ESG risk integration policy

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR") defines a sustainability risk as "*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*". The aim of this policy is to describe how sustainability risks are factored into our processes within Banque de Luxembourg and its entities, including our subsidiary and asset manager BLI – Banque de Luxembourg Investments.

I. Banque de Luxembourg's responsible approach

In light of the European Union's sustainable finance strategy, the expectations of our clients and our desire to actively participate in the transition towards more sustainable and inclusive finance, our ambition is to further develop our business model and product range with respect to societal responsibility and environmental, social and governance (ESG) factors. Convinced of the merits of this approach, both in terms of sustainability and performance for our clients, we will be devoting considerable efforts to it in the months and years to come. We hope to continue with a gradual approach that builds on our robust, time-honoured principles. Naturally, factoring non-financial data into the investment process is not without its difficulties.

As a small bank and asset manager, Banque de Luxembourg and BLI - Banque de Luxembourg Investments (BLI) therefore apply a best-efforts approach.

View our non-financial report.

II. Integrating ESG risks

1. Our strategy

Mindful of our responsibilities and committed to ethical business conduct, we seek to protect our clients, and our stakeholders more broadly, by pairing commercial opportunities with deeply held values.

Efforts to considerably strengthen our compliance and prudent risk management system in recent years are a clear indication of our determination to go above and beyond regulatory standards. Indeed, additional resources have been allocated to the teams in control functions – Compliance, Risk Management and Internal Audit – enabling them to provide even greater support to staff members on a daily basis. In this regard, increasing the resources at control functions' disposal forms an intrinsic part of our responsible approach.

2. Managing environmental, social and governance (ESG) risks

In accordance with the principle of double materiality when considering ESG risks, the Bank aims to manage any adverse financial impacts that ESG factors may have on its assets, counterparties and profitability, and at the same time to consider the affects that its activities may have on the environment and society.

In light of this dual objective, the Bank has integrated into its organisation a dedicated Corporate Social Responsibility (CSR) team, a CSR Committee and internal CSR contacts/experts across its various departments.

The Bank also ensures that climate and environmental risks are gradually integrated with its risk management framework across all departments, via the inclusion of a short, medium and long-term vision.

The Bank ensures that these risks are integrated with its business management and development activities via the inclusion of support for its clients and the expansion of its product range and internal control system.

This integration requires the identification of businesses that may be susceptible to climate and environmental factors, whether in connection with physical or transition risks, and an assessment of the materiality of any potential impact. This process of identification is periodically reviewed, taking into account the environment of the Bank, its product range and changes to any technical indicators available.

Once we have identified any susceptibility to climate or environmental factors, we identify any potential contagion for banking risks, in particular, for any of the Bank's specific risks, namely:

– Credit risk

– Operational risk, including reputational and legal risk

– Strategic risk and business risk

This allows us to take a risk-based approach prioritising the implementation of dedicated tools to measure, manage and report all of these risks, and to collect any internal or external data that is required.

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BANQUE DE LUXEMBOURG

In accordance with the provisions of its parent company, the Bank has undertaken:

– To align itself, with respect for the requirements of the domestic market, with the sensitive sector policies of Crédit Mutuel Alliance Fédérale on transport, mining, civil nuclear energies, defence and security; and
– To support individuals and businesses with their energy, digital and industrial transition towards a low-carbon economy.

3. Our investment solutions

We have made consideration and assessment of sustainability risks an integral part of our strategy and investment processes for our portfolio management and investment advisory activities through steps such as applying our policies on sectoral exclusion, analysing controversies and compliance with international agreements, integrating ESG data as well as through our commitment policy.

Our ESG research draws on various external data sources. In particular, the quantitative ESG rating system used in the investment process is based on ESG ratings issued by the MSCI ESG Manager platform.

Find out more about our policy for integrating ESG factors into our discretionary management portfolios

4. Our financing services

Banque de Luxembourg applies sectoral policies as part of its financing activities, in accordance with the framework established by its parent company, Crédit Mutuel Alliance Fédérale.

These sectoral policies seek to define a set of rules governing the operations proposed to companies doing business in sectors with high levels of greenhouse gas emissions as well as an impact on healthcare and/or the environment.

The purpose of these sectoral policies is to increase the awareness of companies to sustainability objectives when requesting financing, thereby contributing to the fight against global warming, biodiversity loss and environmental degradation.

Sectoral policies are applied through specific analysis tables for each business sector. These analysis tables include counterparties' non-financial ratings, which we assess when deciding whether to proceed with financial and banking operations. In so doing, we promote ethical business relationships and seek to supplement financial analysis of the companies in receipt of financing with objective analysis of their non-financial performance and specifically their engagement with environmental, social and governance matters.

Sectoral policies have been drawn up for the following sectors:

– Transport;
– Coal;
– Hydrocarbons (Oil & Gas);
– Mining;
– Civil Nuclear Energies;
– Defence and Security.

A pilot project is being developing within Crédit Mutuel Alliance Fédérale with a view to conducting CSR analysis of unlisted companies and those not covered by a sectoral policy. This general CSR analysis is the subject of a pilot project within a French subsidiary of Crédit Mutuel Alliance Fédérale and should be rolled out to all entities during 2023.

Find out more

III. A progressive approach

We view our approach as a gradual process of upskilling and our strategy will continue to evolve as regulations change and advances are made in the field so that it reflects our vision as regards ESG as fully as possible. In the coming months, we will be enhancing the integration of ESG considerations in terms of governance, the internal control system and internal training for all staff.

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