



**Sector Policy on Forestry, Pulp & Paper and Timber  
for  
Skandinaviska Enskilda Banken AB**

adopted by the Board's Risk and Capital Committee of the Board of Directors of  
Skandinaviska Enskilda Banken AB (publ)  
on 25 January 2022

**Sustainable Banking**

# Sector Policy on Forestry

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# Sector Policy on Forestry

## 1 Introduction

Forests are vital for our society and planet and are inseparably linked to our global economy. Besides providing resources for various production processes and industries, habitats for biodiversity and jobs for society, forests are also the world's second largest carbon storage. If managed responsibly, forests are a renewable resource greatly contributing to climate change mitigation.

SEB has direct exposure to the Forest and the associated Pulp & Paper and Timber sector through lending and Investments. This Sector Policy has been developed to ensure that financial services and Investment decisions are contributing towards SEB's overall sustainability ambitions, as expressed in SEB's Corporate Sustainability policy.

This Sector Policy builds on the principles defined in the thematic Environmental policy and the Human Rights policy, which are part of the overall Sustainability policy framework in SEB. Sustainability related policies in SEB are reviewed annually.

## 2 Definitions

**Business Relationship:** A commercial relationship where SEB provides Financial Services to a Client.

**Circular economy:** An economy that aims to maintain the value of products, materials and resources for as long as possible by returning them into the product cycle at the end of their use, while minimizing the generation of waste.<sup>1</sup>

**Client:** A Company with which SEB has a business relationship.

**Companies:** Legal corporate entities, excluding holding companies, conducting business.

**Deforestation:** The permanent destruction of forests and woodlands and conversion to non-forest uses.<sup>2</sup>

**Exempt activities:** Activities listed in 4 below.

**Financial Services:** General banking and advisory services including services that result in credit exposure.

**Forest sector<sup>3</sup>:** All companies directly involved in the management and ownership of forests.

**GHG (Greenhouse Gas) emissions:** Emissions of Carbon dioxide (CO<sub>2</sub>), Methane (CH<sub>4</sub>), Nitrous oxide (N<sub>2</sub>O) and etc.<sup>4</sup>

**Investment:** Where SEB, directly or indirectly through investment products, managed by SEB or its subsidiaries, invests in equities and fixed income securities excluding investments where SEB act on behalf of a Client.

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<sup>1</sup> Definition from Eurostat

<sup>2</sup> EU Commission, DG Environment

<sup>3</sup> Subsectors under the following SNI sector codes: 02 – Forestry and logging

<sup>4</sup> All covered Greenhouse Gases by UNFCCC

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**Natural habitats:** A place where plants or animals normally live, characterized primarily by its physical features (topography, plant or animal physiognomy, soil characteristics, climate, water quality etc.) and secondarily by the species of plants and animals that live there<sup>5</sup>.

**Portfolio Company:** Company where SEB Group has an equity ownership excluding Portfolio Bond solutions.

**Pulp & Paper sector<sup>6</sup>:** All Companies directly involved in the manufacture of paper and paper products.

**Scope 1, 2 and 3:** Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in a company's value chain.

**SEB or SEB Group:** Skandinaviska Enskilda Banken AB (publ) and its subsidiaries, branches and representative offices.

**Timber sector<sup>7</sup>:** Companies directly involved in the manufacture of wood and of products of wood and cork, except furniture, as well as in the manufacture of articles of straw and plaiting materials.

### 3 Purpose

The purpose of this Sector Policy is to clarify SEB's expectations, requirements and restrictions on providing Financial Services to and making Investments in Companies involved in forestry, pulp & paper and timber activities.

### 4 Scope

This Sector Policy shall be implemented in all parts of the SEB Group, taking local or sector specific rules into account, when relevant. Branches and subsidiaries shall take appropriate steps to implement this Sector Policy.

This Sector Policy covers Companies with a material share of revenues, i.e. more than 15% of turnover, combining any of the following activities:

- Forestry;
- Production of pulp & paper;
- Production of timber.

The Risk and Capital Committee (RCC) mandates the Group Risk Committee (GRC) to make deviations from this policy. Any such decisions by GRC shall be reported back to the RCC.

*Exempt activities:*

- 1) Intermediation services such as provision of investment opportunities and thereto related research activities;
- 2) Securities financing activities;

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<sup>5</sup> European Environment Agency

<sup>6</sup>Subsectors under the following SNI sector codes: 17 – Manufacture of paper and paper products

<sup>7</sup> Subsectors under the following SNI sector codes: 16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials

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- 3) Funds managed outside the SEB Group;
- 4) Financial products where the employees in companies in scope are the beneficiaries, e.g. Occupational Pension;
- 5) Any activity that the SEB Group is obliged under law or regulation to provide.
- 6) In addition the application of the Policy is further defined below based on type of implementation level.

### *Implementation level*

SEB sector policies are divided in different implementation levels:

**Expectation:** SEB expects Clients and Portfolio Companies to adhere to this Sector Policy. Non-adherence requires actions that over time will ensure adherence to the Sector Policy.

**Require:** SEB requires its Clients to comply with SEB's position and non-compliance requires active decisions on SEB's engagement.

**Restrict:** SEB restricts engagement with Clients that are non-compliant.

The below table shows how the Policy implementation levels are applied to different sizes of Clients and Companies.

<i>Implementation levels</i>	<b>Company size</b>		
	<b>Retail<sup>8</sup></b>	<b>SME<sup>9</sup></b>	<b>Mid/Large corp.</b>
<b>SEB Expects</b>	-	-	✓
<b>SEB Requires</b>	-	✓	✓
<b>SEB Restricts</b>	-	✓	✓

\* ✓ Implementation level applicable

"-" Implementation level not applicable, but can be used as guidance

## 5 Governance model

### *Internal adherence and follow-up*

This Sector Policy is implemented according to SEB's governance model for all sustainability related policies:

- The relevant first-line business divisions are responsible for ensuring adherence to the Sector Policy and identify, assess and manage the associated risks inherent in their business activities;
- The CRO Function is responsible for evaluating the efficiency of first line risk management;

There will be a periodic review of the credit portfolios covered by this Policy.

<sup>8</sup> Companies with a turnover below EUR 0.5 million or where SEB's credit exposure is below EUR 1 million

<sup>9</sup> Small and medium-sized enterprises (SMEs) as defined by the EU, meaning companies having staff of less than 250 employees and not exceeding annual turnover of EUR 50m or balance sheet value less than EUR 43m.

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### 6 Forestry

#### 6.1 Key sector risks

Key concerns include the following risk areas:

- Air emissions (GHG, dust) from clear cutting and machines;
- Habitat alteration with impacts on ecosystems and biodiversity;
- Visual impacts;
- Loss of soil productivity and increased erosion and landslide risks;
- Increased fire risk;
- Health and safety for workers and nearby residents;
- Negative human rights impact from, for example, physical or economic resettlement, loss of ecosystem services or using customary land from indigenous people.

#### 6.2 Restrictions

SEB will avoid providing financial services to Clients, or make Investments in Portfolio Companies or projects with material negative impact, such as land conversion, on sensitive environmental areas such as<sup>10</sup>:

- UNESCO World Heritage sites;
- Wetlands covered by the Ramsar Convention;
- Land-based Natura 2000 areas;
- National parks and nature reserves;
- High conservation value forests (HCVF)<sup>11</sup>;
- International Union for the Conservation of Nature Red Listed Species.

SEB will avoid providing financial services to Clients, or make Investments in, Companies or projects that are involved in any of the following:

- Illegal logging or trading activities;
- Illegal or uncontrolled fire activities for land clearance and preparation;
- Deforestation of primary<sup>12</sup> tropical forests.

#### 6.3 Environmental expectations

SEB expects Clients and Portfolio Companies to:

- Have:
  - A forest management plan or similar;

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<sup>10</sup> If an activity is approved by an official legal/licensing body within the EU, the activity is not considered having material negative impact. If outside the EU, the independent Environmental Impact Assessment of the activity must show that the mitigating actions taken will result in minimal or no negative impact.

<sup>11</sup> Forests that inherited biological, ecological, social or cultural values of outstanding significance as defined in FSC's "Common Guidance for the Identification of High Conservation Values – 10/2013": HCV 1 -Species diversity; HCV 2 -Landscape-level ecosystems and mosaics; HCV 3 -Ecosystems and habitats; HCV 4 -Critical ecosystem services; HCV 5 -Community needs; HCV 6 -Cultural values.

<sup>12</sup>The naturally regenerated forest of native tree species, where there are no clearly visible indications of human activities and the ecological processes are not significantly disturbed. (FAO – Global Forest Resources Assessment 2020. Terms and Definitions)

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- Targets for sustainable forest management certification<sup>13</sup> in own production;
- Develop a biodiversity baseline and targets by 2025;
- Have a process to ensure that - in case of identified negative biodiversity impact or conversion of natural habitats - the mitigation hierarchy<sup>14</sup> is applied;
- Have a plan to:
  - Limit the usage of pesticides<sup>15</sup>;
  - Limit the negative impact from fertilizers<sup>16</sup>;
  - Handle pollution accidents;
  - Improve resilience to external shocks such as extreme weather or plagues;
  - Minimize negative impact on flora and soil erosion during logging and other forest activities.<sup>17</sup>

## 7 Pulp & Paper and Timber

### 7.1 Key sector risks

Key concerns include the following risk areas:

- Air pollutants<sup>18</sup>;
- Water quality and stress;
- Sustainable forestry in supply chain;
- Waste generation;
- Health and safety of workers and nearby residents.

*Specific for Pulp & Paper*

- Chemicals from bleaching process;

*Specific for Timber*

- Noise and fire.

### 7.2 Restrictions

SEB will avoid providing financial services to Clients, or make Investments in Portfolio Companies or projects with material negative impact as listed under 6.2.

### 7.3 Environmental Expectations

SEB expects Clients and Portfolio Companies to:

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<sup>13</sup> FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) certification for the forest-, timber- and pulp & paper industry

<sup>14</sup> Avoid, minimise, restore and offset

<sup>15</sup> Rotterdam Convention, Minamata Convention on Mercury, WHO Recommended Classification of Pesticides by Hazard

<sup>16</sup> Such as soil erosions, toxicity/accumulation of contaminants, disruption of natural environment, eutrophication of water bodies

<sup>17</sup> E.g. based on new EU soil strategy goals: protect soil fertility, reduce erosion and sealing, increase organic matter, identify contaminated sites, restore degraded soils

<sup>18</sup> Such as CO, NOx, SOx, PM, VOCs

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- Develop a transition plan for Scope 1,2 and 3 GHG emissions in line with the Paris Agreement;
- Perform an Environmental Impact Assessment<sup>19</sup> for new projects;
- Apply Best Available Techniques<sup>20</sup>;
- Have targets on sustainable forest management certification<sup>21</sup> in own production and throughout supply chains;
- Develop a biodiversity baseline and targets by 2025;
- Have an Environmental Management System including:
  - Water use and quality management system<sup>22</sup>;
  - Waste management system according to the waste hierarchy<sup>23</sup>;
  - Energy efficiency;
  - Circularity targets mainly for pulp & paper production;
- Have policies or statements for harmful substances;
- Have a plan to switch from fossil fuel transportation to low carbon alternatives in line with the transition plan above.

## 8 Social expectations

SEB expects its Clients and Portfolio Companies, in proportion to the size and risk exposure of the entity, to respect human rights as expressed in the United Nations Guiding Principles on Business and Human Rights through the implementation of:

- Human rights and labour rights policies including an Human Rights Due Diligence, HRDD, process for own operations and relevant business relationships;
- Health and safety policy based on industry safety guidance<sup>24</sup>;
- Established Grievance mechanism;
- In case of resettlement: policies in order to appropriately acknowledge, compensate and respond to community priorities in cases of physical or economic resettlement<sup>25</sup>;
- In case of activities conducted in areas with indigenous people: free, prior and informed consent (FPIC) principles to ensure the rights of indigenous people as well as transparent and culturally adapted communication;
- Actively engaging in constructive partnerships with affected stakeholders.

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<sup>19</sup> In line with the EIA Directive (85/337/EEC). Outside the EU, ensure the E(S)IA is conducted in line with international good practice, e.g. IFC Performance Standards/Equator Principles

<sup>20</sup> Pulp & Paper:

Best Available Techniques (BAT) Reference Document for the Production of Pulp, Paper and Board  
Timber: Best Available Techniques (BAT) Reference Document for the Production of Wood-based Panels

<sup>21</sup> FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) certification for the forest-, timber- and pulp & paper industry

<sup>22</sup> Such as: impact on water stressed areas and measure water intensity as well as measure the amount of discharged waste water and set targets for its reuse and recycling

<sup>23</sup> Waste hierarchy: Prevention, Preparation for Reuse, Recycling, Recovery and Disposal

<sup>24</sup> For example World Bank Group Environmental, Health, and Safety Guidelines; ILO – Safety and health in forest work

<sup>25</sup> International Finance Corporation's Performance Standard on Land Acquisition and Involuntary Resettlement



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### 9 Governance expectations

SEB expects its Clients and Portfolio Companies to maintain high standards of accountability and integrity regarding their business supported by:

- Sustainability report (annually published) or similar<sup>26</sup> comprising material sustainability impact
  - Anti-corruption policy in proportion to the size and risk-exposure of the entity;
  - Tax reporting according to country-by-country principle, when relevant<sup>27</sup>.
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<sup>26</sup> For smallholder forest owners, similar disclosure is expected to SEB

<sup>27</sup> OECD/G20 BEPS Project (15 actions) – Action 13: Country-by-Country Reporting