Strategy for Managing Sustainability Risks at Schoellerbank

pursuant to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

As of **September** 2022

Introduction

By ratifying the Paris Agreement[1], the signatory states have committed to limiting the global temperature increase to well below 2°C and, if possible, to 1.5°C compared with 1990 levels. The European Commission has adopted a comprehensive action plan for financing sustainable growth[2] along with the European Green Deal[3] to reach these goals and to mitigate the effects of climate change. Part of this action plan entails reducing information asymmetry in the relationships between customers, financial market participants, and financial advisors in terms of the consideration of sustainability risks, negative sustainability impacts, the promotion of environmental or social characteristics, and in terms of sustainable investments. This information asymmetry is to be eliminated through mandatory pre-contractual information and ongoing disclosures to end investors by financial market participants and financial advisors.

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the Disclosure Regulation) also requires financial market participants and financial advisors to publish written strategies for the consideration of sustainability risks.

According to the Disclosure Regulation, a sustainability risk is an environmental, social, or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment[4].

Because of advancing climate change, focus is shifting increasingly to climate risks in addition to the other sustainability risks. Climate risks are all risks that arise or are amplified by climate change[5]. Climate risks include physical risks arising directly from the consequences of climate change as well as transition risks arising from the transition to a climate-neutral and resilient economy and society and that can lead to a decrease in the value of assets. Sustainability risks can include increased frequency of natural disasters, loss of biodiversity, decreasing snow cover, and extreme drought. For investors, sustainability risks can manifest as conventional risk types such as credit rating risk, the risk of total loss and price risk.

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[1] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[2] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_action-plan
[3] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal
[4] See Art 2 item 22 of the Disclosure Regulation
[5] See FMA Guide for Managing Sustainability Risks (01/2020)

In addition to the sustainability risks, sustainability factors may also play a role in an investment decision. The Disclosure Regulation defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters. This includes climate protection, protecting biodiversity, complying with accepted labour standards, fair wages, measures to prevent corruption, etc.

General management of sustainability risks at the bank level

The following section provides an overview of the general steps we take to manage sustainability risks at the bank level and of our methods and procedures.

Because of the services that it offers (portfolio management, investment, and insurance consulting), Schoellerbank qualifies as a financial market participant and as a financial advisor for the purposes of the Disclosure Regulation. The Disclosure Regulation defines specific obligations for each of these types of entities.

Insurance and investment consulting

We account for sustainability risks in the following manner when providing consulting for insurance services and financial instruments according to the Disclosure Regulation (such as investment funds, alternative investment funds, and unit-linked insurance plans):

Schoellerbank only recommends those financial instruments in investment advice as sustainable that meet the sustainability criteria described in detail in the separate document "Advisory Universe for Sustainable Investment Products."

For financial instruments, the sustainability risks are identified by the producer of the product (financial market participant). When providing investment and insurance consulting, information from the product producer is used. Sustainable financial instruments and also financial products whose underlying investments do not account for the EU criteria for environmentally sustainable business activities are offered.

If corresponding offerings are available from the respective product producer, information about the sustainability risks from the product producer will be provided and explained to the customer during the consultation.

If relevant, the customer will be informed of the anticipated effects of sustainability risks on the yield of the offered financial instruments.

Portfolio management

We take sustainability risks into consideration as follows when making investment decisions for portfolio management mandates, if this is contractually agreed with the customer: The primary factor in identifying the sustainability risks is the type of financial instrument to be added to the portfolio.

For financial instruments such as shares and bonds, various sustainability aspects such as the non-financial reporting of the target company are taken into account to assess the sustainability risks associated with these securities. The sector in which the issuer is active is also taken into account.

Additional sustainability information such as ESG ratings from external research partners are also taken into account before financial instruments are added to a portfolio to assess the sustainability performance of the issuers and their exposure to sustainability risks. When obtaining information from external rating providers, Schoellerbank receives detailed indicators, findings, and weightings from the provider. The external ESG ratings are updated regularly to allow material developments to be taken into account.

Taking sustainability risks into consideration is part of the portfolio management process and occurs at an early stage in the selection of potential financial instruments and financial products. Sustainability risks are always kept as low as possible in portfolio management. Our portfolio managers ensure adequate risk diversification at the portfolio level.

The following methods are used for the active management of sustainability risks:

- **Minimum criteria**
  Our portfolio managers ensure that only financial instruments from companies with internally defined minimum criteria are added to a portfolio. This excludes companies with poor sustainability performance or high sustainability risks from the investment universe.
- **Financial instruments with good sustainability performance**
  Our portfolio managers ensure that financial instruments with good sustainability performance are added to every portfolio. This actively integrates companies with a low level of sustainability risk.
- **Divestment**
  Existing portfolios are gradually being adapted to the strategy for managing sustainability risks (exit from particularly risky financial instruments, integration of financial instruments with low sustainability risks).

The customer is informed of the anticipated effects of sustainability risks on the yield of the portfolio under management.

Responsibility

Responsibilities for sustainability risks are being integrated into the existing bank structures. In particular, decisions on new products are made by the product committees and changes to the investment strategy by the Investment Committee, always taking sustainability risks into account.

An Ethics and Sustainability advisory board with selected experts from the scientific, business and clerical communities was also put into place to provide ideas and advice on sustainability issues.

Remuneration policy

UniCredit Group and Schoellerbank are expressly committed to sustainability and have integrated the consideration of sustainability risks into all levels of the remuneration policy.

Sustainability in strategy and management

The long-term incentive (LTI) plan for 2020–2023 aims to reward the top and senior management for creating lasting value for shareholders and for delivering sustainable performance through share-based remuneration. The LTI plan, which is coordinated with the Team 23 strategy plan, takes sustainability into account at a weighting of 10% in the overall scorecard. This more closely aligns the business objectives with sustainable action. The relevant KPIs – environmental, social and governance (ESG) rating, customer satisfaction, and people engagement – provide for a balance between how UniCredit is perceived by employees and customers and the perspective of an ESG rating agency. This is why the variable remuneration of the top and senior management of UniCredit is linked directly with sustainability risks.

Sustainable performance management

The group incentive system is supplemented by the annual performance management cycle, which ensures conformity between the performance objectives and the business strategy. The performance indicators are based on a multi-year and multi-stakeholder vision intended to align the bank's activities with sustainable value creation over the long term. This includes considering the impacts that different activities have on the stakeholders.

The annual goal setting process is supported by a structured framework called the KPI Blue Book. The KPI Blue Book is a set of rules with KPIs that are officially recognised by the group and mandatory for assigning goals to the group material risk takers. This ensures the setting of consistent goals in accordance with the regulatory requirements and group standards. The employee goals are aligned with our five fundamentals and are also evaluated from the perspective of risk and sustainability. Around 50% of the goals for group material risk takers are linked to sustainability and the long-term interests of the Group and its stakeholders. Performance is assessed based on risk-adjusted profitability. Risk-weighted systems and mechanisms have also been put into place.

Sustainable pay for sustainable performance

The remuneration and risk strategy of UniCredit Group aims to deliver long-term, sustainable results. And the group strives to keep and motivate employees over the long term. Incentives are created for making contributions to the long-term growth, profitability and financial success of UniCredit Group. A particular focus is placed on reputation and sustainability, which contribute to the success of the group over the long term.

Incentive systems may in no way lead to the assumption of risk beyond the group's strategic risk appetite, and they are above all aligned with the UniCredit risk appetite framework. Penalty and claw-back mechanisms can be activated in the case of a compliance violation, which can lead to the reduction or elimination of all or part of the variable remuneration.

The UniCredit Group Remuneration Policy mandates equal and fair pay irrespective of gender or other diversity characteristics. Remuneration is based on the specific role, scope of responsibility, performance, and contribution to the earnings of the group.

Implementation and management measures

Knowledge of sustainability risks and factors is essential. Thus, training courses on these subjects have been created and integrated into the regular employee training programme (especially for customer advisors).

All employees are to have completed initial training on sustainability risks by the end of 2021.

The ESG strategy described here will be successively implemented in 2021 and then reviewed annually.
Developments at the European and national level relating to sustainability risks and factors and the associated requirements for the financial industry will be monitored on an ongoing basis. This strategy may be adapted to reflect changes in the legal requirements and improvements in the available data and methods.