



# **Sector Policy on Fossil Fuels for the SEB Group**

adopted by Risk and Capital Committee of the Board of Directors of  
Skandinaviska Enskilda Banken AB (publ)  
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**Sustainable Banking**

# Sector Policy on Fossil Fuels

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# Sector Policy on Fossil Fuels

## 1 Introduction

Emissions from combustion of Coal, Oil, Gas and Peat stands for 65% of Green House Gas emissions into the atmosphere<sup>1</sup>. The extraction and burning of these fuels as a source of energy must be gradually reduced and replaced as part of an orderly transition to a low carbon society and reaching the target in the Paris Agreement (PA) of limiting global warming to well below 2 degrees aiming for 1,5 degrees compared to “preindustrial levels”.

Skandinaviska Enskilda Banken AB (publ) (“SEB”) is a signatory to the Principles for Responsible Banking and Net Zero Banking Alliance, where we, as a bank, have committed to align our strategy with the Paris Agreement. This Sector Policy serves to support that alignment and SEB’s contribution to an orderly transition to a low carbon society. SEB also recognizes that self-sufficiency in energy production can have strategic security implications for nation states including our home markets.

This transition represents a major commitment. Since SEB’s stance is to engage and include rather than exit, the transition and implementation will be executed in a manner conscious of the above.

This Sector Policy builds on the principles defined in the thematic Environmental Policy and the Social and Human Rights Policy, which are part of the overall Sustainability policy framework in SEB. Sustainability related policies in SEB are reviewed annually.

## 2 Definitions

**Arctic Oil and Gas:** Oil and gas originating from exploration and production in the Arctic Area.

**Arctic Area:** The geographic area north of the Arctic polar circle (N 66°33’).<sup>2</sup>

**Business Relationship:** A commercial relationship with a legal entity based on a legal agreement including, but not limited to, holding of securities.

**Client:** A Company with which SEB has a Business Relationship.

**Company:** Legal corporate entity conducting business.

**Dedicated Finance:** Where the financing is channelled to a specified use of proceeds.

**Environmentally Sensitive Areas:** UNESCO World Heritage sites, Wetlands covered by the Ramsar Convention, International Union for the Conservation of Nature Red List Species, National parks and nature reserves-, and High conservation value forests (HCVF)<sup>3</sup> and the Arctic Area.

**Existing Operations:** Existing undertaking that is undergoing no material change in output or function.

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<sup>1</sup> <https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data>

<sup>2</sup> The arctic area is an environmentally sensitive area. There are three definitions used for the arctic areas: (1) The ice cap (areas covered by permanent ice) (2) Water areas where the average temperature is below 10 C (3) The Arctic polar circle (66°33’). SEB has chosen “the Arctic polar circle” since it is a geographically stable definition.

<sup>3</sup> SEB considers the whole Amazon basin an environmentally sensitive area

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**Extraction of Fossil Fuels:** Open pit and underground mining to expose and extract solid Fossil Fuels. Drilling-, or injecting liquid at high pressure into subterranean rocks, boreholes, etc-, to extract liquid or gaseous Fossil Fuels that can be forced to flow to the surface.

**Financial Services:** Services resulting in credit exposure through lending or guarantees, excluding exempt activities.

**Fossil Fuels:** Fossil Fuels in this Sector Policy refers to thermal coal, oil and refined petroleum products, natural gas and thermal Peat

**Fossil Fuel Sector:** Companies that are directly involved in the following economic activities<sup>4</sup>:

1. Extraction of Fossil Fuels
2. Refining of oil and manufacturing of refined petroleum products
3. Fossil Fuel Power Generation

**Fossil Fuel Power Generation:** Generation of heat and/or power for internal or external supply using a Fossil Fuel.

**GHG (Greenhouse Gas) Emissions:** Emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrochlorofluorocarbons (HCFCs), ozone (O<sub>3</sub>), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF<sub>6</sub>).

**Greenfield or Brownfield Thermal Coal Mining:** Undeveloped and already developed thermal coal mining sites

**Investments:** Where SEB, directly or through investment products managed by SEB or its subsidiaries invest in equities and fixed income securities, except exempt activities.

**Mountain Top Removal:** Mountain Top Removal mining (MTR), also known as mountain top mining (MTM), is a practice where the tops of mountains are removed. The earth from the mountaintop is then moved into neighbouring valleys.

**New Projects or Capacity Expansion:** An identified location where any new commercial, industrial or infrastructure undertaking is taking place or any existing undertaking that is undergoing material change in output or function, which may result in changes to the operation's climate impacts.

**Oil and Gas Companies:** Exploration & Production companies and Oilfield services companies supporting Exploration & Production, commonly referred to as upstream companies.

**Refining:** The industrial process of generating refined products from a given fossil commodity.

**Scope 1, 2 and 3:** Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in a company's value chain.

**SEB:** Skandinaviska Enskilda Banken AB (publ)

**SEB Group:** Skandinaviska Enskilda Banken AB (publ) and its affiliates, such as subsidiaries, branches and representative offices. Foundations related to SEB are not part of the SEB Group.

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<sup>4</sup> Subsectors under the following SNI sector codes: 0510 – Mining of hard coal; 0520 – Mining of lignite; 06 – Extraction of crude petroleum and natural gas; 0892 – Extraction of peat; 091 – Support activities for petroleum and natural gas extraction; 191 – Manufacture of coke oven products; 192 - Manufacture of refined petroleum products; 3521 - Manufacture of gas (if applicable). In case of conflict the policy takes precedent.

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**Seismic Fossil Exploration:** The activity of using seismic technologies in oil and gas exploration to identify new fossil reservoirs.

**Unconventional Oil and Gas:** Unconventional Oil and Gas in this Sector Policy refers to oil sand/tar sand, shale/fracked oil and gas.

### 3 Purpose

The purpose of this Sector Policy is to define SEB's position on business relationships with Companies involved in fossil fuel activities.

### 4 Scope

This Sector Policy is a Group Policy. As such it shall be implemented in all parts of the SEB Group, taking local or sector specific rules into account when relevant. It is noted that the fund company of the SEB Group, SEB Investment Management AB, for regulatory reasons is not party to this policy and instead establishes its own sustainability related policies.

The Sector Policy covers Companies in the Fossil Fuel Sector as defined above. Further definitions of application is described for each activity.

Any deviations from this policy shall be escalated in accordance with the Customer Acceptance Mandate Instruction.

#### *Implementation level*

All SEB sector policies have different implementation levels, i.e.: expect, require and restrict. This Sector Policy only applies expect and restrict.

**Expectation:** SEB expects Companies to adhere to this Sector Policy. Non-adherence requires actions that over time will ensure adherence to the Sector Policy.

**Require:** SEB requires Companies to comply with SEB's position. Non-compliance requires active decisions on SEB's business relationship.

**Restrict:** SEB restricts Business Relationships with Companies that are non-compliant.

The below table shows how the policy implementation levels are applied to different sizes of Companies.

<i>Implementation levels</i>	<b>Company size</b>		
	<b>Retail<sup>5</sup></b>	<b>SME<sup>6</sup></b>	<b>Large companies.<sup>7</sup></b>
<b>SEB Expects</b>	-	-	✓

<sup>5</sup> Counterparties where SEB's credit exposure is below EUR 1 million

<sup>6</sup> Counterparties where SEBs credit exposure is above EUR 1 million and not defined as Large companies

<sup>7</sup> Counterparties that fulfil two or more of the following and have not been defined as non-material Business Relationships in the divisions:

- More than 250 employees
- Turnover above 50m EUR
- Balance sheet value above 43m EUR

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<b>SEB Requires</b>	-	✓	✓
<b>SEB Restricts</b>	-	✓	✓

✓ Implementation level applicable

“-“ Implementation level not applicable, but can be used as guidance

\*For investment related activities, listed companies are in scope, regardless of size

Exempt activities not covered by the policy:

*when SEB lends*

1) Securities financing transactions, provided the borrower itself is not covered by this sector policy.

*when SEB invests and distributes investment products*

- 1) Investments in securities that are a consequence of seized assets in the ordinary course of business;
- 2) Investments in securities where SEB does not make the investment decision<sup>8</sup>;
- 3) Externally managed funds, i.e. funds managed outside SEB AB. Sustainability considerations in portfolio management and advisory and other distribution and placement activities using externally managed funds are defined in divisional sustainability instructions;
- 4) Investments in securities where external sustainability data is not available at a reasonable effort and quality.

Other activities:

- 1) Any activity that the SEB Group is obliged to provide due to law or regulation;
- 2) Trading in terms of market making and client order facilitation through the provision of liquidity in securities markets and related research activities;
- 3) Financial products where the employees in companies in scope are the beneficiaries, e.g. Occupational Pension.

### **5 Company alignment with SEB's long term strategy on fossil related activities**

SEB is committed to support its customers in meeting the Paris Agreement through an orderly transition. Companies which lack a transition plan, Scope 1 and 2 for power generation and Scope 1,2 and 3 for extraction and refining, should over time develop such a plan. SEB expects Companies to be transparent about their transition plans, that the plans include milestones for the individual company's transition plan and that Companies' public and non-public policy positions do reflect those plans. A Company that does not have such a plan and does not commit to producing such a plan within a reasonable time frame represents an outlier. SEB can act as an advisor to Companies developing such plans.

Carbon Capture and Storage (CCS) and Bio Energy Carbon Capture and Storage (BECCS) have strong potential to become important transition technologies in the quest to limit CO<sub>2</sub> emissions from carbon intensive industries or create carbon sinks. SEB is positively predisposed to such technologies. SEB is also positively

<sup>8</sup> The investment might be registered in the name of SEB (e.g. certain pension products)

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predisposed to support investments that significantly enhance climate impact even if “green” isn’t reached.

SEB further expects Companies involved in operations located in water stressed areas to have a water use and quality management in place.<sup>9</sup>

### ***Environmental restrictions***

## **6 Thermal coal**

### **6.1 Thermal coal mining**

#### *6.1.1 General*

SEB will avoid entering into new Business Relationships with Companies operating thermal coal mines. SEB will also avoid providing Dedicated Financing to thermal coal mines.

#### *6.1.2 New Projects or Capacity Expansion*

SEB will avoid providing Dedicated Financing to-, or invest in:

- Projects that are dedicated to thermal coal extraction;
- Greenfield or Brownfield Thermal Coal Mining expansions;
- Infrastructure projects that are dedicated to thermal coal such as harbours or terminals of existing harbours, transportation of thermal coal by rail or road, storage of coal (warehouses).

#### *6.1.3 Existing Operations*

- SEB will avoid Business Relationships with Companies engaging in the practice of Mountain Top Removal.
- SEB will avoid Business Relationships with Companies with a material share of revenues (> than 15 %) deriving from thermal coal mining. For Germany see the last paragraph in this section.
- SEB will exit current Business Relationships with Companies where more than 5% of the revenues by 2025 is derived from thermal coal mining. For Germany there is a time-limited exception to the 5%-restriction. See next point.
- In Germany, the coal exit framework has been defined by the Coal Phase-out Act which provides for the gradual phase-out of coal-fired power generation by 2038 at the latest. Companies who are eligible for the national coal phase out legislation are exempt from the two paragraphs above. In those cases, SEB will avoid providing Dedicated Financing to coal mines.

## **6.2 Coal fired power generation**

#### *6.2.1 General*

SEB will avoid entering into new Business Relationships with Companies where more than 5% of revenues are derived from coal fired power generation.

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<sup>9</sup> Such as: impact on water stressed areas and measure water intensity as well as measure the amount of discharged waste water and set targets for its reuse and recycling

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### 6.2.2 *New Projects or Capacity Expansion*

SEB will avoid providing Dedicated Finance to-, or invest in-, new coal fired power plant (CFPP) projects, wherever they are located, nor will SEB provide Dedicated Finance to-, or invest in-, brownfield retrofit CFPP projects seeking lifetime extension or capacity increase.

### 6.2.3 *Existing Operations*

SEB will avoid Business Relationships with:

- Companies with a material share of revenues (> than 15 %) derived from coal-fired power generation. This does not apply to Clients eligible for the national Coal Phase-out legislation in Germany, see the last paragraph in this section.
- Power generation Companies that do not have a defined strategy to reduce coal fired power generation, under a regularly monitored plan including a timeline, in line with the Paris Agreement and pursuant to section 6 of this policy “Company alignment with SEB’s long term strategy on fossil related activities“.

SEB will support Companies with coal fired power generation activities, that SEB has a Business Relationship with, to move into new types of renewable energy generation as well as natural gas as a transitional solution. For SEB’s position on gas fired power generation, see section 8.3 of this Sector Policy.

SEB will exit current Business Relationships with Companies where 5 % or more of the revenues 2030 is derived from coal fired power generation. This does not apply to Companies eligible for the national Coal Phase-out legislation in Germany, see next point.

In Germany, the coal exit framework has been defined by the Coal Phase-out Act which provides for the gradual phase-out of coal-fired power generation by 2038 at the latest. Current customers who are eligible for the national Coal Phase-out legislation are exempt from the 2030 phase out commitment and the 15% maximum share of revenues from coal fired power generation. In those cases, SEB will avoid providing Dedicated Financing to coal fired power plants. SEB will support such Companies to manage the transition successfully through financing of renewable and other low carbon power generation.

## 7 Oil and Gas

SEB recognises the need for society to decrease its dependency on oil and oil related products given their significant negative climate impact, in particular from Scope 3 emissions. SEB recognises however that oil and oil related products will for a foreseeable number of years be a necessity to our society. SEB has therefore adopted an Oil and Gas strategy to gradually shift away from Oil and Gas Companies that lack a Paris Agreement aligned (Scope 1,2,3) transition plan and adjust its energy related fossil exposure in line with Paris aligned scenarios. During this period of adjustment, SEB intends to work with Oil and Gas Companies with the lowest Scope 1 and scope 2 Greenhouse Gas Emissions per unit produced.



## **Sector Policy on Fossil Fuels**

### **7.1 Oil and Gas Extraction**

#### *7.1.1 Conventional oil & gas*

- SEB caps its nominal credit exposure to the exploration, production and oilfield services sector with an annual reduction of exposure defined in the above-mentioned strategy and communicated in the fossil exposure index.
- SEB will avoid providing new Financial Services to-, or invest in-, offshore related Companies with fossil assets (drilling rigs, seismic equipment and dedicated fossil extraction offshore support vessels) where revenue from these assets represents >5% of Company's revenue.
- SEB will avoid providing Dedicated Financing to Seismic Fossil Exploration.

#### *7.1.2 Environmentally Sensitive Areas*

- SEB will avoid providing Dedicated Finance to-, or invest in, New Projects or Capacity Expansions related to oil and gas in Environmentally sensitive areas.
- SEB will avoid entering into new Business Relationships with Companies extracting oil or gas in environmentally sensitive areas.
- SEB will avoid Business Relationships with Companies with a revenue share (>5%) originating from oil and gas related activities in Environmentally sensitive areas.
- SEB will avoid providing Dedicated Finance for exploration or production of Arctic Oil and Gas.
- SEB will avoid Business Relationships with Companies with a material revenue share (>15%) derived from exploration and production of Arctic Oil or Gas on the Norwegian Continental Shelf (NCS). The higher threshold for NCS is justified by the strict Norwegian environmental legislation and monitoring. Based on SEB's restrictive view on Arctic Oil and Gas in general, any exemption will require extensive scientific assurance.

#### *7.1.3 Unconventional oil and gas*

##### *New Projects or Capacity Expansions*

- SEB will avoid entering into new Business Relationships with Companies where more than 5% of revenues are derived from operations relating to unconventional oil and gas.
- SEB will avoid providing Dedicated Finance to-, or invest in-, any New Projects or Capacity Expansion related to unconventional oil and gas.

##### *Existing Operations*

- By 2030, SEB will have phased out Business Relationships with Oil and Gas Companies where more than 5% of revenues are derived from operations relating to unconventional oil and gas.

### **7.2 Refining of oil and manufacturing of refined petroleum products**

#### *General*

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- SEB will avoid entering into new Business Relationships with Companies in the business of refining of oil and manufacturing of refined petroleum products, used for transportation and combustion.

### *New Projects or Capacity Expansion*

- SEB will avoid providing Dedicated Finance to-, or invest in-, new refineries or expansion of refinery capacity for transportation fuel, unless it is primarily aimed for biofuel production.

## 7.3 Oil and gas fired power generation

### *7.3.1 General*

SEB regards combustion of Fossil Gas as a short-medium term transition technology for power generation. To achieve the targets of the Paris Agreement it will be necessary to use fossil gas to secure energy supply when transforming away from coal. Fossil gas combustion will also be part of the solution when balancing power supply from intermittent power sources such as wind and solar.

### *7.3.2 New Projects or Capacity Expansion*

#### *Oil Fired Power Generation*

- SEB will avoid providing Dedicated Finance to-, or invest in-, new oil-fired power plant projects or expansions.

#### *Biogas*

Biogas is a renewable fuel. SEB encourages the use of biogas and will on a regular basis assess the possibilities to partly or fully replace fossil gas with biogas. SEB will always assess whether the potential for use of biogas has been reviewed for new gas fired power plants. SEB has no restrictions on the use of biogas for power generation.

#### *Gas - Combined heat and power*

SEB will avoid doing any new Dedicated Financing to combined heat and power plants with emissions exceeding 270 g/kWh in the EU<sup>10</sup>. SEB can finance combined heat and power plants with emissions exceeding 270 g/kWh on a case by case basis, where an enhanced due diligence can show that no other feasible technical and commercial alternatives are at hand. In addition, the combined heat and power plant must be aligned with the emission levels set out in the latest best available techniques (BAT) conclusion.<sup>11</sup> When replacing capacity in coal fired power plants and green field gas power projects, SEB will only finance combined heat and power generation with the exception of cases where the replacement fulfils the requirements for gas fired electricity generation set out below.

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<sup>10</sup> In line with EU Taxonomy, Do No Significant Harm threshold for climate mitigation in gas fired power generation.

<sup>11</sup> For combustion plants with thermal input greater than 1 MW but below the applicable thresholds for the BAT conclusions for large combustion plants, emissions are below the emission limit values set out in Annex II, part 2, to Directive (EU) 2015/2193

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### *Gas fired electricity generation*

SEB will be able to finance gas fired electricity generation for the purpose of securing peak load capacity in energy systems relying to a high degree of renewable/intermittent energy and where there is a clear intention of using the gas fired electricity capacity for balancing only and where there is a plan to gradually move to low carbon or renewable gases. In addition, gas fired electricity generation must be aligned with the emission levels set out in the latest best available techniques (BAT) conclusion.<sup>12</sup> Outside of the EU, SEB can finance gas fired electricity plants on a case by case basis, where an enhanced due diligence can show that no other feasible technical and commercial alternatives are at hand. Gas fired electricity generation financing is subject to an enhanced due diligence to assess alignment with this Sector Policy.

### *7.3.3 Existing Operations*

- SEB has no restrictions on existing gas fired power generation.

## **8 Thermal peat**

### **8.1 Thermal peat extraction**

#### *8.1.1 General*

- SEB will avoid entering into new Business Relationships with Companies where more than 5% of revenues is derived from thermal peat extraction.

#### *8.1.2 New Projects or capacity expansion*

- SEB will avoid providing Dedicated Finance to, or invest in, new thermal peat extraction projects.

#### *8.1.3 Existing Operations*

- SEB will avoid Business Relationships with Companies where a material part (>15%) of the company's revenues, is derived from thermal peat extraction;
- SEB will exit current Business Relationships where more than 5% of revenues, by 2025, is derived from thermal peat extraction.

### **8.2 Thermal peat fired power generation**

#### *8.2.1 General*

- SEB will avoid entering into new Business Relationships with Companies operating power plants where peat represents more than 5% of the energy source, unless there is a plan to phase out peat to below 5% by 2025 and full phase out by 2030.

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<sup>12</sup> For combustion plants with thermal input greater than 1 MW but below the applicable thresholds for the BAT conclusions for large combustion plants, emissions are below the emission limit values set out in Annex II, part 2, to Directive (EU) 2015/2193

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### *8.2.2 New Projects or Capacity Expansion*

- SEB will avoid providing Dedicated Finance to-, or invest in, new power plants where more than 5 % of the energy source is derived from thermal peat, unless there is a plan to phase out peat to below 5% by 2025 and full phase out by 2030.

### *8.2.3 Existing Operations*

- A limited number of power plants on the market are constructed for partial thermal peat combustion. Combustion without thermal peat in these plants will lead to corrosion. If Companies are currently using thermal peat as part of their energy source, SEB will work with them to find solutions to reduce and finally stop using thermal peat.
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