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Introduction to Bank's Sustainability Risk Policy in Investment Services and Activities

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General Information and Purpose

This sustainable investment policy outlines Bank's approach in identifying and managing sustainability risk in Bank's investment services and activities with clients, in compliance with the Sustainable Finance Disclosure Regulation (SFDR[1]) and other related regulatory/legislative requirements.

Sustainability risk is defined under the SFDR as "*an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment*". Consequently, it is concerned with the risk that the value of an investment could have a material negative impact as a result of environmental or social risks.

The **objective** of this policy is for the Bank to integrate certain Environmental, Social and Governance (ESG) factors (ie. ESG-related information) within its investment services processes, considering sustainability risks in investment decisions, providing relevant disclosures to clients (including appropriate periodic reporting), and where applicable ensuring the marketing of certain financial products is performed transparently and in line with regulation.

Due to the expected regulatory updates, this policy is to be reviewed and updated periodically.

Policy Statements

The Bank's approach in methodologies used or to be used to manage Sustainability Risk include, inter alia:

- the overview of the integration of sustainability risks in Bank's processes by the designated Senior Management Committee;
- the managing of sustainability risks at the Investment Committee level;
- the incorporation of Sustainability Risk in Bank's RCSAs and Compliance assessments;
- the timely implementation of arrangements for conducting the SFDR reporting requirements.

The definition of Sustainability Risk refers to environmental, social and governance events or conditions (ESG factors). Some examples of ESG risk factors are the following:

- **Environmental:** Pollution, climate change risk/opportunities, Ecosystem change, Unsustainable practices, Environmental remediation, Carbon Emissions (measurement and reporting, Resource depletion, Energy resources, etc.

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[1] **SDFR**: Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

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- **Social:** These relate to human rights and risks in operating unethical and illegal working conditions – eg. Data security and governance, Social cohesion and stability, Child and slave labour, Product safety, Health and safety practices, etc.
- **Governance:** includes transparency and integrity concerning, inter alia, Remuneration, Tax, Bribery and Corruption, lack of appropriate board oversight, etc.

The Bank has mechanisms in place, which are gradually enhanced, implementing new/revised policies so as to integrate the relevant sustainability risks, as applicable. ESG factors are considered and integrated, where applicable, into the investment decision-making processes on advised services via the due diligence conducted on relevant products (such as funds), using tools/methodologies of external rating companies. The periodic disclosure requirements are expected to become effective from the financial year commencing on 1 January 2022. Disclosure of principal adverse impacts in funds' offering documents and periodic reports are expected to become applicable as from 30 December 2022. To this effect, the Bank is to put in place relevant processes to monitor the impact of ESG risks on portfolios on an ongoing basis.

Some of the likely impacts to be addressed and monitored by the Bank in conjunction with the relevant regulatory updates/guidelines include the fact that the sustainability risks are complex, they are based on ESG data which is not standardized yet and there is a potential impact of ESG criteria on the performance (ie. ESG focus investing may perform differently than non-ESG focus investing). Another potential impact that needs to be addressed is that the sustainability risks may not correspond directly to the own ethical views of investors.

<u>Mitigation of other risks:</u>
It is noted that the Bank is dependent upon information of third parties (external rating companies) when assessing the ESG criteria on relevant products/portfolios, therefore, the Bank is to review the ESG frameworks of such third parties. Furthermore, the Bank is to arrange for the relevant training and monitoring of its own staff activities.