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 the management of portfolios of financial instruments

Table of contents

I. Introduction 2

II. Strategy on the integration of sustainability risks in the management of portfolios of financial instruments – Article 3 of the SFDR 2

III. Strategy on the identification and prioritisation of principal adverse impacts on sustainability – Article 4 of the SFDR 3

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

V. Summary of engagement policies at mBank Brokerage Bureau – Article 4 (2) (c) of the SFDR. 5

VI. Supervision 5

VII. MSCI Ratings 5

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I. Introduction

At the Brokerage Bureau of mBank[1] ("mBank Brokerage Bureau"), we consider sustainability factors when managing portfolios of financial instruments. 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. This is why, when managing portfolios, we consider the sustainability factors that can have a material impact on the achievement of the assumed investment objectives. We consider them when conducting financial analyses and selecting assets to our model strategies.

II. Strategy on the integration of sustainability risks in the management of portfolios of financial instruments – 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 impact on the value of the investment. These risks can materialise by impacting on the issuers whose financial instruments we purchase into our portfolio. 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 and updated on 30 June 2023. We are updating it here 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.

When taking investment decisions, we analyse potential non-compliance with sustainability objectives.

To this end, we exclude the following financial instruments from the management of portfolios of financial instruments: a)

financial instruments connected with specified industries:

[1] mBank Brokerage Bureau is a separate organisational unit of mBank S.A. providing brokerage services, including management of portfolios containing one or more financial instruments.

- 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 exempt investments 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; however, we also use them in the case of indirect investments. However, due to the large share of investment funds and ETFs in our portfolios 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 accordance with our internal procedure, we verify, on a regular basis, whether the structure of portfolio assets meets the assumptions we adopted. If not, we make relevant adjustments.

We abide by the rule that at least 50% of financial instruments in our portfolios should have an MSCI ESG Score and ESG Fund Score of at least BBB. We do not apply this rule to model strategies based on investments in small and medium-sized enterprises as the MSCI Ratings are not available to them.

On top of that, we apply the following additional criteria to our investment strategies that promote environmental or social aspects:

- we do not acquire financial instruments into our portfolios with an MSCI ESG Score or ESG Fund Score of B or lower,
- we aim to reach the average MSCI Rating of A.

III. Strategy on the identification and prioritisation of principal adverse impacts on sustainability – Article 4 of the SFDR

The strategy presented in this section was prepared in accordance with Article 4 (1) (a) of the SFDR.

At mBank Brokerage Bureau, we take into account the principal adverse impacts (PAIs) on sustainability factors when making investment decisions. This means that whenever an investment decision is taken, we analyse its impact on sustainability factors. In order to measure principal adverse impacts, we use the indicators defined in the RTS to the SFDR.[2]

We apply the strategy when taking investment decisions in portfolio management. The SFDR regulates disclosure obligations. In line with the interpretation presented by supervisory authorities, this means that whenever financial market participants declare in their strategies that they take PAIs into account, they are obliged to make disclosures under Article 8 of the SFDR. At mBank Brokerage Bureau, we use both – strategies that consider PAIs and those that do not.

We validated our first PAI statement on 10 March 2021 and updated it 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 ESG factors. In line with the updated strategy described here, we increased the number of indicators taken into account. In our internal procedures, we have defined thresholds or assumed qualitative approach to individual PAIs. Our approach to considering principal adverse impacts of our investment decisions 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.

We implement the strategy in cooperation with mTowarzystwo Funduszy Inwestycyjnych SA (mTFI). We entrusted mTFI with selected activities as part of the portfolio management service. In line with our internal procedures, the responsibility for implementing the strategy lies with the Brokerage Bureau working in cooperation with mTFI.

When identifying and prioritising the principal adverse impacts of investment decisions on sustainability, we are guided by:

[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

- best interest of clients using the portfolio management service,
- selection criteria and the types of investments made within the portfolio,
- special rules of deposit diversification and other investment restrictions,
- adopted benchmarks and reference rates,
- compliance with the investment strategy and objective within the portfolio management service,
- availability and liquidity of financial instruments we purchase into the portfolios,
- competitiveness and profitability as compared with alternative instruments.

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

1. in our internal procedures, we defined the principal adverse impacts on sustainability that we consider when taking investment decisions,
2. we defined thresholds for indicators or a qualitative approach, which we use to consider individual impacts,
3. we monitor the indicators for principal adverse impacts on a regular basis and make relevant adjustments.

As part of the portfolio management service, we invest in different asset classes, especially:

- ETFs,
- shares in Polish investment funds,
- shares in companies,
- Treasury bonds and corporate bonds.

In assessing and selecting investment funds and other financial instruments, we consider the indicators listed in Annex I to the RTS to the SFDR. We use MSCI ESG Manager to calculate indicators for principal adverse impacts on sustainability factors.

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:
  - 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 such 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 our strategies promoting environmental or social characteristics should consider at least three indicators for principal adverse impacts, 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 decisions on sustainability factors, we comply with the following investment criteria:

- we exclude 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 our portfolios should have an MSCI ESG Score and ESG Fund Score of at least BBB. We do not apply this rule to model strategies based on investments in small and medium-sized enterprises as the MSCI Ratings are not available to them.
- we have adopted additional criteria for our portfolios with investment strategies promoting environmental or social characteristics whereby we do not acquire financial instruments with an MSCI ESG Score or ESG Fund Score of B or lower and we aim to reach the average MSCI Rating of A.

IV. 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 client satisfaction; not encouraging 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.

V. Summary of engagement policies at mBank Brokerage Bureau – Article 4 (2) (c) of the SFDR.

Due to our marginal exposure to companies listed on the regulated market within the portfolio management service, we do not have in place an engagement policy. The reasons for this are available at:

https://www.mbank.pl/pdf/pb/regulaminy/zwolnienie-z-obowiazku-sporzadzania-polityki-zaangazowania-w-spolki-publiczne.pdf

VI. Supervision

The Strategy on the Integration of Sustainability Risks in the Management of Portfolios of Financial Instruments and the Strategy on the Identification and Prioritisation of Principal Adverse Impacts on Sustainability have been approved by the Director of mBank Brokerage Bureau. We entrusted mTFI with selected activities as part of the portfolio management service. In line with our internal procedures, the responsibility for implementing the strategy lies with the Brokerage Bureau working in cooperation with mTFI.

mTFI has set up an investment committee for portfolios. Representatives of the Brokerage Bureau take part in its meetings. The committee takes into account the results of the analysis of sustainability matters and considers them when investing assets.

VII. 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 sustainability risks that are most material to a sub-industry or sector. More information about MSCI's rating methodology is available HERE.