Komerční banka, a.s. as a Financial Advisor providing investment advisory in relation to Amundi funds

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 and sustainability risks. 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. The statement on principal adverse impacts of investments decisions and of investments and insurance advice on sustainability factors is also, in line with SFDR art.4, 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 precontractual information for each relevant financial product or service under SFDR the information duty.

I) INTEGRATION OF SUSTAINABILITY RISK IN INVESTMENT DECISION PROCESS

The sustainability risk is initially considered when KB selects a partner whose products are subject to the investment advice. KB ensures that the manufacturer of the investment instruments falling under SFDR complies with the regulatory obligations as well as the commitments made by the Société Générale Group in terms of sustainability.

Amundi Czech Republic, investiční společnost, a.s., ("Amundi") whose products are subject to the investment advice provided by KB, implemented ESG principles in its internal processes and rules and as a financial market participant performs the best-in-class approach as a scoring methodology to measure the ESG performance of an issuer, e.g. its ability to anticipate and manage the sustainability risks and opportunities inherent to its industry and to its individual circumstances.

This approach is based on two mains scoring methodologies:

- **ESG for corporate issuers** – where each issuer is assessed with a quantitative score scaled around the average of their sector, enabling to distinguish best-practices from worst practices at sector level in the field of Environment, Social and governance. The quantitative score is translated into a rating scale ranging from A for best-practices to G, for the worst-ones, to be excluded from actively managed funds.
- **ESG for sovereign issuers** – Amundi ESG sovereign scoring methodology aims at assessing the ESG performance of sovereign issuers. E, S and G factors can have an impact on the issuer's ability to reimburse its debt in the medium and long-term. They can also reflect on how countries are faring in dealing with major sustainability issues that affect global stability.

KB is aware of its clients' attraction to sustainable finance and its role as an investment advisor. In order to enable its clients to make all their decisions in an informed manner, KB ensures that they have all the information they need to consider ESG risks before making an investment decision. To do so, KB works in close collaboration with Amundi in order to ensure that the clients receive the pre-contractual information necessary for the proper information about ESG.

Investment advice of KB as an advisor to Amundi is limited to the approved investment universe, which includes 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 KB 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, KB prefers issuers with higher score.

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.

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.

KB is aware that ESG integration can have a significant impact on financial return of the portfolio as well as on diversification and can also have an impact on risk. The assessment and integration of ESG criteria, particularly environmental and social criteria, into investment policies and corporate strategies changes fundamentally, deeply and in many ways the risk/return trade-off, which remains an essential criterion for any investment decision making.