The statement on principle adverse sustainability impacts and indicators of Luminor

The statement on principle adverse sustainability impacts and indicators was designed by Luminor Bank AS including its branches in Lithuania and Latvia (hereinafter – Luminor) based on requirements stemming from the Article 4 of 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.

Information about policies governing the identification and prioritization of principal adverse sustainability impacts and indicators

Luminor's principles in the area are described in Luminor Sustainability Policy (more information on Luminor Sustainability Policy can be found here. To prevent investing 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. Furthermore, Luminor's risk management framework (Risk Appetite Framework-Policy and Risk Policy and Strategy) governs the processes for sustainability risk identification, assessment, and remediation thereof to ensure that Luminor does not offer products or services or perform other activities which may entail material risk of contributing to unethical conduct, infringement of human or labour rights, corruption or serious environmental harm as defined in Sustainability Policy.

In our investment activities we support and consider the guidance provided by the United Nations Principles for Responsible Investment (UN PRI). For our managed mandates (like discretionary portfolio management service) with regards to collective investment undertakings we invest only in financial instruments issued by investment managers who have signed UN PRI.

To ensure due management of potential and/or actual adverse impacts on environmental, social and governance (hereinafter – ESG) risk factors caused by our activities, on 26 April 2022 Luminor approved ESG Due Diligence Guidelines (hereinafter – Guidelines) describing the main principles for the identification, prioritization and management of principal adverse sustainability impacts and indicators, the measures we aim to implement when conducting the ESG due diligence, assessment of our business activities, decision making and relationships with our employees, customers, vendors, and suppliers. The ESG due diligence process includes the following steps: (1) identification of the ESG risk drivers and collection of information; (2) assessment of the ESG risk level (inherent and residual risk assessment based on our non-financial risk grid integrating the ESG risk impact severity levels; (3) definition of appropriate risk treatment measures, and (4) underlying monitoring activities. The statement on the ESG Due Diligence Guidelines providing a brief description of the established processes is published here.

Description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned

In Luminor's Sustainability Policy we define principal adverse sustainability impacts as impacts of investment decisions and/or advice or any other business decisions that result in negative effects on ESG risk drivers of Luminor or its clients. Furthermore, we understand that actual or potential principal adverse impact may result in negative outcome for communities and companies relating to a relevant ecological, social or economic system (e.g. decrease well-being of people and communities, decrease in ecosystem quality (e.g. water and air quality decrease), reduction of client demand, technology obsolescence, collapse of supply chains, deterioration of the existing and future creditworthiness of the customers, implementation of financing restrictions, fines for non-compliance with regulation, reputational loss, etc.) from ESG risk drivers (such as biodiversity, pollution, air and water quality), which can be classified according to the respective risk levels, taking the severity, nature and likelihood of the impact into account. Principal Adverse Impact is an impact that is specifically significant by its nature, affecting a large number of persons, or a large area of the environment, or a business area, or which is irreversible, or is particularly difficult to remedy as a result of the measures necessary to restore the situation prevailing prior to the impact. ESG risk drivers and the relevant principal adverse impacts for Luminor have been outlined in the ESG Due Diligence Guidelines. These Guidelines govern the ESG due diligence process and define the methodology for assessment of the potential or actual adverse impacts and severity thereof.

Moreover, during 2021 we were also revising our offering in the investment and ancillary services area and we were analyzing the possibilities of incorporation of the sustainability related risks and the consideration of principal adverse sustainability impacts in our processes and governance framework.

It is our objective to set targets in 2022 associated with promotion of ESG characteristics and ensuring the due implementation of the ESG due diligence principles and framework for identification and assessment of the principal adverse impacts of our investment decisions.

Brief summaries of engagement policies in accordance with Article 3g of Directive 2007/36/EC

According to the applicable legislation[1] we inform the client before provision of the discretionary portfolio management services that Luminor Bank AS does not directly invest in stocks of the companies, which are listed in the regulated markets. Accordingly, Luminor Bank AS does not prepare such engagement policies.

Reference to the adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of our alignment with the objectives of the Paris Agreement

We take responsibility for the impact on the society and the environment caused by our business activities, and we expect our clients, vendors and suppliers (hereinafter- Third Parties) to do the same. Our Third Party Code of Conduct outlines Luminor principles on responsible business conduct and needs to be consented by our Third Parties 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[2,3] , EU Taxonomy, OECD Guidelines[4], the UN Sustainable Development Goals[5], and the UN Guiding Principles on Business and Human Rights[6].

[1] 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

[2] 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)

[3] 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)

[4] OECD (2018) OECD Due Diligence Guidelines for Responsible Conduct. Available at:DOECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf

[5] Available at: THE 17 GOALS | Sustainable Development (un.org)

[6] UN (2011) Guiding Principles on Business and Human Rights, Available at: GuidingPrinciplesBusinessHR_EN.pdf (ohchr.org)