

**Nykredit**



Totalkredit

Fossil Fuels Policy



Fotograf: Brian Buchardt

## **Introduction**

Nykredit has committed to a net zero 2050 Paris-aligned pathway for greenhouse gas emissions from the Group's lending and investments. This commitment is rooted in the Science Based Targets initiative, the Net Zero Banking Alliance and the Net Zero Asset Managers initiative.

A reduction of fossil fuel emissions is vital in our efforts against climate change. Nykredit works to support the necessary green transition of global energy production. We expect the companies we finance and invest in to do the same.

Nykredit's efforts build on the Paris Climate Agreement and acknowledged climate science as reflected in reports by the IPCC, the International Energy Agency (IEA) and others. According to the IEA's Net Zero Emissions scenario, no new coal mines or oil and gas fields can be developed, and coals must be phased out of energy production in all OECD countries by 2030<sup>1</sup>.

The IEA's conclusions provide the foundation of this policy.

Like the IEA, Nykredit acknowledges that fossil fuels will play an inevitable role in global energy production for years to come. Nykredit also acknowledges the fact that companies involved in the exploration, extraction or production of fossil fuels today have both an opportunity and obligation to play an active and positive role in the green transition by moving their businesses away from fossil fuels and into renewable energy sources.

Nykredit's policy builds on the general principle that companies acting in conflict with the IEA's conclusions will be excluded, but Nykredit still reserves the opportunity to finance specific and necessary renewable energy expansions and to invest in companies that make massive investments in accelerating the green transition and have a credible (Paris-aligned) transition plan.

## **Purpose**

This policy sets the framework for how Nykredit invests in and provides financing to:

- companies involved in the exploration, extraction or production of fossil fuels.
- companies producing energy from fossil fuels.

The policy sets the framework for implementation in the individual Nykredit Group companies and communicates the Group's position to our stakeholders.

## **Scope**

This policy applies to the entire Nykredit Group.

This policy applies to existing and new customers.

This policy applies to all financial services offered by the Nykredit Group.

Activities that Nykredit is required to undertake in compliance with statutory rules or regulations are exempt from this policy.

## **Definitions**

*Fossil fuels* include thermal coal, oil and natural gas, including conventional and unconventional oil and gas.

*Unconventional oil and gas* include tar sand, shale oil and gas, arctic oil and gas as well as deep sea oil and gas.

*Companies involved in the exploration, extraction or production of fossil fuels* include companies operating in the upper part of the value chain of coal, oil and natural gas (upstream), including certain service providers. It also includes infrastructure used only for fossil fuels (midstream).

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<sup>1</sup> International Energy Agency (2021): Net Zero by 2050 - A Roadmap for the Global Energy Sector.

*Companies* also include parent companies in which the activity in question is undertaken by a subsidiary.

## **Obligations**

### ***Exploration, extraction or production of fossil fuels***

The principles below apply to the companies involved in the exploration, extraction or production of fossil fuels.

#### *Lending*

Nykredit may finance separated activities that contribute to the green transition. Nykredit does not provide any other kind of financing to companies involved in the exploration, extraction or production of fossil fuels.

This means that:

- Nykredit may finance and provide services targeted at green activities provided that such activities contribute to the green transition in alignment with the EU taxonomy<sup>2</sup> and are separated from the company's other activities.
- Beyond this, Nykredit does not provide financing or financial services to companies where more than 5% of revenue comes from the exploration, extraction or production of fossil fuels.
- Nykredit does not provide direct financing to projects involving exploration, extraction or production of fossil fuels.

#### *Investment*

In general, Nykredit does not invest in companies that expand their production in contravention of the IEA's conclusions, nor does Nykredit invest in companies involved in unconventional extraction of fossil fuels or the production of thermal coal.

This means that:

- Nykredit does not invest in companies in which more than 5% of the capital expenditure (CapEx) is used to expand production in contravention of the IEA's Net Zero Emissions scenario.
- Nykredit does not invest in companies that derive more than 5% of revenue from unconventional extraction of oil and gas or drilling in the Arctic.

Nykredit does not invest in companies that derive more than 5% of revenues from the production of thermal coal. From 2030, Nykredit will have zero tolerance for the production of thermal coal.

- In exception cases, Nykredit may, however, invest in companies engaged in the activities mentioned above, provided that Nykredit has a legitimate expectation that the company may be influenced via active ownership to transform and develop its business in line with the IEA's Net Zero Emissions scenario. This requires, among other things, that a company meets at least one of the following criteria:
  - o Objectives that are in line with the objective of maintaining global temperature increases below 1.5 degrees and a maximum of two degrees
  - o A Transition Pathway Initiative score of at least 4
  - o A sufficient/substantial share of CapEx targeting green assets
  - o Plans for the phasing out of existing production and reserves.
- Nykredit may also invest in specific activities that contribute to the green transition in companies engaged in the activities mentioned above. This presupposes that the investment can be limited to these activities, for example through green corporate bonds or a collaboration on infrastructure assets.

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<sup>2</sup> Decisions as to whether a given activity contributes to the green transition are made with regard for the EU taxonomy regulation so as to abide by such regulation on a "best effort" basis, where feasible.

### **Energy production from fossil fuels**

The principles below apply to companies producing energy from fossil fuels.

#### *Lending*

Nykredit may provide funding to companies producing energy from fossil fuels, provided that they have a credible plan for phasing out energy production from fossil fuels.

This means that:

- Nykredit may finance and provide services to companies where more than 5% of revenue comes from fossil-based energy production, provided that they have a credible plan for phasing out energy production from fossil fuels. If the energy production is based on coal, the plan must entail phasing out by 2030.
- In no circumstances will Nykredit provide direct financing for the establishment of new energy production from fossil fuels.

#### *Investments*

Nykredit does not invest in companies that produce energy from coal, unless the company has a plan for phasing out energy production from fossil fuels.

This means that:

- Nykredit does not invest in companies in which more than 5% of revenue comes from coal-based energy production. From 2030, Nykredit will have zero tolerance against energy production from thermal coal.
- Nykredit may, however, invest in companies that have a credible plan for phasing out energy production from fossil fuels.

### **Governance**

This policy is subject to the same principles as apply to all other Nykredit Group policies. This means that in Group companies undertaking financing or investment activities the policy must be adopted by the Boards of Directors. The policy is integrated into the policies covering the individual companies, including the credit policy and the Sustainable Investment Policy.

The policy will be updated as required, and at least once a year, to keep up with developments in the area.

The policy is supplemented with business procedures and process description that operationalise the content of the policy.

The CRO unit has the overall responsibility for overseeing compliance with the policy. The Executive Boards are responsible for the implementation of the policy.

Approved by the Boards of Directors of

- Nykredit Realkredit A/S (6 June 2023)
- Nykredit Bank A/S (21 June 2023)
- Totalkredit A/S (14 August 2023)