Disclosures under 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)

Introduction

On 3 January 2018, a host of regulatory measures known as MiFID II came into force for the benefit of all users of investment instruments. The purpose of these amendments is threefold:

- To increase transparency in financial markets;
- To enhance investor protection and
- To help unify European investment markets by harmonising rules.

With this information document, UBB AD seeks to fulfil the first of the above principles by providing its clients with more information in relation to the application of sustainability principles in the financial services sector.

Transition to a sustainable economy

The transition to a sustainable, low-carbon, resource-efficient circular economy is key to the long-term competitiveness of our economy. Sustainability, or the environmental, social and governance nature of investments, is becoming an increasingly important factor in this transition. Environmental, social, and corporate governance (ESG) criteria address issues such as climate change, air and water pollution, biodiversity, human rights, social standards, corporate governance and many others. These criteria help to better determine companies' future financial performance (return and risk).

Sustainability is part of our corporate strategy and day-to-day operations. As part of the KBC Group, our strategy continuously adapts to the sustainability goals in order to meet the expectations of all stakeholders.

Sustainability also plays an important role in our investment strategy, investment and insurance advice. UBB is a financial institution that provides investment and insurance advice in relation to the mutual funds managed by KBA AM. In our role as a financial adviser within the context of *REGULATION (EU) 2019/2088 on sustainability information disclosure in the financial services sector (ESG Regulation),* we are expected to disclose information in relation to the integration of sustainability risk into our investment advice.

What is sustainability risk?

Sustainability risk is the risk that the value of investments is negatively affected by events or conditions related to environmental, social or governance factors.

The nature of these risks changes over time:

- In the short term, sustainability risk is usually the risk of a particular event occurring. Such risks ususally affect returns only if the event occurs. Examples of such events include accidents (resulting in litigation, for example, to compensate for environmental damage); lawsuits and sanctions (for example, for non-compliance with social legislation); scandals (for example, when a company receives bad publicity because human rights are not respected throughout its supply chain, or because the company's products do not meet the ESG standards it has committed to implement). These types of sustainability risks are considered to be higher when the issuer is less rigorous about ESG standards; and

- In the longer term, sustainability risk refers to risks that may develop in the longer term, such as: exposure to business activities that may be put under pressure because of their impact on climate change (e.g., elements of the automotive industry); change of product preferences in customers (e.g., increased preference for more sustainable products); difficulties in recruiting staff; increased costs (e.g., insurance companies facing claims for damages due to the changing meteorological conditions. As this risk develops over the long term, companies can take steps to mitigate it, e.g., by changing their product offers, improving their supply chains, etc.

When providing investment advice to its clients, UBB AD takes into account the effects of the sustainability factors. The term "sustainability factors" refers to those factors related to the environmental, social and governance criteria described above.

Responsible investment policy in the context of sustainability risks

UBB AD offers its clients funds managed by KBC Asset Management that are committed to achieving long-term stable investment returns for their clients. This means that KBC Asset Management makes investment decisions on behalf of its clients based on an investment policy that incorporates sustainability risks, as well as social, ethical and environmental standards.

In its investment policy, KBC Asset Management takes these sustainability risks into account by:

i. Compliance with the General Exclusion Policy for conventional and responsible investing funds (UBB Asset Management (ubbam.bg) / Sustainability-related disclosures / "General Exclusion Policy for conventional and responsible investing funds") , which applies to all funds offered by UBB;

ii. A strict distinction between Sustainable and Responsible Investment (SRI) funds and other traditional funds, with stricter standards and therefore lower sustainability risk for SRI funds.

The following examples can help illustrate the practical effect of this policy:

- financial instruments issued by manufacturers of controversial weapons, weapon systems that are prohibited by international law, or for which there is a broad consensus that they should be prohibited. These weapon systems include (and are not limited to): cluster bombs and cluster munitions, chemical or biological weapons, anti-personnel mines and weapons containing depleted uranium; nuclear weapons or those containing white phosphorus; and

- financial instruments issued by companies for which there are strong indications of them being perpetrators, accomplices or enablers of, or are in a position to benefit from, violations of globally recognised corporate sustainability standards, such as human rights, employee rights, environmental protection and anti-corruption.

KBC Asset Management's investment policy continuously evaluates underlying investments at the issuer level, but also (where relevant) at the asset allocation level and at the regional or sectoral allocation level. These regular reviews consider sustainability risk as one of several elements that can affect returns.
The investment policy not only frames the permissible investments in terms of the financial health of the business or country, but also the social impact of a given company or country. KBC Asset Management continuously monitors its investment policy and the latter's application in the company's business model as a key component in its aim to secure long-term sustainable investment returns for its clients.

Each individual client's preferences for responsible investing will be taken in to account in the preparation of the client's investment suitability evaluation. Then those client preferences will be corresponded with mutual funds with a relevant responsible investment strategy.

Main adverse impacts on sustainability factors

As of August 2nd, UBB JSC takes into account the main adverse impacts on the sustainability factors through the additional questions included in the suitability evaluation it prepares for its clients. UBB JSC has integrated information on the mutual funds that invest responsibly as well as on the main adverse impacts against which these investments are aligned.
More information on the adverse impact factors can be found here (Investments Sustainability | United Bulgarian Bank (ubb.bg) / 2023 / "Principal Adverse Impact Indicators and ESG").

Shareholder engagement

As part of its commitment to long-term sustainable investing, KBC Asset Management exercises the voting rights of the shares, managed by the company, in accordance with its "Proxy Voting and Engagement Policy". This means that KBC Asset Management makes sure that the company's voice is heard at shareholder meetings and ensures engagement with many companies to promote the interests of its clients. The key principles for proxy voting and shareholder engagement can be found here (UBB Asset Management (ubbam.bg) / Basic documents / "Proxy Voting and Engagement Policy"). KBC Asset Management also publishes an annual review of its proxy voting and KBC Asset management's shareholders engagement on its website.

Ethical standards

KBC Group, to which KBC Asset Management belongs, is committed to the following international business codes, as KBC Asset Management's investment policy and processes are aligned with this commitment:

- Principles for Responsible Banking of the Initiative for financing the United Nations’ Environment Programme (UNEP FI);

- The Collective Commitment to Climate Action, with wich KBC Group commits to stimulate the economy towards increased environmental protection as much as possible and thereby limiting global warming to below 2°C, aiming for 1.5°C, in line with the Paris Climate Agreement;

- The Tobacco-Free Finance Pledge initiative, which encourages financial institutions to divest from investments in the tobacco industry; and

- UN Principles for Responsible Investment