

## Integration of sustainability risks

According to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“Sustainable Finance Disclosure Regulation”), we are under the obligation to publish the way in which sustainability risks are integrated into our investment decisions as well as an assessment of the probable impacts that sustainability risks may have on the return.

A sustainability risk means an environmental, social or governance event or condition (ESG risk) that, if it occurs, could cause an actual or potential material, negative impact on the value of an investment.

Environmental risks may arise in consequence of pollution caused by a company, such as extensive oil or chemical spills into the ground, water or air. Another example of environmental risks are climate risks, which can generally be grouped into the categories transition risks and physical risks.

Transition risks may occur in connection with the transition to a low-emission economy. Such risks may materialise in various ways, for instance in consequence of changes in political measures such as increased taxes on emission, significant changes in technology or changes in consumer behaviour, where consumers consciously choose not to use climate-impacting products.

Among other things, physical risks can be related to:

- Several sudden and rather extreme weather events such as heat waves, flooding, fires, and storms,
- long-term climate changes, for instance changes in precipitation and increasing water levels,
- loss of ecosystems, for instance desertification, water shortage, deterioration of soil quality or the ecosystems of the sea.

Physical risks may cause financial losses on investments, for instance due to losses on the company’s physical assets, slower growth, and poorer debt-servicing ability in vulnerable countries.

Examples of other sustainability risks are social risks that may arise in consequence of problematic social conditions, such as violation of human rights, poor working conditions, child labour, health issues, inequality, and discrimination. Other examples are governance risks, which may arise in connection with problematic staff and governance issues such as corruption, conflicts of interest and tax affairs that are open to criticism.

The consequences of sustainability risks vary across companies, sectors, markets and asset classes. Some companies, sectors and markets are in particular exposed to sustainability risks and hence they may pose a heightened risk of financial losses. Energy companies are, for instance, known to be big emitters of greenhouse gases and may be subject to substantial regulatory pressure, and therefore investments in such companies may pose a heightened risk of financial losses.

We include sustainability risks in our asset management work and expect and endeavour to ensure that the companies in which we invest consider sustainability risks including climate risks and the climate impact exercised by the company. We prefer to impact companies in a more sustainable direction instead of excluding companies. Therefore, we see active ownership, participation in thematic-oriented company dialogues and participation in Climate Action 100+ as tools to affect companies with high sustainability risks and hence as an element in the long-term minimisation of sustainability risks, including climate risks.

All investment teams in asset management use tools and data from an external data provider and Jyske Bank to assess the sustainability risks of companies, issuers, and countries. In addition, other external sources of analysis are used.

Integration of sustainability risks takes place in the investment processes of the individual investment teams before investment decisions are made. In addition, monitoring of investment strategies and investment portfolios is carried out on an ongoing basis. The way in which sustainability risks are integrated and processed in the investment processes varies across asset classes.

### **Investment in covered bonds**

Sustainability risks are integrated into the work process of the bond team that makes the investment decisions in Jyske Bank's asset management unit. When assessing sustainability risks on Danish covered bonds, the CO<sub>2</sub>e footprint is evaluated for individual capital centres and issuers, with a focus on reducing the overall footprint of the portfolios, which can mitigate sustainability risks. Currently, we consider sustainability risks less relevant. We do not assess that in the short term, sustainability events occur that have such a significant impact on the value of the underlying collateral that the valuation of Danish covered bonds is negatively affected.

### **Investment in equities**

The assessment of sustainability risks is integrated into the work process of the equity team in the bank's asset management unit, which makes the investment decisions. The assessment of sustainability risks in internally managed active investment strategies is supported by a scorecard on individual companies, containing data points for ESG scores, controversies, good governance practices, negative impact on sustainability factors, CO<sub>2</sub>e footprint, transition risks, and climate impact mitigation plans. This scorecard identifies companies with a particularly high exposure to sustainability risks, hence potentially entailing an increased risk of financial losses. For internally managed quantitatively based investment strategies, considerations for sustainability risks are incorporated when determining screening criteria based on the above-mentioned data points. This may lead to exclusions from the investment universe, which are assessed to reduce the impact of sustainability risks.

When investing in passive internal investment strategies, indices with a strong sustainability profile incorporated in the index structure are selected. When selecting external equity strategies, a thorough due diligence is carried out, which includes the fund's sustainability profile and integration of sustainability factors. As a starting point, funds are selected by asset managers who have joined the UN Principles for Responsible Investments. To a lesser extent, we use equity ETFs and futures as effective instruments in our purpose of ensuring good returns for the clients. It is not always possible to find instruments that are ESG specific, but this is what our management endeavours to do.

### **Corporate bonds**

Sustainability risks are integrated into the investment process in the corporate bond team in Jyske Bank's asset management unit that makes the investment decisions. The significance of sustainability risks varies from issuer to issuer, which is why each investment is evaluated by the investment team to determine which sustainability risks may potentially affect the credit spread and expected returns, supported, among other factors, by the use of a scorecard for individual companies, containing data points for ESG scores, controversies, good governance practices, negative impact on sustainability factors, CO<sub>2</sub>e footprint, transition risks, and climate change mitigation plans. The team assesses, as an example, the relevance of transition risks for the issuer and the risk of consequent reduced earnings in

the company, which leads to poorer debt service capacity and a potential financial loss on the investment. Specific exclusions as for equity investments also apply to corporate bonds, which is considered to reduce the impact of sustainability risks.

### **Government bonds issued in emerging market countries**

An ongoing assessment of sustainability risks is made as part of the investment process on government bonds issued by emerging market countries. We consider this an essential and integral part of the investment process, as very poor ESG conditions may lead to financial losses on individual investments. In the case of opt-outs in the investment universe (in addition to exclusions resulting from UN and EU sanctions), the opt-out is documented by the investment team. Exclusion or underweight of investments relating to sustainability risks and the assessment of potential financial losses relating to this are typically justified by considerations for human rights, poor governance, and the country's CO2e emissions.

### **Specifically for the financial products: Jyske Bank's pools and Jyske Bank Private Banking Formuepleje**

For each financial product, the likely impacts that sustainability risks can have on the return of the individual underlying investments and how these risks have been handled on the basis of the relevant elements and the inclusion hereof in the investment processes. Overall, for each financial product this results in an assessment of the likely impact by sustainability risks on the return in the low, medium, and high scale. The overall assessment of the financial products can be seen in the table below.

<b>Financial product</b>	<b>The likely impact by sustainability risks on the return of underlying investments</b>
<b>Pulje 1, Vækst (Investment Pool 1, Growth)</b>	Large
<b>Pulje 2, Balanceret - Dynamisk (Investment Pool 2, Balanced-Dynamic)</b>	Medium
<b>Pulje 3 (Investment Pool 3) Stable</b>	Small
<b>Pulje 4, Dæmpet (Investment Pool 4, Income)</b>	Small
<b>Jyske Private Banking Formuepleje, Stable</b>	Small
<b>Jyske Private Banking Formuepleje, Balanced</b>	Medium
<b>Jyske Private Banking Formuepleje, Dynamic</b>	Large
<b>Jyske Private Banking Formuepleje, Growth</b>	Large
<b>Jyske Private Banking Formuepleje, High Growth</b>	Large

Some uncertainty is involved in the assessment of expected impact on returns since the quality and the scope of sustainability data are moderate.

Date	Version	Change
27 March 2022	1.0	Document created
31 October 2023	1.1	Update with assessment of likely impact of sustainability risks on returns
22 April 2024	1.2	Elaboration of the integration and management of sustainability risks in each asset class