

Green asset ratio methodology

EU Taxonomy Article 8 disclosure requirements

February 2025

About this document

This document provides an overview of the methodologies underpinning the Nordea Group's disclosures of environmentally sustainable assets under Article 8 of the European Union (EU) Taxonomy Regulation and its delegated acts, and under the Capital Requirements Regulation (CRR). The disclosures can be found in our annual report and capital and risk management report (Pillar 3).

The aim of this document is to provide transparency and explain the aforementioned methodologies in more detail. The methodologies are aligned with both regulatory requirements and European Commission publications such as notices and frequently asked questions.

This publication has been prepared for information purposes only. Further information on our work regarding climate change and sustainability is provided in our annual report.

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1 Introduction

The EU Taxonomy Regulation (hereafter “the Taxonomy”), part of the EU’s European Green Deal sustainable finance package, is aimed at defining environmentally sustainable economic activity and harmonising the reporting by companies subject to disclosure requirements. With the help of the Taxonomy, investments can be directed towards economic activities that are most vital for the transition, in line with the objectives of the Deal. The Taxonomy is also aimed at creating security and transparency for investors, and safeguarding against greenwashing.

Before activities can be assessed to be Taxonomy aligned (environmentally sustainable), they must be assessed as Taxonomy eligible. Taxonomy-eligible activities have the potential to substantially contribute to one of six defined environmental objectives: (i) climate change mitigation, (ii) climate change adaptation, (iii) sustainable use and protection of water and marine resources, (iv) transition to a circular economy, (v) pollution prevention and control, and (vi) protection and restoration of biodiversity and ecosystems. These activities are described and defined in the technical screening criteria (TSC) set out in the Taxonomy delegated acts. In order for an activity to be Taxonomy aligned, it must contribute substantially to one of the six environmental objectives while not significantly harming any of the other objectives. In addition, minimum social safeguard requirements must be met.

The EU Taxonomy for sustainable activities determines which financial activities qualify as environmentally sustainable.



Figure 1 Criteria for economic activities to qualify as environmentally sustainable

In accordance with the Taxonomy, we are required to disclose our exposures related to Taxonomy-aligned activities. Our exposures to Taxonomy-eligible and Taxonomy-aligned activities, and the related Taxonomy key performance indicator (KPI) tables, can be found in our annual report and capital and risk management report. The green asset ratio (GAR) KPI shows our exposures related to Taxonomy-aligned activities as a proportion of our total covered assets¹.

¹ Total covered assets refer to all on-balance sheet exposures except for exposures to central governments, central banks and supranational issuers, and exposures in the trading portfolio. The terms “green asset ratio (GAR) stock” and “total GAR assets” used in the predefined tables should be understood with reference to the GAR definitions described.

1.1 Reporting scope

As we are a financial conglomerate engaging in investment and asset management activities, in addition to reporting as a credit institution (Annex V in the Taxonomy Disclosures Delegated Act or DDA), we are also obliged to report KPIs for asset managers (Annex III in the DDA) and investment firms (Annex VII in the DDA).

Based on the CRR prudential consolidation method, for the scope of the KPIs, non-banking subsidiaries are consolidated using the equity method. Therefore, Nordea Life & Pension (NLP) companies are treated in the same way as other equity holdings that do not fall under the EU Non-Financial Reporting Directive (NFRD) or EU Corporate Sustainability Reporting Directive (CSRD). Where NLP companies fall under NFRD or CSRD reporting requirements, the treatment changes to that of NFRD/CSRD corporates. Whether or not NLP companies fall under NFRD/CSRD reporting requirements should be assessed annually.

We have four mortgage companies: Nordea Kredit Realkreditaktieselskab in Denmark, Nordea Mortgage Bank Plc in Finland, Nordea Eiendomskreditt AS in Norway, and Nordea Hypotek AB (publ) in Sweden. All four are included in our consolidated reporting. Under the CSRD's expanded reporting requirements, these mortgage banks will be required to disclose their own, individual Taxonomy reports under Article 8 from the financial year 2025 onwards.

1.2 Regulatory criteria for economic activities to qualify as environmentally sustainable

Article 3 of the Taxonomy sets out four criteria that an economic activity must meet in order to qualify as Taxonomy aligned and therefore be recognised as environmentally sustainable. The assessment of whether an economic activity is Taxonomy aligned is made in four steps:

Taxonomy eligibility: a step towards Taxonomy alignment

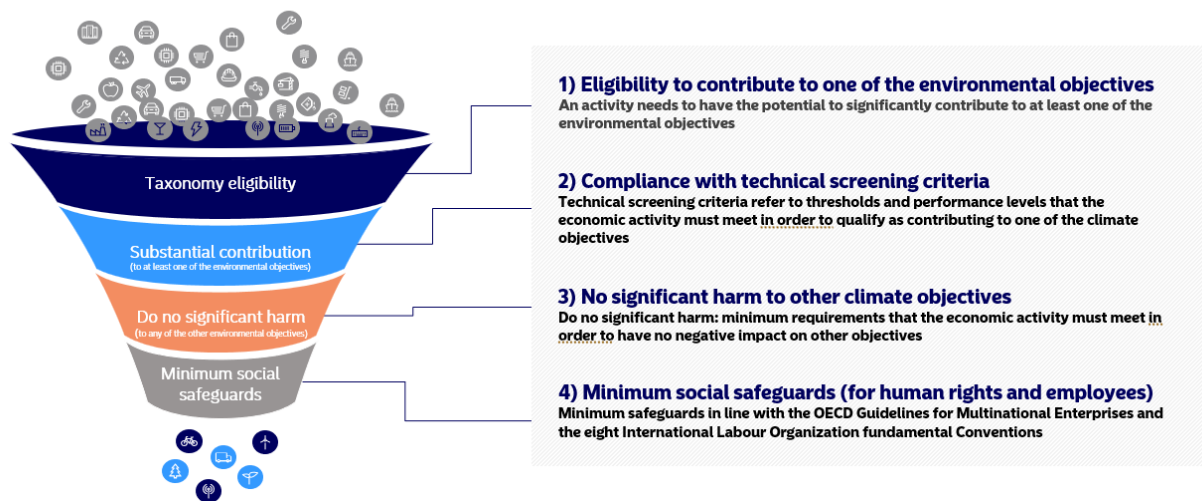


Figure 2 assessment of activities for Taxonomy alignment

Step 1: Taxonomy eligibility

The first step is to assess if an economic activity can be identified as Taxonomy eligible. This assessment is made in view of the specific description of the activity provided in the Taxonomy Climate Delegated Act. Taxonomy eligibility does not provide any indication of environmental performance or sustainability: Taxonomy-eligible activities simply have the potential to meet the TSC and minimum safeguards and therefore be Taxonomy aligned.

Step 2: substantial contribution

The second step is to assess if the economic activity identified as eligible in step 1 meets the TSC set out in the Taxonomy delegated acts. For each economic activity in scope of the Taxonomy, the TSC specify environmental performance requirements that ensure the activity makes a substantial contribution to the environmental objective in question. The TSC for “substantial contribution” to an environmental objective ensure that the economic activity either has a substantial (as opposed to marginal) positive environmental impact or substantially reduces negative impacts on the environment, e.g. substantially reduces levels of greenhouse gas emissions.

Step 3: do no significant harm

The third step is to assess if the economic activity does no significant harm (DNSH), i.e. does not hinder the other environmental objectives from being reached / has no significant negative impact on them. The DNSH criteria, which are supported by underlying thresholds, metrics and measurements depending on the nature of the activity, are listed for each economic activity in scope of the Taxonomy under the relevant TSC. Taking into account the lifecycle of the products and services provided by the activity, including evidence from existing lifecycle assessments, Article 17 of the Taxonomy determines that an economic activity is considered to do significant harm to:

- **climate change mitigation** if it leads to significant greenhouse gas emissions,
- **climate change adaptation** if it leads to the current climate and expected future climate having an increased adverse impact on the activity itself or on people, nature or assets,
- **sustainable use and protection of water and marine resources** if it is detrimental to the good status or good ecological potential of bodies of water, including surface water and groundwater; or to the good environmental status of marine waters,
- **circular economy** (including waste prevention and recycling), if it leads to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources such as non-renewable energy sources, raw materials, water and land at one or more stages in the products’ lifecycle. Such inefficiencies may impact the products’ durability, reparability, upgradability, reusability or recyclability. An activity is also considered to do significant harm if it leads to a significant increase in the generation, incineration or disposal of waste, with the exception of the incineration of non-recyclable hazardous waste, or if the long-term disposal of waste may cause significant and long-term harm to the environment,
- **pollution prevention and control**, if it leads to a significant increase in the emission of pollutants into air, water or land as compared with the situation before the activity commenced,
- **protection and restoration of biodiversity and ecosystems**, if it is significantly detrimental to the good condition and resilience of ecosystems or detrimental to the conservation status of habitats and species, including those of interest to the EU.

The DNSH assessment therefore ensures that progress towards one environmental objective is not made at the expense of another.

Step 4: minimum social safeguards

The fourth step is to assess if the economic activity has been carried out in compliance with minimum social safeguards. While the assessment of whether an activity meets the TSC is made at the level of the activity, the minimum safeguard assessment is made at the entity/company level.

The minimum safeguards require companies whose economic activities are to be considered to Taxonomy aligned to follow the standards for responsible business conduct mentioned in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; the principles and rights set out in the eight fundamental Conventions identified in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work; and the International Bill of Human Rights.

2 Methodology for disclosing the green asset ratio as a credit institution

In the GAR calculation, credit institutions calculate the proportion of their assets financing and invested in Taxonomy-aligned economic activities as a proportion of their total covered assets. How the Taxonomy alignment of each asset is calculated depends on the counterparty to the transaction. The approach differs between companies and households.

The GAR is based on the following:

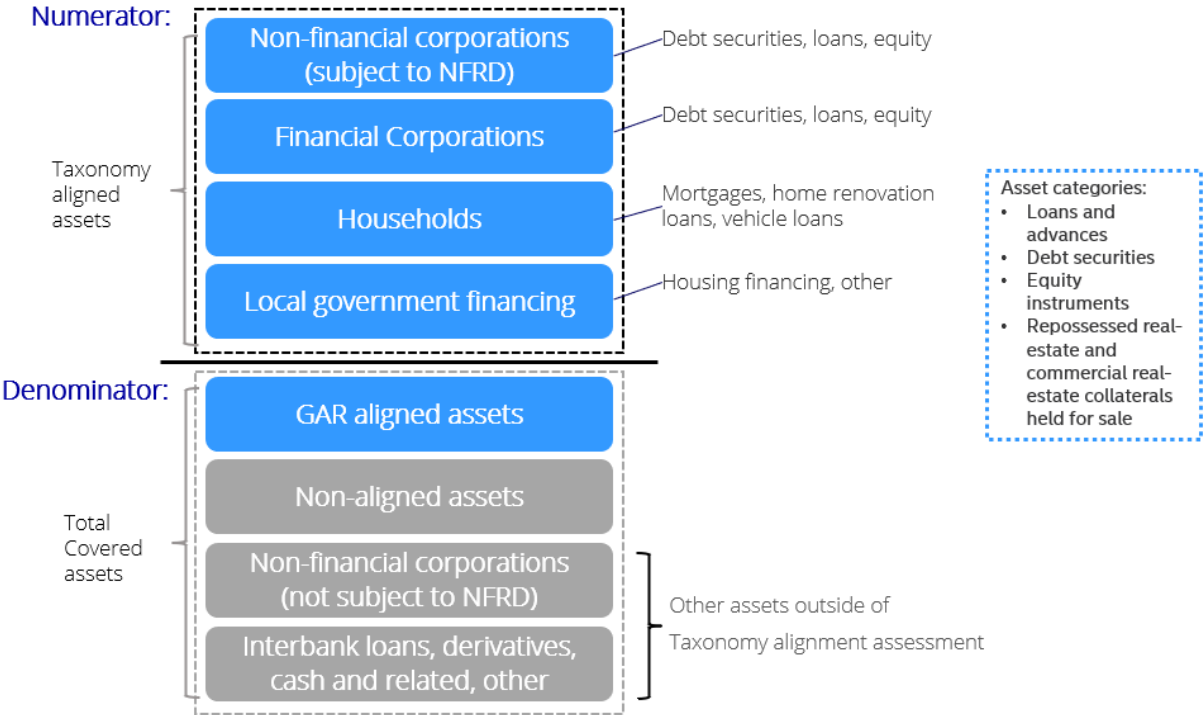


Figure 3 Calculation of the GAR

2.1 Exposures towards companies

The Taxonomy disclosure obligations currently apply only to large companies that fall under the NFRD (replaced by the CSRD) and are obliged to disclose their Taxonomy alignment. When a credit institution has exposures towards other companies, such as loans, bonds, debt instruments or equities, the Taxonomy alignment of the exposure is calculated based on the underlying KPI which that specific counterparty has reported. Nordea acquires these KPIs from third-party service providers. In cases where the use of proceeds of the loan or bond is known, an individual Taxonomy assessment of the proceeds can be made.

Due to a phase-in of the rules, small and medium-sized enterprises (SMEs) are not currently required to implement the CSRD and thus report their KPIs. For the time being, these exposures cannot be reported as Taxonomy aligned, even though they are included in the denominator in the GAR calculation. As we are a Nordic full-service bank, exposures towards SMEs make up a significant proportion of our total corporate gross carrying amount: more than 78%. This means that the majority of our corporate exposures cannot be assessed as Taxonomy aligned.

2.2 Exposures towards households

The GAR covers the retail lending portfolio within the scope of the Taxonomy: household mortgages, building renovation loans and motor vehicle loans. Here, the following can be considered and included in the numerator: residential real estate exposures, including house renovation loans (for the climate change mitigation, climate change adaptation and circular economy objectives), and retail car loans (for the climate change mitigation objective).

2.2.1 Mortgages

For residential real estate lending in the Norwegian and Swedish markets, the gross carrying amount of retail exposures as set out in the Taxonomy is assessed. For residential real estate lending in the Danish and Finnish markets, the gross carrying amount excluding any second mortgage is assessed, as the use of second mortgages is unknown. In the assessment of mortgage exposures, the economic activity corresponds to TSC 7.7 Acquisition and ownership of buildings.

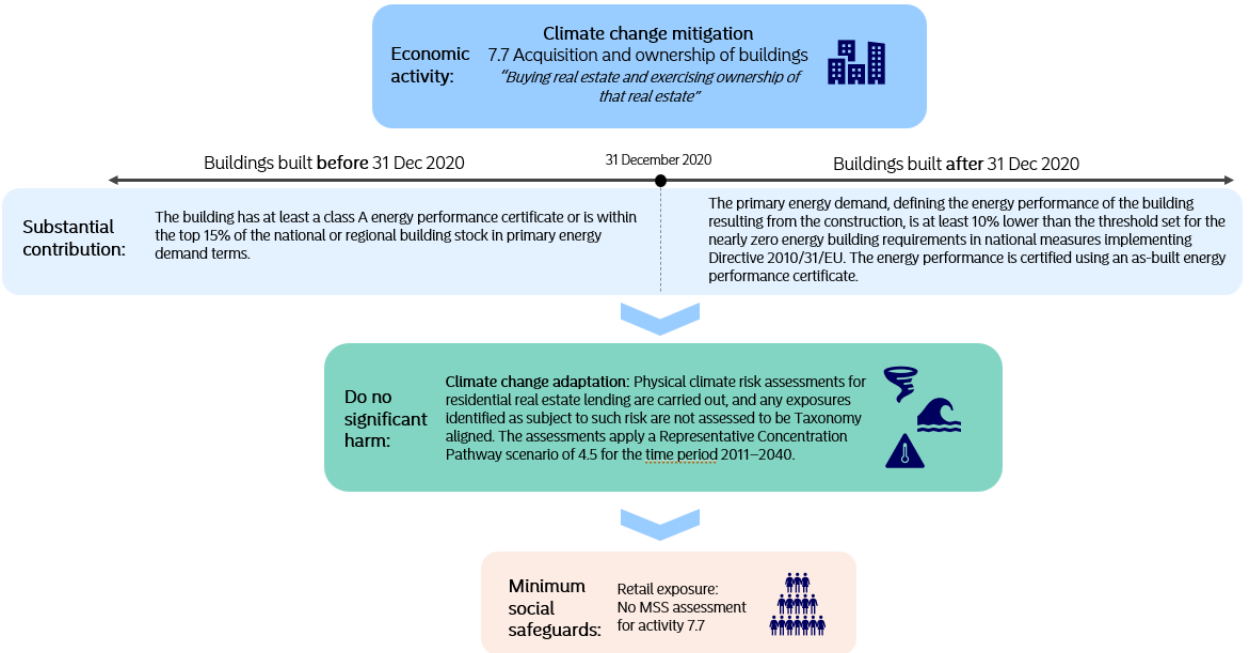


Figure 4 TCS activity 7.7

When performing the substantial contribution assessment for buildings built before 31 December 2020, we make a separate assessment for each main market.

In the Finnish market, the calculation of top 15% primary energy demand (PED) thresholds is based on the Granlund² study from 2022, using energy performance certificate (EPC) data from the Housing Finance and

² Rakennuskannan 15% parhaimmiston primäärienergian kulutuksen määrittely, Rakli Ry, June 2022. Available from https://www.rakli.fi/wp-content/uploads/2022/06/taksonomia-7_7_granlund.pdf

Development Centre of Finland (ARA). In the Swedish market, the PED thresholds are based on the Fastighetsägarnas³ study from 2022, using EPC data from the Värderingsdata database. For the Danish and Norwegian markets, the top 15% assessment has been determined to correspond to EPC classes A and B. The EPC data used is from eNettet in Denmark and Eiendomsverdi in Norway.

For buildings built after 31 December 2020, the substantial contribution criterion is deemed to be met if the PED value of the building is at least 10% lower than the threshold set for national nearly zero energy buildings (NZEB -10%). The national threshold for the Finnish market is specified in the Ministry of the Environment's regulation for the energy performance of buildings (1010/2017), where the minimum requirements for all new buildings are set. The national threshold for the Swedish market is specified by Boverket⁴, the Swedish National Board of Housing, Building and Planning, in BBR(29)1, which sets the minimum requirements for all new buildings. In the Norwegian market, based on the Multiconsult⁵ study from 2023, residential apartments with EPC A have a PED value 10% lower than the NZEB. In the Danish market, the Danish Transport, Construction and Housing Authority's building regulation, BR(18), sets the minimum requirements for all new buildings. According to Rådet for Bæredygtigt Byggeri⁶ (Denmark's Green Building Council), buildings in Denmark need to have an EPC label of A2020 or a PED value 10% lower than A2015 (which is defined as NZEB) to comply with NZEB -10%.

In cases where there is no valid EPC label or where the EPC label is not available, the exposure cannot be assessed as Taxonomy aligned, reducing the proportion of environmentally sustainable activities.

Do no significant harm

For economic activity 7.7 Acquisition and ownership of buildings, the relevant DNSH requirement concerns climate change adaptation, according to the criteria set out in Appendix A of the Taxonomy Climate Delegated Act ("Classification of climate-related hazards").

We apply the same approach to the climate risk assessment as for our Pillar 3 disclosures, using a Representative Concentration Pathway (RCP) scenario of 4.5 and the decadal time period 2011-2040. To fulfil the DNSH criteria, the exposure must be included in a screening for physical climate risks. Buildings with no identified physical risk fulfil the DNSH criteria. In cases where buildings are exposed to medium or high climate risks, an adaptation plan must be made before these exposures can fulfil the DNSH criteria. Adaptation plans could consider, for example, mitigating the risk of flooding by constructing interior barriers. We do not currently have enough information on adaptation plans.

Minimum social safeguards

In general, credit institutions do not need to verify compliance with minimum social safeguards for retail exposures. They must, however, ensure that companies providing goods and services to the retail client meet the minimum safeguards. Since there is no purchase of goods or services linked to the ownership of buildings, minimum safeguards are not considered when assessing the alignment of retail exposures under economic activity 7.7 Acquisition and ownership of buildings.

2.2.2 Motor vehicle and renovation loans

Due to the comprehensive level of detail required, data on motor vehicle loans (granted after 1 January 2022) is not assessed for alignment. This same applies to the assessment of renovation loans, where a similarly comprehensive level of detail is required from both the retail client and the contractor/sub-

³ Topp 15 och 30 procent av de bästa byggnaderna: Primärenergital för lokaler och bostäder, Fastighetsägarna, December 2022. Available from https://www.fastighetsagarna.se/globalassets/bilder/nyheter/sverige/topp-15-och-30-sverige-_221214.pdf

⁴ Boverkets byggregler BBR, Boverket, September 2020. Available from <https://www.boverket.se/globalassets/publikationer/dokument/2020/konsoliderad-bbr-2011-6-tom-2020-4.pdf>

⁵ Study by Multiconsult for Nordea Eiendoms kreditt AS, April 2023. Not publicly available.

⁶ Taksonomiforordning (EU) 2020/852: 7.1 Opførelse af nye bygninger, Rådet for Bæredygtigt Byggeri, February 2024. Available from <https://rfbb.dk/publikation/taksonomivejledning---opf%C3%B8relse-af-nye-bygninger-1>

contractor, including confirmation of compliance with the minimum social safeguards. The process to assess the Taxonomy alignment of renovation loans is under development.

3 Methodology for disclosing the green investment/asset ratio as an investment firm and asset manager

As we are a financial conglomerate engaging in investment and asset management activities, we are obliged to report additional KPIs for asset managers (Annex III in the DDA) and investment firms (Annex VII in the DDA).

- For Nordea Funds Ltd (NF) and Nordea Investment Funds S.A (NIFSA), KPIs for assets under management (AuM) are reported in the asset managers template. The assets correspond to those in NF- and NIFSA-managed funds for which Nordea Investment Management AB (NIM) is the delegate portfolio manager.
- For NIM, the KPI related to gross revenue, including fees, commissions and other monetary benefits from investment services and activities, is reported in the investment firms template. The AuM KPI is not reported as NIM does not deal on its own account.
- The assets delegated to the portfolio management of NIM by Nordea Bank Abp remain in the credit institution template, where they are included in the AuM KPI.

3.1 Investment firms

The disclosure and calculation of the KPI for services other than dealing on own account (the “revenue KPI”) differs from other GAR KPIs in being based on revenue rather than exposure. We calculate this KPI for investment firms’ investment services and activities other than dealing on own account⁷. These include the following services relevant for us: reception and transmission of orders in relation to one or more financial instruments; execution of orders on behalf of clients; portfolio management; and investment advice. The KPI for the environmental sustainability of investment firms’ services and activities on behalf of clients is based on the revenue in the form of fees, commissions and other monetary benefits that investment firms generate from the investment services and activities they carry out for their clients. The clients in scope are financial and non-financial companies subject to NFRD disclosure obligations and other financial and non-financial companies not subject to NFRD disclosure obligations. For investee companies that are NFRD companies, investment firms use the KPIs disclosed by the counterparty.

3.2 Asset managers

In the asset managers template, we disclose a green investment ratio (GIR) KPI, based on turnover and capital expenditure KPIs reported by investee companies, in cases where the use of proceeds is unknown. This information is acquired from third party service providers. Debt securities with the purpose of financing specific identified activities or projects or environmentally sustainable bonds issued by investee undertakings are included in the numerator up to the value of Taxonomy-aligned economic activities that the proceeds of those bonds and debt securities finance, based on information provided by the investee company. Also in this template, asset managers report the proportion of non-eligible economic activities within their assets under management. The template covers all six environmental objectives, under which activities may variously be deemed transitional or enabling, and encompasses both Taxonomy eligibility and Taxonomy alignment.

⁷ In accordance with Section A of Annex I to Directive 2014/65/EU, with the exception of point (3).

4 Methodology for disclosing economic activities related to the fossil gas and nuclear energy sectors

In 2023 the Taxonomy Complementary Climate Delegated Act came into force. The Act sets out technical screening criteria to cover economic activities in the fossil gas and nuclear energy sectors, recognising that these sectors and activities can contribute to the decarbonisation of the EU economy. The templates introduced in Annex XII are the same for financial and non-financial companies. Financial companies populate these templates based on the information disclosed by their NFRD/CSRD counterparties for the following nuclear energy- and fossil gas-related activities:

Table 1 Nuclear energy- and fossil gas-related activities in the Taxonomy Regulation

Nuclear activities	Fossil gas activities
4.26. Pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle	4.29. Electricity generation from fossil gaseous fuels
4.27. Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies	4.30. High-efficiency co-generation of heat/cool and power from fossil gaseous fuels
4.28. Electricity generation from nuclear energy in existing installations	4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system

There are five templates in Annex XII:

Template 1 includes six yes/no questions, which non-financial and financial companies answer based on whether or not they carry out, fund or have exposure to certain nuclear energy- and fossil gas-related activities.

In template 2, non-financial and financial companies disclose the amount and proportion of Taxonomy-aligned nuclear energy- and fossil gas-related economic activities (activities 4.26-4.31) which they carry out, fund or have exposure to. In this template, the Taxonomy-aligned amount is disclosed as a proportion of total covered assets, which is the denominator of the GAR KPI.

In template 3, non-financial and financial companies disclose the amount and proportion of Taxonomy-aligned nuclear energy- and fossil gas-related economic activities (activities 4.26-4.31) which they carry out, fund or have exposure to. In this template, the Taxonomy-aligned amount is disclosed as a proportion of the total Taxonomy-aligned amount, which is the numerator of the GAR KPI.

In template 4, non-financial and financial companies disclose the amount and proportion of Taxonomy-eligible but not aligned nuclear energy- and fossil gas-related economic activities which they carry out, fund or have exposure to. In this template, the Taxonomy-eligible but not aligned amount is disclosed as a proportion of total covered assets, which is the denominator of the GAR KPI.

In template 5, non-financial and financial companies disclose the amount and proportion of their exposure to Taxonomy-non-eligible nuclear energy- and fossil gas-related economic activities, i.e. nuclear energy- and fossil gas-related economic activities that do not meet the technical descriptions provided in sections 4.26.–4.31 of the Act. The Taxonomy-non-eligible amount is disclosed as a proportion of total covered assets, which is the denominator of the GAR KPI.

5 Definitions

Green asset ratio (GAR)	A credit institution's assets financing and invested in EU Taxonomy-aligned economic activities as a proportion of its total covered assets.
Green investment ratio (GIR)	An asset manager's assets invested in EU Taxonomy-aligned economic activities as a proportion of its total covered assets.
Revenue KPI	Revenue from services other than dealing on own account, reported in the investment firms template.
EU Taxonomy	The EU's classification system for sustainable economic activities, established in Regulation (EU) 2020/852 and its delegated acts.
Technical screening criteria (TSC)	Environmental performance requirements ensuring that economic activities significantly contribute to one or more of the environmental objectives of the EU Taxonomy and do not significantly harm the other objectives. The TSC can be found in the Taxonomy delegated acts.
Aligned assets	EU Taxonomy-aligned assets (assets financing or invested in environmentally sustainable activities) based on TSC. The latter include criteria for an activity to be deemed to significantly contribute to one or more of the EU's environmental objectives while at the same time not significantly harming any of the other objectives. In addition, minimum social safeguard requirements must be met.
Eligible assets	Assets financing or invested in activities that have the potential to substantially contribute to one of the six environmental objectives of the EU Taxonomy.
Enabling activity	Economic activities that directly enable other activities to meet the TSC for one or more of the EU's environmental objectives where the other activity (i) does not lead to a lock-in in assets undermining long-term environmental objectives, considering the economic lifetime of those assets, and (ii) has a substantial positive environmental impact based on lifecycle considerations.
Transitional activity	Economic activities that qualify as contributing substantially to the objective of climate change mitigation. An activity only qualifies if (i) the associated greenhouse gas emissions are substantially lower than the sector or industry average, (ii) it does not hamper the development and deployment of low-carbon alternatives, and (iii) it does not lead to a lock-in of assets incompatible with the objective of climate neutrality, considering the economic lifetime of those assets.
Environmental objectives	The six environmental objectives of the EU Taxonomy: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.
Covered GAR assets	Total assets excluding exposures to governments, central banks and supranational issuers, and exposures in the trading portfolio.

Turnover KPI	The proportion of net turnover derived from products or services that are Taxonomy aligned. The turnover KPI gives a static view of companies' contribution to environmental goals.
CapEx KPI	The proportion of capital expenditure for an activity that is either already Taxonomy aligned or is part of a credible plan to extend or reach Taxonomy alignment. The CapEx KPI provides a dynamic and forward-looking view of companies' plans to transform their business activities.
NFRD/CSRD company	Companies that fall under the Non-Financial Reporting Directive (2014/95/EU) and Corporate Sustainability Reporting Directive (2022/2464/EU) and are thus obliged to disclose information under the EU Taxonomy Article 8 requirements.

6 Disclaimer

This document has been prepared by the Nordea Group. It is provided for information purposes only and should not be considered investment, legal or tax advice. Our methodology can be affected or modified by factors including but not limited to (i) improvements to and adoptions of new internal approaches and (ii) changes in the regulatory environment and other government actions. In all cases, we seek to comply with all regulatory requirements, our voluntary commitments, and stakeholders' expectations. This document does not imply that Nordea has undertaken to revise these statements beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that lead to changes following their publication.