Integration of sustainability risks in our investment decisions

According to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("Sustainable Finance Disclosure Regulation"), Jyske Bank is under the obligation to publish the way in which sustainability risks are integrated in 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 that, if it occurs, could cause an actual or potentially 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 arise in the transition to an increasingly CO_2e-neutral economy. Such risks may materialise in various ways, for instance in consequence of changes to political measures such as increased taxes on emissions, significant changes in technology or changes to 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.

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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.

Our financial products are exposed to sustainability risks, which may have an adverse effect on the value of our investments. Therefore, assessment of sustainability risks is an integrated element in our investment decisions.

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 do not, however, anticipate that sustainability risks can result in material losses on our investment strategies as a whole.

We integrate climate risks as a natural part of our asset management work. We expect and endeavour to ensure that the companies in which we invest consider climate risks and the climate impact exercised by the company. We prefer to impact companies towards a greener direction instead of excluding companies. 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 in particular climate risks.

All investment teams in asset management use tools and data from an external data provider to assess the ESG characteristics and CO_2 emissions of companies and countries. In addition, other external sources of analysis are used.

Integration of sustainability risks takes place in the investment processes in the individual investment teams, which thus process and assess sustainability risks within the individual investment strategies, profiles and frameworks.

In addition, a monthly monitoring of the ESG rating, CO_2e ratios and contributions to UN global goals is carried out on investment strategies and investment portfolios.

The way in which sustainability risks are integrated in the investment processes varies across asset classes:

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JYSKE BANK

Investment in mortgage bonds
We do not currently consider sustainability risks relevant when investing in Danish mortgage bonds. Sustainability events may potentially occur, which may have an impact on the value of Danish homes, but due to the structure of the Danish mortgage credit system investors in Danish mortgage bonds are not significantly affected by these events.

Investment in equities
When investing in equities, a systematic assessment and management of sustainability risks are made on the internally managed investment strategies in the equity team. The assessment is made through an internal scorecard on the individual companies. This scorecard identifies companies with a particularly high exposure to sustainability risks, and which thus potentially involve an increased risk of financial losses. This may e.g. be companies with a very high emission of greenhouse gases or companies with a particularly high waste production. 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. In addition, certain strategies make a more comprehensive opt-out of companies with very weak ESG properties and high CO_2e emissions.

Investment in collective investment schemes
When investing in index-oriented 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 manager's sustainability profile and integration of the sustainability factor. 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 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 an integral part of the investment process when we invest in corporate bonds. The importance of sustainability risks varies from issuer to issuer, which is why each investment is assessed by the investment team in order to determine which sustainability risks potentially affect the credit spread and the expected return. The team assesses, among other things, 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.

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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. The opt-out is typically justified in terms of human rights, poor government leadership and the country's CO_2e emissions.

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