

A photograph of an industrial facility, likely a refinery or chemical plant, silhouetted against a bright orange sunset sky. A tall smokestack in the center is emitting a thick plume of dark smoke that stretches across the top of the frame. Other tall distillation columns and complex piping are visible in the background. In the foreground, there are some trees, a road, and a street sign. The overall mood is somber and industrial.

# *Position Statement on Fossil Fuels*

January 2023

# Introduction

Danske Bank aims to be a responsible partner in the transition towards low-carbon energy by actively financing the green agenda and limiting our investment- and lending activities towards fossil-heavy sectors. This position statement covers coal, peat and oil & gas. We consider strict guidelines on these fossil fuels necessary to support the decarbonisation of our economies and protect sensitive environments.

Danske Bank recognises that it is imperative to limit global warming to well below 2 and preferably 1,5 degrees Celsius and that immediate action is vital to ensure the future prosperity of humanity. The surface temperature on Earth has increased rapidly in recent decades due to greenhouse gas (GHG) emissions associated with human activity and the use of fossil fuels. Unmitigated emissions are expected to result in significant temperature increases by the end of the century that will have catastrophic impacts on life, ecosystems and human societies.

The financial system has an important role to support the decarbonisation of our economies. The sector is uniquely positioned to effectuate change in the real economy through its ability to mobilise capital, direct funds and price risks. Danske Bank wants to be a responsible partner in the transition towards low-carbon energy sources. In addition, the Nordic countries – Danske Bank’s home markets – have set some of the most ambitious targets in terms of combatting climate change. Realising these targets will entail significant changes in the coming years. As one of the largest financial institutions in the Nordics, we recognise that we must act on two fronts in light of this situation:

1. Firstly, help to finance the green agenda, which will be critical to mitigate the impact of global warming. The ongoing structural transformation of how energy is produced will result in the deployment of new energy sources, demand shifts and innovation. We see this as an opportunity to both help move the climate agenda forward with climate financing solutions and build a resilient business.
2. Secondly, move away from carbon-intensive energy production methods. This serves the dual purpose of helping the world accelerate climate-efforts and helps us manage assets exposed to potential transition risks, which could be subject to substantial value corrections depending on shifts in policy and demand. We want to mitigate these risks by limiting risky exposures and support companies in transitioning from unsustainable to sustainable activities.

To support the energy transition and manage risks associated with Danske Bank’s financial exposures to fossil fuels, this

position statement covers coal, peat and oil & gas. Coal and peat have particularly harmful emission profiles and Danske Bank recognises the urgency in replacing and halting the mining and combustion of these fuels. We strive to align business practices in this regard and this position statement outlines our efforts to phase-out and limit funding activities relating to these fuels.

Oil & gas combustion also makes considerable contributions to climate change. At the same time, oil & gas will continue to play a role in the energy mix during the transition looking across different policy scenarios<sup>1</sup>. Danske Bank consequently sees a need to introduce clear expectations on its business engagements. We support an orderly transition to low-carbon economies and will, for that reason, not offer refinancing or new long-term financing to oil & gas exploration and production (E&P) companies that do not set a credible transition plan in line with the Paris Agreement. In continuation of this, Danske Bank’s view is that financing new oil and gas fields is incompatible with our commitment to support the Paris Agreement and have therefore decided not to offer long-term financing or refinancing to E&P oil and gas companies that intend to expand supply of oil and gas beyond what was approved for development by 31st of December 2021. Danske Bank has reduced our credit exposure to exploration and production oil and gas companies with 67% between 2018 and September 2022. In September 2022, Danske Bank’s credit exposure to this segment was DKK 2,945m (0,1% of group credit exposure).

In addition, Danske Bank recognises that oil & gas E&P can have adverse impacts on local environments and host communities. This is a concern especially in the Arctic region, which is rich with oil reserves, but where oil exploration poses large risks for the sensitive environments found there. Consequently, this position paper identifies unconventional oil & gas and frontier oil & gas as areas of particular concern.

Danske Bank furthermore expects all clients to comply with international norms, standards, and best practices in managing and reducing negative impact on the environment and society.

<sup>1</sup> International Energy Agency (IEA), World Energy Outlook, 2020

# Position Statement on Fossil Fuels

## 1. Objective and purpose of the position statement

Danske Bank's position statement on fossil fuels aims to anchor expectations for our stakeholders on how we will navigate the energy transition to deliver impact, manage risks

and seize related opportunities. The position statement on fossil fuels establishes a shared framework for a constructive and forward-looking dialogue on these topics.

## 2. Scope of position

This position statement applies to Danske Bank Group and all legal entities under its control.

### Geography

The position statement is global in scope with no exceptions.

### Danske Bank's activities

The position statement applies to financial services and investment services offered by Danske Bank.

### Clients

The position statement covers existing as well as potential clients of Danske Bank.

### Industries and subsectors

The rules and standards stated below on coal and peat apply to the power production from utility companies. For coal specifically, it also refers to extraction by metals and mining companies. The rules and standards stated below on oil & gas production apply to all companies within the Exploration & Production (E&P) segment.

### Projects and companies

The position statement applies to financial services offered for both general finance and project finance purposes as well as investment services.

## 3. Relevant definitions

Relevant definitions include:

- Unconventional oil & gas is defined as tar sands and shale extraction/hydraulic fracturing
  - Tar sands are a form of unconventional petroleum deposit consisting of a mixture of sand, clay, water and bitumen.
  - Hydraulic fracturing is an unconventional drilling technique whereby it is possible to extract oil and gas from shale by injecting liquid at high pressure.
- Frontier oil & gas production is defined as ultra-deep sea and Arctic
  - Danske Bank defines the Arctic as everything north of the Arctic Circle (latitude 66.55° north of the equator).
  - Ultra-deep sea drilling refers to drilling deeper than 1500 meters below surface level.
- Financial services encompass lending, guarantees, primary debt and equity capital markets activities, but not secondary market intermediation, trading and thereto related activities.
- Investment services refer to asset management by Danske Invest and life & pension products offered by Danica.
- Exploration & Production companies are defined as companies engaged in extraction of crude petroleum and natural gas, as codified by the B6 NACE classification.
- Expansions refer to any activity intended to expand supply of oil and gas beyond what was approved for development by 31 of December 2021. Expansions thereby also cover changing current approvals to increase supply beyond what was approved for development by 31 of December 2021.

## 4. Rules and standards of the position

For the purposes of this position statement, Danske Bank separates fossil fuels into coal & peat and oil & gas. These are covered below respectively.

### Coal & Peat

Danske Bank refrains from providing financial services to, or invest in, certain coal and peat related activities, and companies engaging in these. Specifically, Danske Bank will not:

- Invest in companies that generate more than 5% of their revenues from thermal coal mining
- Provide financial services to thermal coal mining companies
- Provide financial service to, or invest in, companies that generate more than 5% of their revenues from coal-fired power generation
- Provide financial service to, or invest in, companies that generate more than 5% of their revenues from peat-fired power generation.

Danske Bank refrains from investing in or providing any financial services to companies, or financing for projects, expanding thermal coal mining, coal-fired power generation or peat-fired power generation. Danske Bank will phase out companies with coal and peat fired power generation from its financial product portfolios by 2030.

### Oil & Gas

Danske Bank refrains from providing financial services to, or invest in, certain E&P oil & gas related activities, and companies engaging in these. Specifically, Danske Bank will not:

- Provide long-term financing or refinancing to E&P companies that generate more than 5% of their revenues from unconventional (tar sands, shale) or frontier (arctic and ultra-deep sea) oil & gas;
- Provide long-term financing or refinancing to E&P companies engaging in activities related to oil or gas expansion (applies to conventional, unconventional and frontier O&G expansion)
- Directly finance, through e.g. project finance, expansion of oil & gas exploration and production (applies to conventional, unconventional and frontier O&G expansion);
- Invest in E&P companies that generate more than 5% of their revenues from tar sands.

Danske Bank will not offer refinancing or new long-term financing to any oil & gas E&P company that does not set a credible transition plan in line with the Paris Agreement. This includes a long-term 2050 net zero goal, ambitious short and medium term reduction targets on scope 1 and 2 emissions as well as material scope 3 emission reduction target. In addition, it includes a commitment to not expand supply of oil and gas beyond what was approved for development by 31st of December 2021.

## 5. Exemptions framework

Danske Bank makes exemptions for companies encompassed by the position statement for these reasons:

1. Danske Bank may provide financial services to companies encompassed by these restrictions if the financing is ring-fenced for renewable energy or carbon capture, utilisation and storage (CCUS) activities.
2. For the provision of financial services, exemptions can be made for companies that generate more than 5% of their revenues from coal- or peat-fired power generation if the company has a credible 2030 phase-out plan. Concerning peat, we may make exemptions to allow the inclusion of certain instances of peat in power-generation as some older boilers are built for partial peat combustion. These select cases would need to meet the thresholds set out in this position statement. While peat can largely be exchanged with other biomass, some peat may be required to avoid corrosion. In these instances, we will engage with clients on a case-by-case basis. In addition, exemptions may be

given if clients are advised or requested by governments to maintain coal-fired or peat-fired power production capacity in the winter months in connection with the current energy crises.

3. For investments, exemptions can be made for companies that have a Transition Pathway Initiative (TPI) Management Quality score of 3 or above and receive approval by relevant governance fora in Danske Bank.
4. We recognise our long-term responsibility towards our customers. In cases of M&A activity our customer's exposures towards fossil fuels can change at short notice. If exposures change due to e.g. acquisitions we will assess the long-term planning of these companies and expect these plans to be aligned with the Paris Agreement.

<sup>2</sup> See <https://danskebank.com/-/media/danske-bank-com/file-cloud/2022/3/climate-restrictions-exemptions-march-2022.pdf?rev=4fd01cf2cbbf4821b6b2e5bd14df9f58>





## 6. Supporting standards and principles

In general, Danske Bank expects the companies it invests in, and finance, to operate in accordance with the following sets of international agreements and principles:

- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- The Universal Declaration of Human Rights
- The ILO Declaration of Fundamental Principles of Rights at Work
- OECD Guidelines for Multinational Enterprises

Danske Bank also expects that the companies it invests in, and finance, in fossil-heavy industries to conduct its business in accordance with the guidelines listed below whenever relevant:

- Reduce waste from extraction and mining of oil and gas
- Manage and process waste from extraction and mining in a responsible manner
- Understand their material responsibility and risks regarding the environmental and social consequences of their business operations, e.g. supply chain and contracts with subcontractors
- Do not have a negative impact on the cultural and natural sites on the UNESCO World Heritage List
- Do not have a negative impact on the wetlands covered by the Ramsar convention
- Do not have a negative impact on the protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN)
- Conduct water-scarcity impact assessments and prevent negative impacts in water-scarce regions
- Reduce the effects of seismological research on whales and other marine mammals
- Work with relevant standards to ensure an adequate level of security for their employees e.g. the Voluntary Principles on Human Rights

- Have management systems or processes that deal with employee complaints, labour law violations and conflicts and monitor and ensure compliance with labour laws
- Have policy commitments on health and safety, including techniques that mitigate chances of accidents and contingency plans for emergency situation
- Have prudent health, safety and emergency procedures in place for any construction or decommission of assets
- Ensure equal treatment and working conditions for all employees, including women and migrant workers
- Respect the rights of children and refrain from using exploitative forms of child labour, such as labour that damages children's physical or mental health or prevents them from going to school as stated in the Minimum Age Convention 12 and Worst Forms of Child Labour Convention
- Respect the indigenous people and their right to customary lands by obtaining acceptance when entering such land as described in the principle for Free, Prior and Informed Consent (FPIC)

For the listed companies Danske Bank invests in, a screening is performed in collaboration with research partners to make sure that they act in line with the following international principles and conventions:

- UNESCO World Heritage List
- Ramsar convention
- International Union for Conservation of Nature (IUCN)
- Minimum Age Convention
- Worst Forms of Child Labour Convention
- Free, Prior and Informed Consent (FPIC) as covered in ILO Convention 16920 and the UN Declaration on the Rights of Indigenous Peoples
- Rio Declaration on Environment and Development
- The Kyoto Protocol



## 7. Implementation, monitoring and disclosure

### Implementing restrictions

This position statement is implemented in the organisation by integrating it into the bank's governance hierarchy and business processes and is reviewed yearly.

Should this position statement be breached, there are several escalation paths in Danske Bank's governance structure where breaches could be addressed. On a Group level, relevant forums include for instance:

- Danske Bank's Business Integrity Committee (BIC), and;
- The Sustainable Finance Council (SFC).

In addition to Group level escalation paths, there also exists separate business unit committees tasked with the oversight of the implementation of this position statement.

### Monitoring adherence to endorsed standards and principles

In order to monitor that Danske Bank's business is conducted with respect to the international standards that we endorse, the bank has developed processes for financial services and investments separately.

For financial services, the position, and the standards it endorses, are integrated in the credit process. All credit cases are reviewed for potential breaches, and cases with concerns are escalated for further review by ESG experts and

the bank's 2nd line credit teams. Monitoring is carried out monthly by an independent unit in Group Risk Management. For investing, Danske Bank takes a risk-based approach that is structured around two phases:

- Screening and ESG Risk Analysis, and;
- Dialogue and Engagement.

In the Screening and ESG Risk Analysis phase, we screen companies to ensure that their conduct is in accordance with the international agreements we endorse.

In the Dialogue and Engagement phase, we address potential breaches through dialogue, voting or participation in nomination committees when relevant.

### Disclosure

Danske Bank will also provide transparency to all stakeholders on our fossil-heavy industry exposures and aims to provide relevant disclosures in several reporting channels. Disclosures can for example be found in our forthcoming TCFD reporting, Sustainability Fact Book, SFDR statements and fund holdings overviews<sup>3</sup>.

<sup>3</sup> See <https://danskebank.com/sustainability/sustainable-finance/responsible-investments/sustainability-related-disclosures> and [https://www.danskeinvest.lu/w/show\\_list.products?p\\_nld=81&p\\_nFundGroup=81](https://www.danskeinvest.lu/w/show_list.products?p_nld=81&p_nFundGroup=81)