mBank Brokerage Bureau

Information arising from Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“SFDR”) at mBank Brokerage Bureau in investment advice

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1. Introduction

At the Brokerage Bureau of mBank[1] ("mBank Brokerage Bureau"), we consider sustainability factors when providing investment advice. We understand sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

When measuring sustainability factors, we consider the following three areas:

- **Environmental** – matters connected with environmental protection,
- **Social** – matters connected with social responsibility,
- **Governance** – matters connected with management, corporate governance and anti-corruption matters.

Environmental **Social** **Governance**

We believe that sustainability factors significantly influence our clients' investment performance. Therefore, when providing investment advice, we want to include them to the maximum extent possible. We consider them when conducting financial analyses and providing recommendations.

We offer the following types of investment advice to our clients:

1) model investment advice on shares in investment funds ("model advice"),
2) individual investment advice ("individual advice").

2. Strategy on the integration of sustainability risks in investment advice – Article 3 of the SFDR

The strategy presented in this section was prepared in accordance with Article 3 (1) of the SFDR.

A **sustainability risk** is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative material impact on the value of the investment. These risks can materialise by impacting on the issuers of financial instruments covered by investment recommendations. These may include:

- higher operating costs, e.g. due to additional emission fees,
- lower income driven by shrinking demand for high-emission products,
- higher cost of capital for companies that do not meet sustainability characteristics,
- financial costs of administrative fines imposed for acting against the applicable laws,
- decreasing value of an instrument due to reputation loss.

Our first sustainability risk strategy was published on 10 March 2021.We are updating it as we have developed our approach to sustainability risk. We regularly track trends in reporting and investment performance of individual industries, sectors, and companies in terms of ESG factors. As a result, our approach to sustainability risk will continue to evolve. We will consider further elements in our ongoing analyses.

Our sustainability risk strategy helps us:

- accomplish sustainability objectives,
- achieve the best investment results for clients within the available range of investment opportunities, and at the same time, in line with the investment objectives of the client/strategy.

The investment committee at mBank Brokerage Bureau providing investment advice considers potential non-compliance with sustainability objectives.

In doing so, when providing investment advice (both model and individual investment advice), mBank Brokerage Bureau does not recommend direct investments connected with:

a) certain industries:

[1] mBank Brokerage Bureau is a separate organisational unit of mBank S.A. providing brokerage services, including investment advice.

- production of controversial weapons,
- production and distribution of tobacco (income > 5%),
- production of coal (income >10%),

b) companies operating in breach of the Global Compact principles and the OECD Guidelines,

c) financial instruments issued in countries listed in our Global Sanctions Policy.

We are a signatory to the UN Global Compact and thus apply all exclusions required under this initiative. Among others, we strive to minimise our exposure to issuers involved in serious environmental controversies. Such controversies may be about climate change, use of land and bio-diversity, spills and releases of toxic substances, water shortage or operational waste, with a direct involvement of the issuer.

All the criteria we use to exclude investments and provide recommendations are verified based on ESG data provided to us via MSCI ESG Manager, which is a product of MSCI Inc. For the purpose of excluding countries listed in our Global Sanctions Policy and meeting the obligations arising from our status as a UN Global Compact signatory, MSCI does not provide us with a single indicator. In such cases we use indicators that most closely reflect our declarations in this regard.

We consider such indicators at the portfolio level, not at the level of each investment. The aforesaid exclusions apply to direct investments. We apply those exclusions to indirect investments as well. However, due to the large share of investment funds and ETFs in our investment recommendations and due to the specificity of these instruments, there may be a small share (up to 2%) of investments that do not meet the aforesaid criteria.

In addition, when providing investment advice we observe the rule whereby at least 50% of financial instruments in the recommended portfolios must have an MSCI ESG Score and ESC Fund Score of at least BBB. We can agree on a different limit with a client in their individual investment strategy.

3. Statement on principal adverse impacts of investment advice on sustainability factors – Article 4 of the SFDR

Information presented in this section was prepared in accordance with Article 4 (5) (a) of the SFDR and Article 11 of the Regulatory Technical Standards (RTS) to the SFDR.[2]

At mBank Brokerage Bureau, we take into account the principal adverse impacts (PAIs) on sustainability factors when providing investment recommendations, unless the client instructs us otherwise. This means that we consider how our recommendations impact on sustainability factors. In order to measure principal adverse impacts, we use the indicators defined in the RTS to the SFDR.

The first PAI statement of mBank Brokerage Bureau was adopted on 10 March 2021 and then it was updated on 30 June 2023. We are updating the PAI statement here as we have developed our approach to considering principal adverse impacts on sustainability. We regularly track trends in reporting and investment performance of individual industries, sectors and companies in terms of sustainability factors. Our approach to considering principal adverse impacts of our investment recommendations on sustainability factors is based on due diligence. This means that we analyse the collected data and adjust our approach to considering these indicators for principal adverse impacts accordingly. It is all the more important that the issue of adverse sustainability indicators is still in the early stage of development. The range of available data will increase as more entities become subject to sustainability disclosure obligations as a result of the implementation of EU regulations, including the CSRD.

When selecting financial instruments to be included in the portfolios covered by investment recommendations, we take the following approach:

1. in our internal procedures, we defined the principal adverse impacts on sustainability that we consider in the process of providing recommendations,
2. we defined thresholds for indicators or a qualitative approach, which we use to consider individual impacts.

In assessing and selecting investment funds and other financial instruments covered by investment recommendations, we consider the indicators listed in Annex I to the RTS to the SFDR.

Owing to the fact that investment funds and ETFs account for a large share of our investment recommendations and due to the specificity of these instruments, we do not directly use the information published by market participants under the SFDR. We use MSCI ESG Manager to calculate indicators for principal adverse impacts.

The purpose of the catalogue of principal adverse impacts considered by us is to reduce the number of investments which:

- significantly contribute to adverse **climate and environmental** change, which includes:

[2] COMMISSION DELEGATED REGULATION (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

- material negative impact on climate change – we limit the adverse impact in this area, for example, by considering PAI no. 4 “Exposure to companies active in the fossil fuel sector”,
- material impact on biodiversity – in calculating the adverse impact in this area, we use PAI no. 7 “Activities negatively affecting biodiversity-sensitive areas”,

- significantly stand out negatively in **social and employee matters, respect for human rights, anti-corruption and anti-bribery matters**, which includes:
  - human rights violation – in calculating the adverse impact in this area, we use PAI no. 10 “Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises”,
  - lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI no. 11),
  - exposure to controversial weapons (PAI no. 14),
  - production and distribution of tobacco (an additional indicator not listed in the RTS to the SFDR).

In the case of investments in sovereigns, we use the indicators listed in Table 1 in the RTS to the SFDR:

- greenhouse gas intensity (PAI no. 15),
- investee countries subject to social violations (PAI no. 16).

We consider these indicators at the portfolio level, not at the level of each investment.

Our approach to considering these indicators is based on due diligence. It assumes that we continuously improve and seal the process as the availability of data increases. In 2024, we expanded the catalogue of considered indicators. We assume that both the defined thresholds and considered indicators will change. In accordance with our internal procedures, we will continue to align our approach to PAI consideration with the changing market data and regulatory guidelines. We assumed that as part of investment recommendations, an investment strategy should consider at least three indicators for principal adverse impacts (unless the client instructs us otherwise), including at least one from each of the following groups:

- environment/climate, and
- social and employee matters, respect for human rights and anti-corruption and anti-bribery matters.

Moreover, in order to limit the adverse impacts of our investment recommendations on sustainability factors, we comply with the following investment criteria:

- we do not recommend direct investments and minimise indirect investments connected with specified industries in line with our approach to sustainability risks described above,
- at least 50% of financial instruments in the recommended investment portfolios should have an MSCI ESG Score and ESG Fund Score of at least BBB, unless the agreed investment strategy provides otherwise.

4. Transparency of remuneration policies in relation to the integration of sustainability risks – Article 5 of the SFDR

Information presented in this section was prepared in accordance with Article 5 (1) of the SFDR.

mBank has in place internal regulations setting out employee remuneration principles.

The remuneration policy is compliant with the integration of ESG risk in the bank’s operations. In particular:

1) the remuneration policy ensures transparent remuneration principles linked to the bank’s risk management strategy and reflects its risk appetite. To the extent in which ESG risk is or will become a material risk factor, it is or will be integrated into the bank’s approach in the same way as other, more traditional risk types,
2) we strive to ensure that the remuneration of the bank’s managers, in particular managers having a material impact on the bank’s risk profile (Risk Takers), is linked to material ESG risk factors specified in the bank’s risk management strategy as regards all key management processes, including risk management, strategic planning, innovations, capital investments and employee management,
3) the approach to remuneration adopted by the bank involves differentiating employees’ remuneration based on:
   a) quantitative criteria, such as the value of sold products; the sales volume; the number of new clients acquired,
   b) qualitative criteria, such as e.g.: client satisfaction; not incentivising excessive risk, including ESG risk; ensuring compliance with regulatory requirements and internal provisions; honest and fair treatment of clients aimed at avoiding conflicts of interest in business relationships with them; quality of services provided to clients.

5. Supervision

mBank Brokerage Bureau set up an investment committee for investment advice. The committee assesses the composition of the model investment advice portfolio in terms of meeting the sustainability characteristics. Where the portfolio does not meet the predefined assumptions, the committee changes its proposed composition. In the case of investment recommendations provided as part of individual advice, these actions are performed by a designated employee of mBank Brokerage Bureau.

6. MSCI Ratings

When selecting financial instruments to be included in the portfolio, we use the following ratings and scores of MSCI Inc. as an additional criterion:

- MSCI ESG Ratings and MSCI ESG Scores, which are given to issuers of financial instruments,
- Fund ESG Ratings, which are given to investment funds.

The Fund ESG Rating is assessed on a seven-point letter rating scale from AAA to CCC, with AAA and CCC being the highest and lowest possible fund scores, respectively.

CCC	B	BB	BBB	A	AA	AAA

MSCI ESG Ratings aim to measure a company's management of financially relevant sustainability risks and opportunities. MSCI uses a methodology to identify industry leaders and laggards according to their exposure to sustainability risks and how well they manage those risks relative to peers.

MSCI also rates equity and fixed income securities, investment funds, ETFs and countries.

Sustainability risks and opportunities can vary by industry and company. The MSCI ESG Ratings model identifies the ESG risks that are most material to a sub-industry or sector. More information about MSCI's rating methodology is available HERE.