INTEGRATION AND MANAGEMENT OF SUSTAINABILITY RISK IN INVESTMENT ADVICE PROCESSES AT THE BANK. ADVERSE IMPACTS ON SUSTAINABILITY FACTORS.

Integrating risk for sustainable development within the investment advisory process is a risk management process by which the Bank tries to support long-term returns on investment, taking into account the risk to sustainable development (ESG risk), i.e. environmental, social or management (corporate governance) situations or conditions which, if they occur, could have an actual or potential significant negative impact on the value of the investment.

At the same time, the Bank, while providing the investment advisory service, pays attention to the fact that the investment activities that it undertakes and recommends do not have a material, negative impact on environmental, social and working conditions, issues related to respect for human rights and counteracting corruption and bribery.

The Bank believes that the risk factors for sustainable development are, from a financial point of view, an important element of the assessment and decision to add a given financial instrument to its offering or investment recommendation. Therefore, as a part of the services provided, the Bank tries to integrate and assess significant risks to sustainable development in its processes in various ways. This means that, in addition to more traditional financial criteria, it systematically considers whether - and to what extent - financially significant ESG risks can materially affect client investments. This does not mean that all sustainability factors and risks will be relevant to every product or investment. The significance and materiality of such matters will depend on a number of factors, including the nature of the product or investment, the likelihood of sustainability risks occurring, and the likely extent and scale of its impact. Therefore, although the Bank attaches great importance to these factors in the decision-making process, it does not attach the highest importance to them, nor are they decisive when considering whether, for example, a given product will be included in the Bank's offering or not, or the list of recommended products or whether it will be removed from it, and finally what internal assessment or risk level will be assigned to it. Therefore, they play a supporting role and are considered together with other factors on the basis of which the relevant units of the Bank make decisions.

How it can look in practice is illustrated by the following two examples:

Example 1 – a particular fund on the recommended list used to invest in treasury and corporate bonds of entities that meet the criteria of ESG investments. Recently, however, the manager added new securities to the portfolio – bonds of companies that make weapons and bonds of a country where the authorities do not respect human rights. Those investments now make up a large share of the fund's portfolio. The analyst's recommendation is to remove the fund from the recommended list and she or he summarizes all risks and potential investment impacts in her/his report. The analyst's report presenting the proposal and its reasons is discussed and then the relevant Bank units accept the recommendation to remove the fund from tactical portfolios, despite the fact that it has recently recorded excellent investment results. In this case, the opinion of the analyst and the relevant decision-making units as to the ESG risk is so strong that prevail all other reasons for keeping the fund on the list of products recommended for purchase.

Example 2 – a particular company is considered which undertakes activities to the detriment of its shareholders. Its financial reports are not clear and auditors often raise concerns. The relevant decision-making units of the Bank decide not to add a structured note (SN) related to this company (its quotations are the underlying instrument for the SN) to the offering. In this case, the Bank is of the opinion that the ESG risk is large enough to outweigh any other reasons for including this product in the offering (including a very high coupon in relation to the risk measured by the level of capital protection). An analyst at the Investment Advisory and Mutual Funds Bureau (IAMFB) has similar opinion. IAMFB does not perform additional analyzes in terms of ESG risks for the company being the underlying instrument for the SN under consideration.

In the event of differences with the Polish version, it is the Polish version that is binding.

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