Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant
Luminor Bank AS (including its branches in Lithuania and Latvia), LEI 213800JD2L89GGG7LF07

Summary
Luminor Bank AS (including its branches in Lithuania and Latvia), LEI 213800JD2L89GGG7LF07 (further in this document – the Bank) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Luminor Bank AS (including its branches in Lithuania and Latvia).

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2023.

The Bank considers principal adverse impact on entity level by measuring and monitoring the aggregated negative impact on sustainability factors of Discretionary Portfolio Management (further in this document - DPM) investments. The Bank considers the mandatory principal adverse impact indicators and three voluntary indicators defined by the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter – the SFDR) and the Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 (hereinafter – the SFDR RTS), subject to data availability and quality.

Description of principal adverse sustainability impacts

TABLE 1

Indicators applicable to investments in investee companies

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	5847,013 tonne CO2e	6571,093 tonne CO2e	Coverage[1] 94.66% Estimated 0% Reported 100%	The increase in the absolute GHG emissions for the year 2023 vs 2022 can be noted, which is in line with the general increase in the assets under management. In addition, the investment team has updated the portfolio allocations in late 2023 while giving preference to instruments with higher ESG metrics in the process. The principles of the ESG preference in the rebalancing process stem from the ESG Due Diligence procedure in the Bank. Both on the entity level (the Bank) and the product level (DPM), we ensure the principal adverse sustainability impact consideration in the investment process by leveraging on the following practices:
		Scope 2 GHG emissions	1328,1575 tonne CO2e	1201,1813 tonne CO2e	Coverage 94.66% Estimated 0% Reported 100%	
		Scope 3 GHG emissions	49562,87 tonne CO2e	40866,637 tonne CO2e	Coverage 93.26% Estimated 0% Reported 100%	
		Total GHG emissions	56898,664 tonne CO2e	48755,906 tonne CO2e	Coverage 93.13% Estimated 0% Reported 100%	

2. Carbon footprint	Carbon footprint	573,7082 tonne CO2e / EUR M invested	636,48517 tonne CO2e / EUR M invested	Coverage 93.13% Estimated 0% Reported 100%	1) In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). With regards to collective investment undertakings, we invest only in financial instruments issued by the UN PRI signatory investment managers. 2) To prevent direct investments in financial instruments that might cause principal adverse impacts on sustainability factors, we follow our exclusion list that has been defined in Luminor Sustainability Policy. In the next reference period, the Bank will closely follow the ESG metrics of its portfolios and financial instruments while assessing the opportunities for further ESG integration in the investment decision making process.
3. GHG intensity of investee companies	GHG intensity of investee companies	1073,6865 tonne CO2e / EUR M revenue	1195,1255 tonne CO2e / EUR M revenue	Coverage 93.25% Estimated 0% Reported 100%	
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	15,537964 %	22,354828 %	Coverage 91.53% Estimated 0% Reported 100%	
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	Consumption: 63,739517 %	Consumption: 68,15797 %	Coverage 82.35% Estimated 0% Reported 100%	
		Production: 62,329475 %	Production: 64,81613 %	Coverage 97.49% Estimated 0% Reported 100%	
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Total: 0,90097845 GWh / EUR M revenue	Total: 1,2918688 GWh / EUR M revenue	Coverage 94.65% Estimated 0% Reported 100%	
		Sector A: 0,33064696 GWh / EUR M revenue	Sector A: 0,22256191 GWh / EUR M revenue	Coverage 99.51% Estimated 0% Reported 100%	
		Sector B: 2,431795 GWh / EUR M revenue	Sector B: 2,3637462 GWh / EUR M revenue	Coverage 94.49% Estimated 0% Reported 100%	
		Sector C: 0,34526384 GWh / EUR M revenue	Sector C: 0,37483943 GWh / EUR M revenue	Coverage 98.46% Estimated 0% Reported 100%	
		Sector D: 3,5903249 GWh / EUR M revenue	Sector D: 4,2673697 GWh / EUR M revenue	Coverage 79.29% Estimated 0% Reported 100%	

			Sector E: 0,6254704 GWh / EUR M revenue	Sector E: 0,65044296 GWh / EUR M revenue	Coverage 85.13% Estimated 0% Reported 100%
			Sector F: 0,16026604 GWh / EUR M revenue	Sector F: 0,17502373 GWh / EUR M revenue	Coverage 87.66% Estimated 0% Reported 100%
			Sector G: 0,07455489 GWh / EUR M revenue	Sector G: 0,080478735 GWh / EUR M revenue	Coverage 98.73% Estimated 0% Reported 100%
			Sector H: 0,869779 GWh / EUR M revenue	Sector H: 0,87975204 GWh / EUR M revenue	Coverage 89.93% Estimated 0% Reported 100%
			Sector L: 0,4215998 GWh / EUR M revenue	Sector L: 0,41306198 GWh / EUR M revenue	Coverage 97.34% Estimated 0% Reported 100%
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	2,5187488 %	2,7025752 %	Coverage 90.84%
Water	8. Emissions to water	Tonne of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0,007292491 tonne / EUR M invested	0,007026639 tonne / EUR M invested	Coverage 26.96% Estimated 0% Reported 100%
Waste	9. Hazardous waste and radioactive waste ratio	Tonne of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	52,909935 tonne / EUR M invested	57,254147 tonne / EUR M invested	Coverage 93.53% Estimated 0% Reported 100%

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	13,0309725 %	7,6426277 %	Coverage 90.84%	The Bank's investment team has updated the portfolio allocations in late 2023 while giving preference to instruments with higher ESG metrics in the process. The principles of the ESG preference in the rebalancing process stem from the ESG Due Diligence procedure in the Bank. Both on the entity level (the Bank) and the product level (DPM), we ensure the principal adverse sustainability impact consideration in the investment process by leveraging on the following practices: 1) In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). With regards to collective investment undertakings, we invest only in financial instruments issued by the UN PRI signatory investment managers. 2) To prevent direct investments in financial instruments that might cause principal adverse impacts on sustainability factors, we follow our exclusion list that has been defined in Luminor Sustainability Policy. In the next reference period, the Bank will closely follow the ESG metrics of its portfolios and financial instruments while assessing the opportunities for further ESG integration in the investment decision making process.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0,48554397 %	0,5008696 %	Coverage 97.22% Estimated 0% Reported 100%	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	11,373357 %	11,285238 %	Coverage 51.96% Estimated 0% Reported 100%	
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	32,082493 %	30,87223 %	Coverage 97.84% Estimated 0% Reported 100%	
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0,002832625 %	0,001862367 %	Coverage 95.21% Estimated 0% Reported 100%	

Indicators applicable to investments in sovereigns and supranationals

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental	15. GHG intensity	GHG intensity of investee countries	586,6918 tonne CO2e / EUR M GDP	539,6328 tonne CO2e / EUR M GDP	Coverage 99.33% Estimated 0% Reported 100%	The Bank's investment team has updated the portfolio allocations in late 2023 while giving preference to instruments with higher ESG metrics in the process. The principles of the ESG preference in the rebalancing process stem from the ESG Due Diligence procedure in the Bank. Both on the entity level (the Bank) and the product level (DPM), we ensure the principal adverse sustainability impact consideration in the investment process by leveraging on the following practices: 1) In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). With regards to collective investment undertakings, we invest only in financial instruments issued by the UN PRI signatory investment managers. 2) To prevent direct investments in financial instruments that might cause principal adverse impacts on sustainability factors, we follow our exclusion list that has been defined in Luminor Sustainability Policy. In the next reference period, the Bank will closely follow the ESG metrics of its portfolios and financial instruments while assessing the opportunities for further ESG integration in the investment decision making process.

Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	Relative: 2,0411384 % Absolute: 2 -	Relative: 2,6133695 % Absolute: 2,5 -	Coverage 100% Estimated 0% Reported 100% Coverage 100% Estimated 0% Reported 100%	The Bank adheres to investment restrictions applicable further to sanctions imposed by the EU, UN and US.

Indicators applicable to investments in real estate assets

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil fuels	17. Exposure to fossil fuels	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	N/A	N/A	Not applicable taking into account the assets that are included into Bank's DPM service.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	N/A	N/A	N/A	

Other indicators for principal adverse impacts on sustainability factors

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Luminor Group has approved following policies and guidelines with the purpose to help identify and prioritize principal adverse sustainability impacts in the business activities of its different divisions and subsidiaries:

Sustainability Policy (approved on 16.12.2022) – outlines the main sustainability principles and values we follow in our business activities, decision making (including investment decision making). Summary statements and key principles are provided **here**.

Sustainable Investment Guidelines (approved on 25.11.2022) – outline sustainable investment principles, including the Sustainability (ESG) risk integration in the investment decision making process in Luminor Bank and its asset management subsidiaries. The statement on the Sustainable Investment Guidelines providing a brief description of the main principles is published **here**.

The Bank has approved DPM ESG Due Diligence Procedure (approved on 30.05.2023), which describes how Sustainability (ESG) risks and Principal Adverse Impacts are integrated in the investment decision making processes and how the ESG due diligence assessment is performed for the financial instruments proposed for the DPM Active list. In addition, this procedure defines: 1) the allocation of responsibility when implementing the principal adverse impact prioritization framework in the investment decision making process to the Wealth Management department of the Bank; 2) the relevant methodology applicable to principal adverse impact prioritization.

In the investment process the Bank aims to identify principal adverse sustainability impact from the investment decisions. The Bank avoids direct investments in companies that do not meet our minimum safeguards. The Bank aims to invest in investment funds managed by external asset managers who are UN PRI signatories and thus exhibit positive trend in integrating ESG factors in their businesses. This provides the Bank opportunity to identify and prioritize investments with lower principal adverse sustainability impact.

The Bank selects for the listed indicators the third-party data provider based on data quality and accessibility assessment, as well as third-party reliability based on the Bank's procurement processes and methodology.

The methodology to identify principal adverse sustainability impacts is always subject to data availability and quality, and hence to margin of error. We are reliant on the quality of data received from third-party data providers (CLARITY AI, Inc.).

Engagement policies

According to the applicable legislation[2] we inform the client before provision of the discretionary portfolio management services that the Bank does not directly invest in stocks of the companies, which are listed in the regulated markets. Accordingly, the Bank does not prepare such engagement policies.

References to international standards

We take responsibility for the impact on the society and the environment caused by our business activities, and we expect our vendors and suppliers to do the same. Our Code of Conduct outlines Luminor principles on responsible business conduct and needs to be consented by our vendors and suppliers before starting any business relationship. In our activities we support and consider the guidance provided by the following international standard setters, including without limitation:

- United Nations: Global Compact; Principles of Responsible Investments (UN PRI); Guiding Principles on Business and Human Rights;
- OECD: Guidelines on Multinational Enterprises; Anti-Bribery and Corruption Guidance;
- International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy;
- United States Foreign Corrupt Practices Act and United Kingdom Anti-Bribery Act 2010;
- The local Baltic Banking Associations´ Codes of Conduct.

In our Sustainability Policy, we commit to support the transformation to low carbon economy. We lean, where applicable, on internal regulations for conducting the ESG due diligence related activities and are committed to integrate into our processes the international requirements, voluntary commitments, and recognized frameworks by EU regulations[3] [4], OECD Guidelines[5], the UN Sustainable Development Goals[6], and the UN Guiding Principles on Business and Human Rights[7].

Due to volatile data availability in the market, the Bank did not use forward-looking climate scenarios during the reporting period.

Historical comparison

For historical comparison purposes, we include the data from the previous reference period in the Tables 1, 2 and 3. The data of the previous reporting period may have been updated to reflect the changes in the calculation methodology and investment portfolios data improvements.

Other indicators for principal adverse impact

In addition to the set of mandatory indicators, we consider three additional indicators subject to data availability and quality.

The Bank considers an indicator relating to emissions – investments in companies without carbon emission reduction initiatives. In regard to this indicator, Bank monitors the share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement. This indicator is part of the set of additional indicators that relate to climate and the environment, as defined by the SFDR RTS (SFDR RTS Table 2, indicator 4).

The Bank considers an indicator that relates to human rights – lack of a human rights policy. In regard to this indicator the Bank monitors the share of investments in entities without a human rights policy defined by the SFDR RTS (SFDR RTS Table 3, indicator 9).

The Bank also considers an indicator that relates to anti-corruption and anti-bribery. In regard to this indicator the Bank monitors the number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws defined by the SFDR RTS (SFDR RTS Table 3, indicator 17).

The Bank does not use other indicators to identify and assess additional principal adverse impacts on a sustainability factor than those mandatory indicators that are set out in Table 1, and the additional indicators that we have opted to consider in Tables 2 and 3.

TABLE 2

Additional climate and other environment-related indicators

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Adverse sustainability impact	**Adverse impact on sustainability factors (qualitative or quantitative)**	**Metric**	**Impact 2023**	**Impact 2022**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Indicators applicable to investments in investee companies						
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	60,9084 %	71,442245 %	Coverage 99.66% Estimated 0% Reported 100%	The Bank's investment team has updated the portfolio allocations in late 2023 while giving preference to instruments with higher ESG metrics in the process. The principles of the ESG preference in the rebalancing process stem from the ESG Due Diligence procedure in the Bank. Both on the entity level (the Bank) and the product level (DPM), we ensure the principal adverse sustainability impact consideration in the investment process by leveraging on the following practices: 1) In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). With regards to collective investment undertakings, we invest only in financial instruments issued by the UN PRI signatory investment managers. 2) To prevent direct investments in financial instruments that might cause principal adverse impacts on sustainability factors, we follow our exclusion list that has been defined in Luminor Sustainability Policy. In the next reference period, the Bank will closely follow the ESG metrics of its portfolios and financial instruments while assessing the opportunities for further ESG integration in the investment decision making process.

TABLE 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Adverse sustainability impact	**Adverse impact on sustainability factors (qualitative or quantitative)**	**Metric**	**Impact 2023**	**Impact 2022**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Indicators applicable to investments in investee companies						
Human Rights	9. Lack of a human rights policy	Share of investments in entities without a human rights policy	9,565277 %	14,339117 %	Coverage 96.38% Estimated 0% Reported 100%	The Bank's investment team has updated the portfolio allocations in late 2023 while giving preference to instruments with higher ESG metrics in the process. The principles of the ESG preference in the rebalancing process stem from the ESG Due Diligence procedure in the Bank. Both on the entity level (the Bank) and the product level (DPM), we ensure the principal adverse sustainability impact consideration in the investment process by leveraging on the following practices: 1) In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). With regards to collective investment undertakings, we invest only in financial instruments issued by the UN PRI signatory investment managers. 2) To prevent direct investments in financial instruments that might cause principal adverse impacts on sustainability factors, we follow our exclusion list that has been defined in Luminor Sustainability Policy. In the next reference period, the Bank will closely follow the ESG metrics of its portfolios and financial instruments while assessing the opportunities for further ESG integration in the investment decision making process.
Anti-corruption and anti-bribery	17. Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws	Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws by investee companies	1: 2 2: 4769,2812 million EUR	1: 2 2: 4766,451 million EUR	1: Coverage 90.84% Estimated 0% Reported 100% 2: Coverage 90.84% Estimated 0% Reported 100%	

1. Coverage refers to a fraction of companies, where there is data available to calculate a specific Principal Adverse Impacts (PAI). To ensure a good level of accuracy and coverage the Bank prioritizes reporting of the PAIs at a company level, but uses data from parent companies when the coverage at company level is not sufficient. When data from the closest parent organization is still not sufficient the third-party data provider searches for other parents in the organization structure.
2. Clause § 211²(6) of the Securities Market Act in Estonia, Financial Instruments Market Law Section 126 in Latvia, Article 41(1) of the Law on Markets in Financial Instruments of the Republic of Lithuania.
3. Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. Available at: **EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)**
4. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance). Available at: **EUR-Lex-32020R0852 - EN - EUR-Lex (europa.eu)**
5. OECD (2018) OECD Due Diligence Guidelines for Responsible Conduct. Available at: **OECD-Due-Diligence-Guidance-for ResponsibleBusiness-Conduct.pdf**
6. Available at: **THE 17 GOALS | Sustainable Development (un.org)**
7. UN (2011) Guiding Principles on Business and Human Rights, Available at: **Guiding Principles Business HR_EN.pdf (ohchr.org).**