Assessment and Integration of Sustainability Risk Policy

Date: 22nd July 2025

BOV

Bank of Valletta

Version Control Data			
Version	**Date**	**Changelog**	**Approved By**
1.0	3rd November 2022	Sustainability Risk Policy – Disclosure Sheet	
2.0	22nd July 2025	BOV has further enhanced the way it addresses sustainability risk within its investment process and in its investment advice through the development of a series of stand-alone policies. These include the Exclusion Policy, the Engagement Policy, the Remuneration Policy and the in-scope Sustainability Risk Policy. The quantitative and qualitative scoring system undertaken to assess sustainability risk has been enhanced to also include Controversies. The London Stock Exchange Group (LSEG) derived Environmental, Social, Governance and Controversy (ESGC) score overlays the ESG score that was previously utilised with ESG controversies. The ESGC score provides a comprehensive evaluation of the company's sustainability risk and conduct over time. Future investment in the direct securities of excluded Issuers is precluded only for Issuers that form part of the Exclusion Policy. For avoidance of doubt the resultant ESGC score does not constitute a basis for exclusion.	**ESG Committee**

Background and Scope

Regulation (EU) 2019/2088, the Sustainable Finance Disclosure Regulation ("SFDR"), imposes mandatory disclosure obligations upon financial market participants and financial advisers (each as defined under the SFDR) relating to *inter alia* the integration of sustainability risks in their investment decision-making and/or investment / insurance advice, and the consideration or otherwise of principal adverse impacts (PAIs) of their investment and/or advisory processes on sustainability factors. The SFDR aims to abolish information asymmetries across all EU member states by harmonising these disclosure obligations in the interest of end-investors; thereby facilitating the mobilisation of private capital towards sustainable economic activities.

Sustainability risk is one among a broader set of financial and 'non-financial' risks to be considered under Directive 2014/65/EU ("Mifid II"), such as market risk, credit risk, liquidity risk, operational risk, reputational risk, and so forth. Sustainability risk is defined by SFDR article 2(22) as "an **environmental, social or governance event or condition** that, if it occurs, could cause a **negative material impact** on the **value of the investment**".

Environmental events or conditions may largely be divided into physical risks and transition risks. **Physical risks** relate to the direct and indirect impacts of climate change. Extreme weather events can damage infrastructure and supply chains, while gradual shifts like rising temperatures and water scarcity strain operations. **Transition risks** arise as societies shift towards a low-carbon economy. These include changing policies and regulations, the disruption caused by new technologies, evolving consumer preferences, and the reputational damage associated with unsustainable practices.

Social events or conditions encompass issues like human rights abuses, social inequality, and poor health and safety practices, which can lead to negative events such as reputational harm, business disruptions, and legal challenges. Increased costs associated from these events are likely to have a material negative impact on the value of an investment.

Governance events or conditions highlight the importance of ethical leadership and accountability. A lack of board oversight, corruption, and misaligned incentives can lead to unsustainable practices and negative outcomes that undermine a company's resilience and expose it to long-term risks, including operational risk, reputational risk, etc.

ESG Controversy [1] cases may arise across the various ESG categories ranging from environmental violations, social misconduct, or governance failures. ESG controversies include media reports linked to child labour issues, tax fraud, kickbacks, environmental impact on local communities which could lead to significant loss of value due to reputational damage, operational disruptions, and additional costs. Developed markets companies operating in environmentally sensitive industries tend to be more susceptible to ESG controversies[2]. Controversial incidents erode investor confidence in addition to the likely material negative impact on the value of an investment.

Bank of Valletta plc ("BOV" or "the Bank") is subject to SFDR in its capacity as a credit institution which provides portfolio management and investment advice, and insurance advice vis-à-vis insurance-based investment products. The Bank manages portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such

[1] LSEG ESG Controversy Score, LSEG ESG Controversy Measure - Appendix G

[2] Mohammad Hassan Shakil, Arne Johan Pollestad, Khine Kyaw, Environmental, social and governance controversies and systematic risk: A machine learning approach, Finance Research Letters, Volume 75, 2025

portfolios include several financial instruments, and further provides personal recommendations to clients, either upon request or at the Bank's initiative, in respect of transactions relating to financial instruments or on a portfolio level. A policy on sustainability risk and clear procedures regarding its integration are crucial for investing responsibly. At BOV, we incorporate sustainability into our investment strategy and operations, and our policy on sustainability risk mirrors this commitment.

Additionally, our policy honours the principle of Proportionality and ensures compliance with all obligations outlined in the SFDR, as well as other EU and national regulations. The principle of Proportionality takes BOV's size, internal organisation, nature, scope and activity complexity into consideration in determining the extent to which risks, including sustainability risk, must be detailed in policies – including its remuneration policy[1].

Furthermore, fulfilment of BOV's obligations in relation to SFDR do not prejudice any other obligations that are outlined in EU regulation and national laws, including the requirements to act in the best interest of clients, conducting adequate due diligence and fulfilling other obligations related to risk integration, remuneration policies or other required disclosures.

With regards to direct investments, BOV addresses sustainability risk within its investment process and in its investment advice through its Exclusion Policy, Engagement Policy and the integration of the sustainability factors defined by SFDR. For indirect investments, BOV conducts thorough due diligence on the fund provider's sustainability related disclosures and verifies the respective investment strategies through the European ESG template (EET).

BOV incorporates sustainability risk into the risk/return evaluation during discretionary portfolio management security selection. In advisory services, advice is given on a pre-selected investment universe that has undergone the selection process detailed below, helping them to inform clients about potential sustainability risks.

BOV does not automatically exclude issuers based on poor relative ESGC performance and insufficient degree of transparency in reporting material ESG data publicly (save for issuers listed in our Exclusion List). Sustainability risk is a risk factor as any other, and assessment of these risks is done relative to their materiality (i.e. likeliness of impacting returns of the investment) and in tandem with other risk assessments (i.e. liquidity, market risk etc). Therefore, a heightened sustainability risk could still be deemed acceptable when weighed against other factors and risks.

The concept of double materiality covers how companies are affected by sustainability issues (financial materiality) and conversely how their activities impact society and the environment (impact materiality). On the one hand companies need input of natural resources, productive workforce and effective internal governance structures which are captured by financial materiality and integrated in sustainability risk assessments. On the other hand, companies' operations effect the environment and society in various degrees (i.e. pollution, waste, human rights, working conditions, anti-corruption practices etc). This is captured by impact materiality and measured via principal adverse impacts (PAI), which ultimately are used to assess sustainability preference.

The strategy outlined in this policy is open to revision and may be modified without prior announcement. This is necessitated by the emergence of new risks, public opinion shifts, and rising standards brought on by the ongoing expansion of EU regulations on sustainable finance and the anticipation of further changes in the coming years, along with the fast pace of evolving practices.

[1] (EU) 2019/2088 recital 22

Sustainability Risk Integration

BOV is subject to multiple policies and processes that interact to integrate sustainability risk. The Exclusion Policy, the Engagement Policy and Remuneration Policy are aimed at preventing the buildup of sustainability risks at an entity level through negative screening, addressing sustainability concerns and aligning stakeholder incentives.

Sustainability risk is integral to the investment decision-making and advisory processes, involving different stakeholders across BOV's Wealth Management arm. Due diligence with regards to prospective investments is conducted before wider (i.e. financial and non-financial) considerations in the investment decision are onboarded. This process is overseen both in pre-decision and post-decision.

Sustainability risk assessment involves both quantitative as well as qualitative elements. Quantitative sustainability risk assessment relies on data sourced from the London Stock Exchange Group (LSEG) as detailed below, wherein entities are ranked under ESG pillars in relation to their respective industry or country of incorporation. A qualitative overlay is then applied by assessing controversies relating to ESG factors (e.g. reports of an entity being involved in the violation of human rights) using data also sourced from LSEG.

Assessing potential negative material impacts on the value of investments is a difficult task to undertake *a priori.* In this regard, sustainability risk assessment by BOV is based entirely on data sourced from a reputable third-party provider (LSEG) and thus dependent on data availability on LSEG platform. This is applied in line with the principle of proportionality as per above.

Climate change, ecological collapse, social unrest and the other negative events associated with sustainability risk may herald structural changes in economies and markets. Despite the existence of tools such as MSCI's Climate Value-at-Risk (CVaR) for example, there is little out there which is designed to provide a forward-looking and return-based valuation with respect to climate-related risks and opportunities. Back-testing of returns against sustainability risks may therefore be of little value and it may be more effective to rely on the precautionary principle[1] when carrying out one's sustainability risk assessment.

We detail the policies and procedures relevant to the integration of sustainability risks in investment decisions and investment advice below.

Exclusion Policy

The first control on sustainability risk implemented by the Bank is via negative screening as set out in the Exclusion Policy, wherein entities involved in specific activities are excluded from being invested in or recommended. This Exclusion Policy applies to managed portfolios and any investment advice given to clients in relation to direct investments only.

Negative screening criteria are based on ESMA guidelines with respect to Paris-aligned Benchmarks[2]. Additional criteria may be imposed in the future to consider other Paris-aligned criteria as data becomes more readily available.

Entities meeting any one the following criteria are excluded from the investment universe:

1. Entity is involved in **tobacco** activities.
2. Entity is involved in **controversial weapons** activities.
3. Entity derives at least **5% of revenue** from **oil sand** activities.
4. Entity derives at least **5% of revenue** from **thermal coal** activities.

[1] The precautionary principle is a strategy for approaching issues of environmental and public health risk in situations of scientific uncertainty, advocating for preventive action in the face of potential harm.
[2] ESMA34-472-373. ESMA Consultation Paper On Guidelines on funds' names using ESG or sustainability-related terms, 18 November 2022.

5. Entity derives at least **50% of revenue** from **oil and gas production** activities.

BOV's Exclusion Policy is available from the Policies & Regulatory Matters - Exclusion Policy section on our website.

Engagement Policy

Economic, financial, environmental, social and corporate governance indicators and metrics are monitored through investment research conducted in-house and through reliance on third-party reports in order to supervise investee company performance holistically and engage when necessary. BOV believes that building and maintaining relationships with investee companies is an integral component in asserting an investee company's long-term strategy, financial and non-financial performance, risk, and capital structure.

If concerns arise during its analysis as to the long-term viability of the investee company, and if BOV's holdings, in its capacity as financial market participant (i.e. asset manager)[1], exceed 5% of the investee company's shares or voting rights, BOV engages with the investee company to address those concerns. Such engagement takes place in collaboration with other internal and external stakeholders where feasible. If raised concerns remain unaddressed after engagement, BOV may choose not to invest further, or divest of existing holdings.

Voting rights are exercised with a view to promote the factors above, and a full voting record can be found on the Bank's website.

BOV's Engagement Policy is also available from the Policies & Regulatory Matters - Engagement Policy section on our website.

Remuneration Policy

The Bank's remuneration policy is required to publish information on how its remuneration policies are consistent with the integration of sustainability risks. This information is also included in the remuneration policies that the Bank is required to establish and maintain as per Capital Requirement Directive 2013/36/EU (article 92) and Mifid II.

BOV views its remuneration policy to be consistent with the integration of sustainability risks. There is no component of the Company's remuneration structure which is geared towards creating an incentive or bias towards excessive risk taking to the detriment of environmental, social or governance matters and/or sustainability generally.

The Remuneration Policy of Bank of Valletta is set to reflect the group's objectives for a sound corporate governance process and for sustainable and long-term value creation for all its stakeholders. The remuneration policy is also intended to be transparent, based on key performance indicators, subject to separate policies, processes, and controls and to ensure equal pay for work of equal value.

BOV's Remuneration Policy is available from the Policies and Regulatory Matters - Remuneration Policy section on our website.

[1] "asset manager" means an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU that provides portfolio management services to investors.

Sustainability Risk in Investment Decisions

With regard to sustainability risk of investment decisions, BOV adheres to the following process:

Sustainability Risk Assessment of Direct Investments

Investments are identified based on financial (e.g. company profitability) and nonfinancial (e.g. product quality) considerations with due regard to client's profile and preferences and in the context of a portfolio's composition. The sustainability risk of prospective investments is based on LSEG derived Environmental, Social, Governance and Controversy (ESGC) score. ESGC grades – overlays the ESG score with ESG controversies to provide a comprehensive evaluation (quantitative & qualitative aspects) of the company's sustainability risk and conduct over time.

Sustainability risk assessment of investee companies is based on their respective LSEG ESGC grades and respective LSEG interpretation as specified in Table 1 hereunder. The unavailability of an ESGC grade (due to, for example, lack of available data for Malta Stock Exchange listed securities or in the case of investee countries) will not prevent investment in such securities. However, in such instances it is disclosed that sustainability risk is not assessed due to lack of data availability and therefore not factored in the investment decision. Although the sustainability risk assessment is based on the overall LSEG ESGC grade, each constituent Environmental, Social, Governance, and Controversies grades are accessible. This provides a more comprehensive view and better insights on the investee companies ESGC risks and practices. The individual constituents' grades have the same interpretation as specified in Table 1 hereunder.

The sustainability risk assessment is included in the final investment decision, which must also include other financial and non-financial considerations. It ought to be noted that exposure to sustainability risk may therefore be justified by a sufficiently high expected return or other mitigating financial or nonfinancial considerations.

The procedures and processes (and adherence thereto) contained in this disclosure are regularly reviewed by the Bank's internal governance mechanisms.

Sustainability Risk Assessment of Indirect Investments

Sustainability risks emanating from indirect investments are also assessed by LSEG ESGC aggregated score of a fund and respective LSEG interpretation as specified in Table 1 hereunder. If such a score is unavailable, this will not prevent investment in such funds. However, in such instances it is disclosed that sustainability risk is not assessed due to lack of data availability and therefore not factored in the investment decision.

LSEG ESGC scores are aggregated from the fund's underlying assets, where available. In undertaking a sustainability risk assessment of a specific fund, the Bank utilises LSEG ESGC scores in the same way as with direct investments.

As with direct investments, the procedures, processes (and adherence thereto) contained in this disclosure are regularly reviewed by the Bank's internal governance mechanisms

Sustainability Risk in Investment Advice and Insurance Advice

Sustainability risk assessment of investment advice takes place regardless of a client's stated sustainability preferences. Sustainability risk assessment of investment advice proceeds as with investment decisions, depending on whether the advice concerns an investee company, an investee country or an indirect investment and the same principles apply. Information regarding sustainability risk is communicated at the advice stage, decision on whether to proceed with the transaction or otherwise remains at the client discretion.

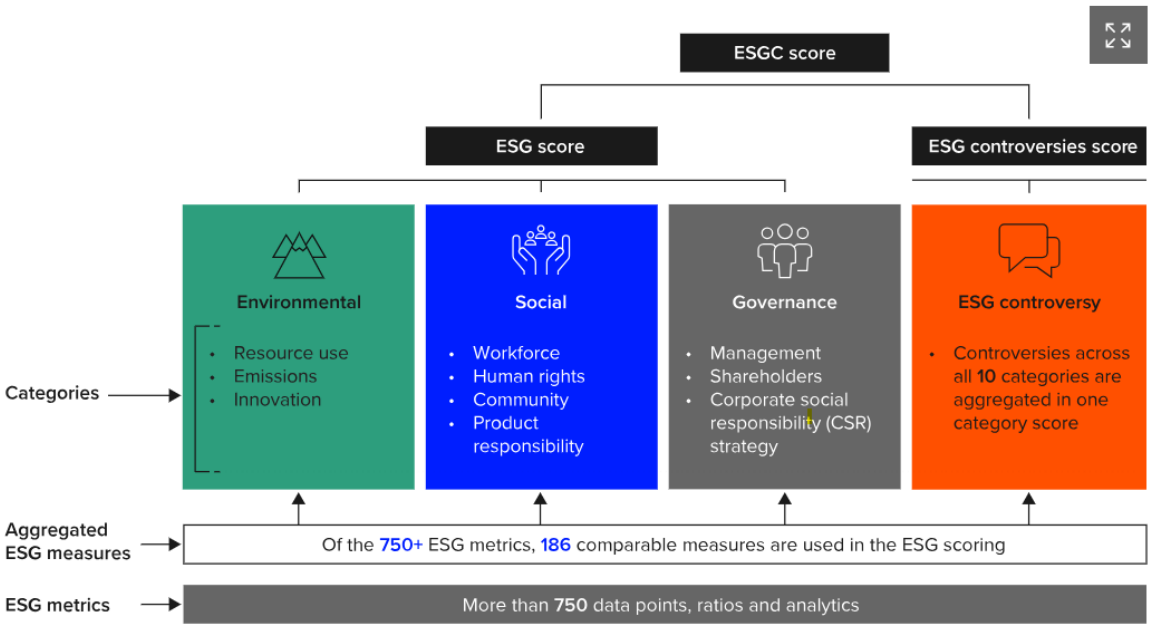
Sustainability risk assessment of insurance advice is carried out ~~at~~ on underlying funds selected for investment, usually this will involve indirect investment used in "Unit Linked" products which composition may vary on an individual basis. In this regard, a sustainability risk assessment will not be carried out on the insurance product itself, but sustainability risk will be assessed on the individual underlying instrument following the same principles as mentioned in prior sections of investment decisions and advice. In the case of "With Profits" products, sustainability risk consideration are specified in the respective Key Feature Document.

LSEG ESGC Scores and Grades

ESGC scores and grades data are sourced from a third-party service, the London Stock Exchange Group (LSEG). LSEG offers one of the most comprehensive ESG databases in the industry, covering over 90% of the global market cap, across more than 870 ESG metrics. All LSEG ESG scores, including controversies scores, are updated on a weekly basis.

ESG grades from LSEG are designed to measure a company's relative ESG performance, commitment, and effectiveness transparently and objectively based on company-reported data. Measurement covers 10 main themes including emissions, human rights, shareholders, etc. and significant controversies related to these themes. The methodology and entity ESG grades/scores are available online via the [LSEG ESG Scores website](#).

***Figure 1**: LSEG ESGC score process overview*



ESG grades are based on relative performance of ESG factors with the company's sector (for environmental and social) and country of incorporation (for governance). LSEG believes that it is up to the data to determine industry-based relative performance within the construct of their criteria and data model.

The LSEG ESG scoring methodology incorporates several key principles to evaluate companies' sustainability performances accurately and fairly across different industries. Firstly, it assigns unique materiality weightings to ESG factors, reflecting their varying importance across industries on a scale from 1 to 10.

The methodology also emphasizes transparency, applying weightings that penalize the omission of highly material data more severely than immaterial data, encouraging thorough disclosure. It includes an ESG controversies overlay, adjusting scores for significant controversies and mitigating market cap bias by introducing severity weights for controversies based on company size.

Additionally, it employs industry and country benchmarks for data point scoring to enable peer comparison and uses a percentile rank scoring system to produce scores between 0 and 100, alongside letter grades, simplifying the assessment process.

LSEG ESGC Scores are divided into quartiles and graded accordingly:

Table 1: LSEG ESGC Scores

Quartile	Score	Grade	LSEG Interpretation
First	0-25	D	Poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
Second	26-50	C	Satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
Third	51-75	B	Good relative ESG performance and above average degree of transparency in reporting material ESG data publicly.
Fourth	76-100	A	Excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.