



Responsible Investment Principles

updated 11/2022



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**



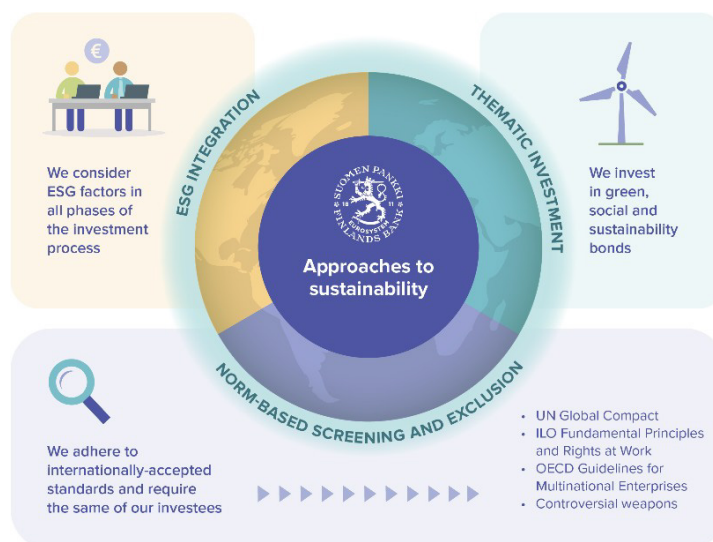
In addition to maintaining responsible practices in our own investment activities, we endeavour to promote responsible investment by playing an active role in various networks and by participating in public discussions.

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. 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. In 2022, extensive climate data will become available to portfolio managers and for the reporting of impacts.

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.

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

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

2.2 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.

2.2.1 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	<p>Sector-specific limits:</p> <ul style="list-style-type: none"> - A maximum 2% of turnover from thermal coal by the end of 2022 - A maximum 5% of turnover from the use of coal energy by the end of 2022 - A maximum 10% of turnover from oil drilling by the end of 2022 - A maximum 40% of turnover from gas production by the end of 2022 - 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.

2.3 Responsible investment-related exercise of influence 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 processes of exercising influence in connection with individual issuers or international initiatives, and in events concerning the development of responsible investment, as well as being a member of various organisations.

2.4 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.

