Nordea

Statement on principal adverse impacts of sustainability factors

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Approved by Nordea Bank Investment Product Committee.

Information on principal adverse impacts of investment and insurance advice on sustainability factors in Nordea Bank Abp

1. Introduction

This statement has been prepared by Nordea Bank Abp ("Nordea Bank") for the purpose of meeting the disclosure requirements in Article 4 of 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") and as further described in Article 11 of the Commission Delegated Regulation (EU) 2022/1288 ("SFDR Delegated Regulation").

SFDR focuses on double materiality on entity and product level. The concept of double materiality covers how companies are affected by sustainability issues, and conversely, how their activities impact society and the environment. We assess sustainability risks in our investment activities and consider principal adverse impacts ("PAI") on the environment and society. Find the statement about integration of sustainability risks here*.

This statement fulfils the SFDR Article 4 requirement by providing the information on how Nordea Bank considers PAI on sustainability factors in the investment advice or insurance advice.

Nordea Bank acts as a Financial Market Participant for discretionary portfolio management. The majority of discretionary portfolio management activities have been outsourced to Nordea Investment Management AB ("NIM") or other appointed managers which also consider PAI on sustainability factors. This is further described in our Statement on principal adverse impacts of investment decisions on sustainability factors (Annex I).

Climate change poses threat to our planet, ecosystems and communities, as well as being a critical issue for long-term investors. We support the objectives of the Paris Agreement to limit the increase of the global average temperature to well below 2°C, preferably to 1.5°C, above pre-industrial levels.

Together with our customers, we at Nordea Bank along with our affiliated companies in the Nordea Group (collectively "Nordea") support the transition towards a sustainable economy. Nordea's strategy is to facilitate transition to a sustainable future with customers and portfolio companies, which is also captured in our sustainable finance and emission reduction targets. Nordea considers the adverse impact on climate in our investment decisions. Our investment offering includes products with different sustainability characteristics to support customers' investment preferences. Read more about Nordea's sustainability targets.

We recognise that nearly all types of economic activity have the potential to impact various sustainability factors, both positively and adversely. One example is investments' negative impact on climate. This includes, for example, carbon footprint. Other examples of sustainability factors are how and to what degree a company respects human rights or how it addresses other social or employee matters.

*Under Sustainability-related disclosures (SFDR)

2. Consideration of PAI

Nordea Bank considers principal adverse impacts in investment and insurance advice. PAI means impacts of investment decisions and advice that can result in negative effects on sustainability factors.

Nordea Bank provides investment and insurance advice to customers. When doing so, we consider negative impacts on selected sustainability factors for financial products available for advice to our customers. Since August 2022, we have asked our customers whether a customer finds it important to reduce negative impact on environment and society with their investments (i.e. investments considering PAI).

Nordea Bank requires that providers of financial products within our investment and insurance advice product range meet certain sustainability criteria. The criteria are incorporated in our selection and monitoring processes with the purpose to mitigate negative impacts on sustainability factors in advice.

3. Policies to identify and prioritise sustainability factors

In Nordea, we have established a governance structure for managing ESG matters such as environmental and social impacts. As part of the governance, Nordea has set out position statements and guidelines. The position statements and guidelines provide information on what we consider best practice for managing ESG business opportunities and risks in different areas, also outside the scope of SFDR. This includes the requirements and thresholds we apply to different sectors, for example fossil fuels, in addition to the adherence of national laws and regulations. Our public position statements, sector guidelines and internal instructions are applicable to all business areas in Nordea. Read more about our position statements and sector guidelines.

Nordea Framework for Responsible Investment Distribution

Providers and products in our advisory universe must adhere to the Nordea Framework for Responsible Investment Distribution ("FRID"). The FRID sets specific thresholds and criteria in regard to what type of businesses we do not accept due to their negative impacts on social or environmental sustainability factors. These exclusion criteria cover, among others, involvement in controversial weapons and selected fossil fuel activities such as coal mining and oil sand extraction.

Products are assessed in relation to the FRID in the selection phase. The assessment is based on the fund's policies and exposures. Product reviews are performed regularly, e.g. if there are changes to the sustainability profile of a product. Screening of holdings in liquid funds is also performed in the selection phase and on a regular basis. Engagements with providers are performed when breaches with the FRID are identified. Products that do not meet the requirements of the FRID are excluded from the advisory universe.

4. Ranking and selecting financial products based on PAI

We at Nordea Bank, and our appointed investment managers, consider several PAI indicators. Our selected investment managers must have a baseline integration of ESG safeguards. Requirements include applying norm-based screening, exclusion lists and consideration of principle adverse impacts. These requirements are intended to form a minimum standard and support the consideration of principal adverse impacts.

We rank and select financial products based on the PAI indicators listed in the SFDR Delegated Regulation that relate to climate and environment, social and employee matters, human rights, anti-

corruption, and anti-bribery in our investment decisions. The selected PAI indicators cover corporate and sovereign issuers as well as direct investments in real estate. There are a number of minimum requirements in relation to PAI for providers and products in Nordea Bank's advisory universe. Providers and products within Nordea Bank's sustainable and transition offering are subject to additional requirements.

Minimum criteria for providers:

- All providers included in Nordea Bank's product universe, advisory and execution only, are required to be signatories to the UN Principles for Responsible Investment (PRI).
- Providers in the advisory universe should have a process on how to identify and act towards companies involved in controversies, such as breach of international laws, norms on environmental protection, human rights, labour standards and anti-corruption laws.
- We require our strategic partners in the advisory product universe to commit to transition their investment portfolios in line with the objectives of the Paris Agreement. Compliance with this requirement is assessed based on their public commitments as well as short-, medium- and long-term climate targets. Our strategic partners should join a global initiative such as the Net Zero Asset Managers initiative.

Minimum criteria for products:

Products cannot invest in

- Companies with substantial and sustained exposure to coal mining, with a 5% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal).
- Companies with more than 50Mt annual production of thermal coal without a coal phaseout commitment.
- Electric utility companies without commitment to phase out coal by 2040, with a 35% revenue threshold for advanced economies and 50% for others.
- Companies with coal power expansion plans if existing coal power revenue exceeds 10% or coal capacity exceeds 5 GW.
- Companies with substantial and sustained exposure to oil sand, with a 5% revenue threshold.
- Companies with exposure to oil and gas extraction through Arctic drilling. The Arctic is defined as the southernmost extent of winter sea ice.
- Palm oil producers that do not have an RSPO (Roundtable on Sustainable Palm Oil) certification target for their holdings and estates. Furthermore, companies that have such a target but have obtained RSPO certification for less than 50% of their holdings and estates are also restricted.
- Companies that practise mountaintop removal (MTR) mining.
- Companies with operational control over asbestos mining activities.
- Companies that are involved in production or distribution of pornography with a 5% threshold.
- Companies that are involved in the production of tobacco, with a 5% revenue threshold.
- Sovereign bonds issued by governments that are subject to relevant sanctions imposed by the UN, EU, USA or other applicable local regulators.

Companies in the defence industry are required to comply with national legislation and policies aligned with provisions of international conventions and treaties on controversial weapons, the UN Firearms Protocol, the Treaty on the NonProliferation of Nuclear Weapons (NPT), the Arms Trade Treaty (ATT), and, for EU member states, the EU Common Position on arms exports.

Products are not allowed to invest in companies that are involved in the production or development of:

- cluster munitions
- anti-personnel mines
- biological weapons
- chemical weapons
- weapons with non-detectable fragments
- incendiary and blinding weapons
- depleted uranium munitions

Finally, products are not allowed to be invested in:

- companies that are verified to be directly involved in the production or development of nuclear weapons
- companies involved in the maintenance of nuclear weapons, with a military revenue threshold of 5%. Military revenue is based on the company's overall revenue from military equipment, which is not the same as revenue from nuclear weapons.
- Exemptions to the two criteria described above can only be made for companies involved in nuclear weapons systems used by European NATO member states.

Ranking and selection methodology

Our assessments of PAI consideration are based on information shared by the providers (e.g. in Statement on principal adverse impacts of investment decisions on sustainability factors) and our own screening of product holdings. The performance on PAI indicators is monitored annually. Products identified as outliers on specific indicators or that exhibit high adverse impact across several indicators are identified. The range of possible actions consist of the following:

No action: The PAI indicator level of the product is deemed acceptable or judged not to reflect the actual ongoing performance of the product, and no further action is deemed needed at this point. The product will continue to be monitored.

Engagement: Products that have been flagged as having a high adverse impact on one or across several indicators may be identified as candidate for an engagement case.

Exclusion: After further analysis and engagement with the investment manager, it is concluded that the product's performance on PAI indicators does not meet our expectations. The product is removed from our advisory universe. Exclusion is the last possible option as we believe that engagement is efficient to influence the investment manager to move in the right direction.