



Sector Policy on Arms and Defence for Skandinaviska Enskilda Banken AB

adopted by the
Risk and Capital Committee of the Board of Directors of
Skandinaviska Enskilda Banken AB (publ)
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Sustainable Banking

Sector Policy on Arms and Defence

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Sector Policy on Arms and Defence

1 Introduction

The Arms and Defence sector is complex and challenging. SEB recognises the controversies embedded within the Arms and Defence sector but also acknowledges the right of every nation to defend itself, as stated in the United Nations Charter.

SEB can be exposed to the Arms and Defence sector through lending and Investments. This Sector Policy has been developed to ensure that lending and Investment decisions contribute towards fulfilling SEB's overall sustainability ambitions, as expressed in SEB's Corporate Sustainability Policy.

This Sector Policy is aligned with and uses the principles in the thematic Human Rights Policy, which is part of the overall Sustainability policy framework in SEB. Sustainability-related policies in SEB are reviewed annually.

2 Definitions

Arms and Defence Activities: Development and manufacturing of arms and defence equipment such as weapons, ammunition, explosives, military fighting vehicles and other military equipment¹ as well as Key Components to arms and defence equipment.

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

Client: A Company with which SEB has a Business Relationship.

Controversial Weapons:

- Anti-personnel mines;
- Biological weapons;
- Chemical weapons;
- Cluster weapons;
- Depleted uranium ammunition.

Companies: Legal corporate entities conducting business.

Exempt Activities: Activities listed in 4.1 below.

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

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

Key Components: Components that are primarily developed or designed for use in the weapon system and that play a direct role in the lethality of the weapon system.

Portfolio Company: Company where SEB Group has an equity ownership excluding insurance wrapper solutions/products where the Client makes the investment decision.

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

¹ For subsectors, use the following NACE codes as guidance: C25.4, C20.5.1, C30.4. For a full list of military equipment, use the following document: Commission Delegated Directive (EU) 2021/1047 on defence-related products.

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3 Purpose

The purpose of this policy is to clarify SEB's expectations, requirements and restrictions for providing Financial Services to and making Investments in Companies involved in Arms and Defence 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.

This Sector Policy covers Companies where >5% of the total Company turnover (including subsidiaries) is derived from Arms and Defence Activities. For nuclear weapons and Controversial Weapons, no threshold is applied.

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

4.1 Exempt 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;
- 5) Any activity that the SEB Group is obliged under law or regulation to provide;
- 6) In addition, the application of the Sector Policy is further defined below based on type of implementation level.

4.2 Implementation

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.

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

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

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

<i>Implementation levels</i>	Company size		
	Retail²	SME³	Mid/Large corp
SEB Expects	-	-	✓
SEB Requires	-	✓	✓
SEB Restricts	-	✓	✓

* ✓ Implementation level applicable

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

5 Governance model

5.1 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.

6 Sector risks, restrictions and expectations

6.1 Key sector risks

Key concerns include the following risk areas:

- Corruption;
- Adverse impact on human rights⁴;
- Disproportionate and indiscriminate impact on civilians;
- Escalation of conflicts.

6.2 Restrictions on Controversial Weapons

SEB will avoid providing Financial Services to, or make Investments in Companies if they conduct one or several of the following activities:

- Produce, develop, trade in, or store Controversial Weapons;
- Supply Key Components of Controversial Weapons.

6.3 Restrictions on nuclear weapons

SEB will avoid providing Financial Services to or make Investments in Companies involved in the development, testing, production, manufacturing, acquisition,

² Companies with either a turnover below EUR 0.5 million or where SEB's credit exposure is below EUR 1 million.

³ 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 50MEUR or balance sheet value less than 43mEUR.

⁴ Examples of human rights of interest for this sector (however not exhaustive) are the right to life, the right to health, the right to not be subjected to torture or to cruel, inhuman or degrading treatment or punishment, the right to not be subjected to arbitrary interference with your privacy, the right to peaceful assembly.

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possession or stockpiling of nuclear weapons.⁵ However, SEB can make an exemption should the following requirements be met:

- 1) The Company is a legacy Client, and
- 2) The financing is ring fenced, or with a structure having similar effect, through adequate written legal provisions in the relevant financing contract so that the financed company represents that only non-nuclear activities of the company are financed.

6.4 Restrictions on transactions

SEB will avoid supporting transactions involving sales of arms and defence-related equipment⁶ to countries or areas that:

- Severely violate human rights^{7,8};
- Are subject to EU embargo or included in other relevant sanctions lists⁹;
- Are part of conflict-affected areas¹⁰, unless it concerns follow-up deliveries to existing commercial commitments, or an export license has been granted in the EU/EEA or the UK.

6.5 Social expectations

SEB expects its Clients and Portfolio Companies in scope of this policy, 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;
- Human Rights Due Diligence (HRDD) process for its sales and export activities.

6.6 Governance expectations

SEB expects its Clients and Portfolio Companies in scope of this policy to maintain high standards of accountability and integrity regarding their business by:

- Complying with relevant export license regulations in respective country, including for dual use items which can be used for both civil and military purposes and have been defined by an official export licensing authority;
- Adhering to standards, conventions and guidelines¹¹ that are already incorporated in the laws and regulations of the EU-member states. Companies in countries outside the EU are expected to adhere to the principles of the eight criteria of the Council Common Position, see Annex I;
- Implementing an anti-corruption policy in proportion to its size and risk-exposure;

⁵ See the Treaty on the Prohibition of Nuclear Weapons (TPNW), Article 1.1(a).

⁶ See the definition of Arms and Defence Activities.

⁷ SEB uses a list of high human rights risk countries provided by ISS, an ESG data provider.

⁸ Exceptions may be granted to this restriction in cases where the equipment can only be used for purely defence-related activities.

⁹ See SEB's tool for high, medium & low risk countries (Way of Working\About AML, Anti-money laundering\Search high risk).

¹⁰ As per the Indicative, non-exhaustive list of Conflict-Affected and High-Risk Areas (CAHRA) under Regulation (EU) 2017/821.

¹¹ The United Nations Convention on Prohibition or Restriction on the Use of Certain Conventional Weapons Which May Be Deemed to be Excessively Injurious or to Have Indiscriminate Effects ('the Inhumane Weapons Convention'), The United Nations Arms Trade Treaty, Global Principles of Business Ethics for the Aerospace and Defence Industry, The Council Common Position 2008/944/CFSP.

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- Annually publishing a sustainability report or similar comprising material sustainability impact (including supply chains);
 - Performing tax reporting according to country-by-country principle, when relevant¹².
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¹² OECD/G20 BEPS Project (15 actions) – Action 13: Country-by-Country Reporting.

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Annex I

The eight criteria of the Council Common Position 2008/944/CFSP

1. Respect the international obligations and commitments of the EU member states, in particular the sanctions adopted by the UN Security Council or the EU, and agreements on non-proliferation and other subjects, as well as other international obligations. This explicitly includes UN, OSCE7 and EU embargoes, conventions on nuclear, biological and chemical weapons and anti-personnel landmines;
2. The country of final destination has to respect human rights. An export has to be denied if there is a clear risk that the proposed export might be used for internal repression or serious violations of international humanitarian law;
3. Exports of weapons which would provoke or prolong armed conflict or aggravate existing tensions or conflicts in the country of final destination are not permitted;
4. Preservation of regional peace, security and stability shall not be endangered;
5. The export of weapons must not threaten the national security of an EU member state and territories whose external relations are the responsibility of an EU member state as well as that of friendly and allied countries;
6. The behaviour of the buyer country with regard to the international community, as regards in particular its attitude to terrorism, the nature of its alliances and respect for international law has to be determined;
7. The existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions shall be considered;
8. The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate security and defence needs with the least diversion of human and economic resources for armaments.