Sustainable Finance Disclosure Regulation – Portfolio management

Sustainable Finance Disclosure Regulation (SFDR) came into effect on March 10th, 2021. The aim of the SFDR is to provide you, as an investor, with the information how Komerční banka, a.s. ("KB"), taking due account of its size, the nature and scale of its activities and the types of financial products it makes available, integrate sustainability risks into its investment decisions and considers principal adverse impacts of investment decisions on sustainability factors. Concrete regulatory requirements under SFDR are and will further be impacted also by Regulation EU 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (EU Taxonomy Regulation).

KB describes in its policies published on **www.kb.cz** how it integrates in its internal processes, the procedures for considering the principal adverse impacts alongside the relevant financial risks and relevant sustainability risks in line with SFDR art.4, the statement on principal adverse impacts of investments decisions on sustainability factors of the portfolio management activity is also published on KB website. The sustainability risks mean an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment, as specified in specific sectoral legislation. Sustainability Risks can either represent a risk on their own or have an impact on other risks and may contribute significantly to such risks, such as (but not limited to) market risks, operational risks, liquidity risks or counterparty risks. Sustainability risks are linked but not limited to climate-related events resulting from climate change (physical risks) or to the society's response to climate change (transition risks), which may result in unanticipated losses that could affect the relevant investments. Social events (e.g. inequality, inclusiveness, labor relations, investment in human capital, accident prevention, changing customer behavior, etc.) or governance shortcomings (e.g. recurrent significant breach of international agreements, bribery issues, products quality and safety, selling practices, etc.) may also translate into Sustainability Risks. Except the general information required by SFDR and published on KB website, KB fulfills in the pre-contractual information for each relevant financial product or service under SFDR the information duty. With regards to EU Taxonomy Regulation, the investments underlying **Portfolio management** do not take into account the EU criteria for environmentally sustainable economic activities, KB however expects to immediately take in it to the account once it will be possible. By information in this document KB also make the effort to provide as much transparency regarding upcoming regulation for sustainable finance.

I) INTEGRATION OF SUSTAINABILITY RISK IN INVESTMENT PROCESS

A) PORTFOLIO MANAGEMENT

To conduct its investment policy, KB has access to the monitoring and scoring of the issuers performed by the parent group SG. The ESG rating framework is based on SG financial analysts' assessment of material ESG issues in their sectors, material ESG issues reported by companies and Sustainability Accounting Standards Board guidelines. It assesses how companies manage their sustainability risks.

The ESG scoring framework of SG is based on 4 steps:
1) Identifying material ESG factors and associated weightings by sector
2) Providing key performance indicators for company evaluation
3) Calculating quantitative ESG ratings (based on Sustainalytics raw data)
4) Providing controversy levels and ESG rating trends

This ESG rating framework is providing us with total ESG score for each company as well as separate scores in Environmental, Social and Corporate Governance categories. The assessment of ESG controversy is included as well. All else being equal we prefer companies with higher scores; however, we do not claim systematical integration of these scores into our investment process within discretionary portfolio management at this moment. KB PRIV will continuously update its internal processes in order to improve the integration of sustainability risks into investment decision-making process.

In addition to this ESG integration, KB has taken commitments regarding the management of ESG criteria in its investment policy and investment decisions:

- KB systematically applies Société Générale's recommendations and complies with the Société Générale's Environmental and Social Exclusion List. ((see https://sgpwm.societegenerale.com/en/esg/our-sri-philosophy/ for the comprehensive list of exclusions).
- KB uses a methodology (as described above) to exclude any investment in companies facing very severe ESG controversies or with the worst ESG rating.

KB is aware that ESG integration can realize benefits beyond financial markets and can also have a significant impact on risk and return of a portfolio.

SG Cross Asset Research also embeds ESG sustainability factors into valuations and Equity target prices of almost all covered stocks. This is done based on stock-by-stock qualitative analysis which complements traditional top-down approach to ESG valuation. Equity target prices are integral and important input into KB investment process.

The assessment and integration of ESG criteria, particularly environmental and social criteria, into investment policies and corporate strategies changes fundamentally and in many ways the risk/return trade-off, which remains an essential criterion for any investment decision making.