

Principal adverse sustainability impacts statement

Sydbank A/S – Asset Management

Statement on adverse impacts on ESG factors

This statement covers the period 1 January 2022 to 31 December 2022.

1. Summary

At Sydbank we take responsibility for our common future and it is important to us how our business affects society at large. Within the field of investments we wish fundamentally to take into consideration how companies in which we invest impact society.

Sydbank invests in a responsible manner by taking into account so-called sustainability factors, eg factors linked to safeguarding human rights, environmental issues, decent social conditions, corporate governance and strong institutions, also known as ESG. These factors are incorporated in all investment decisions so that Sydbank can identify and take into account sustainability risks. In other words specific and possible environmental, social or governance events that, if they occur, will have a significant negative impact on the value of an investment. In 2010 Sydbank signed the UN Principles for Responsible Investment (PRI) and as a result we are obligated to incorporate ESG factors into our investment analysis and decision-making processes.

At Sydbank we have developed a responsible investment process to ensure that ESG factors are reviewed and incorporated in the final investment decision. We believe that by taking ESG factors into account in our investment process we can help to improve the long-term financial return of the investments and support positive developments in society.

Sydbank's responsible investment process is based on a combination of qualitative and quantitative analyses. The Bank supports the investment process using a number of tools that put the persons responsible for investments in a position to monitor, analyse and select responsible investments across different types of assets. Where relevant and value creating we use external advisers and business partners. In other areas Sydbank develops and maintains tools to support its sustainable investment efforts. The persons responsible for investments at Sydbank use a number of different data sources as well as internal and external research as input in the investment process.

At Sydbank our ambition is to constantly increase the number of ESG factors by which we measure companies and which we hold them responsible for by means of our active ownership processes. However at present there is no full monitoring of how companies in which we have invested impact the many different ESG factors. For the time being we have decided to concentrate our resources on the basis of a principle of proportionality where our focus is on identifying the companies that are experiencing serious difficulties complying with best practice within the various ESG factors.

2. Policies to identify and prioritise adverse impacts on ESG factors

Sydbank's overall responsible investment efforts are anchored in its responsible investment and active ownership policy, which is publicly available on the Bank's website.

All of the companies in which Sydbank has invested affect society at large. Our investment process focuses on identifying companies that do not manage ESG risks well and that could potentially have a significant adverse impact on ESG factors. On the basis of a

principle of proportionality special focus is on identifying the companies that are experiencing serious difficulties complying with best practice within the various ESG factors. At Sydbank we monitor the invested companies for violations of norms and always review an external evaluation of their ESG risks as an integrated element of our investment process.

Full monitoring of all ESG factors represents a complex task that initially places heavy demands on companies to publish non-financial data to a far greater extent than today. In our process of monitoring the various ESG factors, we use data from several different sources. We use publicly available data, data published by the companies themselves and data from external data providers. ESG data included in our investment processes consists of reported data and estimated data. In addition the persons responsible for investments use external ESG analyses from our business partners and combine these with their own analyses in their efforts to identify an investment's most important impact on ESG factors.

In our investment decision-making process we are currently experiencing that the lack of data and the quality of available data often present challenges in terms of being able to evaluate and prioritise the different types of negative impacts on ESG factors. The extent of available ESG data and the quality of available data vary considerably from company to company and this places additional demands on the persons responsible for investments. Relevant ESG data with regard to small companies in the world's emerging markets is often limited. In contrast much more ESG data is often available when assessing investments in major international companies. When investing in companies where little or no relevant ESG data is available, the persons responsible for investments will conduct a detailed analysis of the company. The analysis will seek to identify the most critical issues in relation to the company's negative impact on ESG factors.

It is our expectation that the problems concerning data quality and data quantity will be gradually resolved in the years ahead. Global enterprises will increasingly be required to publish additional non-financial data. Regulatory requirements concerning non-financial data disclosure are growing and institutional investors increasingly request this data as input in the investment process.

3. How to take into account negative impacts on ESG factors

At Sydbank we have decided for the moment to focus our resources on ensuring that the companies in which we invest comply with international norms and conventions. Furthermore we monitor companies' CO₂ emissions and we wish fundamentally to invest in companies that are conscious of their environmental responsibility and their environmental impact on society at large.

Compliance with international norms and conventions

At Sydbank it is decisive for us that the companies in which we invest comply with international norms and conventions. Specifically this means that all companies in which Sydbank has invested must comply with the following international norms and conventions:

- UN Global Compact
- UN Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- ILO conventions on dignity of workers
- International weapon conventions

Sydbank conducts regular screening of companies as regards suspicion of and confirmation of violations of norms. In connection with confirmed or suspected serious violations of the above conventions Sydbank will always engage with the company.

Companies in violation of international weapon conventions are considered incompatible with Sydbank's principles for responsible investment and are automatically excluded from the investment universe.

CO₂ emissions

Our other focus area is companies' CO₂ emissions. It is our ambition that the companies in which we invest are conscious of their environmental responsibility and impact. We monitor companies' CO₂ emissions and in a long-term perspective it is our wish that our total assets invested in equities are invested in compliance with the goals of the 2015 UN Climate Change Conference (the Paris Agreement) to limit a rise in global temperatures to between 1.5 and 2 degrees Celsius.

Sydbank wishes to offer its customers an actual choice between two overall product strategies concerning our efforts to reduce CO₂ emissions in our investment portfolios. The product strategies have the long-term climate goal of the Paris Agreement in common but differ in terms of method to achieve this goal.

One product type implements a relatively fast and significant alignment with the Paris Agreement followed by an annual moderate reduction of the CO₂ emissions of the investment portfolio. Already from 2020 these products have opted out of companies involved in especially fossil fuels that cannot already report low CO₂ emissions.

An alternative product type focuses on a gradual transition from activities posing a challenge to the climate to expected future alignment with the goal of the Paris Agreement. This product type will continue to invest in companies facing environmental challenges in the short term, eg within fossil energy and supplies that are currently based in part on fossil fuels.

Monitoring of additional ESG factors

At Sydbank our ambition is to constantly increase the number of ESG factors by which we measure companies and which we hold them responsible for by means of our active ownership processes. We will increase the number of ESG factors significantly so we are ready to meet future EU regulatory requirements.

4. Summary of active ownership policy

Sydbank's active ownership policy consists in general of the following key elements:

- Monitoring of companies in our investment portfolio
- Constructive engagement with companies in which we invest
- Voting at companies' general meetings

The full active ownership policy is found in Sydbank's Responsible Investment and Active Ownership Policy.

Monitoring of companies

We monitor and measure companies' performance with regard to a variety of ESG factors on an ongoing basis. Our continuous monitoring of companies constitutes the basis for the other elements of our active ownership policy.

Engagement with companies

Sydbank collaborates with other responsible institutional investors on active and constructive engagement as regards the companies we invest in. This work is carried out via a business partner specialised in ESG analysis and engagement with companies.

Sydbank monitors the invested companies for violations of norms and reviews an external evaluation of their ESG risks. On this basis the Bank and the business partner can assess whether it is necessary or potentially value creating to engage. In the event of serious matters we will always engage with the company whereas as regards other issues we will apply a case-by-case principle of proportionality.

Voting at general meetings

We believe that voting at companies' general meetings is an important element of our overall interaction with the companies we have invested in. The managements of companies are usually susceptible to the positions and demands of their owners.

At Sydbank we vote at the general meetings of specifically selected companies. The companies are selected according to a principle of proportionality focusing on the size of the investment, the extent of the potential sustainability risk, our engagement activities and our overall wish to promote sustainable investment and reduce companies' negative impact on ESG factors.

5. References to international standards

Sydbank complies with many widely recognised international norms and conventions:

- UN Principles for Responsible Investment (PRI)
- UN Principles for Responsible Banking
- UN Global Compact
- UN Universal Declaration of Human Rights
- UN Sustainable Development Goals
- OECD Guidelines for Multinational Enterprises
- ILO conventions on dignity of workers
- Paris Agreement

A report is submitted annually to the PRI describing developments in responsible investment. A report on active ownership activities is also submitted annually. Both reports are available on the Bank's website.

Alignment of investments with the Paris Agreement

At present Sydbank does not make use of a forward-looking climate scenario with which we compare our total investments. It is however our ambition to gradually adjust our total assets invested in equities so that the investment is in compliance with the goals of the Paris Agreement. As the underlying data improves and an industry standard is developed for investments in corporate bonds it is our wish that our investments in this asset class are also aligned with the goals of the Paris Agreement.