

Policy for integration of sustainability risks

We want Ringkjøbing Landbobank customers to have a good and safe investment experience. Our concern is not only that the customer's investments should grow in value, but also that such growth should be compatible with the customer's preferences.

When we advise our investment customers, we make sure they are aware of the risks of investing. We aim to help our customers protect their investments against events and factors that can have a material adverse effect on the value of their investments.

Investment risks may arise from many sources. We understand **sustainability risk** as an environmental, social or governance event or circumstance that – if it arises – could have a material actual or potential adverse effect on the value of an investment.

At Ringkjøbing Landbobank, we are aware that when an investment is exposed to sustainability risks these may, like other investment risks, affect the value of the investment and thus ultimately result in a negative return. Because we take account of sustainability risks when we make investment decisions and provide investment advice, we deselect some companies and sectors as investment opportunities and select others.

The purpose of this policy is to give the customer a cohesive picture of

- how Ringkjøbing Landbobank takes account of sustainability risks,
- which specific types of risk we take into account, and
- how we or our investment partners continuously analyse the impact of these risks on the ability of specific companies and sectors to deliver attractive returns.

Scope of application

The policy applies to all asset classes. Certain asset classes are subject to special factors explained in detail below. The asset classes in question are government bonds and mortgage credit bonds.

The policy applies to customers who receive investment advice only once in a while and to customers who have opted to authorise us to look after their investments on an ongoing basis.

The policy covers both investments made by the bank itself and investments made by our external partners. Selection of investment partners is therefore a separate item.

Specific examples of sustainability risks

We have identified a range of different types of sustainability risks which reflect the broad focus of our investment products.

We have divided the individual risk types into groups. The first group consists of *physical risks*, related to climate change, which may negatively affect an undertaking's value. Examples include sudden and/or more extreme weather events such as heat waves, flooding, fires and storms, long-term climate change such as changes in precipitation, rising water levels and increasing average temperatures, loss of ecosystems due, for example, to desertification, water shortage, deterioration of soil quality or marine ecosystems, and environmental events such as oil or chemical spills to soil, water or air.

We are also conscious that *social factors* such as violation of human rights, poor working conditions, child labour, health issues, inequality and discrimination may negatively affect exposures. Finally, we focus on avoiding risks associated with *governance factors* such as corruption and bribery.

Depending on the company's sector or the actual asset, some of the above risk factors can be more important than others.

The following is a description of the sustainability-related risks that the bank considers relevant for a range of selected asset types.

Special sustainability risks – government bonds

When investing in government bonds, we have identified special sustainability risks associated with the government practice in the issuing countries. They are factors such as corruption, politically unstable regimes, the country's involvement in acts of war, human rights violations and infringements of fundamental principles of democracy.

Exclusion of selected countries' government bonds

International sanctions forbidding, for example, investments in specific countries must always be observed. This includes government bonds from countries subject to EU sanctions against financial transactions with the country or against leading persons if it is difficult to distinguish between such persons and the state/central government of the country in question.

Special sustainability risks – mortgage credit bonds

When investing in Danish mortgage credit bonds, we have identified special sustainability risks associated with the housing market which the mortgage credit bonds help to finance. Borrowers for purchases of properties with low energy performance ratings are more exposed to increasing energy prices resulting, for example, from a political decision to switch to more renewable energy sources, a decision which will make oil or natural gas far more expensive than the alternative, renewable sources such as solar and wind energy. In addition to rising energy prices making the house more expensive to live in for the borrower, there is also a risk that the identified sustainability risks will result in a significant decrease in the property's value and consequently the value of the mortgage credit institute's mortgage.

Selection of investment partners

We select our investment partners and investment product providers, e.g. investment funds, based on many criteria, one of which is the ability to invest our customers' assets responsibly.

When selecting our investment partners, we emphasise, where relevant, that they must:

- Integrate environmental, social and governance factors into investment analysis and decision-making processes
- Exercise active ownership and incorporate environmental, social and governance factors into active ownership policies and the practical handling of the investments
- Seek transparency from the invested companies regarding environmental, social and governance factors.
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In ongoing dialogue with our partners, we also assess whether they comply to a satisfactory degree with the focal points for integration of sustainability risks described in this policy.

Specifically we require that all financial product providers with whom we have a distribution agreement must have endorsed the UN Principles for Responsible Investment (PRI).

This means that these product providers are obliged to integrate sustainability-related factors into their investment analyses, decision-making processes and active ownership activities.

This integration of sustainability factors enables them to intervene against companies in breach of international laws and norms regarding environmental protection, human rights, labour rights and anti-corruption.

The following section describes more specifically what the investment partner does in relation to the above focus areas.

Focal point 1) Screening of investments

Ringkjøbing Landbobank considers screening of the investments' possible negative impact on sustainability a very important tool in the work of integrating sustainability risks into investment decision-making processes and investment advice.

We therefore require our partners to carry out screening regularly, at least once a year, to identify companies with potential sustainability risks and to possibly define investment restrictions regarding specific industries. The result of the screening must be applied both in the analysis of sustainability-related factors and the active ownership activities. The goal is that our partners must be able to reduce some of the sustainability risks we have identified in this policy. In addition, screening of companies offers a good opportunity for identifying new potential investments.

The screening carried out by our partners is expected to incorporate two aspects: **norms-based screening** of the companies to identify any breaches of relevant international norms and conventions regarding human rights, working conditions, environmental protection and anti-corruption, and **activities-based screening** of the companies based on the activities they carry out. This might be screening for activities related to tobacco, alcohol or fossil fuels.

If, in the regular screening, the partner identifies investments (or companies) in breach of one or more international norms or conventions, we encourage our partners to either:

- engage in dialogue with the company to make it take responsibility for the breach and change its conduct, or
- exclude the company from their investments.

The aim of the dialogue-based approach is to make the company's management initiate change to avoid similar breaches in the future.

Focal point 2) Active ownership

Active ownership is an important tool for enhancing companies' long-term value creation and minimising risks related to sustainability factors as well as the customers' financial risks after the investment is made.

For the purpose of supporting the companies' development and long-term value creation, our investment partners exercise active ownership through at least the following actions:

Dialogue with companies

- Ringkjøbing Landbobank sees dialogue as an important component of active ownership. The aim of dialogue is to focus on potential negative sustainability impacts of the companies' business models and to find solutions and initiatives for reducing them.
- Ringkjøbing Landbobank does not itself enter into dialogue with the companies but has left this to our partners.

Exercise of voting rights

- Ringkjøbing Landbobank sees voting partly as an opportunity to increase influence over the company's management and partly as a starting point for constructive dialogue with the companies. In the actively managed strategies, our partners therefore aim to vote at each general meeting. Voting is also used where the dialogue with the company does not make sufficient progress. In such events, voting can help to highlight a concern.
- Ringkjøbing Landbobank does not itself vote. However, in a few of our asset management products, we offer our customers the opportunity to attend and vote at general meetings.

Focal point 3) Exclusions

If the dialogue with the company does not lead to a satisfactory outcome, our investment partner escalates the dialogue. One possibility might be to take the dialogue via an international forum for cooperation to put greater pressure on the company. If the dialogue does not result in any action by the company, our partner will take steps to sell and possibly place the company on the list of exclusions. This would be the case, for example, in the case of persistent breach of international norms.

In all circumstances, the partner will **exclude**, as a minimum, **companies** involved with:

- cluster weapons
- land mines
- chemical weapons
- biological weapons and
- nuclear weapons not covered by the Treaty on the Non-Proliferation of Nuclear Weapons.

Monitoring of investment partners and reporting from them

The bank follows up on whether investment partners integrate relevant sustainability risks. This takes place in the ongoing dialogue with our partners and at least once a year.

Integration of sustainability risks is one among many initiatives

In Ringkjøbing Landbobank we continuously focus on integrating sustainability risks into our investment processes because we want to create long-term returns for our customers and, at the same time, make a positive contribution to society and the environment.

Adopted by the board of directors of Ringkjøbing Landbobank on 27 April 2022.