

Climate and engagement strategy of BKS Bank

With accountability into a livable future

January 2024

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1 Introduction

At the 21st UN Climate Change Conference (COP21) held in 2015, the international community reached a new international climate agreement to succeed the Kyoto Protocol. Eight years later, it has become clear that limiting the average temperature increase to 1.5 °C based on the ambitious goals of the COP28 for the reduction of greenhouse gas emissions is hardly achievable. Nonetheless, the closing statement at the last UN Climate Change Conference stressed the importance of accelerating the phasing out of fossil fuels. The European Union's Green Deal and the associated legislative changes highlight its commitment to the 1.5°C target for climate policy and the goal of achieving climate neutrality in the EU by 2050.

Attaining climate neutrality means extensively restructuring the economy. This includes not only changing the way society thinks, but also major investments in procedures and processes. Companies must make their business models fit for the climate-neutral economy of the future.

As BKS Bank, we believe that supporting the country's economy in this transition process – in line with our original founding mission – is inherent to our business model. As a reliable banking partner, our products are an important contribution to achieving the goal of a climate-friendly, circular economy. We are well aware of our responsibility as a financial services provider. Therefore, we look closely at climate change and its consequences as well as the changes in our economy. This also means identifying the related opportunities and risks, and integrating them as best as possible in all relevant business activities. A very important aspect in this context is the engagement process through which we want to encourage our stakeholders to accompany us on the way to 1.5°C climate goal.

BKS Bank maintains ongoing relations with its various stakeholders who have different needs and also a significant influence on the success of our bank. We are part of a network of economic, political and social relationships involving many stakeholder groups – including corporate, business and retail customers as well as service providers, other business partners and associations of which we are members.

We followed a structured stakeholder process to determine which of the 17 Sustainable Development Goals are the ones we can contribute to and where our efforts would have a positive impact on the various stakeholder groups.

As a member of the Green Finance Alliance, we are committed to aligning our core business operations with the goals of the Paris Climate Agreement. Our climate and engagement strategy is designed to help make our efforts transparent and comprehensible. The strategy should be viewed as a dynamic set of guidelines that we update regularly as part of our alignment with the 1.5°C target. The development of climate targets for 2023 and 2024 which are being evaluated by the Science Based Target initiative (SBTi) will add value to our strategy through a concrete plan of action for achieving the targets.

SDG**Reasons for the selection**



Poverty is still an issue – albeit often hidden – in all of BKS Bank's markets and affects primarily women, older people and large families. We contribute to the reduction of poverty with our retirement, savings and investment products as well as by our financial education and sponsoring activities.



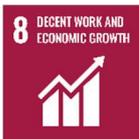
High-quality education is a key element of financial security. The professional expertise of our employees is a valuable competitive advantage. We contribute to high-quality education by supporting educational institutions and also with our training and further education programmes.



Austria is still one of the laggards in Europe regarding the gender pay gap and women are significantly underrepresented in management positions. BKS Bank also aims to increase the share of women in management positions and significantly narrow the gender pay gap.



Europe is currently still heavily dependent on fossil fuels. A successful transition to renewable energy is crucial to achieving the goals of the Green Deal. BKS Bank supports the transition with regard to both the environmental impact of operations and through sustainable financing and investments.



BKS Bank offers its employees high-quality jobs. We influence the business policies and development of our customers through our lending guidelines and investment strategies. With our products and investments, we create new capital and contribute to economic growth. Our salary, tax and contribution payments also have a positive impact on development in our regions.



Our bank is an important partner for the business sector in our markets. We enable investments in innovation, infrastructure and added value in the region through our lending policy.



Access to affordable housing and the climate neutrality goals of cities and municipalities are core elements of SDG 11. The range of products offered by our bank contribute to this goal.



We support the trend towards sustainable consumer and production patterns in many ways. On the one hand, we are a fair employer to our employees and offer many benefits. On the other, we also contribute to the sustainable development of the environment and society through our lending activities and investments.



We achieve climate change mitigation through the environmental impact of our operations. Green finance and sustainable investment products enable our customers to invest in ecological production processes, renewable energy and sustainable mobility.

2 Business model

The overarching goal of our risk strategy is to understand, manage and mitigate the financial risks resulting from climate change. Understanding how this affects our business model is a key aspect. A current analysis of our portfolios reveals that our foreign markets are probably slightly more affected than our home market of Austria. It is clear to us as BKS Bank that we need to intensify our efforts to identify climate-related risks and opportunities, and expand our knowledge. Therefore, we are constantly working on how to better mitigate, lower and manage the risks identified in accordance with our risk management framework. The purpose is to make this analysis more quantitative and comprehensive based on individual customer information and in compliance with the principles for the effective management and supervision of climate-related financial risks of the Basel Committee on Banking Supervision.

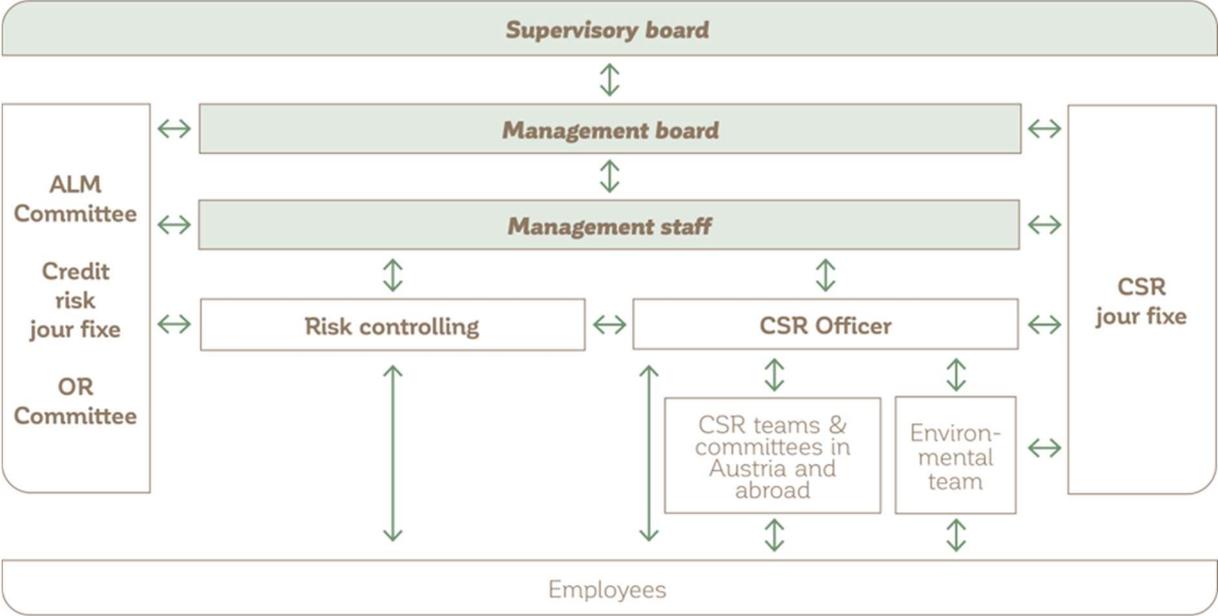
This results in two fields of action to meet the challenges and opportunities adequately:

- The key field of action relates to our core business with a focus on lending.
- The infrastructure for maintaining our operations and our operational activities is the second field of action.

3 Programmes and due diligence processes

Sustainability and the topics of climate change and climate-related risks are the responsibility of the Chairwoman of the Management Board due to their importance for BKS Bank. The Chairwoman informs the Supervisory Board on the progress achieved in the sustainability strategy on a regular basis. Potential developments of the sustainability strategy going forward are also discussed at the strategy retreat of the top management held every year. The sustainability experts develop the sustainability programme and coordinate each of the measures together with the sustainability teams in Austria and abroad. These teams are made up of managers and employees with a wide range of expertise. The sustainability strategy and its implementation are discussed with individual members of the Management Board at the quarterly sustainability meetings. At these meetings, the progress achieved is also analysed and decisions are taken on new activities. Managers and employees are informed on a regular basis about any significant progress made and measures taken. A risk assessment is made of ESG risks and opportunities, especially climate risks. These are defined in the risk strategy and evaluated on a customer-by-customer basis using soft facts. These risks are also thoroughly discussed and evaluated at the regular credit risk meetings and by the ALM Committee.

Sustainability organisation at BKS Bank



3.1 Risk Management

The Risk Management unit is organised by strategic, operational and audit topics. The Management Board has overall responsibility for the review and implementation of the risk strategy and for monitoring risk management, therefore, also for ESG risk management. It regularly informs the Risk Committee and the Supervisory Board about the risks and opportunities from ESG factors, especially with respect to climate change.

Sustainability risks are managed within the scope of the individual risk types of BKS Bank. Therefore, risk policy principles for managing ESG risks – especially climate risks – refer to the different management levels and risk categories defined for BKS Bank.

Generally, BKS Bank’s operating units manage the risks in their areas of responsibility autonomously in accordance with the risk policy principles. Several interdisciplinary risk management committees have been established to support this process. Risk control is the responsibility of Risk Controlling. As an independent internal body, Internal Audit also audits the handling of sustainability risks. To ensure that Risk Management is sufficiently informed about sustainability issues, the Head of Risk Controlling takes part in the quarterly sustainability meetings.

ESG risk management process



3.1.1 Risks

We define environmental and climate risks as risks relating to environmental pollution and hazards, greenhouse gas emissions and energy efficiency. The protection of biodiversity and water resources is also covered by this category. Climate risks can be grouped roughly into two risk categories:

- Physical risks as a result of changing climatic conditions
- Transition risks resulting from the transition to a low-carbon economy and society.

At BKS Bank, we are deeply committed to pursuing the goals of the Paris Climate Agreement. The main leverage in this context are our financed emissions. In this respect, we are highly dependent on our customers' willingness to decarbonize. Alignment with the 1.5°C goal requires a high degree of engagement for climate action on the part of our customers. A failure of borrowers to recognize risks in time or the inability to adequately prepare for new conditions could lead to a wave of defaults and insolvencies. A commitment to align business activities with the goals of the Paris Climate Agreement is essential. A potential failure is a reputational risk for both parties.

3.1.2 Opportunities

The economic transformation of the economy is creating an enormous potential for sustainable finance for BKS Bank. According to a study conducted by Umweltbundesamt (Austria's Federal Environment Agency) conducted for Section Banking and Insurance of

the Austrian Federal Chamber of Commerce and Industry¹, the volume of investments needed to achieve the government's goal of climate neutrality by 2040 is enormous. The study estimates an additional annual investment volume of EUR 13.9 to EUR 18.5 billion until 2030 as a result of a consistent investment policy to achieve climate neutrality. Consequently, the potential for green loans for energy, industry, buildings and transportation in our home market of Austria is massive.

BKS Bank has long since recognized the opportunities for financial institutions in the transition to a climate-neutral economy. We have been offering our customers ecologically and socially-sustainable finance and investment products for many years. The account type "Natur&Zukunft" – which carries the Austrian Ecolabel for Sustainable Financial Products – contributes to the reforestation of protection forests in Austria that also function as carbon sinks. The deposits on this type of account are used exclusively for sustainable loans in accordance with our Sustainable Finance Framework. The goal is to increase our range of sustainable products.

We believe that developments in society will help promote our sustainable investment products. Our products give customers an opportunity to invest their assets in line with ESG criteria.

There are also opportunities in the environmental impact of operations and resilience of our business. We will continue to promote photovoltaic systems and the phasing-out of non-renewable energy sources. All newly constructed and renovated buildings are certified by ÖGNI² and we aim for the Taxonomy-compliance of all real estate projects. It is important to us to transition our vehicle fleet to hybrid and electric vehicles. Our work to improve our environmental performance is well-structured due to our EMAS environmental management system.

3.2 Employees and customer relationship management

Well-trained employees are the foundation of our successful business operations and for this reason they regularly attend training courses. This also applies to the members of the Management Board of BKS Bank.

Sustainability is a key focus of our training programme. For example, at events such as "Green Day – Focus on Sustainability", we explain in a concise and easy-to-understand manner the changes and opportunities resulting from the "EU Action Plan: Financing Sustainable Growth" and present general sustainability activities. Additionally, we organize regular events and training courses on sustainable finance to familiarize new employees with the topic. The focus is on developments with respect to the EU Taxonomy and ESG factors in ratings.

1 <https://www.wko.at/branchen/bank-versicherung/fohlen-pk-investitionskosten-transformation.pdf>

2 Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft (Austrian Society for Sustainable Real Estate Management)

Long-time employees also take part in training courses on sustainability, of course. This makes it possible for us to work closely with our customers and support them in the alignment of their business activities with the targets of the Paris Climate Agreement.

The staff of our Treasury, Finance, Investment and Asset Management teams have already acquired in-depth knowledge regarding green, social and sustainability bonds over the past years. Working closely with our customers, we have placed several sustainability bonds on the capital market. The focus in this context is on refinancing individual sustainable loans. This approach gives our corporate and business customers a chance to gain initial experience on capital markets and also an opportunity to present their projects to a wider public. The goal of utmost transparency means that customers who invest in these bonds know exactly in which regional projects they are investing and can be certain of the sustainable use of the funds.

3.3 Value chain

BKS Bank is well aware of its social and ecological responsibility along the entire value chain. Our decisions to enter into or reject financing and investment transactions is how we contribute to achieving a low-carbon economy. Therefore, we have defined exclusion and inclusion criteria that make it clear to our employees which transactions are especially sustainable and relevant for BKS Bank, and which are the ones we do not enter into under any circumstances. Our Code of Conduct for Business Partners and Suppliers imposes the obligation to comply with ecological and social standards on our business partners and suppliers.

EMAS (Eco Management and Audit Scheme) is one of the most widely-used and ambitious environmental management systems in Europe. BKS Bank has been working with this environmental management system since 2020. An environmental team headed by an environmental officer is responsible for implementation. The environmental officer reports regularly to the Management Board on its status. In the light of continuing climate change, it is clear that companies must contribute to the efforts to reduce energy consumption and greenhouse gas emissions in order to check the rise in global temperatures and avoid climate tipping points. EMAS provides the best instrument for successfully managing energy use and environmental performance. As an example, we mention the procurement guidelines that define the minimum standards for BKS Bank's purchasing activities.

3.4 Remuneration

The credibility of a sustainability strategy is achieved by linking implementation to remuneration policy. The remuneration policy of the Management Board of BKS Bank is based on the values of sustainability, stability, security and credibility. The interests of shareholders, customers, employees and other stakeholders of BKS Bank are taken into account in a balanced manner. The performance of BKS Bank's Management Board is assessed annually and the defined criteria are measured promptly and continuously.

The following criteria decide the remuneration of the Management Board:

- Scope of responsibility
- Extent of responsibility
- Personal performance of Management Board members
- Implementation of corporate strategy
- Achievement of the company's strategic goals including sustainability goals based on the defined strategy and multi-year plan
- Economic situation of the company
- Sustainable compliance with the strategic risk indicators

The following factors play a key role for measuring attainment of the sustainability targets: ISS ESG rating, volume of sustainable products, successful EMAS certification and the staff turnover ratio. The sustainability targets are weighted at 30% when determining the variable remuneration of the Management Board. For further information on the remuneration of the Management Board, see the Remuneration Policy for the Management Board and the Supervisory Board of BKS Bank AG. These are available on our website under [Investor Relations > Reports and Publications > Remuneration](#).

The criteria above also apply to target attainment agreements for the first management level. These take into account sustainability targets within the Group targets, with the latter being weighted at 40% in the overall target definition.

3.5 Targets

We play a pioneering role in the Austrian banking market in the field of sustainability. This is confirmed by the various certifications and awards received such as the Green Brand quality label and the Vienna Stock Exchange Sustainability Award. The goal is to preserve our leading position in the area of sustainability, and therefore, our competitive advantage. Evidence of our achievements include the "Prime" rating status for sustainability conferred by ISS ESG, the inclusion of our shares in the VÖNIX index, and the AA rating in the MSCI ESG for our treasury portfolio.

As regards our infrastructure, we have the goal of implementing at least five green building measures per year. In the case of new buildings and renovations, we aim for EU Taxonomy alignment and ÖGNI certification. For example, the "BKS-Lebenswert" green building project in Eisenstadt was awarded the "DGNB Gold Standard" in 2023. The property includes 26 rental apartments, around 1,600 m² of commercial space and a BKS Bank branch. There are further projects in Villach, Klagenfurt and Mattersburg for which we aim to obtain certification that are in the planning stage or work in progress, and for which ÖGNI provides construction supervision support.

We installed our first photovoltaic system on rooftops at our Head Office in 2013. Since then, we have taken advantage of further spaces rooftops to install photovoltaic systems. Apart from the ten photovoltaic systems currently in operation, five more will be added in 2024. The photovoltaic systems make a valuable contribution to reducing our CO₂

footprint. A key element of our climate action strategy is to reduce our overall energy usage. We aim to reduce it to 7.2 GWh by 2025.

In the area of lending, we aim to achieve an annual volume of new sustainable loans of EUR 200 million per year. The share of ESG investment components in asset management is to be increased to 30% by the end of 2025 (from 16.5% at year-end 2019).

Since 2019, we have been looking closely at the calculation of financed emissions and are working continuously to improve data quality. In 2024, we plan to continue to work intensely on the science-based targets. Starting out from the targets defined in 2023, this involves the development and subsequent implementation of specific plans of action to achieve the targets.

As a member of the Green Finance Alliance, we are already committed to the gradual phasing-out of fossil fuels. Therefore, we have defined an exit scenario in our climate strategy in line with the Green Finance Alliance.

3.5.1 Coal

We have not granted any loans dedicated to new coal projects since 2017. As of 2023, we will not grant any new loans or make investments in companies that generate more than 5% of their sales in activities in the coal sector (exploration, processing/production, distribution, power generation, heat generation). This does not apply to loans for specific purposes that are related to the expansion of the coal infrastructure.

When investing in listed instruments, we aim to invest only in instruments not related to coal projects. In contrast to the lending business, where we know our customers very well, we are dependent on third-party providers in the case of investment funds for the verification our exclusion criteria. Therefore, when investing in funds we are very careful to avoid acquiring any shares in funds with investments in connection with coal as a fossil fuel that exceed 5% of the fund's assets. By 2030, we aim to exit all portfolio positions in companies that generate more than 5% of their sales from activities in the coal sector (exploration, processing/production, distribution, power generation, heat generation). This excludes, where applicable, EU Taxonomy-compliant economic activities and projects aligned with the Paris Agreement, as well as companies that have science-based climate targets (time horizon: 2050, including five-year interim targets) and are decarbonizing their core business in line with the Paris Agreement.

3.5.2 Oil

We do not grant any new loans dedicated to investments in unconventional oil projects (shale oil, oil sands, Arctic oil) and related to activities in the oil sector (exploration, production, processing, distribution, power generation, heat generation) that aim to expand the oil infrastructure. Therefore, no loans will be granted from 2025 onwards for any intended use that serves the expansion of the oil infrastructure. This excludes EU

Taxonomy-aligned economic activities where applicable.

Additionally, from 2025 onwards no loans will be granted to companies that generate more than 30% of sales from oil activities (exploration, production, processing, distribution, power generation, heat generation). This does not apply to dedicated loans not related to the expansion of the oil infrastructure.

By 2030, we aim to exit all portfolio positions related to companies that generate more than 5% of sales from oil activities (exploration, processing, distribution). This exit scenario also applies to investments in listed financial instruments. This excludes, where applicable, EU Taxonomy-aligned economic activities and projects aligned with the Paris Agreement, as well as companies that have defined science-based climate targets (time horizon: 2050, including five-year interim targets) and are decarbonizing their core business in accordance with the Paris Agreement.

3.5.3 Natural gas

From 2026 onwards, we will not grant any dedicated loans for natural gas projects relating to activities in the natural gas sector (exploration, processing, distribution, power generation) that aim to expand the natural gas infrastructure. This excludes EU Taxonomy-aligned economic activities where applicable. Likewise, loans will no longer be granted to companies that generate more than 30% of sales from natural gas activities (exploration, processing, distribution, power generation). This excludes earmarked loans not related to the expansion of natural gas infrastructure.

By 2035, we aim to exit all portfolio positions relating to companies that generate more than 5% of sales from natural gas activities (exploration, processing, distribution, power generation). This exit scenario also applies to investments in listed financial instruments. This excludes EU Taxonomy-compliant economic activities or projects aligned with the Paris Agreement, as well as companies that have defined science-based climate targets (time horizon: 2050, including five-year interim targets) and are decarbonizing their core business in accordance with the Paris Agreement.

3.5.4 Nuclear power

Nuclear power is the subject of controversial debate in our society. Nuclear power generation produces very low direct greenhouse gas emissions. However, there are a number of aspects relating to safety and social compatibility in this context, which is why we have long since excluded nuclear energy from our business activities. We do not grant new loans to companies that generate more than 5% of sales from activities related to the production of energy from nuclear fission. Likewise, we do not invest in investment funds in which more than 5% of the fund's assets are invested in companies with a share in sales from nuclear power that exceeds 5%. By 2035, we aim to exit all portfolio positions in companies that generate more than 5% of sales from activities in the energy generation sector (electricity, heat, process energy) from nuclear fission or that aim to expand the nuclear energy infrastructure.

4 Information on material risks and their management

The assessment of ESG risks is based on a medium to long-term observation period. This applies mainly to risks arising from climate change, as transitory and physical risks do not have an immediate impact. BKS Bank defines one year as a short-term period, one to five years as a medium-term period and more than five years as a long-term period.

Sustainability risks are managed as part of the management of BKS Bank's individual risk types. The risk policy principles for managing sustainability risks and, in particular, climate-related risks refer to the various management levels and risk categories, and are based on the principles and requirements of the ECB's "Good practices for climate-related and environmental risk management"¹, the BCBS² "Principles for the effective management and supervision of climate-related financial risks"³ and the "FMA⁴ guidelines on managing sustainability risks"⁵.

Our private and corporate customer loan portfolio is regularly screened for ESG risks with the help of external tools such as Climcycle. A climate stress test was also conducted using this tool. To identify and assess risks, ESG risks are examined with regard to potential risk drivers and their impact on other bank-specific risks in an annual risk assessment. The management of ESG risks, and climate risks in particular, is already defined in the risk policy principles of the risk strategy and in the Risk Appetite Framework. BKS Bank's risk strategy and the risk management manual are assessed and discussed with the Management Board and adjusted for changed circumstances annually. Thus, the climate targets are analysed from a risk perspective as part of the management of all banking risks and portfolios. Especially when investing in investment funds or when structuring the loan portfolio, the benchmarks for the customer portfolio defined in the risk strategy are taken into account, measured against the ESG Climcycle score, either in the form of quantitative scores or MSCI rating classes or in the form of absolute CO₂ values.

5 Key performance indicators

BKS Bank has been regularly preparing a CO₂ balance since 2012. In accordance with the Greenhouse Gas Protocol (GHG Protocol), all activities that generate greenhouse gas emissions and are attributable to Scope 1 and Scope 2 are included when preparing the greenhouse gas emissions balance.

¹ European Central Bank, Good practices on climate-related and environmental risk management – Observations from the 2022 thematic review, European Central Bank, 2022, <https://data.europa.eu/doi/10.2866/417808>

² Basel Committee on Banking Supervision

³ <https://www.bis.org/bcbs/publ/d532.pdf>

⁴ Austrian Financial Market Authority

⁵ <https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=4720&nonce=94cb9f973cca4406>

- Scope 1: Emissions from heat (gas and oil), vehicle fleet (petrol and diesel) and refrigerant losses
- Scope 2: Emissions from purchased energy (electricity and district heating)

Additionally, Scope 3 categories are also successively being recorded:

- Scope 3: Travel activities by train and plane, paper consumption, newly purchased IT equipment, employee travel to and from work and the Scope 3 shares from Scopes 1 and 2
- Since 2021, we have recognized financed emissions resulting from loans and investments (Scope 3.15) as much as possible. We take guidance from the Partnership for Carbon Accounting Financials (PCAF) Standard. We have also started calculating emissions from our vehicle leasing business in accordance with the GHG Protocol.

Further details on our greenhouse gas emissions balance are contained in BKS Bank's Annual Sustainability Report.

Our key performance indicators in this context:

Performance indicators	Unit of measurement	Reference to the reporting frameworks
Direct greenhouse gas emissions from sources owned or controlled by BKS Bank (Scope 1)	Tons in CO ₂ equivalents	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305
Indirect greenhouse gas emissions from the generation of electricity purchased and consumed and from heat purchased (Scope 2)	Tons in CO ₂ equivalents	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305
All indirect greenhouse gas emissions (not covered by Scope 2) from our value chain (Scope 3) ¹	Tons of CO ₂ equivalents	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305
Average CO ₂ intensity of BKS Bank's credit and investment portfolios insofar as the data is available or can be reasonably estimated	Tons of CO ₂ equivalents/EUR million invested	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305

¹ The currently recorded Scope 3 categories and the successive expansion of Scope 3 categories are presented in the most recent Sustainability Report.

Energy consumption and generation cause a significant share of greenhouse gas emissions. Therefore, other important performance indicators for us are electricity consumption, total energy consumption and the respective ratios of renewable energy.

Performance indicators	Unit of measurement	Reference to the reporting frameworks
Power consumption	GWh	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305
<ul style="list-style-type: none"> • Thereof share from renewable energy 	GWh	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 305
Total energy consumption	GWh	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 302
<ul style="list-style-type: none"> • Thereof share from renewable energy 	GWh	<ul style="list-style-type: none"> • TCFD indicators and targets • GRI 302

For further information on current values and the calculation of the individual indicators, please refer to the most recent Sustainability Report or Environmental Statement. These are published annually on our website.

6 Engagement strategy

6.1 Principles

In our core business, investments in asset management and in the treasury portfolio are potential areas for action. In this case, the focus is on the respective companies invested in. However, since BKS Bank invests almost exclusively in (umbrella) funds, its involvement in this area is limited to ESG dialogue with entities that offer fund investments.

Another potential field of action is the lending business. We believe corporate loans have the greatest leverage. Pursuant to our sustainability strategy "With accountability into a liveable future", it is clear that we must motivate and support our customers to join us on the transition to a sustainable economy. Ultimately, our sustainability as a bank depends on the sustainability of our customers.

BKS Bank's broad understanding of engagement means it uses the instrument of ESG dialogue also with other target groups to motivate them to do transition to sustainable business.

6.2 Target groups & methods

As part of the ESG dialogue, BKS Bank has defined target group-specific forms of engagement based on the "Three Goals" of Climate Action 100+, which also consider the special requirements of each group and the respective options of BKS Bank.

A priority ranking of customers and customer groups for the ESG dialogue is defined as soon as the climate targets based on the Science Based Targets Initiative (SBTi) have been verified. Generally, it may be assumed that the following groups are considered.

6.2.1 Investment fund companies in the context of customer and own investments

BKS Bank often uses fund investments of 3 Banken-Generali Investment-Gesellschaft m.b.H. (3BG) for its own and customer portfolios. As we are invested in the fund company, we have an opportunity to influence its orientation, investment programme and fund structure. BKS Bank also takes advantage of its shareholding in the fund company to regularly discuss ESG-related principles and measures for the investment processes and to advance ESG development.

Relevant principles and measures are discussed at the regular meetings of the Management Board. 3BG is also the fund manager for the investment funds used in BKS Bank's own portfolio management. It is particularly important to BKS Bank that sustainability aspects (including engagement) are taken into account in the management of these funds. These topics are discussed at the monthly meetings with fund managers. In these regular discussions, efforts are also made to ensure that due attention is given to the exercise of voting rights at the 3BG level. However, our engagement does not only mean exerting influence at the annual general meetings. Much more important is to get the fund managers to bring the topic of ESG to the attention of the CEOs, CFOs and CIOs of large public companies at the regular management meetings.

BKS Bank's portfolio managers take ESG into account when selecting third-party funds. The topic of engagement is actively addressed in discussions with sales staff and fund managers from other Austrian and foreign investment fund companies. Active engagement in addition to financial metrics and general ESG topics is essential when reaching investment decisions for specific funds.

6.2.2 Corporate and business customers at the focus of sustainable finance

Sustainable finance is a central part of BKS Bank's business philosophy. Social topics are just as relevant to us as ecological topics. At BKS Bank, we believe that social justice and

social cohesion are conditions for the success of the ecological transformation of our economy.

Decarbonization is at the heart of this transformation. Apart from other internal decarbonization measures, BKS Bank considers it important to support customers in their decarbonization efforts and with the transition to a low-carbon economy so as to keep their business models successful also in the future. For this reason, BKS Bank has actively engaged in sustainability management in past years and has even integrated its continuously developing ESG criteria into its business activities.

The lending business has great potential for ESG dialogue with customers. We currently address sustainability efforts at regular meetings with customers and conduct an ESG soft fact assessment in the rating process. As BKS Bank, we plan to go one step further to better assess the improvements in sustainability performance, especially with regard to decarbonization.

In the year 2023, a pilot project was launched to develop and optimize the engagement process with corporate and business customers. Stakeholders were selected by company size and financed emissions. Additionally, customers from the public sector (municipalities) were also selected, as they represent a significant portion of our customer portfolio. Customers were asked questions on each of the ESG topics using a standardized questionnaire at the annual talk. The system selected for engagement at the individual customer level will be developed further based on the experience gained from the 2024 pilot project and rolled out to a broader customer base. At the same time, additional companies will be added to the selection which we want to encourage to define their own science-based targets.

6.2.3 Equity investments

BKS Bank owns various equity investments, especially in credit and financial institutions and in companies that provide banking-related services. In this context, attention is paid to ESG-related criteria and positions and compared with the positions of BKS Bank. If the principles and activities of the portfolio companies fall short of BKS Bank's standards, dialogue is sought to discuss how to support efforts to achieve sustainable development. One way to achieve this is by addressing the company's management or within the scope of shareholder meetings.

6.3 Performance measurement

BKS Bank registered with the Science Based Targets Initiative (SBTi) in 2023 and is committed to the targets set out in the SBTi Finance Framework. Subsequently, we will define valid portfolio-specific targets and key indicators that support the 1.5°C goal. Some of these targets will be monitored using engagement-related indicators.

6.4 Escalation

If the use of the defined engagement tools does not result in the attainment of the targets, the first step is to extend the talks and, for example, seek communication at the CEO level. If the measures do not improve the situation, new loans or prolongations may be rejected or the issuers' corresponding products may be removed from the product selection. Termination of business relationships by BKS Bank is not part of the ESG dialogue.

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