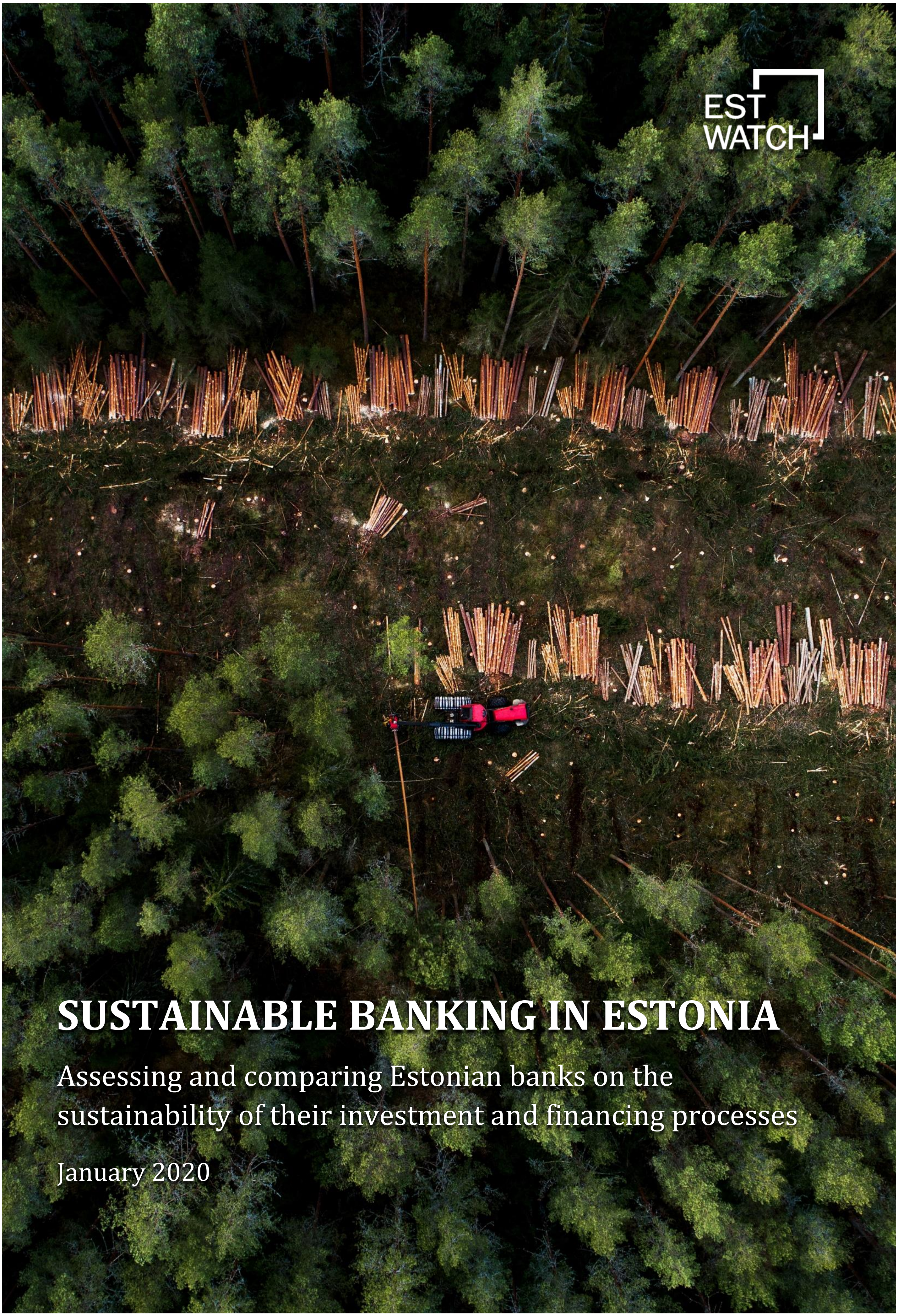

EST WATCH

SUSTAINABLE BANKING IN ESTONIA

Assessing and comparing Estonian banks on the sustainability of their investment and financing processes

January 2020

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Estwatch is an independent non-profit civil society organization that aims to alleviate the adverse social and environmental impacts of Estonian-related companies and governmental agencies.

In its work in the financial sector, Estwatch aims to assure that all Estonian financial institutions would invest Estonian citizens' and their clients' money responsibly and transparently.

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1. Introduction

Responsibility in the banking sector

Banks and other financial institutions have an important role in shaping our environment and society, as they provide finance to projects, companies and governments, and thereby directly support investments' societal and environmental impacts. Finance can have a positive effect, for instance by backing businesses that support the transition to a green and circular economy. However, finance can also reinforce adverse impacts, for example by contributing to climate change, environmental degradation or human rights violations.

At the same time, sustainability concerns – environmental, social, and governance-related risks (ESG risks) – affect investments' financial risks and returns[1,2]. Therefore, financial institutions must take responsibility for and address ESG risks to manage their and their clients' assets with prudence and competence[3]. ESG risks range from natural resource depletion and pollution (E) to human rights violations and community relations (S) to corruption, transparency and corporate governance (G).

Financial institutions globally are actively taking measures to address ESG risks in their investment and financing processes. This is shown by the increasing number of financial institutions around the world that have committed to addressing ESG risks through relevant initiatives, such as the UN Principles for Responsible Banking and the UN Principles for Responsible Investments (UNPRI). The latter, for instance, has over 2300 signatories with more than 86 trillion USD of assets under management[4].

Before summer 2019, Estonian banks, civil society, academia, state institutions and other stakeholders had not publicly paid attention to the role of the financial sector in sustainable development[5]. This raised the question of whether Estonian financial institutions have factored ESG risks into the investment decisions at all, as ignoring these risks potentially harms investment results and contributes to adverse social and environmental impacts.

The need for financial institutions to address ESG risks has been publicly highlighted in Estonia since August 2019. Several newspapers and media channels highlighted the impact that finance has on the environment and society, and the impact ESG factors have on investments[6,7]. Further, Estwatch published its report on the role of pension funds in climate change, which illustrates how Estonian pension fund managers address climate-related ESG risks either insufficiently or not at all[8]. Among other things, the increased awareness led to dozens of Estonians, in autumn 2019, contacting their pension fund managers and elected politicians to raise concerns regarding the neglection of sustainability aspects in investment-decisions[9].

[1] N. Stern, The Economics of Climate Change: The Stern Review, Cambridge University Press, 2007.
[2] Woods, C. M. (2011). The environment, intergenerational equity & long-term investment. Worcester College, School of Geography and the Environment. Oxford.
[3] R. Sullivan, W. Martindale, E. Feller ja A. Bordon, „Fiduciary Duty in the 21st Century,“ 2015.
[4] PRI (2019). About the PRI.
[5] Lilleväli, U. (2019). Seeking Climate Justice in the Financial Sector – Interpreting the fiduciary duty of Estonian pension funds based on their contribution to reinforcing/tackling climate change. Lund University Papers, Lund University, Sweden.
[6] Linda-Mari Väli (2019). Kodanik hoiab loodust, aga pank suunab ta raha saastajatele. ERR.
[7] Mõttus-Leppik, E. (2019). Eesti pensioniraha investeeritakse loodust saastavatesse ettevõtetesse. Reporter.
[8] Lilleväli, U. (2019). The role of Estonian pension funds in reinforcing and tackling climate change. Estwatch.
[9] Kuku Raadio (2019). Intervjuu: Uku Lilleväli, Estwatch, pensionifondid ja roheline investeerimine.

Since August 2019, progress has also been seen in the Estonian financial sector, resulting from factors such as a stronger EU-level emphasis on making the financial sector more sustainable[10] and a higher societal demand for a green economy. For the first time in Estonia, the representatives of financial institutions have made public statements on sustainability[11] and many financial institutions have internally initiated the development of sustainable investment and financing structures. Further, Swedbank Investeerimisfondid AS (SIF), a subsidiary of Swedbank and the manager of bank's pension funds, published its sustainable investment policy[12], the first targeted entirely to an Estonian financial institution.

Shortcomings in the progress in Estonia

The recent progress has shown two main shortcomings.

First, there is a lack of understanding of what banks could and should do to address ESG risks in their investment and financing processes. While the prevalent understanding of sustainable finance has been to avoid investing in adverse companies or sectors[11], financial institutions have a much wider range of possibilities to direct financial flows to be more sustainable. This includes integrating ESG risks into investment analysis and financial models, engaging with investee companies and funds and requiring them to apply adequate protection of the environment, human rights and society. The limited understanding in this area prevents banks from enhancing their sustainability efforts, Estonian people from understanding banks' role in ensuring sustainable development, civil society organisations from guiding banks to be more responsible, and policymakers and regulators from advancing sustainability in the financial sector on the state level.

Second, banks are not transparent enough in how they address ESG risks and contribute to sustainable development in their investment and financing processes. Even though all four banks have said to be making their financial decisions more responsible, most of the relevant plans, policies and processes are either unfinished, internal or well-hidden on the websites. The insufficient transparency does not allow banks to benchmark their sustainability efforts against peers, Estonian citizens to make informed decisions on their service-providers, civil society organisations to contribute to making banks align their practices with the sustainable development goals[13], and regulators from assessing the efficiency of financial institutions' risk management systems.

[10] European Commission (2019). Green finance.
[11] Parksepp, A. (2019). Eestlaste pensioniraha investeeritakse agaralt kliimamuutuse võimendamisse. Eesti Päevaleht.
[12] Swedbank (2019). SIF vastutustundlike investeeringute poliitika.
[13] United Nations (2015). About the Sustainable Development Goals.

2. Aim of the study

This study aims to **assess and compare Estonian banks based on if and how they manage ESG risks and contribute to the sustainable development agenda in their investment and financing decisions**.

The study focuses on Estonian four largest universal banks – LHV, Luminor, SEB and Swedbank – and their subsidiaries. The assessment is based on 11 indicators and 79 questions that belong to six key areas: purpose, policies, processes, people, products and portfolio.

Further, the study:

- Highlights the role and opportunities of banks and financial institutions to contribute to achieving sustainable development.
- Enhances the transparency of what Estonian banks are currently doing and what they could and should do better to be more responsible towards the environment, society and the assets of Estonian people and their clients.
- Supports investors, Estonian people, civil society organizations, regulators and other stakeholders to assess banks based on how responsible they are in their investment and financing decisions.

The results presented in this report help:

- **Banks** to evaluate and benchmark their sustainability processes, understand and enhance their sustainability efforts, and contribute to sustainable banking by collaborating with clients, civil society organisations, public institutions and other financial institutions.
- **Estonian people** to obtain an overview of how responsible Estonian banks are in their investment and financing processes, understand banks' role and opportunities in ensuring sustainable development, and decide on a more suitable service-provider, if necessary.
- **Civil society organisations** to assess banks on how they address sustainability issues, such as climate change, deforestation, human rights and others, understand how banks can align their processes with achieving sustainable development, and encourage banks to be more responsible.
- **Policymakers and regulators** to assess the efficiency of financial institutions' risk management systems and seek ways to enhance the regulations and support making the financial sector more responsible on the state level.

3. Methodology

Evaluation framework

The study is based on the adaptation of the Sustainable Banking Assessment (SUSBA) framework[14], which is originally developed by the World Wide Fund for Nature (WWF).

The SUSBA framework is chosen for several reasons. First, it is established on recognised frameworks, including UNPRI, Task Force on Climate-related Financial Disclosures[15], GRI Sustainability Reporting Guidelines, and others. Second, it has a balance of general and industry-specific criteria that suits to assessing the current state of addressing ESG risks in the Estonian banking sector. Third, the framework is well-structured on six complementary pillars: overarching sustainability strategy (**purpose**), specific **policies** and **processes** to make the strategy actionable, knowledge transfer, responsibilities and governance mechanisms (**people**), **products** aligning with sustainable development, and ESG risk management and disclosure on a **portfolio** level[14].

In the original framework, the six pillars comprise 14 indicators that are assessed based on 89 questions[14]. The framework has been adapted to the Estonian context by **1)** combining similar indicators, as categorised on the website of SUSBA[16], and **2)** modifying and removing questions that are either too specific or not applicable in the Estonian context. All modified and removed questions are listed in Appendix A. The changes decreased the number of indicators to 11 and the number of questions to 79.

The six pillars and 11 indicators are described in Table 1 below, and all questions and assessments per bank in Appendix B.

Assessment scope and criteria

The study assesses the four main universal banks and their subsidiaries in Estonia – LHV, Luminor, SEB and Swedbank – and excludes the fifth universal bank, Coop, due to its comparatively small market share at the time of the study. The assessment focuses on all investment and financing processes, including retail and private banking, asset management, pension funds, and others.

Table 1. *Six pillars and 11 indicators for responsible investments and financing*

Pillar	Indicators
1. Purpose	**1.1.** Sustainability strategy and stakeholder engagement **1.2.** Participation in sustainable finance initiatives
2. Policies	**2.1.** Statements on sustainability in investments and banking **2.2.** Issue-specific statements (forestry, climate change, human rights, etc)
3. Processes	**3.1.** Assessing and managing ESG risks **3.2.** Monitoring and engaging with investees to mitigate their ESG risks
4. People	**4.1.** Governance and responsibilities for sustainability processes **4.2.** Staff's ESG-related training and performance evaluation
5. Products	**5.1.** ESG integration in products and services
6. Portfolio	**6.1.** ESG risk assessment and mitigation on portfolio level **6.2.** Disclosure of ESG-related risk exposure, activities and targets

[14] WWF (2019). Resilient and Sustainable Portfolios: A Framework for Responsible Investment.
[15] TCFD. (2017). Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
[16] WWF (2019). SUSBA Assessments.

Answers to the questions can be either "Yes, in all portfolios and products", "Partially in certain products or subsidiaries" or "No". This differs from the binary yes-or-no classification in the original framework as banks have applied many criteria not throughout all processes but in specific portfolios or subsidiaries.

For each answer with "Yes" or "Partially", banks must provide a verifying source that fits three criteria:

1) publicly available so that anyone can verify the answer.
2) presented in Estonian, as banks provide products and services on the Estonian market primarily to Estonian clients.
3) shows a direct link to the bank's processes and portfolios in Estonia, including the scope (e.g., applicable on group-level or to a specific portfolio or subsidiary).

Depending on the question, the sources can differ: websites, sustainability policies and reports, blog posts, statements in the media, etc.

Assessment process

The first part of the assessment was conducting an initial evaluation. For this, the author of the study obtained publicly available information on the 79 questions from banks' websites, social media and other channels.

Secondly, the banks were requested to confirm or complement the initial evaluation. The banks were requested to provide the first feedback within 30 days during the period 31.10-29.11.2019. During this time, additional information was provided by three banks: Luminor, SEB and Swedbank. The proposed changes were examined and sent back to the banks to confirm or propose final modifications within one week. The final answers with sources are available in Excel format on the website of Estwatch[17].

Thirdly, the results were concluded and visualised. Initially, all answers with suitable sources were graded: each "yes" received one point, "partially" 0.5 points and "no" zero points. Then, an average was calculated for each bank on two levels: 1) overall average score for all questions, and 2) average score for each of the 11 indicators. Afterwards, colours were assigned to the averages on a three-colour scale of red-yellow-green (see the Result section). The final step included concluding the results and drafting recommendations for banks and other stakeholders to enhance sustainability in the Estonian financial sector.

Limitations

The methodology comes with some limitations. First, the evaluation relies on sources that are publicly available in Estonian. Therefore, "No" does not always indicate that the bank does not engage with the particular issue but that there is no source that would verify that a bank would be doing so in the Estonian market. Similarly to the original SUSBA framework[18], the evaluation considers the information that is accessible and understandable by all relevant stakeholders – Estonian people, civil society, competitors, regulators, etc. – who wish to assess banks on their sustainability efforts and ESG integration.

Second, even though answers with "Yes" or "Partially" are verified by policies, guidelines or other sources, it cannot always be possible to verify if and how these are applied internally. Despite this, the sources imply, which measures the banks have said to be in place and provide an opportunity to validate their effectiveness in further studies.

[17] Estwatch (2020). Pankade võrdlustabeli sisend.

[18] WWF (2019). About SUSBA.

4. Results

Banks' comparison

Table 2 below concludes the results of the study and compares banks based on the described indicators. See a more detailed overview in Appendix B.

Table 2. *Banks' comparison on their sustainability efforts*

Average performance
0% 100%

Pillars and indicators		LHV	Luminor	SEB	Swedbank
Purpose	Sustainability strategy and stakeholder engagement	0.00	0.00	0.83	0.33
	Participation in sustainable finance initiatives	0.00	0.10	0.40	0.30
Policies	Statements on sustainability in investments and banking	0.00	0.00	0.63	0.50
	Issue-specific statements (forestry, climate change, human rights, etc)	0.00	0.00	0.44	0.28
Processes	Assessing and managing ESG risks	0.00	0.00	0.13	0.31
	Monitoring and engaging with investees to mitigate their ESG risks	0.00	0.00	0.57	0.43
People	Governance and responsibilities for sustainability processes	0.00	0.00	0.33	0.00
	Staff's ESG-related training and performance evaluation	0.00	0.00	0.29	0.00
Products	ESG integration in products and services	0.13	0.00	0.25	0.00
Portfolio	ESG risk assessment and mitigation on portfolio level	0.00	0.00	0.00	0.14
	Disclosure of ESG-related risk exposure, activities and targets	0.00	0.00	0.00	0.00
	Overall average	0.01	0.01	0.34	0.21

Key results

Estonian banks are currently addressing ESG risks in their investment and financing processes either insufficiently or not at all. Despite the poor overall performance, the most progressive bank for addressing ESG risks is presently SEB (scored 34 per cent of all points), followed by Swedbank (21 per cent). Based on the assessment criteria, LHV and Luminor almost entirely neglect ESG risks and sustainability concerns in their financial decisions (1 per cent both).

All four banks have said to be developing sustainability strategies and policies but only SEB and one of Swedbank's subsidiaries have existing sources, as of December 2019, that acknowledge the importance of addressing ESG risks and outline their positions on sustainable banking. SEB stands out with its group-level policies, which include an overarching Corporate Sustainability Policy[19], sector-specific policies on forestry[20], weaponry[21], fossil fuels[22], mining and metals[23], shipping[24] and renewable energy[25], and issue-specific statements on climate change[26], child labour[27] and freshwater[28]. In Estonia, Swedbank has a sustainability policy for only one of its subsidiaries, Swedbank Investeerimisfondid AS (SIF)[29], which manages banks' pension funds. SIF's policy covers issue-specific topics, such as climate change, labour standards and human rights.

Banks in Estonia have not yet shown significant interest in engaging with different stakeholders – investee companies, civil society, policymakers, regulators, etc. – on responsible investments and financing. Only Swedbank and SEB have joined on group-level, for instance, respectively with the UN Principles for Responsible Banking[30] and Principles for Responsible Investments (UNPRI)[19], but there is no information on how these principles are applied in Estonia. On the local level, SEB and Swedbank were found to be engaging with some stakeholders in certain portfolios or subsidiaries to a limited extent. Further, Luminor has conducted and published a study on whether Estonian citizens value responsibility in their pension fund choices[31]. None of the banks was found to be engaging with civil society organisations or regulators on sustainability matters.

Estonian banks have mostly not sufficiently disclosed if and how they monitor, manage and mitigate ESG risks in investment and financing processes. Only Swedbank's subsidiary SIF[29] and SEB's subsidiary SEB Varahaldus[32] disclose information on how they screen investment opportunities based on different sustainability criteria. Further, only SIF states that it applies quantitative ESG analysis in its portfolios and monitors the ESG performance of its investee projects and companies[29]. Still, none of the banks discloses **a)** from where they obtain ESG-related data used for decision-making, **b)** which methods and tools are used for ESG analysis, and **c)** if they have set indicators to assess and manage the ESG performance of portfolio companies and funds. This raises the questions if and how effectively SEB and SIF apply their sustainability policies in practice.

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[19] SEB (2016). SEB kontserni vastutustundliku ettevõtluse poliitika.
[20] SEB (2015). Majandusharupoliitika: Metsandus.
[21] SEB (2015). Majandusharupoliitika: Relvad ja kaitse.
[22] SEB (2015). Majandusharupoliitika: Fossiilkütused.
[23] SEB (2015). Majandusharupoliitika: Mäe- ja metallitööstus.
[24] SEB (2015). Majandusharupoliitika: Laevandus.
[25] SEB (2015). Majandusharupoliitika: Taastuvenergia.
[26] SEB (2016). Seisukohavõtt kliimamuutuse asjus.
[27] SEB (2015). Seisukohavõtt: Lapstööjõud.
[28] SEB (2015). Seisukohavõtt: Magevesi.
[29] Swedbank (2019). SIF vastutustundlike investeeringute poliitika.
[30] Klopets, M. (2019). Swedbank liitus ÜRO vastutustundlike pankade algatusega.
[31] Luminor (2019). Uuring: eestlased peavad pensionifondi valimisel oluliseks selle eetilisust.
[32] SEB (2019). Vastutustundlik investeerimine.

Concerning engaging with portfolio companies and funds on sustainability issues, SEB has relevant group-level policies, Swedbank's subsidiary SIF its own policy and LHV and Luminor have not disclosed any relevant information. The policies of SEB[19-28] and SIF[29] include specific ESG-related expectations to investment recipients, procedures to introduce measures if investees fail to uphold these expectations, and a process to engage with them to manage their ESG risks. Nevertheless, only SIF's policy describes an existing procedure for voting at portfolio companies' shareholders' meetings on sustainability concerns. None of the Estonian banks was found to be participating the industry initiatives aiming to advance the ESG performance of portfolio companies and funds.

Of the four banks, only SEB has some information on the pillar of People, including how ESG integration and sustainability efforts are governed and whether its employees receive sustainability-related training[19-28]. Still, none of the banks has included ESG risks or sustainability concerns in employees' or managers' terms of reference, key performance indicators or remuneration structure. The low performance in this area implies that the banks have not sufficiently **1)** received buy-in for ESG integration at the management level, **2)** divided the roles and responsibilities for ESG integration and **3)** incentivised their staff to work on addressing ESG risks.

None of the four banks is sufficiently taking advantage of the opportunities emerging from sustainable finance products, e.g., meeting the demand for such products[31]. For instance, no Estonian bank currently offers funds or products that have specific goals for reducing CO2 emissions. The few sustainable financial products include funds offered in specific products by LHV (e.g., Kasvukonto[33]) and SEB (e.g., one pension fund and a few equity[34] and bond funds[35]). Regarding consulting Estonian people about financial products' sustainability, only SEB has been found to inform some people on pension funds' sustainability profile.

Estonian banks have mostly not disclosed *if*, *how* and *how effectively* they assess and mitigate ESG risks on a portfolio level. As of December 2019, none of the banks disclosed their **a)** goals, metrics and results on assessing and managing ESG risks, **b)** investment and financing portfolios to enhance transparency, for instance, on how ESG risks are manged, **c)** progress on mitigating ESG risks on a company- or portfolio-level, and **d)** outcomes of managing ESG risks on portfolios' financial performance. This suggests, firstly, that banks that have sustainability policies – SEB and Swedbank – have not yet integrated addressing ESG risks throughout all investment and financing processes. And secondly, that all banks have unmanaged ethical and financial risks in their portfolios. Many banks have stated to be planning to disclose the nature and results of their ESG integration and sustainability practices in 2020.

Most portfolios and subsidiaries appear not to recognise the exposure and vulnerability of climate risks on portfolios' profitability, shown by the lack of relevant policies and processes to manage these risks. Among the four banks, only SEB has a climate change-focused policy[26] and Swedbank's subsidiary SIF[29] has a more general sustainability policy covering climate aspects. However, none of the banks was found to assess or disclose portfolios' exposure to climate risks, including for sectors that are more susceptible to climate risks.

[33] LHV (2020). Kasvukonto.
[34] SEB (2020). Aktsiafondid.
[35] SEB (2020). Võlakirjafondid.

5. Recommendations

Below are recommendations that are based on the findings and that should be undertaken by banks in collaboration with different stakeholders to make the Estonian banking sector more responsible and sustainable.

Every Estonian bank should:

- **Develop a comprehensive Estonian-group-level sustainable investment and financing strategy and complementary sector- and issue-specific policies** that would **a)** be appraised by the top management, **b)** recognise the importance of addressing ESG risks, and **c)** set a roadmap for ESG integration throughout the bank's processes.
- **Embed the strategy across the investment and financing processes** by **a)** establishing adequate governance mechanisms (roles, responsibilities, training, remuneration, supporting structures), **b)** determining what ESG data is researched and integrated in the processes, and how more specifically, and **c)** applying the research in all financing and investment decisions.
- **Disclose if, how and how efficiently the bank manages ESG risks,** including **a)** specific metrics, targets and progress on managing ESG risks **b)** which ESG risks are assessed, managed and mitigated in which portfolios, geographies, sectors and subsidiaries, **c)** how ESG risks are managed, and **d)** disclosing portfolios where ESG risks are managed.

Regulators should:

- Require financial institutions to **a)** mitigate and manage ESG risks in their investing and financing processes, **b)** disclose if and how they manage ESG risks, with a particular focus on climate risks, and **c)** include managing ESG risks as part of the responsibilities and terms of references of the staff and management.
- Assure that Financial Inspection would assess, in its financial supervision processes, how Estonian banks and financial institutions address ESG risks in their investment and financing processes.

Think tanks and civil society organisations should:

- Seek an understanding of how banks and financial institutions perform on ESG integration and address sustainability concerns in their specific areas of expertise and interest, and raise awareness among the citizens.
- Engage with the banks to **a)** understand how they can support banks and financial institutions when financing sectors or activities that are known to contribute more to adverse environmental and social impacts, and **b)** call them to better manage ESG risks in financial decisions.
- Engage with policymakers and regulators to seek ways to create a legal framework that would incentivise the banking sector to contribute to societal well-being and sustainable development.

Appendices

Appendix A. *Modified and removed questions*

<table>
<tr><th>Original question</th><th>Change and reason</th></tr>
<tr><td>Has the financial institution (FI) committed to any of the following: Climate Action 100+, The Investor Agenda?</td><td rowspan="2">Combined the two questions due to the overlapping content.</td></tr>
<tr><td>Does the FI participate in any collaborative initiatives such as the Institutional Investors Group on Climate Change (IIGCC), UNEP FI, CDP, or the Sustainable Blue Economy Finance Principles?</td></tr>
<tr><td>Does the FI offer ESG products for institutional investors and/or retail investors?</td><td rowspan="2">Combined the two questions due to the overlapping content.</td></tr>
<tr><td>Does the FI offer funds focusing on any specific ESG themes (e. g. climate change, deforestation, water, human rights) or apply any best-in-class screens?</td></tr>
<tr><td>Is the FI a signatory of the UN Principles of Responsible Investments?</td><td>Added also the UN Principles of Sustainable Banking due to its relevance to the study.</td></tr>
<tr><td>Is the FI a signatory to the national stewardship code?</td><td rowspan="2">Removed as Estonia does not have a relevant national stewardship code.</td></tr>
<tr><td>Does the FI explain how it applies the relevant national stewardship code?</td></tr>
<tr><td>Does the FI expect all companies to set and align to Science Based Targets or the TCFD recommendations?</td><td rowspan="4">Removed because the question is too specific for assessing the current state of how ESG risks are addressed in the Estonian financial sector.</td></tr>
<tr><td>b. Does the FI expect all companies to understand their water risk and practise water stewardship?</td></tr>
<tr><td>b. Does the FI expect companies to obtain certification from or otherwise support multistakeholder sustainability standards related to deforestation and biodiversity loss (e.g. ASC, MSC, RSPO, FSC, SuRe, etc.)?</td></tr>
<tr><td>b. Does the FI expect all portfolio companies to obtain certification from or otherwise support multistakeholder sustainability standards related to the sustainable use of oceans, seas and marine resources (e.g. ASC, MSC, SuRe, etc.)?</td></tr>
<tr><td>Does the FI research global and regional ESG trends and identify how these can be applied to the investment process?</td><td rowspan="2">Removed as the question largely repeats what is already asked in other questions.</td></tr>
<tr><td>Has/will the FI set targets to align its portfolio to a 1.5°C scenario?</td></tr>
<tr><td>Does the FI disclose the portion of its portfolio managed under ESG mandates?</td><td rowspan="2">Added THE exclusion of pension funds to both questions, as pension funds are required to be disclosed by law.</td></tr>
<tr><td>Does the FI disclose its holdings?</td></tr>
<tr><td>Does the FI disclose engagement activity (no. of engagements) disaggregated by environmental and social issue?</td><td>Due to the narrowness, modified by removing the specific focus on disaggregating the environmental and social issues</td></tr>
</table>

Appendix B. *Questions and answers per bank. 0 means ”No”, 0.5 ”Partially” and 1 ”Yes”.*

	INDICATORS AND QUESTIONS	LHV	Lum	SEB	Swe
PURPOSE	RELEVANCE OF SUSTAINABILITY IN ORGANIZATION'S STRATEGY AND INVESTMENT BELIEFS				
	Does the financial institution (further: FI) publicly articulate its beliefs regarding sustainability or ESG in its investment beliefs or elsewhere?	0	0	1	0.5
	Does the FI publicly acknowledge that sustainability or ESG factors impact its investment performance, return objectives or risk management?	0	0	1	0.5
	Does the FI publicly recognize that climate change poses long-term risks to business and society?	0	0	1	0.5
	Does the FI make reference to the SDGs?	0	0	1	0.5
	Does the FI have any policies and procedures to engage stakeholders?	0	0	1	0
	Does the FI disclose a list of stakeholder groups engaged?	0	0	0	0
	INDUSTRY COLLABORATION AND PARTICIPATION				
	Is the FI a signatory of the UN Principles of Responsible Investments or the UN Principles of Sustainable Banking?	0	0	1	1
	Has the FI committed to collaboration initiatives such as Climate Action 100+, The Investor Agenda, Institutional Investor Group on Climate Change, UNEP FI, CDP, Sustainable Blue Economy Finance Principles, or others?	0	0	0.5	0
	Does the FI publicly support the TCFD recommendations?	0	0	0	0
	Does the FI advance the sustainability agenda by driving awareness through thought leadership, events or research?	0	0.5	0.5	0.5
	Does the FI support or engage on public policy interventions that support the shift to a sustainable economy (e.g. carbon pricing, mandatory ESG disclosures for listed companies, etc.)?	0	0	0	0
POLICIES	RESPONSIBLE INVESTMENT POLICIES				
	Does the FI have a RI policy or equivalent section in its investment policy?	0	0	1	0.5
	Does this policy cover all listed equities, funds and geographies?	0	0	1	0.5
	Does the FI disclose its proxy voting policies or guidelines?	0	0	0	0.5
	Does the FI periodically review its RI policies?	0	0	0.5	0.5
	ISSUE-SPECIFIC POLICIES				
	Does the FI have a policy or statement explaining that climate change is incorporated into investment decision-making?	0	0	1	0.5
	Does the FI’s voting policy have a statement on how climate-related issues will be voted?	0	0	0	0.5
	Does the FI have a policy or statement explaining that water risk is incorporated into investment decision-making?	0	0	1	0
	Does the FI’s voting policy have a statement on how water risk-related issues will be voted?	0	0	0	0
	Does the FI have a policy or statement explaining that deforestation and biodiversity loss are incorporated into its investment decision-making?	0	0	1	0
	Does the FI’s voting policy have a statement on how deforestation or biodiversity issues will be voted?	0	0	0	0
	Does the FI have a policy or statement explaining that the sustainable use of oceans, seas and marine resources is incorporated into investment decision-making?	0	0	0	0
	Does the FI’s voting policy have a statement on how issues pertaining to the sustainable use of oceans, seas and marine resources will be voted?	0	0	0	0
	Does the FI have a policy or statement explaining that labour standards are incorporated into its investment decision-making?	0	0	1	0.5
	Does the FI expect all portfolio companies to adhere to international labour standards as outlined by the International Labour Organization’s Fundamental Conventions?	0	0	1	0.5
	Does the FI’s voting policy have a statement on how labour-related issues will be voted?	0	0	0	0.5
	Does the FI have a policy or statement explaining that human rights are incorporated into its investment decision-making?	0	0	0.5	0.5
	Does the FI expect all portfolio companies to adhere to the UN Global Compact?	0	0	0	0
	Does the FI’s voting policy have a statement on how human rights-related issues will be voted?	0	0	0	0.5
	Does the FI have sector policies for high risk/impact sectors?	0	0	1	0.5
	Does the FI have exclusion policies for certain issues, sectors or companies?	0	0	0.5	0.5
PROCESSES	RESEARCH, STOCK SELECTION, AND MONITORING				
	Does the FI disclose its source(s) of obtaining ESG data and research?	0	0	0	0
	Does the FI screen out companies and funds by any sustainability issues or criteria?	0	0	0.5	0.5
	Does the FI’s ESG analysis lead to quantitative adjustments in stock selection or portfolio construction (e.g. adjusting company valuations or portfolio weightings)?	0	0	0	0.5
	Does the FI employ science-based tools, methodologies or criteria to assess portfolio companies’ and funds’ risks or opportunities?	0	0	0	0
	Does the FI expect companies and funds to assess and report on ESG issues?	0	0	0	0.5
	Does the FI proactively monitor and review the ESG performance of portfolio companies and funds?	0	0	0	0.5
	Has the FI defined key metrics for monitoring ESG performance of portfolio companies and funds (e.g. greenhouse gas emissions, water consumption, training hours, supply chain audits)?	0	0	0	0
	Does the FI periodically review its RI processes?	0	0	0.5	0.5
	ACTIVE OWNERSHIP				
	Does the FI publicly lay out clear expectations on ESG for companies and funds?	0	0	1	0.5

	Does the FI directly communicate its expectations of investee companies and funds on ESG, e.g. via emails or letters?	0	0	0	0.5
	Where companies or funds fall short of expectations, does the FI attempt to introduce measures requiring timebound action plans to meet these?	0	0	1	0.5
	Does the FI engage with companies and funds on ESG issues (e.g. climate change, water risk, deforestation and biodiversity loss, labour rights, human rights)?	0	0	1	0.5
	Has the FI participated in any collective engagements on ESG issues in the last reporting year?	0	0	0	0
	Is there a mechanism for escalation if engagement fails (e.g. shareholder resolutions, divestment)?	0	0	1	0.5
	Does the FI vote on resolutions related to sustainability at investee companies or funds?	0	0	0	0.5
PEOPLE	GOVERNANCE				
	Does the FI state who is responsible for RI oversight and implementation?	0	0	1	0
	Is there board-level responsibility for RI?	0	0	1	0
	Is there board-level responsibility for climate risk, e.g. is climate risk management included in the board mandate?	0	0	0	0
	Do the terms of reference of the board's nominating committee or the criteria used in appointing new directors cover a requirement to consider sustainability?	0	0	0	0
	Do the terms of reference of the board's audit committee or the criteria used cover a requirement to consider sustainability?	0	0	0	0
	Is senior management provided with clear directives to ensure periodic audits that assess the implementation of RI policies and processes?	0	0	0	0
	SKILLS				
	Does the FI have dedicated RI specialists via either in-house personnel or specialist stewardship services?	0	0	1	0
	Does the ESG team have a role in stock selection and investment committees?	0	0	0	0
	Does the FI provide training on ESG for portfolio managers?	0	0	1	0
	Does the FI provide training on ESG for senior management (e.g. investment committee, CEO, CIO) and the board?	0	0	0	0
	INCENTIVES				
	Do the terms of reference of the board's remuneration committee or the criteria used in its remuneration policies cover a requirement to consider sustainability?	0	0	0	0
	Are ESG metrics part of KPIs or other staff performance metrics?	0	0	0	0
	Is fixed or variable remuneration of portfolio managers linked to ESG?	0	0	0	0
PRODUCTS	PRODUCT AVAILABILITY				
	Does the FI offer funds focusing on sustainability or any specific ESG themes (e.g. climate change, deforestation, water, human rights) or apply any best-in-class screens?	0.5	0	0.5	0
	Does the FI have any funds for which the carbon footprint or intensity is disclosed, with a clear decarbonization pathway?	0	0	0	0
	Does the FI use any performance benchmark that integrates ESG (including passive ESG index/indices tracking)?	0	0	0	0
	PROMOTION OF PRODUCTS TO CLIENTS				
	Does the FI discuss sustainable investment approaches and preferences for RI products with clients?	0	0	0.5	0
PORTFOLIO	RISK ASSESSMENT				
	Does the FI routinely assess the ESG risks to its portfolio?	0	0	0	0.5
	Does the FI conduct climate risk assessments or scenario analysis (e.g. PACTA) at the portfolio level?	0	0	0	0
	Does the FI disclose how it prioritizes issues and companies for engagement?	0	0	0	0.5
	METRICS AND TARGETS				
	Does the FI calculate and disclose its carbon footprint or intensity at the portfolio level?	0	0	0	0
	Does the FI disclose other metrics and targets used to assess and manage the ESG impacts of its portfolio?	0	0	0	0
	Does the FI disclose the portion of its portfolio managed under ESG mandates (excluding pension funds)?	0	0	0	0
	Has the FI developed and explained a strategy or methodology for decarbonizing its portfolio?	0	0	0	0
	DISCLOSURE				
	Does the FI disclose its holdings (excluding pension funds)?	0	0	0	0
	Does the FI report on RI actions and progress at least annually?	0	0	0	0
	Does the FI disclose its engagement activity to enhance its portfolio companies ESG performance (e.g., no. of engagements)?	0	0	0	0
	Does the FI evaluate and/or disclose progress made on engagements?	0	0	0	0
	Does the FI disclose how it voted (for/against management), and the reasons for these votes, to reflect ESG concerns?	0	0	0	0
	Does the FI disclose the outcomes and/or impacts of its investments (e.g. impact by SDGs)?	0	0	0	0
	Does the FI measure and report on the impact of integrating ESG on fund performance?	0	0	0	0
	Does the FI disclose the ESG performance of its funds?	0	0	0	0
	Does the FI have an external audit conducted on its ESG-related disclosures?	0	0	0	0