Statement on principal adverse impacts of investment decisions on sustainability factors

Summary

Please find also the French and German versions of the Summary.

Banque Internationale à Luxembourg, LEI 9CZ7TVMR36CYD5TZBS50, considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Banque Internationale à Luxembourg and its subsidiary BIL Manage Invest S.A.(the Group or BIL). This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022.

This statement describes how the Group considers Principal Adverse Impacts (PAIs) of its investment decisions on sustainability factors, and summarises our investment due diligence policies in respect of the associated processes. In order to address these regulatory reporting requirements under Article 4 of the SFDR and Chapter II of the RTS, BIL hired KPMG to prepare the calculation of the PAI indicators for the first annual PAI report for the calendar year of 2022. For further information on KPMG calculation, namely the assumptions and methodology used, please refer to the Annex of this document page 19.

Based on the results of the discussions and analyses on the portfolio of BIL, the feasibility of the BIL PAI reporting scope was determined. As such, the calculations were conducted only for discretionary mandates as well as all investments in BIL Invest SICAV (BIL's in-house funds) held by BIL Manage Invest (BMI). All other funds held by BMI were not included in the scope of the PAI calculations as most of non-BIL Article 8 and Article 9 funds are alternative funds for which ESG data are not yet available.

The quarterly snapshots for financial year 2022 give the following portfolio composition:

Investee Funds (indirect)	Investee Companies (direct)	Sovereign	Other
BIL LU (Discretionary Portfolio Mandates)			
55.82%	37.12%	3.81%	3.25%
BIL Manage Invest (BMI)			
83.99%	15.93%	0.07%	0.0002%

This decision is predominantly driven by the current limitations in data availability and data quality, which are deemed substantial. The investment portfolio in scope for the PAI reporting encompasses major part of BIL's portfolio of indirect investments, mainly via UCIs. When it come to UCIs, BIL's access to PAI via the European ESG Template (EET), a non-compulsory disclosure that is only provided, so far, by a limited number of manufacturers for their Article 8 and 9 compliant funds. Consequently, the current data coverage is deemed inadequate.

In relation to direct investments, such as equities and bonds, current data availability is better. However, it is important to acknowledge that these types of financial instruments account minor part of our overall investment portfolio. While the data for direct investments is more accessible and reliable, it is essential to address the remaining major part of indirect investments. Enhancing the data quality and availability for these indirect investments is critical in order to achieve a comprehensive understanding of our entire investment landscape and accurately assess their environmental, social, and governance impact. To avoid significant discrepancies in the future reporting, BIL has made the decision not to employ any proxies for the purpose of PAIs calculation and has based its report solely on real and available data. We anticipate that data quality and availability will improve in the coming years, which will lead to the better coverage of impact results.

To assess the potential remediation options for the PAIs, our initial approach entails ongoing monitoring throughout 2023. Additionally, we will conduct an evaluation of the materiality of each PAI, considering their significance to our organization at entity level. This evaluation will enable us to identify the key PAIs that we consider essential at the entity level. By prioritizing these PAIs, we aim to focus our resources and efforts on areas that have the greatest impact on our ESG performance and align with our strategic objectives. This process will further refine our approach to reporting and enhance our ability to effectively monitor and remediate PAIs. It is important to highlight that, for some specific in-house products falling under either article 8 or article 9, the prioritization of selected PAIs may deviate from those determined at the entity level.

Given the aforementioned circumstances, BIL's objective is to closely monitor the evolution of PAIs, with a plan to review its position and engage in a reflective process in 2023 and following years. This review will encompass possible adjustments to the overall PAI approach or the establishment of specific Environmental, Social, and Governance targets.

BIL addresses key negative impacts through a wide range of methods from PAIs consideration, ESG scoring models, ESG analysis, norms offences diagnostic, and controversial activities exclusion. Due diligence procedures are part of a broader investment process that considers ESG risks management along with any positive impact of ESG decisions. BIL is continuously seeking additional ways to consider adverse impacts in a robust and meaningful way. The methodology used for the PAI consideration will include further enhancements of existing procedures and processes, focusing on expanding PAI data sources and the prioritization and review of PAIs in accordance to BIL's firm-wide sustainable development priorities. BIL has put in place the governance process, to ensure transparency and reporting about PAIs. The ESG Strategic Committee evaluates and approves the PAI report at least once a year and steers and monitors BIL's ESG journey. BIL ensures that its relationship and investment professionals are trained regarding sustainability issues, and it frequently reaches out to ESG experts for advice on issues.

This statement excludes assets and products that are issued or held at the explicit request of our clients outside of any discretionary mandates or BIL's in-house funds (such as advisory mandates, "execution only" business service, custody assets, external asset managers, etc.).

Description of the principal adverse impacts on sustainability factors

The SFDR requires mandatory reporting of PAI indicators, which are divided into a “core set of universal mandatory indicators” and “additional opt-in indicators”. BIL considers all mandatory PAIs from [Table 1 of Annex I of the SFDR], and 2 additional PAIs: one additional indicator from environment-related indicators, as set out in [Table 2 of Annex I of the SFDR], and one additional indicator for anti-corruption and anti-bribery matters, as set out in [Table 3 of Annex I of the SFDR].

In the table below we have listed the PAIs and the related actions by BIL.

Indicators applicable to investments in investee companies							
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	168 406.82	N/A	This indicator has a coverage of 0.98% for indirect investments and 36.38% for direct investments. The eligibility of of this indicator is 67.59%.	Throughout the 2022 BIL performed the monitoring of the Greenhouse gas emissions indicators in its investment portfolio. In light of the limited data availability and coverage, the impact is deemed as inadequate. BIL's primary objective is to continue closely monitor the development of PAIs. Additionally, in 2023, we will conduct a thorough evaluation of the materiality of each PAI and identify the key indicators. As part of this process, we will continue to work expending access to data and consider engaging with underlying investments
		Scope 2 GHG emissions	52 081.82	N/A	This indicator has a coverage of 0.97% for indirect investments and 33.31% for direct investments. The eligibility of of this indicator is 67.59%.	
		Scope 3 GHG emissions	2 477 613.14	N/A	This indicator has a coverage of 1.61% for indirect investments and 33.81% for direct investments. The eligibility of of this indicator is 67.37%.	
		Total GHG emissions	2 700 125.63	N/A	This indicator has a coverage of 3.55% for	

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
					indirect investments and 38.14% for direct investments. The eligibility of of this indicator is 67.25%.	
	2. Carbon footprint	Carbon footprint	774.56	N/A	This indicator has a coverage of 0.89% for indirect investments and 38.14% for direct investments. The eligibility of of this indicator is 67.25%.	
	3. GHG intensity of investee companies	GHG intensity of investee companies	104.44	N/A	This indicator has a coverage of 1.54% for indirect investments and 28.90% for direct investments. The eligibility of of this indicator is 67.14%.	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	1.93%	N/A	This indicator has a coverage of 1.46% for indirect investments and 38.14% for direct investments. The eligibility of of this indicator is 67.44%.	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources	3.79% (consumption)	N/A	This indicator has a coverage of 0.86% for indirect investments and 92.81% for direct investments. The eligibility of of this	

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
		compared to renewable energy sources, expressed as a percentage of total energy sources			indicator is 66.96%.	
			0.59% (production)	N/A	This indicator has a coverage of 0.17% for indirect investments and 93.15% for direct investments. The eligibility of of this indicator is 66.63%.	
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.000 (NACE A)	N/A	This indicator has a coverage of 0.13% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 57.17%.	
			0.088 (NACE B)	N/A	This indicator has a coverage of 0.19% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 62.63%.	
			0.006 (NACE C)	N/A	This indicator has a coverage of 0.42% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 60.00%.	

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
			0.022 (NACE D)	N/A	This indicator has a coverage of 0.17% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 55.73%.	
			0.003 (NACE E)	N/A	This indicator has a coverage of 0.24% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 62.12%.	
			0.000 (NACE F)	N/A	This indicator has a coverage of 0.24% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 59.15%.	
			0.002 (NACE G)	N/A	This indicator has a coverage of 0.22% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 57.62%.	
			0.007 (NACE H)	N/A	This indicator has a coverage of 0.15% for indirect investments and 28.32% for direct	

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
					investments. The eligibility of of this indicator is 59.39%.	
			0.002 (NACE L)	N/A	This indicator has a coverage of 0.15% for indirect investments and 28.32% for direct investments. The eligibility of of this indicator is 60.51%.	
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.16%	N/A	This indicator has a coverage of 1.22 % for indirect investments and could not be calculated for direct investments due to lack of data. The eligibility of of this indicator is 63.58%.	BIL evaluates the materiality of biodiversity for our portfolios, and the impact of our portfolios on biodiversity. Based on such evaluation BIL will decide if any quantified targets will be set.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	401.29	N/A	This indicator has a coverage of 0.21% for indirect investments and 94.42% for direct investments. The eligibility of of this indicator is 67.13%.	Given the current limited coverage of emissions to water, BIL is not able to perform any actions. BIL will continue to monitor the evolution of this PAI and will evaluate the materiality.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	11.82	N/A	This indicator has a coverage of 0.41% for indirect investments and 91.07% for direct investments. The eligibility of of this indicator is 67.13%.	Given the current limited coverage of hazardous waste and radioactive waste ratios BIL is not able to perform any actions. BIL will continue to monitor the evolution of this PAI and will evaluate the materiality.

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	12.67%	N/A	This indicator has a coverage of 0.63% for indirect investments and 97.63% for direct investments. The eligibility of of this indicator is 65.26%.	BIL supports the human rights principles described in the United Nations Global Compact (UNGC) Principles, and is guided by these international standards to assess the behavior of companies. In order to mitigate severe breaches in its investment portfolios, BIL's exclusion policy is applied. For the products and services managed directly by BIL, without third-party intervention, we exclude companies that violate the United Nations Global Compact Principles covering human rights, labor rights, environment and corruption & bribery considerations. BIL's exclusion policy excludes direct investment in companies having an exposure to the controversial activities. However, those exclusions do not apply to the underlying assets of the indirect investment (via UCIs for example) or in case of mandates or products that are

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
						advised or managed by a third party. In 2023 BIL will review the investments in the companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises, and in case if no improvements will be noticed, the objective of BIL will be to redeem these investments, with consideration of our investors' best interests, taking into account investment alternatives, market conditions, liquidity and portfolio construction constraints.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	2.77%	N/A	This indicator has a coverage of 1.01% for indirect investments and 60-54% for direct investments. The eligibility of of this indicator is 67.84%.	BIL supports the human rights principles described in the United Nations Global Compact (UNGC) Principles, and is guided by these international standards to assess the behavior of companies. In order to mitigate severe breaches in its investment portfolios, BIL's exclusion policy is applied. BIL excludes companies that violate the United Nations Global Compact Principles covering human rights, labor rights, environment and corruption &

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
						bribery considerations. BIL will continue to apply the exclusion policy on all its direct investments, and is targeting to monitor the evolution of this PAI.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	4.59%	N/A	This indicator has a coverage of 0.62% for indirect investments and 12.00% for direct investments. The eligibility of of this indicator is 63.81%.	Given the current limited coverage of this PAI, BIL is not able to perform any actions. BIL will continue to monitor the evolution of this PAI, evaluate the materiality.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	6.06%	N/A	This indicator has a coverage of 1.01% for indirect investments and 38.96% for direct investments. The eligibility of of this indicator is 67.23%.	Gender diversity on all levels enhances corporate governance, talent attraction and human capital development, which improves value creation. Assessment of board gender diversity is an important component, however given the current limited coverage of this PAI, BIL is not able to perform any actions. BIL will continue to monitor the evolution of this PAI, evaluate the materiality.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical	Share of investments in investee companies involved in the manufacture or selling of	0.01%	N/A	This indicator has a coverage of 1.50% for indirect investments and 42.37% for direct investments.	In order to mitigate the exposure to controversial weapons in its investment portfolios, BIL's exclusion policy is applied. When the

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
	weapons and biological weapons)	controversial weapons			The eligibility of of this indicator is 68.22%.	companies are directly involved in the business of controversial weapons (development, testing, maintenance and sale) because of their indiscriminate effects and the disproportionate harm they cause (anti-personnel landmines, cluster bombs, depleted uranium weapons, chemical weapons, biological weapons and white phosphorous weapons), BIL excludes direct investments in such companies. This principle is applicable for any involvement, regardless of the sales/revenues derived from it, with the exception of 5% sales/revenues threshold for white phosphorous weapons to acknowledge the fact that phosphorous is a dual use substance. BIL will continue to apply the exclusion policy on all its direct investments, and is targeting to monitor the evolution of this PAI.

Indicators applicable to investments in sovereigns and supranationals					
Adverse sustainability indicator	**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for**

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
						the next reference period
Environmental	15. GHG intensity	GHG intensity of investee countries	6.34	N/A	This indicator has a coverage of 0.20% for indirect investments and 100% for direct investments. The eligibility of this indicator is 11.71%.	BIL is leveraging information provided by third party to assess countries' performance on "natural Capital". It includes the integration of the difference between emissions target of national commitment and climate scenarios. We measure a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change and rank countries based on the amount of annual percentage reductions in GHGs each requires in order to meet their reduction commitments.
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	1 (absolute)	N/A	These indicators have a coverage of 100% for direct investments but could not be calculated for indirect investments due to EET limitations. As a result, the eligibility of of this indicator is 2.39% as the eligibility of underlying assets from indirect investments could not be computed.	BIL is leveraging information provided by third party to assess countries' performance on "social Capital" It includes the integration of the political violence assessment by measuring the intensity and frequency of acts of politically motivated violence, including terrorism, conflict and civil unrest and the negative impacts of this strife on the society in which it occurs. We also assess the severity of
			4.76% (relative)	N/A		

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
						international and non-international armed conflict.

Indicators applicable to investments in real estate assets						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	-	N/A	Could not be calculated due to lack of data and scope of PAI calculations for 2022.	In the investments that are in scope of these calculations, there were no real estate assets
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	-	N/A	Could not be calculated due to lack of data and scope of PAI calculations for 2022.	In the investments that are in scope of these calculations, there were no real estate assets

Other indicators for principal adverse impacts on sustainability factors						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Emissions	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	-	N/A	Could not be calculated due to lack of data and scope of PAI calculations for 2022.	Throughout 2022, BIL performed the monitoring of the companies' carbon emission indicators in its investment portfolio. In light of the limited data availability and coverage, the impact is deemed as inadequate. BIL's primary objective is to continue closely monitor the

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
						development of PAIs. Additionally, in 2023, we will conduct a thorough evaluation of the materiality of each PAI and identify the key indicators. As part of this process, we will continue to work expending access to data and consider engaging with underlying investments
Anti-corruption and anti-bribery	Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	-	N/A	Could not be calculated due to lack of data and scope of PAI calculations for 2022.	Throughout 2022, BIL performed the monitoring of the companies' policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption. In light of the limited data availability and coverage, the impact is deemed as inadequate. BIL's primary objective is to continue closely monitor the development of PAIs. Additionally, in 2023, we will conduct a thorough evaluation of the materiality of each PAI and identify the key indicators. As part of this process, we will continue to work expending access to data and consider engaging with underlying investments

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

While reviewing investment opportunities, BIL addresses key negative impacts through a wide range of methods from PAIs consideration, ESG scoring models, ESG analysis, norms offences diagnostic, and controversial activities exclusion. The processes and methods in relation to the PAI consideration and management were integrated in the existing investment related policies of the bank. These policies were amended and validated by the respective committees throughout 2022.

BIL's ESG integration processes are carried out in the pre-investment phase as well as during the investment timeframe in order to identify sustainability impacts.

With regards to actively proposed securities, our due-diligence procedures are part of a broader investment process which considers environmental, social and governance risk management along with any positive impact of ESG decisions. With regards to specific BIL's in-house products which are classified as Article 8 or Article 9 the portfolio and investment managers may choose to prioritise certain PAIs. If these products involve external third-party fund management, BIL has enhanced its existing third-party fund management due diligence procedures to include a focused PAI outreached process. Periodically, third-party managers are asked series of questions designed to identify the current and potential PAIs consideration of funds/strategies and whether and how the fund managers intend to prioritize and reduce those PAIs. Once the due-diligence process is complete, this information will be made available to BIL's portfolio and investment management team for consideration as part of their investment decision-making and external fund/fund manager selection process.

The responsibility for the implementation of those policies within organisational strategies and procedures is allocated on the several levels.

As a first line of defence, the Portfolio Manager is responsible to assess the ESG risks of any security added into portfolios and/or funds he/she is responsible for. He/she will therefore control the ESG characteristics of the securities as well as its impact on portfolio/fund global ESG characteristics, as well as PAIs. He/she will also monitor on an-ongoing basis the evolution of respective ESG and PAI evolution.

The ESG Officer has as central role in the overview of BIL's responsible investment processes. He/she reports to the Chief Investment Officer and is responsible to make an ex-post control of ESG characteristics, for any securities/funds added into the BIL Group Investment Universe, as well as monitoring the evolution of portfolio/fund exposure to PAI. In case of disagreement, the ESG Officer can make an escalation to the Chief Investment Officer who has a veto right on any investment decision.

In any case, decisions are made in accordance with BIL's "Sustainability Risk Policy", respecting BIL's Exclusion Policy. All maintained and excluded companies are documented to ensure transparency and reporting. The exclusion policy is applied based on available information. The exclusion-list is prepared using information from external data providers on periodic review, and although a qualitative review is performed, BIL could not be responsible for the accuracy of this data.

Additional internal analyses are done on a regular basis on the controversial behavior aspects. The results of these analysis are presented to the Asset Liability Committee on a quarterly basis or to the Investment Office's Portfolio Construction Committee, who recommends, in case of material changes of the company's ability to comply to our inclusion requirements, the presentation of the case to the Executive Committee or Internal Control Committee and to the ESG Strategic Committee, who ratifies final decision. The ESG Officer also presents on a quarterly basis the ESG status to the Head of Sustainable development department and/or to the ESG Strategic Committee.

By 30th June each year, BIL as an entity will report on principal adverse impacts as required by SFDR. The ESG Strategic committee will oversee BIL's consideration of PAI and will evaluate and approve the PAI report at least once a year.

The ESG Strategic Committee is a strategic cross-functional committee, including the Head of Strategy and Financial Markets*, the Chief Risk Officer*, BIL Group Chief Investment Officer as well as the Head of Sustainable Development. It steers and monitors the ESG Journey of the bank.

The way BIL can practically consider the PAIs as an entity, depends on various aspects such as asset class, type of investment instruments, investment objectives, the type of services and the availability of reliable data, as significant gaps still exist between the level and type of information provided and reported by the companies on sustainability matters. We are and will be continuously seeking additional ways to consider adverse impacts in a robust and meaningful way.

*Members of the Executive Committee

Margin of error with our methodologies

The calculation of PAI indicators is inherently reliant on the data availability and quality. The data we receive from investee companies and third-party providers is reviewed and assessed for the purposes of data quality control to the extent possible. In this context, the calculations are done on a best-effort basis.

As may be observed in the calculated PAI indicators above, the limited data availability for indirect investments, e.g., fund-of-fund investments, poses a severe limitation on the data coverage. BIL is committed to improving this data availability by further engaging with relevant stakeholders to improve the data quality and availability for indirect investments.

Data Sources

The calculation of the PAI indicator was completed on the basis of a range of data, including values, scores and weights sourced from investee companies and third-party data providers. As a summary, the following data sources may be highlighted for the different types of assets:

For direct investments in investee companies, the required ESG data was sourced from ESG Data Provider

For indirect investments in investments funds, the required ESG data was sourced from EET extracts

For investments in sovereign sovereigns and supranationals, the required ESG data was sourced from publicly available data points including the World Bank, the Emissions Database for Global Atmospheric Research (EDGAR) and the 'Varieties of Democracy' (V-Dem).

We apply various measures to control the data quality, both third-party and internal. The external data providers and other data sources are assessed on an ongoing basis for data quality, coverage and other attributes.

More information about the external data sources used is available upon request.

Engagement policies

As of today, BIL does not engage with investee companies on sustainability-related matters.

Being committed to combine financial performance with environmental and social responsibility, as well as sound governance practices, our broad priorities are to enhance our competence and knowledge regarding ESG aspects relevant for investment in relation to our products. We are also committed to improving our products to enable our customers to make informed decisions on ESG, in accordance with their preferences, and to be transparent of such aspects and impacts.

PAIs reporting will guide us to define our engagement policy, both directly and through collaborative initiatives. Our objective is to select engagement themes as well as to identify investee companies in which proxy voting could alleviate insufficient progress in reduction of the principal adverse impacts.

Expecting investee companies to pay due care and attention to social and environmental factors that could incur a material financial cost at some point down the line, we believe that collaborative engagement and proxy voting are both parts of the toolbox to roadmap alignment and productive discourse on the issues at hand.

As such, while being aware that some of the goals we have set ourselves are necessarily aspirational, part of our sustainable roadmap is to publicize our engagement priorities and corporate stewardship beliefs.

References to international standards

As a signatory to the UNEP FI (UN Environment Programme Finance Initiative) Principles for Responsible Banking and to the UN Global Compact principles, BIL is committed to working towards the goals of the United Nations 2030 Agenda for Sustainable Development and the Paris Agreement.

BIL is a founding member of LuxFLAG, an independent and international non-profit association created in 2006 by private and public founding partners to support sustainable finance. BIL is also a founding member of IMS. IMS, Inspiring More Sustainability, has been the leading network of Luxembourg companies involved in Corporate Social Responsibility (CSR) for more than 10 years.

BIL's corporate social responsibility is independently assessed every three years by the Institut National pour le Développement durable et la Responsabilité sociale des entreprises (INDR – National Institute for Sustainable Development and Corporate Social Responsibility). A label is thus awarded following a two-day audit carried out by a specialised consultancy commissioned by the INDR. On 18 November 2021, BIL was again awarded this label.

BIL also believes in the value of collaborating with other investors. Therefore, BIL actively works in industry associations in order to advance sustainable investing practices. BIL is an active participant for instance on initiatives from the ABBL (the Luxembourg Bankers' Association) related to ESG Financial Markets, ESG Risks, Taxonomy and Labels, Corporate Social Responsibility, Financial Education, and Diversity). BIL is also a signatory to the most stringent charters in terms of corporate social responsibility, the Luxembourg Diversity Charter.

In addition, BIL adheres to voluntary due diligence and reporting standards, including UN Global Compact and GRI's sustainability reporting framework. As such, in 2022 BIL has published its first report according to GRI standards in order to increase the transparency of its impact on the economy, environment and people.

Although, BIL is firmly committed to actively contribute to the objectives outlined in the Paris Agreement, demonstrating its dedication to achieving net zero carbon emissions by 2050, it is important to recognize that we are still in the early stages of this transformative journey. In July 2022, BIL established its Environmental, Social, and Governance (ESG) Business ambition, which entails acting as a key transition facilitator. This strategic move aims to support the bank's individual and corporate clients throughout their transition journeys, while also progressively adapting BIL's ESG Investment and Daily banking offerings in accordance with market dynamics and client demand.

As BIL embarks on this transformative path, it is currently in the process of translating its high-level ambition into concrete targets as part of the bank's overall strategy. Additionally, developing a robust methodology and acquiring reliable data to accurately measure our alignment with the Paris Agreement objectives will be crucial.

Our sustainability roadmap will continue to include the ambition to diagnostic and adhere to a selected number of international collaborative statements, dialogues and networks that focus on advancing the practice of responsible investment and sustainable development.

Historical comparison

A historical comparison of the period reported on with the previous reported period will be made as of 2024.

Annex:
Principal Adverse Impact (PAI)
KPMG Calculations: Assumptions and Methodology

Table of Contents

1. Context and Regulation

The Commission Delegated Regulation (EU) 2022/1288 supplements the Sustainable Finance Disclosure Regulation (EU) 2019/2088 with additional requirements regarding the disclosures applicable to Financial Market Participants (FMPs). In particular, the Delegated Regulation (referred to as "RTS" hereafter) contains the additional requirements regarding the SFDR Article 4 disclosure requirements on the Principal Adverse Impacts (referred to as "PAIs" hereafter) on sustainability factors. As an FMP based in Luxembourg with over 500 employees, Banque Internationale à Luxembourg (BIL) falls under the requirements of Article 4 of the SFDR and therefore needs to report on PAIs at entity level on an annual basis. As the RTS entered into force on 1st of January 2023, entities reporting on PAIs need to publish their first PAI report by 30th of June 2023 for the reference period from 1st of January to 31st of December 2022.

In order to address these regulatory reporting requirements under Article 4 of the SFDR and Chapter II of the RTS, BIL hired KPMG to prepare the first annual PAI report for the calendar year of 2022

The purpose of this document is to disclose the assumptions and methodology that were used by the KPMG team to calculate the PAI indicators for BIL as a part of their first PAI report. The methodology that the KPMG team used are in line with the RTS and assumptions were only taken when the regulation leaves room for interpretation given the specific details of the BIL portfolio and the data sources available to compute the PAI indicators. All assumptions were discussed and validated by BIL.

KPMG takes responsibility of the calculations of the PAI indicators on the basis of the data received from the ESG Data Provider and using the latest regulatory requirements of the RTS and any further regulatory indications published until the end of 2022 by the European Supervisory Authorities (ESAs) or the European Commission (EC) as Q&As.

2. *Data Sources*

In the calculation of the PAI indicators, the KPMG team requires various input data that are required within the context of the regulatory requirements as outlined by the RTS.

The data sources include:

- **BIL Proprietary Data**: Quarterly portfolio snapshots including fund compositions, asset types were provided directly by BIL for the assets in scope of the PAI calculations (see section 4 below for more information on the scope of calculations).

- **European ESG Template (EET) Extracts**: The ESG data inputs for indirect investments (investments in funds) were sourced from EET extracts. Currently EETs are still only being updated on a yearly basis by market participants. Therefore, the EETs that were available at the extraction date (May 2023) were treated as constant for the annual calculation and no quarterly average was calculated.

- **ESG Data Provider**: ESG data inputs such as GHG emissions or other financial data inputs such as enterprise value and revenue were obtained from an external ESG data provider.

Please see below an overview of the ESG data inputs that we used in the calculation of the PAI indicators:

Data Input	Description	Data Owner
Position Type	Position type of the position as defined in the Annex I of this document (Investee Company, Funds, Real Estate, Sovereign, Other).	BIL
Position Value	Value in EUR of the investment made by the financial product.	BIL
Total Value of Positions (Total AUM)	'The value in EUR of all investments by the financial market participant.	BIL
Total Net Asset (TNA) Value	Total value of assets of an investee fund used for the calculation of indicators for investee funds.	BIL
Currency Exchange Rates	An exchange rate is the rate at which one currency can be exchanged for another currency. This data was extracted for 31/12/2022.	BIL and ECB
Enterprise Value	the sum, at fiscal year-end, of the market capitalization of ordinary shares, the market capitalization of preferred shares,	ESG Data Provider and EET

	and the book value of total debt and non-controlling interests, without the deduction of cash or cash equivalents.	
Enterprise Revenue	Revenue in EUR of the investee company	ESG Data Provider and EET
Scope 1, 2 and 3 GHG emissions	Scope of greenhouse gas emissions referred to in subpoints (i) to (iii) of point (1)(e) of Annex III of Regulation (EU) 2016/1011. This data is related to investee companies.	ESG Data Provider and EET
Renewable Energy Use / Supply	Renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas;	ESG Data Provider and EET
Total Energy Use / Supply	'Energy sources other than those referred to in point (renewable energy sources);	ESG Data Provider and EET
Energy Consumption	Energy consumption of the investee company, expressed in Gwh	ESG Data Provider and EET
NACE Code	'Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council	ESG Data Provider
Biodiversity Impact	As per the regulation, the impact on biodiversity is measured by investee companies which have 'activities negatively affecting biodiversity-sensitive areas. This term means activities that are characterized by all of the following: (a) those activities lead to the deterioration of natural habitats and the habitats of species and disturb the species for which a protected area has been designated; (b) for those activities, none of the conclusions, mitigation measures or impact assessments adopted pursuant to any of the following Directives or national provisions or international standards that are equivalent to those Directives have been implemented: (i) Directive 2009/147/EC of the European Parliament and of the Council (9); (ii) Council Directive 92/43/EEC (10); (iii) an Environmental Impact Assessment (EIA) as defined in Article 1(2), point (g), of Directive 2011/92/EU of the European Parliament and of the Council (11); (iv) for activities located in third countries, conclusions, mitigation measures or impact assessments adopted in accordance with national provisions or international standards that are equivalent to the Directives and impact assessments listed in points (i), (ii) and (iii);	ESG Data Provider and EET
Emissions to water	Direct emissions of priority substances as defined in Article 2(30) of Directive 2000/60/EC of the European Parliament and of the Council (6) and direct emissions of nitrates, phosphates and pesticides;	ESG Data Provider and EET
Hazardous waste	Hazardous waste as defined in Article 3(2) of Directive 2008/98/EC of the European Parliament and of the Council (7); 'radioactive waste' means radioactive waste as defined in Article 3(7) of Council Directive 2011/70/Euratom (8);	ESG Data Provider and EET

Violations of UNGC and OECD standards	No SFDR RTS explicit definition	ESG Data Provider and EET
Lack of processes and compliance mechanisms to monitor compliance with UNGC and OECD standards	No SFDR RTS explicit definition TBD	ESG Data Provider and EET
Gender Pay Gap	Difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees;	ESG Data Provider and EET
Board gender diversity	Number of female members at the Board over the total number of members at the Board, where 'board' means the administrative, management or supervisory body of a company;	ESG Data Provider and EET
Controversial Weapons	Antipersonnel mines, cluster munitions, chemical weapons and biological weapons	ESG Data Provider and EET
GHG emissions of countries	Greenhouse gas emissions (GHG) as defined in Article 3, point (1), of Regulation (EU) 2018/842 of the European Parliament and of the Council	EDGAR - Emissions Database for Global Atmospheric Research
GDP (EUR)	'GDP' is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	World Bank
Social Violations	The Annex to the published proposal for a Directive on corporate sustainability due diligence COM (2022) 71 provides helpful examples of typical social violations that investee countries may be in violation of.	Varieties of Democracy (V-Dem)

3. Assumptions and methodology for the calculation of PAIs

The KPMG team followed the exact requirements outlined in the RTS, as well as any other requirements given by the ESAs or EC in the form of Q&As since the publication of the RTS, in order to calculate the PAI indicators. Only in cases where the data sources leave room for interpretation compared to the regulation did the KPMG team make assumptions. All assumptions reviewed and approved by BIL. The PAI calculation is a working document intended to support BIL in their reporting exercise. BIL remains the ultimate owner of this report and its content at all times.

Assumptions

- **General assumptions**

#ID	Description
A01	• When data from the EET extracts for a given underlying investment was blank, it has been considered to be "Not covered". KPMG has not developed estimations of the GHG emissions, exposure to fossil fuels etc. of the investee companies or underlying investments of investee funds.
A02	• A value "Blank" in the input data file has been considered "not covered". However, when a value provided in the input data file is "0", this has been assumed as a valid data input and thus also used accordingly in the PAI calculations (e.g., considering that for example, it would be valid to have a 0% exposure to fossil fuels).
A03	• EET extracts provide the coverage of PAI values for each investee funds. Due to the limited data availability of EET extracts, the coverage of the calculated PAI values for the investee funds sometimes remains empty. When no data is provided on the alignment percentage of the PAI values retrieved from the EET of investee funds, then it is assumed that 100% of the investee fund is eligible for the calculated PAI indicator.
A04	• Dedicated EET Mapping: As the columns of the EET file do not match the EET data points indicated in the standard EET files, the following mapping has been performed to match the data provided with the EET data points as presented in Appendix 1.
A05	• In the EET, any values giving the PAI indicator of an investee fund that is a share of total investments must be indicated as a "floating rate" (as per Findatex instructions) i.e. values 0 to 1 where for example 0.5 represents 50%. For any of the values from the EET extracts where the values for such PAI fields were >1, we took the assumption that this is a result of the EET that was wrongly filled out and the asset manager directly put the percentage number instead of the "floating rate". Therefore, we divided these values that were >1 by 100 in order to obtain the correct rate that is consistent with the other values obtained from the EET extract.
A06	• For the calculation of PAI values expressed as a "weighted average" the RTS indicates that the Enterprise Value must be used to calculate these indicators. For all indirect investments, the TNA was used as an equivalent to Enterprise Value.

- **PAI Indicator Specific Assumptions**

Indicator	Indicator specific assumptions
Table 1. Indicator 1.4 Total GHG emissions	• The total GHG emissions has been calculated as the sum of Scope 1 GHG emissions, Scope 2 GHG emissions, and Scope 3 GHG emissions rather than relying on the "GHG Intensity of Investee Companies Scope 1, 2 and 3 Value" of the EET files, to maintain consistency between the values of GHG emissions reporting (Total GHG emissions being equal to Scope 1 GHG emissions + Scope 2 GHG emissions + Scope 3 GHG emissions) • The same approach has also been taken for the calculation of the total GHG emissions for direct investments, where the sum of Scope 1, 2 and 3 GHG emissions were used for the calculation of this indicator instead of the proprietary data field provided by the ESG Data Provider. This approach was taken in order to avoid confusion in the final PAI Report and to comply with the regulation. If the three scopes of emissions were not summed directly, the total GHG emissions may result in a lower total than the total sum. This is due to the fact that data inputs reported in the EETs and by the ESG Data Provider do not systematically include scope 3 emissions as they are still more limited and reliable.

- **Assumption linked to PAI categories to determine the eligibility**

BIL labeling from portfolio snapshots	KPMG Mapping to PAI Category
SHARES	Investee Companies
SHARES AND CERTIFICATES OF INVESTMENT TRUSTS	Funds
SICAV	Funds
BONDS	Investee Companies OR Sovereign Exposures
ZERO BONDS	Investee Companies OR Sovereign Exposures
SICAV IN SHARES DEXIA	Funds
SICAV MONETARY DEXIA	Funds
SICAV IN BONDS DEXIA	Funds
DIVIDEND-RIGHT CERTIFICATES	Other*
WARRANTS, OPTION CERTIFICATES	Other*
GOLD COINS, SILVER COINS	Other*
FLOATING RATE NOTES, STAGGERED AND INDEXED	Investee Companies OR Sovereign Exposures**
PRECIOUS METALS	Other*
COMPANY SHARES(COOPERATIVES)	Investee Companies
SUBSCRIPTION OR ALLOTMENT RIGHTS	Other*
INVESTM. FUNDS	Funds
EQUITIES	Investee Companies
WARRANTS&RIGHTS	Other*

* Note that "Other" are assets for which we have considered that PAIs are not existing as per the RTS, i.e., non-eligible assets. In line with the regulation, the value of "Other" has been used in the denominator for calculating all PAI indicators at the Portfolio level.

** Note that Floating Rates are notes which can be considered in a similar way than bonds. Therefore, they can be either investments in Investee Companies or Sovereign Exposures. Only Floating Rates which are BIL Structured Products were categorized as "Other".

Calculation of PAI Indicators using Portfolio Weights

As per the regulatory requirements of the RTS, the PAI calculations were done based on the computation of quarterly weights. This is done by taking the quarterly weights and averaging them over the year as it was clarified in Q&A published by the ESAs on the 17th of November 2022. Please see below an illustrative example to show how this was done in the practice:

BIL AUM										
Holdings	Q1		Q2		Q3		Q4		Annual	
	NAV	%	NAV	%	NAV	%	NAV	%	NAV*	%**
Investment 1	10 000	21.28%	13 000	27.66%	11 000	26.51%	9 000	20.69%	10 750	24.02%
Investment 2	20 000	42.55%	18 000	38.30%	14 000	33.73%	17 000	39.08%	17 250	38.55%
Investment 3	5 000	10.64%	6 000	12.77%	5 500	13.25%	4 500	10.34%	5 250	11.73%
Investment 4	12 000	25.53%	10 000	21.28%	11 000	26.51%	13 000	29.89%	11 500	25.70%
Total	47 000		47 000		41 500		43 500		44 750	

* Annual NAV is calculated with the following formula: ('NAV Q1'+ 'NAV Q2'+ 'NAV Q3' + 'NAV Q4')/4 = 'Annual NAV'

** Annual Weight is calculated with the following formula: ('% Q1'+ '% Q2'+ '% Q3' + '% Q4')/4 = 'Annual %'

In general terms, PAI values of the underlying investments have been weighted against the position weight in order to calculate the PAI results. Please note there are some nuances as per the requirement to perform a "Sum" in the case of specific PAIs such as for GHG emissions. Further details are available in the calculation file and can be provided upon request. Please see below an illustrative example to show how this was done in practice:

Holdings	Annual		Enterprise Value (M €)	GHG Emissions (Scope 1)	PAI_1*
	NAV	%			
Investment 1	10 750	24.02%	14 285	29 423	22 141.91
Investment 2	17 250	38.55%	21 486	1 856	1 490.08
Investment 3	5 250	11.73%	83 952	57 518	3 596.93
Investment 4	11 500	25.70%	59 254	48 516	9 415.97
Total	44 750				36 644.90

* The formula given by the RTS is applied: ('NAV Annual'/'Enterprise Value') * 'GHG Emissions (Scope 1)' = 'PAI_1'

Calculation of Coverage and Eligibility

The coverage was calculated by adding the total amount of assets for which the required data inputs are available divided by the total amount of eligible assets.

Coverage Formula	Example for PAI_1
$\frac{Total\ Assets\ with\ ESG\ data}{Total\ Eligible\ Assets}$	$\frac{Total\ Assets\ with\ GHG\ scope\ 1\ emissions}{Total\ Assets\ in\ Investee\ Companies}$

The eligibility was calculated by adding the total amount of assets which are eligible as per the RTS regulation divided by the total amount of assets (total AUM).

Eligibility Formula	Example for PAI_1
$\frac{Total\ Eligible\ Assets}{Total\ AUM}$	$\frac{Total\ Assets\ in\ Investee\ Companies}{Total\ AUM}$

In order to complete the coverage and eligibility calculations for indirect investments while using the available data from EET extracts, the coverage is calculated according to the coverage indicated for investee funds. When the underlying funds express an eligibility or coverage for a given PAI indicator, this is taken into account into the calculations for BIL (e.g., for example, a fund that represents 2% of the portfolio has 90% eligibility for a PAI, the absolute eligibility of the PAI for that investment would be (2) * (0.9)=1.8%.

Other limitations

- The calculations of the PAI indicators as outlined in this document are made on the basis of the latest regulatory requirements available as at 01/06/2023. As the regulator has already expressed their ambition to revise the requirements and list of PAI indicators by amending the RTS regulation, these future changes are also not reflected in the current methodology. A review of the methodology and related assumptions will be necessary when the ESAs publish the Final Report of the revised RTS regulation.

- These calculations were not conducted in the context of an assurance engagement conducted with any generally accepted assurance standards and consequently no assurance opinion is expressed.

4. Scope of PAI Calculations

In line with the regulatory requirements, BIL is obliged to report on PAIs at entity level to comply with the requirements of Article 4 of the SFDR. In this context, an analysis was conducted to assess the composition of BIL's portfolio and how this may affect the PAI calculations.

Based on the results of the discussions and analyses on the portfolio of BIL, the feasibility of the BIL PAI reporting scope was determined. As such, the calculations were conducted only for DPM investments as well as all investments in BIL Invest SICAV held by BMI. All other funds held by BMI were not included in the scope of the PAI calculations.

Moreover, none of the investments conducted by BIL as a Financial Adviser or as "Execution Only" were included in the scope of the PAI calculations.

BIL Wealth Management Limited (HK) and BIL Suisse (CH)

Performing a materiality analysis of the snapshots for BIL HK and CH, we compute that the total AUM held by HK and CH represents less than 10% of total BIL AUM. Based on the lacking data and overall low materiality the BIL HK and CH portfolio to the overall BIL LU portfolio, KPMG and BIL decided to exclude these assets from the PAI calculations for the first reporting year.

Analysis of BIL Portfolio Composition

The quarterly snapshots for FY22 give the following portfolio composition:

Investee Funds (indirect)	Investee Companies (direct)	Sovereign	Other
BIL LU (Discretionary Portfolio Mandates)			
55.82%	37.12%	3.81%	3.25%
BIL Manage Invest (BMI)			
83.99%	15.93%	0.07%	0.0002%

Please note that, as outlined in the section above "Data Sources", this means that the data sources used to calculate PAIs are overwhelmingly EET extracts due to the fact that investee funds are the primary composition of the BIL LU and BMI portfolio.

As only BIL Invest SICAV was included in scope of the PAI calculations for BMI, the BIL portfolio in scope of the PAI calculations has no exposure to real estate assets. Therefore, real estate PAI indicators may only be calculated via the underlying assets of investee funds (see section 5 below for more details).

5. Limitations for the PAI calculation of indirect investments (investee funds)

This section outlines the key points of attention that should be taken into account with regards to the input data for the PAI calculations of indirect investments (EET files of the investee funds).

Key points of attention

- The BIL asset portfolio is overwhelmingly composed of indirect investments (see section 4 above for more details) which implies that a majority of the PAI calculations cannot be done using the ESG data for the underlying assets of each investee fund. Therefore, the EET extracts where investee funds provide the calculated PAI values of their funds in a numerical and machine-readable format were used to facilitate this process.

- Using the EET extracts to compute PAI indicators for indirect investments is less accurate than if the direct calculations were done on the underlying assets of each investee fund. However, in order to do this, BIL would need to extract the exact portfolio composition containing the quarterly snapshots of the holdings of each investee fund.

After conducting a feasibility analysis, it was concluded that the BIL portfolio contains over 700 different investee funds for which this data would need to be extracted quarterly which would in turn result in more than 2,800 snapshots. Moreover, each of these snapshots would need to be pro-rated to only account for the amount that was invested by BIL into each investee fund. These snapshots would then need to be consolidated into a single aggregated file which would require IT development linked to a substantial financial investment which would impact the cost of PAI production.

- After extracting the EET data for all investee funds, it became apparent that the data availability of the input files extracted from the EET is extremely low. This materially impacts the capability of the team to perform the PAI calculation with qualitative outcomes.

- The lack of data availability from the EET extracts is linked to multiple reasons including the fact that EET reporting is not a mandatory regulatory requirement but rather a market standard. In addition, not all funds are reporting on all EET data fields that are required (PAI EET data fields 30020- 31160 are not mandatory EET fields). This incongruity of how asset managers are completing the EET files on the market leads to a such a low data availability to calculate PAI values. We expect that as general PAI data availability and EET market practice merge and improve, this data availability for indirect investments will also improve.

- There is a significant risk of misinterpretation in the use of these results. For investments in funds, the indicators have an extremely low coverage of the overall BIL portfolio with often less than 1% coverage. For example, GHG emissions indicators for investee funds are only available for 0.98% of the total portfolio.

- The EET extracts also have a low coverage for the Total Net Asset (TNA) values. This effectively represents only 36.82% of the total portfolio, which further limits the coverage of the PAI calculations.

- Based on the current status of data availability and quality, the methodology contained in this document (which is based on the RTS and any Q&As released from the ESAs and EC since the publication of the RTS) as well as the assumptions taken, we estimate that the calculation of the PAI indicators have been done on a best effort basis.

Other points of attention

- The EET extracts did not contain any data on the two optional PAI indicators from Table 2 and 3 of Annex I of the RTS. Therefore, no calculations can be done for the optional indicators for all investments in funds.

- The data availability of the EET extracts was equally limited in regards to the PAI values applicable to sovereign and real estate exposures. These PAI indicators were therefore calculated on the basis of the limited data when available.

- The EET extracts did not contain the EET field 100000 from v1.1.1 and therefore did not contain the ISO codes of countries with social violations from the underlying assets of the investment funds. Therefore, it is not possible to account for double counting of countries with social violations when calculating the PAI indicator for indirect investments. As a result, PAI_16_1 and PAI_16_2 could not be calculated for indirect investments.

6. *Use of estimates to calculate PAIs*

The KPMG team did not make use of any estimations or proxies in order to calculate the PAI indicators. In our view the use of estimates for the calculation of PAI indicators is reserved for specific data where reliable assumptions can be made based on the nature and context of the portfolio and asset composition. Furthermore, it is also our view that the overall data availability is too limited to make estimations for the overall portfolio. In other words, with an estimated data coverage of approximately 1% for indirect investments, the use of estimates for the remaining 99% of the portfolio will result in highly unreliable PAI results.

Regulatory indications on the use of estimates

The RTS regulation outlines the following parameters with regards to the potential use of estimates in Article 7(2):

2. Where information relating to any of the indicators used is not readily available, financial market participants shall include in the section 'Description of policies to identify and prioritise principal adverse impacts on sustainability factors' in Table 1 of Annex I details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions.

In the Q&A released by the ESAs on the 17th of November 2022 (available online here), the regulatory context on the use of estimates was further clarified.

II. PAI disclosures

1. Should financial market participants disclose what share of PAI impacts have been estimated and what have been calculated on the basis of reported information?

For the sake of clarity and to enable investors to assess the robustness of the indicators disclosed in the PAI disclosure, it would be a good practice, but not obligatory, for financial market participants to include, where relevant as part of the disclosures required by Article 7(1)(e) of the Delegated Regulation and for each PAI considered by the financial market participant:

- The proportion of investments for which the financial market participant has relied on data obtained directly from investee companies, in order to calculate the corresponding indicator; and
- The proportion of investments for which the financial market participant has relied on data obtained by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions, in order to calculate the corresponding indicator.

These proportions could be expressed as a percentage of the current value of the investments included in the calculation of the indicator.

(Published 17 November 2022)

Keeping in mind the above regulatory framework regarding the use of estimations, it is the opinion of KPMG that using estimations as a blanket solution to improve data coverage is not within the transparency objective of the SFDR and would not qualify as "reasonable assumptions". Instead, KPMG recommends remaining transparent about the "best-effort basis" that was used to calculate the PAI indicators and remain transparent about the limited data availability, especially linked to the EET for indirect investments.

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