

Statement of the sustainability risks integration policy

1. Introduction

1.1. Spuerkeess mission and commitment

Since its creation in 1856, Spuerkeess has occupied an important place in the country's economic and social development. Its mission is defined by the Organic Law of 24 March 1989:

Article 5 of the Organic Law of 1989: "As a State Bank, the Bank has the mission of:

a) contributing by its activities, in particular its financing activities, to the economic and social development of the country in all fields, and

b) promoting savings in all its forms. »

True to its mission entrusted by article 5 of the Organic Law, Spuerkeess intends to be the reference on the Luxembourg financial centre in terms of sustainable development. As part of its sustainable development strategy, Spuerkeess has chosen a *"Transition Enabler"* approach to raise awareness among the Luxembourg economic actors regarding the energy transition by gradually directing financing and investments towards sustainable projects and assets.

The integration of environmental, social and governance (ESG) considerations in investment and financing decision-making, both for its own-account activities and for the services and products offered to its clients, is a priority for Spuerkeess.

As a systemic bank for Luxembourg, Spuerkeess has always paid great attention to its stability, while having to adapt to the changing social and economic environment in order to maintain sustainable growth, which is essential for the Luxembourg ecosystem.

1.2. Scope of application and objectives

The European regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector ("**SFDR**") requires financial market participants and financial advisers to:

- publicly disclose information about their policies on the integration of sustainability risks, respectively in their investment decision-making process and in their investment advice; and
- include in their remuneration policies information on how these policies are adapted to the integration of sustainability risks.

As a financial market participant, providing portfolio management services¹, and financial adviser², Spuerkeess is required to take sustainability risks into account within its activities.

The purpose of this document is to describe:

- in accordance with article 3 of SFDR, how Spuerkeess integrates sustainability risks (i) in its investment decision-making process and (ii) in its investment advice; and
- in accordance with article 5 of SFDR, the manner in which Spuerkeess's remuneration policy is adapted to the integration of sustainability risks.

It is specified that this document is not applicable to Spuerkeess's own-account activities.

2. Integration of sustainability risks in portfolio management and investment advice services

2.1. Sustainability risks

By definition, sustainability or ESG risks refer to environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment³.

These risks can therefore be divided into three categories:

- **environmental risks**, commonly understood to comprise two main risk drivers⁴:
 - **physical risk** refers to the financial impacts of a climate change as well as of environmental degradation. This risk can be categorised as “acute” when it results from extreme events (e.g. as droughts, floods, storms...) and “chronic” when it results from progressive shifts (e.g. increasing temperatures, biodiversity loss...); and
 - **transition risk** refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy (e.g. a relatively abrupt adoption of climate and environmental policies, technological progress, changes in market preferences...);
- **social risks** related to the negative effects of human capital management and its impacts on society (e.g. respect of human and labour rights, privacy protection and data security...); and
- **governance risks** related to the negative effects of governance structure and practices (e.g. independence of governance bodies, remuneration policy, shareholding and control structures, business ethics, regulatory and tax compliance practices...).

¹ Pursuant to article 2, 1), j) of SFDR.

² Pursuant to article 2, 11), c) of SFDR.

³ Pursuant to article 2, 22) of SFDR.

⁴ As per ECB definition given within its “*Guide on climate-related and environmental risks*” (November 2020).

2.2. Sustainability risks management

Spuerkeess's investment policy is based on a process of analysis and selection of financial instruments which are part of the investment universe from which the investment solutions relating to portfolio management and investment advisory services are based.

Currently, the sustainability risks management in the context of the investment universe definition is mainly based on:

- the application of ESG exclusions; and
- the integration of ESG factors.

It should be noted that for certain investment solutions, additional criteria, particularly more restrictive ones, may apply. These are detailed in the sustainability documentation specific to these investment solutions.

2.2.1. Application of ESG exclusions

Spuerkeess has defined an ESG exclusion policy that is part of its "Transition Enabler" strategy and is based on the principle of double materiality.

This policy excludes sectors and activities that:

- cause significant harm to the environment and society or have significant adverse impacts; and
- generate a high level of sustainability risks, particularly regarding the transition risk (impact on Spuerkeess linked to the reputation, regulations and market trends).

In this context, the resulting exclusions that are applied are sectoral in nature and/or based on controversies. These exclusions are details in the *ESG exclusion policy* published on Spuerkeess's website (<https://www.spuerkeess.lu/en/about-us/sustainability/csr-policy-of-spuerkeess/statement-of-the-esg-exclusion-policy/>).

2.2.2. Integration of ESG factors

The consideration and management of sustainability risks also involve a process of integrating ESG factors. These factors are integrated during the analysis and selection of financial instruments which are part of Spuerkeess's investment universe. Thus, the financial analysis is supplemented by an extra-financial one based on ESG factors.

To achieve this, as in the context of controversies management, Spuerkeess currently relies on ESG research and assessments provided by its partner MSCI which has developed and applies a rating methodology using a so-called "*Best-in-Class*" approach.

The ESG rating provided by MSCI allows, sector by sector, to measure the resilience of each issuer to long-term ESG risks and opportunities. The ESG ratings range from leaders (ESG ratings: AAA and AA), average (ESG ratings: A, BBB and BB) to laggards (ESG ratings: B and CCC). The highest rated issuers (AAA and AA) are those considered to best manage the main sustainability risks.



Spuerkeess integrates the ESG ratings provided by MSCI into its investment processes. Currently, there is no general exclusion policy based on the ESG ratings provided by MSCI. However, Spuerkeess seeks to favour investment in securities of the highest rated issuers and aims to achieve and maintain a weighted average ESG rating of at least AA at the level of each medium that serves as a basis for its investment advisory activity.

3. Integration of sustainability risks in the remuneration policy

Spuerkeess's remuneration policy, validated by the Executive Committee and approved by the Board of Directors, specifies that the variable remuneration granted to its employees is not based on quantitative criteria and therefore does not encourage taking sustainability risks.

This applies to portfolio management and investment advisory services through the search of a potentially higher financial return and to the detriment of Spuerkeess's sustainable development objectives.

Nevertheless, the active contribution of the staff to the long-term alignment of Spuerkeess's actions with its ambition as a "Transition Enabler" is considered within the evaluation process.

4. Legal notices

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