Danske Bank

Enhanced Sustainability Standards

July 2024

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 screening is a multidimensional process assessing environmental, social and governance materiality in order to promote adherence to the UN Global Compact principles, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, ILO conventions and other relevant environmental or social safeguards. The screening also seeks to capture certain other activities indicating weak sustainability practices in particular as outlined through the Danske Bank Position Statements[1].

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

1. **Incident & Event-based Screening**
2. **Good Governance**
3. **Country Assessment**
4. **Principal Adverse Impact Screening**

These four sub-processes may result in exclusions as outlined in this document with varying application on our investment products under management. For more information, please refer to the pre-contractual disclosures of the relevant investment product.

1. 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 applied by Danske Bank as communicated 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 for instance an environmental damage, a governance

[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.

breach, an accident, regulatory action, or a set of closely linked events or allegations such as health and safety fines at the same facility, multiple allegations of anticompetitive behaviour related to the same product line, or multiple individual lawsuits alleging the same type of discrimination or human rights violation.

The screening process follows a four-step approach:

1. At the start of the period, priorities for the screening are identified through different sources. This includes incidents we have become aware of via media, engagement with firms/investors or other sources. A thematic review may also be selected relating to a topic that is deemed to have high importance for environmental and/or social materiality.
2. Where a thematic review has been selected, a deep dive will be conducted on the theme to create an understanding of the issues and the parties most exposed to the risks/impacts. This research will be used to create a short list of issuers for further investigation. These issuers, alongside those already identified in step 1, will then be the subject of quantitative and qualitative research as part of our screening assessment. The assessment will consider backward looking information and will factor in expectations for future development. Due to the ambitious nature of these types of investigations, multiple data sources are utilized to support a holistic understanding. 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 with overall expectations as communicated 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 th e issuer.
3. Alongside step one and two, a review will be conducted on issuers already excluded under incident & event-based screening. This review will be used to determine if the previous assessment remains valid.
4. As a final stage, each issuer is categorized in each of the three recommended categories: Open/Case Closed, Watchlist and Exclusion.

Data Sources

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

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

Frequency

Screening of companies are conducted on a bi-annual basis or more frequently if needed due to extraordinary circumstances.

Governance

For all decisions related to exclusions, 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 in Danske Bank. 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 to be approved by the Responsible Investment Committee, prior to implementation.

2. Good Governance

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.

Our good governance methodology captures the key pillars of good governance, including sound management structures, employee relations, remuneration of staff and tax compliance. As can be seen from the table below, each pillar is supported by underlying indicators (e.g. board independence). These indicators steer the assessment of whether an investee company meets our expectations in respect to good governance practices relating to that pillar. A company must adhere to some of the indicators tied to each pillar but might not meet all. Instead, relevant materiality thresholds have been defined for each pillar on the number of indicators a company must fulfil to be assessed as upholding that pillar. The materiality thresholds take into account differing market standards.

If a company fulfils only the minimum number of indicators in relation to all pillars, they will be assessed as weak with respect to good governance notwithstanding the individually defined materiality thresholds.

To further address differing understandings on market standards and the assessment of practice, companies that have failed one or more pillars will be screened against a vendor sourced dataset on good governance. If these companies also fail the additional vendor screen, they will be recommended for exclusion on the basis that the available data indicates that their governance practices are insufficient.

Good Governance indicators and underlying assessment criteria	
Pillar 1 - Sound management structures	
Indicators	
1	*Board independence*
	Assessment criteria: 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.
2	*Board diversity*
	Assessment criteria: 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.
3	*Business ethics (Policy)*
	Assessment criteria: 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 should have policies addressing anti-competitive practices, bribery, conflict of interest, corruption, insider dealings and money laundering.

Good Governance indicators and underlying assessment criteria	
4	*Business ethics (Measures)*
	Assessment criteria: To ensure that the policies are implemented throughout the company, companies should disclose information about related compliance procedures and measures. That could include, but is not limited to, business ethics awareness training, compliance training, third party anti-corruption due diligence, facilitation of non-compliance reporting, and whistleblower protection.
5	*Audit committee independence*
	Assessment criteria: Companies should have a body responsible for the oversight of duties, including, but not limited to, financial reporting, accounting policies, appointing of external auditors, regulatory compliance, and risk management. To ensure the protection of minority shareholders' interests and independent oversight of management, such oversight body should consist of a majority of independent directors.

Pillar 2 - Employee relations

Indicators

1	*Freedom of association and collective bargaining (Policy)*
	Assessment criteria: Companies should have a policy, or policies, addressing the right of workers to establish or join trade unions and representative organisations, with the purpose of engaging in constructive negotiations on terms and conditions of employment and aligning to the UN Global Compact Principle 3 on freedom of association and collective bargaining.
2	*Freedom of association and collective bargaining (Measures)*
	Assessment criteria: Companies should have the necessary procedures and measures to enforce the above-mentioned policy, or policies, such as communication of workers' rights, grievance procedures, specific measures in countries with severe legal/factual limitations; alternative worker participation in countries with severe legal limitations; anti-union discrimination measures in countries with severe factual limitations.
3	*Whistleblower protection*
	Assessment criteria: Companies should have adequate whistleblower protection policies, that ensure protection of whistleblowers' employment status, and protection of whistleblowers from harassment in the workplace. Companies with insufficient whistleblower protection are at risk of having individuals/business divisions engaging in fraudulent/unethical behaviour where employees do not feel protected in reporting such conduct without fear for reprimands. As such, the absence of whistleblower protection can lead to prolonged periods of corporate misconduct or personal consequences against individuals who correctly reported the incident(s).
4	*Controversies related to severe infringements of union rights*
	Assessment criteria: Local laws, and other requirements set forth by regulatory authorities or other significant parties are a measure of good governance. Companies should not have any controversies related to union rights assessed as 'very severe'.
5	*Controversies related to severe infringements of discrimination*
	Assessment criteria: Local laws, and other requirements set forth by regulatory authorities or other significant parties are a measure of good governance. Companies should not have any controversies related to discrimination assessed as 'very severe'.

Pillar 3 - Remuneration of staff

Good Governance indicators and underlying assessment criteria	
Indicators	
1	*Pay disclosures*
	Assessment criteria: Companies should provide some public disclosure of executive management remuneration, to allow shareholders to make an informed decision on its appropriateness. Some disclosures of sustainability-related metrics in the remuneration should also be in place.
2	*Problematic pay practices*
	Assessment criteria: Companies should not have identified problematic pay practices. Problematic pay practices or policies include but are not limited to issues on non-performance-based compensation elements, e.g. excessive perquisites; incentives that may motivate excessive risk taking; and specific problematic practices such as options backdating or repricing held by top executives and/or directors or repricing any options without shareholder approval.
3	*Excessive CEO pay ratio*
	Assessment criteria: Companies should provide disclosure of the ratio of annual CEO compensation to the median annual total compensation for all employees (excluding the highest compensated individual). CEO pay should be reasonable relative to median employee pay, and as a measure of excess, the top 10% ratios will be penalised in the assessment. We believe excessively high CEO pay relative to median employees is an indicator of potential issues relating to remuneration.

Pillar 4 - Tax Compliance

Indicators	
1	*Accurate financial reporting*
	Assessment criteria: Company reporting should be audited by an external accountant and published in a timely manner with an "Unqualified opinion" on the accounts. Failure to provide accurate, trustworthy information to investors and the general public can significantly impact investors' ability to make informed decisions.
2	*Controversies related to severe non-compliance with tax regulations*
	Assessment criteria: Adherence to local laws, and other requirements set forth by regulatory authorities or other significant parties are seen as a measure of good governance. Companies should not have any controversies related to taxes assessed as 'very severe'
3	*Controversies related to severe non-compliance with accounting and disclosure standards*
	Assessment criteria: Adherence to local laws, and other requirements set forth by regulatory authorities or other significant parties are seen as a measure of good governance. Companies should not have any controversies related to accounting and disclosure standards assessed as 'very severe'.

The data indicators used in Danske Bank's good governance methodology takes into consideration the relevance of the assessment criteria, data coverage, and differences in market-specific/ industry-specific governance practices across regions to support comparability and monitoring.

To mitigate for potential data errors or data lags at the data vendors, an evidence-driven qualitative assessment may also be applied.

Data source

- ISS ESG
- MSCI
- Investment teams

Frequency

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

Governance

The Exclusions are endorsed by the ESG Integration Council and approved by the Responsible Investment Committee, prior to implementation.

3. 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 exhibit weak sustainability practices, have weak governance, or 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 have negative 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	40%	Freedom of assembly
		Freedom of opinion and expression
		Indigenous peoples' rights
		Land, property and housing rights
		Minority rights
		Right to privacy
		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 labour
		Forced labour
		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 a country has ratified and adopted, as demonstrated through their domestic legal and policy frameworks.
- 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	Assessment regarding to which degree is the right protected Number of reported violations	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 under a qualitative framework.

All countries that appear on the quantitative country list are reviewed qualitatively. The integration of quantitative factors is used to make the exclusion list process as systematic as possible. G

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 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.

The qualitative overlay process may also be used to consider whether there are countries that are potentially missing, 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". 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

The Exclusions are endorsed by the ESG Integration Council and approved by the Responsible Investment Committee, prior to implementation.

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.

4. Principal Adverse Impact (PAI) Thresholds

Principal Adverse Impact thresholds are applied to sustainable investments in accordance with the sustainable investment methodology applied by Danske Bank A/S, which is available at:

https://danskebank.com/sustainability/publications-and-policies/sustainability-related-disclosures

The thresholds also function as pre-trade warnings for a vast part of our managed products to prompt further attention to the portfolio managers on the principal adverse impacts in the investment decision making process.

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[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

The thresholds are based on indicators for principal adverse impacts on investee companies factors set out in the SFDR Delegated Act (EU) (2022/1288) as well as three additional principal adverse impact indicators investee companies selected by Danske Bank.

The thresholds are set to capture and exclude the weakest performing companies in relation to these indicators, thereby excluding companies causing significant harm to a sustainable investment objective from the investable universe in relation to the specific products.

The thresholds are reviewed and updated annually. Currently, Danske Bank applies the following thresholds:

Adverse sustainability indicator	Metric	ISS ESGData point
Greenhouse gas emissions	Scope 1 GHG emissions	ClimateScope1Emissions EV
	Scope 2 GHG emissions	ClimateScope2Emissions EV
	Scope 3 GHG emissions	ClimateScope3Emissions EV
	Total Scope 1|2 emissions	ClimateScope12 EmissionsEV
	Total Scope 1|2|3 emissions	ClimateScope123 EmissionsEV
	GHG intensity of investee Companies	ClimateTotalEmissionsInt EUR
	GHG intensity of investee Companies	ClimateScope123EmissionsIntEUR
	Share of non-renewable energy consumption and non- renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources	NonRenewableEnergy Production
	Energy consumption intensity	EnergyConsumption Intensity
Greenhouse gas emissions/Biodiversity	Companies active in the fossil fuel sector	FossilFuelInvolvementPAI
	Activities negatively affecting biodiversity-sensitive areas	CompNegAffectBioSensAreas
	Companies without carbon emission reduction initiatives	CompWOCarbonEmission Reduct
Water	Emissions to water	CRCODEmissionsEvic
Waste	Hazardous waste and radioactive waste ratio	CRHazardousWasteEvic
Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Enhanced Sustainability Standards

	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	LackProcessesUNGCOECDGuidelines
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	InvolvInContrWeapons
	Board gender diversity	RatioOfWomenOnBoard
	Lack of a human rights policy	LackHumanRightsPolicy

In respect to sovereigns, principal adverse impacts are managed through the country exclusion assessment criteria set out in the previous section of this document.

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.