

Nordea Sector Guideline for Fossil Fuel based Industries

**Approved by Nordea Bank's Sustainability and Ethics Committee
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1 Introduction

The Board of Directors of Nordea Bank has adopted a Code of Conduct for Nordea Bank Abp and its subsidiaries, including branches and representative offices. It applies to all people working for Nordea.

The Code of Conduct is primarily based on the ten principles of the UN Global Compact and sets out the general principles for how we aspire to work at Nordea and guides us in our business relationships. The Code of Conduct is supplemented by more detailed internal rules, policies and guidelines.

Nordea is committed to conducting business responsibly and to integrating environmental, social and governance (ESG) criteria into our processes. Nordea is a signatory to the:

- UN Global Compact,
- the Principles for Responsible Investments (PRI),
- the Principles for Responsible Banking (PRB),
- the Glasgow Financial Alliance for Net Zero and
- the Equator Principles.

1.1 Nordea's sustainability targets

Sustainability is at the core of our strategy. We have an important responsibility in the transition towards net zero. Sustainability is an integrated part of our value proposition to customers, how we run the bank, organise our internal operations and manage our risks. We want to make a difference together with our customers and support them in making sustainable choices, contributing to a sustainable society.

To reach this goal Nordea has set the objective to become a bank with net-zero emissions by 2050 at the latest. Nordea was also the first Nordic bank with a tangible mid-term target by 2030 to reduce GHG emissions from our lending and investment portfolios by 40-50%, based on the 1,5 C pathway as set out in the IPCC SR15.

Nordea will ensure that 90% of our lending exposure to large corporates in climate-vulnerable sectors is covered by transition plans. To read more about these sustainability targets, including more detailed 2025 targets, please visit [Nordea.com](https://www.nordea.com).

2 Scope of the sector guideline

This sector guideline applies to Nordea's procurement, investments and financing and is applicable to mining companies where Nordea's credit exposure exceeds EUR 1 million.¹

This Sector Guideline covers Oil, Gas & Offshore companies and Mining companies operating in exploration, extraction or production of coal, peat, oil & gas. Also included are oil & gas pipeline and

¹ The threshold captures the absolute majority of loans from Nordea to the mining sector, as well as the majority of financed emissions and risks in the sector.

thermal coal and peat heat & power production companies. Exempted from this Sector Guideline are companies where Nordea's lending amounts to less than 1 MEUR.²

The scope of guideline hereby includes:

- unconventional oil and gas defined as oil sands, shale oil and shale gas, oil shale, Coal to liquids (Ctlg) and Coal to gas (Ctg).
- arctic drilling and for this Nordea uses the arctic definition as offshore locations enclosed by the southernmost extent of winter sea ice above the Arctic Circle.
- coal companies, defined as companies operating in thermal coal mining, coal exploration, coal processing, Coal to liquids (Ctlg) and Coal to gas (Ctg).
- offshore companies, defined as companies within oil and gas industry engaged in drilling for hydrocarbons in the ocean. Nordea's strategy is to discontinue its financing of companies in the offshore³ subsegment of the oil and gas sector by 2025.

2.1 Definitions

Requirement: Nordea restricts financial services to customers and investments in companies that are in breach of these requirements.

Expectation: Nordea expects customers within the scope of this guideline to adhere to the expectations and engages to encourage customers to take concrete remediating actions.

3 Governance

Sector guidelines are approved by the Sustainability and Ethics Committee. The relevant 1st line of defence is responsible for implementing the guideline into their processes, such as risk, credit and investment decisions. The control function in the 2nd line of defence is responsible for the oversight of the application of the guideline.

This guideline applies to all new financing, investment and procurement activities. Existing customers' adherence to the requirements is verified through ongoing active engagement and may require the collection of documents such as policies, permits or certificates. Controls of adherence are implemented according to a risk proportionality approach.

3.1 Due Diligence and sanctions

Nordea performs ongoing due diligence (ODD) on all customers and enhanced due diligence (EDD) with regards to customers that are deemed to have a higher risk or are active in an industry with a higher risk.

² The limit captures the absolute majority of loans from Nordea to corporates with fossil fuel extraction & production activities as well as associated emissions and risks associated in the sectors concerned. The reason for having this level is also that smaller companies generally have much more difficulties in obtaining and reporting data, i.e. NACE codes which is also the base for the Taxonomy.

³ Offshore service vessels and offshore drilling rigs.

Nordea is committed to ensuring that it complies with all relevant sanctions laws and regulations globally. Therefore Nordea applies the EU Sanctions Regime, UN Sanctions Regime and adheres to UK and US Sanctions Regimes on a Group-wide basis. In addition to the sanctions that are applied on a Groupwide basis, all Nordea entities are required to comply with sanctions that are applicable within their jurisdiction. Nordea may also consider the application of such local sanctions regimes on a Group-wide basis where needed for Nordea's risk management objectives. Nordea may also set requirements for sanctions compliance and risk management that exceed the regulatory or legislative obligations set forth by sanctions.⁴

4 Fossil Fuel and its risks in relation to sustainability

Fossil fuels – defined as coal, oil, natural gas and peat – have powered the industrial revolution for the past 150 years. Fossil fuels today represent more than 80% of the world's energy consumption⁵ and 40%⁶ of the Nordic energy consumption. It is used e.g. in construction, to produce electricity and heat to run factories, to heat and light homes and offices, to produce medical supplies, metals, plastics and agricultural products and to propel cars, trucks, ships and aircraft.

Approximately 73% of greenhouse gases result from the production and consumption of energy, including transport⁷. Thus, energy and climate policies are closely connected. The dual challenge the world faces is that demand for energy is increasing, driven by population growth, from the current world population of 7.8 billion to an expected 9.8 billion in 2050, and economic growth, while greenhouse gas emission must be contained to limit global warming.

The Intergovernmental Panel on Climate Change (IPCC) has in its 2019 Special Report - Global Warming of 1.5 °C and the Sixth Assessment Report series in 2021-2022⁸ – set out the context for strengthening the global response to the threat of climate change. Emission pathways need to lead to net zero by 2050. The transition requires emissions reductions in all sectors and an upscaling of investments in renewable energy and energy efficiency.

The IPCC concludes that society needs to transition to significantly less primary energy from fossil coal, oil as well as gas already by 2030. Decarbonizing several other sectors, including transport, cannot occur if decarbonization of power production and distribution do not also occur. Burning fossil fuels is the largest man-made source of greenhouse gases, of which burning of thermal coal is the single largest contributor, accounting for one third of the 1°C average temperature rise already observed . Thus, thermal coal phase out is the most urgent fossil fuel-related emissions driver⁹ to address today and it is specifically part of the global climate agreement agreed by all countries at COP26 in Glasgow 2021. Following a net-zero emission by 2050 path implies no need for new oil, gas or coal exploration or extraction projects according to International Energy Agency (IEA) whilst this is only the case if actions to reduce demand for fossil fuels are accelerated through rapid increase in energy sector funding, pricing of CO₂, energy efficiency, electrification of transport and more.

⁴ <https://www.nordea.com/en/about-us/sanctions>

⁵ World Energy Outlook 2020 by International Energy agency, Statistical Review of World Energy 2020 by BP.

⁶ Tracking Nordic Clean energy Progress, Nordic Energy Research, April 2020

⁷ Climate Watch data 2018, World Resources Institute.

⁸ <https://www.ipcc.ch/assessment-report/ar6/>

⁹ Global Warming of 1.5 °C, IPCC Special Report 2018 (revised 2019).

Methane is a powerful greenhouse gas and the second largest contributor to global warming. The oil and gas industry is one of the largest sources of anthropogenic methane emissions, and is the sector with the greatest potential for methane emissions reduction. In 2021 alone, the global oil and gas industry wasted \$19 billion of natural gas due to methane emissions¹⁰.

The Paris Agreement commits signatories to 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'¹¹. The Paris Agreement has served as a catalyst for numerous initiatives including the EU Action Plan for Financing Sustainable Growth and all the Nordic countries have adopted climate laws and national targets with the aim to have competitive low-carbon sustainable economies and achieve net zero emissions by 2050 at the latest. Likewise, EU has adopted a long-term strategy to become an economy with net-zero greenhouse gas emissions by 2050. The objective is at the heart of the Green New Deal and the step-by-step transition beyond the combustion of fossil coal, oil and gas in the EU and Nordic region. The EU, as well as all Nordic countries, also have intermediate climate and energy targets in legislation for 2030 and sector by sector decarbonisation roadmaps¹² which all result in lowered fossil fuel dependencies.

4.1 Nordea position

Nordea recognises the responsibility to work towards a just transition to a low-carbon economy and the energy transition to a sustainable society. Nordea's objective is to become a bank with net zero emissions by 2050 at the latest. To reach this goal, Nordea has set a mid-term objective to reduce financed greenhouse gas emissions from its lending and investment portfolios by 40-50% by 2030. Nordea's sector target for this sector is to reduce absolute scope 1, 2 and 3 financed emissions from Exploration and Production by 55% from 2019 to 2030.

Nordea will ensure that 90% of our lending exposure to large corporate customers in the fossil fuel-based sector is to be covered by transition plans by the end of 2025. Nordea will not expand financing to existing customers in scope of this guideline unless the customer has a credible transition plan in line with the Paris Agreement.

As a relationship bank, Nordea's overall strategy is to identify sector performance leaders with robust net zero aligned transition plans and support them in close dialogue. In instances when a transition plan is in place but not yet Paris aligned we aim to engage in dialogue to strengthen it. Where customers are not able or willing to transition, we need to reduce our engagement and exposure.

Nordea conducts climate risk assessments for relevant credit customers in the fossil fuel based industries outlined and set climate targets for the climate-related risk vulnerable industries as part of fulfilling Net Zero Banking Alliance (NZBA) and the Guidelines for Climate Target Setting for Banks.

Further, for specific fossil fuels Nordea applies the following as described in sections below.

¹⁰ Oil & Gas Methane Partnership 2.0, UNEP, European Commission

¹¹ Article 2 1. (a) Paris Agreement, UN 2015.

¹² eg Fossil Free Sweden 21 sector decarbonisation road maps, Klimapartnerskapen 13 sector decarbonisation roadmaps in Denmark, Finland Ministry of Economic Affairs and Employment 13 sector decarbonisation roadmaps.

5 Investment

5.1 Thermal Coal

Nordea commits to, by 2025, ensure that 80% of the top 200 emitters in Nordea Asset Management's portfolios are either aligned with the Paris Agreement or are subject to active engagement to become aligned by the end of 2024.

Nordea does not invest in companies with substantial and sustained exposure to coal mining, defined as having a 5% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal¹³). By 2025, Nordea will phase out investment in coal-related companies without plans to achieve a full exit from coal globally by 2040.

5.2 Unconventional Oil and Gas Investment

Nordea does not invest in companies with substantial and sustained exposure to oil sands with a 5% revenue threshold.

For its own managed assets, Nordea Life & Pensions applies strict transition criteria on investments in the fossil fuel sector which include exclusion of investments in issuers that base any exploration & production volumes on unconventional oil and gas¹⁴. For assets managed by Nordea Asset Management, Nordea Life & Pensions applies the Paris Aligned Fossil Fuel Policy gas.

5.3 Arctic Drilling

Nordea does not invest in companies with exposure to oil and gas extraction through arctic drilling with a 5% revenue threshold.

Nordea's priority is to assess and promote sound management of biodiversity and ecosystem risks in the wider Arctic region north of the Arctic Circle. We recognize that such risks are especially severe in offshore locations enclosed by the southernmost extent of winter sea ice. For companies involved in exploration and extraction in the Barents Sea it is required that they operate under a license awarded by the Norwegian Ministry of Energy and Petroleum with the permission to carry out exploration and extraction by the Norwegian Environment Agency and the Norwegian Petroleum Safety Authority.

6 Financing

6.1 Oil and Gas exploration & production

We expect borrowers and customers to work with peers to control their methane emissions and improve the accuracy and transparency of methane emissions reporting in the oil and gas sector.

¹³ The threshold on metallurgical coal is higher as there are currently no widely available alternatives. Nevertheless, Nordea has chosen to apply a threshold and expects to adjust it downwards as applicable coal-free technologies appear for the area of steel production.

¹⁴ currently excludes invested and committed capital to private equity and private debt portfolios. No new commitments or investments will be made to illiquid funds not complying with this guideline. Divestment of currently held illiquid funds will be evaluated and considered where practically possible

Nordea does not provide project financing dedicated to expanding exploration of new oil & gas fields.

Since the reporting year 2021, Nordea discloses the scope 1 and scope 2 financed greenhouse gas emissions of the exploration and production segment of our oil and gas portfolio as well as scope 3 following the PCAF Global Standard for financed emissions accounting recommendations¹⁵. Nordea collects customer-level emissions data from the sector and Nordea has data covering more than 80% of our lending exposure in year 2021 and this coverage can increase in the future. On our balance sheet we expect the financed emissions in our carefully selected oil, gas and offshore portfolio to decline to support our 2030 emissions reduction target.

6.2 Thermal Coal

6.2.1 New business

Nordea does not initiate any new financing relationships with companies having more than 5% of their revenues coming directly from thermal coal, covering coal-fired energy production companies and/or mining companies that are extracting thermal coal. We do not finance or refinance companies with expansion plans for thermal coal or new and pre-construction phase thermal coal activities.

6.2.2 Existing operation

Nordea no longer has any lending exposure towards thermal coal mining and Nordea has excluded thermal coal production companies that produce more than 10 Mt of coal per year. Nordea has excluded companies that have more than 25% thermal coal share of power production and more than 10 GW of thermal coal power capacity. Nordea requires that existing financing customers, using thermal coal in power production or mining, are planning to exit power production and mining based on thermal coal by 2030 latest for industrialised countries and a full phase out globally by latest 2040. Nordea will not expand financing or refinance to existing customers unless the customer has a credible transition plan in line with the Paris Agreement

Nordea does not provide project financing dedicated to thermal coal mining, new thermal coal power plants or thermal coal transport infrastructure construction.

6.3 Thermal Peat

6.3.1 New business

Nordea does not start any new financing relationships with companies having more than 5% of their revenues coming directly from thermal peat, covering peat-fired energy production companies and/or mining companies that are extracting thermal peat. We do not finance or refinance companies with expansion plans for thermal peat or new and pre-construction phase thermal peat activities.

6.3.2 Existing operation

Nordea requires that existing financing customers, using thermal peat in power or heat production or mining thermal peat, are committed to exit power and heat production based on thermal peat

¹⁵ <https://carbonaccountingfinancials.com/>

and mining thermal peat by 2025¹⁶ latest. Nordea will not expand financing or refinance existing customers using thermal peat unless the customer has a credible transition plan in line with the Paris Agreement

Nordea does not provide project financing dedicated to thermal peat mining or new thermal peat power or heat plants.

6.4 Unconventional Oil and Gas

6.4.1 New business

Nordea does not initiate any new financing relationships with companies having more than 5% of their revenues coming from the extraction of unconventional oil and gas. Nordea does not finance or refinance new and pre-construction phase unconventional oil and gas extraction activities or pipelines dedicated to transporting oil or gas from unconventional oil & gas fields.

6.4.2 Existing business

Nordea will phase out customers that have not exited unconventional oil and gas extraction by 2026.

Nordea will exclude existing clients that base more than 5% of their exploration & production volumes on unconventional oil and gas.

Nordea will not expand financing or refinance existing customers unless the customer has a credible transition plan in line with the Paris Agreement

Nordea does not provide project financing dedicated to the extraction of unconventional oil and gas or pipelines related to unconventional oil & gas activities.

6.5 Arctic drilling

Nordea does not finance companies with exposure to oil and gas extraction through arctic drilling with a 5% revenue threshold.

Nordea seeks to phase out financing relationship with customers that are drilling north of the southernmost extent of winter sea ice by latest 2023.

Nordea's priority is to assess and promote sound management of biodiversity and ecosystem risks in the wider Arctic region north of the Arctic Circle. We recognize that such risks are especially severe in offshore locations enclosed by the southernmost extent of winter sea ice. For companies involved in exploration and extraction in the Barents Sea it is required that they operate under a license awarded by the Norwegian Ministry of Energy and Petroleum with the permission to carry out exploration and extraction by the Norwegian Environment Agency and the Norwegian Petroleum Safety Authority.

¹⁶ With the exception of potential energy security measures in Finland after the publication this guideline

7 Recommendations

Nordea encourages customers and investee companies to acknowledge the IPCC scientific consensus on the influence of human activities on inducing climate change and commit to the fulfilment of the objectives of the Paris Agreement.

Nordea recommends companies, besides adhering to national laws and regulations, to follow and respect internationally recognised norms and standards in all areas of their operations. This includes:

- having a transition plan to reduce greenhouse gas emission across their value chains in accordance with the Paris Agreement.
- having Code of Conduct and compliance function in place, a Supplier Code of Conduct and including clauses on compliance with ESG criteria in their contracts with subcontractors and suppliers, ensuring ethical business practices well as a compliance function including whistle blower and grievance mechanisms
- encourage borrowers and investees to join the 70 companies with assets on five continents representing 50% of the world's oil and gas production global peers in the Oil & Gas Methane Partnership 2.0 to work under the only comprehensive, measurement-based reporting framework for the oil and gas industry.
- reporting regularly on material sustainability matters in line with established standards, such as the GRI Standards, (applied to companies required to report according to Directive 2014/95/EU)
- including scope 3 emissions in carbon accounting for oil & gas and mining companies (i.e., NACE L2: 05-09, 19, 20) as specified by EU Technical Expert Group and Partnership for Carbon Accounting Financials global standard for financed emissions accounting.
- support a just and orderly transition to a low-carbon economy when engaging with policy makers and refrain from participating in any direct or indirect advocacy activities aimed at weakening climate policy
- having oil pollution emergency plans as required under the International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC)
- respecting the objectives of international conventions such as the Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)
- integrating biodiversity in the environmental management planning and decision-making processes which includes undertaking environmental baseline studies and environmental impact assessments.
- Exploration and extraction of fossil fuels involves the risk of potential negative environmental and social impact. Nordea recommends clients and investee companies to meet high standards with regards to the management of such risks. Nordea encourages companies to refrain from exploration and extraction in areas protected by international conventions and respect the objectives of the conventions protecting bio diversity and wildlife as expressed in;
 - the Convention on Biological Diversity (CBD),
 - the International Union for Conservation of Nature and Natural Resources (IUCN) with regards to protected areas defined therein,
 - the United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Convention with regards to sites listed therein and,

- the Ramsar Convention on Wetlands of International Importance especially as Waterfowl Habitat (RAMSAR).
- ensuring ethical business practices and striving for best practices and adhering to the United Nations “Protect, Respect and Remedy” framework set out in the UN Guiding Principles for Business and Human Rights.
- having environment, health, and safety (EHS) management systems that meet standards such as the ISO 14001 and OHSAS 18001 where relevant