

A photograph of an industrial facility, likely a refinery or power plant, silhouetted against a bright orange sunset sky. A prominent smokestack in the center-left is emitting a thick plume of dark smoke that drifts to the left. The foreground shows a paved road and some trees, with a bright light source (the sun) visible on the right side, creating a lens flare effect.

Position Statement on Fossil Fuels

March 2021

Introduction

Danske Bank aims to be a responsible partner in the transition towards low-carbon energy sources 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 coal and peat necessary to support the decarbonization of our economies, while we also introduce a strict policy on unconventional- and frontier oil & gas to protect sensitive environments.

The surface temperature on Earth has increased rapidly in recent decades due to the release of 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. Danske Bank recognises that it is imperative that global warming is limited to well below two degrees Celsius and that action now is vital to ensure the future prosperity of humanity.

The financial system has an important role to support decarbonisation of our economies. The sector is uniquely positioned to affect 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 policy 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 helping 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 moving 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 the 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 across the whole bank 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 make 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 scenarios¹. 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 financial services to oil & gas exploration and production (E&P) companies that do not set a credible transition plan in line with the Paris Agreement by 2023.

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 where we want to avoid supporting an expansion of E&P activity.

Danske Bank has made several commitments on climate that are relevant to our fossil fuels position. This includes joining the net zero alliance for asset owners through our pension subsidiary, Danica Pension, and committing to set targets for aligning the CO₂ emissions of our corporate lending book with the Paris Climate Agreement by 2023. We are also a signatory to RE 100+, committing to only source renewable energy for our own operations. Finally, this position paper also substantiates our support for the Principles for Responsible Banking, by outlining how we work to reduce our negative impact on climate and environment with regard to the fossil fuels sector.

1] 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 stated below on lending to oil & gas production apply to all customers within the group’s Exploration & Production segment. The rules 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.

Projects and companies

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

3. Relevant definitions

Relevant definitions include:

- Unconventional oil & 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 & 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
 - Investment services refer to assets managed by Danske Invest and life & pension products offered by Danica.
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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, companies above certain revenue exposure thresholds for coal and peat, specifically:

- Companies that generate more than 5% of their revenues from thermal coal mining or coal-fired power generation;
- 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 also phase out companies with coal and peat fired power production, as well as companies with thermal coal mining, from its investment and financial product portfolios. We adopt the timeline associated with the IPCC recommendation that all coal-fired power stations in the EU and OECD countries must be shut by 2030 at the latest, and by 2040 in the rest of the world. Concerning peat, we may include 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. We also acknowledge the role of combined heat and power production (CHP) in the Nordic societies and apply the communicated thresholds to these plants where relevant.

Oil & Gas

Danske Bank refrains from providing financial services to, or invest in, companies above certain revenue exposure thresholds in oil & gas, specifically:

- Financial services to companies that generate more than 5% of their revenues from unconventional (tar sands, shale) or frontier (arctic and ultra-deep sea) oil & gas E&P;
- Investments in companies that generate more than 5% of their revenues from tar sands.

In addition, Danske Bank does not provide any project finance for expansion of oil & gas exploration and production.

By 2023, Danske Bank will not offer refinancing or new financial services to any oil & gas E&P company that does not set a credible transition plan in line with the Paris Agreement.

Danske Bank manages oil & gas related exposures within the bank's industry and customer risk frameworks. While we recognise that the oil & gas industry will continue to play a large role in the global energy mix going forward, in recent years the bank has had a limited risk appetite for oil & gas customers and overall exposure to the fossil-heavy industries has declined. As of 2020, a risk appetite limit of USD 8.5 bn. in total credit exposure was introduced towards the sector². As of 2021, this has been reduced to USD 7.75 bn. Within this appetite, the focus is on financing E&P customers active on the Norwegian Continental Shelf.

²⁾ This figure is not directly comparable to the exposure figures shown in the annual report or conference call presentation, since the limit includes also undrawn amounts on uncommitted facilities, which are not considered credit exposure for accounting purposes.

5. Exemptions framework

Danske Bank will consider financing, and investing in, companies encompassed by the scope of this position statement if they can demonstrate their commitment, and ability, to phase-out the use and production of fossil fuels in alignment with the 2015 Paris Agreement.

Danske Bank makes exemptions for companies for four reasons:

1. Danske Bank may want to retain the ability to influence companies' conduct as part of our overarching goal to aid customers' transition to low carbon energy sources.

Engagement and dialogue is often a better tool than divesting, or exiting a customer relationship, to encourage the development of higher standards of responsibility.

2. Many companies that are currently engaged in unsustainable activities can help accelerate the speed of the transition with the right type of financial support. Examples of transition enabling financial support can be found e.g. power generation, where coal-fired power generation capabilities can be exchanged with renewable energy sources. ►►

3. Companies may have communicated a clear and realistic reduction or phase-out plan that will take them below the thresholds introduced in this position statement
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.

The above exemption framework does not apply to companies generating more than 15% of their revenue from the Barents Sea in the Arctic. While we have limited exposures towards unconventional, and frontier, oil & gas, and existing exposures are aimed at supporting Norwegian and Danish companies, we want to avoid supporting a broad expansion of E&P activity in the Arctic. We consequently cap the ability to make exemptions based on transition plans for the region.

During 2021, Danske Bank will establish an objective framework for assessing the credibility of companies' transition plans. There are several initiatives that could provide a viable methodology and the Transition Pathway Initiative (TPI) is currently being assessed for our investment activities.

In the interim, our assessments are guided by dialogue to assess the credibility of a company's transition plan. As of Q1 2021, Danske Bank makes exemptions for a number of power utilities based on their communicated coal and peat reduction targets. In the Oil and Gas E&P segment, 3 out of 7 customers have a share of revenue from unconventional & frontier oil & gas, which exceeds the thresholds indicated in the 'rules & standards' section. We view these companies as leading in their sector either by deploying resources to advance the transition to low carbon technologies or by having low emissions from production.

6. Supporting standards and principles

In general, Danske Bank expects the companies it invest 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 invest 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 and Sustainability Fact Book.