

CaixaBank Wealth Management Luxembourg, SA

Corporate framework for the integration of ESG risks in the provision of investment services and asset management

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1. Introduction

1.1. Background

The integration of “ESG” (i.e. environmental, social and governance) risks into investment decision-making for the provision of certain investment services and asset management can have a positive effect on the long-term financial results of companies by minimising the possible negative impacts associated with investment and promoting the shift to a more sustainable and resilient economy.

This Framework sets out, in general terms, the principles and criteria which shall guide the CaixaBank Group (hereinafter the “Group”) in the integration of ESG risks pursuant to the purpose and scope defined herein and in accordance with the provisions of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, according to which market participants and advisors must specify how sustainability-related risks that could have a material negative impact on the profitability of the investment are taken into account and integrated into their policies and procedures.

The Group performs its business in strict compliance with the laws of the countries/regions where it operates and in accordance with the highest standards regarding ethics and professional conduct.

In doing so, the Group is committed to further integrating ESG criteria into its business decisions in order to mitigate risks and support entrepreneurial projects that are in line with its corporate values.

1.2. ESG risk

ESG Risk in the provision of investment services and in asset management is defined as an Environmental, Social or Governance event or condition that, if it occurs, could cause a material negative impact on the value of the investment.

1.3. Purpose

The purpose of this document (hereinafter the “Framework”) is to explain the principles aiming at guaranteeing the adequate integration of ESG risks.

The content of this Framework includes:

- General principles of the integration of ESG risks;
- Governance and control framework;
- ESG risk integration criteria.

2. Scope of application

This Framework is of a corporate nature and is applicable to CaixaBank Wealth Management Luxembourg (hereinafter “CWML”), as an entity part of the Group, to ensure that ESG risks is duly integrated with respect to activities involving the provision of discretionary portfolio management and/or investment advice services.

3. General Principles of the integration of ESG risk

The principles set out below are designed to serve as a guideline for CWML’s approach to integrating ESG risks into investment decision-making for the provision of certain investment and asset management services.

These principles are as follows:

- A commitment to contribute to the development of a sustainable and stable financial system and to support business projects in line with corporate values;
- A long-term approach in the performance of its business, compliance with regulations and observance of the latest recommendations regarding sustainability and consideration of ESG criteria within the business;
- The progressive integration of ESG aspects into the investment analysis and decision-making process alongside financial criteria such as liquidity, internal rate of return and profitability index, inter alia;
- Compliance and proper management of the risks to which CWML is exposed, including ESG risks, as set out in the risk taxonomy;
- Adapting and developing policies, procedures and control systems to promote the consideration and integration of ESG risks in investment decision-making and advice.

4. Governance and control framework

The pillars on which the governance framework for the integration of ESG risk in CWML is based are:

- Compliance with the principles set out in this Framework by CWML.
- Alignment of strategies among the Group companies, and in turn alignment with best practices, with supervisory expectations and with current regulations.
- Maximum involvement of the governing and management bodies of the Group companies.
- Internal control framework based on the Three Lines of Defense¹ model (see Section 6 hereunder) that guarantees the strict segregation of functions and the existence of several layers of independent control.

¹ As established in the EBA Guidelines, of March 21, 2018, on internal governance (EBA/GL/2017/11) and CSSF Circular 12/552, on Central administration, internal governance and risk management, as amended.

CWML promotes a risk culture that encourages risk control and compliance, as well as the establishment of a robust internal control framework that covers the entire organization and that enables fully informed decisions to be made about the risks assumed.

CWML must guarantee the existence of controls over the proper application of the general principles established in this Framework, establishing and configuring, if necessary, the relevant bodies for this purpose, taking into account its needs and particularities.

This document does not in any way contravene the existing policies in force, both at the corporate level and in relation to the specific regulations of the affiliated entities to which it is applicable, as well as the rest of the initiatives, conventions and agreements to which the Group and each of its entities may be a member.

5. ESG risk integration criteria

The risk integration of ESG criteria in investment decision-making regarding the provision of certain investment and asset management services can have a positive impact on the long-term financial results of companies and contribute to greater economic and social progress.

Therefore, in accordance with its corporate purpose and values, CWML will take into consideration socially responsible investment criteria in the activities performed within the scope of application of this Framework, drawing on the principles of sustainable investment and transparent management.

First, ESG criteria will be applied to discretionary portfolio management - where possible in view of the nature and configuration of the assets - and for them to be continually improved over the medium to long term. For such purpose, CWML will use information and data from specialised ESG providers to determine the necessary criteria, methodologies and procedures for the integration of sustainability risks.

All of the foregoing would be consistent with the introduction, if deemed appropriate, of exclusion criteria in the investment process. In general, the Group has already expressed its opposition to investment in companies or States that engage in objectionable practices in breach of international treaties such as the UN Global Compact. Likewise, the Group will not invest in companies in sectors or whose activities are excluded pursuant to the Corporate Policy on Defence Sector Relations and the Environmental Risk Management Policy.

Second, ESG risks shall also be taken into account in the provision of investment advice. In this case, in addition to applying the exclusion criteria as described above for the discretionary portfolio management process, companies whose ESG rating - as provided by a specialist provider - is not positive will be excluded. Moreover, CWML shall set out relevant limits for portfolio structure on the basis of such ESG ratings. An assessment will also be made, to the extent of the available information, of the suitability of the companies directly or indirectly involved in disputes that exceed the thresholds set by CWML.

6. Governance, control and supervision

In general terms, CWML's first line of defence will be responsible for applying the criteria for ESG risk integration as set out above. Its second line of defence will be responsible for monitoring the portfolios and, lastly, while its third line of defence will be responsible for overseeing the proper integration of ESG risks.

CWML shall take the necessary actions to integrate the provisions of this Framework and, if necessary, set up and organise the relevant bodies for such purpose, taking into account its needs and specific features.

In no way does this Framework contradict existing and applicable policies both at corporate level and in relation to the specific regulations of the CWML to which it is applicable, nor any other initiatives, agreements and understandings to which the Group and each of its companies may be subject.

7. Update

This Framework is dynamic and will be adapted as the function and the organisation change and evolve with the development and implementation of new principles and ESG risk management models.

Moreover, the social and international environment in this area is under ongoing review in light of the environmental challenges the Group faces on a global level.

The Group's strategy and standards must therefore be suitably adapted to emerging recommendations or legal requirements or based on dialogue between the Group and its stakeholders. Accordingly, the Group will review this Framework at least on a biennial basis to ensure that it is in line with international regulations and best practices.