words or phrases such as "potential," "expect," "will," "plan," "may," "could," "going forward," "target," "believe," "goal," "estimate," "intend," or similar expressions, or by express or implied discussions regarding our sustainability-related commitments, targets and metrics as well asour strategy, plans, expectations or intentions. Such forward-looking statements are based on the current beliefs and expectations of management regarding future events, and they are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward-looking statements. You should not place undue reliance on these statements.

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EFG International AG
Bleicherweg 8
8001 Zurich
Switzerland
Phone +41 44 226 18 50
www.efginternational.com

Corporate Communications
Phone +41 44 226 12 72
mediarelations@efginternational.com

Concept/design/production:
SOURCE Associates AG, Zurich

Consultancy on sustainability:
Sustainserv GmbH, Zurich,
Frankfurt, Boston, Nashville

Nestlé Good food, Good life

Nestlé's 2022
Climate risk and impact report

Introducing Nestlé's 2022 Climate risk and impact report

This Task Force on Climate-related Financial Disclosures (TCFD) report serves as Nestlé's 2022 disclosure of the climate-related risks and opportunities to our business. It describes how climate change scenarios[1] may impact our business and outlines our strategy to mitigate those potential impacts while ensuring our resilience, based on our understanding of evolving challenges.

The report is structured in accordance with the TCFD recommendations. As such, it covers our governance structures, strategy and risk management, assessment of resilience, metrics and targets and a summary of our environmental performance.

We recognize that global food systems are deeply connected to the planet's health, and that a changing climate has profound implications for business and society. Therefore, this strategy concerns not only mitigating the transition and physical risks of climate change to our business, but also our actions to tackle climate change at source to help futureproof our business. For example, we continue to implement our ambitious *Net Zero Roadmap*, which aims to reduce in-scope emissions to zero by 2050, even as our business grows. This helps both to reduce our impact on the planet but also accelerate our adaptation to a changing world, thus mitigating risks on our business.

In 2022, we took a significant step in building climate-based thinking across our business when we formally incorporated climate assessments into our Strategic Business Units' and Globally Managed Businesses' annual strategic portfolio reviews. Each unit considered how climate-related risks may impact their strategy and future business projections, and will continue to do so annually.

We also made progress on carbon sequestration through work to plant 12.5 million shade trees to protect crops in pulp, coffee, cocoa and palm sourcing locations in 2022. This will contribute significantly to our efforts to mitigate emissions by improving soil health and reducing chemical inputs, while providing carbon sequestration in regions where we source raw materials. It also advances our broader progress to address deforestation. At the end of 2022, we secured 99.1% deforestation-free status for our five forest-risk raw materials: meat, palm oil, pulp and paper, sugar and soy.

In 2022, we also continued to pilot and implement solutions to mitigate emissions in our dairy supply chain. These included changing cattle feed to reduce emissions and using cattle manure as fertilizer to improve soil health.

These, and other initiatives, are helping our business transition into a low-carbon economy. While we recognize that climate change poses risks to current business models, we believe there are opportunities for companies like ours that proactively tackle climate change in a competitive environment.

Contents

Our governance of climate-related risks and opportunities

Board-level governance

The Board is responsible for Nestlé's strategy, organization and oversight of climate-related matters and monitors progress toward our climate change goals and targets.

The Board's Sustainability Committee reviews Nestlé's environmental, social and governance (ESG) agenda and progress against our internal targets in sustainability and how its long-term strategy relates to its ability to create shared value. The Audit Committee is informed of the content of our non-financial reporting and reviews the limited assurance process of selected assured metrics. This split reflects the importance of sustainability in Nestlé's corporate governance structure and allows Board members to dedicate time and focus to these topics. The Sustainability Committee and the Audit Committee each meet at least three times per year.

Management-level governance

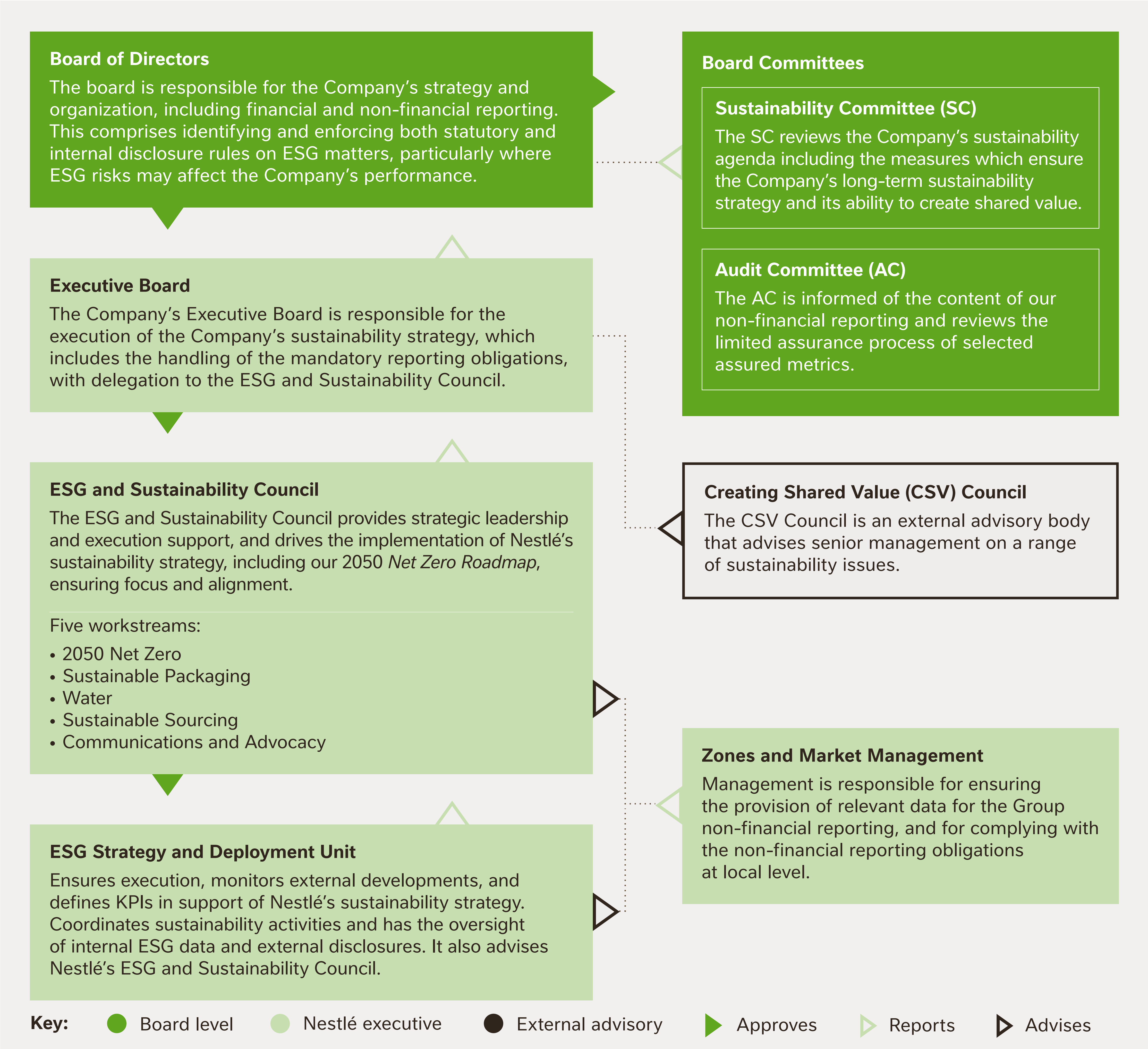
Nestlé's Executive Board is responsible for the overall execution of the sustainability strategy, which covers climate-related issues and includes the progress toward our climate change goals and targets. To ensure focused implementation of Nestlé's sustainability strategy, selected ESG-related key performance indicators (KPIs) are included in the Short-Term Bonus plan of the Executive Board (15% of the target). They are set annually by the Compensation Committee and reflect selected performance measures from the Company's ESG/Sustainability agenda. For Climate in 2022 they relate to deforestation, plastic packaging designed for recycling and reduction of water use in our factories.

The Executive Board is supported by the ESG and Sustainability Council. The Council provides governance, strategic leadership and execution guidance, makes recommendations to the Executive Board and takes decisions on behalf of the Executive Board within its delegated authority on climate-related issues and other relevant ESG matters. It coordinates the ESG sustainability-relevant activities and has oversight of internal ESG sustainability data gathering and external disclosures.

The ESG and Sustainability Council advises the Executive Board on making informed and science-based decisions and it drives focused and aligned actions to deliver on Nestlé's ESG targets, including Nestlé's *Net Zero Roadmap*. It is chaired by the Group's Executive Vice President (EVP) Head of Strategic Business Units and Marketing and Sales. The ESG and Sustainability Council coordinates between the Zones, Globally Managed Businesses and functions represented at the Executive Board level. It meets and reports progress to the full Executive Board monthly.

At an operational level, the ESG Strategy and Deployment Unit drives implementation and execution of strategies in support of Nestlé's sustainability commitments, with input from a cross-functional team of sustainability experts. It coordinates sustainability-relevant activities and has oversight of internal sustainability data gathering and external disclosures. It also provides advice to the ESG and Sustainability Council.

The ESG Strategy and Deployment Unit reports to the EVP Head of Operations with strategic oversight from the EVP Head of Strategic Business Units and Marketing and Sales. It coordinates closely with the functions in charge of financial reporting. Its work is complemented by other internal departments, including Legal and Compliance, the Public Affairs and ESG Engagement team as well as strategic steering committees.



Advocating for change

Advisory

Throughout the year, we engage regularly with a wide range of stakeholders on ESG matters. This includes consulting our CSV Council, an external advisory council. The council provides advice to the Executive Board and helps ensure the sound development of Nestlé's long-term sustainability strategy and its positive social and economic impact.

In 2022, we continued to organize virtual roundtable events to gain external perspectives from sustainability experts. For example, before launching The Nescafé Plan 2030, we held a session with key opinion leaders to gather feedback and refine the details. We carried out a similar exercise for Nescafé's Dolce Gusto's new Neo home compostable range to gather input on how to communicate the benefits of the new capsule system without overclaiming.

A concerted effort by the public and private sectors together is necessary to radically decarbonize economies. This is essential for avoiding the worst potential consequences of climate change and to safeguard our collective future.

External advocacy forms a critical part of our *Net Zero Roadmap* and helps to create the right framework conditions for both our own and broader societal efforts to reduce emissions and mitigate climate-related risks.

Our advocacy priorities

We engage in climate-related advocacy to encourage government policies and private sector leadership that enable rapid and sustained reductions in greenhouse gas (GHG) emissions.

There are six key areas for our advocacy activities, designed to support delivery of most emissions savings necessary to hit our targets. These are (1) encouraging more regenerative forms of agricultural production, (2) ending deforestation risk and supporting forest positive restoration, (3) enabling more sustainable logistics, (4) supporting the rollout of renewable electricity and energy, (5) improving consumer communications and claims, and (6) advocating for higher ambitions from countries and companies and fair and clear rules for target setting and reporting progress.

Our advocacy priorities informed our engagement around the COP27 discussions in Egypt in 2022. We welcome the progress made on how best to adapt to the consequences of climate change. We also recognize there is much more work needed to fully realize the potential of food systems to help address climate change and related impacts, including biodiversity loss.

Further details can be found in our <u>*Creating Shared Value and Sustainability Report 2022*</u>.

Colombian farmer transferring a coffee plant in the coffee farm.

We invest in Research and Development, for instance in Abidjan.

Enterprise Risk Management

The Board of Directors is accountable for ensuring effective risk management at Nestlé. The Group's Enterprise Risk Management (ERM) Framework is designed to identify, assess and mitigate risks to minimize their potential impact and support the achievement of Nestlé's long-term business strategy.

Climate-related risks are treated the same way as other risks at Nestlé and are fully embedded in our holistic ERM Framework, which encompasses multiple complementary processes:

- A top-down assessment is performed at Group level to create a good understanding of the organization's key risks.
- A bottom-up assessment occurs in parallel, resulting in the aggregation of individual markets' assessments.
- A materiality assessment is carried out, where Nestlé engages with external stakeholders to better understand the issues of most concern to them. For each issue, the assessment rates the degree of stakeholder concern and potential business impact.

More information on ERM is reported in 'Information and control instruments vis-à-vis the Executive Board' on page 18 of our *Corporate Governance Report*.

The ERM Framework supports in the identification and assessment of the Group's principal risks. Both qualitative and quantitative factors are considered in determining a substantive risk:

- Does the risk have the potential to substantively affect the Group's strategy or its business model (either at a global level, category level or across multiple categories)?
- Does the risk have the potential to substantively affect one or more of the capitals the Group depends on (e.g. talented, engaged workforce, capital funding)?
- Does the risk have the potential to substantively influence the assessments and decisions of stakeholders?

Methodology: climate risk and opportunity assessments

In 2022, we continued to strengthen our approach and assessment tools to identify and assess our climate-related risks and opportunities. Aligned with our Group risk management processes, we conducted high-level assessments for product categories and in-depth scenario analyses across our value chain.

- **Top-down climate assessments** were formally incorporated into the annual strategic portfolio reviews for Strategic Business Units and Globally Managed Businesses. Each unit considered how climate-related risks may impact on their strategy and future business projections. The assessments considered risks at an individual Zone level and aggregated global level. They helped to align our understanding of the material risks and opportunities at product category level and helped in identifying transversal risks and opportunities across the Group; key outcomes were incorporated into the Group's strategic planning.
- **Bottom-up scenario analysis** was conducted across our value chain. The objective was to assess the resilience of the Group's strategy under different climate scenarios. Transition and physical risks were modeled with future cash flow impacts estimated under each scenario. The most significant climate-related risks were reviewed by the relevant operational teams, such as procurement, agricultural and business continuity management. We worked with third-party experts Risilience[2] and their academic partner the Centre for Risk Studies at the University of Cambridge Judge Business School, who provided the methodology, scenarios and modeling platform. The detailed modeling outcomes were incorporated into the Group's strategic planning.

The outcomes of these assessments were considered in the Group's annual enterprise risk assessment and the annual impairment review. For the latter, we considered how climate risks may impact business forecasts prepared for testing our goodwill and indefinite life intangible assets (see Note 9 of the Nestlé Group Consolidated Financial Statement).

		Transition risks		
Time horizon		10-year horizon		
Scenarios[3]	Emissions trajectory	High	Intermediate	Low
	Temperature increase by 2100[4]	+4.0°C to +5.0°C	+2.0°C to +3.0°C	+1.5°C
	Global action against climate change	Few or no steps taken to limit emissions	Reliance on existing/ planned policies (not commitments)	Immediate and coordinated action to curb emissions
Business scope		• Upstream, direct operations and downstream		
Modeling simulations		• Net Zero – Nestlé's 20% absolute emissions decrease by 2025 and 50% by 2030		
Modeling metric		• Directional cumulative 10-year discounted cash flow (DCF) impacts on net zero business model under the three different scenarios.		
Risk categories		**Policy risks** Action to limit climate emissions include carbon tax, regulation linked to land and water use, restrictions and/or bans on specific materials, enhanced emissions-reporting obligations, etc. The scenario analysis modeled carbon tax as a proxy for policy risks.		
		Technology risks Costs related to decarbonization of the value chain, including replacement and substitution of emission-intensive assets, materials and services. The scenario analysis modeled the share of energy from renewables as a proxy for technology risks.		
		Market risks Shifts in supply and demand as consumers switch to more sustainable products, or shun specific categories, brands or materials due to environmental credentials. The scenario analysis modeled the proportion of consumers adopting more sustainable choices as a proxy for market risks.		

Transition risks (10-year horizon)

Transition risks are driven by changes in policy (including carbon price and tax, license to operate), consumer behaviors and sustainable preferences or new technology (including better GHG performance), in the context of a transition to a low-carbon economy.

They are analyzed against low-, intermediate- and high-emission pathways and these can vary significantly depending on the nature and speed at which jurisdictions act to align to a Paris Agreement trajectory.

Response to transition risk and strategic impact

CHF 7bn < High < CHF 11bn
CHF 3bn < Med < CHF 7bn
Low < CHF 3bn

	Impacts under climate trajectory*		Estimated directional cumulative 10-year discounted cash flow impacts with our current mitigation strategy		Mitigation strategy under our *Net Zero Roadmap*	Future opportunities
Risk category	**Value chain**	Impacts assuming no mitigation	Intermediate emissions +2.0°C – +3.0°C	Low emissions +1.5°C		
Policy	**Operations** **Raw materials**	• Increase in raw materials costs • Restrictions to land use • Increase in energy costs	Med	High	• Switch to 100% renewable electricity by 2025; 78.4% achieved in 2022 • Support farmers in implementing agroforestry and increasing productivity without increasing land use through our broader regenerative agriculture program • Advance regenerative agriculture at scale (20% of our key ingredients by 2025; 50% by 2030); 6.8% achieved in 2022 - Prioritize deployment of climate-smart agriculture practices in highly exposed geographies - Diversify sourcing origins from highly exposed geographies - Switch countries of raw material origins - Increased sourcing flexibility for raw and pack materials by almost 10% in 2022; 60% of materials can be bought from multiple vendors/origins • Product ingredient substitution: by 2030, plant-based proteins are anticipated to contribute 1.4 million tons CO_2eq to our GHG reduction target	By implementing our Net Zero Roadmap, we are already addressing a significant part of the transition risks we could potentially face during this decade, resulting in a net reduction of our exposure. But we continue to review opportunities to reduce our risk exposure levels further, and address upside potential of the societal transition to a low carbon economy. On that basis we foresee: • Reduced direct costs from lower-emissions sources of energy • Working towards our Net Zero ambition may give us a competitive advantage versus some of our competitors that may not implement GHG emissions reductions at the same speed, and may be therefore highly exposed to regulatory changes and increased operational costs due to carbon price • Increased revenues resulting from increased demand for low-emission products and services • Growing consumer demand for low-carbon products such as plant-based foods and drinks • We continue to upgrade our plant-based offering in terms of taste, texture, flavor and nutrition. We also leverage our expertise in plant protein to expand our dairy-alternative offerings.
	Packaging	• Increase in costs for packaging materials • Increase in cost of recycled packaging materials due to constraint in supplies, e.g. recycled PET			• Virgin plastic reduction by one-third by 2025; 10.5% reduction achieved in 2022 • Cross-industry collaboration to drive collection and management of packaging at scale; currently active in 55 of our markets	
Market	**Brands and portfolio**	• Loss of revenue and/or missed growth opportunities	Low	Med	• Constant review of products and business models based on their environmental footprint - 100% of R&D-led projects are assessed for potential climate impact	
	General	• Increase in cost of decarbonization due to high demand for carbon credits			• Prioritize the reduction of emissions and rapid deployment of removals projects, such as reforestation projects, in our value chain instead of offsets	
Technology	**Operations**	• Asset write-downs, investments in low-emission technology to meet market regulation	Low	Low	• Switch to low-emission technologies	

* We do not display the High-level emissions scenario due to its low impact level.

The output of this modeling shows that in the short to medium term, transition risks may become increasingly material depending on the global action taken to address climate change.

However, assuming we at Nestlé meet our interim net zero roadmap targets by 2030, it suggests up to a 50% reduction of transition risks arising from the planned deployment of the *Net Zero Roadmap*.

Our Roadmap fosters our business's transition to a low-carbon economy. It involves accelerating the transformation of our product portfolio, as well as the work to reduce emissions from our sourcing, manufacturing, packaging and distribution. Our biggest intervention involves driving regenerative agriculture across our supply chain by investing CHF1.2 billion by 2025.

Acting in a way that is good for the planet is also good for business, as exemplified in our *Net Zero Roadmap*, which addresses aspects of our environmental footprint that may trigger financial risks, including:

- **Policy:** Reducing our carbon footprint brings us in line with evolving regulatory requirements and reduces our exposure to future carbon taxes and reliance on increasingly expensive carbon credits. It also addresses regulatory risks related to ending deforestation in particular commodity supply chains, as demonstrated by the recent EU regulations.
- **Market:** Offering our customers more foods and beverages that have a lower carbon footprint. We aim to continuously reduce the environmental footprint of our ingredients and recipes and investigate ways to communicate transparently about it.
- **Technology:** We are accelerating the introduction of low-carbon technologies to our factories and renewable energy sources to power our operations. Future competition for these technologies may raise prices.
- **Supply:** Transitioning to climate-smart agricultural practices to increase resilience to flood, drought and other factors. This work is directly correlated with supply risks that are material to our business.

Based on the current and outlined commitments and policies from the private sector and governments, we believe the current climate pathway is between the 'intermediate' and the 'low' emissions scenario modeled, which reinforces the suitability and timing of the *Net Zero Roadmap* to reduce both financial and regulatory exposures.

Lastly, Nestlé's leading *Net Zero Roadmap* and its rapid and efficient translation into concrete changes may unlock opportunities and competitive advantages in the marketplace, by answering consumer demands for low-emissions products and providing alternatives.

New *Nescafé* coffee factory in Veracruz uses state-of-the-art equipment to reduce water and energy consumption.

Our response:
Nestlé facilities

Our Nestlé Waters facility in Henniez, Switzerland, has continuously pioneered carbon-friendly technologies and innovations. In particular, the facility is part of a plan to protect water quality in aquifers by engaging with farmers and collecting their cattle manure. This manure is sent to a third-party biogas plant, together with other organic waste such as coffee grounds from *Nespresso*, to produce renewable energy and hot water. The hot water is sent to our Nestlé Waters factory in Henniez and represents 37% of the thermal energy consumption of the factory.

Nestlé Waters facility, in Henniez, Switzerland.

Our response:
lower-carbon products

Nestlé's plant-based strategy, which aims primarily to meet evolving consumer expectations, also contributes to mitigating transition risks. In 2022, we continued our rollout of plant-based launches. Selected examples include a soy-based Milo ready-to-drink product in Thailand (83%* reduction in GHG emissions for the recipe) and a rice-based sweetened condensed milk in Brazil (80%* reduction in GHG emissions for the recipe). Under our brand Garden Gourmet, we launched several new plant-based products such as Sensational Crispy Mini Filet (74%* reduction in GHG emissions for the recipe) and Sensational Schnitzel (73%* reduction in GHG emissions for the recipe) offering alternatives to animal proteins to our consumer. In addition, we are test launching a hybrid milk powder in the Philippines (27%* reduction in GHG emissions for the recipe).

In 2022, 3% of our total carbon reductions achieved has come from recipe reformulation and innovation.

We are also focusing our effort on packaging to reduce overall footprint of our products, for instance reducing the carbon footprint of *Nespresso* capsules.

* Internal calculation vs standard recipe or equivalent meat product.

Physical risks (2040 time horizon)

Climate-related risks such as heatwaves, drought and water stress may impact raw materials availability and quality through lower yields and greater yield variability.

Using the most likely 1.5°C scenario by 2040[5], we modeled the evolution of climate across the globe to quantify certain physical risks related to sourcing raw materials.

We mapped our sourcing locations and volumes for our key commodities representing 90% of our total spend. These commodities were selected based on their materiality to our business as well as their vulnerability to climate change. We overlaid current and 2040 forecasted climate conditions to estimate the percentage change in expected yields[6].

Physical risk modeling	
Time horizon	2040
Warming scenario	• Projected 2040 climate assuming likely temperature increase > +1.5°C by 2040
Footprint scope[7]	• Critical raw materials[8] – cocoa, coffee, dairy, palm oil • Direct operations (facilities)
Modeling simulations	Assumed current footprint remains static until 2040
Modeling metric	• Projected percentage change in crop yields in 2040 compared to 2020 for selected raw materials • Projected change in annual impacts in 2040 compared to 2020 due to operational disruption and asset damage to facilities

Nespresso is working on the agro ecological transition of coffee farmers, for instance in Guatemala.

Impact of climate and physical risks on Nestlé's key ingredient yields by 2040

Modeled yield changes by 2040 vs 2021.

● +4% increase or more ○ -3% decrease to +3% increase ● -4% decrease or more

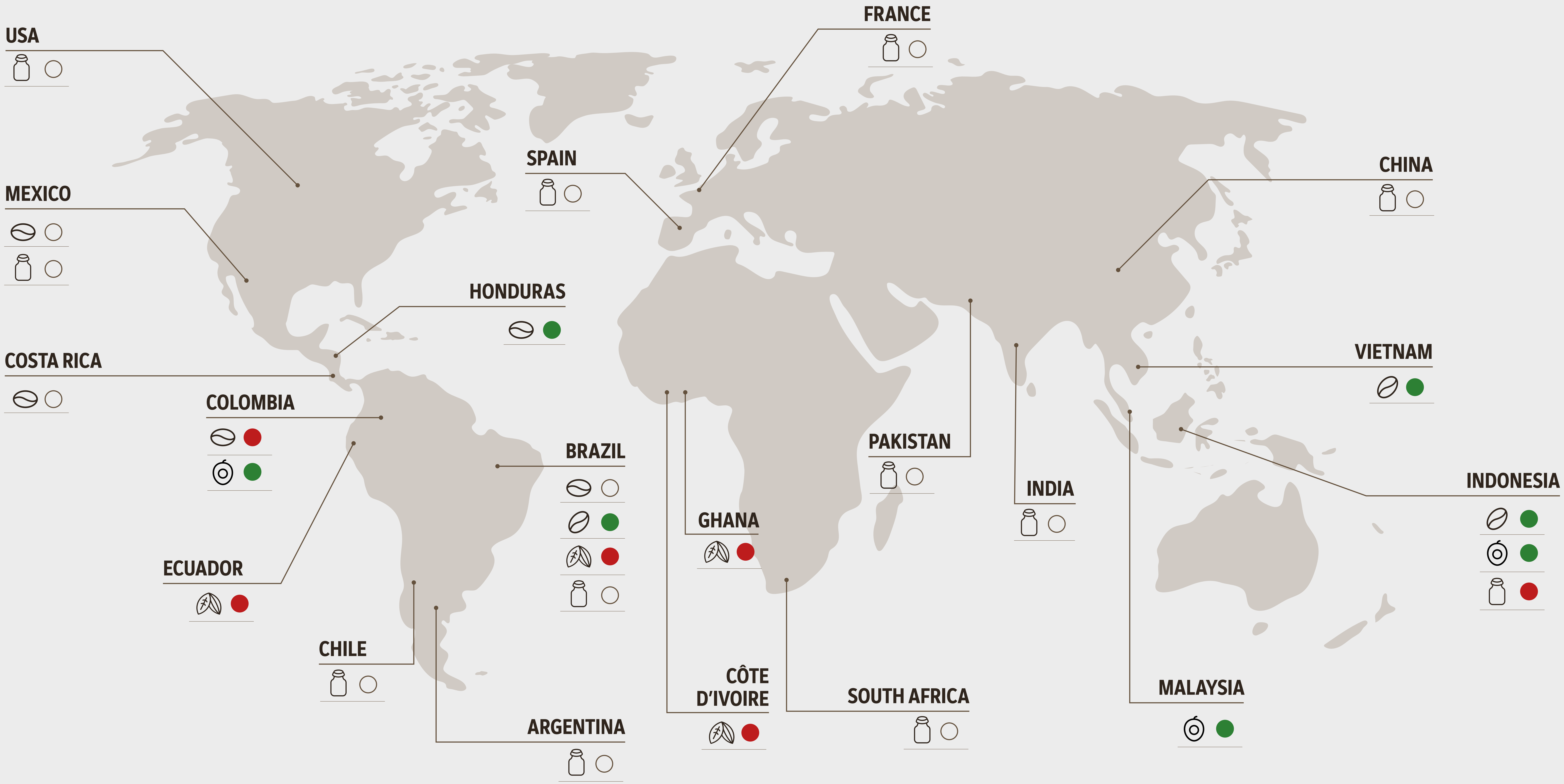
These countries account for 80% of Nestlé's sourcing of Arabica, Robusta, palm oil, cocoa and dairy.

In the longer term, we may see a reduction in suitable areas for cultivation and geographical shifts within and between regions, impacting local and global yields.

In this report, we show the results for five key commodities and associated directions of yield changes by 2040 for their key origins representing 80% of volume purchased.

INGREDIENTS

- ARABICA
- ROBUSTA
- PALM OIL
- COCOA
- DAIRY



* Reference of the Risilience assessment of climate risks on Nestlé's ingredients based on the current sourcing footprint.

These initial results confirm that we are likely to see yield changes and shifts across commodities by 2040, driven by changes in growing conditions. This may impact raw material availability, quality and cost. It may also impact the communities we source from, requiring adaption of labor to new practices, crops and/or locations, as well as shortages of labor, depending on the speed of these shifts.

We will need to support farmers through these transitions and work with them to accelerate the deployment of agricultural best practices, including regenerative agriculture, to increase the resilience of their communities and our supply chains. More details on our mitigation strategy are provided in the table.

These same hazards may also disrupt our facilities and/or damage our assets. The modeling results, based on our 2021 footprint, show small increases in potential level of losses, but our current mitigation strategy remains appropriate. However, climate risk impact varies greatly by region and not all areas will experience the effects equally. In addition, we did not model extreme weather events.

Scope		Risks and impacts up to 2040	Mitigation strategy
Raw material sourcing	Coffee (Arabica, Robusta)	**Arabica:** Potential reductions in yield in many sourcing regions, which may impact global production and supply **Robusta:** With a wider range of suitable growing conditions, global yields for Robusta are not expected to be significantly affected	• Increase farmers' resilience through: – Supporting the just transition toward regenerative agriculture practices (such as cover crops, use of organic fertilizers, agroforestry and intercropping practices for all crops) for our prioritized raw material volumes – Deployment of incentive schemes for living incomes – Development and distribution of plantlets that are more resistant to drought and disease (for example, for coffee, leveraging Nestlé's wide agronomic network), with 23.2 million distributed in 2022 • Agroforestry (for example, we will distribute 1.25 million native forest and local fruit trees in Côte d'Ivoire and Ghana) • Large-scale deployment of best management practices for manure in dairy value chains • Maintain sustainable sourcing and technical assistance programs enabling traceability, capacity building and stability of upstream supply chains
	Cocoa	Potential negative implications for global production	
	Palm oil	Shift in the geographic distribution of oil palms; global yields are not expected to be significantly affected	
	Dairy	Limited impact on global productivity; shift in geographic distribution	
Water		Increase in water scarcity	• Water regeneration program (Nestlé Waters) • Regenerative agriculture program
Nestlé facilities		Small increase in the potential level of losses attributable to climate, heatwaves and drought/water stress-related risks	• Property loss prevention plan • Business continuity plan • Water usage reduction in factories

Our response: manure management

Overall, one-third of Nestlé's carbon footprint arises from our dairy supply chain, with nearly all of it generated before the milk leaves the farm. In intensive systems like those found in the US, manure storage accounts for 30% of the total dairy footprint.

In 2022, we started the deployment of vermicomposting, a nature-based solution designed to better manage manure and limit the emissions of methane and other gases. This innovation uses worms and microbes to naturally degrade manure in the dairy farms in our supply chain.

While many manure GHG interventions need to capture and dispose of methane, this solution prevents the creation of methane entirely. The worms also remove up to 99% of wastewater contaminants and generate castings, which are a nutritious and valuable soil amendment that is utilized to improve crop yield, soil health and carbon sequestration, providing multiple benefits for farmers and local communities.

This practice targets one of the largest sources of emissions on many dairy farms and will continue to be deployed across the US and other sourcing geographies.

Using organic fertilizer made from cow manure and returning it to the farmers who then use it to grow crops.

Looking ahead: Assessing our resilience

Nestlé is uniquely positioned to accelerate the transition to a low-carbon economy. We have direct access to 500 000 farmers and source, through our suppliers, from millions of farms. This connects us with nature-based solutions, which will not only achieve climate impact mitigation but also enable new product offerings.

We will also continue to work toward our *Net Zero Roadmap*, though this is strongly influenced by external parameters, including evolving industry norms, alliances, regulations and government actions. Looking ahead, we believe our strategic response to climate change-related risks will continue to be influenced by the:

- **Pace of transforming the dairy industry:** Nestlé continues to roll out known solutions such as manure management, but we also test and pilot innovative ones, including feed additives, to accelerate the transition to a low-methane industry offering.
- **Policy uncertainty and inaction:** Nestlé continues to advocate for bold climate action from policymakers.
- **Competition for carbon reductions and removal projects across industries:** Nestlé will maintain our dialogue with supply chain partners to keep achieving carbon reductions and removals within the food value chain.
- **Transition cost:** Nestlé will continue to assist our farming communities to enable the necessary agricultural and economic transition to happen.
- **Increased recipe flexibility:** Nestlé continues to create recipes that allow for more sourcing flexibility and material substitution.
- **Crop adaptation:** Nestlé will look for areas with ideal growing conditions.

We have the resilience and agility to transition to a lower-carbon model and create new growth opportunities as part of our ambition to help deliver regenerative food systems at scale. We believe this is due to our broad geographic scope, supply chain flexibility, research and development, diversified product portfolio, leading brands and capital strength.

Coffee plantlets in the nursery.

How we measure and manage climate-related risks and opportunities

In addition to our existing metrics and targets, we continue to explore how best to disclose progress implementing our *Net Zero Roadmap*. We are improving our ability to identify and measure emissions, working with suppliers and customers, and exploring new ways to use analytics, automation and machine learning to enhance decision making and transparency.

In line with TCFD Guidance on Metrics, Targets, and Transition Plans (October 2021), we disclose the climate-related metrics and calculate our GHG metrics based on the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

Further details on ESG KPIs can be found in the *Creating Shared Value and Sustainability Report 2022*, and in our Reporting and Methodology for ESG KPIs.

Metrics	Unit	2022	2021[*]	2020[*]	Related Commitment
GHG reductions achieved compared with business as usual scenario and removals secured (CO_2eq)	Mio t	6.4 reductions, 4.3 secured removals[**]	13.70	N/A[†]	Our *Net Zero Roadmap* to reduce Nestlé's in scope emissions by • 20% by 2025 • 50% by 2030 • Net Zero in 2050 compared to 2018
Total Scope 1 emissions (CO_2eq)	Mio t	3.24	3.35[‖]	3.30[‖]	
Total Scope 2 emissions (CO_2eq) (market-based)	Mio t	0.76	1.44[‖]	1.63[‖]	
Total Scope 3 emissions (CO_2eq)[††]	Mio t	108.90	115.83[‖]	116.59[‖]	
Total (Scope 1+2+3) emissions (CO_2eq)[††]	Mio t	112.90	120.62[‖]	121.52[‖]	
Percentage of key ingredients produced sustainably[‡]	%	22.0	16.3	N/A	
Percentage of our primary supply chains for meat, palm oil, pulp and paper, soy and sugar assessed as deforestation-free	%	99.1	97.20	90.00	
Percentage of ingredients sourced through regenerative agriculture[§]	%	6.8	N/A[¶]	N/A[¶]	
Renewable electricity sourced at year end	%	78.4	63.70	50.50	
Total energy consumed	GJ	80 131 120	82 779 476	81 385 568	
Energy consumed that is renewable energy	%	30.6	25.30	23.10	
Energy consumed that was supplied from grid electricity	%	6.0	10.20	12.20	
Virgin plastic reduction versus 2018 baseline	%	10.5	8.10	4.00	Part of our sustainable packaging strategy, we are committed to 33% virgin plastic reduction by 2025 compared to 2018
Water use reduction in our factories	Mio m^3	2.38	2.3	1.69	We aim to reduce water use in our factories by 6 million m^3 between 2021 and 2023 (million m^3)

* As previously reported.
** A change in our calculation methodology in 2022 means that data for 2021 and 2022 are not comparable.
† New metric for 2021, not reported in prior years.
‖ Restated due to acquisitions, divestures, emissions factor restatements and adjusted scope.
†† Includes emissions not in scope for Net Zero Roadmap.
‡ Priority raw materials refers to 14 key agricultural raw materials that cover 95% of our annual sourcing by volume: cereals and grains; cocoa; coconut; coffee; dairy; fish and seafood; hazelnuts; meat, poultry and eggs; palm oil; pulp and paper; soy; spices; sugar; and vegetables.
§ For 2022, the priority raw materials in scope were fresh milk sourced directly from farmers, green coffee sourced from farmers already part of our field programs, plus cereals, grains and vegetables for Nestlé Nutrition, and cereals for Purina France.
¶ New metrics for 2022.

Summary

Nestlé aims to lead the industry in the transformation towards a low carbon economy. As such, achieving net zero emissions is imperative, as is evolving our strategic response to identified climate-related risks and opportunities, putting in place the right governance, risk management and measures to ensure resilience.

Governance

- Oversight of climate-related risks and opportunities is embedded at the highest level of Nestlé's corporate structure.
- Our approach is governed by our Board of Directors, including its Sustainability Committee and our ESG and Sustainability Council.
- A dedicated corporate ESG Strategy and Deployment Unit drives operational execution of Nestlé's sustainability strategy.

Strategy and risk management

- We continue to incorporate the risks and opportunities presented by climate change into our business strategies.
- Building on our scenario analysis, we assess and act upon transition and physical risks and opportunities for our business, including those affecting agriculture, our operations, and our products.
- In the short to medium term, we must navigate climate transition risks, which can vary significantly depending on the scenarios.
- In the longer term, physical risks could pose a greater threat in terms of raw material sourcing.
- Our assessment process evolves – we continuously update our five-year operational climate workplan to integrate external developments and insights.

Assessment of resilience

- Our analysis further strengthens the importance and relevance of the climate-related actions we are implementing, and the necessity to act now to mitigate longer-term transition and physical risks.
- We are confident in Nestlé's ability to address these risks.

Metrics and targets

- We provide an update on our relevant climate-related metrics and our 2022 performance against them in annual reports and submissions, including this TCFD report.
- Nestlé aims to lead the industry in the transformation towards a low-carbon economy.

Footnotes

Governance

1. The process of scenario analysis for climate change assessments is rapidly evolving and it is iterative. We expect the approaches, tools and data quality available to mature over time. Modeling the future is inherently uncertain and this increases over longer time horizons. We used hypothetical scenarios – actual events may be significantly different. The statements and results summarized in this report do not represent forecasts of expected risk and outcomes. The transition risk outlook relates to a 10-year rolling horizon related to the current reporting year.

2. Risilience is a SaaS platform used by global companies to facilitate strategic and financial decision making from climate change. Risilience uses a rigorous scenario-based framework that integrates a wide range of threat classes with the latest international standards in climate science to provide a competitive view of a corporation's balance sheet. Risilience works closely with its academic partner, the Centre for Risk Studies at the University of Cambridge Judge Business School, to tackle complex issues of management science and business risk.

3. Scenarios were based on existing published scenarios, including the Intergovernmental Panel on Climate Change (IPCC), Socioeconomic Pathways and the International Energy Agency (IEA) World Energy Outlook scenarios.

4. Temperature increases provided for each scenario are the estimated global mean surface temperatures of Earth by 2100 depending on the different emissions trajectories.

5. As reported in the IPCC report: *Climate Change 2021, The Physical Science Basis, Summary for Policymakers*.

6. Modeling future climatic impacts on crops is complex. This approach was a pilot scenario analysis, and the assessment has a number of limitations. These include the availability of accurate data, both internal data linked with the traceability of our crops, and external data projecting climatic conditions 20 years in the future. The pilot was limited to changes in temperature and precipitation. Other contributing factors that impact the crop yields include land availability for cultivation, weather variables on plant physiology, pests and diseases, etc. Raw material production may also be impacted by transition risks. Unsustainable agricultural production is one of the biggest contributors to tropical habitat loss. This analysis did not factor in potential policy and reputational factors that may also impact land availability for raw materials. The results summarized in this report should be reviewed in the context of these limitations.

7. Scope includes only Nestlé's current sourcing footprint.

8. The raw materials selected account for a significant portion of our global raw material costs and, in some cases, were identified as being more vulnerable to the potential impacts of climate change.

9. Nestlé reached peak carbon around 2019.

Disclaimer

This report is focused on climate-related risks and opportunities following the recommendations of the TCFD.
Further information on other ESG topics can be found in Nestlé's *Creating Shared Value and Sustainability Report 2022*.

This report contains forward-looking statements based upon current expectations and assumptions regarding anticipated developments and other factors. They are not historical facts, nor are they guarantees of future performance since they are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and various factors could cause actual performance to differ materially from that expressed or implied by these forward-looking statements. Nestlé assumes no duty to, and does not undertake to, update forward-looking statements. Nestlé aims to evolve its disclosures in the future to provide meaningful information to stakeholders by adapting it to new facts and regulation impacting the changing climate landscape.

We welcome and encourage our stakeholders to provide feedback on this report by contacting us via ir@nestle.com.

Improving access to clean drinking water in South Asia.