Sustainability in DNB's credit activities - Group Instructions

1 Purpose 2
2 Scope 2
3 Roles and responsibilities 3
4 Further explanation of requirements 3
4.1 DNB's expectations of all corporate customers 3
4.1.1 Comply with applicable laws 3
4.1.2 Respect human and labour rights 3
4.1.3 Be environmentally responsible 4
4.1.4 Assess risks relating to climate change 4
4.2 Exclusions 4
4.3 Controversial activities 5
4.4 Process and organisation 7
5 Definitions 7

1 Purpose

The purpose of the Group instructions for sustainability in credit activities is to:

- Clarify the importance of DNB's Group policy for sustainability in credit activities
- Formalise sustainability as part of risk assessments in all extension of credit
- Describe the roles, responsibilities, organisation, and process relating to risk assessments of sustainability

This Group instruction is based on the documents Group policy for risk management in DNB and Group policy for sustainability in DNB. DNB's ESG sector guidance notes are based on this Group instruction.

2 Scope

This document applies to all permanent and temporary employees of the Group. Any extension of credit must take into account and support the Group policy for sustainability at DNB. This means that, at DNB, we will not extend credit that contributes to the violation of human or labour rights, corruption, serious environmental harm, or other actions that could be regarded as highly unethical. Furthermore, we are committed to taking into account the climate and the environment, social conditions, and corporate governance in all of our credit activities.

The borrower's commitment to sustainability is to be evaluated as part of the credit process wherever this is relevant. This is operationalised at level 4, Frameworks, in the document hierarchy of governing documents – in DNB's credit manuals– and includes an assessment of activities that affect the climate, the environment, social conditions and sound corporate governance. Activities regulated by legal requirements should in principle be assessed under compliance risk, but if more appropriate, they may be included in sustainability assessments.

The Group instructions apply to credit activities throughout the DNB Group. This includes all credit activities vis-à-vis DNB customers, regardless of geographical differences, customer groups and organisational affiliation. The instructions also apply to issuer-related activities, including arranging bonds and issues in DNB Carnegie. In cases where DNB Carnegieis considering an issuer-related assignment for a customer involved in controversial activities, approval is required from the head of DNB Carnegiein addition to ordinary engagement committee approval.

In principle, this document applies to all companies in the DNB Group, including the Group's international activities. In the event of any conflict, legislation and other binding external rules will take precedence over this document. The person responsible for implementation must notify the document owner of any such conflict.

This governing document does not apply to:

- Companies in which DNB has no controlling interest as defined by the Norwegian Private Limited Liability Companies Act, or companies which DNB owns jointly with other financial institutions. In such companies, DNB should use its influence as owner in the governing bodies to work towards ensuring that such companies have governing principles in place relating to corporate responsibility and ethics that are in line with DNB's own governing principles.

- Companies which DNB has taken over or acquired for temporary ownership. Such companies shall implement and comply with principles for ethics and corporate responsibility that are in line with DNB's own governance principles.

3 Roles and responsibilities

- Group Risk Management is the premise provider for the Group instructions for sustainability in DNB's credit activities.
- The customer divisions have executive responsibility for the Group Instruction.
- Group Risk Management is the controlling unit responsible for following up the Group instruction for all credit activities in the Group.
- Both the customer divisions and Group Risk Management must have appropriate and adequate expertise within risk assessments to ensure that the quality of the risk assessments meets DNB's expectations and requirements in this area.

4 Further explanation of requirements

All extension of credit must take into account and support DNB's Group policy for sustainability to ensure long-term and sustainable financial value creation. Activities carried out by borrowers/risk entities/controlling owners that affect the level of ESG risk (Environmental, Social, Governance) must be analysed in credit proposals in the same way as other relevant risk drivers. The assessments must be afforded decisive weight when considering whether to approve a credit proposal.

If the total credit commitment is more than NOK 8 million, ESG risk must be commented on in the credit proposal. A special ESG risk assessment tool must be used for all credit commitments above NOK 50 million. In addition, external sources of information are to be used to assist in the risk assessment.

The assessed level of ESG risk has an impact on the decision level for credits. If the level of ESG risk is considered to be high, action plan with a view to reducing the risk are required.

For project financing that is subject to the equator principles, separate assessments must document compliance with the principles.

4.1 DNB's expectations of all corporate customers

4.1.1 Comply with applicable laws

All of DNB's customers must comply with applicable laws and regulations in their home country/country of origin, in addition to applicable laws and regulations in countries where they conduct business operations. Our customers must also act in accordance with relevant international conventions and guidelines set out by international organisations, such as the UN and the OECD.

4.1.2 Respect human and labour rights

DNB's customers must, within their sphere of influence, fully support and respect internationally recognised human rights and ensure that they are not involved in human rights violations. Furthermore, customers shall respect the eight fundamental or core conventions enshrined by the ILO (International Labour Organisation)[1].

[1] *ILO Core Conventions*

4.1.3 Be environmentally responsible

At DNB, we support the protection and preservation of the environment and believe that we can make an important contribution to the promotion of sound environmental practices. Therefore, DNB aims to prioritise corporate customers with responsible environmental behaviour. When it comes to customers operating in industry sectors with a high potential negative impact on climate, nature, biodiversity, and water resources, it is in our best interest to help such customers reduce their environmental footprint and consumption of collective goods in a responsible manner.

4.1.4 Assess risks relating to climate change

Climate change has the potential to severely affect nature, human living conditions and the global economy. The economic impacts of climate change on specific markets, industry sectors and regions are complex, varied, and uncertain. Nevertheless, at DNB, we expect our customers to seek to:

- Incorporate relevant climate change challenges into their investment planning
- Incorporate significant climate change risks into their risk management
- Report material significant change risks and greenhouse gas emissions
- Be transparent in relation to their interactions with politicians and authorities and their positions on climate change legislation and regulations

4.2 Exclusions

Our Group instructions for sustainability in credit activities is based on DNB's values and underlying commitment to respecting human rights and the environment. If the customer's activities are included in the exclusion list below, the customer will not be granted credit.

Table 1. Exclusions

Topic/industry	Exclusion
General	Production of, or trade in, any goods or services deemed illegal under the laws of the host country or in regulations/international conventions and agreements.
Protected areas	No financing of any kind for companies that directly or indirectly have a materially negative impact on, or cause harm to, habitats subject to special protection according to legislation or local guidelines, including (but not limited to): Sites on UNESCO's World Heritage List Wetlands registered by the Ramsar Convention Vulnerable natural habitats registered by the International Union for Conservation of Nature (IUCN), categories I and II
Defence/controversial weapons	No financing of any kind for companies that on their own or through entities they control, develop, manufacture, store or trade in anti-personnel mines or cluster weapons as described in the Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions, or central components for use in weapons of mass destruction. Weapons of mass destruction are defined as NBC weapons (nuclear, biological, and chemical weapons). No financing of any kind for companies that make weapons available to countries that have been weapon-embargoed by the UN, EU, or US.
Topic/industry	Exclusion (cont.)
Energy	No project financing of coal-fired power plants, nuclear power plants and extraction of oil from oil sand deposits.

Logistics/transport	No direct financing of nuclear waste transport, decommissioning of nuclear plants and/or final disposal of nuclear waste No financing of so-called 'cash buyers', whose purpose is to acquire ships and thereafter recycle them in an irresponsible manner in violation of the Responsible Ship Recycling Standard (RSRS)
Animal welfare	No financing of: New customers involved in fur farming. Animal testing with no medical purpose. Trading in endangered animal species for commercial purposes.
Fisheries and seafood	No financing of: Unregulated fishing involving sustainability risk Fishing using harmful fishing techniques Fishing of endangered species as described in CITES agreements (CITES = Convention on International Trade in Endangered Species of Wild Fauna and Flora) Drift net fishing in the sea with nets that are more than 2.5 km in length
Forestry and timber industry	No type of financing of companies involved in forestry of the use of timber from illegal logging operations or deforestation and/or burning of tropical rainforests and the removal of primary or High Conservation Value Forests No financing of tree felling equipment mainly used in tropical forests.
Metals and mining	No financing for customers involved in the mining of uranium or new customers involved in coal mining projects.
Chemical industry	Production of, or trade in, herbicides/weed killers that are being phased out internationally or that are banned. Production of, trade in or use of unbound asbestos.
Pharmaceuticals	Production of, or trade in, medicines that are being phased out internationally or that are banned. Development of gene technology for, or genetic engineering of, humans.

4.3 Controversial activities

If the borrower/risk point is associated with one or more controversial activities, the decision-making levels in the table below apply. If the borrower/risk point is affected by several points in this table, the decision shall be made at the highest decision-making level. If a decision on controversial activities is made at one or more international subsidiaries or branches, acceptance shall be decided in the GCC, except when the borrower's/risk entity's operations take place in a country/countries without a robust national framework for ESG management (see table 2).

Table 2. Controversial activities

Controversial activities	Credit-approval level
New and existing borrowers/risk entities that are excluded from DNB's or NBIM investment portfolio	GCC or level I at international subsidiaries and branches
Borrowers/risk entities that act contrary to important internationally recognised standards and conventions.	GCC or level I at international subsidiaries and branches
Borrowers/risk entities involved in the production of tobacco and e-cigarettes.	GCC or level I at international subsidiaries and branches
Borrowers/risk entities involved in the production of pornography.	GCC or level I at international subsidiaries and branches
Borrowers/risk entities involved in, or suspected of being involved in, activities that could harm DNB's standing and reputation, or otherwise being DNB's reputation into disrepute.	GCC or level I at international subsidiaries and branches
Borrowers/risk entities involved in gambling activities not regulated by Norwegian law (gambling, casino, and similar businesses).	GCC or level I at international subsidiaries and branches
Borrowers/risk entities that directly or indirectly have activities that may adversely affect especially ecologically/biologically sensitive areas.*	GCC or level I at international subsidiaries and branches
Borrowers/risk entities that directly or indirectly have activities that materially reduced access to water for people, animals, and local communities.	GCC or level I at international subsidiaries and branches
Less than two-thirds of the borrower's/risk entity's operations take place in a country/countries with a robust national framework for ESG management.	Level II
Industry-specific: Oil and gas New customers where more than 15% of total corporate revenue stems from oil sands extraction.	GCC or level I at international subsidiaries and branches
Industry-specific: Power and renewable energy** New customers with revenues from the production of nuclear power. New customers where more than 30% of total corporate revenues stems from coal-fired power. ***	GCC or level I at international subsidiaries and branches
Industry-specific: Forestry Borrowers/risk entities operating in proximity to deforestation fronts or ecologically sensitive forests without Forest Stewardship Council approval for at least 80% of the wood sourcing.	GCC or level I at international subsidiaries and branches
Industry-specific: Metals and mining Borrowers/risk entities with operations in a weak governance zone or conflict areas. Borrowers/risk entities that are accused of excessive pollution by local authorities and/or non-governmental organisations.	GCC or level I at international subsidiaries and branches
Industry-specific: Arms and defence Borrowers/risk entities that produce conventional weapons.	GCC or level I at international subsidiaries and branches

*) Companies that directly or indirectly have a materially negative impact on, or harm, habitats subject to special protection according to legislation or local guidelines, including (but not limited to):

- UNESCO World Heritage Sites.
- Wetlands registered by the Ramsar Convention.

- Sensitive habitats registered by the International Union for the Conservation of Nature, categories I and II.

**) The industry-specific limits and subsequent decision-making levels above refer to customer financing that exceeds the defined limits at a consolidated group level. They do not apply to the financing of subsidiaries in a corporate structure if the financing concerns activities other than those described in the table above (e.g. projects or plants for the extraction of energy from the sun, wind, or natural gas).

***) Exceptions from the requirement for level I decision-making for customers with market limits where the credit lines are exclusively used for hedging transactions in relation to counterparties involved in renewable power generation. These facilities follow ordinary decision-making levels.

4.4 Process and organisation

Risk assessments of sustainability must be included in credit assessments and follow the credit process. The assessments are to be documented in an appropriate manner in credit proposals and shall be in accordance with the principles and requirements specified in Chapter 6 of DNB's credit manual for corporate customers.

5 Definitions

In principle, risk assessments of sustainability must be included in the same way as other risk assessments in connection with all extension of credit. The assessment is to be given decisive weight when considering whether to approve a credit proposal.

References/links

- ILO Core Conventions
  https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_095895.pdf

- UNESCO's World Heritage List
  https://whc.unesco.org/en/list/

- Ramsar Convention
  https://www.ramsar.org/about-the-ramsar-convention

- International Union for Conservation of Nature (IUCN)
  https://www.iucn.org/

- Responsible ship recycling standards
  Responsible_Ship_Recycling_Standards_March_2021.pdf (dnb.no)

- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
  https://www.cites.org/eng/disc/species.php