

Version III published on 31 December 2024

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

Integrating sustainability risk within investment advice is a risk management process through which the Bank seeks to support long-term returns on investment, taking into account sustainability risks (ESG risk, Environmental, Social and Governance) which, if they occur, could have an actual or potential significant negative impact on the value of investment.

At the same time, while providing investment advice, the Bank makes sure that the investment activities it undertakes and recommends do not have a material, negative impact on environmental, social or employment conditions, human rights issues or prevention of corruption and bribery (PASI, principal adverse sustainability impact).

The Bank believes that from a financial point of view sustainability risks are an important component in assessing or deciding on whether or not to add a given financial instrument to its offer or investment recommendation. Therefore, within the services it provides, the Bank tries in various ways to integrate and assess significant threats to sustainable development in its processes. This means that, in addition to more traditional financial criteria, it systematically considers whether – and to what extent – financially relevant ESG risks could significantly impact client investments. This does not mean that all sustainability factors and risks will be relevant to every product or investment. The relevance and materiality of such matters will depend on a number of factors, including the nature of the product or investment, the likelihood of the sustainability risk occurring, and the likely extent and scale of its impact. Therefore, although the Bank attaches great importance to these factors in its decision-making process, it does not assign great weight to them nor are they decisive when considering whether or not, for example, a given product will be included in the Bank's offer, or whether it will make a list of recommended products or be removed from it. They play a supporting role and are considered together with other factors on the basis of which relevant Bank units make decisions.

Also, the Bank:

- doesn't assess or select investment products based on the indicators listed in Appendix I table 1 of the RTS of SFDR¹ or any other additional indicators,
- doesn't use criteria or thresholds based on the principal adverse impacts on sustainability factors listed in appendix I table 1 of the RTS of SFDR.

The Bank assesses investment products and the method of their consideration in individual investment recommendations, so that they are in line with the preferences of individual clients in terms of sustainability, using information published by the participants of the financial market while applying the methodology described above.

A given investment product, in order to be recommended to the client for purchase, has to be in line with all the client's sustainability preferences (if specified). The Bank assesses investment products covered by the investment advisory service (units of open-end mutual funds and structured notes) according to the following criteria:

- is a given investment product environmentally sustainable (within the meaning of the EU Taxonomy) and if so, to what extent (%),
- is a given investment product sustainable and does it have a positive impact on the environment and society (within the meaning of the SFDR, so also in aspects other than within the meaning of the Taxonomy) and if so, to what extent (%),
- does a given product take into account the primary adverse impacts (PAI) on sustainability factors in the following areas:
 - ✓ greenhouse gas emissions,
 - ✓ biodiversity,
 - ✓ water,
 - ✓ waste,
 - ✓ emissions,
 - ✓ energy efficiency,
 - ✓ emissions of water, waste and materials,
 - ✓ green securities,
 - ✓ social and employee matters,
 - ✓ human rights,
 - ✓ anti-corruption and anti-bribery activities.

In assessing investment products according to the above criteria, the Bank uses information obtained from their producers in the EET standard (European ESG Template). In order to supplement missing information, if any, the Bank may use additional information from producers provided otherwise, for example, by publishing it on their websites, received via email or published in fund fact sheets.

¹ Commission Delegated Regulation (EU) 2022/1288 of 06 April 2022 to supplement Regulation (EU) No 2019/2088 of the European Parliament and of the Council.

The Bank evaluates whether and, if so, to what extent, a given investment product is environmentally sustainable (within the meaning of the EU Taxonomy) or is sustainable and has a positive impact on the environment and society (within the meaning of the SFDR) directly based on EET reports.

The Bank does not manage sustainability risk for structured notes and does not intend to change this in the future.

The Bank deems a given investment product to incorporate the principal adverse sustainability impacts if so declared in the EET report by its producer and if the producer also declares that, for a given principal adverse sustainability impact, it fulfills at least one of the component factors:

Greenhouse gas emissions:

- GHG emissions (30020 – 30210)
- Carbon footprint (30220 – 30290)
- GHG intensity of investee companies (30300 – 30370)
- Exposure to companies active in the fossil fuel sector (30380 – 30410)
- Share of non-renewable energy consumption and production (30430 – 30490)
- Energy consumption intensity per high impact climate sector (30500 – 30850)
- GHG intensity of investee countries (31170 – 31200)
- GHG emissions generated by real estate assets (32080 – 32270)

Biodiversity:

- Activities negatively affecting biodiversity-sensitive areas (30860 – 30890)
- Land artificialisation (32400 – 32430)

Water:

- Emissions to water (30900 – 30930)

Waste:

- Hazardous waste ratio (30940 – 30970)
- Waste production in operations (real estate assets) (32320 – 32350)

Emissions:

- Emissions of inorganic pollutants (31370 – 31400)
- Emissions of air pollutants (31410 – 31440)
- Emissions of ozone-depleting substances (31450 – 31480)
- Investments in companies without carbon emission reduction initiatives (31490 – 31510)

Energy efficiency:

- Exposure to energy-inefficient real estate assets (31330 – 31360)
- Energy consumption in GWh of owned real estate assets per square meter (32280 – 32310)
- Breakdown of energy consumption by type of non-renewable sources of energy (331520 – 31630)

Water, waste and material – emissions

- Water usage and recycling (31640 – 31674)
- Investments in companies without water management policies (31680 – 31710)
- Exposure to areas of high water stress (31720 – 31750)
- Investments in companies producing chemicals (31760 – 31790)
- Land degradation, desertification, soil sealing (31800 – 31830)
- Investments in companies without sustainable land/agriculture practices (31840 – 31870)
- Investments in companies without sustainable oceans/seas practices (31871 – 31874)
- Non-recycled waste ratio (31875 – 31878)
- Natural species and protected areas (31880 – 31950)
- Deforestation (31960 – 31980)

Green securities:

- Share of securities not issued under Union legislation on environmentally sustainable bonds (32000 – 32030)
- Share of bonds not issued under Union legislation on environmentally sustainable bonds (32040 – 32070)

Social and employee matters:

- Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (30980 – 31010)
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (31020 – 31045)
- Unadjusted gender pay gap (31050 – 31080)
- Board gender diversity (31090 – 31120)
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) (31130 – 31160)
- Investee countries subject to social violations (31210 – 31280)
- Investments in companies without workplace accident prevention policies (32440 – 32470)
- Rate of accidents (32480 – 32510)
- Number of days lost to injuries, accidents, fatalities or illness (32520 – 32550)
- Lack of a supplier code of conduct (32560 – 32590)
- Lack of grievance/complaints handling mechanism related to employee matters (32640 – 32670)
- Insufficient whistleblower protection (32680 – 32710)
- Incidents of discrimination (32720 – 32790)
- Excessive CEO pay ratio (32800 – 32830)
- Average income inequality score (33190 – 33220)
- Average freedom of expression score (33230 – 33260)

Human rights:

- Lack of a human rights policy (32840 – 32870)
- Lack of due diligence (32880 – 32910)
- Lack of processes and measures for preventing trafficking in human beings (32920 – 32950)
- Operations and suppliers at significant risk of incidents of child labour (32960 – 32990)
- Operations and suppliers at significant risk of incidents of forced or compulsory labour (33000 – 33030)
- Number of identified cases of severe human rights issues and incidents (33040 – 33070)
- Measure of the average human right performance of investee countries (33265 – 33290)

Anti-corruption and anti-bribery:

- Lack of anti-corruption and anti-bribery policies (33080 – 33110)
- Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery (33120 – 33140)
- Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws (33150 – 33180)

Examples of application of the Bank's methodology in selecting investment products

In profiling, the client specified that sustainability factors were important to them and they wanted to invest in financial instruments which take sustainability factors into account. In additional questions, the client further specified that:

- they expect that at least 20% of the recommended financial instrument will be invested in environmentally sustainable investments having a positive impact on the climate (within the meaning of the EU Taxonomy);
- they have no preferences about the minimum share of the sustainable investments having a positive impact on social and environmental issues also in aspects other than those covered by the previous question (within the meaning of the SFDR) under the recommended financial instrument;
- the financial instruments recommended for purchase should incorporate the following primary adverse impacts on sustainability factors:
 - ✓ greenhouse gas emissions
 - ✓ biodiversity
 - ✓ water
 - ✓ waste
 - ✓ emissions
 - ✓ social and employee matters
 - ✓ human rights
 - ✓ anti-corruption and anti-bribery

Scenario 1

Since investment products were assessed as follows, only funds A and B as well as structured note Z can be recommended for purchase in order to fulfill the ESG preferences:

	Fund A	Fund B	Fund C	Structured Note X	Structured Note Y	Structured Note Z
Sustainable within the meaning of the Taxonomy?	Yes	Yes	No	No	Yes	Yes
the extent (%) to which this product is environmentally sustainable (within the meaning of the EU Taxonomy)	20%	30%	0%	0%	10%	20%
Sustainable within the meaning of the SFDR?	Yes	Yes	Yes	No	No	No
the extent (%) to which this product is sustainable (within the meaning of the SFDR)	5%	50%	75%	0%	0%	0%
Primary adverse impacts on sustainability factors:						
greenhouse gas emissions	Yes	Yes	Yes	No	Yes	Yes
biodiversity	Yes	Yes	Yes	No	Yes	Yes
water	Yes	Yes	Yes	No	Yes	Yes
waste	Yes	Yes	Yes	No	Yes	Yes
emissions	Yes	Yes	Yes	No	Yes	Yes
energy efficiency	Yes	Yes	No	No	No	No
emissions of water, waste and materials	Yes	Yes	No	No	No	Yes
green securities	Yes	Yes	No	No	No	No
social and employee matters	Yes	Yes	Yes	No	Yes	Yes
human rights	Yes	Yes	Yes	No	Yes	Yes
anti-corruption and anti-bribery	Yes	Yes	Yes	No	Yes	Yes

Scenario 2

Since investment products were assessed as follows and none of them fulfills the ESG preferences, therefore none of them can be recommended for purchase (recommendation to buy will be empty – it will not include any investment product):

	Fund-A	Fund-B	Fund-C	Structured- Note-X	Structured- Note-Y	Structured- Note-Z
Sustainable within the meaning of the Taxonomy?	Yes	Yes	No	No	Yes	Yes
the extent (%) to which this product is environmentally sustainable (within the meaning of the EU Taxonomy)	20%	30%	0%	0%	10%	19%
Sustainable within the meaning of the SFDR?	Yes	Yes	Yes	No	No	No
the extent (%) to which this product is sustainable (within the meaning of the SFDR)	5%	50%	75%	0%	0%	0%
Primary adverse impacts on sustainability factors:						
greenhouse gas emissions	Yes	No	Yes	No	Yes	Yes
biodiversity	Yes	Yes	Yes	No	Yes	Yes
water	Yes	Yes	Yes	No	Yes	Yes
waste	Yes	Yes	Yes	No	Yes	Yes
emissions	Yes	Yes	Yes	No	Yes	Yes
energy efficiency	Yes	Yes	No	No	No	No
emissions of water, waste and materials	Yes	Yes	No	No	No	Yes
green securities	Yes	Yes	No	No	No	No
social and employee matters	Yes	Yes	Yes	No	Yes	Yes
human rights	Yes	Yes	Yes	No	Yes	Yes
anti-corruption and anti-bribery	No	Yes	Yes	No	Yes	Yes

The Bank has also published additional ESG information in an educational material within the series “Investor’s path”, available at: <https://www.citibank.pl/files/market-analyses/edu/wrzesien-2024.pdf>.

If the client has specified in the profiling that ESG issues are important to them and they want to invest in financial instruments that take into account sustainability factors, they must also specify in the additional questions what share of their investment portfolio is to be invested in financial instruments that meet their preferences (based on the criteria indicated above). If the buy recommendation cannot meet these preferences to the extent required by the client (%), then no product will be recommended to the client for purchase (even if the recommendation could include products that meet their preferences in terms of sustainability factors).

The client may change his/her preferences in terms of sustainability factors both in profiling, as well as change them temporarily in a situation where the purchase recommendation did not contain any financial instrument because it could not meet the preferences in terms of sustainability factors in the entire portfolio in the proportion specified by the client or none of the financial instruments possible to be recommended by the Bank could meet the client’s preferences in terms of sustainability factors, i.e. the need for inclusion in the investment portfolio.