Sustainability report

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We contribute to a sustainable future

Climate change is the largest challenge of our time and SEB is, and will be, part of the transition. As a bank we have a big responsibility for how we conduct our business, what we finance and what we invest in. We engage with and support our customers in their transition to a low-carbon society.

Sustainability Report

SEB has a strong ambition to contribute to a prosperous and sustainable future for people, businesses and society. We are committed to supporting our customers in the transition to a low-carbon economy by offering advisory leadership, innovative and sustainable financing and investment solutions. Our aim is to create value for all our stakeholders.

We are convinced that companies that incorporate sustainability into their operations and business decisions have the prerequisites to be more successful in the long term. To us, the integration of economic, social and environmental aspects into our business is fundamental. SEB's sustainability strategy sets out the areas where we have the opportunity to impact in the short, medium and long term. By adapting the strategy for our financing and investment activities in accordance with the UN Sustainable Development Goals (SDGs) and with the Paris Agreement, we aim to create sustainable value for our stakeholders. This includes the areas of climate and environment, human rights, social relations and anti-corruption.

Striving to reorient capital flows

Through our business in sustainable financing and investments, advisory, innovation and people, we serve private, corporate and institutional customers in our home markets and international network, and strive to reorient capital flows to support sustainable purposes, in line with the bank's vision and business strategy. We focus on growing our offering while continuing the integration of sustainability risks into processes and ways of working. Concurrently, we strive to avoid causing, contributing or being directly linked to negative impacts on people and environment from our activities, products and services.

Several areas serve as the foundation for our long-term achievements. Financial strength and resilience, risk management, business ethics and conduct, and crime prevention are all considered to be important in the long term for our stakeholders and are thus material for our business.

Impact in two dimensions

SEB has direct and indirect impacts on stakeholders, and regards impacts in two dimensions: on the one hand SEB's and our stakeholders' impacts on the planet and society, and on the other hand the impacts that the planet and society have on SEB's stakeholders and on its customers' business models and thereby repayment capacity (see p. 55).

In 2020, we focused our impact assessment work on climate issues. Our main indirect impact concerns primarily the products and services that we provide. In financing, our main credit exposure relates to lending to companies in a diverse range of sectors where climate impact is a common denominator. Mitigating climate change is a key priority in the countries where we operate, in northern Europe as well as globally. In investments, the indirect impacts also largely pertain to climate change. The main indirect impact of SEB's fund company is global, with a focus on Europe and the Nordic countries.

For 2021 the ambition is to extend our sustainability impact analysis work to other areas related to for example social and governance issues. For a full description of SEB's management of climate impact aspects, see p. 52–58.

International commitments and collaboration

We believe that global challenges need global collaboration and we recognise the importance of participating in and supporting international commitments. The Paris Agreement and the SDGs (see p. 44) are predominant guiding principles for SEB. In addition, we support and have signed a broad range of international agreements and commitments that guide us in our work.

International agreements and commitments

SEB supports the following international agreements:
The UN Sustainable Development Goals, the Paris Agreement, the UN Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, the ILO Core Conventions on Labour Standards, the Children's Rights and Business Principles and the OECD Guidelines for Multinational Enterprises.

Additionally SEB has joined or publicly endorsed:
The UN Global Compact, the UNEP FI Principles for Responsible Banking, the Principles for Responsible Investments (PRI), the Equator Principles, the Task Force on Climate-related Financial Disclosures (TCFD) and the Poseidon Principles.

Transforming our business

SEB is strongly committed to accelerating the pace of change to reach a low-carbon economy. We have continuous focus on transforming our own business, on innovation and on assisting our customers in their transition to a better society. In 2020, we established a new central sustainability organisation, and strengthened processes and policies. We intensified the work on classifying the credit portfolio whereby we analyse our corporate customers' current climate impacts as well as their future transition plans (see p. 52–58).

We continued to contribute to the growth of sustainable financing solutions and at year-end we were the seventh largest underwriter of green bonds in the world since inception in 2008 (see p. 46).

At the end of 2020, SEB Investment Management established an updated Sustainability Policy through which the investment rules will be sharpened for all SEB's funds (see p. 48 and 57).

For SEB employees, special focus was put on increasing knowledge about climate change. A research-based training, mandatory for all employees, was launched globally (see p. 51).

SEB sets and publishes targets and outcome for areas where we have the most significant impacts. Our ambition is to further increase transparency and disclosures of progress. These efforts will be aligned with future national and international requirements and expectations.

Targets and outcome

Area	Description	Outcome 2020	Outcome 2019	Outcome 2018	Target 2020	Target 2021
Innovation	• Create sustainable finance innovation centre to develop and launch new sustainable products and services	12	Established	Decided	5 new sustainable products or services	5 new sustainable products or services
Sustainable financing	• Green loans[1]	SEK 25 bn	SEK 19bn	SEK 16bn	Increase	Increase
	• Green mortgages	SEK 4.0bn	SEK 1.5bn	SEK 0.2bn	Increase	Increase
	• Green bonds, underwriter, Nordic bank ranking[2]	#2	#1	#1	#1	#1
	• Gradually shift credit portfolio towards increased sustainable financing	Sector-based climate-impact-classification of corporate credit portfolio performed.	Framework for classification established and pilot tested in automotive sector.	Decided	Gradual transformation of credit portfolio to increase share of transitional and sustainable assets.	Gradual transformation of credit portfolio to increase share of transitional and sustainable assets.
Sustainable investment	• Total Assets under Management (AuM) assessed with sustainability criteria, as share of AuM (SEB total)	14%	13%	11%	Increase	Increase
	• SEB funds assessed with sustainability criteria, as share of AuM (SEB Fund company)	45%	37%[3]	30%	Increase	Increase
	• SEB funds assessed with human rights criteria, as share of AuM (SEB Fund Company)	100%	100%	100%	100%	100%
	• SEB Impact and Thematic funds, total AuM[4]	SEK 12.2bn	SEK 11.2bn	SEK 8.0bn	Increase	Increase
People	• Integrate sustainability into KPIs for senior managers	67%	Implemented for GEC	Decided	Implement for all direct reports to GEC.	Implement for all direct reports to GEC.
	• Gender by management type, (male/female):				Increase balance in senior management towards long-term ambition of 50/50±10%.	Increase balance in senior management towards long-term ambition of 50/50±10%.
	- Group Executive Committee (GEC)	64/36%	69/31%[5]	77/23%		
	- Senior management	64/36%	64/36%	66/34%		
Business ethics and conduct	• Employees that have completed mandatory training[6]	81%	88%	90%	Increase towards 100%	Increase towards 100%
Environment, direct impact	• Reduce total carbon emissions with 20% 2016–2020, tonnes	9,734	22,525	23,606	18,500	Reduce to 17,137 ±5% tonnes by 2025. Net zero emission from 2021.

1) Green loans include project financing within EU, the UK and the Nordic region, which fulfil the sustainability criteria in SEB Green Bond Framework.
2) Bloomberg (ranking by volume).
3) 2019 restated from 35% to 37% (Total AuM in SEB fund company reduced with SEK 51bn).
4) Includes SEB Micro Finance Funds, SEB Impact Opportunity Fund, SEB Green Bond Fund and Lyxor SEB Impact Fund.
5) As of 1 January 2020.
6) Mandatory training: Code of Conduct, AML and Combating Terrorist Financing, Fraud prevention, Cyber Security, GDPR (updated in 2020), Sustainability Training on Climate Change (new in 2020). Includes consultants, excludes employees on leave of absence. See p. 200.

SEB and the UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs), formulated in 2015, form the framework for nations, businesses and societies on how to achieve long-term economic growth, social inclusion and environmental protection. The 17 SDGs define the main objectives which are broken down into 169 targets with the aim to identify concrete actions. The financial sector has a decisive role to play in closing the existing investment gap to reach the main objectives.

SEB's main contribution to the SDGs is by supporting its customers in their transition. By signing the Principles for Responsible Banking, we have also committed to aligning our business strategy and contributing to the SDGs.

We have identified and prioritised five of the goals that are clearly linked to our business strategy and sustainability work, and where we have a great opportunity to make an impact. They are related to the bank's strong heritage of creating long-term growth and innovation as well as maintaining responsibility and international outlook.

13 CLIMATE ACTION

Climate action is addressed throughout our business, from our long history and pioneering role in green financing, to the more recent work on classifying our corporate customers' climate impact. In our investments we take a restrictive approach to companies engaged in fossil fuels.

8 DECENT WORK AND ECONOMIC GROWTH

Through our business we drive economic development and contribute to creating new jobs and growth in society, for example by supporting entrepreneurs. Our microfinance funds give individuals and companies access to capital and financial services.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Through our history of maintaining long-term relationships with industrial companies we contribute to strengthened infrastructure and enable technological advancements. We cherish the innovation capacity in society. In 2020, we established SEB Greentech to support Nordic companies in the green technology sector.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We work to reduce corruption and bribery in all their forms. We protect our business and are committed to preventing money laundering, cybercrime, sabotage, intrusion attempts and financing of terrorism.

5 GENDER EQUALITY

Through the Financial Equality initiative, SEB and the think tank Ownershift shed light on women's ownership and on the fact that women in Sweden own only 15 per cent of private land and 33 per cent of privately owned equity shares. SEB is also working to increase the gender balance in SEB's senior management.

Engaging with stakeholders

We are engaged in continuous dialogues with key stakeholders in order to ensure that we prioritise the most important issues and secure responsible business. In 2020, all stakeholder groups were affected by the Covid-19 pandemic, both in terms of areas that were addressed and the way we interacted with them.

Customers

During the year customers increasingly looked for availability, proactivity and support from banks in the light of the pandemic. In addition, large corporate customers and financial institutions also increasingly required an understanding of their specific challenges and strong industrial competence from SEB. With respect to sustainability, their need for support and relevant advisory services remained strong. We made considerable efforts to meet these needs, for example through our work with classifying the credit portfolio (see p. 52–58).

For private customers the bank made improvements in its digital services, particularly the mobile app. SEB's sustainability engagement also increased as evidenced by customers' views in a survey on the bank's performance with respect to the SDGs. In 2020, more than 9,000 private customers in Sweden responded to the survey (see p. 49).

Investors, shareholders and analysts

The focus of investors, shareholders and analysts was predominantly on Covid-19 and its impact on economic development and how our customers, especially corporates, were affected, particularly concerning the risk for higher credit losses. Another area was the strong recommendation by authorities to refrain from paying dividends, even for well capitalised banks like SEB. Sustainability continued to be an area of central focus. Dialogues also focused on governance, anti-money laundering capabilities and potential investment needs in the light of the outcomes of the reviews by the Swedish and the Baltic countries' Financial Services Authorities.

Employees

SEB's annual employee survey showed high scores for engagement and satisfaction. Among areas of improvement, employees noted cross-functional collaboration and further improvement of the customer experience. A special survey on employee satisfaction during the pandemic showed that employees generally feel well-supported, but that they are also looking for better collaboration. The digital interaction increased overall.

Society – regulators, media and NGOs

We engage with regulators and supervisors at the national as well as international levels through bilateral and multilateral meetings and in various industry forums. Among emphasised topics were anti-money laundering, integration of sustainability and climate risk in processes, and disclosure and investment advice.

We met with non-governmental organisations (NGOs), consumer advocate groups and the media through local community engagements, round table discussions, press conferences and one-on-one meetings. Main issues in NGO dialogues pertained to climate change and human rights. Focus in media interactions was on the impact of Covid-19 on SEB, our customers, the economy and society at large. Of key interest were also areas such as anti-money laundering, crime prevention and sustainability.

Sustainability governance

To accelerate the pace of the transformation, SEB established a considerably strengthened sustainability organisation in 2020 – Sustainable Banking. This central team gathers SEB's expertise and takes a holistic approach both strategically and commercially. SEB now has designated sustainability managers in all of the Nordic countries.

The *Board of Directors* is responsible for establishing a strategy for corporate sustainability and an organisation to execute this strategy. The Board approves SEB's business plan, including sustainability strategy considerations, the Corporate Sustainability Policy and the Sustainability Report, which is included in the Annual Report. The Board is regularly updated on corporate sustainability matters.

The *President and Chief Executive Officer* is responsible for execution of the sustainability strategy and implementation of the governance structure set by the Board. The President has established a *Group Executive Sustainability Committee (GESC)* to manage execution of the sustainability strategy. The GESC is a decision-making body that is chaired by the President. The President approves SEB's position statement on climate change.

Sustainable Banking is an operational body, responsible for coordinating and driving the overall sustainability agenda in close collaboration with the divisions, group staff and support functions. The Chief Sustainability Officer heads this unit and is a member of the GESC and SEB's Group Risk Committee (see p. 89).

Through the *Sustainability Product Committee (SPC)* SEB centralises assessments of new products. SPC is a committee that decides on the right for SEB units to use any sustainability reference in the marketing or distribution of products or services, such as, reference to the ESG (Environmental, Social, Governance) factors, the SDGs and the EU Taxonomy.

Each *Head of Division, Head of Group Support function* and *Head of Group Staff function* is responsible for ensuring that procedures and controls are in place in order to implement and adhere to the sustainability objectives, strategy and policies set by the Board, the President and the GESC.

The *Sustainability Business Risk Committees* in the divisions assess and decide on new customers or transactional proposals from a sustainability risk perspective before bringing the onboarding or transaction for decision by the relevant decision body.

Investment Management is an SEB division and thereby included in SEB's governance structure. The division operates in the form of a subsidiary, SEB Investment Management AB. The fund company is a separate legal entity with its own board of directors. The company operates in accordance with the Sustainability Policy for SEB Investment Management and Principles for Shareholder Engagement for SEB Investment Management. Within the executive management team, the Head of Sustainability and Governance is responsible for developing and coordinating this work, including climate change. For a full description of governance in SEB Investment Management AB, see sebgroup.com.

Policy framework

SEB's policy framework (see below) provides guidelines on best practice and on the international conventions and standards that we encourage companies to follow. We aim to work with our customers and portfolio companies towards improved business practices and continuously review policies in order to strengthen the business and to be aligned with international and national requirements. In 2020, two new sector policies were published, on Gambling and Tobacco, and in early 2021 a review of the sector policy on Fossil Fuel was finalised. An updated framework for the implementation of SEB's policies will be introduced in 2021.

SEB's steering documents for sustainability

- Policies: the Corporate Sustainability Policy, the Credit Policy on Corporate Sustainability, the Customer Acceptance Standards, the Environmental Policy, the Human Rights Policy, the Inclusion and Diversity Policy, the Code of Conduct, the Code of Conduct for Suppliers and the Tax Policy.
- Position statements: Child Labour, Climate Change, Fresh Water and the UK Modern Slavery Act.
- Sector policies: Arms and Defence, Forestry, Fossil Fuel, Gambling, Mining and Metals, Renewable Energy, Shipping, Tobacco.

About this report

The Sustainability Report covers the SEB Group, i.e. the parent company Skandinaviska Enskilda Banken AB (publ) and its subsidiaries. SEB reports in accordance with the Swedish Annual Accounts Act and the Global Reporting Initiative, GRI Standards, core option. The report is aligned with the TCFD (Task Force on Climate-related Financial Disclosures) and UNEP FI Principles for Responsible Banking. Areas covered include the climate and environment, human rights, labour rights and social relations, and anti-corruption. Key aspects of the bank's sustainability work are also described in applicable parts of the Annual Report (Risk management p. 74, Business ethics and conduct p. 77, Crime prevention p. 77). The diversity policy applied for the Board is described in the Corporate Governance Report (see p. 82). SEB has published a sustainability report since 2007. This report covers the fiscal year 2020. The previous report was published in March 2020. No significant changes have been made in the scope and boundaries. SEB's auditor EY has expressed an opinion that a statutory sustainability report has been prepared according to the Swedish Annual Accounts Act, and has performed a limited review of the sustainability report according to GRI Standards, core option.

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Sustainable financing

Sustainable financing is an increasingly important driver in the transition to a low-carbon economy, both in the global market and in SEB's business.

In close cooperation and dialogue with our customers, we are committed to finding solutions that are tailored to their needs and that offer the possibility to contribute to positive impacts.

Responsible financing and lending are cornerstones of our business. SEB's group-wide policies (see p.45) define how the bank is to take sustainability risks into account in financing activities. All transactions are to meet the policies. SEB takes a restrictive stance to doing business in industries with a high risk for corruption, negative human rights and labour rights impacts, and businesses that operate in jurisdictions with weak, low or no respect for human rights, without proper mitigations in place.

In 2020, SEB further integrated sustainability risk aspects into processes and customer dialogues. The main focus was on climate change. Through the work with our sustainability classification model (see p. 55) it is clear that this topic in our customer dialogues allows us to deepen our relationships. By jointly developing an understanding of what areas in a particular industry drive financial performance we create a better understanding of our customers' risks and potential performance. This dialogue has proven valuable for our customers when they create metrics and reporting in order to help investors understand the value of their work in this area. This will also allow the customers to link ambitions to a wider range of appropriate financing solutions.

Sustainable financing solutions

SEB offers sustainable financial solutions for private and corporate customers and for institutions. For large corporate and institutional customers the landscape of sustainable financing solutions continues to broaden. The green bond market is being expanded by increased prevalence of social bonds, sustainable bonds, sustainability-linked bonds, green loans and sustainability-linked loans. For the latter, we saw a significant increase in demand and knowledge. In the Nordic countries the market increased from USD 1.6bn to USD 16.9bn from 2019 to 2020.

The Covid-19 pandemic initially had a negative impact on the market which, however, soon showed its strength and ability to contribute to combating the pandemic and its effects. SEB played a decisive role in many transactions, including the issuance of SEK 1bn in commercial paper for medtech company Getinge, a SEK 11bn issuance for the World Bank, and acting as co-arranger for a NOK 2bn issuance for the International Finance Facility for Immunisation (IFFIm), raising money to support the development of a Covid-19 vaccine.

SEB is a pioneer in green bonds, having developed the concept in 2007/2008 together with the World Bank. Since inception we are the seventh largest underwriter globally. In 2020, SEB had a leading position in the Nordic market with a share of 20 per cent of global transactions by Nordic banks. In 2020, SEB has underwritten an aggregate volume of USD 4.7bn of green bonds and USD 0.5bn of social and sustainability bonds. This corresponds to SEK 48bn in sustainability-related bonds underwritten by SEB.

Sweden is the country in the world with the largest proportion of green bonds: 14 per cent of all bonds issued in SEK are green. Swedish investors consider climate impact and sustainability in their investment decisions to such an extent that issuers globally are turning to Sweden to raise capital.

Since the inception of green bonds in 2008 SEB has built up major expertise as an advisor and underwriter. This was an

important factor when the bank was selected as special advisor to the Swedish government when establishing its green bond framework and in the issuance of a bond of SEK 20bn (see p. 23).

During 2020 SEB was involved in several transactions with industrial companies, which are now increasingly seeking funding for green purposes. SEB was sole structural advisor for Daimler in the creation of its green framework for financing the company's shift to a zero-emission vehicle fleet and served as joint lead manager when the company issued its first green bond of EUR 1bn. Moreover, we acted as green structuring advisor for Volvo Group in the creation of its green finance framework and helped Volvo Cars issue a green bond of EUR 500m.

SEB granted a sustainability-linked loan and a revolving credit facility for a combined total of SEK 600m to Green Cargo, a Swedish state-owned sustainable logistics company. The interest rate is linked to how well the company meets its targets for reduced carbon dioxide emissions and lower energy consumption.

Growing market for social bonds

The market for social bonds also continues to grow. During 2020, the Stockholm Regional Council issued a health impact bond that will be used to finance preventative measures for people at risk of developing type 2 diabetes. Skandia is the investor, and SEB served as advisor and financial arranger of the bond. The financial model for the bond is among the first of its kind, even internationally. If the project is successful and results in cost savings for the Stockholm Regional Council, the investor Skandia will get a return that is somewhat higher than the regional council would have paid for regular financing. If the project fails to achieve the expected health effects, and thereby the expected cost savings, Skandia will receive a lower return.

SEB will continue to work with institutional investors to drive sustainable financial solutions and to ensure presence and intelligence. We are involved in a number of international platforms, such as in the executive committee of ICMA's (International Capital Market Association) working group for Green Bond, Social Bond and Sustainability-linked Bond Principles.

For private customers green mortgages continued to grow, reaching SEK 4bn. In 2020, SEB also launched green, long-term property financing for small and medium-sized companies. Green car leasing is offered to companies and organisations interested in leasing electric or biogas cars.

SEB's own green bond is financing green loans

As part of our funding strategy, in 2017 we issued our first green bond of EUR 500m. Backed by SEB's sustainability strategy, Environmental Policy and accompanying sector policies, the Green Bond Framework ensures that SEB's green bond, by financing green loans, is used for low-carbon and climate change resilient projects and investments. In addition, the green bonds should promote environmental and ecosystem improvements and thereby also support the SDGs.

In 2020, we granted the first green loan in the Baltic region with the purpose to finance the construction of solar parks in Estonia. At year-end SEB's green loan portfolio amounted to SEK 21bn, an increase of almost SEK 8bn since 2017.

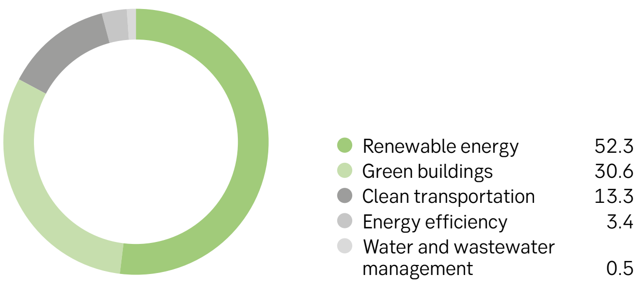
Equator Principles

For project financing SEB has adhered to the Equator Principles (EP) since 2007, a voluntary set of guidelines used by financial institutions to assess the social and environmental impacts of large projects and to assist the customers in managing them. In 2020 the updated version of the Equator Principles, EP4, was implemented by the member financial institutions. Changes in EP4 are mainly in the areas of human rights, climate change, indigenous peoples and biodiversity.

In 2020, we conducted four project finance transactions under the Equator Principles, three in category B (projects with potential limited adverse environmental and social risks) and one in category C (projects with minimal or no social or environmental impacts). As regards project related corporate loans, we were involved in one category A transaction (projects with potential significant adverse environmental and social risks).

SEB's green loan portfolio by sector

Per cent



Sustainable investments

SEB's fund company, SEB Investment Management, is one of the Nordic region's largest institutional investors with SEK 672bn in assets under management for private, corporate and institutional customers.

As customers are increasingly demanding sustainable products, SEB Investment Management strives to integrate such aspects into all types of investments and asset classes. The investment strategies are based on the inclusion of companies that conduct good work in this area or have well-defined transition plans, exclusion of industries and companies that do not meet the fund company's sustainability criteria, and continuous engagement in the companies in which we invest.

The fund company strives to improve its work by constantly updating strategies, improving processes and developing new products for the customers. In the coming years, new EU regulations on transparency and reporting will also enter into force, which will affect our work.

SEB became a signatory of the UN Principles for Responsible Investment (PRI) in 2008 and has since reported annually on its compliance with the six principles. In PRI's classification of sustainable investments in 2020, SEB's fund company received the highest possible rating (A+) for strategy and governance, and a rating of A in all other categories.

In 2020, four of SEB's six index funds were converted to index tracker funds. These funds now exclude companies engaged in the extraction of fossil fuels as well as energy companies that generate power from fossil fuels.

In December 2020, a strengthened Sustainability Policy was adopted by the fund company's board of directors along with a climate strategy. Going forward we will apply the same methods and exclusions for all funds, which for instance means that all funds will exclude companies that produce or extract fossil fuels. See p. 57.

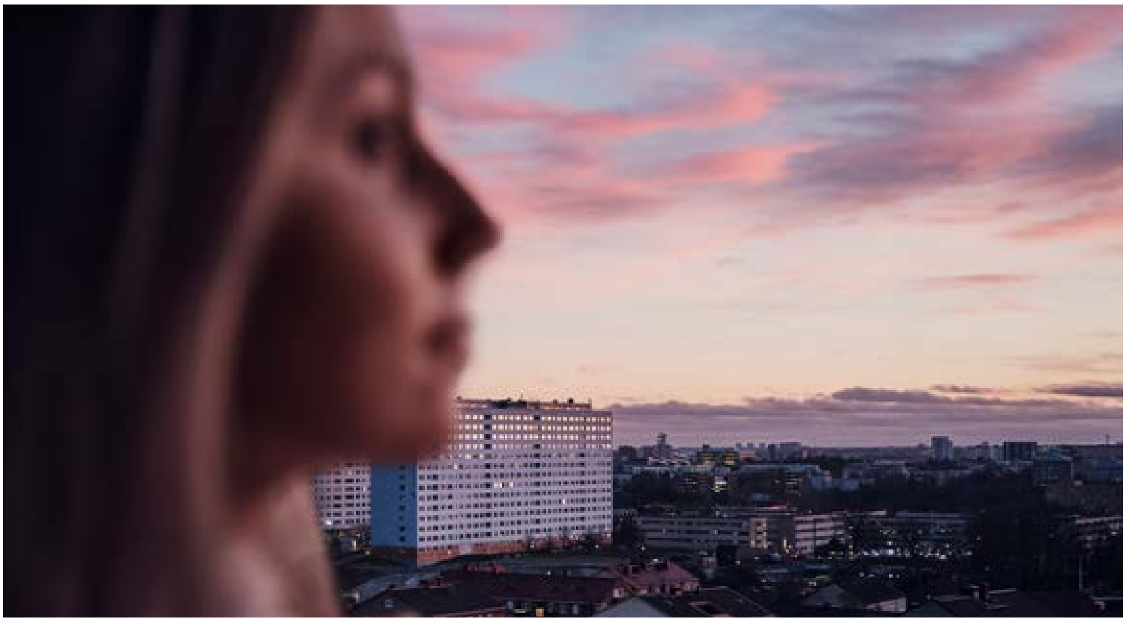
Focus on inclusion

The fund company invests in companies that actively manage environmental, social and governance factors in their operations. We believe that these will be more successful over time and thereby create value for customers, companies and society. Analysis of sustainability risks and opportunities is integrated in the management of all SEB funds. In 2020, certain funds, such as sustainability funds, were managed using stricter exclusion and inclusion criteria. Assets under management in these funds amounted to SEK 304bn at year-end, or 45 per cent of the fund company's total assets under management.

Criteria for exclusion

All of SEB's funds managed by the fund company exclude companies involved in the production or marketing of controversial weapons and the development or production of nuclear weapons programmes. In 2020, SEB funds did not invest in companies that extract thermal coal, i.e. mining operations where coal accounts for more than five per cent of the company's or group's turnover, nor in tobacco companies and companies that produce cannabis for non-medical use. The funds also did not invest in companies that fail to respect international conventions and guidelines, such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, the UN Universal Declaration of Human Rights, the UN's Guiding Principles on Business and Human Rights, the ILO Core Conventions on Labour Standards and Children's Rights and Business Principles. In 2020, 100 per cent (100) of SEB's funds were managed in accordance with human rights criteria.

In 2020, SEB's sustainability funds also excluded companies where more than five per cent of their turnover came from alcohol, weapons, gambling or pornography. In addition, these funds did not invest in companies that extract fossil fuels. The fund company reviews its holdings every six months through its advisor ISS ESG. For renewed exclusion criteria 2021, see p.57.



Ownership and engagement
SEB Investment Management works actively to influence the companies in which it invests. In Swedish and Nordic companies, where the fund company is often one of the largest shareholders, this commitment is implemented directly through dialogues with the company's executive management and board. The fund company also actively participates as an owner through votes at annual general meetings of shareholders. In 2020, the fund company voted at 286 annual and extraordinary general meetings, and participated on nomination committees in 33 listed Swedish companies.

Collaboration
For investments outside the Nordic region, we collaborate with other investors through organisations such as The Institutional Investors Group on Climate Change (IIGCC, see below), PRI Clearinghouse, and Federated Hermes Equity Ownership Services. During the year, SEB conducted more than 2,000 dialogues (direct and indirect) with portfolio companies.

The Investors Policy Dialogue on Deforestation (IPDD) is a unique investor commitment that coordinates dialogues with governments, public authorities and industry associations on systematic and sustainable land use and management of natural resources. In partnership with other institutional investors, we have had several meetings with the Brazilian government and the central bank to combat deforestation, fires and the loss of biodiversity in the Amazon.

We are also part of Swedish Investors for Sustainable Development (SISD), where we collaborate with other Swedish institutional investors and the Swedish International Development Cooperation Agency (SIDA).

Customer survey
Every year SEB Investment Management conducts a survey in which we ask private customers with holdings in equity funds which of the SDGs they believe we should focus on in the company dialogues. As in previous years the survey showed that customers want SEB to contribute to combating climate change and promoting clean water and sanitation and good education. Biodiversity was also highly ranked.

Based in part on the response of the customer survey, we are collaborating with the Institutional Investors Group on Climate Change (IIGCC). This is part of the Climate Action 100+ initiative for active advocacy work with the 161 companies that account for the largest carbon dioxide emissions globally, mainly companies in the gas and oil industry, which together account for 80 per cent of industrial emissions worldwide. These are judged to have great opportunities to drive the transition to fossil-free energy. As a result of the initiative, Nestlé, among others, has committed itself to being climate neutral by 2050.

SEB is also involved in the international organisation CDP's water programme. During 2020, data was collected from nearly 1,000 companies worldwide on how they are working to reduce their water consumption. Every year CDP compiles this information and through an independent method distributes points to show the companies' progress.

Impact investments
SEB is one of Europe's largest managers of *microfinance funds*, providing individuals and companies with access to capital and financial services that would not otherwise have access to these basic services. Through the microfinance institutions, the funds reach more than 22 million entrepreneurs in about 60 developing countries and the total assets under management amount to more than SEK 8bn. *SEB's Impact Opportunity Fund* also works with impact investments, but with a broader mandate to invest in various sectors with a positive impact on development and the environment. Micro, Small and Medium-sized Enterprises (MSMEs) are one of the strongest drivers of economic development, innovation and employment. The largest part of the portfolio within the Impact Opportunity Fund is invested in financial institutions that specialize in MSME financing. In developing economies, MSMEs account for around 40 per cent of GDP and 7 out of 10 jobs, making them crucial for job creation and growth. The Microfinance and the Impact Opportunity funds are together supporting around 2.4 million jobs.

The *Lyxor SEB Impact Fund* invests in companies that, through their products or services, offer innovative solutions to environmental or social challenges. The fund is managed according to a multi-strategy concept with five focus areas in which the fund invests, including sustainable energy and resource efficiency. The goal is to give investors broad exposure to companies that are well positioned to benefit from the global transition to a more sustainable society.

Advisory and innovation

Our ability to meet our customers' sustainability preferences is key for the future, and our advisory and innovation capacity will be crucial. This is why we develop products and services that help customers make informed decisions and that contribute to counter global warming, promote equality and support green-tech entrepreneurs, for example.

The foundation for the advisory role consists of our efforts to identify and assess areas related to climate change and the environment, human rights, labour rights, social relations and anti-corruption that may have negative impacts through our business. We expect our customers to respect human rights and labour rights through appropriate due diligence systems, and we are committed to identifying and managing corruption risks in transactions.

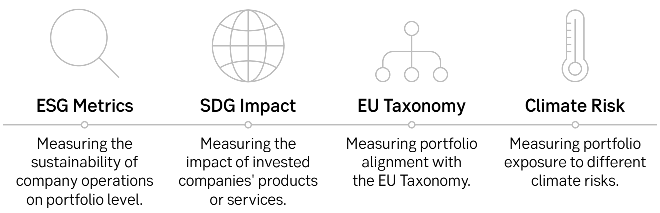
SEB acts on findings based on prioritisation, proportionality and level of influence in order to prevent, mitigate and remediate potential negative impacts. Our history of long-term relationships is important when our dialogues now increasingly include sustainability aspects.

Training programme for SME customers

SEB believes that companies that take social and environmental responsibility will be more profitable in the long run. In Sweden, we have launched the Sustainability Business Programme in collaboration with the auditing and consulting firm Grant Thornton. For six months, companies with revenues of SEK 50 million and higher are provided with knowledge, guidance and tools to help them identify their most important sustainability issues and integrate measurable goals into their operations. The aim is to help companies structure their sustainability work and thereby strengthen their competitiveness. During 2020, eight companies participated in the programme.

SEB Impact Metric Tool

The Impact Metric Tool – a quantitative analysis tool developed by SEB – facilitates dialogues between companies and portfolio managers and is an appreciated advisory service. The tool consists of modules that allow measurement of environmental, social and governance (ESG) aspects of company operations at the portfolio level. It also assesses positive and negative impacts with respect to the SDGs and helps align investment portfolios to the EU Taxonomy that aims to define environmentally sustainable economic activities. In 2020, a TCFD-compatible climate risk model was developed in collaboration with Stockholm Resilience Centre that measures the impact of physical and transition risks on portfolios. More than 100 customer portfolios were analysed with this tool during the year.



Investing in entrepreneurs within green technology

SEB has created a new venture capital unit, SEB Greentech, to invest in Nordic companies in the green technology sector. SEB believes it is critical that young greentech companies gain access to funding at an early stage so they can realise the creation of technologies, products and services that can benefit society, our customers and shareholders.

The unit is starting out with SEK 300m in investment capital, with an ambition to increase to SEK 1bn over time. It will invest in companies that develop solutions which in a decisive way can improve the use of natural resources and reduce negative ecological impacts.

SEAM – ESG in equity research

In 2020, SEB Equity Research launched a new methodology called SEAM (SEB Research's ESG Assessment Methodology), which quantifies what ESG factors will have a material impact on companies' financial performance. The analyses are performed individually at the company level. In addition to valuation and responsibility analyses, the framework also encompasses assessment of a company's performance with respect to the climate impact thresholds that are laid out in the EU Taxonomy. The results are integrated in SEB's equity analyses, and are accessible for all customers that subscribe to Equity Research's analysis service.

SEB as an expert – regulatory development in the EU

The European Union drives the sustainability agenda at a high speed, as reflected in the European Green Deal and the EU's Action Plan on Sustainable Finance, which was further developed in 2020.

During the year, the European Commission established the EU Taxonomy, which is expected to enter into force in December 2021. The taxonomy defines the threshold values that a business must stay within to be aligned with the Paris Agreement's goal to limit global warming. This will be of great importance for financial flows in the future and will affect the business community, including SEB and our customers. We have started to incorporate the taxonomy into our business, in advisory services and products such as in the Impact Metric Tool (see to the left). SEB was a member of the Technical Expert Group from the start in 2018 and contributed to the creation of the taxonomy. As a result there is an increased demand for SEB's competence, from customers, the media and other stakeholders.

In 2020, the EU took the next step and established a new expert group, The Platform on Sustainable Finance, which will work on developing a taxonomy also for areas such as protection of biodiversity, the transition to a circular economy, protection of water and marine resources, and pollution prevention. The platform will also assess the need for a conceptual approach of a social taxonomy and a taxonomy for environmentally harmful activities. SEB is also a member of this expert group, which includes some 50 members, that will work over a two-year period. The financial sector is represented by SEB, Allianz and BNP Paribas. As a member of this platform SEB will contribute to the development of the new taxonomy areas.

People and competence

As an employer, SEB has a responsibility to ensure that all employees are treated equally and with respect, and with equal opportunities for all. Everyone should feel included and be given the same opportunities for professional and personal development. Values and behaviours as well as individual ability and ambition are important long-term success factors for being part of our team.

Our employees are at the core for our ability to be a successful company that can support our customers in fulfilling their ambitions. Continuous learning, inclusion and diversity and a healthy work environment are among the areas we focus on (see p. 32).

Building competence among employees

SEB maintains a strong focus on strengthening responsible business behaviours and sustainability competence among employees. This is driven by increased expectations and demands from customers in all segments as well as from other stakeholders, such as investors and regulators.

Since long the bank has a mandatory training in Code of Conduct in place, and in 2020 special focus was put on increasing knowledge about climate change. Consequently, SEB launched a training that is now mandatory for all 15,500 employees globally. The training consists of a digital lecture with Lisen Schultz, researcher and scientist at the Stockholm Resilience Centre, and founder and director of the Executive Programme in Resilient Thinking. Based on decades of research as well as the latest findings, the training gives a comprehensive view of how the climate is changing, current and future effects, and what SEB as a bank can do to contribute.

Training for increased knowledge and awareness

In connection with our work on classifying our corporate customers' climate impact, during the year a tailor-made training was launched to support customer executives and advisors prior to customer dialogues related to climate change. Workshops and seminars were also carried out in all divisions with corporate customers.

In the Baltic countries, major internal communication efforts during recent years have led to increased awareness among employees, which was noted in the employee Insight survey in 2020. Public sustainability webinars were also launched with the key objective to raise the awareness about sustainability in society. About 12,000 people attended.

Going forward, SEB will further expand the range of sustainability-related training for employees, adapted according to roles and needs.

Integrating sustainability KPIs

SEB sees the importance of aligning incentive structures with its sustainability ambitions. Sustainability KPIs are integrated in the long-term incentive structures for members of SEB's Group Executive Committee (GEC). In 2020, this was further integrated also for managers who report to members of the GEC.

Suppliers

SEB has established procedures to evaluate and select suppliers and contractors, based on financial, environmental, governance and social aspects. These aspects include human rights, labour rights, social relations and anti-corruption and are to be taken into account in procurement decisions along with other risk factors and commercial aspects. We monitor suppliers' processes and performance where appropriate. These standards are described in SEB's Code of Conduct for Suppliers.

To identify sustainability risks among our suppliers, SEB starts with an initial assessment. The sustainability risk level for each supplier is determined by country, industry sector and business criticality. Suppliers identified as having a potential elevated risk level in the risk assessment are subject to an enhanced assessment. SEB's largest suppliers are mainly in professional services, facilities management, IT and banking services.

In 2021, SEB aims to further strengthen routines within selected areas. For instance, SEB's Group Technology – responsible for IT procurement and cloud providers, among other areas – has the ambition to deepen its assessment of key suppliers.

Climate disclosure – TCFD Report

The Financial Stability Board (FSB) established the industry-led Task Force on Climate-related Financial Disclosures (TCFD) in 2015 in order to develop recommendations for more transparent and informative climate-related financial disclosures. With reliable climate-related financial information at hand, financial markets will be able to better understand and correctly price climate-related risks and opportunities. Investors, lenders and insurers will have a clearer idea of what companies will endure when regulations come into force, new technologies emerge and customer behaviours shift.

SEB endorsed the recommendations of the TCFD in 2018 and is committed to implementing these under the sponsorship of the Chief Risk Officer. The recommendations focus on four pillars: strategy, governance, risk management as well as metrics and targets. In 2020, SEB took important steps towards implementing the TCFD recommendations. The bank is committed to continuing this journey.

This TCFD report covers the SEB Group including the subsidiary SEB Investment Management (the fund company).

Climate change

Climate change is accelerating and has become the greatest and most urgent challenge of our generation. SEB recognises the importance of limiting the average global temperature rise to well below 2°C compared with pre-industrial levels and to strive towards limiting it to 1.5°C – in line with the Paris Agreement. To achieve this, a transition to a low carbon economy is vital. SEB does not rule out that the transition will be faster and more far-reaching than is generally expected. As a bank, SEB has both a responsibility and an ability to create financial solutions that accelerate and support the transition.

The large-scale and long-term nature of climate change makes it unusual and extremely challenging, especially in the context of economic decision-making. Moreover, the understanding of the financial risks posed by climate change to companies, investors, and the financial system as a whole, is still relatively new.

SEB's approach to climate change risks

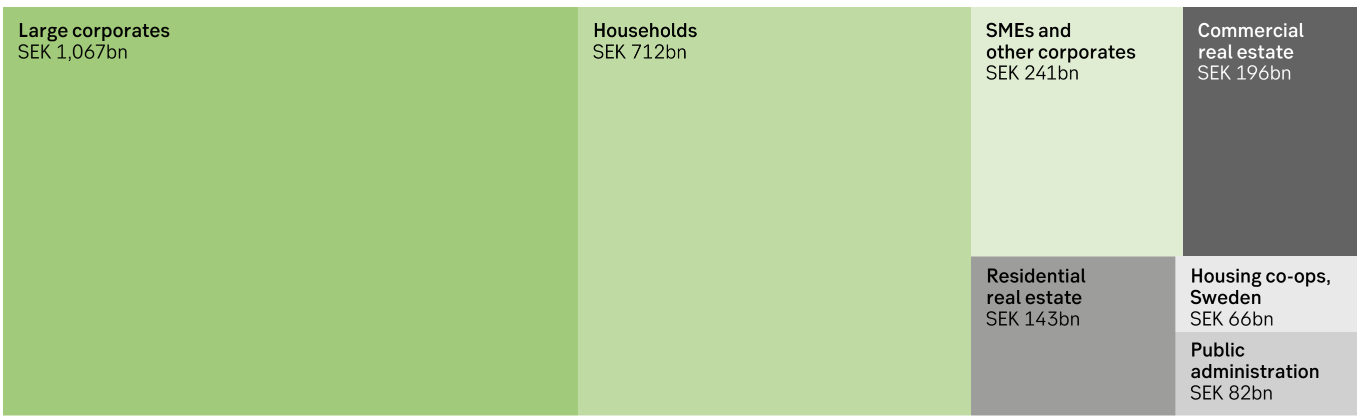
SEB believes that the transformation of large corporates, especially in sectors with a material carbon footprint, will be one of the main drivers of the transition to a low-carbon economy. As a long-term major financial partner to Nordic large corporates and a prime Nordic asset manager, SEB is uniquely positioned to contribute to this transformation. While small- and medium-sized company customers will also have to participate in the transition, engaging with larger corporates will yield larger decreases in carbon emissions faster. SEB's ambition is to participate in the transformation by offering advisory leadership, innovative and sustainable financing, and investment solutions.

SEB's approach to managing climate change risk is integrated in the bank's overall business strategy and is articulated around three areas:

- *Support customers on their transition journeys towards a low-carbon economy.* As a signatory of the UN Principles of Responsible Banking, SEB has committed to align its strategy with the Paris Agreement. This involves supporting customers in meeting the objectives of the Paris Agreement. SEB understands the challenges of the transition journey its customers are about to embark upon. Active dialogue and follow-up on the customers' transition plans will be an important part of the relationship. Customers that lack credible plans to reduce emissions and transform shall be avoided. This means that SEB will require customers to transparently share their plans and their progress. SEB believes that this stance to engage and include rather than exit will be the best way to achieve the objectives of the Paris Agreement.
- *Manage the bank's climate impact.* SEB's impact on the climate is both direct through its own emissions and indirect through its customers' emissions. In order to manage the bank's direct impact, the bank sets targets for its carbon emissions. To manage the indirect impact, in 2020 the bank developed a model that will be used for assessing corporate and real estate customers' current and future climate impacts.
- *Manage climate-related risks.* SEB has long incorporated environmental, social and governance (ESG) risks in credit assessments and customer selection processes. Capabilities and methodologies are continuously enhanced to reflect the growing understanding of how climate-related risks impact customers' business models, repayment capacity and ability to access financing.

SEB is uniquely positioned to contribute to the transformation due to its position as a large corporate bank

SEK 2,506bn non-bank credit portfolio as per 31 Dec. 2020



Governance

SEB's governance for understanding and managing the risks and opportunities associated with climate change is an integrated part of the sustainability governance framework as well as the general risk management governance. The Group Executive Sustainability Committee is responsible for executing the sustainability strategy and for adopting climate-related policies. The Group Risk Committee is the management escalation forum for all risks, including sustainability and climate risks. See p. 45.

Key policies and customer due diligence

SEB has adopted policies that set out the framework for climate-related work, establishing a common ground for a future-oriented dialogue on key issues with customers and portfolio companies. In 2021, SEB will continue to develop and strengthen its sustainability policy framework and guidelines. This is part of the bank's continuous work on addressing the threats posed by climate change and contributing to the transition that is necessary to achieve the goals of the Paris Agreement and contribute to the UN Sustainable Development Goals. In February 2021, SEB sharpened its sector policy for lending to companies with fossil activities. The fund company strengthened its sustainability policy in 2020 and introduced uniform exclusion rules for all its funds, including stricter exclusion rules for the fossil fuel industry. The policy changes are further described in the section to the right and on p. 57.

In addition to policies, and in order to emphasise SEB's commitment to the Paris Agreement, one of the principles in the bank's Customer Acceptance Standards (CAS), established in 2020, states that "customers in industries with a high negative climate impact and without a credible plan to manage the transition to a low-carbon economy in line with the Paris Agreement shall be avoided". SEB's CAS are described on p. 77.

To manage its credit exposure to customer segments with a material carbon footprint, the bank defines risk strategies for these sub-portfolios. The strategies are reviewed on an annual basis.

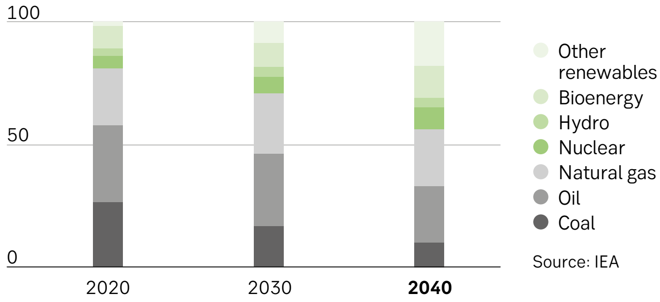
Climate impact of SEB's power generation exposure

SEB's credit exposure to power generation companies is largely a reflection of the national energy mixes in SEB's home markets. SEB's credit exposure to the power generation sector (conventional/mixed and renewables) amounted to SEK 106bn as of year-end 2020, of which exposure to renewable power generation amounted to SEK 32bn. This reflects SEB's expertise in renewables financing and its goal to gradually transform the total credit portfolio towards a sustainable profile.

An emissions intensity indicator is used to assess the climate impact of the credit exposure in the power generation sector. The indicator measures the directly financed emissions arising per unit of power produced (g CO_2/kWh).

SEB's power generation portfolio's average financed emissions intensity amounted to 181g CO_2/kWh in 2020, which compares to an EU average of 269g CO_2 /kWh in 2018 (source: IEA Tracking power 2020 – June 2020). The average financed emissions intensity calculations are based on reported scope 1 emissions for counterparties accounting for 84 per cent of the total credit exposure to the power generation sector.

Projected global energy demand by source %



Energy sector at the epicentre of the transition

Energy production and use is the largest source of global greenhouse gas (GHG) emissions. A major transformation of the global energy system is therefore crucial for achieving the objectives of the Paris Agreement.

The International Energy Agency's (IEA) Sustainable Development Scenario (SDS) sets out a future that simultaneously achieves the three main energy-related UN Sustainable Development Goals on access, air pollution and climate change. SEB's interpretation of the IEA's SDS is that to ensure universal access to reliable and affordable energy for both domestic and commercial use, the transition will be gradual and thus coal and oil will remain part of the mix during a transition period.

There are multiple possible pathways to achieve the necessary transition. In most science-based scenarios fossil fuels decline to between 30 and 70 per cent of total primary energy supply by 2040, although the transformation must happen faster in the EU and other developed countries. SEB has worked with a number of science-based scenarios to develop an understanding of what a Paris Agreement-aligned energy transition may look like and has based the strategy for the bank's energy portfolio on this.

SEB has long-term relationships with corporate customers in both conventional/mixed and renewable power generation, as well as in oil & gas-related activities. The customer base is largely a reflection of the national energy and industry mixes in SEB's home markets, i.e. the Nordic countries, the Baltic countries, Germany and the United Kingdom.

Thermal coal financing

SEB's policy since several years is to exclude the financing of new coal-fired power plants and not enter into new business relationships with companies with major business in coal mining. SEB also does not provide financial services to greenfield or brownfield coal mining expansions or new coal-fired power plants, nor to projects dedicated to coal extraction and infrastructure. In February 2021 SEB strengthened its guidelines further and will phase out its already limited exposure to coal. The ambition is that this phase-out will be completed by 2030. In Germany, the phase-out will be completed by 2038 in line with the German Coal Phase-out Act. SEB's exposure to thermal coal is almost entirely comprised of conventional power companies that have thermal coal as part of their generation mix. These customers are required to have a credible transition plan.

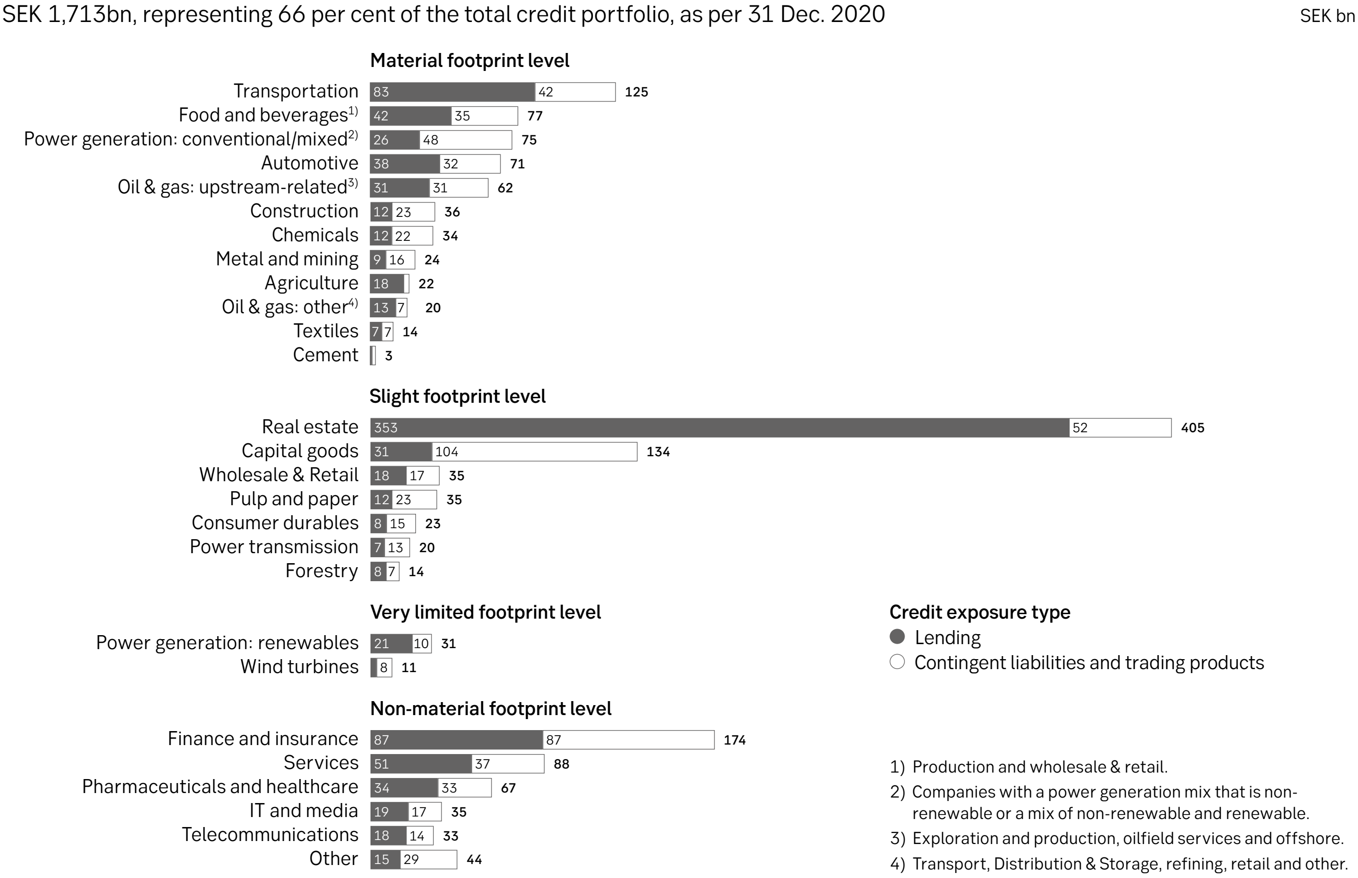
Oil & gas-related financing
SEB's portfolio of customers with oil & gas upstream-related activities is comprised of exploration and production (68 per cent), oilfield services (17 per cent) and offshore (15 per cent). SEB recognises the need for society to reduce its dependency on oil and oil-related products given their significant negative climate impact and has in line with this adopted a strategy for customers in this sector. The strategy involves a gradual shift away from companies without a transition plan aligned with the Paris Agreement. In 2019, SEB defined a risk appetite in absolute terms for the exploration and production of oil & gas and oilfield services segments. The risk appetite is revised downwards on an annual basis and is informed and guided by Paris Agreement-aligned transition pathways developed by independent agencies. In 2020, the bank put in place an exit strategy for the offshore segment. Further, the bank will abstain from providing dedicated financing to oil & gas activities in sensitive areas such as the Arctic.

During the transition period, SEB aims to only work with oil companies that have the lowest scope 1 and scope 2 emissions and to primarily engage with existing core customers in home markets. Transition risks related to SEB's current exposure to oil & gas exploration and production and oilfield services are mitigated by the fact that the exposure consists primarily of high-quality companies with production assets mainly in the North Sea with low break-even costs and scope 1 emissions below the global average.

Scope 1: Direct emissions	**Scope 2: Indirect emissions**	**Scope 3: Indirect emissions**
Greenhouse gas emissions from sources that are owned or controlled by the company.	Greenhouse gas emissions resulting from the generation of electricity, heat or steam purchased by the company.	Greenhouse gas emissions from sources not owned or directly controlled by a company but related to the company's activities. For banks, customers' emissions are included.
Buildings, vehicles.	Purchased electricity, heat, steam or cooling.	Goods and services, fuel, travel and transportation, waste, investments.

According to the TCFD recommendations to increase transparency in financial reporting, SEB has categorised its corporate and real estate credit portfolio on a more granular level. The graph below shows the credit portfolio broken down into detailed industry sectors, and then categorised into four levels from material to non-material climate impact. The categories reflect the sectors' carbon footprint but do not account for the fact that individual counterparties within a sector can have different carbon footprint. To reflect this, SEB in 2020 developed a customer sustainability classification model which is described in the section "Managing SEB's indirect climate impact". For each sector in the graph, the credit exposure is also broken down by type; lending as well as contingent liabilities and trading products.

Break-down of SEB's corporate and real estate credit portfolio reflecting the sector's carbon footprint
SEK 1,713bn, representing 66 per cent of the total credit portfolio, as per 31 Dec. 2020



1) Production and wholesale & retail.
2) Companies with a power generation mix that is non-renewable or a mix of non-renewable and renewable.
3) Exploration and production, oilfield services and offshore.
4) Transport, Distribution & Storage, refining, retail and other.

Risk management

Risk management takes two perspectives: (i) the need to understand SEB's own and its customers' climate impact, measured in terms of carbon emissions, and (ii) the need to understand the impact of climate change on business models as well as credit worthiness of both SEB's customers and investments held in the fund company.

Managing SEB's direct and indirect climate impact

Managing SEB's direct climate impact from own emissions
SEB recognises the consequences of the bank's direct environmental impact and is working actively to reduce it. Since 2008 the bank measures its carbon emissions from energy consumption, use of paper, company cars and business travel. Between 2008 and 2019, emissions were reduced by 55 per cent.
In 2020, the pandemic accelerated the reduction as a result of sharply reduced business travel. Emissions dropped by 57 per cent from 22,525 tonnes in 2019 to 9,734 tonnes in 2020, well below the bank's target of a maximum of 18,500 tonnes.

In 2020, SEB raised the ambition for reducing its own emissions by setting new goals for the future. Through climate compensation, the bank aims to be climate-neutral already in 2021 The long-term ambition is to reduce its carbon emissions to close to zero in 2045. Milestones include a reduction of carbon emissions, compared with 2008, of 66 per cent by 2025 and 75 per cent by 2030.

SEB believes that the effect of new ways of working and reduced business travel following the pandemic is likely to contribute to a reduced carbon footprint in the coming years.

Managing SEB's indirect climate impact
Most of SEB's climate impact is indirect through its financing and investments. Understanding and assessing the climate impact of customers requires tools specifically designed for such tasks. Toward this end in 2020 SEB developed a customer sustainability classification model that will provide a foundation for measuring how corporate and real estate customers impact the planet and people from a sustainability perspective and for assessing and classifying transition pathways. When fully implemented, the model will be a key component of both business strategy and risk management.

The customer classification will provide SEB with a more in-depth understanding of customers' climate impacts and the challenges and opportunities they face in shifting their operations towards a low-carbon economy. The customer classification is being used as a tool to engage with customers in constructive dialogues about their decarbonisation strategies. This enables the bank to support customers in transition with advisory services and financing for potential investment needs.

The customer classification can also serve as input for the overall portfolio and counterparty credit analysis by facilitating the identification of transition risks. Finally, the model will enable SEB to measure and report on the aggregate climate impact of its credit portfolio and ultimately to set strategic goals for shifting and aligning SEB's activities with the climate objectives of the Paris Agreement.

SEB's customer sustainability classification model
SEB's customer classification is a hands-on tool for the bank's client executives. The classification is performed in two steps. In the first step, a sector breakdown is conducted where customers are sorted into four different categories based on the average carbon footprint of their respective sectors:

- Sectors with a material carbon footprint. This includes sectors such as power generation, transportation, automotive, aviation, construction and animal-based agricultural production.
- Sectors with a slight carbon footprint, such as retail, capital goods, real estate and non-animal agricultural production.
- Sectors with no, very limited or even a positive carbon footprint, such as producers of renewable energy.
- Sectors that are currently out of scope due to their non-material carbon footprint. The service sector is an example of such a sector.

Classifying customers by transition strategies
The second step of the customer sustainability classification focuses on customer transition strategies. Companies within the same sector can have different climate impact depending on, for instance, the technology used and mitigating activities. Furthermore, depending on their transition ambitions and strategies, their future impacts may differ even more.

To evaluate customers' current and future climate impact SEB collects information about each customer's current emission reduction compared to a baseline year as well as information about the customer's future emission reduction targets (if available). The customer's future emission reduction pathway can then be understood and compared to a sector-specific emission reduction pathway. The sector-specific pathway outlines the level of emissions reduction necessary for that sector as a whole to reach the objectives of the Paris Agreement. Based on this, the customer's climate impact is classified in five categories:

Selection of sector methodologies for the customer sustainability classification model

The availability and accuracy of greenhouse gas emissions data differ between companies and sectors. For large companies active in sectors where regulatory thresholds are either defined or in scope for the EU Taxonomy (e.g., power generation, automotive), indicators are often publicly disclosed, which allows the modelling of forward-looking transition paths. For other sectors like capital goods and food processing, where scope 3 emissions related to the supply chain are significant, data availability, while improving, remains limited. For the shipping sector, SEB will use the Poseidon Principles, which we signed in 2020. The principles are consistent with the goal of the International Maritime Organisation to reduce greenhouse gas emissions from the shipping sector by at least 50 per cent by 2050.

The table below shows a selection of sector methodologies and which indicators and reference frameworks are used in the customer sustainability classification model.

Sector	Indicators used	References	Measurability
Power generation	g CO_2/kWh	EU Taxonomy and EU regulation	High
Automotive	g CO_2/km – tailpipe emissions	EU Taxonomy and EU regulation	High
Food and beverages	Scope 1&2&3 supply chain	Paris Agreement	Medium to low
Capital goods	Scope 1&2&3 materials	Paris Agreement	Medium to Low

- *Sustainable:* Companies with very limited greenhouse gas (GHG) emissions
- *Paris-aligned transition:* Companies in transition with plans aligned with the Paris Agreement target to limit global warming to 1.5°C (net zero GHG emissions by 2050)
- *Transition:* Companies in transition with plans aligned with a target to limit global warming to around 2°C (net zero GHG emissions by 2070)
- *Gradual change:* Companies in transition but with plans that are not aligned with the 2 degrees target
- *Status quo:* Companies with no or limited transition plans.

This approach draws on definitions, targets and transition indicators set in the EU Taxonomy, the Paris Agreement as well as EU or country-specific regulations or initiatives. The model covers 30 industry sub-sectors with a slight or material carbon footprint, and currently covers more than 70 per cent of SEB's corporate and real estate credit portfolio. In the graph below a fictitious customer's emissions reduction pathway between 2020 and 2050 has been plotted against the relevant sector-specific pathway.

Concluding on customer sustainability classification
The model enables SEB to assess to what extent customers' business activities are in line with the climate objectives of the Paris Agreement instead of only focusing on current emissions or a standardised assessment of the emissions in a specific sector. As a result, it is possible for a company that is active in a sector with a material carbon footprint to obtain a better individual classification if it has a credible plan for transitioning in line with the objectives of the Paris Agreement.

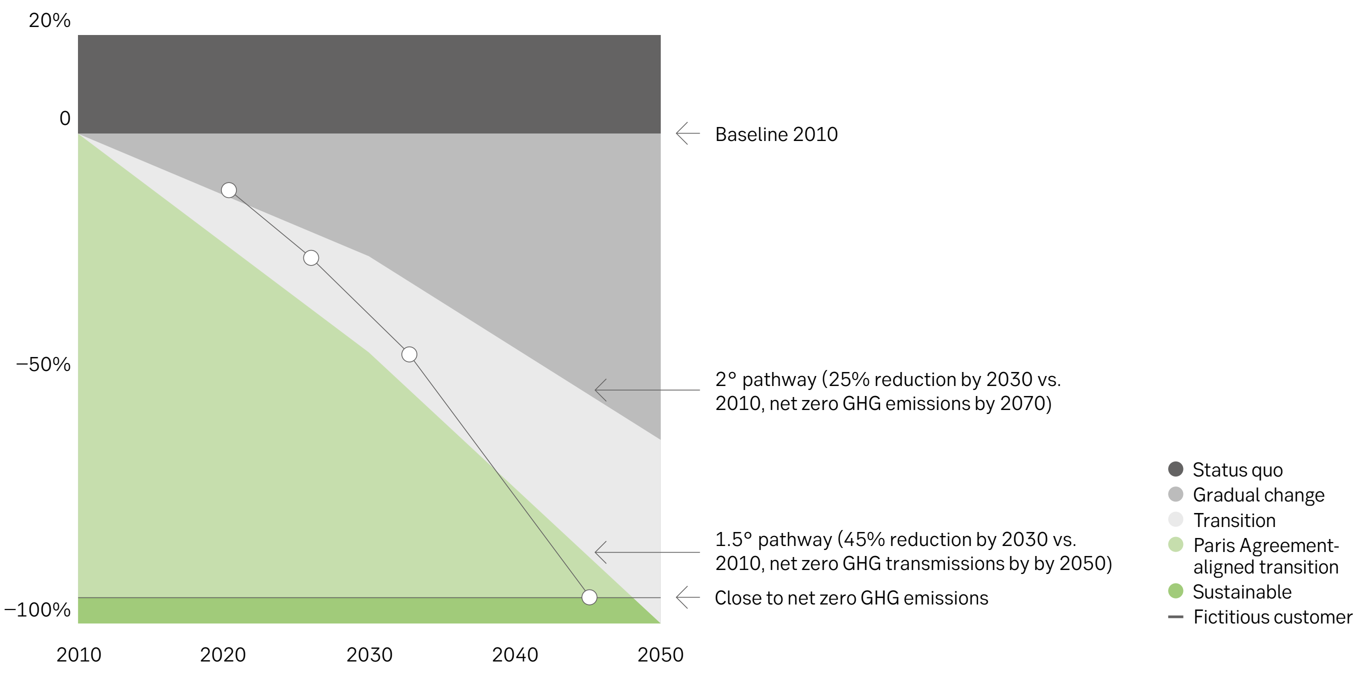
The model was developed in 2020 and was tested in a pilot project on a large share of customers in various corporate and real estate sectors. The model will be implemented in the bank's business and credit processes in 2021.

Management of climate-related risks
Defining climate-related risks
SEB does not view climate-related risks as a separate category, but as a risk factor that will have a bearing on existing risks such as credit, market and operational risk. This means that the management of climate-related risks is integrated into existing governance and processes for identifying, monitoring, measuring and reporting risks.

Transition and physical risks
Two climate-specific risk factors are considered in risk management: transition risk and physical risk. Transition risks are the financial risks that may arise from the transition to a lower-carbon society. This entails the effects on customers' business models from disruptive events such as changes in climate policy, regulation, technology or market sentiment. Depending on the nature, speed and focus of these changes, transition risks may pose varying degrees of risk to companies. In general, sectors that rely on fossil fuels or are energy-intensive are expected to be affected first and most by transition risk.

Physical risks arise from increased severity and frequency of climate and extreme weather-related events such as droughts, floods, storms and sea-level rise. Physical risks can also be more gradual, arising from longer-term chronic shifts in climate patterns. The impact can be direct, e.g. through damage to property, or indirect as a result of subsequent events such as the disruption of global supply chains.

Paris Agreement transition pathways required to reach temperature target
Greenhouse gas reduction from 2010



Integrating climate-related risks in the credit process
SEB integrates an assessment of sustainability risks including climate change on business models, repayment capacity and the ability to access financing in the bank's holistic counterparty credit analysis. To do this in a systematic way, SEB has developed a proprietary framework for the integration of climate risks in the financial analysis of corporate customers. The framework provides sector-specific guidance on the most material issues to be assessed for customers in sectors with a material carbon footprint. In 2020, ESG specialists were recruited to the credit analysis department to further refine the framework. In 2021, focus will be on further integrating climate-related risks, including output from the customer sustainability classification model, in the credit process.

SEB also regularly performs targeted portfolio reviews of sectors with material climate impact which are presented to the Group Risk Committee and the Board's Risk and Capital Committee. In connection with these reviews, sector-specific business strategies and risk appetite levels are defined.

Climate scenario analysis for measuring climate-related risk
Measuring financial risks from climate change is complex, as it involves assessing the combined impact of physical and transition risks under multiple climate scenarios. The time perspective for climate-related risks is also much longer than in traditional credit analysis, which typically covers one to five years.

In 2020, SEB developed a methodology for assessing transition risks for customers over time under various climate scenarios. A transition risk pilot project was conducted for SEB's portfolio of customers in the oil & gas sector during the year. For 2021, the aim is to apply this methodology to a number of other sectors with a material carbon footprint.

→ The pilot project is described on the next page.

Investment management
SEB Investment Management (the fund company), which manages SEK 672bn in assets, aims to reduce climate-related risks and enable a transition to sustainable and low-carbon fund management solutions. In 2020, a strengthened Sustainability Policy was adopted by the fund company's board of directors. This policy will be implemented during the first quarter of 2021 along with a statement outlining the fund company's strategy to contribute to accelerating de-carbonisation of the global economy while upholding its primary fiduciary duty of delivering positive long-term risk-adjusted returns. The fund company aims to align the investments with the Paris Agreement, but with the aim to reach net zero greenhouse gas emissions already by 2040. In addition, the aim is to reorient capital flows to climate solutions and climate-resilient and transitionary business models, to exit from investments in activities that contribute negatively to climate change. Through active ownership and dialogue the fund company shall promote climate resilience in business models.

Managing indirect climate impact in investments
Engagement and exclusion
In line with the updated sustainability policy, the fund company has a strict approach to fossil fuels. All funds exclude companies that extract or process fossil fuels, including extraction of unconventional fossil fuels, such as oil sands and deep-sea drilling in particularly sensitive areas.

Similar restrictions apply for power generation and distribution of fossil fuels. Exceptions can be made for companies that have clear targets and show ongoing active transition plans in line with the Paris Agreement. See sebgroup.com.

Direct engagement with companies on climate change is an important tool for SEB Investment Management. Through engagement, the fund company can affect change and support companies to include climate-related strategies and practices in their business models. This is done either directly with companies or through investor collaboration. The fund company has been involved in dialogues with the world's largest greenhouse gas emitting companies through IIGCC Climate Action 100+. See p.49.

Measuring the carbon footprint of funds
The carbon footprint of certain SEB Investment Management equity funds has been measured since 2014. SEB Investment Management signed an international climate agreement – the Montreal Carbon Pledge – in 2015, and as part of this commitment began measuring and reporting the carbon footprint of SEB's own equity funds annually. Carbon footprint is one of few metrics that has been available to measure climate-related risk in funds.

As of 2020 a new industry standard was introduced that uses risk-based metric-weighted carbon intensity. This standard is aligned with the Swedish Fund Association's guidelines. The new measurement focuses on information of the fund's exposure to carbon-intensive companies instead of portfolio emissions. The carbon data is based on all three central emission areas (Scope 1–3) according to the Greenhouse Gas Protocol and it shows how carbon-efficient a company is. In 2020, 95 per cent of SEB's equity funds were measured and reported on sebgroup.com. For the remaining part of the equity funds, there is no official benchmark and, in some funds, the underlying data is currently insufficient for accurate carbon footprint reporting. The next step is to include and report on more asset classes.

The most recent measurement, as per December 2019, using the new carbon footprint methodology, based on available information, shows that SEB's own sustainability equity funds on an aggregate level are more carbon-efficient than their respective benchmarks.

Although weighted average carbon intensity and other carbon footprint metrics provide some visibility into the carbon exposure of certain assets at a fixed point in time, they provide little insight into the potential future exposure. See the fund company's document "Our sustainability report" on sebgroup.com.

Climate scenario analysis for fund investments
In 2020, a climate scenario analysis of SEB Investment Management's corporate bond and equity exposure was performed for sectors most affected by the transition to a low-carbon economy. The tool used was the Paris Agreement Capital Transition Assessment (PACTA) tool, developed for institutional investors by the 2° Investing Initiative, with the support of the UN Principles for Responsible Investment (PRI).

The PACTA analysis has been done for approximately 60 per cent of the fund company's assets under management. The analysis showed that the total equity and corporate bond exposure to sectors included in the scenario analysis was 10.5 per cent and that the exposure to coal, oil & gas production was below 1.5 per cent of total equity and corporate bonds under management.

Climate scenario analysis – a transition risk pilot

The purpose of scenario analysis for transition risk is to consider a broad range of potential future states in which the average global temperature increase is limited to well below 2 °C. SEB has developed a methodology to measure the impact of such scenarios on its credit portfolio. The oil & gas sector was selected for a pilot evaluation due to its direct transition risk exposure. In total, five sub-segments were included in the pilot: exploration & production, offshore, oilfield services, oil tankers and liquified gas carriers. In 2021, the ambition is to expand the scope of climate scenario analysis to cover other sectors with material transition risk, e.g. transportation and power generation.

Methodology overview

The methodology integrates science-based climate scenarios with more traditional credit risk measurement approaches. The overall structure is aligned with the outcomes from United Nations Environment Programme Finance Initiative (UNEP FI) and TCFD Banking Pilot Projects, where the details have been tailored to SEB's portfolio and home markets. It is predominantly a bottom-up approach where each counterparty is assessed based on its current operations under a transition scenario.

Individual results are then extrapolated to portfolio level. The assessment does not take into consideration any counterparty-specific transition agenda, but rather assesses the transition risks based on status quo operations.

Climate scenarios

The first step is to define the climate scenario, representing a credible view of how the economy and energy transition might evolve over the next few decades, in order to limit global warming. SEB's model is compatible with a range of external climate scenarios, both existing and potential future scenarios. Three representative scenarios prescribed by The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have been used as a starting point for the analysis. The NGFS climate scenarios have been developed to provide a common reference for analysing climate risks to the economy and financial system. The modelling horizon for these scenarios are decades instead of years, as some climate-related risks will materialise over a longer time frame. SEB has also developed customised short-term carbon tax scenarios to assess a potential disorderly transition emerging over a three-year time horizon.

Key drivers and financial impact

The climate scenarios are translated into a set of key drivers for companies' performance: price, demand, unit cost, capital expenditures and asset value. Subsequently, the key drivers are projected on the companies' financial statements to assign a scenario-adjusted credit risk rating.

Key findings and observations

Most of the 2 °C scenarios have limited impact on SEB's oil & gas portfolio credit quality until 2040, whereas the 1.5 °C scenarios results in moderate asset quality deterioration across the oil & gas value chain in 2040, given status quo operations.

No single road to Paris

The climate scenarios differ in the assumptions regarding future oil demand and price levels. According to some scenarios, global warming can be limited to 2 °C while global oil use expands until 2040. In contrast, the 1.5 °C scenario assumes that global oil production decreases by 68 per cent by 2040 compared to 2020 levels. The assumptions depend on other key assumptions, for instance coal and natural gas as well as carbon sequestration. Most models are built for macroeconomic and policy purposes with the objective to optimise global welfare, not to exhibit the most likely transition path. Therefore, a broad range of scenarios is applied, without assigning probabilities to their respective outcome.

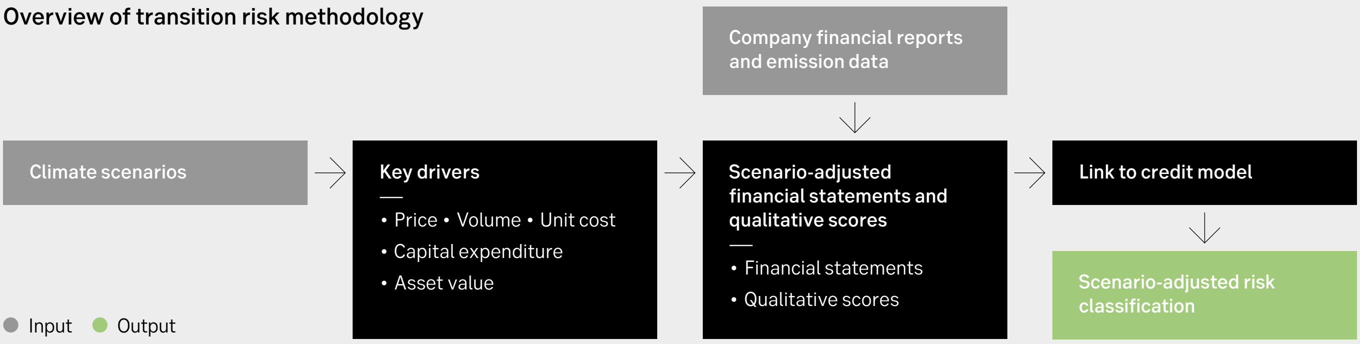
Low lifting cost and production emissions increase resilience

The break-even cost of an oilfield will determine its desirability in a scenario with diminishing demand and falling prices. The majority of SEB's customers within exploration and production have producing assets in the North Sea with relatively low break-even cost compared to the global average. Their scope 1 emissions are also lower than the global average. These factors increase the transition resilience and mitigate some of the stranded assets risk.

Increased focus on refinancing risk

As investors and credit markets pay further attention to the energy transition, the risk of rising cost of capital during the terms of the contract intensifies. In extreme cases, some companies may not be able to refinance their maturing debt at any price, leading to debt restructurings. Cautious credit structures with extra focus on access to capital markets are one way of managing refinancing risk.

Overview of transition risk methodology



Board of Directors

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