



Position Statement on Forestry

May 2024



Introduction

It is a key commitment for Danske Bank to be a responsible and predictable partner in the green transition. The forestry sector operates within a natural system that produces multiple economic, social and environmental values - and the sector has a key role to play regarding climate action and biodiversity preservation. We see multiple points of entry towards meaningful discussions on sustainability and want to support customers and companies who take initiative to promote sustainable growth and greater societal responsibility. This position statement covers the forestry sector as well as the pulp and paper sector, with the aim to establish guidelines for comprehensive sustainability practices.

At Danske Bank, our purpose is to release the potential in people and businesses by using the power of finance to create sustainable progress today and for generations to come. In the forestry sector, this means assisting our customers' transition to more sustainable production and, where needed, setting clear standards and expectations. In addition, we also want to offer transparency about our efforts and approach.

For centuries, forests have played an important role in our economies, offering materials, food, a hub for cultural heritage and an engine for job creation, as well as rural and industrial development. At the same time, forests are also rich in biodiversity and create vital ecosystem services that human societies benefit from – for example local climate regulation, freshwater provisioning, and pollination services. Furthermore, they are hugely important in the fight against climate change.

The financial sector has an important role to play in helping to safeguard the ability of forests to provide multiple values. The financial services sector is uniquely positioned to affect change in the real economy through its ability to mobilise capital, direct funds and price risks – and as such, the financial sector has a responsibility to support the green transformation and sustainability agenda. As a large Nordic bank, we want to support the forestry sector in the contribution it can make in this regard.

Firstly, we want to assist the sector in playing a role in climate change mitigation. Forests sequester large amounts of carbon in biomass and soils, provide valuable raw materials capable of substituting the use of fossil fuels and can sequester carbon

in long-lived products (e.g. timber and building materials). Secondly, the sector is instrumental in maintaining and improving the biodiversity underpinning valuable ecosystem services, and we want to promote our customers in managing impacts. Thirdly, the sector is responsible for ensuring that forests can function as a resilient green infrastructure capable of withstanding climate change. Increased risks of drought, storms and pests create an increased need to improve the capacity of forests to buffer ecological shocks. With this in mind, the sector increasingly needs to factor in physical risks of climate change when making long-term plans.

In addition, downstream pulp and paper operations could be affected by upstream activities in regard to sustainability. We also see that it faces its own set of emerging sustainability challenges. For example, raw material sourcing, supply chains, emissions, air quality and human health and safety are examples of material ESG risks. We want to assist our customers in strengthening their management of these risks, and we welcome dialogue around opportunities.

To support our customers and portfolio companies in addressing these challenges, this position statement establishes guidelines for comprehensive sustainability practices and high standards. It is a key commitment for Danske Bank to be a responsible and predictable partner for all our stakeholders in the green transition. We welcome dialogue and want to support customers and portfolio companies who want to take initiatives to promote sustainable growth and greater societal responsibility and explore meaningful ways to further integrate sustainability into their operations.

Position Statement on Forestry

1. Objective and purpose

Danske Bank's position statement on forestry aims to create transparency and predictability regarding our ambitions, efforts and governance with regard to the sector and provide a view on how we manage the related impacts, risks and opportunities. The position statement establishes a shared framework for a constructive and forward-looking dialogue with our stakeholders on these topics.

2. Scope

This position statement applies to the Danske Bank Group and all legal entities under its control.

We take a materiality-based approach, meaning that our engagement focus will be on larger customers with high impacts and that we take into consideration relevant risks and opportunities for the customers. When we assess which actions are relevant for individual customers, the size of the customer, exposure towards the customer and geographical scope of activities of the customer are taken into consideration.

Geography

The position statement is global in scope with no exceptions.

Danske Bank's activities

The position statement applies to lending and investment services offered by Danske Bank.

Customers and clients

The position statement covers existing as well as potential new customers and clients of Danske Bank.

Industries and subsectors

This position statement applies to major components of the forestry value chain. These components include forest management as well as harvesting and planning. In addition, the position statement applies to downstream segments, including pulp and paper companies.

Projects and companies

The position statement applies to financial services offered for both general finance and project finance purposes offered to companies as well as for investment services.

3. Definitions

Relevant definitions include:

- Financial services: lending, guarantees, primary debt and equity capital markets activities, but not secondary market intermediation, trading and activities related thereto

- Investment services: assets managed by Danske Invest as well as life insurance and pension products offered by Danica Pension
- Ecosystem services: the multitude of benefits that nature provides to society, for example timber, food, clean water, regulating disease and climate, pollination of crops and soil formation. These services are typically divided into provision services, regulating services, cultural services and supporting services
- Biodiversity: the diversity among living organisms, which is essential to the function of ecosystems and the delivery of services.¹
- Bioenergy: energy generated from organic matter, e.g. for heat and electricity production, industrial processes and biofuel for transportation
- Sustainable forest management: the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems²
- Climate risk: The risk of significant negative business-related impact due to climate change
- Nature risk: The risk of significant negative business-related impact due to dependencies and impacts on nature
- Transition risk: Business-related risks that follow societal and economic shifts toward a low-carbon and more sustainable future
- Physical risk: Business-related risks that follow the physical impacts of climate change and changes in nature

4. Rules and standards of the position

For the purposes of this position statement, Danske Bank separates governance of forestry into expectations and recommendations. These are covered below respectively.

In general, Danske Bank expects customers it lends to, as well as portfolio companies it invests in, to operate in accordance with relevant international norms, regional and national laws, regulations and permits. We expect the companies we do business with to systematically manage material sustainability risks and impacts and to provide transparency on their impacts. Specifically, we expect that customers and portfolio

¹ Food and Agriculture Organization (FAO) of the United Nations; Ecosystem Services & Biodiversity (ESB) | Food and Agriculture Organization of the United Nations (fao.org)

² EU Definition on sustainable forestry adopted in 1993 at the pan-European Ministerial Conference on the Protection of Forests in Europe (MCPFE). Sustainable forest management (europa.eu) Similar definitions exist in North and South America

companies adhere to the following guidelines, where relevant and subject to size of company and exposure.

Environmental:

- Prevent negative impacts on High Conservation Value (HCV) areas (lands with high environmental and/or social value) within their business operations and the areas they manage³
- Prevent negative impacts on High Carbon Stock (HCS) areas (lands rich in stored carbon) within their business operations and the forests they manage⁴
- Prevent negative impact on protected areas, including UNESCO World Heritage Site, Wetlands covered by the Ramsar Convention, and Area categories I-IV of the International Union for Conservation of Nature (IUCN)
- For large enterprises: adopt sustainable forest management practices and integrate into governance and strategy (in the form of relevant policies, objectives and targets) with an intent to protect and enhance ecosystem services provided by forestlands and disclose on progress
- For large enterprises: pursue third-party certification of forests and timber plantations according to e.g. the Forest Stewardship Council (FSC) or Program for Endorsement of Forest Certification (PEFC) or other relevant market standards depending on domicile – e.g. Canadian Standards Association (CSA), Sustainable Forestry Initiative (SFI)
- For large enterprises in supply chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture): pursue third-party certification in accordance with the FSC or PEFC chain of custody certification
- For pulp and paper factories: limit the use of chemicals and the pollution of soil, water and air by making use of the best available techniques

Social

- Respect customary land tenure and usage rights of indigenous peoples by applying free, prior and informed consent (FPIC) principles; conduct community consultation early in project life cycles, and respect the rights of local and indigenous communities on the fair and equal use of forests
- Have commitments and management processes to address health and safety risks

Governance

- Include clauses on the compliance with environmental, social and governance criteria in their contracts with

subcontractors and suppliers – especially when sourcing from areas with weak enforcement of environmental and labour laws

- For large enterprises: publish a comprehensive sustainability report that is preferably set up in accordance with a widely recognised and global framework such as the Global Reporting Initiative (GRI)
- Integrate environmental, social and governance criteria in procurement and operational policies
- Prevent the use of illegally cut and traded timber throughout the wood supply chain

As relevant, we also recommend the following to companies in the forestry sector:

- For large companies with large impacts on forests across the value chain: report forest-related information to the Carbon Disclosure Project (CDP) Forests programme, or similar initiative
- Consider the use of a 'green' forest management plan, or similar scheme, to address critical ESG considerations where third-party certification (e.g. PEFC/FSC) might not be relevant due to size of operation
- For large enterprises: take a double-materiality approach towards understanding, identifying and assessing ESG risks and integrate findings into governance and strategy (e.g. in the form of relevant policies, objectives or targets) and disclosures
- Specifically for companies in biofuel value chains: pursue certification and adhere to principles according to the Roundtable on Sustainable Biofuels (RSB) unless otherwise covered by other certification scheme
- For large enterprises: report on climate risks in accordance with the Task-force on Climate-related Financial Disclosures (TCFD) recommendations to help frame and structure ongoing dialogue about transition risks and physical risks of climate change
- For large enterprises: perform due diligence on biodiversity and nature risks and impacts, adopt policies and management processes to manage biodiversity impacts
- Prevent the introduction of invasive alien species in natural ecosystems
- Apply responsible usage of fertilisers and pesticides and seek alternatives to pesticides, herbicides, and fertilisers in forestry management

5. Supporting standards and principles

In general, Danske Bank supports the following set of international agreements, principles, standards and concepts as relevant for forestry:

- UN Global Compact⁵
- UN Guiding Principles on Business and Human Rights⁶
- The Universal Declaration of Human Rights⁷
- The ILO Declaration of Fundamental Principles of Rights at Work⁸
- OECD Guidelines for Multinational Enterprises⁹
- High conservation value forests (HCVF), including those depended on by indigenous peoples¹⁰
- The UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol¹¹
- International Union for the Conservation of Nature Red List Species¹²
- Forest Stewardship Council (FSC); Programme for Endorsement of Forest Certification (PEFC); Roundtable on Sustainable Biofuels (RSB)¹³
- The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

For the listed companies that Danske Bank invests in, a screening is performed in collaboration with research partners to make sure that the companies act in line with the following international principles and conventions:

- UNESCO World Heritage List
- Ramsar Convention
- International Union for Conservation of Nature (IUCN)
- Minimum Age Convention
- Worst Forms of Child Labour Convention
- Free, Prior and Informed Consent (FPIC) as covered in ILO

Convention 16920 and the UN Declaration on the Rights of Indigenous Peoples

- Rio Declaration on Environment and Development
- The Kyoto Protocol

6. Implementation, monitoring and disclosure

Implementing expectations and recommendations

This position statement is implemented by integrating it into Danske Bank's governing information, including policies instructions and business processes - and subject to annual review. Expectations call out particular risk considerations and recommendations signal understanding of best practices and will be monitored.

Should this position statement be breached, there are several escalation paths in Danske Bank's governance structure where potential breaches could be addressed. On a Group level, relevant forums include:

- The Business Integrity Committee (BIC)
- The Sustainable Finance Council (SFC)

In addition to Group-level escalation paths, there are also separate business unit committees tasked with the oversight of the implementation of this position statement.

Monitoring adherence to endorsed standards and principles

In order to monitor that Danske Bank's business is conducted with respect to the international standards that we endorse, the bank has developed processes for financial services and investments separately.

For financial services, the position, and the standards it endorses, are integrated in the credit process. All credit cases are reviewed for potential breaches, and cases with concerns are escalated for further review by ESG experts and the bank's second-line credit teams. Monitoring is carried out by an independent unit in Group Risk Management.

⁵ <https://www.unglobalcompact.org/about>

⁶ [GuidingPrinciplesBusinessHR_EN.pdf \[ohchr.org\]](#)

⁷ [Universal Declaration of Human Rights | United Nations](#)

⁸ [ILO Declaration on Fundamental Principles and Rights at Work \[DECLARATION\]](#)

⁹ <http://mneguidelines.oecd.org/text/>

¹⁰ [High Conservation Values | Forest Stewardship Council \[fsc.org\]](#)

¹¹ [Home | Convention on Biological Diversity \[cbd.int\]](#)

¹² [International Union for Conservation of Nature - IUCN](#)

¹³ [Home Page | Forest Stewardship Council \[fsc.org\]; PEFC - Programme for the Endorsement of Forest Certification; Home | Sustainable Development and Biomaterials | RSB](#)

For investing, Danske Bank takes a risk-based approach that is structured around two phases:

- Screening and ESG Risk Analysis
- Dialogue and Engagement

In the Screening and ESG Risk Analysis phase, we screen companies to identify sustainability risks related to portfolio holdings with reference to current regulations, industry best practice, international norms and voluntary frameworks for corporate responsibility.

In the Dialogue and Engagement phase, we address potential breaches through dialogue, voting or participation in nomination committees when relevant.

