

APPROVED

at the Council meeting of
 “CBL Asset Management” IPAS on 31.10.2019
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ACCEPTED

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 “CBL Asset Management” IPAS on 11.10.2019
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I ORGANISATIONAL AND ADMINISTRATIVE CONDITIONS

Owner of the process/product: Customer Portfolio Management Department.
Title of the process/product: 1. Management of customer portfolios, funds, investments and pension plans.

Document control

Version	Effective date	Amendments	Number of pages
1.0	11.10.2019	New document	5

Framework and purpose of the document

The Company believes that environmental, social and governance (ESG) factors may affect the value of the investments made by the Company over time. Sustainable investment approach is developing fast. The Company shares the view that by integrating the ESG factors in asset management, the return on investment grows or the impact is neutral at a lower overall risk level, as demonstrated by academic research as well. Moreover, integrating ESG factors into the asset management process contributes to the sustainable development of the world as well.

In June 2019, the Company signed a declaration confirming its commitment to adopt and implement the UN Principles for Responsible Investment. Consequently, the Company undertook to respect the following six principles:

- 1) incorporate the ESG issues into investment analysis and decision-making processes;
- 2) be active owners and incorporate the ESG issues into ownership policies and practices;
- 3) seek appropriate disclosure on the ESG issues by the entities in which we invest;
- 4) promote acceptance and implementation of the Principles within the investment industry;
- 5) to cooperate with the PRI and PRI signatories to enhance effectiveness in implementing the Principles;
- 6) to report on activities and progress towards implementing the Principles.

The purpose of this policy is to define the core principles and elements to ensure that the ESG factors and engagement principles are followed in providing services in managing investment funds, state funded pension schemes or pension plans established by private pension funds and individual investment portfolios.

Scope

The Policy is binding and the Company adheres to it in the management of all asset classes included in the portfolios under the management of the Company.

The Policy is established pursuant to Article 75(4) of the Law on Investment Management Companies and the UN-supported Principles for Responsible Investment: www.unipri.org, as well as taking into account best practices in this area.

Terms and abbreviations

Company – “CBL Asset Management” IPAS.

Bank – AS “Citadele Banka”.

Transparency Report – A report on ESG activities prepared by the Company and submitted to the PRI.

PRI – Investor-led and the United Nations-supported responsible investment organisation that established Principles for Responsible Investment (PRI): www.unpri.org.

ESG factors – Environment, social and governance factors.

Entity — Within the meaning of this Policy, an entity whose issued financial instruments, incl. shares traded on a regulated market of an EU Member State and whose registered office is in an EU Member State.

Policy – The given Sustainability and Engagement Policy.

II GENERAL PROVISIONS

1. The Company as a manager of investment funds, state funded pension schemes, pension plans established by private pension funds and individual investment portfolios, acts in accordance with the best long-term interests of its clients, i.e., ultimate beneficial owners.

2. The Policy defines the main principles for assessing ESG factors and implementing thereof in the asset management process.
3. The Company integrates the ESG factors in risk management processes and ensures compliance with the disclosure requirements regarding engagement.
4. The Company, in accordance with applicable laws and regulations, develops internal documents governing the ESG risk management procedure.

III INTEGRATION OF SUSTAINABILITY (ESG) FACTORS

5. The Company's investments are based on risk analysis, taking into consideration entities' financial and operational factors such as the entity's business model, strategic opportunities and the ESG risk level inherent in its operations and the management thereof.
6. To avoid financing of an entity that has a clearly negative impact on the community and environment, the Company particularly distances itself from investments in entities which are included in the EU sanctions lists or whose core business activity is related to pornography and production and development of inhumane weapons.
7. For analysing the impact of the ESG factors, the Company uses ratings assigned by international credit rating and information agencies as well as the Company's internal ratings regarding the ESG risk level inherent in entities invested in.
8. The Company takes measures to integrate the ESG factors in assessing significant risks of investment funds, state funded pension schemes or pension plans established by private pension funds and individual investment portfolios; the Company also takes all possible measures to minimise the potential and actual adverse effect.
9. The Company identifies the types of conflicts of interest that might arise in relation to sustainability considerations, particularly using its voting rights at the shareholders' meetings of the respective entities, and takes measures to prevent, manage and disclose such conflicts of interest.

IV ENGAGEMENT

10. The investment policies of the investment funds, state funded pension schemes and pension plans established by private pension funds and individual investment portfolios managed by the Company provides for investing in financial instruments issued by Entities.
11. The objective of engagement is to promote sustainable operations and development of those Entities, in whose financial instruments the Company invests.
12. The Company carries out engagement activities in the Entities believing that thus a long-term value is created.
13. When implementing the established investment policy, the Company's main engagement activities are focused on the Entities in which the Company has made the most material investments.
14. The Company engages with the Entities, particularly by using its voting rights, if the Company has at least 5% of the total voting rights. In the communication with the Entities invested in about material financial and non-financial issues and risks, the Company pays particular attention as to whether the Entity:
 - 14.1. has a clearly defined operational strategy;
 - 14.2. has published financial and non-financial results and disclosed significant risks;
 - 14.3. has disclosed its capital structure;
 - 14.4. does not cause negative impact on the community and its staff (social impact);
 - 14.5. does not cause negative impact on environment;

- 14.6. respects good corporate governance principles.
15. The engagement activities are the responsibility of the managers of the investment funds, state funded pension schemes, pension plans established by private pension funds and individual investment portfolios.
16. The engagement activities are carried out in a variety of ways, including:
 - 16.1. direct communication with the investee Entity's management in person as well as via e-mails or webinars;
 - 16.2. using voting rights at the shareholders' meetings of the investee Entities;
 - 16.3. using external initiatives in cooperation with other investors, e.g., the PRI Cooperation Platform where applicable, which possibly results in a greater impact on the management of the investee Entities.
17. When carrying out an engagement activity, the Company ensures that:
 - 17.1. prior to carrying out the engagement activities, the issues significant to the particular Entity are assessed;
 - 17.2. communication with the Entity is only about significant issues and occurs in accordance with the approaches specified in Item 16.
 - 17.3. subsequent to the engagement activities, information on the engagement is disclosed in the Transparency Report.

V REPORTING OBLIGATION

18. Each year, the Company includes in the financial statements of the investment funds, state funded pension schemes and pension plans established by private pension funds and individual investment portfolios under its management that are publicly available on its website a report on the implementation of the engagement policy if, according to this Policy, they are considered material and if the number of the voting rights used meets the requirements of Item 14, inter alia, disclosing:
 - 18.1. general information about the Company exercising its voting rights;
 - 18.2. explanations of significant voting in the reporting period.

VI RESPONSIBILITY AND POLICY IMPLEMENTATION MONITORING

19. The Portfolio Management Department of the Company ensures that the investment funds, state funded pension schemes, pension plans established by private pension funds and individual investment portfolios managed by the Company comply with the Policy.
20. The Management Board of the Company assigns an employee responsible for the integration of the ESG factors in the Company's processes who has proper knowledge necessary for analysing sustainability risks and ensuring appropriate implementation of the investment and consulting procedure.
21. The responsible employee provides the Management Board of the Company with a Transparency Report on the progress of the implementation of the ESG principles and engagement at least on an annual basis.
22. The Management Board of the Company instructs the responsible departments to take organisational or administrative measures for effective integration of the ESG principles in the Company's processes and sustainability risk assessment.
23. The Management Board of the Company promotes maintaining and developing knowledge of the ESG issues.

24. The Management Board of the Company is responsible for the implementation of the Policy and acceptance of internal regulations ensuring the implementation of the Policy that is to be reviewed at least on an annual basis.
25. The Council of the Company approves the Policy and ensures an overall monitoring of its implementation involving, to the extent possible, the Internal Audit Department of the Bank's Group.