Danske Bank

Enhanced Sustainability Standards

March 2023

Introduction

The enhanced sustainability standards screening is Danske Bank's proprietary screening model that supports the exclusion of certain companies/issuers engaged in certain activities and conduct deemed harmful to society. The exclusions apply fully to all investment products and pension products manufactured within Danske Bank disclosing this to investors.

The enhanced screening is a multidimensional process assessing both environmental materiality as well as social materiality in order to promote adherence to UN Global Compact, principles, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights and ILO conventions and other relevant environmental or social safeguards by its exclusions. The screening also seeks to capture certain other activities indicating weak sustainability practices (in particular by addressing controversies and Danske Bank Position Statements) as well as weak governance practices[1]. Good governance practices are addressed through the good governance test outlined below.

The Enhanced Sustainability Standards screening process currently consists of three sub-processes:

1. **Incident & Event-based Screening**
2. **Good Governance Test**
3. **Country Assessment**

These three sub-processes complement each other and are applicable to different asset classes.

Incident & Event-based Screening

Incident & Event based screening reviews allegations and seeks to make an assessment of whether companies or countries (collectively "issuers") are engaging in activities that might constitute principal adverse impacts on society or the environment, demonstrate weak sustainability practice, indicate an absence of minimum environmental or social safeguards or not align with the international commitments, standards and/or overall expectations laid out in the Danske Bank Group Position Statements.

This assessment also captures investments violating international norms defined by international organizations such as the OECD, ILO, UN, and other treaties or conventions deemed to be material. such cases can be triggered by a single event such as a spill, accident, regulatory action, or a set of closely linked

[1] Danske Bank also adheres to relevant Sanctions regimes in all jurisdictions in which we operate. These include European Union ("EU"), United Nations ("UN"), United Kingdom and any other applicable Sanctions as appropriate (e.g., Danish in Denmark, Norwegian in Norway), as well as United States Sanctions to the extent they have extraterritorial application or risk implications for the Group's business activities. That assessment is managed through a separate process, and therefore not included in these descriptions.

events or allegations such as health and safety fines at the same facility, multiple allegations of anticompetitive behavior related to the same product line, multiple community protests at the same company location, or multiple individual lawsuits alleging the same type of discrimination or human rights violation.

The screening process follows a three-step approach:

1. At the start of the quarter, priorities for the screening are identified through different sources. This means that each quarter 1-3 themes are reviewed as part of a deep dive. Topics selected are those that are deemed to have high importance in relation to environmental and/or social materiality. Themes can be topic specific or issuer specific. Multiple-data sources are levered to determine the prioritized themes, with a high reliance on third-party ESG data providers. In addition is a screening conduced, there is also an assessment on issuers already excluded to determine if the ground for the exclusion is still valid.

2. A deep dive is then conducted on the themes to create an understanding of the issues and its severity as well as issuers linked to the theme. The assessment is done both quantitatively as well as qualitatively taking into account both backward looking information as well as factoring the expectations of future development. Due to the ambitious nature of these types of cases, multiple data sources are levered to create a holistic understanding. The intention is to determine the severity, scope and measures that may be taken to address the issues. The severity of each case is assessed based on the nature and scale of the alleged impact of event, practices, products, or businesses on the environment, society, and economy. The result of this severity assessment can also be adjusted based on aggravating circumstances that include activities constituting deliberate action with regard to principal adverse impacts, severe misalignment to overall expectations laid out in the Danske Bank Group Position Statements or severely violating key international norms. The assessment also factors in status of the remediation activities taken by the issuer.

3. As a final stage each issuer is categorized in each of the three recommended categories: Open/Case Closed, Watchlist and Exclusions brought forward for approval with the Responsible Investment Committee of Danske Bank.

The "***Case Closed"*** category covers situations where an incident or event is deemed not be severe. Here, the issuer is recommended to remain investable with no active ownership initiatives tied to the case. Whereas "***Open***" means that the grounds for having a potential issuer on the exclusion list are no longer valid, meaning that the issuer once again should be open for investments.

Placing a case on the" Watchlist*"* implies that there is a need for further monitoring/screening and/or engagement with the issuer in relation to the incident. The criteria for placing a case on the Watchlist including for how long a company can stay on the Watchlist is decided on a case-by-case basis.

A specific issuer will be brought forward with an "***Exclusion"*** recommendation if the case is deemed to have a very high severity in relation to principal adverse impacts on society or environment, cause significant harm on sustainable investment objectives, demonstrate weak sustainability practice, indicate an absence of minimum environmental or social safeguards, does not align with expectations laid out in the Danske Bank Group Position Statements. This generally applies to incidents and events that lead to irretrievable or long-lasting damage to the environment or corresponded to a most serious violations of social standards. The remediation actions taken by the issuer must also be deemed to be insufficient and/or with a low probability of the issuer changing behavior/practices.

To the extent possible we would like to leverage Active Ownership to influence the impact that issuers have on sustainability-related matters, and thereby make a positive contribution to society rather than resort to Exclusions.

Data Sources

Multiple data sources are used for the screening. This includes, but is not limited to the following:

- ISS Norms Based Research
- MSCI ESG Controversies and Global Norms
- Sustainalytics Controversies Research
- Investment teams
- Responsible Investment Team/Active Ownership team
- Leading investors/Nordic institutions
- Other sources and stakeholders e.g., corporate information, news articles, NGOs

Frequency

Screening of companies are conducted on a quarterly basis or more often if needed due to extraordinary circumstances.

Governance

As all decisions related to exclusions are anchored within the investment organization, each quarter, an analysis of the individual company cases together with a recommendation on how to approach each individual case is presented to the ESG Integration Council. The recommendations are discussed and endorsed by the ESG Integration Council. If the ESG Integration Council raises additional input on the recommendations and/or does not provide an endorsement that information will be included in the recommendation to the Responsible Investment Committee.

The recommendations are approved by the Responsible Investment Committee, prior to implementation.

Good Governance test

Corporate Governance refers to a set of rules or principles defining rights, responsibilities, and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long-term strategy. Good governance is critical to the efficient and effective operation of any company, and the protection of shareholder value.

For purposes of the Good Governance test in the enhanced screening, we consider seven indicators relating to sound management structures, employee relations, remuneration of staff and tax compliance. The indicators are purposefully simplistic, considering the differences in market-specific, and industry-specific governance practices across the globe, to allow for comparability and monitoring. The screening is done on our entire investment universe wherever data on the indicators are available.

Failure to adhere more than half of the criteria will always lead to a failure of the good governance test and Exclusion per the enhanced screening.

Criteria	Expectations	Threshold
Tax compliance Accurate Financial Reporting	Company reporting should be audited by an external accountant and published in a timely manner. Failure to provide accurate, trustworthy information to investors and the general public can significantly impact investors' ability to make informed decisions If	The company has published qualified audited financial accounts.

	the external auditor issues a qualified opinion, adverse opinion, or disclaimer of opinion, or there is no independent auditor report, the company will be deemed ineligible from the perspective of tax compliance.	
Management Structure Board Independence	All companies should have a body responsible for the oversight of management activities, on behalf of shareholders and other stakeholders in the company. To ensure the protection of minority shareholders' interests and independent oversight of management, the oversight body should have at least one independent director.	The entity responsible for management oversight (supervisory board, board of directors) has at least one independent director.
Management Structure Board Diversity	Diversity among the board of directors supports the company's business operations and long-term development. We believe companies should strive for equal gender representation at Board and executive level, and as a minimum requirement, we expect both genders to be represented on the oversight body.	The entity responsible for management oversight has at least one member of each gender represented.
Management Structure Business Ethics, Bribery and Corruption	The failure to combat bribery, corruption and other business ethics issues can lead to significant damage to a company; even the perception of a company acting unethically can lead to legal risk, reputational damage, and financial costs. Companies are expected to have policies addressing anti-competitive practices, bribery, conflict of interest, corruption, insider dealings and money laundering. The company should also have the necessary compliance procedures and measures to enforce the policy, or policies, such as training, risk assessment and audits, third party due diligence and whistleblower protection.	There is some public disclosure of executive management's remuneration.
Remuneration of Staff Executive Pay Disclosure	Remuneration to executive management should align with company and shareholder interest, with the aim of achieving long-term performance and sustainable value creation. We expect there to be some public disclosure of executive management remuneration, to allow shareholders to make an informed decision on its appropriateness.	There is a policy, or policies, and measures addressing business ethics related issues such as bribery and corruption, antitrust violations, insider dealings, conflicts of interest, money laundering, and the validity of financial information.
Employee relations Labor Management Issues	Good labor management relations can improve worker satisfaction, improve retention and help to attract talent, heighten productivity and improve corporate reputation, thus seen as an appropriate indicator of good governance. Companies are expected to have a policy, or policies, addressing the right of workers to establish or join trade unions and representative organizations, with the purpose of engaging in constructive negotiations on terms and conditions of employment. Companies are also expected to have a policy,	There is a policy, or policies, addressing employee rights related to freedom of association and collective bargaining, and non-discrimination.

	or policies, ensuring that the workplace and hiring practices are free from all sorts of discrimination.	
Regulatory Compliance	Companies are expected to adhere to local laws, and other requirements set forth by regulatory authorities or other significant parties. The company should not have had any regulatory enforcement taken against them within the last two years, which has resulted in a material penalty.	There has been no regulatory enforcement action taken against the company in the past two years, which has led to a material penalty.

Data source

- ISS ESG

Frequency

Screening of companies are conducted on annual basis or more often if needed due to extraordinary circumstances.

Governance

The Exclusions are approved by the Responsible Investment Committee, prior to implementation.

Equally information on such companies/issuers on the watchlist is disclosed on websites.

Country Assessment

As part of the Country Assessment, we screen a country's exposure to and management of sustainability factors, aimed at identifying countries that express weak sustainability practices, have weak governance, or have weak social safeguards. The screening framework is based on quantitative factors and a qualitative overlay. It seeks to identify countries with severe underperformance on single, or a combination of, sustainability dimensions that also have negative, or 'status quo', sustainability trajectories.

The quantitative factors are backward looking and based on country-level reported data that usually comes with a time lag of 1-3 years depending on factor. The qualitative overlay seeks to ensure that conclusions are not based solely on historical reported data but that we also take into account countries expected future development and other recent significant events that might not yet be reflected in the quantitative data. Hence, the qualitative overlay can result in either removals or additions of countries to the final exclusion list.

A quantitative framework has been established to derive an assessment based on a list of ESG-factors. The quantitative framework applies the following factors and weights:

Criteria	Weight	Indicator
Environmental	20%	Co2 emissions from land use change and forestry
		Environmental regulatory framework
		Low carbon economy
Social		Freedom of assembly
		Freedom of opinion and expression
		Indigenous peoples' rights
		Land, property and housing rights
		Minority rights
		Right to privacy

	40%	Sexual minorities
		Women's and girls' rights
		Arbitrary arrest and detention
		Extrajudicial or unlawful killings
		Security forces and human rights
		Torture and other ill-treatment
		Child labor
		Forced labor
		Migrant workers
		Modern slavery
		Occupational health and safety
Governance	40%	Corruption
		Democratic governance
		Rule of law

The research framework evaluates the following pillars for each individual factor:

- If and which international conventions and frameworks, as well as domestic legal and policy frameworks, a country has ratified and adopted.
- Whether adequate institutions and policy instruments are in place, or being developed, to help the country to fulfil its commitments.
- The actual outcome, or performance
- Trajectory/outlook

Example of individual factor assessment:

Factor	Sample conventions and frameworks	Implementation	Outcome	Outlook
Women's and girls' rights	International Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) (1979) International Covenant on Civil and Political Rights (ICCPR) (1966) ILO Convention No. 100 on Equal Remuneration (1951)	Quality and existence of human rights institutions Resources to enforce regulation	To which degree is the right protected Number of reported violation	Positive or negative outlook

The quantitative framework screens all states globally and gives all sovereign states a score between 0-10 on the factors included in the framework.

Very Weak	Weak	Acceptable	Strong
0-2.5	2.5-5.0	5.0-7.5	7.5-10.0

All countries with a social score on <2.5 and an aggregate ESG-score of <3.5 are included on the country list and subject to mandatory review in the qualitative framework.

All countries that appear on the quantitative country list must be reviewed qualitatively. The integration of quantitative factors is used to make the exclusion list process as systematic as possible. Given the complexity and many nuances that exist when assessing countries.

The qualitative overlay seeks to ensure that conclusions are not based solely on historical reported data but that we also take into account countries expected future development and other recent significant events that might not yet be reflected in the quantitative data. For Very Weak and Weak performing countries, actors such as the EU, the OECD, UN or multilateral organizations like the World Bank clearly encourage public funding to support recovery are taken into account in the assessment.

If the qualitative review determines that a country should be removed from the list, for any of the reasons outlined above, an explanation/justification for the removal is included.

Furthermore, the qualitative overlay process will also be used to consider whether there are countries that are potentially missing from the list, and hence should be added to the final exclusions list.

As part of the qualitative overlay, the process also reviews the following sources:

- The Financial Action Task Force (FATF) list of "High-risk and other monitored jurisdictions".[2]
- Taxation: EU list of non-cooperative jurisdictions.[3]
- OECD Global Forum on Transparency and Exchange of Information for Tax Purposes – EOR Ratings.[4]

Any country listed on any of the three lists outlined above, that is not subject to exclusion, must be placed on the watchlist. A watchlist is maintained to monitor countries that are assessed as performing weak on certain sustainability dimensions, but do not meet exclusionary criteria. All countries that are removed from the quantitatively derived country list are placed on the watchlist with no exceptions. All countries that are on any of the external lists, which are not subject to exclusions, are placed on the watchlist. Additional countries identified during the qualitative review, e.g., recent significant events/developments, can also be placed on the watchlist if deemed appropriate.

Data sources

- Verisk MapleCroft
- EU
- World Bank
- OECD
- UN
- Investment teams
- The Financial Action Task Force (FATF) list of "High-risk and other monitored jurisdictions"
- Taxation: EU list of non-cooperative jurisdictions
- OECD Global Forum on Transparency and Exchange of Information for Tax Purposes – EOR Ratings

Frequency

Screening of companies are conducted on annual basis or more often if needed due to extraordinary circumstances.

Governance

As all decisions related to exclusions are anchored within the investment organization and the screening is presented to the ESG Integration Council. The recommendations are discussed and endorsed by the

[2] Home - Financial Action Task Force (FATF) (fatf-gafi.org)
[3] Taxation: EU list of non-cooperative jurisdictions - Concilium (europa.eu)
[4] Compliance ratings following peer reviews against the standard of EOIR - OECD

ESG Integration Council. If the ESG Integration Council raises additional input on the recommendations and/or doesn't provide an endorsement that information will be included in the recommendation to the Responsible Investment Committee.

The recommendations are approved by the Responsible Investment Committee, prior to implementation.

Implementation

A decision to exclude a company/issuer as part of the Enhanced Sustainability Standards process is implemented no later than on the first bank day of the second month following a decision by the Responsible Investment Committee to exclude.

Once implemented, investment teams have five working days to divest holdings. If selling is not possible for liquidity reasons, divestments will be put on hold pending the opportunity to sell at a reasonable price, holdings will be sold.

Disclosure

The list of excluded issuers is maintained is published on Danske Bank website. Equally information on such companies/issuers on the watchlist is disclosed on websites.