Sustainability Risk Policy – Investment Services

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Table of Contents

1. Introduction

APS Bank plc and its subsidiaries (hereunder referred to as the "Group"/"Bank") aim to have a prominent position as a sustainable Bank that takes responsibility for its actions and engagements, as a member of society with its own impact on the planet and on people, but also as a provider of investment services with an indirect impact through the activities of its clients. **This prominent position is to be achieved by fully incorporating sustainability into the Bank's investment management and advisory services offered through its investment arm.** The Bank recognises the significance of the conclusion of the UN Intergovernmental Panel on Climate Change that climate change is unequivocal and that the bulk of global warming can be linked to anthropogenic Green House Gas emissions. It therefore acknowledges that the carbon footprint of its activities can influence climate change. Furthermore, the Bank follows the international agreements concluded with the adoption of the UN 2030 agenda and Sustainable Development Goals (SDG) and the Paris climate agreement, and United Nation-supported Principles for Responsible Investments (PRI).[1][2][3]

What is Sustainability Risk?

Sustainability risk is defined as 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.[4] This policy approaches sustainability risk from the perspective that ESG events might cause a material negative impact on the value of investment products. Sustainability risk is a transversal risk of increasing importance. Failure to anticipate and manage this risk can have multiple consequences, including financial, legal and reputational. The Bank's sustainability risk management is aligned with the Bank's risk appetite and supports the Bank's mission to bring sustainable solutions to its clients.

2. Scope

This policy document outlines the Bank's integration of sustainability risks within its risk management framework. It applies as standard to all investment management and advisory services provided by the Bank.

3. Governance

The Sustainability Risk Policy is aligned with the Bank's sustainability risk profile. This information is used to take investment management decisions and provide advice on investment products. Furthermore, this ensures that the sustainability risk profile of the Bank is fully aligned with its risk appetite, whilst providing a clear rationale for decisions taken (including cost-benefit assessments).

3.1. Board of Directors

The Board sets the tone at the top in terms of the desirable level of sustainability risk by approving and updating at regular intervals the Bank's Risk Appetite. The Board promotes the development of the Bank and is responsible for its general governance, its proper administration and management, and the general supervision of its affairs. It approves and oversees the implementation of the Bank's strategic objectives and sets the Bank's risk tolerance through policy approval.

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[1] Sustainable Development Goals - https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals
[2] Paris Agreement - https://ec.europa.eu/clima/policies/international/negotiations/paris_en
[3] United Nation-supported Principles for Responsible Investments - https://www.unpri.org/pri/about-the-pri
[4] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)

3.2. Risk Committee

The Board's Risk Committee ensures implementation of the Bank's Risk Management and Compliance Strategy, systems and policies that ensure adherence to the Bank's Risk Appetite Statement. The Committee ensures that all material risks which might affect the Bank are duly identified, monitored, managed and reported.

3.3. ESG Committee

Recognising that respect for society and the environment is a critical success factor for the Bank's sustainability and overall performance, the Board of Directors of APS Bank plc established a Board Committee known as the Environmental, Social and Governance Committee. The purpose of the Committee is to oversee the Sustainability Risks and Governance Policies, activities and practices of the Bank, providing both advice and guidance to the Board of Directors.

3.4. Executive Committee

Executive Management is responsible for identifying, managing and monitoring areas within their respective business area that may be susceptible to sustainability risk. Sustainability risk should be taken into consideration by Executive Management when developing the Bank's strategy and business plan.

4. Environmental, Social and Governance Investment Risks

Investment analysis of non-financial risks– commonly referred to as Environmental, Social and Governance (ESG) risks – encompasses those aspects of an issuer which influence its ability to meet its financial obligations in the long term. These environmental, social and governance risks which could, if they were to occur, cause an actual or a potential material negative impact on the value of an investment. These ESG related risks (and opportunities) will vary by country, industry, as well as by characteristics specific to a company such as size and geographical footprint. As a result, the Bank believes that all ESG risks should be considered. To identify the sources of ESG risks, the following ESG factors, but not limited to, are to be considered:

Environmental

- Potential Climate Change Risks.[5]
- Adjustment to climate change
- Protection of biodiversity
- The sustainable use and protection of water and maritime resources
- The transition to a circular economy, the avoidance of waste, and recycling
- The avoidance and reduction of environmental pollution
- The protection of healthy ecosystems
- Sustainable land use

Social

- Compliance with recognised labour standards (no child labour, forced labour or discrimination)
- Compliance with employment safety and health protection

[5] This includes CO_2 footprint, establishment of new invasive species, rising sea levels, an increase in heavy precipitation (heavy rain and hail), higher ocean temperatures, rising maximum/minimum temperatures, and adaptation is becoming embedded in some planning processes.

- Appropriate remuneration, fair working conditions, diversity, and training and development opportunities
- Trade union rights and freedom of assembly
- Guarantee of adequate product safety, including health protection
- Application of the same requirements to entities in the supply chain
- Inclusive projects and consideration of the interests of communities and social minorities.

Governance
- Fiscal Morality
- Anti-corruption measures
- Sustainability management by the board
- Remuneration based on sustainability criteria
- The facilitation of whistleblowing
- Employee rights guarantees
- Data protection guarantees
- Level of transparency and information disclosure

5. Climate and Environmental Risks

Sustainability risks in the area of **climate** and the **environment** are split into physical risks and transition risks. Below are examples of these risks:

Physical risks
Arise both from individual extreme weather events and their consequences (e.g., heatwaves, droughts, floods, storms, hail, forest fires and avalanches), and from long-term changes in climate and environmental conditions (e.g. rainfall frequency and volume, volatile weather conditions, rising sea levels, changes in sea currents and winds, ocean acidification, and global warming with regional extremes). Physical risks may also have indirect consequences (e.g., the collapse of supply chains, abandonment of water-intensive operations, culminating to climate-induced migration and armed conflict). The perpetrators of environmental damage or entities that have fuelled climate change could eventually be held responsible for its consequences by governments or courts of law.

Transition risks
Exists in connection with the change to a low-carbon economy. Policy measures may lead to significant changes in the relative prices of resources that may affect significantly investments, such as fossil fuels or emissions certificates becoming more expensive and/or scarce (e.g., fossil fuel phase-out and CO2 taxes), or to high investment costs as a result of the required clean-up of buildings and plants. New technologies may replace existing ones (e.g., electro-mobility) and a change in counterparty preferences and societal expectations may endanger entities that have failed to adjust.

Interdependence of Physical and Transition risks
Physical risks and transition risks are also to be assessed by taking into consideration their **interdependence**. Examples include:
- A sharp increase in physical risks would require the economy to transition more rapidly, leading in turn to higher transition risks.
- If the required reduction in greenhouse gas emissions is not carried out in time, physical risks and the pressure for action will increase.
- In the least favourable scenario, extreme climate-induced damages as a result of long delays in energy transition will eventually force a sudden and radical change in the economy.

Social and Governance
Events, developments, or behaviours associated with social and governance areas may also lead to negative impacts on the asset, financial and earnings situation of an entity if the probability of their occurrence is not sufficiently priced into the valuation of the affected assets or liabilities. Reputational impacts are also possible. Social risks are characterised inter alia by negative effects on the stakeholders of an entity such as for instance, successful damages claim against a firm due to inadequate employee health standards; the refusal of approval for a major construction project due to violations of the land rights; fines for tax evasion or wrongful tax reimbursements.

6. Sustainability Risk Integration in Investment Management

ESG integration describes an approach where the material sustainability risks explained above are considered as part of the broader investment management process. Such an approach does not automatically exclude investment products from the investment spectrum purely on ESG grounds. Its purpose is to ensure that portfolio managers are aware of and take informed investment decisions with knowledge of key ESG risks. In this way, ESG factors are an input into the investment management process, though they are not necessarily the key determinant in the final investment decision, which ultimately takes also into consideration the view of an investment's risk/return trade-off and other determining factors.

ESG Integration

In order to integrate sustainability risks, the investment management process undertakes the following analysis:

- **Top-down Sustainability analysis**: analysing and evaluating trends and developments at a global/regional/country level in terms of the political, legal and regulatory, environmental and social megatrends shaping the operating environment of governments and economic development, and which set the stage for corporate activities;
- **Bottom-up Sustainability company/issuer analysis:** at the company level, this involves fundamental analysis and evaluation of ESG management and performance trends and developments for a given industry.

In investing globally, the Bank acknowledges the need to be pragmatic when assessing sustainability risks, to take into account legal and cultural differences in different markets and specific economic considerations. As such the analysis will be sensitive to the issuer's situation in terms of the local norms, laws, regulation and expectations of the market in which it operates.

The scope of ESG integration in investment management is to take into consideration ESG risks (See Sections 4 and 5) at different levels:

Company/Issuer: in terms of credit analysis e.g., what is the ESG risk exposure on an issuer level?
Sector: as part of the issuer analysis e.g., what are the material ESG risks for certain industries/sectors, and to what degree are there common ESG risks across sectors?
Portfolio/team: in terms of portfolio characteristics e.g., what is the ESG investment risk exposures at each portfolio/fund managed? and;
Group: in terms of oversight of ESG risks across the Bank's portfolio strategies e.g., what is at the Bank's ESG investment risk exposure across all the investment portfolios/funds?

Proxy voting on corporate governance and corporate responsibility

In case of investment when proxy voting does occur, the Bank will ensure it makes appropriate use of its voting rights on matters of corporate governance and social responsibility.

7. Sustainability Risk Integration in Investment Advice

In providing investment advice and to help the client make an informed decision, the Bank is providing its investment clients background information on ESG matters, to help them understand the ESG concept in general and provide an explanation of the different elements of the definition of sustainability preferences. Subsequently, as part of the Suitability Assessment, the Bank carries out an assessment of client's Sustainability Preferences. These questions are integrated within the current Suitability Assessment and forms part of the assessment of the client's knowledge and experience, financial situation and investment objectives. Specific questions seek to capture whether the client's suitability preferences tilt towards any particular ESG factor.

The Bank as an Advisor of investment products is to take into account the information which manufacturers of these products are required to disclose. This includes, how they integrate ESG risks into their investment decision making processes and the likely impacts on the investment products' returns. The Bank's Investment Distribution Unit ("IDU") is to engage with manufacturers of investment products to comprehend how they undertake the integration of the above.

8. ESG Labelled Investment Products

The Bank's subsidiary (ReAPS) manages APS Funds and investment strategies within the Pension Products which fall in scope of SFDR and these are distributed by the Bank's IDU. In addition, IDU provides other third-party funds which are also in scope. Such products are designed to meet the needs of investment clients who want a more sustainable orientated portfolio where ESG factors directly define the investment universe.

For such investment products, where a dedicated Sustainability Risk Policy is in place, this Policy will not be the primary guideline for the investment management decisions and advisory, provided that the principles of this Policy are by and large already reflected in the existing policy of the products being offered.

9. Breach of Policy

Breaches of this Policy including intentional or unintentional activity is to be reported to the Policy Owner, who will in turn escalate to the Chief Risk Officer or delegate to determine appropriate corrective action.

10. Frequency of Review

This policy shall be reviewed at least every two years.