Sector Policy on Renewable Energy Generation and Electricity Transmission & Distribution for Skandinaviska Enskilda Banken AB

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

Sustainable Banking
Sector Policy on Renewable Energy Generation and Electricity Transmission & Distribution

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Sector Policy on Renewable Energy Generation and Electricity Transmission & Distribution

1 Introduction
Renewable energy generation and electricity transmission & distribution is an important prerequisite for carbon neutral economic growth. However, if not handled responsibly, the development, production and distribution of renewable energy can have significant negative impacts on the environment and society.

SEB has an exposure to the Renewable Energy Generation and Electricity Transmission & Distribution sectors 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

Biodiversity baseline: Collection and interpretation of biodiversity values occurring through operations or new projects, their current condition and future development\(^1\).

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\(^2\).

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

Companies: Legal corporate entities conducting business.

Electricity Transmission & Distribution sector\(^3\): All companies directly involved in the transmission and distribution of electricity.

Exempt activities: Activities listed in 4 below.

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

GHG (Greenhouse Gas) emissions: Emissions of Carbon dioxide (CO\(_2\)), Methane (CH\(_4\)), Nitrous oxide (N\(_2\)O) etc.\(^4\).

Investment: Where SEB, directly or indirectly through investment products, managed by SEB or its subsidiaries, invests in equities and fixed income securities.

New Projects and capacity expansion: An identified location where any new commercial, industrial or infrastructure undertaking is taking place or any existing

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\(^2\) Definition from Eurostat

\(^3\) Subsectors under the following SNI (Swedish Standard Industrial Classification) sector codes: 3512 – Transmission of electricity; 3513 – Distribution of electricity

\(^4\) All covered Greenhouse Gases by UNFCCC
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undertaking that is undergoing material change in output or function, which may result in environmental or social impacts.

**No Net Deforestation:** Converting forests into non forests while planting or regenerating trees effectively elsewhere, provided the net quantity, quality and carbon density of forests is maintained 6.

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

**Renewable Energy Generation sector** 4: All companies directly involved in the generation of solar-, wind-, hydro-, ocean-, geothermal-, non-fossil gaseous fuels- and biogas power and cogeneration activities.

**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.

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 Renewable Energy and/or Transmission and Distribution activities.

4 **Scope and implementation**

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.

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

- Production of Renewable Energy;
- Electricity Transmission & Distribution.

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

**Exempted activities:**

1) Intermediation services such as provision of investment opportunities and thereto related research activities;
2) Securities financing activities;
3) Funds managed outside the SEB Group;
4) Financial products where the employees in companies in scope are the beneficiaries, e.g. Occupational Pension;

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6 Subsectors under the following SNI (Swedish Standard Industrial Classification) sector codes: 3511 – Production of electricity
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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 have 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.

<table>
<thead>
<tr>
<th>Implementation levels</th>
<th>Company size</th>
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<tbody>
<tr>
<td></td>
<td>Retail(^7)</td>
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<tr>
<td>SEB Expects</td>
<td>-</td>
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<tr>
<td>SEB Requires</td>
<td>-</td>
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<tr>
<td>SEB Restricts</td>
<td>-</td>
</tr>
</tbody>
</table>

* ✓ 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 Sector Policy.

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\(^7\) Companies with a turnover below EUR 0.5 million or where SEB’s credit exposure is below EUR 1 million

\(^8\) 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.
6 Renewable Energy Generation

6.1 Key sector risks
Key concerns include the following risk areas:
- Air emissions;
- Marine and terrestrial habitat alteration with impacts on ecosystems and biodiversity;
- Water quality and stress;
- Hazardous materials and oil;
- Health and safety of workers and nearby residents;
- Negative human rights impact from, for example, physical resettlement or using customary land from indigenous people etc..

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:
- 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);
- International Union for the Conservation of Nature Red Listed Species.

6.3 Environmental expectations

General expectations
SEB expects its Clients and Portfolio Companies to:
- Comply with all national and regional environmental laws and regulations applicable to respective operations;

When relevant
- Develop a biodiversity baseline and targets by 2025;
- Have an adequate financial plan (provision) for responsible closure.

Expectations on new projects within the EU, EEA and the UK
SEB expects new projects to:
- Comply with all national and regional laws and regulations applicable to respective operations;

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9 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.
10 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.
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- In case of negative biodiversity impact/conversion of natural habitats apply the mitigation hierarchy\textsuperscript{11};
- Have a plan to measure CO\textsubscript{2} emissions using a life cycle perspective\textsuperscript{12};
- Avoid emitting >100gCO\textsubscript{2}/kWh;

Additional project expectations on Bioenergy

- Minimize use of food- and feed crops as biofuels;
- Have a policy or statement regarding no net deforestation in the supply chain.

Additional project expectations for new projects located outside of the EU, EEA and UK

- Perform an Environmental Impact Assessment based on international standards\textsuperscript{13};
- Have an Environmental Management System\textsuperscript{14};

Bioenergy

- Have a biomass sourcing plan;
- Have a policy to handle toxic chemicals such as pesticides, mercury or arsenic when relevant;

Hydropower

- Apply the Hydropower Sustainability Assessment Protocol or equivalent standards.

7 Electricity Transmission & Distribution

7.1 Key sector risks

Key concerns include the following risk areas:

- Air emissions from project site (dust and emissions from vehicle traffic or land clearing activities);
- Marine and terrestrial habitat alteration;
- Soil erosion and sediment control;
- Hazardous materials and oil spills;
- Electric and magnetic fields;
- Health and safety of employees and nearby residents;
- Negative human rights impact from, for example, physical resettlement or using customary land from indigenous people etc..

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. SEB will further avoid providing any dedicated financing and investments to transmission lines connecting new fossil fuel power plants that are not in line with SEB’s Sector Policy on Fossil Fuels.

\textsuperscript{11} Avoid, minimise, restore and offset
\textsuperscript{12} Except for wind and solar energy
\textsuperscript{13} Such as IFC – Performance Standards or other Multilateral Development Bank Standard or equivalent
\textsuperscript{14} E.g. ISO 14001 standard certification or similar
7.3 Environmental expectations

SEB expects its Clients and Portfolio Companies to:

- Have an Environmental Management System\textsuperscript{15};
- If outside of the OECD, comply with the principles of the IFC General Environmental, Health, and Safety Guidelines\textsuperscript{16} for construction site activities;
- Have a plan to:
  - Minimize energy losses and maximize efficiency through grid upgrade or network optimisation;
  - Manage the increased amount of renewable electricity that the grid can support in line with the degree of renewables required to meet the Paris agreement;

\textit{When relevant}

- Develop a biodiversity baseline and targets by 2025;
- In case of negative biodiversity impact/conversion of natural habitats apply the mitigation hierarchy\textsuperscript{17};
- Have a practice to prevent the usage of polychlorinated biphenyls (PCBs) during construction.

8 Social expectations

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

- Human rights and labour rights policies including a Human Rights Due Diligence process for own operations and relevant business relationships;
- Health and safety policy based on industry safety guidance\textsuperscript{18} or, within the OECD, national legislation;
- Established Grievance mechanism;
- In cases of new projects, active community consultation based on life-cycle perspective;
- In case of physical or economic resettlement, have compensation plans in place in order to acknowledge and respond to community priorities\textsuperscript{19};
- 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.

9 Governance expectations

\textsuperscript{15}ISO standard certification or similar
\textsuperscript{16}IFC Environmental, Health and Safety industry sector guidelines:
\textsuperscript{17}Avoid, minimise, restore and offset
\textsuperscript{18}E.g. World Bank Group Environmental, Health, and Safety Guidelines;
\textsuperscript{19}The International Finance Corporation’s Performance Standard on Land Acquisition and Involuntary Resettlement
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SEB expects its Clients and Portfolio Companies to maintain high standards of accountability and integrity regarding their business including:

- Sustainability report (annually published) or similar comprising, at a minimum, disclosure of overall climate impact as well as other 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

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20 OECD/G20 BEPS Project (15 actions) – Action 13: Country-by-Country Reporting