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# Policy on integrating ESG risks into investment decisions

Version n° 1

Approved at the meeting of the Board of Directors of Creand Wealth & Securities (Banque de Patrimoines Privés) on October 21<sup>st</sup>, 2021

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## 1. INTRODUCTION

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### 1.1. Introduction

Creand Wealth & Securities (Banque de Patrimoines Privés), (hereinafter, the “Bank”) is aware of the environmental, social, and corporate governance (ESG) challenges that affect it. It is also conscious of the regulations, policies and objectives being increasingly promulgated by international authorities in relation to sustainability. While there is no obligation on the parent company to address such issues, they have a transversal impact through its subsidiaries, and they represent an opportunity to improve the Bank’s positioning with respect to best market practices.

In this context, Creand Wealth & Securities, by means of this “*Policy on integrating ESG risks into investment decisions*” (hereinafter, the “Policy”) is seeking to reaffirm its commitment to the integration of ESG risks in decision-making processes for investment products. This has a direct impact on the business strategy and objectives, on the corporate governance structure, as well as the provision of investment products.

One of the fundamental pillars of Creand Wealth & Securities is its commitment to always act on the basis of responsibility and transparency, looking after the interests of its customers. In response to the sustainability challenges faced by society, it is interested in improving its market positioning by considering sustainable factors as one of the principal elements to include in the analysis of and decision-making on its investment products and services.

### 1.2. Regulatory Framework

The regulatory framework used as a reference in developing this Policy and that affects the Bank is set out below, excluding the aspects for which other specific legislation applies, due to location and scope of activity.

- **Regulation (EU) 2019/2088** of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
- **Regulatory Technical Standards (RTS)**, published by the European Banking Authority on 4 February 2021 for the implementation of Regulation (EU) 2019/2088, which will be effectively implemented, following approval from the European Commission, on 1 January 2022.
- **Regulation (EU) 2020/852** of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.
- **Delegated act on technical screening criteria for taxonomy**, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020, with the technical screening criteria established by the Taxonomy report.
- **Delegated act of 6 July 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and Council, specifying the content and presentation of the information that companies must disclose.**
- **Circular CSSF 21/773, on the Management of Climate-related and Environmental Risks**, applicable to all credit institutions designated as Less Significant Institutions under the Single Supervisory Mechanism<sup>1</sup> and to all branches of non-EU credit institutions.
- **Circular CSSF 20/759**, which amends Circular CSSF 12/552, on the central administration, internal governance, and risk management of credit institutions.

### 1.3. Definitions

The principal definitions for concepts related to the integration of ESG risks used throughout this Policy are set out below.

According to Regulation (EU) 2019/2088, the following definitions apply:

- **Sustainability factors:** “environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.”
- **Sustainability risk:** “an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.”  
Therefore, sustainability risks are those possible events related to ESG matters that may have a negative impact on the return of investments. Within this kind of risks, the CSSF particularly defines physical risk and transition risk:
  - **Physical risk:** refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.
  - **Transition risk:** refers to an Institution’s financial loss that may result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.
- **Sustainable investments:** any investment that contributes to an environmental or social objective, provided that the investee companies follow good governance practices.
- **Principal adverse impacts (PAIs):** “those impacts of investment decisions and advice that result in negative effects on sustainability factors.”
- **Financial adviser (FA):**
  - “an insurance intermediary which provides insurance advice with regard to insurance-based investment products (IBIPs).
  - an insurance undertaking which provides insurance advice with regard to IBIPs.
  - a credit institution which provides investment advice.
  - an investment firm which provides investment advice.
  - an alternative investment fund manager which provides investment advice in accordance with point (b)(i) of Article 6(4) of Directive 2011/61/EU.
  - a UCITS (Undertaking for the Collective Investment in Transferable Securities) management company which provides investment advice in accordance with point (b)(i) of Article 6(3) of Directive 2009/65/EC.”
- **Financial Market Participant (FMP):**
  - “an insurance undertaking which makes available an insurance-based investment product (IBIP).
  - an investment firm which provides portfolio management.
  - an institution for occupational retirement provision (IORP).
  - a manufacturer of a pension product.
  - an alternative investment fund manager (AIFM).
  - a pan-European personal pension product (PEPP) provider.
  - a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013.
  - a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013.
  - a management company of an undertaking for collective investment in transferable securities (UCITS management company).
  - a credit institution which provides portfolio management.”

The following terms are also considered relevant:

- **DNSH (Do no significant harm to the sustainable investment objectives):** concept introduced by the European Union Taxonomy Regulation of not causing significant harm to any of the environmental objective established in Article 9 of said Regulation. In this sense, if an economic activity contributes substantially to achieving one environmental objective, but at the same time significant harms another, it will not qualify as a sustainable activity.
- **ESG Factors:** The EBA (*European Banking Authority*) defines this concept as those factors with environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.
- **Financial materiality:** based on the risks posed by ESG factors, the EBA defines financial materiality as that which arises from economic and financial activities along the entire value chain and that affects the performance of those activities.
- **Environmental and social materiality:** defined by the EBA as the materiality arising from the external impact of those economic and financial activities generally of most interest to citizens, consumers, employees, etc.

## 1.4. Related Policies

This Policy is related to the following local policies:

- Remuneration Policy
- Risk Management Policy
- New Products and Activities Policy
- Group level policies in the scope of ESG risk regulatory requirements.

## 2. GENERAL OBJECTIVE AND SCOPE

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### 2.1. Objective

In accordance with the requirements of Regulation (EU) 2019/2088 on disclosures, the consideration of sustainability factors in investment decision-making is relevant due to not only the impact they have on the Bank itself, but also for how they contribute to the development of the economy and financial stability.

With this Policy, the Bank is pursuing five main objectives:

- To set out the process for integrating ESG factors and risks in investment decision-making.
- To contribute to global environmental, social and governance goals.
- To comply with current regulations and the supervisory expectations of authorities and leading bodies.
- To satisfy the needs and desires of the Group's customers, shareholders, and investors.
- To increase transparency disclosed to the market and to customers and investors on how the Bank integrates and manages sustainable risks in investment decision-making.

Furthermore, Creand Wealth & Securities believes that the integration of sustainability factors into the Bank's strategy, governance and business model is fundamental to achieving the desired return over a certain time horizon, thereby helping to meet the Bank's sustainability targets.

The Bank emphasises the impact that the contribution of the investment and asset management sector could have on the transition to an economic model more committed to sustainability and the climate and environmental goals set by the relevant authorities. It therefore highlights its commitment and active involvement in adopting best practices in its due diligence processes and analyses of stakeholders in investment decision-making.

### 2.2. Scope

This Policy covers the ESG risk management criteria to be applied to Creand Wealth & Securities, establishing the general principles that should guide and regulate the management and integration of risks within the Bank.

Regulation (EU) 2019/2088 conveys the need to provide and disclose the information necessary to enable end customers and investors to make informed investment decisions. The governing bodies of all the entities subject to Regulation (EU) 2019/2088 have the duty to implement the measures necessary to ensure the proper and effective application of this Policy adapted to their specific characteristics.

According to the role adopted by the entity, the current regulations establish different obligations depending on whether it acts as a Financial Market Participant (FMP) or Financial Adviser (FA). In this regard, the entity acts as an FMP.

### 3. GENERAL PRINCIPLES AND CRITICAL PARAMETERS

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The application of the Policy is governed by the following general principles of action, which are consistent with the principles underpinning the Bank's overall strategy:

- **Transparency:** to guarantee and encourage complete, transparent, and responsible communication about the integration and management of ESG risks, as well as about the progress and evolution of the Bank in this area.
- **Prudence:** to prudently manage ESG risks according to prudential criteria, preserving the fundamental objectives of solvency, profitability, and efficiency.
- **Proportionality:** to carry out the management and integration of ESG factors according to the size, structure and nature of the Bank's activity.
- **Regulatory compliance:** to guarantee compliance with applicable regulations and current supervisory expectations in the geography(ies) in which the Bank operates.
- **Social responsibility:** to encourage socially responsible and sustainable practices to contribute to greater economic, social and environmentally sustainable progress through the inclusion of sustainability factors in the evaluation and analysis of products and services.
- **Proactive risk management:** to manage ESG risks in a comprehensive manner through the supervision of regulatory compliance and alignment with the risk appetite levels established.
- **Conservation of value for the investor:** to protect the interests of customers, promote value creation and respond to the needs and expectations of shareholders and investors for investment decision-making.
- **Communication:** to establish adequate and fair communication and dissemination channels with stakeholders and provide a personalised and inclusive response.
- **Information:** to periodically disclose clear and truthful information to the market on the sustainability factors integrated into the financial investment products and services offered by the Bank that are under the scope of Regulation (EU) 2019/2088.
- **Commitment to sustainable development:** contribution to the socio-economic development of the territories in which the Bank operates, enabling the needs of the present to be met without compromising the ability of future generations to meet their own needs, and ensuring a balance between economic growth, care for the environment and social well-being.

Below we outline the Bank's sustainability efforts in the most relevant aspects of Regulation (EU) 2019/2088 and the Regulatory Technical Standards (RTS) for the implementation of Regulation (EU) 2019/2088.

#### 3.1. Management of Adverse Sustainability Impacts

In accordance with Regulation (EU) 2019/2088 and the Regulatory Technical Standards (RTS) for the implementation of Regulation (EU) 2019/2088, entities must consider the inclusion of the Principal Adverse Impacts (PAIs) to measure the impact that investment decisions and advice have on sustainability factors.

The Bank has decided not to conduct an analysis of the adverse impact of investment decisions on sustainability factors and, therefore, it does not take into account the principal adverse impacts of investment decisions on sustainability factors.

The reasons for this decision are as follows:

- Adverse impacts on sustainability factors that may arise from investment decisions are not currently taken into account due to the lack of a higher degree of market evolution and maturity of the data and information required for disclosures, for all issuers and financial instruments concerned.
- Furthermore, adverse impacts on sustainability factors are not currently taken into account because, on the date of the approval of this Policy, the regulatory requirements associated with the voluntary consideration of adverse sustainability impacts are pending further clarification by the competent authorities.

This circumstance does not prevent the organisation's decision regarding the consideration of adverse impacts on sustainability factors from potentially being changed in the future, should the regulation on this issue establish new requirements and should the degree of evolution of the data and information required for the disclosure of adverse impacts on the market lead to greater maturity in the availability of the same and of the associated methodologies for their calculation.

### 3.2. Consistency of the Remuneration Policy with the integration of ESG Risks

In accordance with Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, entities should incorporate into their remuneration policies information about the consideration of sustainability factors in the variable remuneration of their employees.

As such, following the principle of proportionality, the entity shall determine and justify in its corresponding Remuneration Policy whether sustainability factors have been considered in its remuneration schemes and shall ensure, where appropriate, the consistency of its remuneration practices with the consideration of the sustainability factors assumed by the Bank.

### 3.3. Integration of ESG Risks in the Provision of Investment Products

In line with the provisions of Regulation (EU) 2019/2088 on the inclusion of ESG characteristics and criteria in the portfolio of investment products and services, Creand Wealth & Securities believes that the integration of ESG considerations in the evaluation and analysis of products could have a favourable impact on the return on investments.

Therefore, within the framework of investment services, and in line with the disclosure obligations of Regulation (EU) 2019/2088, the Group, in order to comply with these requirements, shall take the necessary steps and undertake the appropriate processes as applicable in each case. This is with the aim of ensuring the adaptation, at all times, to said regulations through the integration of sustainability risks in investment decision-making processes in those cases in which it assumes the role of a Financial Market Participant (FMP).

Regulation (EU) 2019/2088 establishes the following as the main disclosure channels on which the Bank is making the necessary revisions and adaptations:

- Website disclosures: requirements intended for the publication on the Bank's website of a statement on the inclusion of sustainability factors in the Remuneration Policy, in investment decisions, as well as the new pre-contractual disclosure documentation for products and services offered with the consideration of sustainability criteria.
- Pre-contractual disclosures: actions aimed at the modification of the pre-contractual disclosures for the Bank's own investment products (FMP), including the incorporation of ESG risk criteria and considerations. This is in addition to the inclusion of an ESG risk integration statement in the

sustainability section of the pre-contractual disclosures on investment products, or substitution thereof where a statement was already included.

The Bank has to ensure that the Group's products that comply with the requirements set out in Article 8 of Regulation (EU) 2019/2088 comply with the disclosures required therein in the pre-contractual disclosures.

- Post-contractual disclosures: shall be subject to development and compliance by the Bank on the relevant date of entry into force.

For the assessment of ESG aspects and their potential impact on the value of the product it offers, the Bank relies on its own analyses and information from external providers to carry out an exercise in transparency by disclosing this information to shareholders and investors.

Accordingly, statements on ESG considerations are already included in some of the products offered and, where appropriate, these are reflected in the individual product prospectuses.

To guarantee the reasonable management of ESG risks, as well as to ensure that the sustainable products it markets and offers comply with the social and environmental characteristic they promote, the Bank may adopt exclusion criteria in its investment processes if it deems it appropriate. These exclusion criteria will be defined on the basis of the process of analysis and assessment of excluded sectors in the investment decisions that the Bank may undertake. In general, the Bank is already opposed investment in companies that engage in reprehensible practices in violation of international treaties.

## 4. GOVERNANCE STRUCTURE AND MANAGEMENT MODEL

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### 4.1. Risk Management Model

Creand Wealth & Securities has a corporate governance framework based on the three lines of defence model, providing the Bank with an overall structure of governance, management, and control over ESG risk that is proportional to the complexity and peculiarities of its business model.

Each line of defence must designate a person to oversee the proper execution of its functions, as well as the establishment or adaptation of the necessary internal ESG risk management processes in the overall context of the governance of ESG products and services.

#### **First line of defence**

The first line of defence, made up of the Bank's Commercial Areas, carries out the integration of ESG risks in investment decisions in accordance with this document and other applicable policies, procedures, and manuals. Within this first line of defence, there is an initial level of control whereby the Bank's Commercial Areas verify that the management and exposure of this type of risk is in line with what has been established by senior management.

Therefore, the functions of the first line of defence in relation to sustainability factors include the following tasks, among others:

- Ensuring alignment between the ESG risk integration process and the Bank's business model, as well as the correct adaptation and coordination, as appropriate, with regard to this integration.
- Ensuring the effective integration of ESG factors in the Bank's investment product portfolio.
- Approving the statement of the consideration/ non-consideration of adverse sustainability impacts.
- Approving this Policy and subsequent modifications to adapt it to the regulations in force and developments made by the Bank, as well as to adapt it to the characteristics of subsidiaries.

#### **Second line of defence**

The second line of defence consists of the Risk Management Department and Compliance Department, which are to ensure that ESG risks are managed in accordance with the Board's sustainability strategy and regulatory requirements.

#### **Third line of defence**

The third line of defence, consisting of the Internal Audit function, is charged with periodically evaluating the suitability and effectiveness of the policies, methods and procedures drawn up for ESG risk management. It reports to the Board of Directors through the Audit and Risk Committee.

## 4.2. Governance of the strategy for integrating ESG risks into investment decisions

The New Products and Activities Committee shall be responsible for deciding on how to integrate ESG factors into investment decision-making. It shall be the governance body responsible for defining the strategy, courses of action and specific measures to implement the consideration of ESG factors in investment, as well as for defining the guidelines that facilitate the integration of sustainability risks in investment processes.

## 5. INTEGRATION OF ESG FACTORS IN INVESTMENT DECISIONS

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In implementing the general principles underlying this Policy, the Bank may reflect its commitment with the integration of ESG factors in investment decisions through the development of products and/or services with sustainable characteristics or investment objectives that comply with the provisions of Articles 8 and 9 of Regulation (EU) 2019/2088 and the implementing Regulatory Technical Standards (RTS), and which shall chiefly be channelled through the funds, SICAVs and discretionary portfolio management services available to the Bank.

To ensure that the social or environmental characteristics are met, in the case of products and services classified under Article 8, and to ensure fulfilment of the sustainable investment objectives, in the case of products and services classified under Article 9, the Bank may define the following, inter alia:

- The investment strategy used to achieve the environmental or social characteristics promoted by the financial product, in each case.
- The binding elements of this strategy for selecting investments to achieve the environmental or social characteristics that each product promotes.
- A procedure determining how this strategy is applied to the investment process on an ongoing basis, assigning specific responsibilities and functions to the bodies involved in the three lines of defence model established by this Policy.
- The mechanisms, processes, methodologies and tools, both internal and external, that may be used to implement the strategy and the procedures drawn up in order to comply and measure the degree of compliance with the environmental or social characteristics or the sustainable investment objectives set.
- Due diligence processes on external data providers to clarify the methodologies applied and to verify the quality of the data.

## 6. DOCUMENT GOVERNANCE: MONITORING, REVIEW AND APPROVAL

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The Policy on integrating ESG risks into investment decision-making is approved by the Bank's Board of Directors, which is also responsible for adopting the measures required for its effective implementation.

This Policy is effective on the date of its approval by the Board of Directors and shall be reviewed periodically at least once a year. Furthermore, it shall be reviewed and revised or updated as and when circumstances or events arise that require it, such as:

- Amendments to the regulatory framework, recommendation, requirements and/or methodologies that the relevant authorities may approve.
- Changes to the Bank's organisational structure affecting this Policy.
- Changes to the business model or objectives set by the Bank.
- Amendments to the processes affected by and developed in this Policy.

The Risk Management Department is responsible for drawing up and revising this Policy, which is ultimately submitted to the Board of Directors for its approval by the Audit, Risk and Compliance Committee (ARC Committee). However, any department involved in the integration of ESG risks into investment decisions may propose amendments to this Policy.

In addition, each jurisdiction, revision, or modification of this Policy shall be communicated to each of the entities operating in each geography at the local level for proper adoption and, if applicable, local adaptation. Therefore, the content of this Policy constitutes a process of continuous improvement that shall be reflected in the successive periodic revisions of the document.

Regarding disclosure, this Policy approved by the Board of Directors on October 21<sup>st</sup>, 2021 shall be published on the Bank's corporate website (<https://creand.lu/>), alongside an extract thereof.

## 7. HISTORY

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Version n°	Date	Author	Modification
1	15/10/2021	Risk Management	Initial Version