

DANICA PENSION, FEBRUARY 3RD 2022

# Reporting on the Taxonomy Regulation 2021

Danica Pension supports EU's ambition to scale up sustainable investments. Danica Pension is a member of the global UN-convened Net-Zero Asset Owner Alliance and committed to make Danica Pension's investment portfolio carbon neutral by 2050. To support the ambition we have defined CO<sub>2</sub>-sector targets towards 2025 within the energy, utility, transportation, cement and steel sector. Our ambition is to reduce the CO<sub>2</sub>-emissions of our investments in the five key sectors from -15 percent to -35 percent. Further, Danica Pension has defined a green investment pledge of DKK 100 Billion by 2030. This includes investments defined as alternative investments in renewable energy, in real estate with sustainability certifications, in companies with renewable-energy activities, and in green bonds (see [www.danicapension.dk](http://www.danicapension.dk) for further information).

Effective as of 1 January 2022 EU has published a new definition catalogue for environmentally sustainable economic activities in the form of the Taxonomy Regulation. As the Taxonomy Regulation is still under development, and the data sources are limited, Danica Pension does not currently include the Taxonomy Regulation as a foundation in the business strategy including concrete target setting, product design processes and engagement with customers and other stakeholders. As the EU Taxonomy Regulation develops and data sources are improved, Danica Pension will revisit the opportunity to define revised taxonomy aligned targets on our investments in the green transition, expand our reporting on our pension products and increase our ongoing dialogue on the taxonomy with our customers and other stakeholders.

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## A. Introduction to the EU Taxonomy Regulation

The EU taxonomy is a classification system, which provides companies, investors and policymakers with definitions for which economic activities can be considered environmentally sustainable economic activities. The Taxonomy Regulation establishes six environmental objectives, including objectives on climate:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

Out of the six environmental objectives, only the first two areas concerning climate have been finally defined in the Taxonomy Regulation with technical screening criteria.

This reporting is a part of the Danica Pension's non-financial reporting in 2021. Through this report, Danica Pension comply with the obligation under the EU Taxonomy Regulation to report on the proportion of assets with exposures to taxonomy eligible and non-taxonomy eligible activities for 2021. The reporting is linked to the effective climate objectives. The four other environmental objectives of the taxonomy regulation will be subject to eligibility reporting requirements for the year 2022, after which there are sequential yearly reporting dates for specific KPIs.

Danica Pension's eligibility reporting captures exposures of reported assets in proportion of total assets. For 2021, reported assets include real estate and alternative investments. To create increased transparency Danica Pension has also opted to include voluntarily reporting capturing asset exposures based on estimates. Due to data constraints and the maturity of the taxonomy, it is not yet possible to report on to which degree economic activities that Danica has invested into the taxonomy is defined by the criteria in the Taxonomy Regulation.

This taxonomy reporting covers Danica Pension in Denmark (DK) and Norway (NO), unless stated otherwise.

## B. Taxonomy Regulation Reporting

B1: Mandatory reporting in accordance with EU Taxonomy Regulation as a requirement effective from 2022

| KEY PERFORMANCE INDICATOR   | DEFINITION   | REGULATORY METRIC IN %<br>( 31 DEC 2021) |
|---|--|--|
| Total taxonomy eligible assets <sup>1</sup> in proportion of total covered assets (only real estate and alternative investments) <sup>2</sup> | Total taxonomy eligible assets/Total covered assets (only real estate and alternative investments) | 8.4 %                                    |
| Exposures to derivatives in proportion of total covered assets <sup>3</sup>   | Exposures to derivatives/ Total covered assets   | 0 %                                      |
| Exposures to non-covered assets in proportion of total covered assets <sup>4</sup>  | Exposures to non-covered assets/total covered assets   | 15.1 %                                   |
| Exposures to sovereigns in proportion of total assets <sup>5</sup>  | Exposures to Sovereigns/ Total covered assets  | 15.1 %                                   |
| Non-taxonomy eligible assets in proportion of total covered assets  | Non-taxonomy eligible assets/ Total covered assets   | 62.3 %                                   |

<sup>1</sup> As defined in the delegated act to the taxonomy Article 8 (2021/4987).

<sup>2</sup> Taxonomy data covering investments in equity and credit bonds is estimated by a third party data vendor. Therefore, it is not included in the counter in the calculation based on the FAQ from the EU Commission December 20 2021.

<sup>3</sup> Derivatives in the investment book. The total value of derivatives is 444 million DKK. Derivatives with a positive value is DKK 120bn, which is 22.7% of the total covered assets.

<sup>4</sup> Please note that assets included here may also be included under the eligibility reporting. This may e.g. be the case where an external asset manager has provided us with data on asset eligibility, although not strictly required to do so.

<sup>5</sup> Exposures to sovereigns includes central governments, central banks and supranational issuers. Please notice, that the fraction for sovereigns is based on the total covered assets, which does not include sovereigns in the denominator. The number is therefore higher, than if based it was based on Danica's total assets.

## B2. Supplementary voluntary reporting in accordance with the EU Taxonomy Regulation (also includes estimated data)

| KEY PERFORMANCE INDICATOR   | DEFINITION  | REGULATORY METRIC IN % AND MILLION DKK (31 DEC 2021) |
|---|---|--|
| Total taxonomy eligible assets in proportion of total covered assets                            | Total taxonomy eligible assets/Total covered assets   | 12.3 % and 56,912/462,890 DKK <sup>6</sup>           |
| - Taxonomy eligible assets in proportion of total covered assets - equity                       | - Taxonomy eligible assets in equity/Total covered assets in equity                                   | 10.4 % and 17,778/170,145 DKK                        |
| - Taxonomy eligible assets in proportion of total covered assets - credit bonds                 | - Taxonomy eligible assets in credit bonds/Total covered assets in credit bonds                       | 0.4 % and 139/36,166 DKK                             |
| - Taxonomy eligible assets in proportion of total covered assets - real estate [DK]             | - Taxonomy eligible assets in real estate/Total covered assets in real estate                         | 100 % and 34,903/34,903 DKK                          |
| - Taxonomy eligible assets in proportion of total covered assets - alternative investments [DK] | - Taxonomy eligible assets in alternative investments/Total covered assets in alternative investments | 8.3 % and 4,092/49,542 DKK                           |
| Data coverage   | Data coverage - Weighted average on all asset classes   | 53.6 % and 248,211/462,890 DKK                       |

<sup>6</sup> We do not yet have the full data sources to evaluate to which degree these investments are aligned with the taxonomy. However, this percentage is expected to be lower. From the financial year 2023, we are obligated to report on fully taxonomy aligned economic activities.

## C. Reporting principles

## Definitions

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|--|---|--|
| <b>Total taxonomy eligible assets in proportion of total covered assets</b>  | = | Taxonomy-eligibility illustrates the financial undertakings' exposures to investments with economic assets, where EU has assessed the criteria to have a substantial environmentally sustainable impact in proportion of the total covered assets in the KPI |
| <b>Exposures to derivatives in proportion of total covered assets</b>        | = | The percentage of derivatives relative to total covered assets covered by the KPI.   |
| <b>Exposures to non-covered assets in proportion of total covered assets</b> | = | The proportion of exposures to undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU over total covered assets covered by the KPI.  |
| <b>Exposures to sovereigns in proportion of total assets</b>                 | = | The percentage of sovereigns exposures (central governments, central banks, supranational issuers) relative to the total investments (AuM).  |
| <b>Non-taxonomy eligible assets in proportion of total covered assets</b>    | = | The value of all the investments that are funding economic activities that are not taxonomy eligible activities relative to the value of total covered assets covered by the KPI.  |
| <b>Data coverage</b>   | = | The percentage of assets covered by the KPI relative to total investments (total AuM incl. equity) and excluding investments in sovereigns.  |
| <b>Total covered assets</b>  | = | The total assets under management including equity but excluding sovereigns, defined as exposures to central governments, central banks, supranational issuers. Danica follows the delegated act on the Taxonomy Regulation (2021/4987) art. 7 section 1.    |

**Scope of assets and activities covered**

The taxonomy reporting includes all Danica Pension's assets. The report covers taxonomy eligible assets and non-taxonomy eligible assets within assets like equity in Denmark and Norway, credit bonds in Denmark and Norway, real estate in Denmark and alternative investments in Denmark.

**Data sources and limitations on data**Equity and credit bonds (DK and Norway)

Danica Pension leverages data from ISS-ESG in assessing companies eligibility with the EU Taxonomy on equity and credit bonds. Assessing the economic activities is done through a five step screening process: (1) identifying taxonomy-relevant activities, (2) estimating revenue derived from them, (3) assessing their alignment with substantial contribution criteria defined by the EU Taxonomy (alignment only), (4) checking whether the activities meet the Do No Significant Harm (DNSH) criteria (alignment only), and (5) whether they are compliant with social safeguards (alignment only).

The screening model is in constant development and remains subject to changes as the EU Taxonomy develops. The screening model uses proxies and assumptions, where data is not available. The screening model currently only covers companies' revenues and does not incorporate capex & opex figures.

Real estate (DK)

Data on Danica Pension's real estate is based on the book value on December 31st 2021.

Alternative investments (DK)

Data is based on answers received by fund managers and direct investments on a questionnaire prepared by Danica Pension and sent to counterparts. Some investments have however, been excluded from the questionnaire. For instance funds that are in liquidation or does not have any portfolio investments, etc.

The data provided is unaudited and represents the managers' and direct investment's "best effort" to deliver eligibility-data to Danica Pension. The received answers has been divided by NAV (Net Asset Value) for Danica Pension's portfolio of alternative investments that accounts to 49,5 DKK bn. as per 31th December 2021.

Exposures to derivatives in proportion of total covered assets

The percentage of derivatives in Danica Pension relative to total assets covered by the KPI.

Exposures to non-covered assets in proportion of total covered assets

The proportion of exposures to undertakings in Danica Pension not subject to Articles 19a and 29a of Directive 2013/34/EU over total assets covered by the KPI.

Exposures to sovereigns in proportion of total assets

The percentage of sovereigns exposures (central governments, central banks, supra-national issuers) in Danica Pension relative to the total investments of insurance or reinsurance undertakings (total AuM).

Non-taxonomy eligible assets in proportion of total covered assets

The value of the investments in Danica Pension that are funding economic activities that are not taxonomy eligible assets relative to the value of total covered assets covered by the KPI.

Data coverage

The percentage of assets in Danica Pension covered by the KPI relative to total investments of insurance or reinsurance undertakings (total AuM) excluding investments in sovereign entities.

Total covered assets

The total assets under management including equity but excluding sovereigns, defined as exposures to central governments, central banks, supranational issuers. Danica follows the delegated act on the Taxonomy Regulation (2021/4987) art. 7 section1.