

stabelo



Stabelo Group ESG Strategy



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SCOPE

The aim of this paper is to clarify Stabelo's view on sustainability and to highlight those areas in which we can have an impact and make a difference from a sustainability perspective. It also outlines the strategy of Stabelo's work in these areas.

Stabelo is a signatory to the UN PRI and supports UN's view that incorporating ESG factors in the investment process will enhance returns and enable us to better manage risks.

This strategy document forms an integrated part of the Stabelo entities' ESG policies.

VISION

Develop and run a business that contributes to a sustainable future.

MISSION

We want to help our mortgage borrowers build a solid financial foundation as well as deliver attractive financial and social returns to pension savers.

SUSTAINABLE DEVELOPMENT FOCUS AREAS

In 2015 all United Nations members adopted its 2030 Agenda for Sustainable Development that includes 17 Sustainable Development Goals designed to put an end to extreme poverty, inequality, injustice, and climate change.

Stabelo seek to work with our investors and stakeholders within the context of the Swedish mortgage market in helping to achieve three of the UN's 17 Sustainable Development Goals from 2015. The following SDGs that we have selected are based on how we believe that we can contribute the most in achieving these ambitious goals:

- 12. Responsible consumption and production
- 13. Climate action
- 17. Partnerships for the goals



The goal: To ensure sustainable consumption and production patterns
Our work to achieve this goal:

It is important that our customers fully understand the terms of business when they buy a product or service from us and that they are safe when making important financial decisions. By always striving to develop fair, simple, and transparent mortgage products we strive not only to add value to Stabelo's mortgage customers but also to impact best practices in the Swedish mortgage market.

By being cost efficient in all possible ways, we strive to minimize the leakage of funds from borrower to lender to keep customers' mortgage rates as low as possible and pension savers' return on investments as high as possible.

By having strong anti-money laundering processes in place, we participate in the fight against financial crime and the financing of terrorism. We want to ensure that all funds provided by our investors go to sustainable homeownership lending and nothing else.

Stabelo's view is that the booms and busts, drivers of financial inequality and sources of financial instability in recent decades are largely a product of money creation by banks and certain shadow banking structures left unchecked. Stabelo's mortgage loan production does not lead to such money creation or



boom bust cycles, as mortgages are produced without maturity transformation, liquidity transformation, deposit taking or leverage.

Specific targets:

- Offer fair, transparent, and safe products to customers
- Try to influence best practices in the market
- Minimize leakage of funds from borrower to saver
- Best in class AML prevention capabilities
- Offer mortgage lending without money creation



The goal: Taking urgent action to tackle climate change and its impacts
Our work to achieve this goal:

Stabelo is in the business of residential mortgage lending financed by pension savers. Households account for almost 40% of energy consumption in Sweden. The energy used in Sweden today connected to households is relatively clean from carbon dioxide emissions as a great deal comes from either renewable sources or nuclear energy. To measure the climate impact of Stabelo's mortgage assets, independent risk consultants calculate the carbon footprint of the mortgage portfolio annually, using the best data and techniques available.

Today the carbon footprint of Stabelo's mortgages is low. However, to protect homeowners and investors from transition risks associated with achieving the goals set out in the Paris Agreement in 2015, it is important to incentivise homeowners to invest in enhancing the energy efficiency of their homes already now. Examples of such transition risks include potential future changes in tax regimes connected to energy efficiency and / or potential future negative impacts on valuations on properties considered less environmentally friendly. Furthermore, changes in weather conditions and raising sea levels could also have a negative impact on properties pledged to the mortgages. Our green mortgage initiative is developed to reward a borrower who purchases an energy efficient home or who invests to improve the energy efficiency of an existing property. It will be important to continue to develop this initiative as more data on energy efficiency associated with residential properties become available.



Energy efficiency is important, but type of energy sources used in the household is also important. We want to support our borrowers as much as we can to invest in the future. Our ambition is to work to connect our borrowers with providers of renewable energy sources and assist our borrowers to be smart and proactive in adapting to change as well as contribute in the fight against climate change.

Stabelo is a small player with a limited number of employees that do not travel. Furthermore, Stabelo do not operate through a network of branches which eliminates the need for our customers to travel to physical offices around the country. Although we are very much digitally based today, our ambition is to become a 100% digital mortgage provider and eliminate all consumption of paper in the origination / servicing process as well as the involvement of post or courier traffic.

In line with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations, Stabelo Group's Leadership Team carries out an annual review of the financial impact on the Group and its stakeholders from climate-related risks and opportunities. This work is an integrated part of the Group's strategic planning and reporting.

Specific targets:

- Promote investments in energy efficiency
- Facilitate connections between borrowers and suppliers of advice and investments related to energy efficiency
- Work to make mortgage process as digital as possible



The goal: To revitalize the global partnership for sustainable development
Our work to achieve this goal:

We are all in this together. The 2030 Agenda with its 17 Sustainable Development Goals is universal and calls for action by all countries, business, and investment asset classes. From a responsible investing perspective, ESG considerations have historically been more associated with equities with an activism approach. However, to support the 2030 Agenda, it is important that ESG considerations are extended to all asset classes in a relevant way.



In the process of extending the responsible investing perspective to new asset classes it will be important that relevant frameworks are developed for each asset class. From an investment perspective, Stabelo is a non-securitized residential mortgage fund investment. It is important that relevant methodologies and metrics to evaluate such an investment from an ESG perspective are developed. Stabelo strives to work together with established organizations such as the UN PRI and the TCFD to ensure that appropriate assessment frameworks and metrics for mortgage funds are developed.

Responsible investing is very important to all Stabelo's institutional investors. Stabelo aim to continue to collaborate with investors how we best can work together to support the SDGs and their quest to be responsible investors.

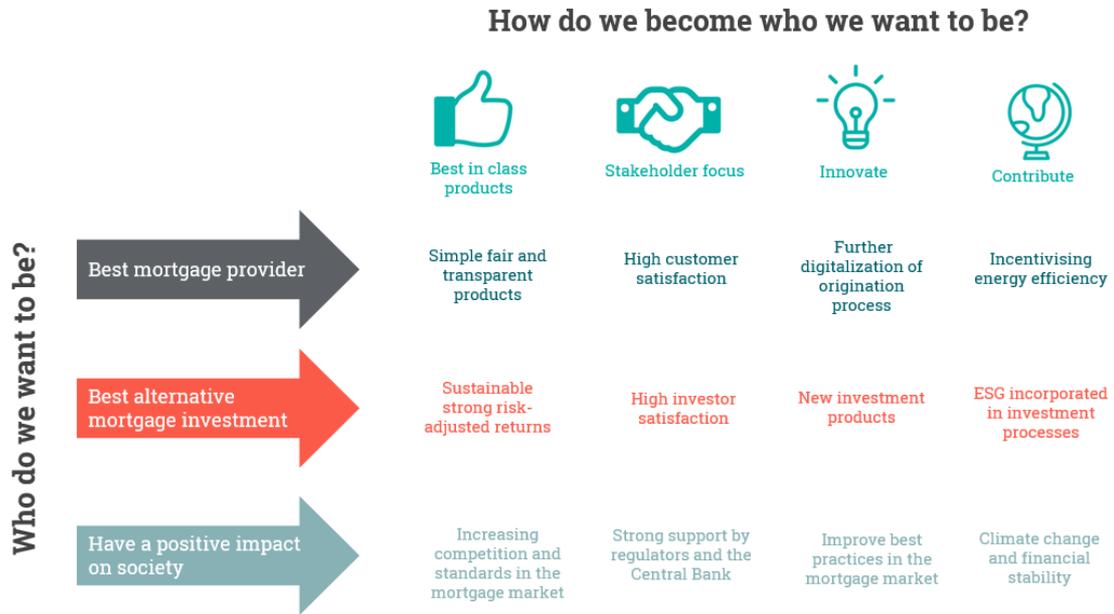
A well-functioning mortgage market is closely linked with a well-functioning economy. Sweden's mortgage market has many strengths but has a history of being dominated by a few large banks. The level of competition in the market has historically been relatively low. Stabelo believes that the Swedish mortgage market and consumers would benefit from increased competition as well as increased diversity regarding the types of lenders and financing. Stabelo strives to work together with important stake holders of the Swedish mortgage market and economy, such as the Swedish FSA and the Central Bank, to safeguard a well-functioning mortgage market.

Specific targets:

- Collaborate with investors how we can cooperate in reaching the SDGs
- Collaborate with leading ESG focused organizations to ensure the development of relevant frameworks and metrics for investments in unstructured mortgage pools
- Work with FI and Riksbanken to continue to improve dynamics in the Swedish mortgage market



ESG STRATEGY



ESG IN THE MORTGAGE MARKET - RESPONSIBLE INVESTMENTS

Stabelo believes that residential mortgages are fundamentally aligned with responsible investing. Homeownership is a key path to savings and wealth-building for many and connecting borrowers with lenders is an established way to ease the path to home ownership. A well-functioning mortgage market is a critical part of the local and global economy. A healthy degree of competition and access to a wide range of alternatives in the mortgage market will benefit customers and safeguard a well-functioning marketplace. Furthermore, increasing the diversity of mortgage financing available outside the banking system will support financial stability. This has proven to be especially true in times of stress in the banking system.

Stabelo is a signatory of the UN Principles of Responsible Investment (PRI) since 2019 and supports UN’s view that incorporating ESG factors in the investment process will enhance returns and enable us to better manage risks. Fundamentally, Stabelo believes that lending practices that do not make the customers’ wellbeing a top priority is imprudent and not sustainable. Lending practices that have a lax approach towards customer long-term affordability and



financial robustness will ultimately have a negative impact on credit quality of the mortgage assets financed by investors. Furthermore, we believe that a mortgage offering should be fair and easy to understand without hidden costs and agendas. This enhances borrowers' ability to make sound financial decisions. Many mortgage providers use the practice of bundling offers where the true costs of the packaged deal are poorly disclosed.

Stabelo asset management only invests in "sustainable" mortgages that offers both financial and social returns to its investors. Our investment policies and practices are rooted in our policy for **Responsible Investments** that also defines the essence of sustainable mortgages.

Stabelo's philosophy of responsible mortgage investing focuses on six objectives:

- 1) **Support homeownership** – homeownership is a key path to savings and wealth-building for many. Connecting borrower with lenders is an established way to ease the path to home ownership.
- 2) **Invest in fair and transparent mortgage products** – simple mortgage products that borrowers understand enhances their ability to make sound financial decisions.
- 3) **Promote responsible lending** – it is crucial to focus on ensuring that borrowers are not put at added risk of financial distress through a burdensome debt load.
- 4) **Climate change** – incentivising investments in enhanced household energy efficiency and access to renewable energy sources will protect against transition risks associated with reaching the goals set out in the Paris Agreement.
- 5) **Simple and transparent investment structure** – by minimizing complexity in the investment structure, investors can facilitate strong ESG impact in the lending process as their mortgage investments are of a more direct nature compared to structured investment alternatives.
- 6) **Contribute to enhanced financial stability** – Stabelo's view is that the booms and busts, drivers of financial inequality and sources of financial instability in recent decades are largely a product of money creation by banks and certain shadow banking structures left unchecked. Stabelo's mortgage loan production does not lead to such money creation or boom bust cycles, as mortgages are produced without maturity transformation, liquidity transformation, deposit taking or leverage.



ESG GOVERNANCE AND REPORTING



Sustainability is an important part of Stabelo Group’s strategy and a key element for future success. All the Group entities are involved in the planning and implementation of the Group’s sustainability ambitions – from the Board of Directors to individual employees.

The Group CEO and the Senior Executive Management Team have an annual cycle of review covering the performance over the past year as well as formulating the ESG goals for the coming year. The ESG strategy, goals and performance are reviewed and approved by the Board.



Stabelo's operational sustainability work is steered by our Sustainability Council. The Sustainability Council meets quarterly, and Head of Sustainability chairs the Sustainability Council.

We will report on our sustainability work annually and our sustainability report will include climate reporting in line with the Task Force on Climate-related Financial Disclosures ("TCFD") guidelines.

Examples of other governing documents for sustainability:

- Credit policy
- Responsible investments policy
- Conflicts of interest and incentives policy
- Ownership policy
- Remuneration policy
- Employee trading policy
- Anti-money laundering and anti-terrorism financing policy
- Ethics policy
- Mortgage loan arrears policy
- Whistleblower protection policy

STABELO'S CODE OF CONDUCT

Stabelo's operations are regulated and supported by more than 40 different policies and documents. To ensure as broad as possible operational implementation of the principles incorporated in our ESG strategy we have developed three "rules of thumb", that are easier for our employees to relate to on a day-to-day basis:

- 1) Stabelo will be successful when we act in the interest of our mortgage borrowers, institutional investors, and society as a whole
- 2) The corporate culture of Stabelo is based on high ethical standards, courage, and the capacity to act
- 3) In a situation where an employee is unsure about the most appropriate course of action and is unable to consult a more senior manager, the principle of "mother – frontpage news – child" should be applied: meaning that, we should not develop products that we would not sell to our mother, we should not act in ways that we would not want to read about on the front page of a newspaper, and we should contribute to creating a better future for the children of today.