Position Statement on Fossil Fuels

February 2024
Our approach to the fossil fuels sector

Danske Bank aims to be a responsible partner in the transition towards a low-carbon economy. Assuming this responsibility, we have developed clear standards for our engagement with the fossil fuels sector with the Paris Agreement as our principal guideline. We have outlined our overall roadmap to net zero in our Climate Action Plan.

This position statement describes the approach we take to the fossil sector and outlines the key restrictions, expectations and recommendations we apply with regards to the encompassed financing services and investment products. It is also central to our strategic focus areas to support customers in their transition, ensure a robust bank and manage our societal impact. The position statement takes into consideration the work of leading intergovernmental institutions such as the International Energy Agency and the Intergovernmental Panel on Climate Change.

Relevant definitions

Relevant definitions include:

- Fossil fuels are defined as a class of hydrocarbon containing materials of biological origin occurring within the Earth’s crust that can be used as a source of energy, including coal, petroleum, natural gas, oil shales, peat, tar sands and heavy oils.
- Unconventional oil and gas are 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 and gas production is defined as production in ultra-deep sea, the Arctic or the Amazon Basin
  - 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 metres below surface level.
- Expansion of oil and gas refers to any activity intended to expand the supply of oil and gas beyond that which was approved for development\(^1\) by 31 December 2021. Expansion thereby also covers amending current approvals to increase supply beyond that which was approved for development by 31 December 2021.
- Expansion of coal refers to building new coal mines, extending existing mines or to expanding coal-fired product capacity beyond that which was in operation by 31 December 2021.

Financing services position

Scope

The restrictions stipulated in the financing position statement apply to financing services, here defined as lending, guarantees, primary debt and equity capital markets activities.

Project finance is defined as the financing of the construction of, and normally the subsequent operation of, large energy, infrastructure and production facilities projects. Project finance is a long-term structured funding arrangement in which debt repayment is primarily reliant on the project’s cash flows upon completion, with no or limited recourse to the project’s shareholders.

Regarding value chain coverage, the restrictions on coal and peat apply to utility companies. For coal specifically, the restrictions also apply to extraction by metals and mining companies. For oil and gas, it applies to all companies within the Exploration & Production (E&P) segment. E&P companies are defined as companies that explore for and produce oil or natural gas from sub-surface basins onshore or offshore. The definition covers pure-play companies, integrated companies, NOCs, INOCs, independents and majors. This does not include companies in the upstream value chain that provide services to the E&P companies, including but not limited to drilling companies, service companies, seismic companies and/or engineering companies. While these non-encompassed companies have a critical role in discovering resources, they are not the ultimate decision-makers on the investments needed to convert resources into reserves.

Restrictions

Coal and peat

Danske Bank will phase out companies with coal- and peat-fired power generation and heating from its financing product portfolios by 2030.

Danske Bank will not

- provide financing services to thermal coal mining companies
- provide financing service to companies that generate more than 5% of their combined revenues from coal-fired and/or peat-fired power generation and heating or companies that expand coal-fired or peat-fired power generation and heating\(^2\)
- participate in project finance for unabated fossil fuels

\(^1\) For details, please see the IEA, ‘Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach’

\(^2\) Reopening of coal-fired or peat-fired power plants mandated by the company’s government to ensure energy availability is not taken to be expansion.
Danske Bank will not
• provide financing services to oil and gas E&P companies that do 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 and a material scope 3 emission reduction target. In addition, it includes a commitment to not expand supply of oil and gas beyond that which was approved for development by 31 December 2021.
• participate in project finance for unabated fossil fuels
• provide long-term financing or refinancing to E&P companies that generate more than 5% of their revenues from unconventional or frontier oil and gas.

The lending restrictions are reflected in the Credit Policy of Danske Bank. The policy and underlying instructions and tools further steer the implementation and monitoring of the restrictions. All credit cases are reviewed for potential breaches of the Credit Policy, and cases that raise concerns are escalated for further review.

Exemptions to financing restrictions
Danske Bank makes exemptions for companies for the following reasons:
1. Danske Bank may provide financing 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 financing services, exemptions can be made to the restriction of providing financing services to companies that generate more than 5% of their combined revenues from coal-fired and/or peat-fired power generation and heating if the company has a credible 2030 phase-out plan. We may make exemptions to allow the inclusion of certain instances of peat or coal in power-generation and heating as some older boilers are built for partial peat or coal combustion. These select cases would need to meet the thresholds set out in this position statement.
3. 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.

Investment position
Danske Bank will in 2024 initiate the implementation of an updated approach to fossil fuel investments.

The implementation will be carried out in accordance with applicable sector legislation and will at all times be within the boundaries of regulatory requirements. The implementation will be carried out in stages in accordance with applicable governance.

This section outlines the future position, once fully implemented, for fossil fuels in respect to our investments.

Scope
The restrictions apply to our Danske Invest-, Danske Bank- and Danica Pension-branded investment strategies, except for any holdings by such strategies in external funds and index derivatives, illiquid/alternative investments and selected discretionary mandates at clients’ request.

Due to fiduciary duties (see our Responsible Investment Policy for details) and customer preference considerations, investment strategies domiciled in Norway and/or specifically targeting Norwegian clients as well as investments in emerging markets debt are not covered.

Externally managed investment and pension products distributed to Danske Bank and Danica Pension through our platforms are also not in scope. Additional investment products may, due to unforeseen implementation issues, also be deemed to be out of scope.

Regarding value chain coverage, fossil fuel companies are defined, as outlined in the Exclusion Instruction, as companies that derive more than 5% of total revenues from hydrocarbons through exploration, production, refining, transportation, storage, energy equipment and services, and power generation.

The data used to identify such companies comes from ISS-ESG.

Restrictions
Within the scope of this position, Danske Bank will only:
• Invest in fossil fuel companies that are deemed ‘Aligned to net-zero pathway’ or ‘Aligning towards net-zero pathway’ under Danske Bank’s Net-Zero Pathway Framework (NZPF) for investee companies.
• Fossil fuel companies assessed to be ‘Aligning towards net-zero pathway’ are subject to time-bound engagement.

We intend to support and stay invested in those fossil fuel companies that, through their actions and transition plans, are credibly demonstrating a willingness to transition.

For more details on the NZPF, see the methodology description available on Sustainability Related Disclosures [danskebank.com].

In addition to the restrictions following the NZPF, Danske Bank will not invest in E&P companies that generate more than 5% of their revenues from tar sands. For additional information on exclusions, see the Exclusion Instruction and Exclusion List available on Sustainability Related Disclosures [danskebank.com].

Expectations and recommendations
Danske Bank expects the companies it provides financing services to and invests in to operate in accordance with the following set of international agreements and principles:
• UN Global Compact
Danske Bank also recommends that companies in the fossil sector conduct their 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 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 situations
- 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 138 and Worst Forms of Child Labour Convention 182
- Respect indigenous peoples 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)

Disclosures

Danske Bank will also provide transparency to all stakeholders on our fossil fuel exposures and provide relevant disclosures via several reporting channels. Disclosures can for example be found in our Sustainability Fact Book, SFDR statements and fund holdings overviews.³