

Sustainable Finance Disclosure Regulation – Portfolio management

New Sustainable Finance Disclosure Regulation (SFDR) comes 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, considers principal adverse impacts of investment decisions on sustainability factors. Concrete regulatory requirements under SFDR are and will further be impacted by also 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. 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 will fulfill in the pre-contractual information for each relevant financial product or service under SFDR the information duty. Although the Regulatory Technical Standards under SFDR are not yet approved by the European institutions, KB is still able to provide you with the high-level information about sustainability factors and risks under SFDR. Following the approval of the RTS, the information related to sustainability published on our website or provided in the pre-contractual documentation will be continuously updated. With regards to still pending application of EU Taxonomy Regulation and absence of some of its implementing rules, the investments underlying **Portfolio management** do not take into account the EU criteria for environmentally sustainable economic activities, KB however expects it will 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.

II) ADVERSE SUSTAINABILITY IMPACT

A) SUMMARY

We would like to inform the clients that KB considers principal adverse impacts of its investment decisions on sustainability factors under SFDR.

The present statement is the consolidated principal adverse sustainability impacts statement of KB as a financial market participant related to the service of the discretionary portfolio management provided by KB Private Banking.

This principal adverse impact statement covers the reference period from 10. 3. 2021 to 31. 12. 2021, respectively to the start of applicability of new regulatory rules.

This document contains the assessment of principal adverse sustainability impacts based on the climate and other environment-related indicators, social and employee rights, respect for human rights indicators, anti-corruption and anti-bribery matters and indicators related to investments in sovereigns and supranational. It also contains the summary of engagement policy and reference to international standards.

B) DESCRIPTION OF PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

KB is increasingly considering non-financial sustainability aspects and ESG criteria within the service of discretionary portfolio management. Currently, the main pillar of our approach to limit principal adverse sustainability impact of investment decisions on sustainability factors is the fact that companies, whose activities are considered incompatible with a sustainable future, are already excluded from our investment universe. Our investment universe is based on Société Générale's recommendations and complies with the Société Générale's Environmental and Social Exclusion List (<https://sgpwm.societegenerale.com/en/esg/our-sri-philosophy/>).

At this moment, exclusions include, but are not limited to:

- Companies whose turnover from activities related to thermal coal extraction is greater than 10%
- Companies which relate to the energy sector and of which more than 30% of electricity production (energy mix) comes from thermal coal.
- Companies involved in the manufacturing, sale, storage or maintenance of controversial weapons. (e.g. landmines, cluster bombs, depleted uranium-based munitions, chemical weapons, biological weapons and nuclear weapons outside NPT)
- Companies considered as in breach with at least one of the Global Compact principles (source Sustainalytics).
- Companies with the most severe ESG Controversies assessment (source MSCI).
- Companies classified as "Communist Chinese Military Companies" (CCMCs).

KB PRIV currently does not systematically assess principal adverse sustainability impact of investment decisions on sustainability factors in the extent required by current draft of Regulatory Technical Standards ("RTS", not applicable from 10. 3. 2021).

The products currently included in portfolio management were generally developed before the entry into force of the SFDR and were not in all cases designed to take into account sustainability risks under SFDR by their manufacturers.

C) Before taking into account all negative impacts on sustainability, KB PRIV, in its roles as financial market participant within portfolio management, wishes to ensure that the regulatory texts governing this subject are stabilized and that the data transmitted by its manufacturers is reliable. KB PRIV undertakes to integrate systematic consideration of negative impacts in terms of sustainability and will continuously improve and update processes and procedures in order to fulfill all RTS requirements by the end of the year 2021 as required by regulatory authorities.

Engagement policy

In accordance with article 3g of SRD II, KB developed and implemented following Engagement policy:

KB, as the portfolio manager of individual mandates within the investment strategy continuously monitors the economic situation of issuers, monitors their general meetings and corporate events related to held securities. KB within the portfolio management prefers investments in the securities of companies that meet the requirements for the quality of corporate governance. If, however, the issuer's management decisions deviate from the governance principles expected by KB, the asset manager generally considers a reduction in the volume of the issuer's shares.

KB is increasingly considering non-financial ethical aspects and ESG factors (social and environmental responsibility and good corporate governance). KB uses the monitoring and scoring (ESG criterion) of the company performed by the parent group SG for the assessment of the degree of fulfilment of these criteria.

KB may exercise the voting rights associated with the participating securities exclusively for the benefit of the shareholders, i.e. the persons whose portfolio of securities it manages within the scope of the mandate. In the exercise of voting rights, the interests of shareholders are always given priority, even over the interests of KB. KB monitors and analyzes significant events and documents related to the issuer. KB may cooperate with shareholders whose securities are part of the asset managed by KB within the portfolio management.

KB adopted a high standard of conflict of interest management and prevention, based on the rules of the parent company Société Générale. The asset manager has a high standard of conflict of interest management and prevention, based on the control of conflicts of interest in the case of the investment process of asset management under the mandate takes place at several levels, ensuring an independent assessment of each individual case. The above-mentioned conflict of interest policy is strongly incorporated in KB by-laws and internal procedures and accordingly, all KB employees pass training courses on regular basis.

D) REFERENCE TO INTERNATIONAL STANDARDS

The Group (including KB) is committed to manage the Environmental & Social (E&S) risks potentially attached to its activities and set up the following internal standards as a complement to these E&S General Principles:

- **Three E&S Transversal Statements** on transversal E&S issues describe the main reference framework and set out the commitment of the Group regarding Biodiversity, Climate and Human rights. While Transversal Statements are cross-sectoral, more specific requirements linked to sectoral issues are incorporated in the Sector Policies.
- **Eleven E&S Sector Policies** define the E&S risk factors, the standards of reference and the specific criteria the Group intends to apply for its activities in sensitive sectors.

For details please see Environmental and Social General Principles.

Aware of the increasing pace of biodiversity loss worldwide, the Group (including KB) is committed to the respect and preservation of biodiversity, one of the foundations of the Group's Environmental and Social Risk Management system and encourage their client to do the same.

For details please see Statement Biodiversity.

Societe Generale and its subsidiaries ("the Group"), including KB, are committed to align their activities with the goals of the Paris Climate Agreement.

For details please see Statement Climate.

Societe Generale and its subsidiaries ("the Group"), including KB, are committed to the respect and promotion of human rights, as one of the foundations of its Environmental and Social ("E&S") Risk Management system.

For details please see Statement Human Rights.