

# Principles for responsible lending

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Aktia

# 1. Introduction

Sustainability guides Aktia's operations. We are committed to being a reliable partner and systematically advancing sustainability aspects both in our own activities and across our sector. We strive to support the green transition. Green transition means supporting activities towards ecologically sustainable and carbon neutral growth. As part of this work, the principles of responsible lending provide the basis for our lending to act as a strengthening factor in the development of sustainability in society, and do not support activities that conflict with the principles of responsible lending.

This instruction describes the implementation of the principles of responsible lending in Aktia's processes. The instruction describes the sectors and activities that are excluded from responsible lending at Aktia or for which conditions are set before credit is granted.

## 2. Responsible lending

Responsible lending starts with the customer. Banks have a statutory obligation to know their customers and to ensure that customers have the right understanding of the financing they are applying for and the ability to take care of the obligations that come with it.

Aktia complies with legal requirements and good lending practices<sup>1</sup>. All lending must be based on the customer's sufficient ability to pay, and credit cannot be granted unless it can be justifiably demonstrated that the customer is able to fulfil their obligations. Aktia does not contribute to arrangements for circumventing legislation or regulation, or arrangements that may cause a reputational risk. Aktia's internal rules and the processes supporting them ensure that customers' rights are realised in Aktia's lending process.

Aktia ensures, both in connection with the customer onboarding process and through continuous monitoring, that the financing operations do not violate the sanctions imposed by the UN, the EU, the UK and the United States or local regulatory authorities.

In addition to binding regulation and internal guidelines, Aktia has committed to following the Principles for Responsible Banking (PRB) as a member of the United Nations Environment Programme Finance Initiative (UNEP FI).

In order to support its sustainability objectives, Aktia has excluded certain business sectors and activities from its financial services. This may apply to different sectors or activities in different ways; some sectors or activities may be completely excluded from financing, and some sectors or activities may be financed partially or under certain conditions.

The current principles for responsible lending are monitored from their date of entry into force and applied to lending for new financing. Existing credits before the date of entry into force remain in force and new financing arrangements may be made for these for risk management reasons, but in other cases the principles for responsible lending and the restrictions contained therein are taken into account when new financing is granted. Thus, a sector or activity subject to restrictions will not be financed unless it is an activity that supports sustainable transition.

### 2.1. Sector-specific restrictions in lending

Certain sectors are excluded from lending because of sustainability factors.

#### Production and sale of weapons

The production and sale of weapons is heavily regulated, both internationally and nationally, as this sector poses significant sustainability risks. The most common risks associated with the sector are:

- adverse impacts on human rights
- intensification of conflicts
- impact on the civilian population
- corruption
- political influence

Controversial weapons are prohibited under international law or questionable in their operating model and Aktia does not finance activities related to the production, distribution, sale, acquisition, or other activities related to such weapons. Controversial weapons include

- landmines
- cluster weapons
- ammunition containing depleted uranium
- chemical weapons
- biological weapons
- blinding laser weapons
- weapons related to non-detectable fragments
- incendiary weapons

<sup>1</sup>[https://www.finlex.fi/fi/lainsaadanto/saaduskokoelma/2023/449#OT1\\_OT0](https://www.finlex.fi/fi/lainsaadanto/saaduskokoelma/2023/449#OT1_OT0)

Nuclear weapons are mainly legal and regulated by the Non-Proliferation Treaty (NPT). However, Aktia does not finance activities related to the production, distribution, sale, acquisition or other activities related to nuclear weapons.

However, under Article 51 of the UN Charter, each member state has the right to defend itself against armed attacks. It follows that each member state is entitled to maintain its own defence system.

Aktia may finance the production of weapons related to national defence, sport shooting and hunting. Aktia does not finance other activities related to the production, distribution, acquisition, or other similar activities related to weapons.

## Livestock production

Livestock production is an important part of Finnish agriculture and self-sufficiency in the food industry. Livestock production refers to, for example, meat, fish, milk, egg, and fur production. In livestock production, sustainability risks may relate to

- living conditions
- genetic engineering
- transport
- inhibition of species-typical behaviour
- health

Aktia requires that all financed activities consider legislation safeguarding animal welfare and that the finance activities do not include the following:

- battery cages
- sow stalls that stop sows turning around
- tie stall barns
- fur farming

In addition, Aktia may decide not to contribute to the financing if the welfare of the animals cannot be verified.

As the amount of greenhouse gas emissions in livestock production is high, measures to curb greenhouse gas emissions related to the financed activities may be considered as a positive factor in the financing decision.

## Fossil fuels

A large part of global greenhouse gas emissions can be attributed to fossil fuels such as fuel oils refined from petroleum, coal and lignite, natural gas, and peat. The use of these fuels in energy production, emissions related

to the production, distribution and consumption of fuels and a reduction in these play a key role in mitigating climate change. Greenhouse gases include carbon dioxide CO<sub>2</sub>, methane CH<sub>4</sub>, nitrous oxide N<sub>2</sub>O and fluorinated greenhouse gases, carbon dioxide being the most significant greenhouse gas produced by humanity. A carbon footprint can be calculated for different human activities to describe how the product, activity, or service burdens the climate.

Aktia does not finance industry related to fossil fuels. Therefore, Aktia does not finance companies that mainly operate in fossil fuel production or in the transport or distribution of energy based on fossil fuels, unless the financing is directed at shifting operations from fossil fuels to renewable energy sources.

## Mining

The mining industry remains an important sector in society. It also has a considerable significance for the green transition. The green transition requires a wide range of metals and minerals to develop clean technologies, such as lithium, nickel, copper, cobalt, aluminium, and steel.

On the other hand, mining is known to have adverse impacts on nature and climate change, for example in the form of emissions, energy needs, earthworks and soil contamination, chemicals and waste generated by operations. In addition, the mining industry is often associated with social and administrative sustainability risks. Risks related to the mining industry include:

- environmental pollution
- toxic and chemical spills
- negative changes in biodiversity and ecosystems due to changed habitat
- greenhouse gas and other emissions
- negative health impacts of stakeholders
- corruption and bribery
- human rights violations
- adverse social impact of activities in conflict-sensitive areas

The EU taxonomy sets out technical criteria for the manufacture of certain metals. Aktia may finance activities that meet the criteria set out in the taxonomy, provided that the activities do not conflict with other principles for responsible lending at Aktia. The recipient of the financing is required to demonstrate taxonomy compliance before the financing decision is made.

In addition, Aktia may finance other mining activities that are preferably linked to the green transition, however provided that:

- Aktia does not finance undertakings engaged in the extraction of asbestos
- Aktia does not finance mountaintop removal mining or companies using this method
- the disposal of tailings must be safe, and tailings must not be dumped in watercourses
- Aktia does not fund mining activities in Natura 2000 areas, national parks, or other comparable areas
- the company to be financed must have effective processes to prevent the realisation of social and governance risks.

### **Tobacco and nicotine products, cannabis, and alcohol**

The harmful effects of tobacco and other nicotine products are significant at both individual and social levels. The Finnish Tobacco Act has set the target that by 2030, a maximum of five per cent of the Finnish population uses tobacco or other nicotine products on a daily basis. Aktia does not fund the tobacco industry because of the health hazards associated with tobacco and other nicotine products and the environmental and social sustainability risks associated with production. This applies to the production and wholesale trade in tobacco and other nicotine products.

E-cigarettes, which do not necessarily contain nicotine, are a relatively new product on the market. Studies have been carried out on the role of e-cigarettes to help stop smoking, but as the results of the studies cannot yet be considered reliable and there already is evidence of significant harm caused by e-cigarettes, activities related to the manufacture or wholesale of e-cigarettes are not financed.

In addition, Aktia does not finance activities linked to the production or distribution of cannabis or other related activities.

Alcohol abuse causes significant social harm, and its alcohol production chains have adverse environmental impacts. The adverse impacts are particularly pronounced in certain risk areas such as Africa and South America. In financing, Aktia aims to consider the impacts of the financed activities and avoid financing in high-risk cases. Aktia pays special attention to companies in the alcohol import sector.

### **Adult entertainment**

Aktia does not finance activities which, according to Aktia's data, are related to the adult entertainment industry, due to the considerable responsibility risks associated with the industry.

### **Gambling**

In gambling, the player can win or lose money based on the stake played, and any winning or loss is based entirely or partly on chance. In gambling, this potential gain or loss is so high that it is disproportionate to the player's assets. Gambling poses numerous responsibility risks, such as:

- minors' gambling
- gambling addiction
- aggressive marketing practices
- money laundering

Aktia does not finance gambling-related activities.

## **2.2. Operational restrictions**

### **Aggressive marketing practices**

Aktia does not support activities for which aggressive practices such as coercion, pressure, harassment, or misleading practices are proven to be used in marketing or customer relations. Aktia does not knowingly finance actors with a proven reliance on such activities and pays particular attention to this in activities related to lending.

### **Fundamental and human rights violations**

The UN General Assembly adopted the Universal Declaration of Human Rights in 1948. In Finland, fundamental and human rights are guaranteed to everyone residing in Finland under the constitution of Finland. Thus, the protection of human rights is an obligation imposed by regulation and companies' reporting obligations associated with it for the entire chain of operations are increasing constantly. Aktia does not support activities that

violate human rights. As a rule, Aktia has therefore excluded sectors where the risk of human rights violations is increased, such as adult entertainment, tobacco and nicotine products, cannabis, and gambling.

### 2.3. Exceptions from sector-specific restrictions

In cases where financing is sought to transform activities that are clearly harmful to the environment into environmentally friendly activities or to enable such a transition, financing may be granted by Aktia. This transition is also possible in sectors excluded by Aktia as follows:

- livestock production
- fossil fuels
- mining

In addition, Aktia may finance vehicles, including earthworks equipment, even if the company or person applying for financing operates directly or as a subcontractor in a sector that is not otherwise financed.

## 3. Consideration of responsibility factors

Aktia monitors the implementation of the principles set on the basis of a sector-based classification. Aktia considers responsibility factors based on the information available to Aktia in any given monitoring situation. The information used for monitoring is not verified from other sources.

Before a credit decision is made, an ESG statement is required **for those credits that are linked to a sector for which Aktia has imposed restrictions**. The possible ESG statement comments on the suitability of the credit applicant's activities for as a credit customer at Aktia and responsibility risks related to the credit. The ESG statement is part of the documentation to be provided to the credit decision makers.

Aktia's ESG department is responsible for the content of the statement and the statement may be based, for example, on information provided by the customer in the credit application, information that Aktia already has, information from public sources or, in individual cases, information from services subject to a charge.

## 4. Responsibilities within responsible lending

The development of responsible lending is carried out in the organisation of the Executive Committee member responsible for the private and corporate customer business in Aktia. Financing decisions are always made considering the internal and external regulatory obligations on lending in force at any given time.

## 5. Reporting

Aktia publishes sustainability information concerning lending and the loan stock as part of Aktia's sustainability reporting, based on the regulatory obligations at any given time. In addition, Aktia may report voluntary information related to responsible lending based on the reference frameworks to which Aktia has committed.