



Responsible Investment Principles

Updated 11/2023



1. Introduction

The Bank of Finland is Finland's monetary authority and national central bank. Its tasks include the management of its own financial assets, such as the foreign reserves as well as the management of the Bank's share of the ECB's foreign reserves. Through its investment activities, the Bank of Finland secures the value of its financial assets and its ability to support the liquidity of the banking system, whenever necessary. The Bank of Finland invests and manages its financial assets in accordance with central bank objectives and taking into account the risks and responsibility aspects related to investment activities. Responsible investment generally means the appropriate recognition of environmental, social and corporate governance issues in investment activities.

This document applies to the Bank of Finland's own financial assets, the management principles for which the Bank decides for itself. This document does not, therefore, apply to, for example, the ECB's asset purchase programmes, management of the ECB's foreign reserves or holdings of special drawing rights (SDRs) allocated by the International Monetary Fund (IMF).

2. Responsible investment at the Bank of Finland

The foundations of our sustainability lie in our core activities. Our mission is based on building economic stability and, therewith, promoting the wellbeing of the population. Climate risk management is a key focus area in our responsibility programme, introduced in 2019. We also contribute to climate action through responsible investment. By signing the UN-supported Principles for Responsible Investment (PRI) in December 2019, we have committed ourselves to incorporating environmental, social and corporate governance issues into our investment decisions and ownership policies and practices. To us, signing these principles means that sustainability is a key criterion in our investment activities; we actively develop our responsible investment practices and report annually on our progress. Responsible investment does not weaken the risk-return ratio of our investment portfolio.

Picture 1. **Responsible Investment**



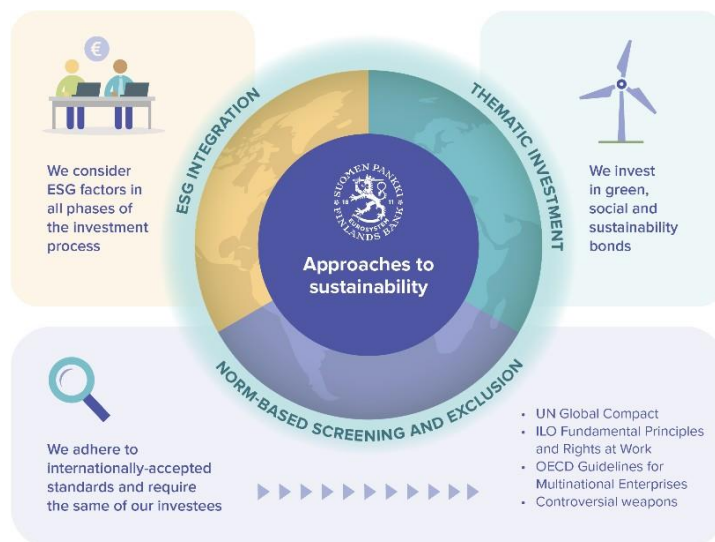
In addition to maintaining responsible practices in our own investment activities, we endeavour to promote responsible investment by playing an active role in various networks and by participating in public discussions.

In our activities and reporting, we adhere to a selection of international recommendations, within the limits of our tasks as a central bank. We report annually on responsible investments concerning our financial reserves, not only in our annual report but also in accordance with the PRI reporting framework. Our reports will also draw on the recommendations issued by the NGFS (Central Banks and Supervisors Network for Greening the Financial System) and the TCFD (Task-Force for Climate-Related Financial Disclosure).

2.1 The Bank of Finland’s approaches to responsible investment

From the various approaches to responsible investment, investors can choose those most suited to their own investment strategies. We have chosen ESG integration, norm-based screening and thematic investments as components in our responsible investment activities. We are not currently investing directly in equities, and therefore our emphasis on active ownership, voting and engagement, in particular, relates to integrating responsible investment practices when we select and monitor asset managers.

Picture 2. **Approaches to responsibility**



2.1.1 ESG integration

ESG integration means including responsibility criteria alongside the traditional financial factors in investment decisions. Our portfolio managers consider ESG factors and employ both external and internal resources when assessing the sustainability of investments and potential investments. In indirect investments, our emphasis is on assessing asset managers from the perspective of responsible investment practices.

Active ownership is assessed on a fund-by-fund basis. Individual investees may be brought up in meetings with asset managers, if necessary. The Bank of Finland's own questionnaire or a questionnaire already widely used in the sector is sent to asset managers each year. This serves to monitor the sustainability aspects in the funds the Bank of Finland invests in and asset managers' general measures to develop their responsible investment policies.

ESG integration also includes the identification of opportunities and risks associated with climate change and impact analysis. Climate change has become one of the main issues to be considered in recent years. The Bank of Finland's sustainability programme published in December 2019, also focuses in the next few years on three areas: the promotion of sustainable growth and wellbeing, making an impact using information and cooperation, and the management of climate risks. Portfolio managers have access to extensive climate data. This information is also used for reporting the climate impacts of the investment portfolios and for monitoring climate goals. In September 2021, the Bank of Finland published a climate target for its own investment activities. The goal is to achieve carbon neutrality by 2050 at the latest for the entire portfolio, excluding gold¹.

2.1.2 Norm-based screening and exclusion

In addition to adherence to regulations, the minimum requirement for our direct investments is that investees comply with internationally accepted standards, or 'norms'. In this context, these are, for example, the United Nations Global Compact principles, the International Labour Organisation's fundamental principles and rights at work and the OECD Guidelines for Multinational Enterprises. We do not make direct investments in companies that manufacture prohibited/controversial weapons as defined in international treaties.

Our portfolio managers use external service providers' analyses to screen direct investments, asset managers and counterparties. Although norm-based screening does not extend to external asset managers' portfolios, we carry out such screening of asset management companies and counterparties whenever possible. Norm-based screening is also one part of the selection of external asset managers.

If we are holding a company among our direct investments that does not meet our responsibility criteria based on norm-based screening, we will refrain from new investments in said company. If a company in our portfolio has initiated active corrective measures, we can maintain our investment in the company. A divestment process will be initiated if the company has not commenced corrective action. Further investments may be made once confirmation has been obtained that the company has taken corrective action and is no longer in breach of the standards. Decisions on issuer exclusion based on responsibility criteria are taken by the Bank of Finland's internal working group on responsible investment. The decisions are reported regularly to the Board of the Bank of Finland.

2.1.3 Thematic investment

In addition to the aforementioned approaches, we make fixed-income investments in green, social and sustainability bonds and bonds issued by development banks. For an

¹ An internationally accepted carbon footprint methodology does not yet exist for gold.

investment to be included in the thematic investment category, it must fulfil third-party assessment criteria.

2.2 Assessment of the sustainability of various asset classes

The Bank of Finland invests its financial assets in various asset classes either directly or indirectly and therefore the methodology for the assessment of sustainability performance also differs across the asset classes. The sustainability weighting may vary between the various portfolios, but it is nevertheless essential that the portfolios always meet the minimum requirements.

Direct government bond investments are made both in the foreign reserves and in long-term investment activity. Preparedness-based aspects have a key impact on the group of currencies included in the Bank of Finland's foreign reserves. Currently, the foreign reserves and the government bonds in the long-term fixed-income investment portfolio consist of bonds issued by developed countries. In considering new countries in its long-term investment portfolio, the Bank of Finland also takes into account, as part of the total risk estimate, sustainability criteria, such as economic freedom, freedom of the press, anti-corruption measures as well as measures for addressing climate change and biodiversity loss. In the assessments, the Bank of Finland uses, for example, reports and indices by various international organisations.

In direct government and corporate bond investments and bonds issued by supranational organisations, attention is paid to the country of issuance and to the responsibility action of individual entities in also addressing climate change and to the reporting of climate risks and climate-related opportunities. The assessments are based on data reported by the entities as well as other public data, and sustainability and climate-related data by external service providers. Progress is made in the identification and reporting of risks related to biodiversity loss, and the Bank of Finland is therefore also developing its own assessment capabilities.

In indirect investments (equity, fixed-income and real estate funds), the assessment of sustainability is focused on the overall sustainability of the asset manager and investment product, instead of the sustainability of individual companies or issuers. In the assessments, the Bank of Finland also uses, in addition to the sources used in the assessment of direct investments, the Bank of Finland's own annual survey, industry-specific sustainability reports (e.g. GRESB), PRI reports and reports targeted at clients.

The sustainability assessments also take into account the impacts on the climate targets set for the Bank of Finland's own investment activities, to ensure the timely achievement of the main target and the interim targets.

2.3 Climate target for the Bank of Finland's own investment activities

The Bank of Finland has adopted a climate target for its own investment activities: carbon neutrality by 2050 at the latest. The target applies to all asset classes, excluding gold, for which an internationally accepted carbon footprint methodology does not yet exist. In the initial phase, the calculation includes direct emissions from investments (Scope 1) and emissions from purchased electricity and energy (Scope 2). As the calculation methodology develops, it may also take into account indirect emissions (Scope 3). As the main target is aimed well into the future, the Bank has developed a variety of interim

targets to facilitate the achievement of the main target. These interim targets will enable monitoring of the trend in responsible investment and enhance the credibility of activities via regular reporting of results.

2.3.1 Asset class-specific interim targets

The interim targets provide a roadmap towards a more extensive carbon neutrality target. The Bank of Finland's investment activities comprise several asset classes, for each of which the Bank has developed a qualitative or quantitative first phase interim target. The interim targets will be reviewed in 2025 at the latest, accompanied by the setting of intermediate targets for the next phase. In setting the next interim targets, and in addition to other information, the Bank will also utilise information obtained on the preceding period, to ensure the highest possible level of effectiveness and significance for the interim targets relative to the resources available.

Achieving the Bank of Finland's target will require successes also from other entities, both asset managers and securities issuers. Regular monitoring of activities is therefore essential, to ensure the trend and adequate speed of developments. For this reason, too, it is important to further develop reporting.

Table 1. Interim targets for government bond investments

Qualitative target	The Bank of Finland contributes to public discussion on climate change and thereby encourages governments to set adequate national determined contributions, in line with the Paris Agreement on climate change.
Quantitative target	No quantitative target

Table 2. Interim targets for investments in government-related debt instruments

Qualitative target	Encourages government-related issuers to set climate targets for their own investment activities.
Quantitative target	No quantitative target at this stage, but it will be possible to add one as more information becomes available on the results of the first phase.

Table 3. Interim targets for corporate bond investments

Qualitative target	No qualitative target
Quantitative target	Sector-specific limits: <ul style="list-style-type: none"> - A maximum 2% of turnover from thermal coal - A maximum 5% of turnover from the use of coal energy - A maximum 10% of turnover from oil drilling - A maximum 40% of turnover from gas production - Investments in Arctic drilling, oil sands, deep-sea drilling, shale gas and shale oil (i.e. unconventional forms of oil and gas production) are, as a rule, prohibited.

Exceptions to the sector-specific limits can be applied only on reasonable grounds. Such grounds are, for example, a credible plan to achieve an ambitious climate target. Achievement of the target is monitored regularly and the working group on responsible investment may reject the exception granted if the activities of the issuer do not progress as expected. It is, however, possible to invest in a green bond of an issuer excluded based on Bank of Finland's climate targets if the bond fulfils, for example, the ICMA or Green Bond standard, and it can be concluded that the investment promotes green transition. A concrete example of this derogation is, for example, a wind park or solar power plant, but enhancing energy efficiency, in itself, would not be sufficient justification. Allowing an exception as described above enables the financing of green transition. The exception does not, however, apply to issuers that have been excluded based on norm violation.

Table 4. Interim targets for equity investments

Qualitative target	The asset manager or product has a sufficiently comprehensive and ambitious climate target/impact (applies to current and new asset managers).
Quantitative target	50% emission reduction target for the entire equity portfolio by the end of 2025 compared with the figure for Q1 2021.

Table 5. Interim targets for real estate funds

Qualitative target	The asset manager or product has a sufficiently comprehensive and ambitious climate target/impact (applies to current and new asset managers).
Quantitative target	No quantitative target at this stage, possible to add one later.

Table 6. Interim targets for other investments managed by asset managers

Qualitative target	The asset manager or product has a sufficiently comprehensive and ambitious climate target/impact (applies to current and new asset managers).
Quantitative target	No quantitative target at this stage, possible to add one later.

2.4 Responsible investment-related engagement at the Bank of Finland

The Bank of Finland participates in social debate and decision-making related to responsible investment insofar as they are part of the central bank's investment activities or a mandate defined by law. The Bank of Finland may, for example, participate in consultations concerning legislative initiatives, and in engagement processes with individual issuers or international initiatives, and in events concerning the development of responsible investment, as well as being a member of various organisations.

Portfolio managers participate in engagement processes with individual companies to ensure that portfolio managers have access to essential information related to investment decisions. As to group-level engagement, portfolio managers participate, as necessary. The Bank of Finland's representative in group-level engagement is responsible for communicating relevant information to the portfolio managers in cases where the portfolio managers do not participate in the process. If the Bank of Finland's own engagement or group-level engagement related to individual investments or asset managers does not generate the desired outcome, the Bank of Finland may, for example, refrain from investing, exit from an investment totally or partly and/or participate in a public engagement campaign.

Consultations concerning legislative initiatives are prepared and approved by several persons to ensure that the statements are in line with the Bank's strategy and sustainability views.

2.5 Organisation of responsible investment activities at the Bank of Finland

The Board of the Bank of Finland takes decisions on the principles and targets for responsible investment, including the interim targets. In the case of individual issuers, the interpretation on the adequacy of responsibility is made by the Bank of Finland's internal working group on responsible investment. The working group includes representatives from the Market Operations and Risk Management. The portfolio managers and the responsible investment expert are also members of the team.

To avoid conflicts of interest, the cases are prepared and investigated jointly, and the decision to exclude an issuer from the Bank's investments is taken jointly by the working group. The decisions are not based on the views of an individual person.