

Policy for the Integration of Sustainability
Risks within Investment Decisions &
Investment and Insurance Advisory Services

1. Purpose, Approval and Authorisation

The purpose of this Policy is to regulate the integration of sustainability risks into investment-related decision-making processes, as well as into investments and insurance advisory services within the Ålandsbanken Group.

The Board of Directors shall review and approve this Policy annually or more frequently when needed.

The Board of Directors authorises the CEO to develop and decide on Guidelines to be applied with this Policy where necessary. The Guidelines determine the organisation, responsibility and supervision of compliance. Any decisions on or changes made to the Guidelines shall be reported to the Board of Directors in the written Compliance Report annually or more frequently when needed.

2. Scope

This Policy applies to the Ålandsbanken Group.

The Policy applies to all managed asset categories, investment strategies and products (the Bank's own products and external products provided by the Bank), as well as the investment and insurance advisory services provided by the Bank. Exceptions may be made for managed categories of assets, investment strategies and individually tailored products.

3. Definitions

ILO Core Labour Standards – Eight basic labour principles and rights created by the International Labour Organization ILO.

Nordic Swan Ecolabel – The official ecolabel of the Nordic countries established in 1989. The Nordic Swan Ecolabel audits the environmental impact of products and services throughout their lifecycle from raw material to waste and sets requirements regarding their function and quality.

Sustainable Investment – An investment in economic activity that contributes to an environmental goal in compliance with measurables, such as central resource effectivity indicators regarding the use of energy, renewable energy, raw materials, water and land use, waste generation and greenhouse gas emissions, or regarding effects on biodiversity and the circular economy, or an investment in economic activity

that promotes a social objective, especially investments that contribute to combating inequality, or that promote social cohesion, social integration or good labour relations, or an investment in human capital or in socially disadvantaged groups, provided that the investments do not cause significant damage to any of them, and that the investment object complies with the best practices for good governance, especially regarding healthy corporate governance, employee relations, relevant staff salaries, and tax compliance.

Sustainability Factors – Refers to environmental, social and employee matters, respect for human rights, anti corruption and anti bribery matters.

Sustainability Risk – Refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

OECD Guidelines for Multinational Enterprises – Refers to the International Labour Organisations (ILO) conventions (International Labour Standards) regarding human rights in relation to work.

Bank – Ålandsbanken Abp (the Bank of Åland), including Ålandsbanken Abp (Finland), the Swedish branch.

Principal Adverse Impact, PAI – A negative impact caused by an investment decision on the environment, working conditions or social factors, for example.

Fund Management Company – Refers to Ålandsbanken Funds Ltd (Fondbolaget Abp).

Investment – Investments in funds and portfolios managed by Ålandsbanken.

UN Global Compact – The United Nations' international principles issued in 1999 to guide companies in matters concerning human rights, labour laws, the environment and corruption.

UN Guiding Principles on Business and Human Rights – The UN's Principles regarding companies and human rights.

UNEP FI – Refers to the United Nations Environment Programme's Finance Initiative. UNEP FI is a public-private partnership between the UN's environmental program (UNEP) and the global financial sector.

UN PRI – UN Principles for Responsible Investment. Actors who have signed the UN PRI commit to making investment decisions that consider environmental aspects, social questions and good governance regarding those companies in whose securities they are investing.

Ålandsbanken Group or **Ålandsbanken** – Refers to the Bank and the Fund Management Company.

4. Regulatory Framework

The primary framework (EU):

- SFDR regulation (EU) 2019/2088
- SFDR Regulatory Technical Standards (EU) 2022/1288
- EU taxonomy for sustainable activities (EU) 2020/852

5. Ålandsbanken's View on Responsible Investments

5.1. Background

Sustainability factors are always considered in Ålandsbanken's investment work.

Ålandsbanken signed the United Nations' Principles for Responsible Investment (UNPRI) in 2010. The same year, Ålandsbanken became a founding member of Finland's Sustainable Investment Forum FINSIF. In May 2016, Ålandsbanken also became a member of the corresponding Swedish forum, SWESIF.

Ålandsbanken adheres to an active management approach, and all management is carried out responsibly in accordance with the principles regarding responsible investments determined in this Policy. Exceptions concern mainly the management of personally tailored portfolios managed by the Bank.

5.2. Responsible Investments

In Ålandsbanken's view, a company's commitment to act responsibly when it comes to, for example, the environment, social responsibility and corporate governance, may have a positive impact on the company's financial result in the long term. Companies where the management, board and owners take both Sustainability Factors and traditional business aspects into consideration have, according to Ålandsbanken's assessment, good prospects of being successful.

This view is supported by the global trend, which indicates that both consumers and investors are becoming increasingly aware of responsible companies and products and prefer them to others. The authorities have also increased their efforts in this area and aim to continuously impact the development of sustainable finance in a positive direction.

This is why Ålandsbanken invests in companies and financial products that are prominent in sustainable development, and that have been assessed in accordance with the sustainable investment process described here. Ålandsbanken generally include a sustainability assessment in all investment decisions, which is how we actively contribute to a better and more sustainable society.

Regarding funds that have been granted the Nordic Swan Ecolabel, Ålandsbanken adheres to the obligations and reporting standards required by the label.

5.3. Implementation

Ålandsbanken's work with sustainable investments can be described in phases. First, we exclude industries that we do not consider to be sustainable and/or have a significant negative sustainability impact. In addition to the exclusion, Ålandsbanken includes sustainability factors in investment decisions concerning the financial instruments it selects for the model portfolios and funds it manages.

5.3.1 Principal Adverse Impact PAI

In asset management, Ålandsbanken as a rule considers the principal adverse impacts (PAI) of its investment decisions as part of the investment process. In sustainable investing, this means ensuring that investments do not have an adverse impact on any environmental or social objectives.

Ålandsbanken's website includes a PAI-statement. The statement includes a summary of the principal adverse impacts on sustainability factors that the bank considers, as well as strategies for identifying and prioritising them.

5.3.2. Exclusion

Ålandsbanken does not invest in companies who are active in producing (for more than 5 % of the company's revenue):

- controversial weapons
- pornography
- gambling

- tobacco products (including cannabis)
- thermal coal mining

Ålandsbanken invests selectively in companies that produce alcoholic beverages.

Ålandsbanken does not invest in companies that have received a notice for violating the following initiatives and/or principles: the UN Global Compact, the UN Guiding Principles on Business & Human Rights, ILO Core Labour Standards and OECD Guidelines for Multinational Enterprises. A more detailed description can be found in chapter 5.3.4. International Norms and Guidelines.

The exclusion of the above sectors applies to all funds and model portfolios managed by the Ålandsbanken Group.

5.3.3. Inclusion: Analysis and Investment Process

By carrying out exclusions according with the section above, an investment universe for further analyses and the selection of individual investment objects is achieved. In addition to the financial risks and possibilities associated with each individual investment, the analysis of potential investment objects considers any sustainability factors that may affect the investment object. An overall assessment of the sustainability risks and possibilities related to each potential investment object is carried out as an integrated part of the due diligence process.

To achieve a systematic process and to deepen the sustainability analysis, Ålandsbanken has entered into an agreement with an external partner. The collaboration provides access to a database as well as analyses of sustainability factors. The databases include companies from all over the world and provide tools for assessing how sustainability factors are handled within investments. The identified sustainability factors and risks are analysed with the aid of the data in the external database, for example, regarding risk classification, as well as the likelihood and magnitude of the identified sustainability risks. Each analysis is documented using a shared template, and any identified sustainability risks are assessed continuously.

5.3.4. International Norms and Guidelines

Ålandsbanken invests only in companies and fund management companies that comply with the following international norms and guidelines:

- the UN Global Compact
- the UN Guiding Principles on Business and Human Rights
- ILO Core Labour Standards
- OECD Guidelines for Multinational Enterprises

These international regulations and guidelines define the minimum level of commitments with which all portfolio companies must comply according to Ålandsbanken. If one of the current companies receives notice that they have violated the regulations and guidelines and shows no willingness to make the necessary changes, the holdings will be sold within two years of acknowledging the incident. Violations are monitored regularly.

5.3.5. Reduction of Carbon Dioxide Emissions

The climate targets Ålandsbanken set in 2021 follow the Paris Agreement's objectives to limit global warming:

1. Ålandsbanken will reduce CO₂e emissions by 50 per cent by 2030 compared to 2021.
2. Ålandsbanken will be climate-neutral by 2035 in line with Finland's climate policy decision.
3. Ålandsbanken will achieve net-zero emissions by 2050.

To ensure that we reach our climate targets, we check which companies that have signed the Science Based Targets initiative (SBTi). SBTi is a science-based tool used by various industries to reduce their emissions in accordance with the Paris Agreement.

To monitor the reduction of investment-related carbon dioxide emissions, we make emission calculations for all shares, bonds and property investments that are part of Ålandsbanken's funds and model portfolios, and to whose data Ålandsbanken has access. Cash, derivatives and green bond loans are not included in the calculations because no established calculation principles exist yet.

5.4 Shareholder Engagement

In questions related to shareholders, the Fund Management Company acts in accordance with the principles defined in the Ownership Policy of Ålandsbanken Funds Ltd. In keeping with the Bank's principles regarding capital management and corporate governance, the Bank does not apply shareholder engagement in companies in which it has invested on behalf of its clients.

Ålandsbanken Funds Ltd's Ownership Policy and the Bank's Shareholder Engagement principles are available on Ålandsbanken's website.

6. Information on Investment Products that Promote Environment-related or Social Characteristics or Have Sustainable Investing as Their Goal

6.1. Products that Promote Environment-related or Social Characteristics (the "Article 8" Products in the SFDR-Regulation)

For such financial products provided by Ålandsbanken that promote for example environment-related or social characteristics or a combination of the two, Ålandsbanken shall, provided that the companies invested in comply with the principles of good corporate governance, in its disclosures made prior to entering into a contract, include information regarding how the said characteristics are achieved. For these products, Ålandsbanken must also comply with periodic reporting requirements.

In Ålandsbanken's view, products that follow the criteria in item 5 can be categorised as Article 8 products.

6.2. Investment Products that Have Sustainable Investing as Their Goal (the "Article 9" Products in the Sustainable Finance Disclosure Regulation)

For such financial products provided by Ålandsbanken that have sustainable investing as their goal, Ålandsbanken shall, in its disclosures made prior to entering into a contract include information regarding how this goal will be achieved.

For financial products provided by Ålandsbanken that have sustainable investing as their goal, we apply selection criteria and processes that help demonstrate the product's effect or impact on a sustainability parameter in addition to the principles of sustainable investments described in Section 5. For these products, Ålandsbanken must also comply with periodic reporting requirements.

6.3. Other Products (the "Article 6" Products in the Sustainable Finance Disclosure Regulation)

For all other Ålandsbanken's financial products that do not fulfil the financial product description in Sections 6.1. or 6.2., Ålandsbanken shall, in its disclosures made prior to entering into a contract, include information regarding how sustainability risks have been integrated into the investment decisions.

7. Marketing Material

Ålandsbanken shall ensure that the Bank's marketing materials always comply with the requirements regarding the disclosure of information in accordance with this Policy.

8. Auditing and Reporting in Accordance with International Standards

As a signatory to UNPRI and UNEP FI (Responsible Banking Principles), Ålandsbanken is committed to reporting on compliance with the said UN principles. Comprehensive reports are available on each organisation's website. Ålandsbanken's Annual Report includes a comprehensive report on sustainability work carried out within the Bank.

An account of the work done within sustainable investments in connection with the funds of Ålandsbanken Funds Ltd. is included in the Fund Management Company's annual sustainability report.

9. Changes and Updates

Ålandsbanken ensures that all information published on its website in accordance with this Policy is up to date.

The information may be updated in connection with, for example, regulatory changes, or when market practices related to sustainability are developed further. Upon making changes, clear explanations regarding the changes made will be published on the Ålandsbanken website.

10. Document Version

Version	Description of changes	Date
1	First published version	4 February 2021
2	Regulatory changes and annual update of the Policy	24 January 2023

11. Compliance and Follow-up

The compliance function oversees the development of sustainable investment work and utilises a risk analysis to identify any deficiencies or risks of deficiencies in the Bank's compliance with the Policy that apply to this area. If required, related information will be disclosed to the Bank's Board of Directors in the Compliance report.

The ESG committee of the Bank functions as an advisory organ in questions related to Sustainable Investments within the Bank. The committee holds regular meetings and reviews this Policy at least once a year.