



Sector Policy on Fossil Fuels for Skandinaviska Enskilda Banken AB

adopted by the Board of Directors of
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Sustainable Banking

Sector Policy on Fossil Fuels

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1 Introduction

Emissions from combustion of coal, oil, gas and peat stands for 65% of Green House Gas emissions into the atmosphere¹. 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, where we, as a bank, have committed to align our strategy with the Paris Agreement. This 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 is a sub-policy to the thematic Environmental policy, which is part of the overall Sustainability policy framework described in the Corporate Sustainability Policy. 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’).²

Business Relationship: A commercial relationship where SEB provides Financial Services to a Client.

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

Companies: Legal entities, irrespective of form, 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)³ and the Arctic Area.

Exempted activities: Gas and electricity transmission activities and such other activities listed in 4 below.

Existing operations: Existing undertaking that is undergoing no material

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

² 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.

³ SEB considers the whole Amazon basin an environmentally sensitive area

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change in output or function.

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: General banking and advisory services including services that result in credit exposure.

Fossil fuels: Fossil fuels in this Policy refers to thermal Coal, Oil and refined petroleum products, Natural Gas and thermal Peat

Fossil Fuel Industry: Companies that are directly involved in the following economic activities:

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 emissions: Carbon dioxide (CO₂), Methane(CH₄), Nitrous oxide(N₂O), Fluorinated gases

Greenfield or brownfield thermal coal mining: Undeveloped and already developed thermal coal mining sites

Investment: Where SEB, directly or through investment products managed by SEB or its subsidiaries invest in equities and fixed income securities.

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 and 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 -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 Group: SEB and its subsidiaries.

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 Policy refers to Oil sand/tar sand, shale/fracked oil and gas.

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3 Purpose

The purpose of this policy is to define and regulate SEB's view on the Fossil Fuel Industry and to guide the other entities of the SEB Group in their respective views on the Fossil Fuel Industry.

4 Scope

This policy applies to SEB. SEB's ambition is that all operating legal entities in the SEB Group shall adopt this or a similar policy in relation to fossil fuel.

The Board of Directors has mandated the Group Risk Committee, GRC, of SEB to make deviations from this policy. Any such decisions by GRC shall be reported back to the Board of Directors.

Exempted activities:

- 1) Intermediation services such as provision of investment opportunities and thereto related research activities;
- 2) Securities financing activities;
- 3) Funds managed outside SEB Group;
- 4) SMEs with a turnover or credit of less than 0,5 MEURO;
- 5) Products where the employees in companies in scope of this policy are the beneficiaries, e.g. Occupational Pension;
- 6) Any activity that the SEB Group is obliged under law or regulation to provide.

Investment and financing to protect our own position and loan recoveries as well as Investment banking related services (e.g. Mergers & Acquisition, Equity Capital Markets, Debt Capital Markets) can be exempted contingent on GRC approval for each proposed transaction and based on appropriate Sustainability due diligence.

5 Governance model

This policy follows the same governance model as for all SEB's policies:

- The relevant business divisions are always responsible for ensuring adherence to the policy
- The CRO function is responsible for following-up and control of adherence to the commitments in the Policy.
- There will be a yearly review of the credit portfolios covered by this Policy.

6 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.

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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 CO₂ emissions from carbon intensive industries or create carbon sinks. SEB is positively predisposed to such technologies. SEB is also positively predisposed to support investments that significantly enhance climate impact even if “green” isn’t reached.

7 Thermal coal

7.1 Thermal coal mining

7.1.1 General

- SEB shall avoid entering into new business relationships with Companies operating thermal coal mines or providing Dedicated financing to thermal coal mines.

7.1.2 New Projects and capacity expansion

- SEB shall avoid providing financial services 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).

7.1.3 Existing operations

- SEB shall avoid providing financial services to-, or invest in-, Companies engaging in the practice of mountain top removal
- SEB shall avoid providing financial services to-, or invest in-, 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 relationship 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. Clients who are eligible for the national coal phase out legislation are exempt from the two paragraphs above. In those cases, SEB will not provide dedicated financing to coal mines.

7.2 Coal fired power generation

7.2.1 General

- SEB shall avoid entering into new business relationships with Companies where more than 5% of revenues are derived from coal fired power generation.

7.2.2 New Projects and capacity expansion

- SEB will avoid providing financial services to-, or invest in-, new coal fired power plant (CFPP) projects, wherever they are located, nor will SEB provide financial

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services to-, or invest in-, brownfield retrofit CFPP projects seeking lifetime extension or capacity increase.

7.2.3 Existing operations

- SEB shall avoid providing financial services to, or invest in:
 - 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 aims to support its Clients with coal fired power generation activities 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 policy.
- SEB aims to exit current business relationships with Clients where 5 % or more of the revenues 2030 is derived from coal fired power generation. This does not apply to Clients 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 not provide 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.

8 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. 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.

8.1 Oil and Gas Extraction

8.1.1 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.

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- SEB will avoid providing new financial services to-, or invest in-, offshore related fossil assets (drilling rigs, seismic equipment and dedicated fossil extraction offshore support vessels) where revenue from these assets represents >5% of an owners' revenue.
- SEB will avoid providing dedicated financing to seismic fossil exploration.

8.1.2 Environmentally Sensitive Areas

- SEB shall avoid providing financial services to or invest in assets/projects or expansions related to Oil and Gas in Environmentally sensitive areas
- SEB shall avoid entering into new business relationships with companies extracting oil or gas in Environmentally sensitive areas
- SEB shall avoid providing financial services to-, or invest in-, companies with a revenue share (>5%) originating from Oil and Gas related activities in Environmentally sensitive areas
- SEB shall avoid providing dedicated finance for exploration or production of Arctic Oil and Gas
- SEB shall avoid providing financial services to, or invest, in 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.

8.1.3 Unconventional Oil and Gas

New projects or capacity expansions

- SEB shall 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 shall avoid providing financial services to-, or invest in-, any new or expanding Unconventional Oil and Gas projects.

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.

8.2 Refining of oil and manufacturing of refined petroleum products

8.2.1 General

- SEB shall 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.

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8.2.2 *New Projects or capacity expansion*

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

8.3 *Oil and Gas fired power generation*

8.3.1 *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.

8.3.2 *New Projects and capacity expansion*

Oil Fired Power Generation

SEB shall avoid providing financial services 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 together with its Clients 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 cycle

SEB shall avoid doing any new dedicated financing to combined cycle gas fired power plants with emissions exceeding 270 g/kWh in the EU⁴. SEB can finance combined cycle 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. When replacing capacity in coal fired power plants and green field gas power projects, SEB will only finance combined cycle gas turbines with the exception of cases where the replacement fulfils the requirements for *Open cycle* gas turbines set out below.

Gas - Open cycle

SEB will be able to finance open cycle energy production 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 open cycle gas power capacity for balancing only. Outside of the EU, SEB can finance open cycle power plants on a case by case basis, where an enhanced due diligence can show that no other feasible technical and commercial alternatives are

⁴ In line with EU Taxonomy, Do No Significant Harm threshold for climate mitigation in gas fired power generation.

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at hand. Open cycle gas turbine financing is subject to an enhanced due diligence to assess alignment with this policy.

8.3.3 Existing operations

SEB has no restrictions on existing gas fired power generation.

9 Thermal Peat

9.1 Thermal peat extraction

9.1.1 General

- SEB aims to not enter into new business relationships with companies where more than 5% of revenues is derived from thermal peat extraction.

9.1.2 New Projects and capacity expansion

- SEB will not provide financial services to, or invest in, new thermal peat extraction projects

9.1.3 Existing operations

- SEB aims to not provide financial services to, or invest in, companies where a material part (>15%) of the company's revenues, is derived from thermal peat extraction.
- SEB aims to exit current business relationships where more than 5% of revenues, by 2025, is derived from thermal peat extraction.

9.2 Thermal peat fired power generation

9.2.1 General

- SEB aims to not enter 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.

9.2.2 New Projects and capacity expansion

- SEB will not provide financial services 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.

9.2.3 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 Clients currently are 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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