EUROBANK
Cyprus

Sustainability Explanatory Document

Introductory note
This Sustainability Explanatory Document is applicable only to clients to whom **investment advice and portfolio management services** are provided, to assist them on providing their Sustainability Preferences.

This document is part of the discussion between the prospective and/or existing Clients of the Bank, at the Client onboarding stage, or at any other stage of the relationship, as applicable, aiming to provide prospective and/or existing Clients with Sustainability related information, so as to assist them on the completion/updating of the Client Investor Profile questionnaire ("**Investor Profile Questionnaire**") and specifically on its sustainability related supplemental section ("**Sustainability Preferences Questionnaire**").

CONTENT

1. What is Sustainable Finance?

Sustainable finance refers to the incorporation of Environmental, Social and Governance (ESG) factors in the financial services industry. It aims to promote long-term financial stability, reduce systemic risk, and support sustainable economic growth.

ESG factors:

- Environmental factors (E) encompass the environmental considerations that corporations integrate into their financial decision-making processes. These considerations include addressing climate change and having the reduction of harmful emissions as a target for those financial decisions, with the goal of minimizing environmental pollution (i.e. Emissions of greenhouse gases, energy consumption, exploitation of resources, waste and water management, impact on ecosystem and biodiversity).

- Social factors (S) refer to social considerations and responsibilities that corporations take into account in their efforts to positively impact legislation related to human rights, small minorities & communities, education and labor & union rights.

- Governance factors (G) refer to a corporate governance structure that is transparent, accountable and well governed (i.e. business code of conduct and values; business integrity, principles, and responsibilities to meet and align the interests of internal and external stakeholders; risk management and security measures; governance rules against bribery and corruption; fair and transparent remuneration policies; general disclosure and transparency standards).

By taking into consideration ESG factors, it helps corporations in managing risks linked to environmental, social, and governance concerns (ESG risks), but also potentially it creates better long-term financial performance and investment returns, whilst also contributing to a more sustainable economy in each step of the way.

<u>What is required from you (as investor) when considering ESG factors for your investments:</u>

In case you decide to integrate Environmental, Social, and Governance factors (ESG Factors) in your investments you need to provide your sustainability preferences to the Bank (via the completion of the related Investor Profile questionnaire and specifically its sustainability related supplemental section, being the Sustainability Preferences Questionnaire), in order for the Bank to ensure that a matching investment strategy is selected for your portfolio, which is in line with your sustainability preferences and to recommend (in case of investment advice service) investments/products in line with your sustainability preferences. .

The Bank has in place a methodology for sustainability screening on relevant products, assigning ESG ratings to these products as per data collected from product issuers and/or by external data rating companies (as described under the Bank's Sustainability Risk Policy of Wealth Management Division). For instance, companies that are highly rated from an ESG perspective are those, which actively contribute to reducing their negative impact or are considered to positively contribute to sustainability aspects, as measured by various indicators across the E, S, and G factors.

If you would like to learn more about sustainable finance, you may also refer to the following official website addresses of the European Commission:

- Sustainable finance - European Commission:
  https://finance.ec.europa.eu/sustainable-finance_en
- Overview of sustainable finance - European Commission:
  https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

2. What is a Sustainable Investment and what are the main product categories for sustainability preferences by investors?

A sustainable investment is one that aims to generate positive environmental or social impacts while still delivering financial returns[1]. These investments can take various forms, including equities, bonds, or funds that prioritize sustainability in their strategies.

In this context, several sustainable investments or financial products with ESG features exist, which are being grouped under the following categories as per ESG MIFID II regime.

1. **Taxonomy-Aligned Products** (Also called '**Environmentally Sustainable Investments'** meeting the criteria as set forth in the **EU Taxonomy Regulation**[2]) (**Category A** under Sustainability Preferences Questionnaire).

These are financial products that meet the criteria of the EU Taxonomy Regulation, EU Regulation 2020/852 (hereinafter the "Taxonomy Regulation"), which identifies activities that are environmentally sustainable.

The Taxonomy Regulation is an EU-wide classification system, which provides, inter alia, a common language to identify whether or not a given economic activity should be considered "environmentally sustainable".

The EU taxonomy covered under Taxonomy Regulation, is an EU sustainable finance framework and an important market transparency tool. It helps to direct investments to the economic activities that are most needed for the transition in line with the European Green Deal objectives. The main aim of the Taxonomy Regulation is to help investors make conscious, environmental-friendly choices, promote investments into sustainable products and at the same time, reduce the risk of greenwashing[3].

To this end, it aims to enhance, in an objective and measurable way, how entities perform their reporting in relation to the sustainability features of their economic activities. This helps investors who are interested in sustainable finance to have a clear, objective, and comparable framework and enable them to consider the ESG features of a company. The Taxonomy Regulation, the Non-Financial Reporting Directive[4] and the Corporate Social Reporting Directive[5], aims to ensure that companies falling under their scope are required to perform a due diligence to evaluate which of their economic activities can be considered as "Taxonomy-aligned".

For an investment, to qualify as environmentally sustainable investment, it must substantially contribute to at least one of the following EU's six environmental objectives while doing no significant harm ('Do No Significant Harm' principle (DNSH)) to any of the other five

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[1] It has to be noted that the correlation between ESG factors and financial performance is still at its genesis due to the recent integration of the ESG aspects into the financial and banking sector. There are various public studies and several researches available online, which help to gain more in-depth knowledge on this subject.

[2] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

[3] See the last section of this document on what 'Greenwashing' is.

[4] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

[5] DIRECTIVE (EU) 2022/2464 of the European parliament and of the council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

environmental objectives and complying with minimum safeguards and technical screening criteria set out in the taxonomy delegated acts:

- climate change mitigation;
- climate change adaptation;
- sustainable use and protection of water and marine resources;
- transition to a circular economy;
- pollution prevention and control;
- protection and restoration of biodiversity and ecosystems.

In the recent years, data on the reporting of Taxonomy-alignment by corporate entities is getting progressively more available. It is important to note that, when entities perform such reporting, they take a backward-looking view (looking at the past financial year for example), which may not necessarily be indicative of how their future Taxonomy-alignment reporting will be.

At this stage, it is expected that the reporting by companies/issuers on their Taxonomy-alignment will gradually increase, as companies/issuers perform their sustainability reporting and related due diligence (in line with regulatory developments), as they assess their activities, and possibly even transform some of their activities to be more Taxonomy-aligned.

As an investor, if you express sustainability preferences that include Taxonomy-Aligned Products in your portfolio, the implementation of these sustainability preferences depends on how the companies/issuers linked to the financial instruments in which you invest, are fulfilling their reporting obligations regarding their Taxonomy alignment (as well as other related regulatory obligations under Taxonomy Regulations).

The Bank is collecting such data regarding Taxonomy alignment of financial instruments on a best effort basis (subject to availability of data) mainly from external data providers, in order to be in a position to propose such financial products to its Clients (as described in **Wealth Management's Sustainability Risk Policy**, available on Bank's website at https://www.eurobank.com.cy/en-us/laws-regulations/mifid).

2. **SFDR[6] Article 8+ and 9 Products** (Also called **'Sustainable Investments'** meeting the criteria as set forth **under SFDR regulation**)
(**Category B** under Sustainability Preferences Questionnaire)

The Sustainable Finance Disclosure Regulation ("SFDR") aims to harmonize the rules for Financial Market Participants ("FMPs") and Financial Advisers ("FAs") on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability related information with respect to financial products.

'Sustainable investments' under the SFDR come in the form of:

- **SFDR Article 8+ Products:**
  Known as "light green" products, these promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics but do not necessarily have sustainable investment as their primary objective.

- **SFDR Article 9 Products:**
  Known as "dark green" products, these focus on sustainable investments with explicit sustainable investment objectives, such as reducing carbon emissions or promoting renewable energy.

[6] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

Note:
It is noted that there are certain SFDR products which are not eligible to be flagged as 'Sustainable Investments under SFDR', these are all the SFDR Article 6 products and certain SFDR Article 8 products that do not meet the relevant criteria/requirements for being included in the Article 8+ category.

3. **Products considering 'Principal Adverse Impacts'** (Also called **'PAIs'**)
(**Category C** under Sustainability Preferences Questionnaire)

Principal Adverse Impacts (PAIs) are the most significant negative impacts of investments, on the environment and people, therefore when these are taken into consideration under an investment strategy within a portfolio, it means that such investment strategy should seek to invest in products that reduce the negative impact to environment and people (depending on the related indicators that are selected and the related investment exclusions applied under the aforesaid investment strategy).

The Principal Adverse Impacts (PAIs) of investment decisions on sustainability factors, include certain PAI indicators such as carbon footprint, biodiversity loss, or labour rights violations, aiming to measure the degree at which product(s) under an investment strategy actively minimize negative impacts on the environment and society.

For an investment to be considered sustainable, it has to take into account such PAI indicators, as per the SFDR requirements. These indicators aim to cover the areas of E, S & G and there are 14 PAIs which are mandatory and need to be considered for a financial instrument to be perceived as a 'sustainable investment' under the SFDR.

The aforementioned mandatory PAIs for a financial instrument to be considered a 'sustainable investment' under the SFDR, are organised under the following two families of PAIs (as these are included in the Bank's Sustainability Preferences Questionnaire), namely:

1. Climate and other Environment-related indicators, are the following mandatory PAIs (Environmental family of PAIs under Sustainability Preferences Questionnaire):

   1. GHG emissions,
   2. Carbon footprint,
   3. GHG intensity of investee companies,
   4. Exposure to companies active in the fossil fuel sector,
   5. Share on non-renewable energy consumption & production,
   6. Energy consumption intensity per high-impact climate sector,
   7. Activities negatively affecting biodiversity - sensitive areas,
   8. Emissions to water,
   9. Hazardous waste ratio.

2. Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters, are the following mandatory PAIs (Social & Governance family of PAIs under Sustainability Preferences Questionnaire):

   10. Violations of UN Global Compact Principles and OECD guidelines for multinational enterprises,
   11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact Principles and OECD Guidelines for Multinational Enterprises,
   12. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons),
   13. Unadjusted gender pay gap,
   14. Board gender diversity.

As an investor, you may then choose to exclude from your portfolio(s) certain investments in financial instruments of companies/issuers which are poor performers on your sustainability preferences on PAIs indicators (based on selected family PAIs or specific PAIs and the related agreed investment strategy) and therefore aiming to invest in financial instruments of companies/issuers which are best performers on those PAIs indicators.

3. What do Sustainability Preferences under MiFID II mean and how does the Bank collect them?

a) Definition of the Sustainability Preferences

Sustainability preferences refer to your sustainability choices regarding sustainability in the context of **investment advice** and **discretionary portfolio management services**. They indicate how much emphasis you wish to place on sustainable investments within your portfolio.

Under MiFID II Delegated Regulation (EU) 2017/565[7], the Bank must ask clients whether they prefer to invest in financial instruments of one or more of the following financial instruments categories and if yes, then to what extent they wish to be integrated into their investments:

1. Category A financial instruments (as explained under section 2.1 above): i.e. Environmentally Sustainable Investments being those that align with the Taxonomy Regulation,

2. Category B financial instruments (as explained under section 2.2 above): i.e. 'Sustainable Investments', being those that qualify as SFDR Article 8+ or SFDR Article 9 products,

3. Category C financial instruments (as explained under section 2.3 above): being those that consider PAIs Indicators (or a family of PAIs Indicators), so as to apply related exclusions (based on selected family PAIs or specific PAIs), as part of the pre-agreed investment strategy.

b) Collection of the Sustainability Preferences

The collection by the Bank of your sustainability preferences (if any) is performed via the completion of a supplemental part of the Investor Profile Questionnaire, the Sustainability Preferences Questionnaire.

In this respect, via the Sustainability Preferences Questionnaire, you are invited to indicate to the Bank if you have any sustainability preferences in relation to your investments (**applicable only to** clients to whom **investment advice** and **portfolio management services** are provided).

- If you do not have any sustainability preferences, the Bank will consider you as "sustainability-neutral". Please note that in such scenario the Bank may still recommend you products both with, and without sustainability-related features.

- If you indicate that you do have sustainability preferences, then you are also invited to:

  - Select the **minimum proportion** of financial products being considered as Environmentally Sustainable Investment (**Category A**) and/or as SFDR Sustainable Investment (**Category B**), both to apply at the level of your whole portfolio (as per the aligned investment strategy in place at your portfolio level).
  - For the **Category C** products, you are asked to outline your preferences in PAIs to apply, either at the level of family of PAIs (i.e. Environmental family of PAIs, or Social & Governance family of PAIs, or both PAI families), or at the level of separate selection of

[7] Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms.

sub-category/ies of PAIs (i.e. GHG emissions, water waste, board gender diversity etc). This is to enable the Bank to perform the related PAIs screening on products within scope of PAIs (subject to PAIs data availability) and apply respective investment/product exclusions on investments/products recommendations/decisions from the allowed investment universe based on your aforesaid PAIs selection (as per the aligned investment strategy in place at your portfolio level) and per respective Bank's PAIs methodology in place by the Bank per Sustainability Risk Policy in Investment Services.

Note:
As outlined above, the Bank applies your sustainability preferences, if any, using a **portfolio-based approach,** when considering them under investment advice and/or discretionary portfolio management services, ensuring that your responses to the Sustainability Preferences Questionnaire are aligned with an appropriate investment strategy to be agreed (at the portfolio level).

The Bank clarifies that it is neither required nor will it capture sustainability preferences in the context of a pure "execution-only" investment service.

If you indicate that you have sustainability preferences, you must complete all relevant sections of the Sustainability Preferences Questionnaire. Providing accurate, up-to-date, and complete information is essential to enable the Bank to act in your best interest. In addition to traditional suitability assessments, the Bank will incorporate your Sustainability Preferences Questionnaire into the overall suitability assessment process. This information allows the Bank to align your investments with your sustainability goals and values by assigning an appropriate investment strategy at portfolio level, as further explained in the next section.

The Investor Profile Questionnaire as well as its supplemental Sustainability Preferences Questionnaire, are completed when opening a portfolio or on an ad-hoc basis if you wish to modify your investment objectives, needs or sustainability preferences. Additionally, sustainability preferences are subject to regular periodic updates as part of the Investor Profile review process).

The sustainability preferences for pre-existing clients, are collected by the Bank during the next periodic update of their Investor Profile Questionnaire.

4. Why is the Bank collecting your sustainability preferences information and since when?

Since 2 August 2022, following the update of the MiFID II requirements[8] related to the ESG regime, the Bank is legally required to collect and assess the Clients' sustainability preferences for their portfolios when providing investment advice and discretionary portfolio management services. This ensures that the Bank offers suitable investment advice and/or makes appropriate investment decisions on behalf of clients, taking into account both their sustainability preferences (if any) and their risk profile as part of the traditional suitability assessment.

By understanding your sustainability preferences, the Bank aims, inter alia, to:

- Offer investment options and integrate investments taking into consideration your sustainability preferences, through aligning appropriate investment strategies, ensuring compatibility with your values & investor risk profile at your portfolio level,
- Comply with the evolving regulatory standards and requirements under ESG regime,
- Enhance transparency in relation to your sustainability preferences by considering your selection of sustainability product categories, within the Sustainability Preferences

[8] COMMISSION DELEGATED REGULATION (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

Questionnaire in place, and the respective aligned investment strategy agreed at the portfolio level, as updated from time to time.

5. How will the Bank use your Sustainability Preferences?

When you share your sustainability preferences, through the completion of the Sustainability Preferences Questionnaire, the Bank will seek to agree with you an appropriate investment strategy at the portfolio level (as selected from the Bank's available investment strategies), which aligns with your investor risk profile (including your risk tolerance, financial objectives, knowledge & experience and investment horizon) and your sustainability preferences, as follows:

- Investment Advice Service (Recommendations): For advisory services, the Bank will recommend investments or investment solutions that meet both the traditional suitability requirements[9] (- i.e. they are to be aligned with your risk tolerance, financial objectives, knowledge & experience and investment horizon) and your sustainability preferences at the portfolio level.
- Discretionary Portfolio Management Service (Portfolio Management): When managing your assets under a discretionary portfolio(s), any investment decisions to be taken will meet both the traditional suitability requirements[10] (.e. they are to be aligned with your risk tolerance, financial objectives, knowledge & experience and investment horizon)and your sustainability preferences at the portfolio level.

Note:
When the Bank is providing investment advice or portfolio management, the Bank shall not recommend investments/instruments or decide to trade where your sustainability preferences are not met (as per the agreed aligned investment strategy at your portfolio level). That is, your responses to the Sustainability Preferences Questionnaire are taken into consideration by aligning them with an appropriate investment strategy (at your portfolio level).

Can I adapt my Sustainability Preferences for a specific trade?

For portfolio management:
If during the portfolio opening process, you have provided your sustainability preferences to the Bank (as per the process described above), and the Bank has no investment strategy to align with your sustainability preferences, you will be informed accordingly that for the time being the Bank in not in a position to offer any investment strategy that can meet such preferences. The Bank will discuss this with you when agreeing on the mandate in which the investment strategy is defined and ask you if you would like to adapt your preferences. Your decision will be recorded in the mandate to be agreed.

For investment advice:
It is noted that regarding the investment proposals process, under investment advice service, no recommendation is to be made by the Bank if a particular trade/product is assessed as not suitable for you in terms of meeting your sustainability preferences (as per the aligned investment strategy in place at your portfolio level). In this respect, for investment advice service, in case where the suitability test indicates that a particular trade/product passes all other traditional suitability factors, but your sustainability preferences are not met, then you may (if you decide to do so) adapt your sustainability preferences, applying such adaption only for this specific trade under review. In such case where you will adapt your sustainability preferences for a specific trade:

- The Bank will to contact you to ask you to what extent you may wish to adapt your sustainability preferences in relation to the specific trade, taking into account that where you adapt your sustainability preferences under investment advice service, this adaption should only refer to the investment advice in question (and not to your profile

[9] See Article 54 of MiFID II Delegated Regulation 2017/565.
[10] See Article 54 of MiFID II Delegated Regulation 2017/565.

in general). In the case of investment advice, the adaptation will also be documented in the suitability report included within the investment proposal.

- It is noted that only after you express your intention to adapt your sustainability preferences, and not before, the Bank will disclose to you information about its offering of products with sustainability features.

For both portfolio management or investment advice with portfolio approach:
If you adapt your sustainability preferences after the initial suitability assessment (at portfolio level), then a new investment strategy may need to be agreed (based on the details of such adaptation), and we will evaluate the impact of this change and whether this triggers a rebalancing of the portfolio for portfolio management service (or portfolio's review and subsequent issuing of recommendations for investment advice service).

6. Additional Information you may receive within the pre-existing reporting to you by the Bank

(if you have provided the Bank with your sustainability preferences via the Sustainability Preferences Questionnaire)

1) Pre-trade suitability report (additional information for Clients who provided their sustainability preferences)

Where we intend to recommend a product (under investment advice service), via investment proposal, we will provide you[11] additional information within the pre-trade suitability report, containing both the pre-existing traditional suitability assessment and the assessment of your sustainability preferences as well.

In this context it is clarified that when the Bank provides investment advice service, the Bank will ensure that your minimum portfolio allocation per your sustainability preferences for sustainable investments is met (at portfolio level as per the applicable Investment Strategy), i.e. if you expressed preferences to have a minimum proportion of 40% of 'Category B' products via your Sustainability Preferences Questionnaire, then then the aligned investment strategy, in place at your portfolio level, will include this threshold and the Bank is to arrange to include a minimum of 40 % of category B products on your portfolio.

2) Periodic suitability report (for Clients who provided their sustainability preferences)

In case of portfolio management service, the Bank will provide you, additional information within the annual ex-post suitability report, describing how your portfolio aligns with your sustainability preferences, along with the pre-existing traditional suitability assessment information.

These reports ensure transparency and help you track the sustainability impact of your investments.

7. What is greenwashing?

Greenwashing in the context of the SFDR Regulation, refers to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards (as per the relevant regulatory requirements) have not been met.

Greenwashing refers to misleading information about an investment or product, so as to give it a better public image, in relation to its sustainability, when the actual investment or product

[11] If you are classified as a Retail Client.

is not as sustainable as initially described. This is usually done by showcasing larger benefits to the environment or by highlighting only the areas in which the investment or product excels but neglecting to mention areas which would have been a concern from a sustainability perspective.

This leads to a lack of transparency by the product manufacturer or the investment decision maker and can have reputational and regulatory implications.

To protect you as our Client from greenwashing:

- The Bank only offers products with verified sustainability credentials, aligned with regulatory standards (like the Taxonomy Regulation and SFDR),

- The Bank prioritizes transparency, providing clear and reliable information about the sustainability features of recommended investments or investment decisions, as described in the Wealth Management Sustainability Risk Policy.

AFTERWORD

By collecting and acting on your sustainability preferences (as applicable), the Bank aims to help you make informed and impactful investment decisions.

If you have any questions about sustainable finance, your sustainability preferences collection, or the products offered, please do not hesitate to contact your Client Relationship Manager.

Eurobank Cyprus remains committed to empowering your sustainable investment journey while ensuring regulatory compliance and protecting your interests.

If you would like to learn more about the Bank' Sustainability Risk Policy and related sustainability disclosures, please visit our website at https://www.eurobank.com.cy/en-us/laws-regulations/mifid

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