



Baltic International Bank

**APPROVED**

At Baltic International Bank SE

*Chairman of the Board*

Viktors Bolbats

Riga, 09 March 2021

## **PRE-CONTRACTUAL DISCLOSURE OF TRANSPARENCY INFORMATION RELATED TO PROMOTION OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS AND SUSTAINABLE INVESTMENT TO CUSTOMERS**

### **Summary of pre-contractual disclosure of transparency information related to promotion of environmental or social characteristics and sustainable investment pursuant to the SFDR Regulation prior to signing individual asset management contracts**

Considering the global environmental situation, Europe introduces measures aimed at mobilising capital for development of environmental, social and sustainability factors. These measures are not only implemented by the national policy, but also via the financial services industry. In order to adjust to this new environment, financial market participants and financial advisers are obliged to disclose particular information regarding employed approaches of integration of sustainability risks and assessment of negative sustainability effect to customers.

Following Paris Treaty on Climate Change 2015 and adoption of the UN 2030 Agenda for Sustainable Development, the European Commission has developed the action plan "Sustainable Development Funding" where it has expressed the intention to define detailed obligations and to improve transparency in the area of sustainability risks.

The below provided information is aimed at providing information to customers regarding the transparency approach implemented by the Bank in providing individual asset management services to the Customer:

- integration of the ESG approach considering its sustainability effect,
- provision of sustainability related information.

Pursuant to Regulation (EU) No. 2019/2088 (27 November, 2019) of the European Parliament and of the Council on Sustainability-related Disclosures in the Financial Services Sector (SFDR Regulation), the Bank provides the following information to the Customers prior to signing an individual asset management contract:

- Disclosure of transparency information regarding promotion of environmental or social characteristics;
- disclosure of transparency information regarding sustainable investment.

#### Definitions of used terms and abbreviations:

**Bank** – Baltic International Bank SE



## Baltic International Bank

**ESG** – an abbreviation from English meaning *Environmental, Social, Governance*, defining the approach aimed at sustainable development. The ESG approach defines the action model of organisations compliant with its principles. Organisations who undertake to follow this approach promise to focus on the following in their operations:

- 1) environment preservation (considering greenhouse gas emissions, biological diversity, environmental pollution, carbon dioxide emissions, renewable energy),
- 2) social responsibility (considering employment habits, forced movement of people (for example, in relation to including residential areas in the industrial territory), human rights, health and safety, financial services for people with low income and special needs),
- 3) good governance (considering prevention of corruption, reputation, governance efficiency).

**Customer** – the Bank's customer to whom the Bank provides an investment service - individual FI management according to the investor's authorisation (Portfolio management service).

**Portfolio**- the aggregate of the FI and cash owned by the Customer and held and managed by the Bank within the scope of the Portfolio Management Service.

**FI** – the FI referred to in Section 3.2 of the Law of the Republic of Latvia on Financial Instruments Market.



NO		TRANSPARENCY OF PROMOTION OF ENVIRONMENT OR SOCIAL CHARACTERISTICS	TRANSPARENCY OF SUSTAINABLE INVESTMENT
1	<b>ENVIRONMENTAL, SOCIAL AND GOVERNANCE CHARACTERISTICS OR ESG FACTORS PROMOTED BY A FINANCIAL PRODUCT</b>		
	Description of the factors of environmental characteristics	<ul style="list-style-type: none"> <li>• Greenhouse gas intensity (GHG intensity) - the total volume of greenhouse gas emitted by the undertaking on annual basis, normalised based on its revenue.</li> <li>• Energy intensity - the total volume of energy used by the undertaking on annual basis, normalised based on its revenue, assets and the number of employees (the normalised geometric mean index of the three parameters is calculated).</li> <li>• Water intensity - the total volume of water used by the undertaking on annual basis, normalised based on its revenue, assets and the number of employees (the normalised geometric mean index of the three parameters is calculated).</li> <li>• Waste intensity - the total volume of waste produced by the undertaking on annual basis, normalised based on its revenue.</li> </ul>	
	Description of social factors	<ul style="list-style-type: none"> <li>• Proportion of female employees of the total number of employees at the undertaking.</li> <li>• Proportion of female employees holding managerial positions of the total number of management personnel.</li> <li>• Number of accidents - the total number of incidents per 100 full time equivalent (FTE) employees.</li> <li>• Society - the total amount of money spent by the undertaking in public events, millions, normalised based on its revenue.</li> <li>• Negative industry screening by reducing the point score of social characteristics of tobacco and defence undertakings by 50%, thus reflecting their negative public effect.</li> </ul>	Not applicable
	Description of governance factors	<ul style="list-style-type: none"> <li>• Percentage share of independent directors.</li> <li>• Percentage share of independent directors in the audit committee.</li> <li>• Term of the Management Board of the undertaking.</li> </ul>	



Baltic International Bank

		<ul style="list-style-type: none"> <li>• Research and development expenses - the annual research and development expenses, normalised based on the revenue of the undertaking.</li> </ul>	
		The annual report will be accessible on the Bank's website.	
2	<b>SUSTAINABLE INVESTMENT GOAL OF A FINANCIAL PRODUCT</b>	Not applicable	Maximisation of the ESG rating of the relevant sustainability characteristics within the Portfolio by improving the Portfolio sustainability and not reducing the Portfolio profitability and not increasing the Portfolio risk at the same time.
3	<b>INVESTMENT PROPORTION</b>	<p>Every FI which is included in the Portfolio is evaluated and an ESG score is assigned to it. The ESG rating is assigned to all the Portfolios. It is possible that some FI lack data or have insufficient data to enable assigning the ESG score above 0 to them, thus such a FI could be considered a financial instrument not compliant with sustainable investment. Still, there is no particular proportion between sustainable and not sustainable FI. As regards individually developed Portfolios, each Portfolio is tailor-made and FI are selected for each individual based on maximisation of the risk/ profit ratio. Also within the individual Portfolio each FI is assessed based on ESG factors and the ESG rating is assigned to the Portfolio. The FI with a higher ESG score is selected from among similar FI. Still the Bank maintains the possibility of choice for the Customer to make an investment which does not conform with the ESG approach by notifying the Customer that the relevant Portfolio will have a low ESG rating and a high sustainability risk.</p>	<p>The Bank's model Portfolios are focused on the ESG approach. Standardised Portfolios are passively managed Portfolios which are developed based on the ESG approach, by maximising the ESG rating by maintaining the global allocation of assets as far as possible.</p> <p>Investments are developed based on the good governance principle by evaluating the customer's risk profile and creating a Portfolio which corresponds to the customer's desirable risk degree, by maximising the Portfolio's profitability, by making diversified investments, as well as by minimising the sustainability risk within the Portfolio, i.e. maximising the Portfolio's ESG rating.</p>
		<p><b>Distribution of Portfolios found in the Customers' FI Portfolios:</b></p>	Not applicable



Baltic International Bank

		<p>i. aggregate investments which are sustainable and distribution of these sustainable investments between environmental and social goals: <u>All investments</u></p> <p>ii. aggregate investments which are not the ones referred to in sub-clause i) and which help achieving environmental or social characteristics promoted by the financial product, and the distribution of these investments between environmental or social characteristics: <u>Not found</u>;</p> <p>iii. the remaining part of the investments: <u>Not found</u>.</p>	
4	<b>NO SUSTAINABLE INVESTMENT GOAL</b>	<p>The ESG score of the FI issued by tobacco and defence undertakings within the Portfolios is reduced by 50% as for undertakings with unfavourable effect. This is done if it is not possible to exclude the relevant FI from the Customer's Portfolio. If it is feasible, the FI issued by tobacco and defence undertakings are excluded from the Portfolio.</p>	
5	<b>INVESTMENT STRATEGY</b>	<p>The Bank develops model Portfolios in compliance with risk degrees in order to offer standardised investment solutions with the best possible risk/ profitability ratio to the Customers and in order to attain the best ESG rating of the Portfolio, i.e. to develop it as sustainable as possible. The profitability vs risk is always evaluated as the most important factor in portfolio management, and the Portfolio is adjusted to the risk level appropriate for the Customer; the sustainability risk is integrated with the overall risk assessment process aimed at achieving as far as possible ESG rating, at the same time not reducing the Portfolio's profitability and not increasing the Portfolio's risk level. The sustainability risk is evaluated based on the ESG rating, which are inversely related, i.e. the higher the ESG rating, the lower the sustainability risk.</p>	
6	<b>MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS</b>	<p>Data are collected from <i>Bloomberg</i> platform and are based on audited annual reports (statements).</p>	Not applicable
7	<b>MONITORING OF SUSTAINABLE INVESTMENT GOALS</b>	Not applicable	<p>In developing the standardised Portfolios, the Bank evaluates the ESG score of every included FI and calculates the ESG score of the complete portfolio. In developing a tailor-made portfolio, every FI included in the Portfolio is evaluated by maximising the overall ESG rating of the Portfolio as far as possible</p>



			at the moment of purchasing the FI and the ESG rating of the Portfolio is calculated. The Portfolio's ESG rating is revised every time when any changes are made in the Portfolio, as well as the data of every FI are updated, these are updated on annual basis when audited reports of undertakings are available. This applies to both standardised and individual Portfolios. Once a year random verification is performed to assure is the ESG rating is compliant with the relevant Portfolio.
<b>8</b>	<b>METHODOLOGIES</b>		
	<b><u>General description of the ESG model of undertakings</u></b>	<p>The model of assessment of ESG criteria applied by the Bank is based on the relative-internal sector assessment principle. In order to achieve this, the industry classification criterion (ICC) is applied providing for 19 super industries to create uniform groups for undertakings within each industry. On the basis of information available in <i>Bloomberg</i> platform (annual reports of undertakings), variables are defined and applied to the undertaking depending on its size (by using the amount of revenue, assets and the number of employees). Percentage table with marginal values 5% and 95% (the threshold and ceiling levels) is developed for each variable in each industry and the critical values with a 10% increase are calculated (i.e., 5%, 10%, 20%, ..., 95%). In the evaluation of a particular undertaking, every variable is estimated and its value is compared with the percentage table values in the relevant industry to which the undertaking belongs. When it is found that the value conforms with the relevant percentage range (e.g. 24.3% conforms to 20% and 30%), a particular point score is assigned to this variable by rounding its percentage upwards to the closest 10% (30% in this example), then this is transformed according to a 10 point score ((30% corresponds to 3), where a higher point score means more conformity with the ESG approach. If the evaluation scale is inverse, this means that the bigger the negative effect, the lower point score needs to be assigned, (for example, regarding the Greenhouse emissions), in this case the following adjustment of the final assessment is done: the result estimated in according to the 10 point score is subtracted from 11, thus the end value is still measures based on the 10 point scale and it possesses the needed characteristics.</p>	
	<b><u>"Calculation" of</u></b>	By following the example set by <i>RobecoSAM</i> (an investment undertaking established	



Baltic International Bank

<p><b><u>the missing variables</u></b></p>	<p>in Switzerland focusing on sustainability in its operations, <a href="http://www.robeco.com/en/about-us/robecosam.html">www.robeco.com/en/about-us/robecosam.html</a>), zero value (on the 10 point scale) is assigned to all the variables lacking observations data. This approach provides more conservative inobjectivity to the assessment, but the Bank considers that this condition is substantiated cautious. By using this system, the Bank does not have to consider the data provision indices separately, as the overall indices partially reflect the data reflection quality.</p>
<p><b><u>Overall index</u></b></p>	<p>The overall indices for each category (E, S and G) within the ESG factor are estimated as the weighted average indices. Under the Environment section (E) four parameters are assessed equally, like under the Social section (S). At the same time, under the Governance section (G) the score of R&amp;D expenses and independent directors is twice as high as that of the other parameters. The parameters of the Environment factor (E) and the Social factor (S) are assessed in relation, and score of the research and development expenses and the variable of the independent directors under the Governance factor (G) is double of the score of the other parameters under the Governance factor (G).</p> <p>The end category indices are calculated jointly with the relevant indices of <i>RobecoSAM</i> and <i>Sustainalytics</i> (a business company founded in the Netherlands with the corporate governance research and assigning of the ESG rating to investors as the main directions of operation). The weighing algorithm is more complicated in this case and weights are dynamically assigned to each of the three assessments (the Bank's, <i>RobecoSAM</i> and <i>Sustainalytics</i>) depending on their dispersion level. If <i>RobecoSAM</i> and <i>Sustainalytics</i> are mutually compliant (there are no major discrepancies), but they differ considerably from the Bank's assessment, their total weight is higher (their individual weights are the same, for example, 30% and 30%, etc.), then the weight of the Bank's assessment is lower. If <i>RobecoSAM</i> and <i>Sustainalytics</i> are contradicting, the weight of the Bank's evaluation is higher. In this way the Bank tries to reflect the possible deficiencies of the algorithm and the restricted data accessibility (both <i>RobecoSAM</i> and <i>Sustainalytics</i> use much more data in comparison to the Bank's possibilities).</p> <p>The calculated assessments of the ESG factors are summarised on a single scale of values 0-100 reflecting the undertaking's overall progress according to the ESG approach by following the condition that the summary is done per industries and not on universal basis, as the meaning of effect of various industries is different in different ESG factors.</p> <p>When category indices have been calculated, they need to be summarised in a single value reflecting the undertaking's overall progress according to ESG criteria. Moreover, this summary should be industry specific and not universal, as the effects of various industries across various areas (E, S and G) differ. Thus, we have developed a set of weights for each of the 19 super industries and we calculate the mean average of three point scores (ESG on the scale 0-100), which we consider as our overall sustainability index on the point scale 0-100.</p>
<p><b><u>The country ESG</u></b></p>	<p>As the country ESG assessment criteria differ from the assessment criteria of</p>



Baltic International Bank

	<b><u>assessment</u></b>	undertakings and data are not available for many countries, as they are published late or lack consistency, the Bank uses the ESG assessment scale of 0-100 available on <i>Bloomberg</i> platform as the basis in its ESG assessment.
	<b><u>The bonds ESG assessment</u></b>	Two types of bonds are distinguished by performing the bond assessment, in particular, sovereign and corporate bonds. If bonds are sovereign, their ESG value corresponds to the ESG assessment value of the country available on <i>Bloomberg</i> platform. If bonds are jointly issued by several countries, this assessment is calculated proportionally to the involvement share of each country. If bonds are corporate, the ESG assessment of the bonds corresponds to the ESG assessment of the parent company of the relevant issue.
	<b><u>The funds ESG assessment</u></b>	10 biggest investments for every fund are assessed based on the ESG factors and the result is obtained as regards their mutual proportional weight. This method is used because for the majority of funds it is not possible or difficult to establish the full composition of assets and their relevant proportions.
	<b><u>The Portfolio ESG assessment</u></b>	All the FI are assessed within each Portfolio even if they lack the data which are needed for establishing the ESG assessment which can provide 0 score to them. The total ESG rating of the Portfolio is calculated by summarising the ESG scores of FI comprised by the Portfolio on the scale 0-100 and by identifying the weighed assessment of the FI comprised by the Portfolio. The obtained result on the scale 0-100 is converted to the Bank's internal ESG rating scale D-AAA: AAA: 90 – 100 AA+: 80 – 90 AA: 70 – 80 A+: 60 – 70 A: 50 – 60 B+: 40 – 50 B: 30 – 40 C+: 20 – 30 C: 10 – 20 D: 0 – 10
9	<b>DUE DILIGENCE</b>	The Bank performs the due diligence of the ESG rating established for the Portfolio once a year on random basis.
10	<b>INVOLVEMENT POLICY</b>	The Bank only performs sustainability risk assessment of undertakings and countries because investments in the FI of these issuers can be described as minor, not allowing affecting the sustainability risk or participating in affecting it.
11	<b>DATA SOURCES AND PROCESSING</b>	i. Data sources used to attain every environmental or social characteristic promoted by the financial product: <u>All the data are sourced from Bloomberg, audited annual reports of undertakings;</u> ii. Measures for assuring the data quality are implemented. <i>The data of audited annual reports of undertakings are used, which is information to be deemed true and reliable</i> iii. The manner of processing data: <u>An evaluation model is developed in MS Excel application;</u>





Baltic International Bank

		iv. estimated proportion: <u>100% assets in model portfolios have been assessed, within individual portfolios all the assets have been assessed, however, the score can be 0 for some of them.</u>	
12	<b>RESTRICTIONS OF METHODOLOGIES AND DATA</b>	10 biggest investments for every fund are assessed based on the ESG factors and the result is obtained as regards their mutual proportional weight. This method is used because for the majority of funds it is not possible or difficult to establish the full composition of assets and their relevant proportions. When the Index fund is selected, it is not possible to make the negative screening of FI and to separate undertakings with negative effect on the ESG factors.	
13	<b>SELECTED REFERENCE BENCHMARK</b>	Reference benchmarks are applied to model Portfolios and they reflect the global stock and bond markets, however, do not consider sustainability criteria. Links to the stock market index <i>MSCI All-Country World Daily Total Return</i> <a href="https://www.msci.com/acwi">https://www.msci.com/acwi</a> and the bond market index <i>Bloomberg Barclays Global Aggregate Index</i> <a href="https://www.bloomberg.com/quote/LEGATRUU:IND">https://www.bloomberg.com/quote/LEGATRUU:IND</a> .	Not applicable
14	<b>ATTAINING THE SUSTAINABLE INVESTMENT GOAL</b>	Not applicable	At present the Bank's sustainable investment approach is assessed as good, however, in future, when more sustainability focused products emerge, customers' funds will be increasingly invested in these products, thus improving the overall investment sustainability index.