Integration of Sustainability Risk Policy

Triodos Bank was founded on the conviction that banking can be a powerful force for good. Our mission is to make money work for positive cultural, environmental and social change. We finance progressive entrepreneurs and influence the banking sector to become more transparent, diverse and sustainable.

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Updates to the Document

The original version of this document was published in March 2021. It has been updated before in 2022 and again in March 2024.

1. Introduction

This document describes the Triodos Bank policy on the integration of sustainability risks into our investment decision-making, as required in MiFID2 rules (Commission Delegated Regulation 2021/1253) and as disclosed according to article 3 of the European Union Sustainable Finance Disclosure Regulation (SFDR) Sustainability is embedded in the core values of Triodos Bank. With this policy, Triodos Bank aims to provide adequate insight into our business and inform stakeholders how sustainability risks are considered during the investment decision making process of the portfolio management products. Without this policy Triodos Bank could have reduced awareness of the sustainability risks in the managed accounts.

2. Scope

This policy applies to Product and Process Management Department at Triodos Bank and responsibility for its implementation lies specifically with the Triodos Bank Investment Office. This Investment Office is responsible for the investment management services Triodos Bank provides to clients, the managed accounts in Belgium, Germany and the Netherlands. The policy scope extends also to Triodos Vermogensbeheer where Triodos Bank has delegated portfolio management tasks to Triodos Investment Management but remains end-responsible for the service.

3. Definitions

For this document, the following definitions apply:

• '**SFDR'** – 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, as amended from time to time;

• '**Taxonomy'** – Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment;

• '**sustainable investment'** means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance, as in article 2 (17) SFDR;

• '**sustainability factors'** means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, as in article 2 (24) SFDR;

• **'sustainability risk'** means an environmental, social or governance event or condition that, if it occurs, if it occurs, could materially affect the value of the investment negatively, as in article 2 (22) SFDR.

• **'physical/societal risks'**: a physical or societal event or condition that could cause an actual or a potential material negative impact on the value of the investment because of damage, supply chain/social disruption, availability of resources (sick leave, depletion of natural resources), etc. These risks can occur event-driven (acute) or because of longer-term shifts in patterns (chronic);

• 'transition risks': risks resulting from required/desired changes from a societal perspective. This could occur because of policy or legal changes (including litigation claims), technology developments, market shifts or reputation issues because of changing customer or community perception;

• 'Inside Out': the impact of our organisation and investments on the sustainability factors as in the outside world;

• 'Outside In': the impact of sustainability factors as in the outside world on our organisation and investments.

4. Who we are

Triodos Bank is in business to help create a society that protects and promotes the quality of life of all its members, and that has human dignity at its core. Since 1980, we have enabled individuals, organizations and businesses to use their money in ways that benefit people and the environment. Triodos Bank NV ("Triodos Bank") is one of the leading sustainable banks in the world and the co-founder of the Global Alliance for Banking on Values (GABV). All investment strategies and all assets under management actively engage for positive change in society, combined with a financial return.

Triodos Bank promotes sustainable development by offering our customers sustainable financial products and high-quality service. In scope of the Sustainable Finance Disclosure Regulations (SFDR) are the portfolio management products of Triodos Bank. The core composition of these products includes Triodos Investment Management[1] funds, but may include third party funds.

This document describes the integration of sustainability risk in the decision-making process of the Triodos Bank portfolio management products. Please refer to the websites of the underlying investment manager for information regarding the integration of sustainability risks in a specific fund.

In addition to the broad vision that underpins our business, we have several Business Principles that guide and support our day-to-day decision-making. We are dedicated to making a positive impact on the world and to lead by example. The business ethics and values are described in our Business Principles[2] :

The following Business Principles, Triodos Bank is committed to specifically relate to sustainability:
- Promoting sustainable development: considering the social, environmental, and financial impacts of everything we do;
- Respecting human rights: respecting the rights of individuals, and within different societies and cultures, supporting the aims of the United Nation's Universal Declaration of Human Rights;
- Respecting the environment: doing all we can to create and encourage positive environmental impacts.

5. Governance Structure of Triodos Bank

Three Lines of Defence & Risk Management

Within Triodos Bank, sustainability risk is integrated according to the three lines of defence model. The Three Lines of Defence (LoD) model is a prominent organizational risk concept that is integrated in the internal governance and organization of Triodos Bank. The concept strengthens Triodos Bank's risk control by embedding clearly defined risk management roles and responsibilities across the bank.

Sustainability risk is taken, owned and managed by the first line (in this case Triodos Bank and, indirectly, the investment fund providers). The second line are the Risk Management and Compliance functions that control and mitigate the impact of sustainability risks. Internal Audit is the third line and provides assurance regarding the integration of sustainability risk.

6. Our approach to Sustainability Risk Integration

To adhere to the mission of making money work for positive change, while generating a balanced return, two sustainability impact lenses are separated:
- Inside Out: the impact of our organization and investments on the sustainability factors as in the outside world, resulting in positive or negative impact
- Outside In: the impact of sustainability factors in the outside world on our organization and investments, resulting in sustainability risks such as physical/societal and transition risks

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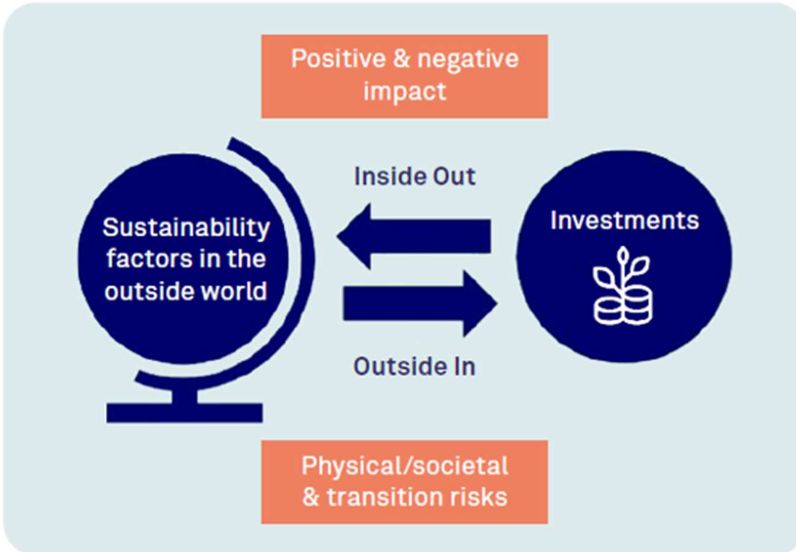
[1] Triodos Investment Management B.V., is a private limited liability company incorporated in the Netherlands, with its registered office Hoofdstraat 10, 3972 LA, Driebergen-Rijsenburg, the Netherlands licensed as (UCITS) Management Company as well as Alternative Investment Fund Manager (AIFM) including a AIF-license top-up covering the provision of additional services (i)individual portfolio management, (ii)investment advice and (ii)receiving and transmission of orders (art 2:67a Wft) issued by the Dutch Authority for the Financial Markets (AFM); Triodos IM is a 100% subsidiary of Triodos Bank.

[2] https://www.triodos.com/governance#principles



Investment decisions, whether direct through our funds or indirectly through our portfolio management products are subject to our values and norms. Triodos Bank ensures all investment decisions are aligned to our impact goals, our minimum standards. The Bank also ensures management controls and reporting frameworks are in place that adequately monitor and manage portfolio risks. This risk monitoring sets boundaries on concentration risks, guidelines for the ex-ante volatility of portfolios (risk budgets) and extreme loss events (Value at Risk). This risk monitoring framework is based on quantitative analysis. This framework monitors financial risk, whether caused by sustainability risk or by other sources of financial risk.

The Triodos Bank investment strategy, whether applied to direct investments or through an investment fund, has three binding elements:

1. The first consideration is always creating positive impact in line with our vision, and specifically the five Triodos transition themes.
2. Secondly, investments are screened against the Minimum Standards to ensure that there is as little negative impact on Environmental, Social or Governance (ESG) factors as possible. Through these two steps; screening for positive impact and the Minimum Standards Analysis sustainability risks are substantially reduced.
3. In the third step of the investment process, Triodos Bank integrates sustainability risks and other financial risks in an integrated analysis of each investment. This step reviews the residual sustainability risk drivers for each investment and determines if the residual sustainability risk is acceptable in the portfolio.

This document applies primarily to this third step in our investment process.

7. Integrated ESG and Sustainability Risk Analysis

In the third step of Triodos Bank's investment strategy, integrated analysis, selected investees are screened for sustainability risks through three steps:

1. Categorize the most relevant ESG risk factors: environmental, social and governance.
2. Determine relevant sustainability risk categories: Physical/Societal risk, Transition risk
3. Identify and assess sustainability risk outcomes on the intersection of ESG factors and risk categories.

For clarification and more detail:

Step 1. ESG Risk categorization
For all the investments within the portfolio management products, the most relevant Environmental, Social, or Governance risk factor(s) and specific underlying sustainability risk themes are determined. Combined, these are the ESG risk factors considered during the investment process.

Step 2. Sustainability Risk categorization
Triodos Bank divides sustainability risks into two main categories: physical/societal risk and transition risk. For the purpose of this sustainability risk management policy, each principal Sustainability Risk carries equal weight. This ensures for each investment that Triodos Bank will not trade-off one sustainability risk versus another. Example: Triodos Bank will not seek to trade off "fair taxes" for a stronger resilience to "biodiversity risk".

- *Physical/societal risks* is understood to be a physical or societal impact that may have financial implications because of damage, supply chain/social disruption, availability of resources or longer-term shifts in patterns. Physical/societal risk is broken down in acute risks (event-driven risks) and chronic risks (risks resulting from longer-term shifts in patterns).
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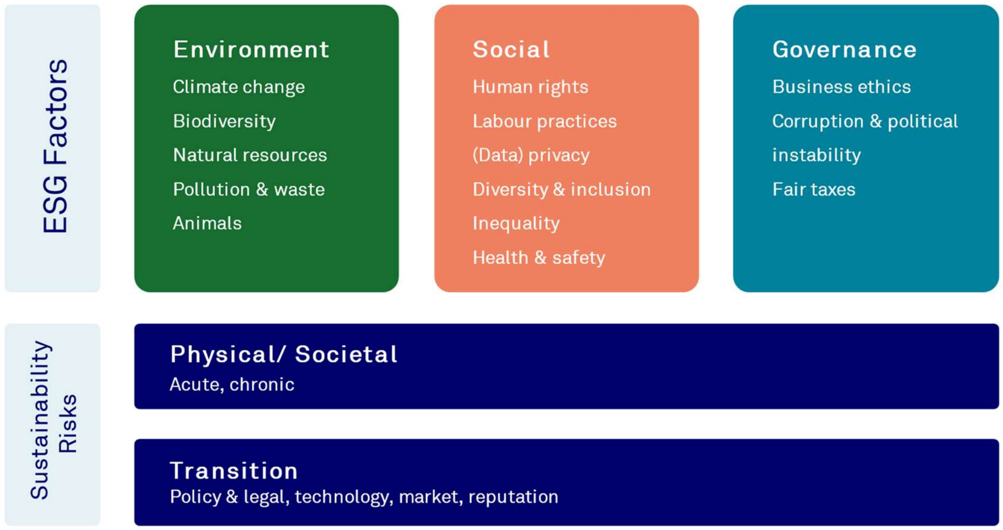
- *Transition risks* are risks resulting from required changes from a societal perspective. Four transition risks are recognized: policy and legal (impact of policy changes and the risk of litigation claims); technology-related (technology developments or disruptive/incremental innovation that contribute to the desired transition); market-related (shifting supply and demand for certain commodities, products and services) and reputational (changing customer of community perception related to ESG issues).



Step 3. Risk Assessment
When the ESG Risk Factors and sustainability risks are identified, they are plotted on a grid. At each intersection, possible outcomes of the risks for each factor are named. Example: an acute financial risk lies on the climate changes axis in weather events like cyclones, floodings, drought etc. Biodiversity is threatened chronically by, among others, irreversible damage to ecosystems and loss of species.

Please note that sustainability risks are reported on a fund level by the respective fund managers.

8. Integrated Sustainability Risk Management for Portfolios

Physical/Societal Risk Management

All Triodos Bank investment portfolios are subject to **physical/societal risks, both acute and chronic**. Physical/societal risks are primarily mitigated through our positive selection approach and application of the Minimum Standards. However, unforeseen materialization of sustainability risks may still affect Triodos investments. As a secondary mitigant Triodos Bank maintains diversified investment portfolios, spread across asset classes, countries and sectors to avoid excessive concentrations in portfolio with specific risk exposures. The Triodos portfolio management products thus aim to have a balance of different themed investment funds in line with our five transition themes /impact investment objectives.

Transition Risk Management

Triodos Bank's investment products experience limited **transition risks**. With its Minimum Standards, Triodos Bank applies a zero-tolerance policy for involvement with genuinely unsustainable products and processes and applies a precautionary principle for companies that operate in industries with increased sustainability risk, such as human rights violations or high levels of greenhouse gas emissions. This approach gives us confidence that our investees are managing transition risks actively.

Residual Sustainability Risk Management

The remaining residual sustainability risk primarily lies with (a) institutions that do not strive for continued ESG improvement, thereby being prone to enhanced and increasing sustainability risk (b) specific transition risks connected to individual companies and institutions which have released unreliable information on their sustainable and financial health thereby clearing our selection criteria and (c) specific physical risks, such as natural disasters, impacting one or more of our investments. Investors should be aware of this residual risk.

Engagement and Monitoring

As part of the regular engagement activities, each fund in the Triodos Bank portfolio management product is periodically queried on their predominant sustainable risk exposure and their methods to mitigate the outcome of the risks. The investees within the investment funds are continuously screened for potential controversies. For direct investees, the analysis is performed continually through the engagement activities performed by the investment providers.

9. Key Controls

The Triodos Bank Investment Office performs annual reviews on all investment funds and service providers that includes an assessment of compliance with this policy. These assessments are made available to the second and third line for review upon demand.

10. Ownership and Maintenance

This policy is owned by the Group Director Product and Process Management. This document and any changes thereto need to be approved by the Triodos Bank Investment Office. It will be reviewed at a minimum of every two years. Developments in the organisation or in legislation may trigger the need for a sooner review.