

GOVERNANCE

CDB Aviation's parent company CDBL is based in Shenzhen



CDB
AVIATION

www.cdbaviation.aero

At CDB Aviation, we believe that a strong governance framework is a critical foundation for commercial success.

It enables good decision-making, robust risk management and ultimately, sustainable long-term value creation for our key stakeholders.



100%

staff completion of compliance
& cyber security training



ISO 27001

aligned security standards

CDB Leasing strong track
record in ESG reporting

7



annual reports
to-date



Fully independent
Audit & Compliance Committee

Dedicated

Sustainability

working group

China-Sox Compliant



Financial Action Task Force best practice
AML policies and procedures

Time for Radical Transparency

“Governance and leadership are the yin and the yang of successful organisations.

- Mark Goyder, Director of think-tank Tomorrow's Company



At CDB Aviation, we have always prided ourselves on being transparent – both internally in our dealings with colleagues and externally in our interactions with our stakeholders. In preparing our first sustainability report, we have been open and honest about the aspects of ESG where we are currently doing well and those where we have identified gaps and areas where there is room to improve.

The development of ESG reporting demands much in terms of time and resources but we believe in its value and importance in terms of holding companies like ours accountable.

We recognise that the availability of quality, comparable and standardised disclosures (such as those now mandated by the new European Sustainability Reporting Standards) will drive progress on the sustainable development agenda. This type of environment pushes businesses to up their game in response to the pressure of stakeholder scrutiny and reputational risk.

In 2022, we were proud to sign up to the Aircraft Leasing Ireland Sustainability Charter, which commits us to setting ambitious ESG targets and reporting on our progress against them. CDB Aviation is a strong supporter of collaborative approaches such as the Charter, bringing lessors together, raising the bar and improving transparency across our industry as a whole.

We recognise that without industry-wide co-operation, there are significant limits on the progress that any one industry player can accomplish.

From an internal perspective, embedding ESG reporting into our day-to-day work is part and parcel of ensuring our approach to corporate governance is fit for the future. This belief was reinforced in the materiality assessment we completed in 2022 to inform the development of our sustainability strategy. In our assessment, Ethics and Compliance emerged as the top-rated, most material topic, reflecting the importance that we attach to it along with our external stakeholders.

In some ways, the high priority given by stakeholders to Ethics and Compliance was unsurprising given the global and highly scrutinised industry in which we operate.

In an age where governance can, at times, be viewed as a 'hygiene factor', it reaffirmed to us the importance of constantly striving to be best in class in this area.

Today, being best in class in Governance means embracing and providing greater levels of transparency. We in CDB Aviation are fully committed to delivering on this agenda.

Ethics and Compliance

Why it matters?

With CDB Aviation's global reach, we adhere to and comply with applicable laws and regulatory regimes not only in our home jurisdictions of Ireland, the EU, China and Hong Kong, but also in all other jurisdictions where we conduct business. We view upholding the highest standards of ethics and ensuring we are in full compliance with applicable laws as being business critical and non-negotiable. Our reputation and the trust of our customers and other stakeholders depends on it as, therefore, does our commercial and financial success.

Key targets:

- Continual improvement to ensure best-in-class compliance framework in place
- Zero cyber security breaches
- 100% of staff trained on ethics and compliance annually

Key Actions for 2023:

- Enhance our staff training programme on ethics and compliance
- Develop and publish modern slavery statement
- Develop and launch new whistleblowing hotline

We firmly believe that behaving ethically and complying with local and international regulations is a prerequisite to business success. We take a zero-tolerance approach regarding any unlawful behaviour, and we actively seek to protect the reputation of the company, our shareholder, staff members, customers and all other stakeholders in the business.

We expect our staff members to conduct themselves according to the highest standards of ethics and integrity, and these principles are reinforced within our Staff Member Code of Conduct.

Approach to Compliance

We have a robust compliance framework in place and our compliance team works closely with their counterparts in our shareholder company, CDB Leasing, and local legal advisers to ensure compliance with all relevant laws and regulations. Our C-Suite KPIs place considerable emphasis on ensuring the business operates in a fully compliant manner.

There is also close co-operation and alignment with other internal functions such as Internal Audit, Risk, and Finance to ensure that overlapping controls are in place where required and to minimise risk of duplication of effort. The compliance team communicates regularly with staff on topics of interest and new developments.

We adopt a '3 lines of defence approach' to compliance, as follows.





Oversight of the '3 lines of defence approach' is provided firstly by the C-Suite and then ultimately at Board level, where our Audit and Compliance Committee oversees business dealings to ensure we are in full compliance with regulations. Compliance is a standing agenda item at quarterly Board meetings.

Policies and Procedures

CDB Aviation has a full suite of documented policies and procedures in place which are designed to ensure we always conduct business in an ethical manner and to protect staff members and stakeholders from potential compliance or ethics risks. These policies are reviewed and updated on a regular basis to ensure continued relevance and accuracy. We also have an annual compliance monitoring programme in place for key risk areas such as anti-money laundering.



Staff member code of conduct



Anti-money laundering, sanctions and know your customer



Anti-bribery policy, corruption and anti-fraud



Data protection



Whistleblowing



Conflicts of interest



Dealings in securities



Confidential information

Ethics and Compliance Training

CDB Aviation provides a detailed and thorough compliance training programme which is mandatory for all staff members. This is provided both in-person and online for staff members in remote locations.

In 2022, detailed training was provided on the following topics, through a combination of in-person training sessions and online courses. Attendance and completion of these was mandatory for all staff:

- ▶ Anti-money laundering
- ▶ Anti-bribery and corruption
- ▶ International sanctions

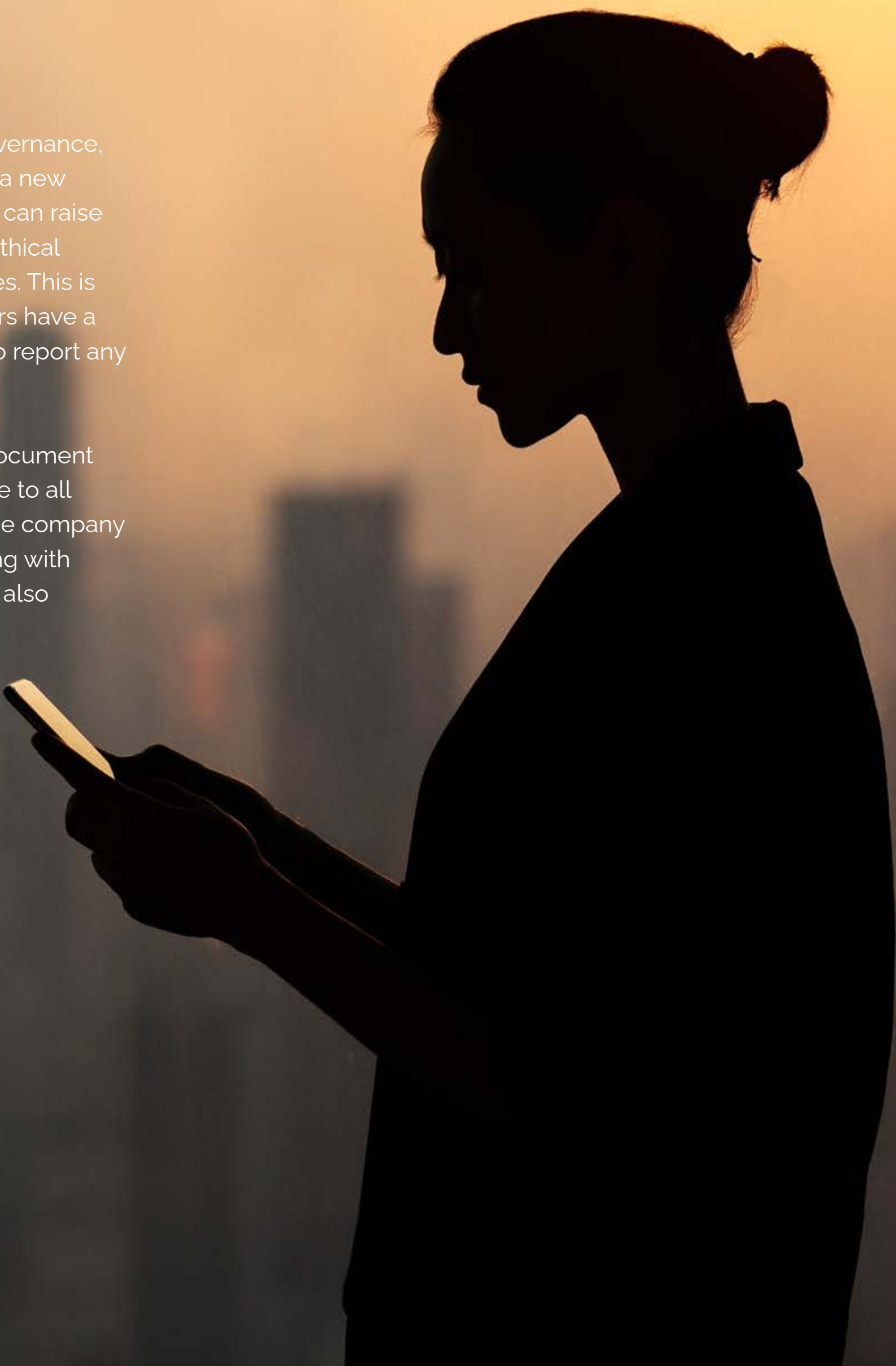
In addition, there were Compliance communications to all staff, including on the following topics:

- ▶ Staff member code of conduct
- ▶ Conflicts of interest
- ▶ Dealing with government officials
- ▶ Lobbying of government officials
- ▶ Examples of bribery and corruption in the aviation sector

Whistleblowing

As part of our commitment to good governance, in early 2023 CDB Aviation put in place a new confidential hotline through which staff can raise concerns about possible violations of ethical codes and report any issues or breaches. This is a key step in ensuring our staff members have a safe and confidential point of contact to report any concerns they may have.

A detailed Whistleblowing Guideline document has been published and made available to all staff and to external stakeholders via the company website. Detailed procedures for dealing with any whistleblowing reports made have also been prepared.



Risk Management

Our approach to risk management is guided by our risk management framework which sets out clearly our approach to the governance, implementation and workings of risk management practices across the organisation. The approach is supported by the fostering of a risk awareness culture, and combined with our framework it enables us to prepare and respond to changing circumstances.

Our risk reporting is conducted in the first instance by a number of teams working together across the business. Each team has specific procedures they follow to identify and mitigate risks related to their work on a day-to-day basis. Our strategy and risk teams liaise to review longer-term horizon risks to ensure these are effectively factored into business planning. The outcome of this process enables us to identify and prioritise material topics including ongoing and emerging risks.

When purchasing aircraft, given the high cost and value and long life-cycle of the asset, we have rigorous controls in place to assess risk. Some of the key variables considered on transactions include:

- ▶ Airline creditworthiness
- ▶ Country risk / concentration
- ▶ Asset type (core vs non-core assets)
- ▶ New generation vs current generation technology

Information Security and Privacy

Our approach to cyber security is taken with the utmost seriousness by our management team, Board and shareholder. As such, our Global Head of ICT reports formally twice a year to the Board in relation to CDB Aviation's cyber security position.

All IT procedures are aligned to the ISO 27001 standard on information security. Against a backdrop of continued investment and best-in-class use of data and technology, we have implemented a cloud first strategy. This allows for greater freedom and speed to change, adjust and respond effectively to any potential data security issues.

Alongside our cyber partners, we have implemented a Security Information and Event Management (SIEM) solution to ensure resilience within our system at all times. The SIEM solution provides real-time analysis of security alerts generated by our applications and day-to-day workings.

CDB Aviation has a number of initiatives underway to further embed and increase the maturity of cyber security within the organisation and to adopt a continuous approach to service improvement. To date, we have had no breaches or major cyber security incidents. Any potential issues were identified early and removed immediately.

All CDB Aviation staff attend multiple mandatory Cyber Security Awareness sessions each year and we provide specific training for our management team.

All staff are subject to multiple phishing simulations annually to help them recognise, avoid and report potential threats that could compromise the business. Mandatory training is provided to anyone who fails the phishing simulation.

CDB Aviation is committed to protecting and respecting the privacy of all of our stakeholders. We adhere to the principles inherent in the EU General Data Protection Regulation (GDPR). This commitment is detailed on our website privacy notice (<https://www.cdbaviation.aero/privacy-policy/>).

Human Rights

When we say ethical behaviour is of the highest importance to CDB Aviation, this principle extends to having zero tolerance, both within our company and the suppliers we work with, for any activity that is illegal, unethical or that breaches human rights.

We believe that the risk of modern slavery or human trafficking in the aviation leasing industry is relatively low and to date, CDB Aviation has not identified any occurrences of modern slavery or human trafficking in our business or supply chain. In addition, we are not aware of any such instances in the wider aircraft leasing industry. However, we recognise that modern slavery and human trafficking are serious issues that we must be alert to on an ongoing basis. For this reason, in early 2023 we published an anti-slavery and human trafficking statement.



Sustainable Supply Chain

Why it matters?

Our supply chain is essential to support our business operations. We expect all suppliers to adhere to high standards of business conduct and environmental, social and governance practices. By implementing sustainable procurement practices we can use our purchasing power to influence suppliers' ESG performance and improve the sustainability of our business.

Key targets:

- 100% of suppliers to adhere to new CDB Aviation supplier code of conduct by end of 2024
- Launch enhanced procurement processes to assess supplier sustainability performance and incorporate this into supplier selection and performance management

Key Actions for 2023:

- Conduct baseline review of current suppliers to assess their sustainability performance
- Develop supplier code of conduct and sustainable supply chain questionnaire

CDB Aviation deals with a wide array of organisations across its supplier base. This varies from financial services and professional services firms, to IT system providers, utility companies, office catering and stationery suppliers. On the aviation side, the principal supply relationships are with the leading OEMs including Airbus, Boeing, CFM, Pratt & Whitney and Rolls Royce. We also contract with a considerable number of suppliers in relation to aircraft fitout.

Supply chain impacts

We recognise that our supply chain is a significant contributor to our environmental impact and that it is our responsibility to reduce those impacts by setting certain standards for our suppliers, encouraging or incentivising them to reach or surpass those standards, and partnering with them to drive improvements. When it comes to social impacts, we have a similar responsibility to ensure that all people within our supply chain are treated well and that high standards of human and labour rights are upheld.

Approach to procurement

Our procurement policy currently requires that all new suppliers are risk assessed according to various criteria, such as sector, country, and impact risk, in order to determine whether further due diligence is required.

In 2023, we plan to expand this to incorporate sustainability criteria into supplier selection decisions.

We are committed to developing a supplier code of conduct and a sustainable supply chain questionnaire with the aim of having the code adhered to by all suppliers by 2024. As part of our work to improve the sustainability of our supply chain, our relationships with our key suppliers will be further reviewed and monitored to ensure that we minimise any ESG-related risks. We truly believe we can use our purchasing power to influence positive change towards sustainability across our supply chain.

Due diligence process for asset transactions

► **Know Your Customer (KYC):**
CDB Aviation conducts KYC checks for our customers and business partners. Our KYC process is overseen by our compliance team with the assistance of the deal team involved in the particular transaction. The KYC process must be completed before we enter into any dealings with new clients. For existing clients, we review KYC periodically with the frequency of review dependent on the risk rating assigned to the particular client.

► **Certifications and standards:**
Any suppliers we engage with to purchase parts or materials for an aircraft must have their products approved by EASA (EU European Aviation Safety Agency, FAA (Federal Aviation Administration) or JAA (Joint Aviation Authorities).

CASE STUDY

DocuSign - Modernisation of the document execution process

As a business, CDB Aviation completes transactions that require a lot of legal and contractual paperwork. Since implementing electronic signing via DocuSign we have reduced the number of original documents required within the business by over 60%.

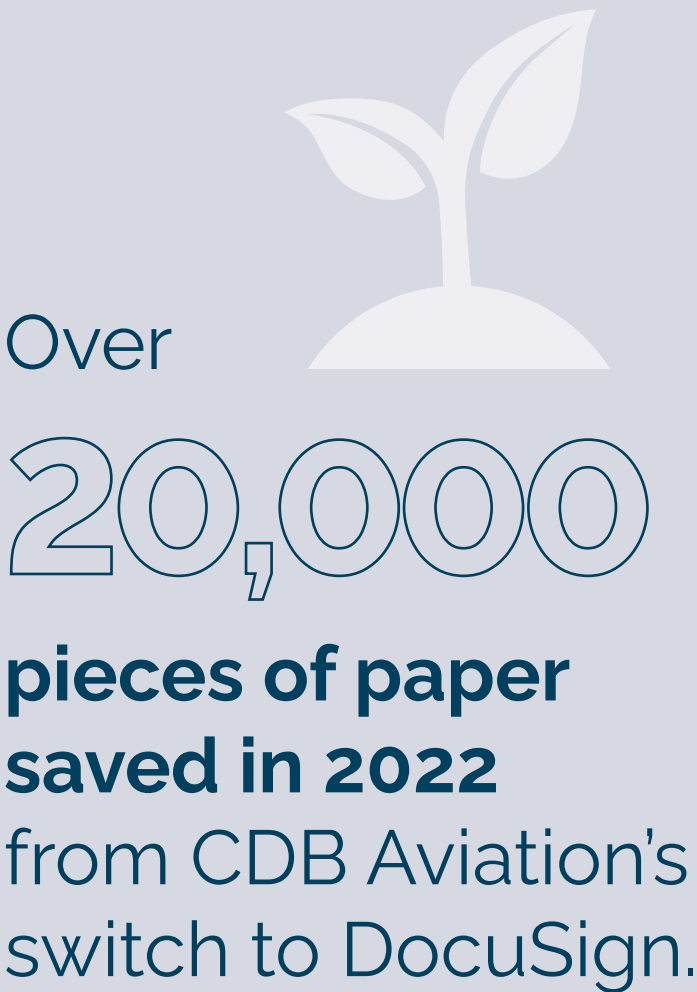
The migration to DocuSign was expedited by the increased need for remote working during the COVID-19 pandemic.

Both the extensive uptake and the concrete benefits– quicker, easier to use and more secure than traditional 'wet ink' signatures – means that it is now a fundamental feature of our remote working approach, allowing greater mobility for staff members who are travelling.

An important concern when making the change was ensuring that our robust information security controls are upheld by DocuSign, when sharing documents on the platform. The common adherence to ISO 27001 requirements provides comfort that high standards are maintained.

This change also had an environmental impetus. The environmental impact of hard copy, 'wet ink' signatures is readily apparent in the inherent paper use but is also amplified considerably by the long-distance couriering of originals that was previously required for an international business like ours. The transition to DocuSign has significantly reduced the need for cross-jurisdictional couriers. Electronic signatures simplify the process of completing documents, making them exceptionally energy efficient.

We believe there is considerable room to make further improvements in this area in the years ahead as more and more jurisdictions move to adopting the custom and use of e-signatures.



ESG Governance Integration

Why it matters?

The successful management of ESG risks and opportunities is critical to CDB Aviation's long-term commercial success. If ESG is not properly integrated into our governance framework, it will remain as a peripheral theme that gets 'picked up' and 'put down' on an intermittent basis.

Key targets:

- Complete TCFD-aligned climate risk analysis in 2023
- Achieve an ESG rating score from a recognised ESG rating provider

Key Actions for 2023:

- Establish a sustainability Board sub-committee
- Launch first sustainability report
- Enhance stakeholder engagement on sustainability, building on the work conducted during our 2022 materiality assessment

In order to fulfil our ESG ambitions, we rely upon a strong established governance framework that is in place as part of operating in a highly scrutinised industry. As part of our plans to build and scale sustainability in our organisation and influence our stakeholders, it is imperative we embed and incorporate ESG considerations into the workings of this framework.



ESG Governance Structure

Board Members



Madam Hong Ma
Chairperson



Jie Chen
Chief Executive Officer



Yu Chen
Non-Executive Director



Alan Geraghty
Non-Executive Director



Chris Quinn
Non-Executive Director



Stephen Kavanagh
Non-Executive Director

C-Suite



Jie Chen
Chief Executive Officer



Brian Dowling
Chief Technical Officer



Brendan O'Neill
Chief Financial Officer



Fiona Scott
Chief People Officer



Nick Hazeldine
Chief Operating Officer



Peter Goodman
Chief Marketing Officer

The CDB Aviation Board meets at least quarterly and ad hoc meetings happen as required outside of this. The CDB Aviation Delegation of Authority outlines specific items that the Board may delegate to sub-committees of the Board or further delegate to the company's management team. As part of our corporate governance structure, CDB Aviation currently has three established sub-committees of the Board.

Board sub-committees

The Board has established a Board Investment Committee ("BIC"), a Board Audit and Compliance Committee ("BACC") and a Board Governance Committee ("BGC") as sub-committees of the Board.

The BIC was formed as a sub-committee of the Board of CDB Aviation with authority to consider and approve transactions that meet the requirements outlined in the charter.

The BACC is responsible for oversight of audit and compliance within the business.

The BGC was formed as a sub-committee of the Board of CDB Aviation with authority to consider and approve administrative functions and tasks that meet the requirements outlined in the charter.

In 2023, we intend to establish a new ESG-focused sustainability sub-committee which will be comprised of three members including a non-executive independent director. The Sustainability Committee will meet at least quarterly and report directly to the Board of CDB Aviation on a quarterly basis.

Role of the Sustainability Committee

A Sustainability Committee Charter has been prepared which sets out the objectives, authority, organisation, membership, meeting procedures and responsibilities of the new Board sustainability sub-committee. The aim of the Sustainability Committee is to establish a unified view of ESG across CDB Aviation, increasing understanding of all three aspects – environmental, social and governance – and promoting robust standards of corporate governance that integrate all these aspects into the day-to-day operations of the business.

The Committee will have responsibility for ESG company policies, standards, reporting and disclosures, along with ESG related auditing and compliance issues.

The key objectives will be as follows:

- ▶ Emphasise the importance of environmental measures, sustainability goals and performance at all levels of the business
- ▶ Provide best practice on the structure, policies and regulations that impact the business
- ▶ Increase understanding and awareness of corporate governance and social aspects that impact the industry
- ▶ Implement and promote common and workable standards of corporate governance for the business

We strongly believe that by placing sustainability at the top of our governance structure it will ensure that all three ESG pillars are at the forefront of our decision-making process as our business continues to grow and as we develop our strategy in the future.





Sustainability Working Group

In 2022, CDB Aviation established a Sustainability Working Group tasked with developing a sustainability strategy for the business. With dedicated oversight of Environmental, Social and Governance topics, this group will report into the Board Sustainability Committee.

The members are:

- ▶ Oisín Murray, Head of New Aircraft Programs
- ▶ Cronan Enright, Head of Strategy
- ▶ Fiona Scott, Chief People Officer
- ▶ Ciaran Healy, Head of Corporate Legal & General Counsel





Transaction Approval Processes

Our governance process also operates at a transactional level. Each deal must follow one of two internal approval and recommendation processes, starting with an Investment Committee (IC) meeting, then followed by some form of board approval.

Our IC is comprised of C-Suite, who meet with deal team members to discuss the economics, potential exposure, key risks and any other relevant information about the deal. They make a recommendation in relation to the transaction which is then assessed by the Board or BIC.



Integrating ESG into credit and investment analysis

Our current approach to credit and investment analysis includes an extensive due diligence process depending on the type of transaction. In 2023, CDB Aviation will introduce new ESG metrics into its asset and credit evaluation process as it makes investment decisions.

This will allow us to make holistic decisions – considering both economic and environmental drivers – about the assets we add to the portfolio and those we dispose of, as we focus increasingly on lower emission, newer generation aircraft.

Managing Climate Risk

Analysing climate-related risks and opportunities is vital for all businesses as the global economy moves towards a low carbon future. For CDB Aviation, it is important to understand the potential financial risks posed by climate change and what actions we can take to manage and mitigate those risks.

The Taskforce on Climate-related Financial Disclosures (TCFD) classifies risks associated with climate change into two categories: physical and transition. One potentially significant transition risk for aircraft lessors is the risk of strict new regulations or taxation being introduced in relation to carbon emissions such as new or higher carbon taxes.

For CDB Aviation, it is crucial that we assess and understand our exposure to the full range of climate risks so that we can put in place actions to mitigate them, while also exploring potential opportunities that may emerge in the transition to a decarbonised world. In early 2023, we completed our first, high-level climate risk assessment, following the recommendations of the TCFD. The results of this assessment are shown below across the four pillars of the framework.

CDB Aviation Climate Risk Disclosures



Governance

As referenced above, the CDB Aviation Sustainability Committee will have oversight for assessing and managing climate-related risks and opportunities and reporting on these issues to the Board.



Strategy

We have not yet developed a comprehensive climate risk strategy, but the table below shows the results of our initial climate risk assessment. These risks were rated and discussed with a selection of our key internal and external stakeholders, as part of our 2022 materiality assessment. During 2023, we plan to undertake a more in-depth assessment, following which we will disclose the results in our second sustainability report in 2024.



Risk Management

We do not yet have a formal process in place for managing climate risk on an ongoing basis. Defining this process and overseeing it will, however, be part of the remit of the new Sustainability Committee. We will report on our progress on this as part of our sustainability reporting in 2024.



Metrics and Targets

CDB Aviation undertook a carbon footprint assessment in late 2022/early 2023 to understand our baseline CO2 emissions across scopes 1, 2 and 3. We disclose our emissions within this report (see page 77). Having established our baseline, we will now set ourselves carbon reduction targets that we will report against year-on-year from 2024. Our long-term target is to be net-zero carbon by 2050.

Climate risk assessment

We have identified a number of climate-related risks and opportunities, which emerged as part of our stakeholder engagement and materiality assessment conducted in 2022. These are set out in Table opposite, along with our sense of the potential impact of the risks on our business, and a description of the actions we are taking to manage these risks. We have assessed each potential risk individually and have given each an overall ranking of high, medium or low.

Summary of material climate related risks and opportunities

Risk Type	Description of Risk(s)	Potential Impact (time frame)	Actions Taken to Manage Risk	High Medium Low risk
Physical Risks				
Acute	<ul style="list-style-type: none">Extreme weather and climate change	<ul style="list-style-type: none">Potential financial impact from extreme weather damaging aircraft or increasing maintenance costs (for instance, engine maintenance costs)Potential impact of extreme weather and climate change influencing the broader movement of people (Short to long term)	<ul style="list-style-type: none">Ensure our portfolio is always fully insured against the risk of hull lossActively manage our fleet and lease contracts to control maintenance cost exposureActively manage our fleet to satisfy evolving geographic demand	Low
Chronic	<ul style="list-style-type: none">Climate change impacted sea level rise	<ul style="list-style-type: none">Population migration leads to evolving urban settlementsThe airports favoured by travellers may evolve (Medium to long term)	<ul style="list-style-type: none">Engage with airports and airlines to assess how they are managing this issueReallocate aircraft resources to areas of most demand	Low
Transition Risks				
Policy and Legal	<ul style="list-style-type: none">Government restraints on the level of short-haul flyingIncrease in carbon price and taxesGovernment regulation to control or limit air travel	<ul style="list-style-type: none">Reduced demand for short-haul travel which could impact demand for our portfolioReduced demand from airlines for older, higher emissions aircraft assets (Short to long term)	<ul style="list-style-type: none">Strategically evolve our portfolio by investing in fleet renewal by adding the most fuel-efficient as possible, all capable of facilitating SAF at scaleFocus growth towards geographic areas where demand shiftsConsider other aircraft types that could be better suited to evolving airline networks	High
Technology	<ul style="list-style-type: none">Underdevelopment of SAFLack of investment in new technology	<ul style="list-style-type: none">Impact on airlines which have mandates to fly with SAF but no / limited supply of itReduced short haul flying (where there may be surface transport alternatives) and/or long haul flying (which has the highest actual carbon emissions) (Short to medium term)	<ul style="list-style-type: none">Exploring our role as a lessor to help the development of SAF, either as an aggregator or scaling the technology requiredEvolve our fleet mix and size to be aligned with shifting demand patterns	Medium

Summary of material climate related risks and opportunities (Cont.)

Risk Type	Description of Risk(s)	Potential Impact (time frame)	Actions Taken to Manage Risk	High Medium Low risk
Market	<ul style="list-style-type: none">Older aircraft become less in demand assetsCost of air travel rises with emissions taxes on Jet A1 fuelChallenges to raise capital at competitive rates due to carbon emitting profile of our industry	<ul style="list-style-type: none">Potentially, a significant financial impact due to assets which have to end their life earlier than planned and be scrapped due to market change moving faster than expected (Medium to long term)	<ul style="list-style-type: none">Strategically evolve our portfolio to invest in the most fuel-efficient types and exit older generation types as quickly as reasonableEngage with airlines and OEMs to assess what the market is expecting and be ready to adapt	High
Reputational	<ul style="list-style-type: none">CDB Aviation fails to achieve goals set out in its Sustainability ReportFlight-shaming movement develops and spreads worldwide	<ul style="list-style-type: none">Stakeholders expect us to achieve our targets and we want to be accountable for our actionsCDB Aviation to take responsibility to drive an improving performance by aviation. (Short to long term)	<ul style="list-style-type: none">Ensuring transparent and clear communications and reportingDeviations from targets will require clarification on how recovery will be achievedActively facing up to the role aviation has in contributing to global warming and helping to change the industry	Medium
Climate-Related Opportunities				
Products and services	<ul style="list-style-type: none">Market expects emissions-based leasing productsIncreased cooperation and collaboration between OEMs, financiers, lessors and operators of new, low carbon, hydrogen and electric aircraftLessors invest in SAF development directly	<ul style="list-style-type: none">Potential new customers and new revenue streamsBroader investments in SAF refinement lower its cost and increase its everyday usage (Short to long term)	<ul style="list-style-type: none">New emissions based leasing products introducedLower cost financing secured based on CDB Aviation achieving emissions targets and other ESG metricsCDB Aviation explores how it can contribute to the increased usage of SAFCDB Aviation supports innovation that drives new product development, for instance, Heart Aerospace's development of a hybrid-electric 30-seater for short air journeys	



Good governance is at the heart of the successful running of any organisation. CDB Aviation's stakeholders confirmed during our materiality assessment the value they place on strong governance structures and frameworks, and companies who continually look to improve in key areas such as transparency, accountability and business ethics. Embedding sustainability reporting into our day-to-day work is part and parcel of ensuring our approach to corporate governance remains fit for the future.



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Member of the Sustainability Working Group*





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