



FINANCE
DENMARK



Sustainability Report 2021

Foreword

The green transition is far-reaching and requires billions in investments. Danish businesses and households will have to invest around DKK 500-600 billion in green solutions towards 2030 if Denmark is to reach the Danish government's ambitious target of reducing greenhouse gas emissions by 70%.¹ For the EU as a whole, annual investments of EUR 470 billion will be required to fulfil the EU's climate ambitions.² And the International Monetary Fund (IMF) has estimated that total global investments of DKK 12-20,000 billion will be required to reach net zero emissions by 2050.³ But no one can do it alone.

The Russian-Ukrainian war has catalysed a deep geopolitical crisis and a strong focus on energy politics, which have highlighted European dependence on Russian fossil energy and accentuated the need for accelerating investments in green energy to achieve adequate security of supply in Europe.



Ulrik Nødgaard

This has increased the challenges associated with climate targets and the green transition in general. Difficult decisions lie ahead, and we must all share the responsibility for finding durable solutions to the challenges we are facing.

Providing financial services to nearly all Danish households and businesses, the financial sector plays a critical role in society, and we are ready to take our share of responsibility for promoting agendas and challenges of importance to society. That is why the green transition of the Danish economy has been identified as one of the five key strategic focus

¹ kefm.dk/media/6663/finanssektoren.pdf and kraka-advisory.com/news/bankerne-kan-accelerere-den-gronne-omstilling

² ec.europa.eu/info/sites/default/files/economy-finance/assessment_of_economic_and_investment_needs.pdf

³ www.imf.org/en/Publications/GFSR/Issues/2021/10/12/global-financial-stability-report-october-2021

⁴ In 2018 Finance Denmark set out to establish an advisory forum tasked with making recommendations on how the sector can lead the way and contribute to the green transition. The Forum for Sustainable Finance saw the light of day in December 2019. Since then, the financial sector has intensely worked to implement the recommendations of the forum.

areas in Finance Denmark's most recent strategy "5 bidrag til fremtidens Danmark" [Five contributions to the Denmark of the future].

Banks and mortgage lenders are Denmark's financial engine, and together with the customers, they help drive the green transition of society by providing sustainable investment and loan products and competent advice and by addressing sustainability in their dialogue with customers. This way, we as a sector support Danish people and businesses in making sustainable choices.

The Danish government's climate targets and climate partnerships, recommendations of the Forum for Sustainable Finance⁴ and new EU legislation on sustainable finance guided the financial sector's sustainability efforts in 2021. Focus has been on integrating the green transition in all parts of a financial business, offering customers more green products and ensuring increased transparency of our sustainability efforts through recording, reporting, target setting and by providing customers with information. In 2021, Finance Denmark continued to be a part of the Danish government climate partnership with the financial sector, promoting sustainability through sectorwide joint initiatives and development projects.

This has undoubtedly led to specific and measurable results. And the results speak for themselves. Today, nine in ten banks and mortgage lenders have implemented a sustainability strategy. And equally as many of them include sustainability in their dialogue with customers. The sector has offered supplementary sustainability training to around 8,000

of some 40,000 employees, upskilling the advisers who serve customers on a daily basis. The number of new green loan products, including loans to finance energy efficiency and zero- and low-emission cars, increased in 2021, and the financial sector's financing of green activities reached DKK 548 billion. Further, the sector sold DKK 87 billion worth of green bonds. Today two thirds of retail funds' investments have sustainable characteristics or objectives. And in collaboration with various partners, the members of Finance Denmark have promoted the green transition through the development of tools for measurement of climate footprints of farms and small and medium-sized businesses.

But this is not all. The sector leads the way, setting new, ambitious sector-specific targets. The majority of banks and mortgage lenders have already or will in the near future set targets for reducing greenhouse gas emissions financed via lending and investments. And the Danish Investment Association, hosted by Finance Denmark, has committed the investment sector to significantly reducing the carbon footprint of Danes' private investments in funds – in the short and in the long term.

The path to a more sustainable society is not through the green transition alone. It is also about taking social responsibility, promoting corporate governance and complying with legislation, international conventions and sanctions, both within the sector and in the businesses we lend to and invest in. Banks and mortgage lenders generally include sustainability in their credit assessments of business customers, and sustainability risks



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Providing financial services to nearly all Danish households and businesses, the financial sector plays a critical role in society, and we are ready to take our share of responsibility for promoting agendas and challenges of importance to society.

are an area of increased focus. Many of them also seek to improve social conditions in their local communities or to enforce sustainability in their own organisations, for example through increased diversity.

The EU is still in the process of implementing its strategy for sustainable finance. Some rules have entered into force. Others have not yet been drafted or finally adopted. The financial sector is already offering many products with a focus on sustainability and is supporting businesses' transition efforts. And the sector is promoting sustainability among its members and in their local communities by limiting members' carbon emissions, en-

surging gender diversity, contributing to local community activities and integrating social aspects in the procurement of equipment and services. Each initiative is an important contribution towards our green transition.

As a sector, we look forward to continuing our active role in realising the green transition and to helping build a more sustainable society – in 5, 10 and 20 years.

Enjoy the read!

Ulrik Nødgaard
Managing Director, Finance Denmark

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The financial sector

In this report, we use the term "financial sector" to cover the members of Finance Denmark: banks, mortgage lenders, investment funds, asset managers and stockbrokers. Besides Finance Denmark, we also mention the Danish Investment Association. Hosted by Finance Denmark, the Danish Investment Association is a trade association representing the interests of investment fund providers and asset managers.

Input data

For the purpose of this report, Finance Denmark has collected information through a questionnaire survey among its members. 53 banks and mortgage lenders, or 84% of Finance Denmark's members in Denmark and the other Nordic countries, completed the questionnaire at the beginning of 2022. Data comprise the majority of Danish and Faroese banks and mortgage lenders,

equalling around 98% of their balance sheet total. This is an increase on last year when 40 banks and mortgage providers completed the questionnaire.

However, the replies are not directly comparable with last year's replies, seeing as the group of participants has been expanded and is composed differently. Also, the questions have been adapted to reflect recent developments within sustainable finance. Consequently, some questions have been deleted or changed, and new questions have been added. Just like last year, when completing the questionnaire, the participants were asked to describe specific initiatives and products used to advance their sustainability agenda, which make up the examples mentioned in this report. A few of the initiatives have subsequently also been included in the report.

Ten achievements by banks and mortgage lenders in 2021



89% measure or plan to measure carbon emissions from financed activities



85% have or intend to draw up a plan for the reduction of carbon emissions from investments



DKK 548 billion allocated to climate-friendly activities



89% address sustainability when advising customers



83% give more focus to energy efficiencies in their dialogue with customers



47% have launched initiatives to promote more sustainable agriculture



A **25-35%** reduction in carbon footprint of investments in 2025 and a **50-70%** reduction in 2030



Two thirds are invested in funds with sustainable objectives or characteristics



13% reduction of own carbon emissions



8.000 employees have been upskilled in the area of sustainability

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More than eight in ten banks and mortgage lenders have published action plans for emission reductions as part of their annual report for 2021 or plan to do so in the near future.



The financial sector records and sets targets for the reduction of emissions from financed activities



89 % measure or plan to measure carbon emissions from financed activities



85 % have or intend to draw up a plan for the reduction of carbon emissions from investments

In 2021 the financial sector widely started measuring carbon emissions from lending, investment and members' activities. Almost half of Finance Denmark's members implemented the common model for calculation of financed emissions. A little more than one third of all members plan to implement the model. The model was developed by Finance Denmark in 2020 together with the Insurance & Pension Denmark at the request of the Forum for Sustainable Finance and comprises principles and methods to be

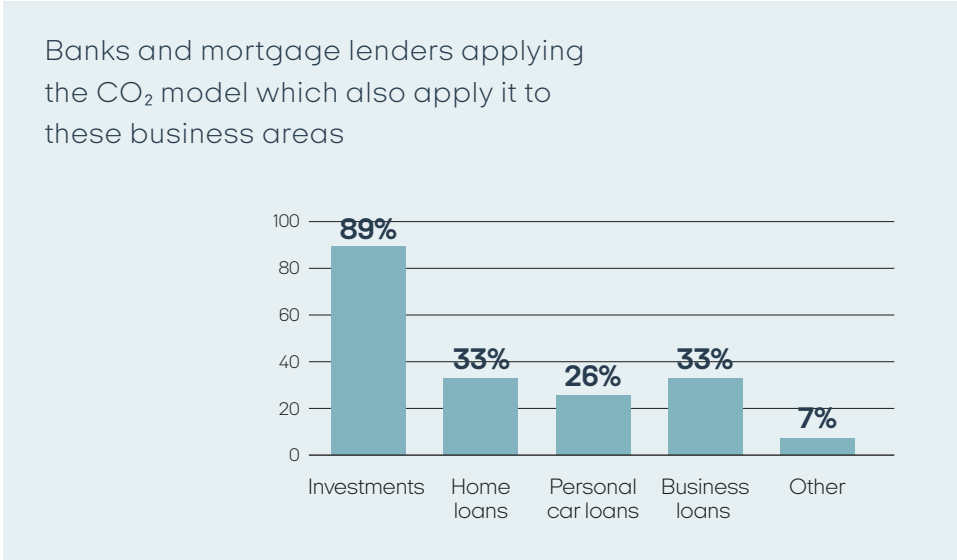
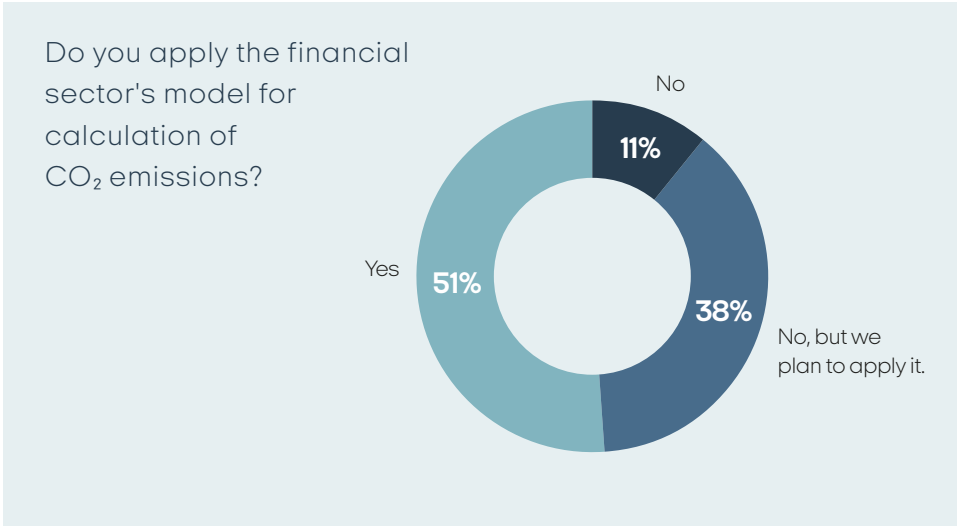
used by financial institutions for calculating carbon emissions and other greenhouse gas emissions financed by their lending and investments. The model was updated in 2021 to reflect the latest knowledge and experiences from the use of the model.⁵

In 2021 the financial sector's efforts to measure carbon emissions from their investments grew significantly, seeing that more data for investments are available today as many listed companies publish carbon emission

⁵ www.finansdanmark.dk/nyheder/2022/opdateret-co2-model

data in their annual reports. Data are collected from companies all across the world by ESG data providers who make data available to investors for measurement of carbon footprints. The Forum for Sustainable Finance also recommended that investments be the first focus area.

Measuring carbon footprints also allows for the preparation of action plans for their reduction. The Danish Investment Association launched a climate target for the investment industry in 2020, which was followed up by individual reduction targets set by the association's members. More



than eight in ten banks and mortgage lenders have published action plans as part of their 2021 annual reporting or plan to do so in the near future.

On the lending side, an increasing number of banks and mortgage lenders have also started measuring their carbon footprints. Among other things, they measure the carbon footprint of the homes and cars of personal customers and of the activities of business customers.

The next step is for banks and mortgage lenders to also prepare action plans for the reduction of financed carbon emissions from lending. The Forum for Sustainable Finance has recommended that these be prepared at the time of the annual report for 2022 at the latest. Seven in ten banks and mortgage lenders have already prepared an action plan or intend to do so soon.



In 2021 several banks, including **Totalbanken**, **Sparekassen Thy** and **Ringkjøbing Landbobank**, published the carbon footprints of investment products and action plans for their reduction.

For the third time, **Jyske Bank** published a carbon footprint covering lending and investments of nearly DKK 630 billion in 2021. Jyske Bank has introduced carbon reduction targets for investments in equities and mortgage bonds and plans to set reduction targets for selected parts of its loan portfolio in 2022.

Danske Bank became a signatory to the Net Zero Asset Managers initiative and has committed to achieving net zero alignment by 2050. To support this target, Danske Bank has set an interim target of reducing carbon emissions in the portfolio by 50% by 2030 compared with 2020 and of intensifying active ownership activities as per 2025 with a view to addressing and accelerating the climate transition required in these companies. Also, Danske Bank has set a specific target of reducing carbon emissions from lending to selected industries by 2030 to achieve net zero alignment of the customer portfolio by 2050.

LENDING

The financial sector may serve as a catalyst for the sustainable transition by offering lending for green and social purposes and by advising individual personal and business customers on sustainable choices. Only in collaboration with customers can the financial sector steer lending in a more sustainable direction and contribute to improving climate and social conditions in the future.

One example is when banks and mortgage lenders include sustainability in their credit assessments of business customers. And when they address sustainability in their dialogue with customers. These initiatives are expected to accelerate in coming years as banks and mortgage lenders increasingly prepare action plans for a reduction of the climate footprint of the activities they finance.

Banks and mortgage lenders scale up financing of climate-friendly activities



DKK 548 billion for climate-friendly activities

In 2021 the financial sector's financing of green activities reached DKK 548 billion, DKK 476 billion of which came from the financing of Danes' homes and commercial real estate with energy label A or B and the financing of green buildings abroad. Combined, the sector's financing of green buildings increased by more than DKK 80 billion in 2021. Lending for financing of other green activities, such as solar panels, wind turbines, utilities, recycling installations and electric busses went

up by around DKK 37 billion in 2021. Also, loans to finance zero- and low-emission cars were in great demand.

More loans to finance zero- and low-emission cars

Switching to zero- and low-emission cars is a key element in the Danish green transition strategy of meeting the 70% carbon reduction target by 2030. At the end of 2020, a political agreement on taxation on cars was



concluded, supporting the replacement of Danish cars with greener alternatives. The political agreement is expected to raise the number of zero- and low-emission cars to 775,000 by 2030.

Large as well as small banks have developed a wide range of car loans for zero- and low-emission cars for customers to choose between e.g. when financing new electric cars. In 2021 loans financing zero- and low-emission cars reached DKK 5 billion.

Recently there has been debate as to which car loans are "green". Finance Denmark's members offer car loans to finance electric as well as hybrid cars. Many loan products are restricted to financing of zero- and low-emission cars that comply with the provisions of the political agreement and existing EU requirements.⁶

Banks need to navigate a rapidly changing world acting while acting in alignment with Danish and European sustainability targets and criteria, and Finance Denmark is following this development closely.

⁶ According to the political agreement of December 2020, green cars are cars etc emitting below 50g of CO₂/km [typically plug-in hybrid cars and electric cars]. This is in accordance with the EU taxonomy requirements for the qualification of cars/small vans as environmentally friendly until the end of 2025.



Many banks offer loans to finance sustainable activities. For example, in 2021, **Spar Nord** launched a loan to finance electric and hybrid cars, and **Nordfyns Bank**, **Sparekassen Djursland**, **Møns Bank**, **Frørup Andelskasse**, **Klim Sparekasse** and Faroese **Betri Banki** launched loan products to finance electric and hybrid cars as well as green home loans.

Enhanced focus on ESG factors in lending practices

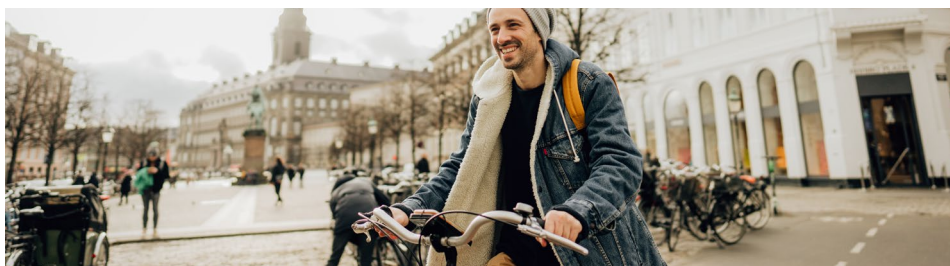
Sustainability risks are attracting increased attention in the financial sector, both at the strategic level, which involves target setting and drafting policies covering ESG risks (risks arising from environmental, social or governance [ESG] issues) and in terms of day-to-day risk management in connection with lending.

Business customers and households alike are affected by climate change, by way of for example the higher risk of flooding, which may impair the value of low-lying homes and businesses. But also by way of political measures, changed consumer behaviour and new requirements imposed by authorities in Denmark and the EU to counter climate and environmental change. For example, carbon taxes will affect corporate earnings, and at the same time, sustainable products are in increasing demand among

the Danes. This implies that banks, too, focus on ensuring that businesses are ready to meet new requirements and may adjust their business models if necessary.

In Denmark, credit policies are now required to include an ESG risk assessment, and additional measures will soon be introduced by the EU. This year the EU is negotiating expansions of the requirements for financial institutions' approach to ESG risks in multiple areas, such as capital planning and climate stress testing. This means that the financial sector will increasingly incorporate sustainability in its long-term planning and customer dialogue.

However, the transition to a more sustainable society is not only about going green, but also about social responsibility, prudent corporate governance and compliance with



existing legislation and international conventions, both within the financial sector and in the businesses we invest in or lend to. Even though we still lack a common definition of socially sustainable activities, these activities basically aim to improve people's living and working conditions, that is, to contribute to solving or remedying social issues and/or to achieve positive social effects for one or more target groups. The target groups may vary depending on national circumstances.

Banks started to arrange the issuance of social bonds in 2021, albeit in limited quantities. The EU is developing a standard defining which economic activities are considered environmentally sustainable according to six environmental objectives – the so-called taxonomy. Expanding the EU taxonomy to include a social dimension

with criteria that define when an activity is socially responsible would bring increased transparency for issuers and investors alike and would result in additional growth in the social bonds market.

In 2021 Finance Denmark formulated five principles,⁷ which should form the basis of the expansion of the social dimension of the EU taxonomy. The principles are to provide a suitable framework for financing of socially sustainable activities and investments with a clear social dimension.

Development of a social taxonomy and social bonds should also take into account existing socially responsible activities and factors such as loans to finance public housing loans and equal access to financing for all.

⁷ www.finansdanmark.dk/nyheder/2021/ny-eu-maalstok-for-social-baeredygtighed-paa-vej



Sparekassen Kronjylland has incorporated ESG into its credit assessments and in the dialogue with business customers.

All of **Danske Bank's** business advisers are trained in using ESG risk assessment tools.

Sydbank has prepared ESG analyses covering key industries in which the bank's business customers operate, and the bank's business advisers are all trained in how to address business customers' ESG risks to identify and assess the impact of such risks on the individual business.

Nykredit incorporates climate impacts and integrity in the credit assessment of all business customers. Integrity is measured based on a business customer's focus on social factors throughout the value chain and on general employment conditions as well as indicators of the ethical and moral compass of the management team and the board of directors. For the largest customers, the assessment also includes diversity and independence of the Board of Directors.

Advisers increasingly address sustainability and energy efficiencies in their dialogue with customers



89% address sustainability in their dialogue with customers

Finance Denmark's members widely address sustainability when advising customers. Around nine in ten financial institutions surveyed incorporate sustainability into their advisory services, particularly when offering customers investment advice, but also when discussing lending options with personal customers and business customers.

Because of the focus on climate and energy, almost all banks and mortgage lenders increasingly incorporate energy efficiency into their talks with customers. Several banks and mortgage lenders offer homeowners user-friendly tools to help determine the benefits from energy improvements.

A large number of particularly small and medium-sized banks use Totalkredit's energy consumption calculator, Nordea is one of the business partners behind Bodil Energi's calculator, Jyske Bank is behind bedstehjem.dk, and Danske Bank has energjhem.dk.

For more than eight in ten banks and mortgage banks, energy efficiency has become a greater part of the dialogue with customers in 2021. For seven in ten banks and mortgage banks, energy efficiency became a theme of increased attention in their dialogue with homeowners in 2021, while nearly four in ten banks and mortgage lenders replied that energy efficiency plays a larger part in their



dialogue with business customers in 2021. The banks are also involved in local energy efficiency projects.

Collaboration with the Danish Energy Agency

Efficient use of energy and energy savings are key to reducing costs and carbon emissions in the corporate sector. Energy-saving projects may reduce energy expenses as well as improve competitiveness, but sometimes projects remain stuck in the pipeline as the break-even point is too far away. Subsidies granted under the subsidy scheme for energy efficiency in e.g. business and indus-

try [Erhvervspuljen], which is administered by the Danish Energy Agency, may bring more projects to life in the business sector.

Finance Denmark and the Danish Energy Agency has hosted a seminar for business advisers in the financial sector to promote the subsidy scheme. Thanks to specific knowledge and examples of applicants, the qualifying purpose of application, and the size of subsidies, business advisers across Denmark are now well equipped to engage in dialogue with customers on the possibility of being granted a subsidy under the scheme.



Totalbanken plays an active role in a local project of providing district heating to replace gas- and oil-fired boilers on western Funen.

Totalkredit offers a cash contribution to customers who opt to replace their oil-fired boilers with heat pumps. This scheme is available to all of the partner banks in the Totalkredit alliance when advising customers with oil-fired boilers.

Arbejdernes Landsbank and **Nykredit** in 2021 entered into a partnership with Valified aimed at business customers. Valified is a digital tool that helps businesses easily embark on sustainability reporting and their green transition. This will bring them at the fore-front of future requirements and expectations for sustainability and related reporting. The tool will also give banks access to ESG data that may be used in their dialogue with individual businesses.

Banks and mortgage lenders support the migration of agriculture to a more sustainable future



47 % have launched initiatives to promote the transition to more sustainable agriculture

Producing annual greenhouse gas emissions of more than 10 million tonnes, the Danish food and agricultural sector is among the sectors with the highest climate impact.⁸ Hence, the sustainable transition of the agricultural sector is key in bringing down Denmark's total carbon footprint. The financial sector plays a central role in this context.

New climate tool for the agricultural sector

Data and new methods for measuring sustainability in agricultural production play an essential role in the green transition of the agricultural sector. Measuring tools and action plans may, for instance, be used in the dialogue between farmers and banks/mortgage lenders on investment plans and financing of sustainable initiatives. Therefore, Finance Denmark has joined forces

with SEGES, a knowledge and innovation house of the agricultural sector, in developing a sustainability tool. A framework agreement between the two also gives members of Finance Denmark access to use SEGES' ESGreen Tool against a fee.

The tool may be used to determine the climate impact of farms and to calculate the impact of various remedies. It may also be used in the dialogue with farmers on the green transition of their farms. Finance Denmark has held a webinar to accelerate knowledge of the ESGreen Tool and the framework agreement among its members. Members are free to choose whether they wish to enter into an agreement with the Danish Agriculture & Food Council/SEGES on the use of the tool and data.

⁸ See "Mandate of Climate Partnerships" [Kommissorium for klimapartnerskaber – in Danish only], table 2: www.em.dk/media/13420/klimapartnerskaber-kommissorium.pdf



Climate agreement for agriculture

On 4 October 2021, the Danish government concluded an agreement on the green transition of Danish agriculture with the Liberal Party, the Danish People's Party, the Socialist People's Party, the Social Liberal Party, the Red-Green Alliance, the Conservative People's Party, the New Right, the Social Democrats, Liberal Alliance and the Christian Democrats. The parties to the agreement consented to a binding 2030 target of reducing greenhouse gas emissions by 55-65% compared with 1990 for the agricultural and forestry sectors, equal to around 6.1-8.0 million tonnes of CO₂e. The agreement includes DKK 27 billion primarily from agricultural subsidies earmarked for green initiatives in 2023-2027.

A central element in the agreement is a land reform aimed at reducing emis-

sions from land and forests. The parties have agreed that farmers should be able to withdraw as much low-lying land as possible from agricultural use and turn it into wetlands, that the existing potential for withdrawal of high-carbon low-lying land should be exhausted, and that the foundation for additional withdrawal of land should be laid. The parties' ambition is to withdraw 100,000 hectares of low-lying land including peripheral areas. To that end, funds have been allocated for withdrawal of low-lying land and peripheral areas and for extensification of land for the purpose of subsequent withdrawal. Finance Denmark supports the withdrawal of low-lying land, but it is essential that mortgagees are involved before compensation is paid and easements restricting the use of land are registered.





DLR Kredit in 2021 started to offer green loans to sustainability-certified farms and to finance investments in specific improvements in the agricultural sector that will reduce the climate footprint by at least 30%, such as pig houses with slurry acidification or pig houses with frequent slurry removal and delivery to biogas plants. The banks distributing DLR Kredit's loans are also provide advisory services to customers, and advisers have been thoroughly trained in how to provide sustainable investment and green financing advice.

Nordea promotes the transition towards sustainable production among its agricultural customers via customer dialogue and its bank and mortgage loan agreements. The bank's agricultural advisers participated in several ESG training sessions in 2021, and new sessions will be held in 2022. Financing has been provided for small-scale investments, including replacement of LED light and other energy-saving measures, and for large-scale investments in, for instance, green energy production.

Nykredit completed the first phase of its sustainability training programme for advisers in 2021. Together with the individual farmer, Nykredit seeks to identify and finance initiatives that contribute to the sustainable development of their farms. This is backed by the green machinery leasing [Grøn Maskinleasing] initiative, which allows farmers to finance new sustainable technology at an interest rate of as low as 0%. Launched in 2020, the initiative continued in 2021 and will continue in 2022 as well. Another initiative removes the service fee in connection with withdrawal of low-lying land from agricultural use.

Danske Bank has developed a dialogue tool to support the sustainable development of agricultural customers. The tool was launched in 2021 and is used by advisers at their annual meetings with customers to reach a common understanding of the ESG factors. The dialogue with customers addresses the impact of ESG factors on their business' value chain as well as initiatives to drive emission reductions and the general sustainable development of the individual farms. Green loans are also an option to finance the largest-scale certified green activities. This area is currently under-going further development.

Many financial institutions launched new initiatives in 2021 to promote the transition to a more sustainable agricultural production.

New financing opportunities

In addition to improved data and measuring tools, the transition also calls for new supplementary financing methods. Therefore, Finance Denmark has as member of the financial sector climate partnership and in dialogue with politicians proposed that legislation governing the Danish Growth Fund be amended. The reduction to DKK 200,000 of the minimum credit limit of DKK 1 million that previously applied to the Danish Growth Fund's growth loans is a positive step. This way, the Danish Growth Fund can finance small-scale green initiatives that may help drive the sustainable development of farms.

A loan scheme provided by the Danish Growth Fund can be relevant in situations where a green investment, seen in isolation, is sound and necessary to ensure the viability of a farm, but where the farmer's general financial position is not strong enough to sustain the financing provided by the private banks and mortgage providers.

It is also positive that the parties behind the climate agreement for agriculture of 4 October 2021 have also agreed on the reprioritisation and reallocation of DKK 150 million from Dansk Landbrugskapital to the new Grøn Landbrugskapital. Grøn Landbrugskapital is a new green financing solution under the Danish Growth Fund aimed at supporting succession processes and reinforcing the solvency of farms.



INVESTMENT

The cost of the green transition of society will be in the billions. The International Monetary Fund estimates that global investments will come to a total of USD 12-20 thousand billion over the next 20 years if we want to reach the target of not emitting more greenhouse gasses than the Earth can absorb by 2050.⁹ Investments of this magnitude cannot be financed by public funds alone. Therefore, we need private investments. And in order to realise the transition, investments need to grow significantly compared with today. This is where the financial sector comes in. By offering investment products with sustainable characteristics and advice on these products, the sector enables all Danes to make a difference through their investments. Today, 785,000 Danes have invested in retail funds.



The green transition of society calls for sustainable investment



A **25-35%** reduction in carbon footprint from investments by 2025 and a **50-70%** reduction by 2030

In 2020 the Danish Investment Association set a climate target for the industry of a reduction of the carbon footprint from investments by 2030. Solving the climate challenges calls for ambitious and measurable reduction targets for carbon and other greenhouse gas emissions. The climate target was set for equity funds only, on the grounds that carbon data for asset classes other than equities were not reliable enough for targetsetting purposes. Things have developed since the launch of the climate target in 2020, and today improved carbon data exist for corporate bonds. Therefore, the climate target is now being expanded to include this asset class and will be adjusted accordingly. Also, the industry has set a 2025 sub-target for the reduction. The sooner we can draw down carbon emissions, the better for the climate.

The industry's new climate target aims to reduce the carbon footprint of investment in Danish retail funds by 25-35% by 2025 and 50-70% by 2030 compared with 2020. A 60% reduction by 2030 would be equal to the carbon emissions of 158,000 Danish citizens combined for a period of one year.¹⁰

The climate target aligns with the target of the Paris Climate Agreement of keeping the average global temperature rise in this century below 2 degrees Celsius and preferably below 1.5 degrees Celsius. It also aligns with the targets which global Net Zero Asset Manager initiatives [see chapter on global sustainability initiatives] call on the industry to set internationally. The intention is both to include more asset classes and to set ambitious targets, while facilitating active ownership and

⁹ www.imf.org/en/Publications/GFSR/Issues/2021/10/12/global-financial-stability-report-october-2021

¹⁰ In the calculation, the market value of corporate bonds and equities in retail funds is maintained at the 2020 level. As the climate target is expanded to include more assets, assets under management will grow and with that the ambition for the total reduction of financed carbon emissions.

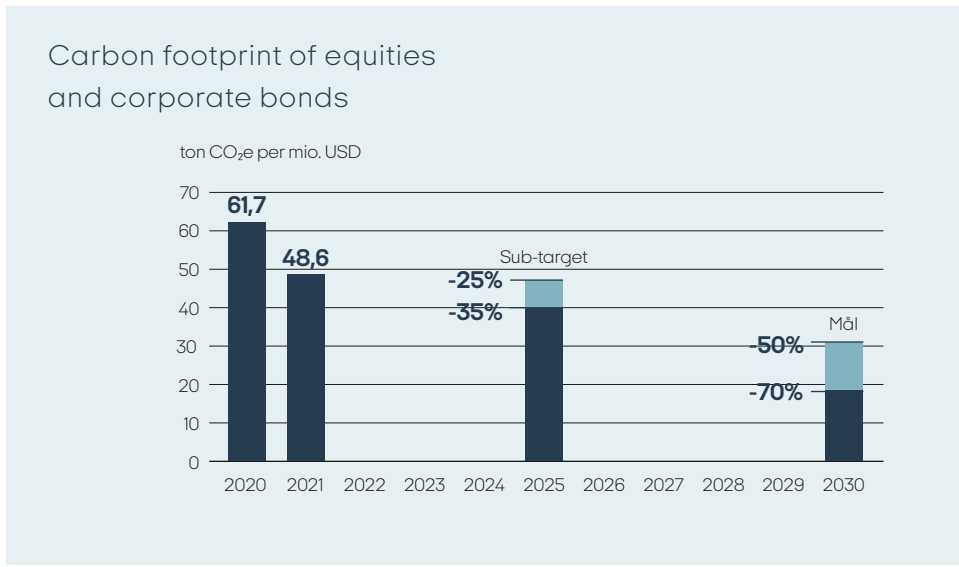
driving companies' strategies, targets and reporting in a more sustainable direction. It is not yet possible to measure carbon emissions from all assets, and for some assets, the data quality remains poor. Owing to the substantial uncertainty and lack of data, the climate sub-target and the climate target for the industry have been set as intervals.

With the inclusion of corporate bonds, the climate target covers investments of an additional DKK 67 billion and a total of 55% of assets under management in retail funds. The ambition is to include all retail funds and all asset classes in the climate target as reliable data become available. The previous climate target was set as a reduction target relative to the carbon footprint of the MSCI World Index.

In 2021 the carbon footprint of equities and corporate bonds in Danish retail funds reduced by 21% compared with 2020.

The carbon footprint is calculated as annual carbon emissions relative to the year-end value of investments. However, carbon emission data are typically delayed by up to a year, and so the most recent numbers are largely from 2020. Corona restrictions and pandemic-induced lockdowns have helped lower corporate emissions. Also, equity prices rose in 2021, particularly for the information technology sector, which has a relatively low carbon footprint. This has increased the value of investments and has been conducive in reducing the carbon footprint in 2021. Enhanced focus on carbon footprint measurement and carbon reduction action plans may also have added to the development.

Corporate carbon emissions must be expected to rise with the reopening of society after the covid-19 pandemic, which will place even higher demands on the financial sector in terms of further reducing the carbon footprint by 2030.



The green transition of society calls for sustainable investment



Two thirds are invested in funds with sustainable objectives or characteristics

To boost investment in the green transition, asset managers offer sustainable investment products, and banks and mortgage providers focus on including sustainability in their dialogue with customers on investments. More investments in funds with a focus on sustainability will increase the amount of capital available to finance the green transition of the corporate sector. This will reduce companies' cost of capital, inducing them to invest in more sustainable solutions.¹¹

Asset managers have long had a responsible investment approach, integrating sustainability considerations in their investments. Methods have continuously been developed and improved, and active ownership and voting rights are increasingly being exercised globally as a way of influencing companies.

Investment funds with a focus on sustainability cover a broad spectrum. Some investment funds have focus on reducing greenhouse

gas emissions in alignment with the Paris Climate Agreement, while others aim to promote social purposes. To this end, some funds use exclusion, while others only invest in the most sustainable companies in the sector. And some funds set specific sustainability targets, while others carry the Nordic Swan Ecolabel.



¹¹ See, for example, chapter 3 of IMF's Global Financial Stability Report, October 2021

The different ambitions and focus areas accommodate the many sustainability aspects and customers' different preferences.

Investment funds classified according to sustainable characteristics or targets

In 2021 all European asset managers classified their investment products in three different categories in alignment with the EU's new Sustainable Finance Disclosure Regulation, see fact box. The classification of funds which promotes environmental or social characteristics ("Article 8 Funds") is rather broad, whereas the classification of Funds that promotes a sustainable investment objective ("Article 9 Funds") is narrow.

Today, among the 927 funds that retail investors may choose from, 558 are Danish Article 8 Funds, and 31 are Danish Article 9 Funds.¹² Among the 927 investment funds, DKK 770 billion out of a total of DKK 1,143 billion, equal to two thirds were invested in Article 8 or Article 9 Funds as at end-January 2022.

A number of EU member states have established local ecolabelling programmes for investments. One example is the Nordic Swan Ecolabel. Many Danes already know the Nordic Swan Ecolabel from a variety of consumer products. From 2017, it has been possible to award the Nordic Swan Ecolabel to investment funds as well. The EU is also expected to launch an ecolabel for investment funds, the so-called EU Ecolabel.

¹² The number of funds equals the total number of subfunds and asset classes.



Products covered by EU legislation on sustainability-related disclosures

Under the Sustainable Finance Disclosure Regulation, the EU defines at three different levels of sustainability-related disclosure requirements for investment products. Article 9 Products, the highest level, are products that have specific sustainability targets. Article 8 Products are products that, among other charac-

teristics, promote sustainable characteristics. Examples include selection of best in class companies and exclusion and/or inclusion of sustainable characteristics such as carbon footprint when selecting investee companies. Article 6 Products, the lowest level, are other products.

From late summer 2022, advisers will be required to take customers' sustainability preferences into account when giving them investment advice – the same way that customers' investment risk appetite is taken into account today. This requirement will be introduced by new EU legislation on customers'

sustainability preferences, which enters into force in August. In 2021 eight in ten banks and mortgage providers already incorporated sustainability into their dialogue with customers on investment opportunities, but the new rules will provide a more uniform and structured advisory approach.



Jyske Bank has introduced a 2030 target of a 75% reduction of the carbon footprint of equity investments under management and a 40% reduction of the carbon footprint of funds investing in Danish mortgage bonds compared with 2019.

Frøslev-Møllerup Sparekasse has decided to mainly centre its investment advisory services and investment product offering on Article 8 and Article 9 products to heighten its focus on sustainability and social conditions globally.

AL Invest, BankInvest, Nykredit, Sparinvest and Syd Invest have launched investment funds that carry the Nordic Swan Eco-label. To qualify for the Nordic Swan Ecolabel, investment products must be sustainable, favouring investments in companies that demonstrate good environmental performance already or are committed to doing so going forward.

Asset managers steer companies in a more sustainable direction through voting rights and engagement

Investors investing together have a stronger voice at general meetings and in the ongoing dialogue with companies than investors investing alone, making it easier to exert influence on a company. This approach is called active ownership. Investors engage in active ownership to drive changes in companies rather than selling off all the shares in companies with unsustainable practices. It is a key tool used by asset managers to promote the green transition.

In 2020 the Danish Investment Association launched a set of new sector recommendations on sustainable asset management, encouraging members to engage in active

ownership through voting at general meetings, exert influence on investee companies and be transparent about it. This is in natural alignment with previous sector recommendations on responsible investment.

Sustainable investment funds do not necessarily invest exclusively in companies that are already environmentally-friendly or socially responsible today; fund managers vote at general meetings and enter into dialogue with investee companies to ensure that they make sustainability a priority in their business models, strategies and reporting. And the fund managers follow up to determine whether a company is moving in the right

Climate Action 100+

To obtain even greater influence, asset managers may join international coalitions and work together with groups of investors on pushing the green transition of companies. One example is Climate Action 100+, a coalition that aims to influence the world's largest corporate greenhouse gas emitters into reducing

greenhouse gas emissions and improving their corporate governance and climate reporting. More than 600 investors around the globe are members of Climate Action 100+.

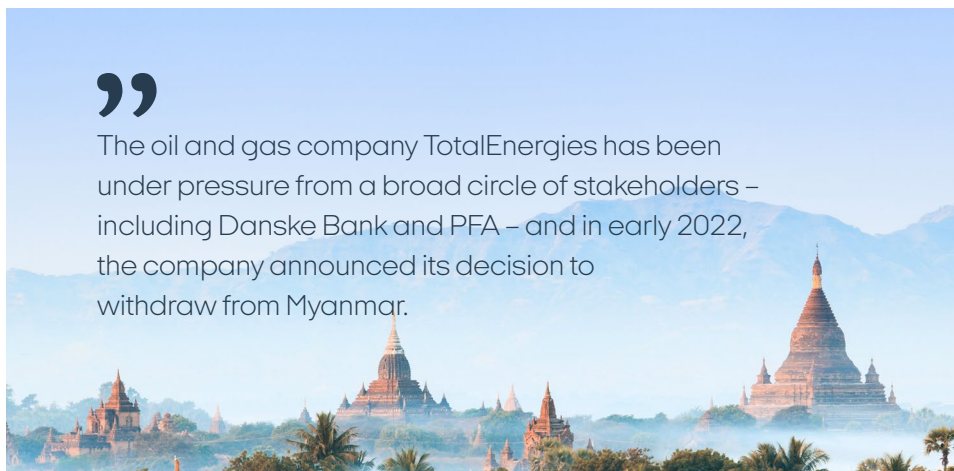
direction. Investor engagement may be conducted in coalition with other investors with similar preferences and objectives.

If that proves to be insufficient, the asset managers may ultimately have to sell off the investment. But then it is no longer possible to

influence the company. Therefore, selling off the investment is usually the last resort. The choice between retaining an investment and continuing to drive changes versus excluding and selling off the investment is filled with dilemmas which investors need to consider all the time.

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The oil and gas company TotalEnergies has been under pressure from a broad circle of stakeholders – including Danske Bank and PFA – and in early 2022, the company announced its decision to withdraw from Myanmar.



Nordea was shortlisted in 2021 for an UN PRI Award for its engagement against the construction of a coal-fired power plant in Vietnam, the Vung Ang 2 coal project. Nordea initiated collaborative engagement with 24 other investors [including Danica, Sampension, PensionDanmark, LD Pensions, AkademikerPension, PenSam and Velliv], urging companies involved in the project to withdraw from the project, citing its climate-related risks. In 2021 Nordea continued its efforts to stop the project, and more companies committed to ending all forms of involvement in new coal projects in line with UN recommendations.

Nykredit is among the investors engaging actively with A.P. Møller Mærsk and Heidelberg Cement on behalf of the investor coalition Climate Action 100+. Based among other things on the engagement of Climate Action 100+, Mærsk has set a target for the company's activities to be carbon neutral by 2050.

Danske Bank and **PFA** have been in dialogue with TotalEnergies, one of the largest oil companies in the world, about their activities in Myanmar. Myanmar has a problematic history of violation of human rights. In early 2022, pressured by a broad circle of stakeholders, TotalEnergies announced its decision to withdraw from Myanmar.

Investing to promote social and governance practices

The Danish Investment Association developed sector recommendations in 2020, calling on Danish asset managers to incorporate sustainability – including social and governance factors – into investments.

Via screening, asset managers ensure that investee companies abide by relevant legislation and international conventions. And they vote in favour of promoting for example gender diversity and fair remuneration policies. Even though we still lack a common definition of socially sustainable activities, asset managers also aim to promote social responsibility via investment in securities issued by development banks and other organisations committed to improving living conditions in developing countries and/or countries and regions hit by natural disasters or other extreme events. Investments may

also be made locally, for example in funds looking to make positive changes for vulnerable sections of a population.

In 2021 Danish asset managers launched its first investment funds with focus on promoting social responsibility, offering Danes the opportunity of prioritising social considerations when investing their savings. And these funds are in demand. The market for social investment opportunities is expected to grow as we get closer to establishing joint European standards defining socially responsible activities. This will provide more clarity for providers and investors alike.



Nordea has established a retail investment fund with focus on promoting social responsibility globally.

BankInvest has launched equity as well as bond funds with specific objectives for its contribution to the UN Sustainable Development Goals, such as "Good health and well-being", "Reduced inequalities" and "No poverty".

Merkur Andelskasse offers so-called Impact First investments in collaboration with Dutch Triodos. The investments are to contribute to creating positive changes in society.

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In 2021 Danish asset managers launched its first investment funds with focus on promoting social responsibility, offering Danes the opportunity of prioritising social considerations when investing their savings.



OUR INDUSTRY

The financial sector does not only set sustainability goals and requirements for the businesses it lends to or invests in. It is committed to promoting sustainability among its members as well. Banks and mortgage lenders seek to measure and reduce their greenhouse gas emissions, although these are already limited in scope. In both 2020 and 2021, this reduction was facilitated by restrictions and more remote work as a result of the covid-19 pandemic.

Also, many financial institutions are working to improve social conditions in their local community and for socially vulnerable people all over Denmark. Internally, more employees have been trained in different aspects of sustainability – to improve the management of risks from, for instance, climate change and to prepare employees for dialogue with customers about sustainable products.

Driving sustainability within our own industry



The financial sector's own carbon emissions were reduced by **13 %** in 2021

The financial sector accounts for a very small share of total carbon emissions, but is nonetheless dedicated to determining and reducing its own energy consumption. As a result, emissions went down by 13.2% from 2020 to 2021.

During the covid-19 pandemic, many people started working from home, bringing down en-

ergy consumption in the workplace. Since then, work from home has to some extent become a permanent arrangement in large parts of the financial sector. This, in isolation, results in a permanent reduction in sector emissions.

Also, it should be noted that the estimates are subject to considerable uncertainty due to the ongoing development of the scope

Financial sector carbon emissions 2020 and 2021

	Scope 1	Scope 2	Scopes 1+2	Scope 3*
2020**	5.147	31.747	36.894	5.350
2021	4.925	27.103	32.029	2.666
Change	-222	-4.643	-4.865	-2.694
Change, %	-4,3	-14,6	-13,2	-50,3

Estimated carbon emissions measured according to scopes 1 and 2 (location-based) under the GHG Protocol for all Danish banks and mortgage lenders as well as Nordea Bank's Danish activities, based on data supplied by the eight systemically important financial institutions plus Nordea Bank. The estimate also includes the sector's Danish IT providers.

* Scope 3 only comprises business travel by air and employee commuting by private car.

** In 2020 emissions were restated relative to the Sustainability Report 2020 as a result of new information and an improved basis of calculation. Also, all company cars and all travel by car are included in Scope 1 of the calculation.

and quality of the input data and methodology changes. These methodology changes result in part from dialogue between Finance Denmark and our members and aim to improve quality assurance as well as alignment of determination methods. Also, more detailed emission factors are used now, and more information is available about the carbon footprints of the sector's IT providers.

Some members – such as Spar Nord, Sparekassen Sjælland-Fyn, Sparekassen Djursland and Sydbank – have set up charging stations to make it easier for their employees and customers to drive electric/hybrid cars, and many members have a company car policy focusing on zero- and low-emission cars. Also, an increasing share of headquarters' energy consumption is covered by renewable sources.

For the first time, Finance Denmark has collected data on our largest members' emissions from business travel by air and employee commuting by private car. These carbon emissions are part of the so-called Scope 3 emissions.¹³ However, the largest Scope 3 emissions of Finance Denmark's members are emissions from lending and investment, which can be measured using Finance Denmark's model, see the chapter "The financial sector records, and sets targets for the reduction of, emissions from financed activities". Members' carbon emissions from business travel by air and employee commuting by private car are estimated at 2,666 tonnes of CO₂ in 2021, a halving since 2020. In all likelihood, this development is highly driven by the consequences

of the covid-19 pandemic, but also by an increased focus on limiting business travel by air.

The financial sector is also committed to social sustainability and corporate governance among its members and in their local area. Danish local banks have a long track record of supporting local businesses and the general local area development, thereby helping to attract new activity and new citizens and enabling and motivating young people to stay in the area. In addition, they sponsor a number of cultural and leisure activities to strengthen local communities. The financial sector has also launched fundraising initiatives or joint efforts to promote many different aspects of sustainability reaching beyond the local area. In 2021 BankInvest raised funds to build a school in Kenya, while Spar Nord launched a national marine litter collection initiative together with the Royal Danish Navy Command.

Some banks and mortgage lenders take social aspects into account when buying equipment or entering into service agreements, for example by contracting with social-purpose businesses that help marginalised people into employment.

In 2021 many banks and mortgage lenders directed focus on different aspects of gender diversity, such as improving diversity in management and reducing gender pay gaps. Some institutions also encouraged an equal division of leave between parents in connection with maternal/paternal and parental leave.

¹³ Scope 3 emissions are all indirect emissions from an institution's value chain, for example from procurement of goods and services, business travel or lending and investment.



Nykredit, Spar Nord, Lollands Bank, FASTER Andelskasse, Sparekassen Nørre Nebel, Merkur Andelskasse and JN Data have entered into a binding partnership to build a new solar park.

The BANK of Greenland has dedicated 1% of available working hours to social and voluntary work.

Jyske Bank has partnered with FødevarerBanken for the past decade and been part of Folkebevægelsen mod Ensomhed (the People's Movement Against Loneliness) since 2015. As part of "Danmark Spiser Sammen" (Denmark Dines Together), an event organised by Folkebevægelsen mod Ensomhed, Jyske Bank in 2021 held several shared dinners for selected customers, giving presentations on sustainable investment with a focus on FødevarerBanken's efforts to secure meals for vulnerable people and reduce food waste.

Arbejdernes Landsbank invested about DKK 15 million in Den Sociale Kapitalfond Effekt, a fund for social impact investments, in 2021. The fund invests directly in service providers in Denmark; performance contracts are, for instance, made with local, regional or central governments, and payments under a contract are linked to the size of the positive social impacts of the project.

Sparekassen Kronjylland reuses IT equipment in collaboration with the social-purpose company NordVirk, which buys and sells used IT equipment and offers training and employment to people with autism or other developmental disabilities.

Faster Andelskasse in 2021 focused on offering advice to refugees wanting to start up a new business.

Lollands Bank in 2021 launched a youth project aiming to bring its young customers closer to the local community.

BankNordik is promoting gender diversity by focusing on the wording of job ads to give them a broad appeal, by ensuring that both men and women are represented in the group of shortlisted candidates and by continuously paying attention to the gender composition of teams when hiring. The bank records gender pay gaps among its employees to ensure a favourable development in the area and encourages an equal division of leave between both parents in connection with child birth.

Sydbank has introduced gender quotas for several of its management training programmes.

Lån & Spar is developing a tool for the recruitment of managers which will anonymise candidates by removing, for instance, gender and age data from applications to avoid bias in shortlisting. This is part of a strategy to achieve a 60/40 gender diversity in management positions.

More employees receive sustainability training



8,000 employees have been upskilled in sustainability

Employees are key to integrating sustainability into day-to-day operations. This requires upskilling the employees of banks, mortgage lenders and investment funds all across the organisation – from top management to banking advisers to risk management and credits team members.

Therefore, the financial sector also in 2021 had a particular focus on preparing employees for an increasing sustainability commitment. Almost 8,000 out of about 40,000 employees were upskilled in the area of sustainability in 2021.

In 2021 seven out of ten members started that they are offering their employees sustainability training courses, webinars and e-learning. While training initiatives in 2020 were mainly aimed at investment advisers, the focus in 2021 was more on upskilling business and personal banking advisers, preparing them for a sustainability dialogue with personal customers as well as business executives. Today more than half our members have upskilled two out of three types

of advisers (business banking, investment and personal banking advisers), and more than one third of our members have started upskilling employees in all types of advisory and staff functions, including risk management and credit assessment.

In addition to in-house training programmes, a new training course for business banking advisers was launched under Finanskompetencepuljen, a joint financial sector scheme, in 2021. The purpose of this course is to prepare business banking advisers for a dialogue with small and medium-sized businesses looking to shift to more sustainable production or services in the years to come. The course is based on a collaboration between the Financial Services Union Denmark, Finanssektorens Uddannelsescenter [the financial sector's training centre] and the Danish Employers' Association for the Financial Sector (FA), supported by Finance Denmark and the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark. The first evaluations show that participants' knowledge has increased by

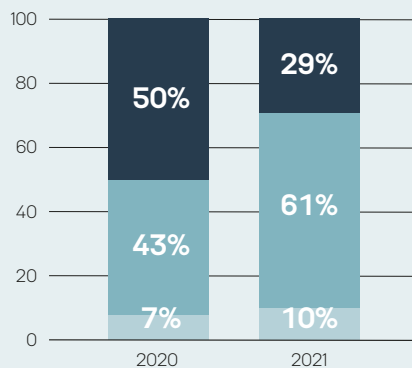


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In 2021 Finanskompetencepuljen launched a new training course for business banking advisers.

Share of members offering further training or new tools for employees, helping them engage in a dialogue with customers about sustainability

- Yes, awaiting sector initiatives
- No, awaiting sector initiatives
- Yes



50-75%, and their skills in talking to and advising customers about sustainability have improved by up to 75-100%.

Educating and training board members and top managers of financial institutions are also a growing priority. For example, Copenhagen Business School (CBS) offers a Board Program on ESG and Sustainable Finance, and sustainability has become a permanent element of the board programmes for financial institutions offered by CBS and Finanssektorens Uddannelsescenter. FA has also set up a working group on sustainability

skills, which will in 2021-2022 examine how to best integrate sustainability skills in general educational programmes as well as in supplementary and further education and training.

These efforts will undoubtedly continue into 2022. A survey by the Financial Services Union Denmark shows that more than eight in ten of its members have noted the growing importance of sustainability. Consequently, there is a need for more guidance and training in the area.

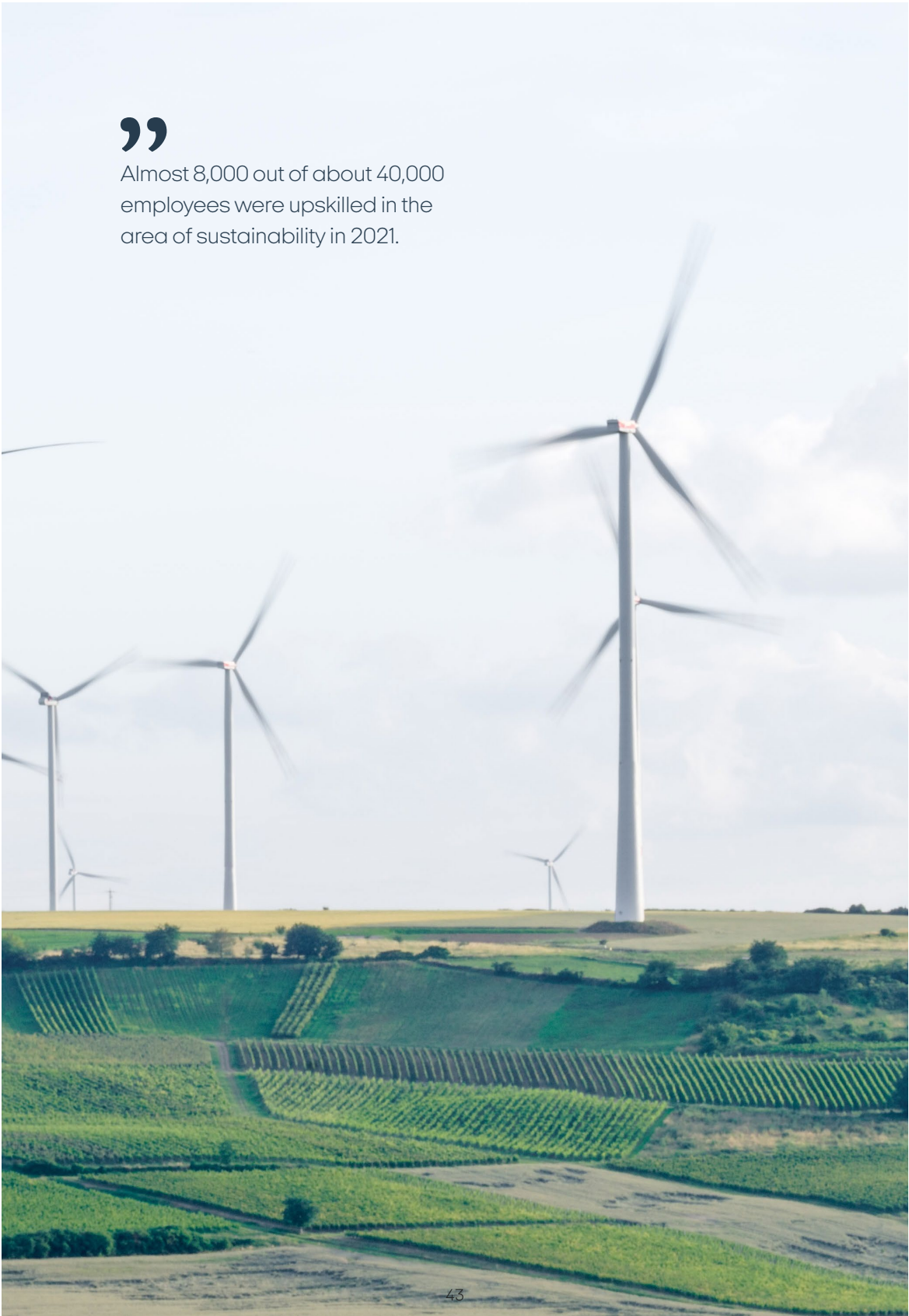


All advisers of **Middelfart Sparekasse** have completed a sustainability e-learning programme in connection with investment certification to obtain the relevant basic knowledge.

Finanssektorens Uddannelsescenter's online awareness module "Bæredygtighed i den finansielle sektor" [sustainability in the financial sector], providing 20-30 minutes of basic knowledge about sustainability, has been taken more than 7,000 times so far.

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Almost 8,000 out of about 40,000 employees were upskilled in the area of sustainability in 2021.



INTERNATIONAL COOPERATION

One financial institution or country alone cannot solve the challenges of the Earth. That requires cooperation across industries and borders. In 2019 Finance Denmark adopted the UN Principles for Responsible Banking (PRB) and the UN Principles for Responsible Investment (PRI), both of which aim at integrating the UN Sustainable Development Goals and the goals of the Paris Climate Agreement in the activities of banks, mortgage lenders and investors. Since then, many international initiatives have been launched where financial undertakings have joined forces across borders and continents to help solve global environmental and social challenges. Recently the Danish Investment Association joined the Net Zero Asset Manager initiative.

In the EU, many overall regulatory frameworks focusing on sustainable finance have been adopted and have partially come into force, and the financial sector is working hard these years to operationalise and implement the many new rules. Much of the detailed regulation still remains to be adopted, leaving the risk that some parts of the legislation are open to different interpretations. Clear regulation and a level playing field across EU member states are essential. The financial sector is therefore looking forward to receiving more guidance, a focal point of both ESMA and the Danish FSA in 2022.

Global sustainability initiatives

Banks and mortgage lenders have joined many different international initiatives. One of them is the UN Global Compact, which commits participants to operate in compliance with ten principles in the areas of human rights, labour, environment and anti-corruption. The Principles for Responsible Banking is another international initiative from 2019, and a number of Danish financial institutions were among the first to sign them.

In 2021 several different Net Zero initiatives were brought together in the Glasgow Financial Alliance for Net Zero. The alliance

played a significant role at the UN Climate Change Conference [COP26] in Glasgow. Danske Bank and Nordea have joined the Net Zero Banking Alliance, which is part of the Glasgow Financial Alliance for Net Zero. They have committed to the goal of achieving net-zero emissions by 2050.

Recently the Danish Investment Association joined the Net Zero Asset Manager initiative, which is part of the Glasgow Financial Alliance for Net Zero. As a trade organisation, the Danish Investment Association has consequently committed to supporting the



goal of net-zero carbon emissions from investment by 2050 and to encouraging its members to join the initiative. In 2021 half of the Danish Investment Association's mem-

bers had joined the initiative, committing to preparing and publishing targets and action plans for the reduction of financed greenhouse gas emissions.



BankInvest, Danske Bank, Handelsbanken, Jyske Bank, Nordea, Nykredit and SEB has joined the Net-zero Asset Manager initiative.

Nordea signed the Finance for Biodiversity Pledge which is a commitment of financial institutions to protect and restore biodiversity through their finance activities and investments.

In 2021, **Merkur Andelskasse** joined the Science based targets initiative providing companies with a science-based path to reduce greenhouse gas emissions.

GFANZ – Glasgow Financial Alliance for Net Zero

The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in April 2021 by Mark Carney, UN Special Envoy on Climate Action and Finance, together with, for instance, UNFCCC Climate Action Champions, the Race to Zero campaign and the Presidency of the 26th UN Climate Change Conference (COP26) held in Glasgow in 2021.

GFANZ brings together net zero finance initiatives across industries in the financial sector in one coalition. Members of the coalition include more than 450 financial institutions in 45 countries responsible for assets of more than USD 130 trillion. The coalition is focused on broadening, deepening and raising reduction targets and ambitions across the financial system and demonstrat-

ing the financial sector's commitment to supporting businesses and countries in achieving the goals of the Paris Climate Agreement. It also promotes knowledge sharing on how to align with a net zero future. All members of the alliance commit to presenting action plans and reduction targets – including near-term targets – and to ensuring transparency of results.

Financial institutions can join GFANZ by joining one of the sector-specific initiatives, ie the Net-Zero Banking Alliance, the Net Zero Asset Managers initiative, the Net-Zero Asset Owner Alliance, the Paris Aligned Investment Initiative, the Net-Zero Insurance Alliance, the Net Zero Financial Service Providers Alliance or the Net Zero Investment Consultants Initiative.

EU – many initiatives launched, and more in the pipeline

In 2021 Finance Denmark remained focused on actively supporting an ambitious green agenda in the EU, the source of the bulk of sustainable finance regulation. Several initiatives in the European Commission's ambitious sustainable finance action plan from 2018 have already been translated into concrete legislation, which is under implementation. Examples include the taxonomy, which classifies which economic activities are considered green, and rules on sustainability-related disclosures in the financial sector. However, there is still a need to finalise the fundamental framework for sustainable finance – and the Commission's Strategy for Financing the Transition to a Sustainable

Economy in 2021 was a big step in the right direction.

Efforts are being pursued in many parallel tracks, and coherence is therefore necessary between initiatives already adopted or proposed and those to be proposed in the years to come. Effective and coherent regulation is key – to the financial sector and to businesses affected by this regulation, but also to a successful green transition.

Implementation under uncertainty

While the overall regulatory frameworks focusing on sustainable finance have been adopted and have partially come into force,



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In 2021 Finance Denmark remained focused on actively supporting an ambitious green agenda in the EU.



much of the detailed regulation still remains to be adopted. This applies to the Taxonomy Regulation as well as the sustainability disclosure requirements. Already now, the financial sector must disclose how their investment processes take into account sustainability risks, and major banks and mortgage lenders must disclose how much of their lending etc is to businesses with activities in sectors covered by the Taxonomy Regulation where only part of the detailed regulation has been adopted. Also, rules on sustainability preferences as a mandatory part of customer advisory services will come into force in 2022. At the same time, detailed regulation governing how and what to be disclosed as well as guidelines for the interpretation of the new legislation are not yet in place.

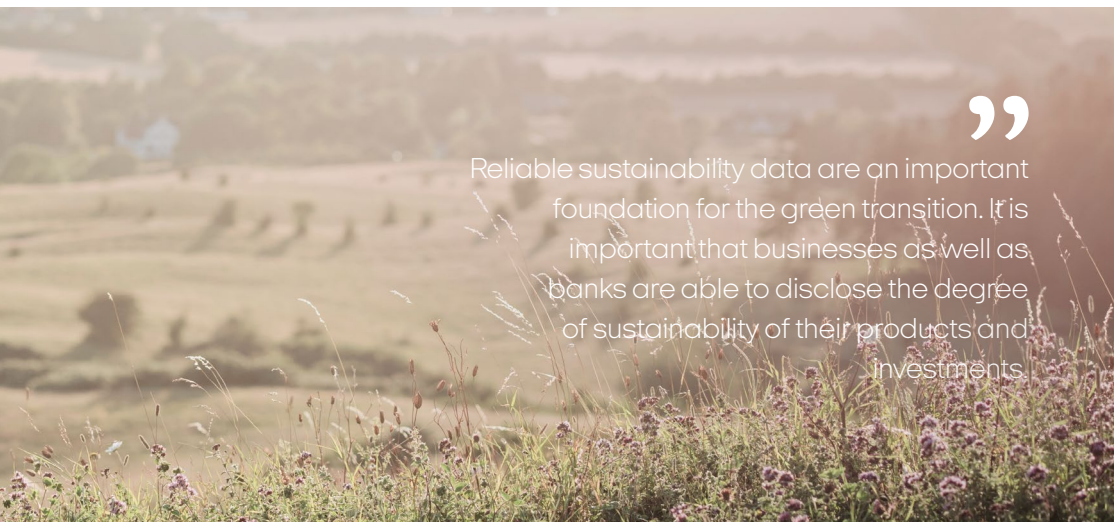
Finance Denmark's members work hard to operationalise and implement the new rules. In 2021 Finance Denmark was therefore committed to supporting our members in that process, and we will remain so in 2022.

The EU's legislation on sustainable finance implies a risk that significant areas may be interpreted differently. The Danish FSA has announced its intention to provide more guidance in 2022 on how to interpret the rules. Such clarification is important to Finance Denmark's members, as clear frameworks, a level playing field and proportionality in the EU are key to the entire financial sector. Finance Denmark is looking forward to contributing to this process and dialogue in an active and constructive manner.

Finalising the green taxonomy

The taxonomy rules defining when economic activities are considered sustainable are measured against six environmental objectives. Detailed regulation is only in place for two out of six environmental objectives: climate change mitigation and climate change adaptation.

In 2022 the Commission is expected to present proposals for the classification of green



Reliable sustainability data are an important foundation for the green transition. It is important that businesses as well as banks are able to disclose the degree of sustainability of their products and investments.

economic activities in relation to the remaining four environmental objectives: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Finance Denmark has closely followed the work of the Platform of Sustainable Finance, which forms the basis of the Commission's proposals, and is looking forward to implementing the green taxonomy in full.

Sustainability data

Reliable sustainability data are an important foundation for the green transition. It is important that businesses as well as banks are able to disclose the degree of sustainability of their products and investments. In the ongoing negotiations between the European Parliament and the Council about sustainability reporting by (mainly) non-financial companies, Finance Denmark is actively seeking to ensure that more businesses in the EU will be subject to the new reporting obligations

going forward. At the same time, the principle of proportionality should be observed, including in relation to small institutions, and the rules should be implemented in good time, enabling observance of other financial sector regulation, or consideration should be given thereto in other legislation. Finally, it is a priority of the financial sector that data should be standardised, digitised and machine-readable.

As regards the availability of data, the Commission's proposal for the establishment of a European single access point (ESAP) providing centralised access to information publicly disclosed by companies on sustainability etc is a positive move forward. The ESAP will facilitate the access of investors, lenders and other users to digital sustainability data, making it easier for businesses to raise capital. In the negotiations between the European Parliament and the Council, Finance Denmark will press for sustainability data to be among the first data to become available in the ESAP.

Green standards and ecolabels

The development of green standards and ecolabels improves transparency and allows market participants to design their investment strategies to support the green transition. From that point of view, the Commission's proposal for a green bond standard published in July 2021 is a positive step. In the ongoing negotiations between the Council and the European Parliament, it is therefore important to ensure a voluntary standard which market participants will adopt and which can also be applied to the Danish mortgage bond market.

Finance Denmark also supports the extension of the EU Ecolabel coverage to include financial products, expected to become effective in 2022. This will give retail investors a credible, reliable and generally accepted label for retail financial products.

More in the pipeline

The consequences of Russia's invasion of Ukraine for the EU's legislative programme are not yet fully clear, but focus on the green transition is expected to increase. For example, in its RePowerEU announcement, the Commission has already proposed an outline of a plan to make the EU independent from Russian gas by 2030. In the short term, the plan seeks to diversify gas supplies to the EU and reduce the EU's dependency on fossil fuels faster by raising energy efficiency ambitions, accelerating the production of renewable energy and addressing infrastructure bottlenecks in the electricity networks. The Commission proposes to work with member states to identify the specific projects and reforms necessary and to prepare a RePow-

erEU plan by summer 2022. On this basis, the funding needs will be determined, including the need for private funding, which will also be necessary to achieve the goal. As action plans and initiatives become more concrete, Finance Denmark and our members will contribute constructively to accelerate the green transition.

The expectation still remains that the EU's legislative machinery will continue to prepare the detailed regulation needed to complete the regulatory framework already adopted, while new items on the sustainability agenda are being negotiated at the same time. However, several new initiatives are still expected to be discussed. For example, 2021 saw a strong focus on the need to expand the taxonomy, and the Commission has been recommended to expand the taxonomy to include also social aspects and to increase the focus on activities that support the transition away from unsustainable activities.

Finance Denmark supports a broader focus on the sustainable transition. It is essential that the green transition takes place in a socially responsible way, and that the green transition is not only a question of investing in and lending to businesses that are already green. It is equally important that we push businesses in a more sustainable direction through investment and active ownership, and that we provide loans to businesses with a commitment and a specific plan to make their activities green. Finance Denmark therefore supports an expansion of the taxonomy to give it a stronger social dimension and to achieve a common standard that will support businesses in their transition.

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Finance Denmark will continue to provide constructive input to the sustainability agenda at European level, including specifically to the upcoming legislative initiatives, but also to the political dialogue.



It is a growing priority for the EU that the financial sector considers ESG risks, as many – especially polluting businesses will have to make a transition to remain competitive in the long run. The financial sector may contribute to that transition, while giving due regard to the risk relating to the individual customer.

We see several challenges in connection with the existing ESG ratings, which are based on different – often non-transparent – methods of assessing businesses' sustainability performance.

Previous analysis by the Commission has shown a low level of transparency and com-

parability of ESG ratings. This level needs to be raised. The Commission's sustainable finance strategy calls for additional analysis of ESG ratings – a process that is assisted by Finance Denmark through the provision of recommendations and knowledge.

Finance Denmark will continue to provide constructive input to the sustainability agenda at European level, including specifically to the upcoming legislative initiatives, but also to the political dialogue about the need for new initiatives, adjustments to adopted legislation and cross-coherence, and not least the future direction for sustainable finance in Europe.

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In 2022 the financial sector will increasingly incorporate sustainability aspects into the dialogue with customers, allowing more customers to make climate-friendlier decisions.



Sustainable finance in 2022 onwards

The Sustainability Report 2021 shows that the Danish financial sector has come a long way towards sustainability – but we are not there yet, and our work will continue. In 2022 onwards, we will continue our efforts to ensure that people and businesses in Denmark have access to solutions and products that contribute to a greener and more sustainable society.

In 2022 the financial sector will increasingly incorporate sustainability aspects into the dialogue with customers, allowing more customers – private individuals and businesses alike – to make climate-friendlier decisions. From August 2022, new EU rules will come into force, making sustainability preferences an integrated part of investment talks with the bank. The sector will be providing even more advisers with sustainability training to ensure that personal and business customers receive good and thorough guidance.

The financial sector will also continue the efforts to ensure uniform data on sustainability and transparency of product offerings. The



sector will seek to improve the measurement of carbon emissions from the activities we finance. And the institutions will make action plans for the reduction of these emissions and follow up on them. The financial sector will also continue to work with the businesses it lends to or invests in to help them move in a sustainable direction. When engaging



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The sector welcomes the continued development by the EU in 2022 of the standard defining which economic activities promote environmental and social sustainability.

with businesses, we will focus on climate improvement, social conditions as well as corporate governance. Because all these parameters are essential.

The sector welcomes the continued development by the EU in 2022 of the standard defining which economic activities promote environmental and social sustainability. A common standard is key to obtaining uniform data across the EU. But investments are global. As a financial sector, we want globally harmonised data and sustainability regulation in order to create a level playing

field across countries and ensure maximum transparency – for the benefit of investors, financial institutions and customers.

Financial institutions need more sustainability data on the businesses we invest in and lend to so we can make sustainable decisions, engage in dialogue and measure progress. And we need more guidance on how to interpret and implement sustainability rules to minimise the current risk of different interpretations. We know that better sustainability data and more regulatory rules and guidance on sustainable finance are in the



pipeline. But even though everything is far from being in place, we will strive to accelerate the sustainable transition of society.

Russia's invasion of Ukraine and the rising energy prices make the sustainable transition more urgent than ever. The geopolitical crisis is very much also an energy-policy crisis, emphasising Europe's dependency on Russian oil and gas supplies. The need for transition towards renewable energy sources and energy efficiency has risen even higher up the agenda and will no doubt be a key issue in 2022 onwards. Not least because it

will affect us all, homeowners and businesses alike.

Finance Denmark is looking forward to continued efforts across businesses, organisations, sectors and political parties to promote the common goal of a sustainable society.

Timeline

– sustainable activities



March

Webinar together with the Danish Energy Agency to better prepare financial advisers for energy renovation dialogue with customers



May

The Danish Investment Association's annual meeting with the theme "Value creation and sustainability go hand in hand"



January

Webinar about a social taxonomy and technical criteria for the taxonomy's environmental goals



April

Nordic Sustainable Talks: "Towards Standardization of Sustainability Reporting"

2021

January

March

May



February

Nordic Sustainable Talks: "Next Steps to Accelerate Sustainable Finance"



April

Publication of the Sustainability Report 2020



March

A Recommendations submitted to the Green Business Forum on a common method for determination of CO₂ emissions



May

Nordic Sustainable Talks: "The Social Dimension of Sustainable Finance"



July

Nordic Sustainable Talks: "Climate Risk and Financial Stability"



October

Action plan for the financial sector's climate partnership



December

Update of CO₂ model



January

Webinar about the SEGES' ESGreen tool



January

Webinar for business advisers about the access of businesses to subsidies from Erhvervspuljen



March

Webinar about a social taxonomy

July

October

2022

March



September

Webinar about a social taxonomy and technical criteria for the taxonomy's environmental goals



June

Webinar about a social taxonomy and technical criteria for the taxonomy's environmental goals



March

Money Week, about green investment and other themes



March

Publication of the Sustainability Report 2021



November

Climate target achievements presented at the Climate Investment Summit in cooperation with the Ministry of Climate, Energy and Utilities and others.

APPENDIX

Banks' and mortgage lenders' financing of green activities

The calculation of banks' and mortgage lenders' financing of green activities reflects the most accurate assessment using the available data and methods of measurement. The calculation will change as better data and methods of measurement become available; future changes in the criteria for green activities may also affect the method and calculation.

Activity	DKK bn
Lending to finance green properties	476
Lending to finance zero- and low-emission cars	5
Other green activities	67
Total	548

The amount of green property financing is based on the EU classification of sustainable properties. Lending to finance green properties includes banks' and mortgage

lenders' lending for properties with energy label A, including private homes built after 2010, and properties with energy label B, including private homes built after 2008 up to and including 2010. It is assumed that, as prescribed by the Danish building regulations, private homes built after 2010 have energy label A or better, and private homes built between 2008 up to and including 2010 have energy label B or better. It is also assumed that these properties comply with the EU classification of sustainable properties. The calculation also includes lending for green properties abroad.

Lending to financing of other green activities includes, for instance, lending for solar panels, wind turbines, utilities, recycling installations and electric busses.

Lending to personal and business customers to finance zero- and low-emission cars includes both financing and leasing of electric and hybrid cars, classified as green cars in the green road transport agreement from December 2020.¹⁴

¹⁴ www.fm.dk/nyheder/nyhedsarkiv/2020/december/groen-vejtransportaftale-massiv-co2-reduktion-og-ambition-om-1-mio-groenne-biler-i-2030



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