March 2023

Action plan to reduce DLR's CO_2e footprint

dlr-kredit

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1. Summary

Background

Following the recommendations of the Forum for Sustainable Finance, members of Finance Denmark are to publish an action plan each year for reducing the CO_2e footprint of their lending.

This is DLR's first such action plan and reflects where we stand today and our ambitions for 2023 and beyond. The action plan and our ambitions build on the Danish government's emissions target for 2030 and goal of climate neutrality in 2045.

Action plan backed by solid data

Reliable data are a fundamental requirement for calculating both DLR's current footprint and the improvements we make. For both DLR and the partner banks, as well as our customers, standardised and credible estimates of carbon emissions are a key factor when it comes to prioritising measures to reduce emissions and ensuring that the most significant and profitable reductions are achieved first.

One crucial first step in this action plan to reduce DLR's CO_2e footprint is therefore to build a strong data foundation and urge partners, customers, trade associations, authorities and other stakeholders to develop common standards and data sources.

DLR will continue to provide educational training activities for bank advisers and credit staff so that they can motivate customers to make more sustainable and climate-friendly choices. We will also continue to offer green loans based on issuance of green bonds and generally seek to encourage customers to make sustainability improvements.

CO_2e footprint data since 2022

DLR has estimated the CO_2e footprint of its loan portfolio since the beginning of 2022. This footprint includes not only emissions for the properties for which DLR has issued mortgages, but also estimates of financed emissions.

When it comes to emission from agricultural activities, these estimates, which are prepared based on voluntary standards established under the auspices of Finance Denmark, cover both emissions from heated buildings and emissions from production on the farm and the biological processes involved in livestock's digestion and in the fields. For other properties, the footprint covers only the heating of buildings estimated based on the properties' energy performance certificate and heating source.

Since agricultural activities generate substantial greenhouse gas emissions as a result of biological processes, and DLR is the largest provider of mortgage finance for Denmark's farmers, and also that agriculture represents DLR's largest lending area, emissions from financed agriculture account for a very large part of DLR's total financed carbon footprint. In our latest estimates for the end of 2022, agriculture accounts for 94,9% of the financed footprint despite loans to farmers only making up just over half of the total portfolio.

2. Background

2.1   Why this CO_2e action plan?

In December 2019, the Forum for Sustainable Finance presented 20 recommendations to the board of Finance Denmark on how its member institutions could contribute to the transition to a more sustainable economy. One of these recommendations was for all Finance Denmark members to publish an annual action plan to reduce the CO_2e footprint of their lending no later than when presenting their annual report for 2022.

This action plan is our response to this recommendation and reflects where we stand today and our ambitions for 2023 and beyond. The plan is consistent with DLR's vision of being an important player in financing the green transition and focuses on the areas where DLR can make the greatest difference given its business model.

The action plan and our ambitions build on the Danish government's emissions target for 2030 and goal of climate neutrality in 2045. We are also committed to using recognised standards, methods and definitions, which means that the way we work on the action plan and associated calculations will evolve as data sources, data quality and market standards progress.
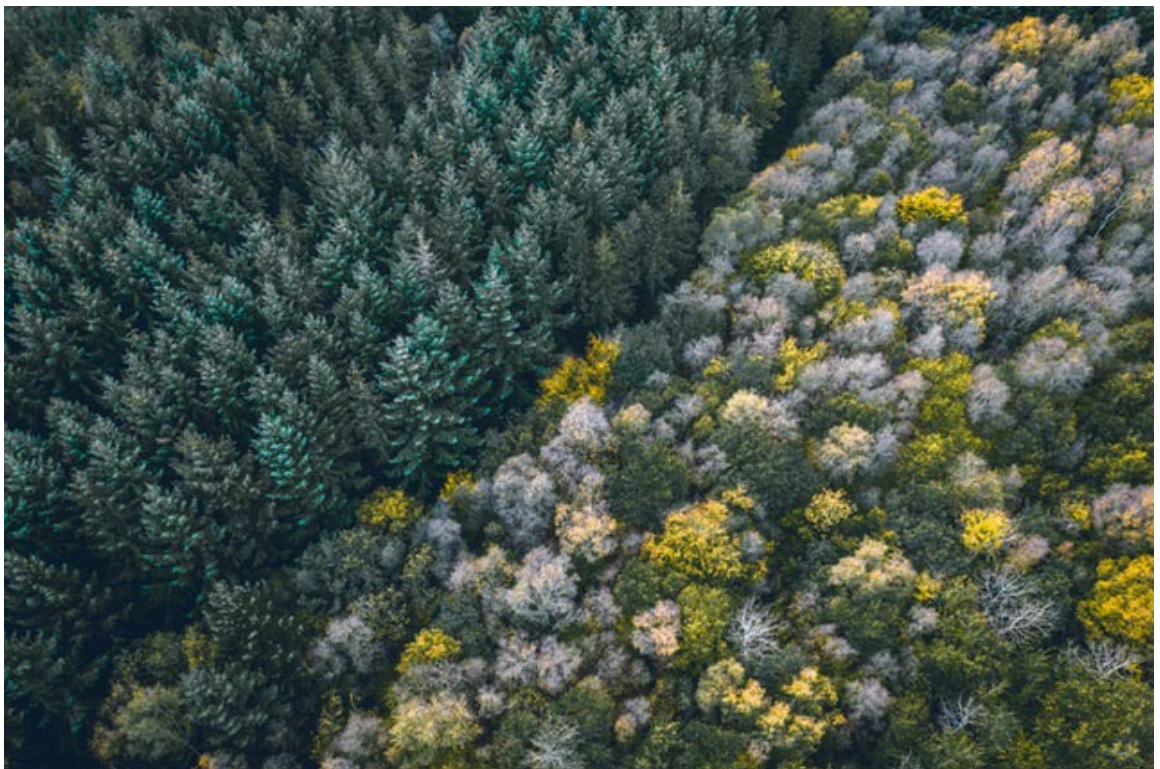
3.   Sustainability data

3.1   Data improvements are an important first step in the action plan

DLR's current calculation methods are not based on actual CO_2e emissions for our lending. Our estimate of CO_2e emissions for buildings is based on actual or assumed energy performance certificates and heating source (as is also the case for other mortgage lenders). Our estimate of CO_2e emissions for agricultural lending is based on standard emissions data for livestock and crops.

For both DLR and the partner banks, as well as our customers, standardised and accurate estimates of actual emissions are a key factor when it comes to prioritising and promoting measures to reduce emissions and ensuring that the most significant and profitable reductions are made first.

Reliable data are a fundamental requirement for calculating both our current footprint and the improvements we make. One crucial first step in this action plan to reduce DLR's CO_2e footprint is therefore to build a strong data foundation and urge partners, customers, trade associations, authorities and other stakeholders to develop common standards and data sources.

DLR has estimated the CO_2e footprint of its loan portfolio since the beginning of 2022. This footprint includes not only emissions for the properties for which DLR has issued mortgages, but also estimates of financed emissions. The starting point for our estimates is Finance Denmark's CO_2e model, which provides common guidance for the Danish financial sector on calculating CO_2e emissions from its lending.

3.2   What our CO_2e estimates show today

Agriculture

DLR has in 2022 financed CO_2e emissions of 2,055.190 tonnes of CO_2e in the agricultural sector, corresponding to 94.9% of DLR's total financed CO_2e emissions. The majority of the emissions derives from the agricultural sector, despite agricultural loans only constituting about half of DLR's loan portfolio. As the agricultural sector expectedly reduces greenhouse gas emissions due to, among other things, the political agreement on reducing agricultural carbon emissions, DLR's financed CO_2e emissions will also be reduced.

Other property types

The remaining 110,791 tonnes of financed CO_2e emissions in 2022 which do not derive from agricultural loans primarily originate from commercial properties. Energy-efficient properties generate the lowest emission levels. The carbon footprint of DLR's loans for properties with a grade A or B energy performance certificate is 0.3 tonnes of CO_2e per DKK billion financed. By way of comparison, the footprint of the remaining energy-labelled loan portfolio constitutes 1.5 tonnes of CO_2e per DKK billion financed.

3.3   Agriculture

In the longer run, we aim for our estimates of financed CO_2e emissions to be replaced with data that better reflect actual emissions from the farms we finance. Adequate and valid data to measure greenhouse gas emissions precisely and verifiably at farm level are not currently available. It will probably take several years before data of this kind will be produced and made available to DLR. The big challenge when measuring agricultural emissions is estimating CO_2e emissions for biological processes, which depend on factors such as weather conditions, fertiliser use and animal husbandry. DLR aspires a centralised IT system to be developed providing consistent and valid data. Until such data become available, DLR will work with the farming co-operatives (such as Arla and Danish Crown), SEGES and other relevant partners working on gathering data that better reflect actual emissions at farm level. Once we have access to this information, with customers' consent, it will be easier to conduct a more detailed action plan to reduce CO_2e emissions, including setting specific reduction targets.

3.4   Other property types

DLR has entered into an agreement with e-nettet a financial infrastructure company on the supply of energy performance certificate data for use in estimating CO_2e emissions for individual properties. These data are expected to improve over time, and DLR whish for e-nettet to provide CO_2e data based on properties' actual energy consumption in time. Calculating emissions based on actual consumption requires access to data from utility companies. This information is not currently available in a public database. For DLR to have access to data from the utility companies, borrowers themselves would need to disclose their utility use or consent to data being obtained directly from their utility supplier.

3.5   ESG questions to existing customers

DLR maps borrowers' ESG profile by asking customers several questions on ESG matters when applying for a new loan. These questions are expected to be expanded in the course of 2023 so that DLR also begins to obtain information from existing borrowers. One important aspect of these questions is borrowers' CO_2e emissions and their plans for reducing these emissions. These questions are shared with the shareholder banks and can also therefore be included in their dialogue with borrowers on cutting emissions.

3.6   DLR involved in sector initiatives to gather CO_2e data

In the first half of 2022, e-nettet engaged in dialogue with the financial sector to identify the potential in shared data and digitalisation initiatives in the sector that could support the sector's practical implementation of existing and future regulatory requirements. As a result of the dialogue, e-nettet has set up a steering committee tasked with identifying which sustainability data e-nettet should henceforth supply to the financial sector. DLR participates in the steering committee.

4.   Green financing

4.1   Continuing to offer green loans

As one important way of encouraging customers to participate in the green transition, DLR and the shareholder banks are offering green loans for selected sustainable properties and specific approved investments with a special focus on CO_2e reductions. DLR's lending policy is also contributing more generally to sustainability across the Danish society by helping finance the modernisation of the mortgaged property stock – even where the individual property or investment does not fully meet the criteria for green loans.

The criteria for DLR's green loans are based on the EU's taxonomy for sustainable investments covering buildings, energy improvements and green energy sources, and are available for green buildings, energy improvements, green energy sources, green agricultural investments, certified sustainable agriculture, pig housing with slurry acidification and/or frequent slurry removal, and the supply to biogas facilities.

Once it becomes possible to obtain reliable and solid data, and the EU taxonomy is extended to include more sustainability criteria, including for agriculture, we will expand DLR's green loans to cover more types of investments and activities.

For customers, one advantage of having green mortgage loans is that they in the long run may be cheaper than conventional loans due to high levels of investor interest in green bonds, but also serve as confirmation that a property or investment meets certain green eligibility criteria. For residential rental property owners this can have a positive effect on rent levels/vacancy rates. Fulfilling the eligibility criteria may also increase tenants' focus on the sustainability measures conducted on the property. For farmers, a green certificate could boost local sales of their products and make it easier to recruit workers.

As for other mortgage credit institutions, DLR's green loans consist of variable rate loans on which the interest rate is settled once every six months. Customers with sustainable properties who meet the eligibility criteria for DLR's green loans, but who prefer 5-year or 30-year interest rate fixations, will therefore opt for a conventional loan. Thus, DLR finances a substantial number of properties meeting the eligibility criteria for DLR's green loans, such as properties with a grade A or B energy performance certificate, but which are financed with DLR's other loan types.

5.   DLR's own carbon footprint

At DLR, we are aware of the impact our organisation has on the climate and the environment. DLR strives to gradually reduce our own CO_2 footprint. We work on this continuously by making both minor and major adjustments to our choice of partners, purchasing, working processes, etc.

DLR has cut its CO_2 emissions per employee by almost 60% since 2017 to 1.17 tonnes in 2022, and aims to make further reductions in 2023.

5.1   Focus on reduced consumption

In the autumn of 2022, DLR carried out a number of energy-saving initiatives, the most effective being lowering the temperature in our buildings. The lower temperature resulted in a reduction in the consumption of district heating of 13% in 2022, or 300 kWh per employee, relative to 2021.

DLR regularly optimises the operation of its buildings, among other things by converting to sustainable sources when renovating or replacing lighting sources. Other steps in 2022 included checking light sensors and adjusting timers. Also, the automatic morning startup function for printers has been disabled and printers have been set to go into sleep mode faster. We have also adjusted the timers on our air-conditioning systems to reduce their operating time by two hours a day. Furthermore, all employees have been asked to pay attention to switching off computer screens and office lighting when they leave the office.

DLR has in the recent years focused on reducing its power consumption. To achieve this, DLR has considered installing solar panels on its head office roof to generate green electricity for its own use but chose instead to purchase green electricity. DLR changed its procurement policy for electricity in 2020 so that we only purchase green electricity.
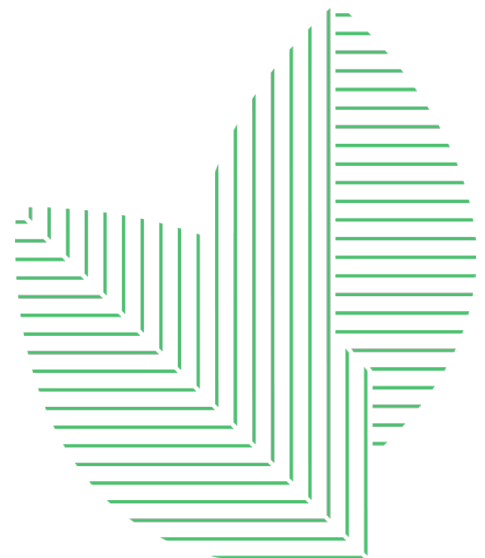
6. Dialogue and education

6.1   Training and dialogue with shareholder banks

DLR has launched a wide range of education and information activities around sustainability and green finance. These activities aim to equip advisers and credit staff in DLR's loan-distributing shareholder banks better to help borrowers make more sustainable and climate-friendly choices.

The long-term ambition is to be able to measure CO_2e emissions very precisely for each individual borrower, so that CO_2e-reducing behaviour and activities are rewarded and can form part of the loan-distributing banks' dialogue with borrowers. Our greenest borrowers can also be used as inspiration for those who are less green.

Stakeholder relations

One of the most important requirements for achieving climate goals is clear definitions, standards and methods. DLR will therefore work on establishing a clear framework for the green transition in the financial sector in 2023. We will do this through our ongoing dialogue with relevant stakeholders on how sustainability can be defined and documented, and through continued participation in central fora and working groups looking at sustainable finance.

7. National CO₂e reduction targets

7.1 CO₂e neutrality in 2045

DLR supports the goals of the Paris Climate Agreement and Denmark's current goal of climate neutrality in 2050, and we expect to be able to back the new government's plans to bring forward the deadline for climate neutrality to 2045. The government's target of a 70% reduction in emissions by 2030 is an important step towards making Denmark climate-neutral by 2045, and so DLR also supports this target. Our CO_2e reduction targets through to 2030 are therefore based on an expectation that our borrowers will reduce their emissions at a rate consistent with the government's 70% target being reached no later than 2030.

7.2 Greenhouse gas reductions in the agricultural sector

DLR is mindful of the agreement reached on greenhouse gas reductions in the Danish agricultural sector in October 2021, where a broad political majority set a binding target of cutting emissions by 55-65% through to 2030. As the largest mortgage lender to Danish farmers, DLR will work on bringing down emissions from our agricultural portfolio at a rate that is at least required to achieve this political target.

7.3 Motivation and information for customers

DLR wishes to remain a major player in the Danish mortgage market, including in agriculture. Together with the loan-distributing banks, we will help ensure that customers have the information, encouragement and incentive to participate in the green transition and so help achieve Denmark's goal of climate neutrality in 2045.

8. DLR, LOPI and LDB working together

DLR's business model builds on close co-operation with the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (LOPI) and National Banks in Denmark (LDB), whose member banks distribute our loans.

Hence, it is the banks represented by LOPI and LDB, which also engage with borrowers on sustainability on our behalf. Our action plan must therefore be seen in the context of LOPI's and LDB's own action plans.

Besides the activities and focus areas described above, we will integrate our climate ambitions into our strategy, credit assessments and risk management.

We will regularly review our targets, and we will update and expand our activities and plans as the data improve.