



Sector Policy on Real Estate and Construction for the SEB Group

adopted by the Risk and Capital Committee of the Board of Directors of
Skandinaviska Enskilda Banken AB (publ)
on 17 October 2023

Sustainable Banking

Sector Policy on Real Estate and Construction

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1 Introduction

The real estate and construction sectors are important industries in terms of providing residential and commercial properties. They are also capital intensive in nature. Due to the energy consumption, material use and waste, the sectors can play a major role in the transformation towards a low carbon and circular economy. At the same time, the construction sector is exposed to social risks in terms of potentially poor working conditions and informal labour as well as risks of corruption.

2 Purpose

The purpose of this sector policy is to define SEB's position on business relationships with companies involved in acquisition and ownership of real estate, development of real estate, and construction of real estate.

It has been developed to ensure that business decisions are aligned with SEB's overall sustainability ambitions as expressed in SEB's Corporate Sustainability Policy. Furthermore, it builds on the principles defined in the thematic Environmental Policy as well as the Social and Human Rights Policy. SEB sector policies are updated annually.

3 Definitions

- **Biodiversity:** "Biodiversity is the total variety of all Earth's species, their genetic information, and the ecosystems they form."¹
- **Biodiversity baseline:** Collection and interpretation of Biodiversity values occurring through operation or new projects, their current condition and future development.²
- **Business relationship:** A commercial relationship with a legal entity based on a legal agreement including, but not limited to, holding of securities.
- **Circular Economy:** An economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.³
- **Company:** Legal corporate entity conducting business.
- **Embodied Carbon:** Carbon emissions created during the supply chain and construction of real estate.
- **GHG (Greenhouse Gas) Emissions:** Emissions of carbon dioxide (CO₂),

¹ Definition as defined by the Science-Based Targets Network (SBTN)

² Gullison, R.E., J. Hardner, S. Anstee, M. Meyer. 2015. Good Practices for the Collection of Biodiversity Baseline Data. Prepared for the Multilateral Financing Institutions Biodiversity Working Group & Cross-Sector Biodiversity Initiative

³ Regulation (EU) 2020/852, a.k.a the EU taxonomy, article 2.

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methane (CH₄), nitrous oxide (N₂O), hydrochlorofluorocarbons (HCFCs), ozone (O₃), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF₆).

- **Mitigation Hierarchy:** A method which provides guidance on how to limit the negative impact on Biodiversity as far as possible, and includes the following sequential steps: “Avoid”, “Minimize”, “Restore”, and lastly “Offset”.⁴
- **Real estate:** *Commercial real estate:* factories, offices, hotels, logistics and public buildings such as health care facilities, train and bus stations, libraries, schools, museums, etc. *Commercially-owned residential real estate:* Multi-family dwellings in rental housing.⁵
- **Scope 1, 2 and 3:** Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in a company's value chain.⁶
- **SEB:** Skandinaviska Enskilda Banken AB (publ).
- **SEB Group:** Skandinaviska Enskilda Banken AB (publ) and its affiliates, such as subsidiaries, branches and representative offices. Foundations related to SEB are not part of the SEB Group.

4 Scope

This sector policy is a group policy. As such it shall be implemented in all parts of the SEB Group apart from SEB Investment Management AB, taking local or sector specific rules into account when relevant.⁷

The policy covers companies involved in:

- Acquisition and ownership of real estate where more than 50% of gross leasable area is leased to external tenants,⁸ or;
- Development of real estate where more than 50% of turnover is derived from sales of developed real estate to external clients;⁹
- Construction and renovation of real estate where more than 15% of turnover is derived from construction or renovation of real estate.

Any deviations from this policy shall be escalated in accordance with the Customer Acceptance Mandate Instruction.

⁴ The Biodiversity Consultancy

⁵ Property and real estate that is directly owned by a natural person (i.e., not owned by a legal entity) and tenant-owned housing cooperatives are not in scope of this policy.

⁶ For more information on scope 1, 2 and 3, see the Greenhouse Gas Protocol.

⁷ SEB Investment Management AB, the fund company of the SEB Group, is not party to this policy due to regulatory reasons, and instead establishes its own sustainability-related policies.

⁸ Tenants outside of any group structure.

⁹ Ibid.

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Implementation level

All SEB sector policies have different implementation levels:¹⁰

- **Restrict:** SEB restricts business relationships with companies that are non-compliant.
- **Require:** SEB requires companies to comply with SEB's position. Non-compliance requires active decisions on SEB's business relationship.
- **Expect:** SEB expects companies to adhere to this sector policy. Non-adherence requires actions that over time will ensure adherence.

Table 1 shows how the policy implementation levels are applied to different sizes of companies.

Table 1: SEB policy implementation in relation to different sizes of companies.

<i>Implementation levels</i>	Company size		
	Retail¹¹	SME¹²	Large companies¹³
SEB expects	-	-	✓
SEB requires	-	✓	✓
SEB restricts	-	✓	✓

✓ Implementation level applicable

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

*For investment-related activities, listed companies are in scope, regardless of size.

The following activities are not covered by the policy (i.e., exempt):

i) when SEB lends:

- 1) Securities financing transactions, provided the borrower itself is not covered by this sector policy.

ii) when SEB invests and distributes investment products:

- 1) Investments in securities that are a consequence of seized assets in the ordinary course of business;
- 2) Investments in securities where SEB does not make the investment decision;¹⁴

¹⁰ Review of clients' compliance with SEB's sustainability-related expectations and requirements is in general performed through recurring due diligence activities.

¹¹ Counterparties where SEB's credit exposure is below EUR 1 million.

¹² Counterparties where SEB's credit exposure is above EUR 1 million and not defined as large corporates. Note that the material share of revenues at *SEB Global limit holder* level still applies.

¹³ Counterparties that fulfil one or more of the following and have not been defined as non-material business relationships in the divisions:

- More than 250 employees
- Turnover above 50m EUR
- Balance sheet (book value) value above 43m EUR.

¹⁴ The investment can still be registered in the name of SEB (e.g., certain pension products).

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- 3) Externally managed funds, i.e., funds managed outside SEB AB. Sustainability considerations in portfolio management and advisory and other distribution and placement activities using externally managed funds are defined in divisional sustainability instructions;
- 4) Investments in securities where external sustainability data is not available at a reasonable effort and quality.

In addition, the following activities are exempted, too:

- 1) Any activity that the SEB Group is obliged to provide due to law or regulation;
- 2) Trading in terms of market making and client order facilitation through the provision of liquidity in securities markets and related research activities;
- 3) Financial products where employees of companies in scope are the beneficiaries, e.g., occupational pension.

Sections 8 and 9 below apply to all three activities related to real estate that this sector policy covers (acquisition and ownership; development; construction and renovation).

In addition, there are specific environmental and social expectations, requirements and restrictions that apply to one or two but not all three real estate activities in scope. These are listed in sections 5 and 6 below.

5 Acquisition and ownership of real estate

Acquisition and ownership of real estate in this policy refers to the activity of acquiring, owning, managing, and selling real estate.¹⁵

5.1 Key sector risks

Key concerns include the following risk areas:

- Air emissions, including GHG emissions and other pollutants from e.g., heating or renovation work;¹⁶
- High fossil-based energy consumption (heating and electricity);
- Water consumption;
- Waste in terms of toxicants, chemicals or wastewater from renovation;
- Health and safety of tenants and nearby residents;
- Extreme weather events leading to physical climate risks such as rising sea levels, flooding, excessive heat and humidity or erosion that can result in risks to people and stranded assets or non-insurance coverage;

¹⁵ Subsectors under the following NACE code L68 (SNI sector codes: 68). In case of conflict the policy takes precedent. Tenant-owned housing cooperatives are not in scope of this policy.

¹⁶ These include fine or coarse particulate matter, volatile organic compounds (VOCs), NO_x, SO₂ and CO. Coarse particles are the relatively large airborne particles mainly produced by the mechanical break-up of even larger solid particles, such as dust, pollen, spores, fly ash, and plant and insect parts. Coarse particles have an aerodynamic diameter ranging from 2.5 to 10µm.

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- Unlawful activities of tenants.

5.2 Environmental expectations

SEB expects companies that acquire or own real estate to:

- Develop a portfolio transition plan for Scope 1&2 use-phase emissions from heating and electricity used in the real estate portfolio;¹⁷
- Have valid energy efficiency certificates of the underlying real estate properties, unless industrial real estate properties;
- Buy energy from non-fossil sources, if available;
- Equip assets with technological equipment that optimizes energy efficiency and maintenance;
- Conduct a climate adaptation risk analysis of portfolio properties.

6 Development of real estate

Development of real estate in this policy refers to the purchase of land or buildings, the addition of value through planning, designing and construction or renovation of real estate and the sale or lease of the finished real estate project to new owners or operators.¹⁸

6.1 Key sector risks

Key concerns include the following risk areas:

- Conversion and destruction of land and water habitats;
- Habitat alteration with impacts on ecosystems and biodiversity;
- Water quality and stress at project location;
- Hazardous materials and substances as well as building materials with significant climate impact (high embodied carbon) such as steel and cement;
- Energy consumption of buildings;
- Waste management for tenants;
- Negative human rights impact from, for example, physical resettlement, safety and security of residents, or bad working conditions during construction and the supply chain.

6.2 Environmental restrictions

SEB shall avoid business relationships with companies with material negative impact, such as land conversion, on sensitive environmental areas such as:¹⁹

- UNESCO World Heritage sites;

¹⁷ By improving energy efficiency of existing buildings according to the latest revision of the Energy Performance of Buildings Directive (EPBD) where focus is on renovation of the least energy efficient properties.

¹⁸ Subsectors under the following NCE sector codes F41.1 – Development of building projects (SNI 411). In case of conflict the policy takes precedent.

¹⁹ Exception can be granted in the presence of national judicial support applying EU environmental legislation.

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- Wetlands covered by the Ramsar Convention;
- Natura 2000 areas;
- National parks and nature reserves;

6.3 Environmental requirements

SEB requires companies involved in development of real estate to:

- Comply with national Nearly Zero Energy Building (NZEB) criteria according to the Energy Performance of Buildings Directive;²⁰
- Comply with relevant regulations for substances of concern;²¹
- Ensure climate declaration for new buildings as specified in national legislation.²²

6.4 Environmental expectations

SEB expects companies that develop real estate to:

- Develop a climate transition plan in line with the Paris Agreement with a life-cycle perspective, including improvements of new development projects over time in both the energy efficiency of the use phase, as well as improvement of embodied carbon through scope 3 purchased goods and services;
- Apply Circular Economy approaches including:
 - o water efficiency;²³
 - o sustainable raw material usage²⁴ and waste management;²⁵
 - o where possible design for building lifetime extension and its decommissioning;
 - o Digitization of planning, construction and operating phase of buildings.
- In case of negative biodiversity impact/conversion of natural habitats apply the mitigation hierarchy.

When relevant:

- Develop a Biodiversity baseline and target by 2025;

²⁰ Local requirements and regulations as applicable. For example, in Sweden BBR29 is applicable; Outside the EU, similar regional or national regulations may apply.

²¹ Such as asbestos or other substances of very high concern as identified on the basis of the list of substances subject to authorisation set out in Annex XIV to Regulation (EC) No 1907/2006, or substances hazardous to soil and water, according to according soil and water protection standards (e.g. EU water framework directive or national groundwater protection regulation); REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals); TSCA (Toxic Substances Control Act); F-GHG (Fluorinated Greenhouse Gases); ODS (Ozone-Depleting Substances).

²² Local requirements and regulations as applicable. For example, in Sweden Boverket's climate declaration applies.

²³ C(2021) 2800, which is Annex 1 to EU commission delegated regulation supplementing the EU taxonomy (Regulation (EU) 2020/852).

²⁴ Such as material that can be disassembled and reassembled elsewhere, material reuse, raw material with low CO₂ emissions.

²⁵ Have a minimum recycling rate of 70% for non-hazardous construction and demolition waste.

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- Conduct an Environmental Impact Assessment.²⁶

7 Construction and renovation of real estate

Construction of real estate in this policy refers to all activities relevant for the construction of a new or renovation/reconstruction of existing real estate, excluding development/design or operation and maintenance of real estate projects.²⁷

7.1 Key sector risks

Key concerns include the following risk areas on site and in the supply chain:

- Air emissions, including GHG emissions and other pollutants;²⁸
- Water quality and stress;
- Noise, vibration and visual intrusion;
- Energy consumption;
- Waste management for toxicants, chemicals, material waste and wastewater;
- Significant use of raw materials;
- Hazardous materials and substances as well as building materials with significant climate impact (high embodied carbon) such as steel and cement;
- Health and safety of workers;
- Working conditions such as discrimination, working hours and rest periods;
- Human trafficking;
- Financial crime;
- Bribery and corruption.

7.2 Environmental restrictions

SEB shall avoid business relationships with companies or projects with material negative impact as listed under 6.2.

7.3 Environmental expectations

SEB expects companies that construct and/or renovate real estate to:

- Develop a transition plan in line with the Paris Agreement for GHG emissions coming from the transportation of building materials and other electricity and energy used during the construction phase;
- Have an Environmental Management System including water, waste and energy

²⁶ If outside the EU/EEA/UK base the EIA on standards used in international financing such as IFC – Performance Standards or other Multilateral Development Bank Standard or equivalent

²⁷ Subsectors under the following NACE codes: F41.2 Construction of residential and non-residential buildings (SNI sector codes); F43.1 – Demolition and site preparation (SNI 431); F43.3 – Building completion and finishing (SNI 433); F43.9.9 – Other specialised construction activities (SNI 439). In case of conflict the policy takes precedent.

²⁸ Fine or coarse particulate matter (PM2.5, PM10), volatile organic compounds (VOCs), NO_x, SO₂ or CO.

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management;²⁹

- Have an emergency response and corresponding insurances in case of environmental or social accidents and crises situations.

7.4 Social requirements

SEB requires companies to:

- Ensure only formally employed workers are active at their project sites through documented site controls;
- Ensure suppliers are registered organisations;
- Provide social insurance for all employees;
- Have a Health and Safety Management System to prevent accidents.

When an SEB client owns/runs a construction or renovation project, the above requirements apply to the client's subcontractors, too. When an SEB client is a subcontractor in a construction or renovation project, the requirements apply only to the client.

8 Social expectations

SEB expects companies to respect human rights in their own operations, as well as in their supply chains as expressed in the United Nations Guiding Principles on Business and Human Rights through the implementation of:

- Human rights and labour rights policies including a Human Rights Due Diligence process for own operations and relevant business relationships, including ensuring that tenants do not engage in illegal activities in the property;³⁰
- Health and safety policy based on industry safety guidance or, within the OECD, national legislations;³¹
- Established whistle-blower system with associated grievance mechanism.

When relevant, SEB expects companies to:

- Have appropriate compensation plans in order to acknowledge and respond to community priorities in cases of any physical resettlement;
- Follow the Free, Prior and Informed Consent principles (FPIC) to ensure the rights of indigenous people, as well as transparent and culturally adapted communication.

9 Governance expectations

SEB expects companies to maintain high standards of accountability and integrity regarding their business and supply chains, including:

²⁹ ISO 14001 or similar and for new projects: ISO 20887:2020 or similar standards.

³⁰ In line with ILO Declaration on Fundamental Principles and Rights at work.

³¹ Not applicable to housing co-operative associations.

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- Sustainability report (annually published) in accordance with reporting obligations in the EU;
 - Anti-bribery and anti-corruption policies in proportion to size and risk-exposure of the entity;
 - Tax reporting according to country-by-country principle, when relevant.³²
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³² OECD/G20 BEPS Project (15 actions) – Action 13: Country-by-Country Reporting.