Policies on the integration of sustainability risks

1. Introduction

The present Policies on the Integration of Sustainability Risks is published by BANQUE RAIFFEISEN S.C., Luxembourg, a cooperative company (société coopérative) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 4, rue Léon Laval, L-3372 Leudelange, registered with the Luxembourg Trade and Companies Register under number B20128 and identified under LEI 549300F7FBD744MEP844 (hereinafter the "Bank" or "Banque Raiffeisen").

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("Sustainable Finance Disclosure Regulation – SFDR"), and in particular Article 3 ("Transparency of sustainability risk policies"), requires financial market participants and financial advisers to publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process, in their investment advice or in their insurance advice.

The present document sets out the Bank's policies for integrating sustainability risks into its investment decision-making process and its financial advice, in accordance with Article 3 SFDR. These Policies apply consistently to the investment advisory services and the discretionary portfolio management services provided by the Bank.

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2. Definition of sustainability risks

In accordance with Article 2(22) SFDR, a 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".

In the context of its investment advisory and discretionary management activities, the Bank considers that exposure to certain environmental, social or governance (ESG) factors may influence the financial performance of portfolios, either positively or negatively, depending on the nature and development of such factors. The integration of sustainability risks therefore aims to better identify and assess these potential impacts and to strengthen the long-term resilience of investments.

For this purpose, three categories of sustainability risks are distinguished:

- **Environmental risks (E):** these include, for example, risks linked to the effects of climate change (extreme weather events, changing climatic conditions), pressure on natural resources or pollution. Such risks may affect business continuity, operational costs, or the valuation of issuers' assets.
- **Social risks (S):** these relate to issues such as working conditions, respect for human rights, diversity and inclusion, and relations with stakeholders. Inadequate management of these aspects may result to social tensions, reputational risks or operational disruptions.
- **Governance risks (G):** these concern the quality of governance structures and practices in place, including the management of conflicts of interest, transparency, business ethics and anti-corruption measures. Deficiencies in governance may increase legal, regulatory or operational uncertainty and negatively affect the value of investments.

3. Integration of sustainability risks in discretionary portfolio management

In the context of its discretionary portfolio management services (R-Gestion), the Bank integrates sustainability risks both during the selection of financial instruments and through the ongoing monitoring of the positions held within clients' portfolios. The portfolio is composed exclusively of investment funds and exchange-traded funds (ETFs) and is limited to these asset classes.

The Bank has defined its risk management framework, setting out the approach, the factors considered and the applicable thresholds. The Bank receives product selection recommendations from an external investment adviser, who strictly applies the framework established by the Bank to ensure the integration of sustainability risks. This also ensures the alignment of proposed product selections with the Bank's framework. The Bank applies this framework consistently across all discretionary mandates.

The integration of sustainability risks relies on risk indicators and exclusion criteria defined by the Bank. These risk indicators and exclusion criteria are described in Section 5 of this policy.

3.1. ***Monitoring of financial instruments***

The instruments held in clients' portfolios are reviewed at least quarterly to verify compliance with the defined risk indicators, exclusion criteria, and applicable rules. Additional reviews may also be conducted in the event of a material incident detected by the Bank. The implementation of continuous monitoring is planned for the end of 2027, following the deployment of the IT solutions currently under development.

In the event of non-compliance with one of the criteria, a qualitative assessment is carried out jointly by the Bank's Investment Desk and the external investment adviser to obtain a reasoned explanation for the misalignment. This assessment, together with the decision and implementation of the divestment, is conducted within a maximum period of three months[1] and include: (i) a review of the fund's ESG and exclusion strategy, (ii) contact with the fund manager to obtain clarifications and a remediation timeline, and (iii) the consideration of plausible explanations (e.g. methodological differences, differing data providers, ongoing portfolio rebalancing, etc.). During this period, the Bank does not increase the weighting of the financial instrument concerned in discretionary portfolios.

At the end of this assessment phase:

- If no satisfactory explanation can be provided to qualitatively confirm an alignment with the internal framework, the Investment Desk issues an unfavourable opinion. The Bank then proceeds with the divestment, removes the fund from the investment portfolios and informs clients in the quarterly discretionary management report.
- If the assessment is deemed satisfactory, the case is reviewed by the ESG Department to determine whether the position should be maintained:
    - If the ESG Department issues a favourable opinion, the investment is validated for a maximum period of one year, subject to enhanced monitoring;

[1] *In the client's interest, this period may exceptionally be extended to six months to avoid a tax disadvantage.*

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   - If the ESG Department issues an unfavourable opinion, the Bank proceeds with the divestment, removes the fund from the investment portfolios and informs clients in the quarterly discretionary management report. However, if the Investment Desk considers that maintaining the investment remains justified based on specific considerations, the case may be submitted to the Bank's Investment Products Committee (IPC) for decision:
     - If the IPC issues a favourable opinion, the investment is validated for a maximum period of one year, subject to enhanced monitoring;
     - If the IPC issues an unfavourable opinion, the Bank proceeds with the divestment and removes the fund from clients' portfolios, informing clients in the quarterly report

All decisions (maintenance or removal) are documented and implemented in accordance with the Bank's exclusion framework and operational constraints. In addition, the Bank prepares an annual report on the cases addressed under this procedure, which is presented to the IPC for information.

4. Integration of sustainability risks in investment advice

In the context of its investment advice, the Bank integrates sustainability risks into the selection of financial instruments recommended to clients and in their subsequent monitoring. The scope covers:

- bonds and structured products (assessment at issuer level and, where relevant, at the level of the reference asset);
- investment funds and ETFs (product-level assessment based on an analysis of the underlying investments).

The risk management framework used for investment advice is aligned with that used for discretionary management. The difference lies in the range of instruments covered: discretionary management is limited to investment funds and ETFs, whereas investment advice also covers bonds and structured products.

Sustainability risks are considered prior to any selection and are monitored thereafter, based on the risk indicators and exclusion criteria described in Section 5 of this Policy, before including a financial instrument within the advisory universe.

4.1. *Monitoring of financial instruments*

The advisory universe is reviewed at least quarterly to verify compliance with the defined risk indicators, exclusion criteria, and applicable rules. Additional reviews may be conducted in the event of a material incident detected by the Bank. The implementation of continuous monitoring is planned for the end of 2027, following the deployment of the IT solutions currently under development.

The monitoring approach used for investment advice is aligned with that implemented for discretionary management, while being adapted to the nature of each instrument. Accordingly, when a financial instrument is identified as non-compliant with any of the risk indicators or exclusion criteria set out in this Policy, a maximum of one week is allowed before temporarily suspending it from the advisory universe.

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Several scenarios may then arise:

- **Bonds & structured products**:

Where non-compliance is confirmed at issuer level, the instrument is removed from the advisory universe. The associated decision is documented.

- **Investment funds and ETFs**:

A qualitative assessment is carried out by the Bank's Investment Desk within a maximum period of three months. This assessment includes: (i) a review of the fund's ESG and exclusion strategy, (ii) contact with the fund manager to obtain clarifications and a remediation timeline, and (iii) the consideration of plausible explanatory factors (e.g. methodological differences, ongoing portfolio rebalancing, etc.). During this assessment and the Bank's decision, the fund concerned is suspended from investment advice for a maximum period of one week, until the Bank completes its assessment and takes a decision.

At the end of this assessment phase:

- If no satisfactory explanation is provided to confirm a return to alignment with the internal framework, the fund is removed from the advisory universe.
- If the Investment Desk issues a favourable opinion, the case is reviewed by the ESG Department to determine whether the fund should be maintained:
    - If the ESG Department issues a favourable opinion, the fund's inclusion in the advisory universe is validated for a maximum period of one year, subject to enhanced monitoring.
    - If the ESG Department issues an unfavourable opinion, the fund is removed from the advisory universe. However, if the Investment Desk considers that maintaining the fund remains justified based on specific considerations, the case may be submitted to the Bank's Investment Products Committee (IPC) for decision:
        - If the IPC issues a favourable opinion, the fund's inclusion in the advisory universe is validated for a maximum period of one year, subject to enhanced monitoring;
        - If the IPC issues an unfavourable opinion, the fund is removed from the advisory universe.

All decisions (maintenance or removal) are documented and implemented in accordance with the Bank's exclusion framework and operational constraints. In addition, the Bank prepares an annual report on the cases addressed under this procedure, which is presented to the IPC for information.

5. Risk indicators and exclusion criteria

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The integration of sustainability risks within the Bank relies on two complementary mechanisms:

- **ESG risk indicators:** used to identify issuers with a high exposure to, or insufficient management of, ESG risks and opportunities;
- **Exclusion criteria:** applied to exclude financial instruments that do not comply with international norms or whose exposure to certain activities exceeds the thresholds defined by the Bank. These criteria include both normative exclusions and exclusions based on specific ESG criteria.

The Bank relies on data and indicators provided by MSCI ESG Research. Percentages relating to exposure to excluded activities are calculated using a standard rounding method[2].

All risk indicators and exclusion criteria applied by the Bank are presented below.

5.1. ESG risk indicators

Indicator	Explication	Application Criteria	
		Funds and ETFs ***(applicable to discretionary management and investment advice)***	**Bonds and structured products** ***(applicable to investment advice only)***
ESG Rating	The MSCI ESG Rating assesses the extent to which an issuer or a portfolio is exposed to sustainability-related risks and opportunities, and how effectively these are managed. The rating ranges from AAA (Leader) to CCC (Laggard), with lower ratings reflecting a higher exposure to material sustainability risks that are not adequately managed. At issuer level (companies or sovereigns), the ESG Rating evaluates the management of the key environmental, social and governance risks and opportunities deemed material for the relevant sector. It enables a comparison of how effectively an issuer manages sustainability risks relative to its peers, using the same AAA to CCC scale. At fund and ETF level, the ESG Rating reflects the ESG quality of the underlying issuers (companies or sovereigns) held within the portfolio. MSCI applies a look-through approach: all positions held in the fund are analysed, and the ESG Ratings of the underlying issuers are aggregated into a	Funds and ETFs with an MSCI ESG Rating of "B" or "CCC" are excluded.	Issuers or reference assets rated "B" or "CCC" are excluded.

[2] *Percentage values are rounded to the nearest whole number according to the following rule: values equal to or below X.49 are rounded down to X; values equal to or above X.50 are rounded up to X+1.*

Indicator	Explication	Application Criteria **Funds and ETFs** *(applicable to discretionary management and investment advice)*	 **Bonds and structured products** *(applicable to investment advice only)*
	weighted average score, which is then converted into a letter rating (AAA to CCC). The Bank uses these ratings as an indicator to assess the extent to which an issuer or, in the case of a fund, the issuers of the underlying financial instruments are able to identify and manage material sustainability risks.		
ESG Controversies	Very severe controversies indicate major shortcomings that may result in significant legal, regulatory or operational risks. The severe controversy indicator assesses whether a company is involved in one or more ongoing very severe controversies relating to the environment, customers, human rights, labour rights, or governance. For issuers, controversy severity is classified using a four-level scale: Green, Yellow, Orange and Red Flag, the latter representing the highest level of severity. For funds and ETFs, the indicator measures the percentage of the fund's market value exposed to companies facing one or more very severe controversies. This makes it possible to assess the extent to which a fund is indirectly exposed to material ESG-related controversies.	Funds and ETFs that, after applying the standard rounding method, show an exposure strictly greater than 0% to companies involved in one or more very severe ESG controversies are excluded.	Issuers or reference assets classified as "Red Flag" (very severe controversy) are excluded.

5.2. *Exclusion criteria*

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Criteria	Explication	Application Criteria: Funds and ETFs *(applicable to discretionary management and investment advice)*	Application Criteria: Bonds and structured products *(applicable to investment advice only)*
Controversial Weapons	Due to the humanitarian risks and the nature of the activities involved, exposure to companies directly involved in the development, production, sale, or financing of controversial weapons, including landmines, cluster munitions, chemical and biological weapons, or generating revenue from these activities, is excluded from the investment universe.	Funds and ETFs showing strictly greater than 0% exposure, after applying the standard rounding method, to issuers related to controversial weapons are excluded.	Issuers or reference assets related to controversial weapons are excluded.
Nuclear Weapons	Companies involved in the production of nuclear weapons, essential components, launch systems, or associated support services are exposed to high sustainability and reputational risks.	Funds and ETFs showing strictly greater than 10% exposure, after applying the standard rounding method, to issuers related to nuclear weapons are excluded.	Issuers or reference assets for which more than 10% of revenue, after applying the standard rounding method, comes from nuclear weapons are excluded.
Violations of International Norms	Companies that are in clear violation of the principles of the UN Global Compact or the OECD guidelines face high risks related to human rights, labour standards, environment, and governance.	Funds and ETFs showing strictly greater than 0% exposure, after applying the standard rounding method, to companies in violation of international norms are excluded.	Issuers or reference assets with a "Fail" status, meaning identified as in violation of international norms, are excluded.
Tobacco	The tobacco sector is associated with particularly high health, social, and regulatory risks. For funds and ETFs, the indicator measures the proportion of the portfolio exposed to companies that derive a significant portion of their revenue from tobacco.	Funds and ETFs with greater than 5% exposure* to tobacco, after applying the standard rounding method, are excluded. *Weighted average of maximum revenue percentage derived from tobacco-related companies	Issuers or reference assets with more than 5% of revenue, after applying the standard rounding method, coming from tobacco-related activities are excluded.
Thermal Coal	Thermal coal, a high-emission fossil fuel, is incompatible with global decarbonisation efforts. The Bank aims to reduce transition risks by avoiding significant exposure to companies highly dependent on thermal coal. For funds and ETFs, the indicator measures the portfolio's exposure to companies deriving a significant part of their revenue from the extraction or sale of thermal coal.	Funds and ETFs showing greater than 0% exposure, after applying the standard rounding method, to companies identified as involved in thermal coal (defined by a "highly restrictive" filter, i.e., deriving more than 10% of their revenue from thermal coal) are excluded.	Issuers or reference assets for which more than 10% of revenue, after applying the standard rounding method, comes from the extraction and sale of thermal coal are excluded.

Criteria	Explication	Application Criteria	
		Funds and ETFs ***(applicable to discretionary management and investment advice)***	**Bonds and structured products** ***(applicable to investment advice only)***
High Impact Fossil Fuel Reserves	To support the energy transition and reduce long-term climate risks, the Bank excludes companies operating high-impact fossil fuel reserves, such as tar sands, shale oil, and gas, and thermal coal. For funds and ETFs, the indicator measures the portfolio's exposure to companies holding such reserves.	To support the energy transition and reduce long-term climate risks, the Bank excludes companies operating high-impact fossil fuel reserves, such as tar sands, shale oil, and gas, and thermal coal. For funds and ETFs, the indicator measures the portfolio's exposure to companies holding such reserves.	Issuers or reference assets for which more than 10% of revenue, after applying the standard rounding method, comes from the extraction of high-impact fossil fuels are excluded.

5.3. Specific cases

For instruments issued by sovereign states, sub-sovereign public entities, public agencies, supranational institutions (SSA), or equivalent entities, the indicators used to assess corporate issuers are not applicable.

In such cases, the assessment of sustainability risks is based on the sovereign/SSA ESG rating from MSCI. Instruments whose sovereign/SSA issuer has an MSCI ESG rating of “B” or “CCC” are ineligible for inclusion in the advisory universe.

In the absence of data and when no coverage is available, these products undergo a qualitative assessment to identify potential ESG risks and assess their compliance with the Bank’s exclusion criteria. This assessment follows the same decision-making and governance steps as those described in Sections 3.1 and 4.1 concerning the monitoring of financial instruments.

6. Publication, effective date and revision

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This policy is published on the Bank's website for transparency regarding the management of sustainability risks, in accordance with Article 3 of the SFDR.

Version history

Version	Date	Reason and Scope of Changes
1.0	12.05.2023	SFDR requirements
2.0	01.12.2025	Update of the sustainability risk integration approach (framework, factors and thresholds), extension to investment advice and procedural clarifications.

Effective operational date

The practical application of the adjustments described in this version will be effective as of ***12 January 2026***. Until then, the Bank will apply the existing framework, with a transitional monitoring process as described.

Revision

The policy is subject to annual review. Ad hoc updates may occur at any time to account for regulatory changes, market practices, the availability/quality of ESG data, or decisions made by governance bodies. Any substantial changes will be communicated accordingly.