



JYSKE BANK

Impact analysis - Climate

June 2021

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Impact analysis - Climate

Summary

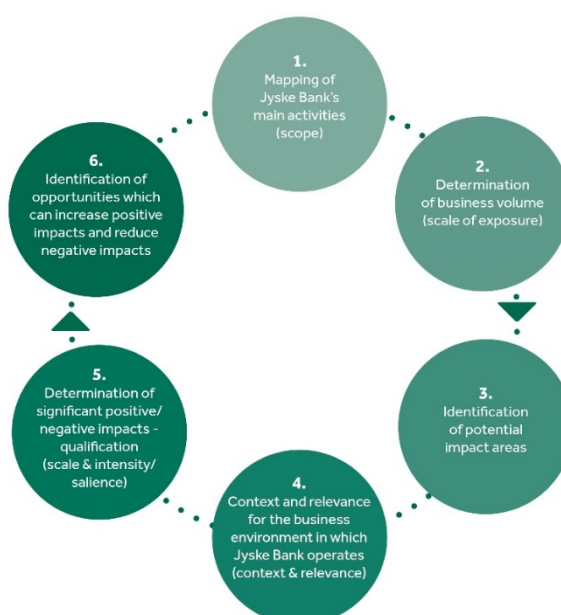
- Financed CO₂ emission is estimated to amount to 2.3 million tonnes against 2.7 million tonnes at the end of 2019, corresponding to a reduction of approx. 13%.
- Average emission intensity declines by approx. 14% from 4.54 tonnes CO₂ per DKK million to 3.91 tonnes CO₂ per DKK million.
- The reduction is primarily driven by portfolio changes in the asset management where the emission intensity is reduced by 30%.
- CO₂ emission relating to loans has been reduced by just under 8% due to a change in the portfolio mix and improved data quality in the form of company-specific data.
- In the future, focus will be on sustainability in the advisory services and fulfilment of goals for sustainable areas of lending. For the investment area focus will be on integration of CO₂ in investment decisions and definition of CO₂ reduction goals.
- Collection and use of company-specific data for CO₂ emission show considerable differences relative to sector averages and emphasise the need for continued focus on improvement of data quality.

Introduction and methodology

As part of the implementation of the UN Principles for Responsible Banking, Jyske Bank regularly prepares impact analyses. Jyske Bank identified Climate as a significant impact area in 2020 and published the first estimate of financed CO₂ emission in December 2020. This report is an update of this estimate based on loans and investments as at 31.12.2020.

Jyske Bank's applied methodology has been described in the document PRB Impact analysis - Methodology which is available at our website¹.

The identification of impact areas and the assessment of their relevance (steps 1-4) are described in the methodology document while this analysis of the significant impact area Climate focuses on the quantification of the area and identification of business opportunities (steps 5 and 6).



¹www.investor.jyskebank.com/investorrelations/sustainability/impact

Estimation of CO₂ emission

The business volume covered in the analysis is not comparable to Jyske Bank's traditional measuring of total assets. This is attributable to the fact that the business volume in the analysis includes loans and investments which are not recognised in the balance sheet, e.g. investments on behalf of our clients. These loans and investments are included in the statement since Jyske Bank can impact these through our products and advisory services.

We apply the common CO₂ model prepared by Finance Denmark for estimation of CO₂ emission. The model describes the fundamental principles for statement of CO₂ emission and detailed methods for estimation for 10 asset classes. The model is developed on an ongoing basis, and Jyske Bank still participates actively in this work.

Investment

Jyske Bank applies data from MSCI for estimation of emission relating to investments in equities and corporate bonds. The data from MSCI consist of both company-specific data and estimated emissions. In connection with mortgage bonds, data from the individual institution have been applied where these data have been available. If the available data does not cover the entire cover pool estimates have been applied.

Loans

The estimation of CO₂ emission relating to bank loans is extensively based on Danish sector averages prepared by Statistics Denmark. Company-specific CO₂ data are preferred, and therefore sector averages are gradually replaced by company-specific CO₂ data.

The CO₂ emission relating to mortgage loans and bank mortgage loans for personal clients has been estimated on the basis of the public energy rating of the properties. If this rating does not exist, the estimate is based on other knowledge of the individual property (energy source, age of the building, size, geographical location).

Financed CO₂ emission

For a business volume of approx. DKK 600 billion stated as at the end of 2020, the CO₂ emission is estimated to amount to approx. 2.3 million tonnes, of which 63% relate to loans and 37% to investments, against 2.7 million tonnes at the end of 2019.

The estimate for the CO₂ emission represents the business volume at a point in time, and the movements in the CO₂ emission and the related business volume since the latest estimate are attributable to several factors such as selections and rejections of investment assets, changes in the loan portfolio and/or the client mix and improved data quality.

Compared with the end of 2019, the business volume and the composition hereof are largely unchanged. The majority of the reduction is attributable to investment, including asset management where the average emission intensity has fallen to 5.60 tonnes CO₂ per DKK million against 7.99 tonnes CO₂ per DKK million at the end of 2019.

Table 1 - Business volume and CO₂ emission

	Business volume DKKm			Emission tonnes CO ₂			Emission intensity tonnes CO ₂ per DKKm	
	2020	2019	Change	2020	2019	Change	2020	2019
Investment	181,952	179,230	2,722	869,448	1,097,309	-227,861	4.78	6.12
Asset management	110,542	114,446	-3,904	619,248	914,095	-294,847	5.60	7.99
Investment portfolio	71,410	64,784	6,626	250,200	183,214	66,986	3.50	2.83
Loans	418,378	417,191	1,187	1,479,629	1,607,617	-127,988	3.54	3.85
Personal clients	195,860	197,570	-1,710	478,391	499,917	-21,526	2.44	2.53
Corporate clients	222,518	219,621	2,897	1,001,238	1,107,700	-106,462	4.50	5.04
Total	600,330	596,421	3,909	2,349,077	2,704,926	-355,849	3.91	4.54

Note: Business volume for which data for CO₂ emission is not available is omitted from the estimation.

Table 2 - % of total business volume and CO₂ emission

	% of total business volume		% of CO ₂ emission	
	2020	2019	2020	2019
Investment	30%	30%	37%	41%
Asset management	18%	19%	26%	34%
Investment portfolio	12%	11%	11%	7%
Loans	70%	70%	63%	59%
Personal clients	33%	33%	20%	18%
Corporate clients	37%	37%	43%	41%
Total	100%	100%	100%	100%

Investment

Total emission of CO₂ in our clients' investment portfolios (asset management) has fallen from 914 to 619 thousand tonnes CO₂. At the same time, emission intensity has declined by 30%.

The largest emission of CO₂ is attributable to our clients' investments in equities and corporate bonds. It has therefore been a special focus area to integrate company-specific CO₂ data in our investment processes to regularly control and assess these data.

The reduction in CO₂ emission is primarily attributable to a decision that if two investments within the same sector are expected to yield the same return, the investment with the lowest CO₂ footprint is selected. Our clients' CO₂ footprint is in 2020 lower than in 2019.

Add to this an increasing business volume in funds with special focus on sustainability, including CO₂ emission.

A considerable portion of the investment portfolios is placed in covered bonds, including Danish mortgage bonds. This asset class has considerably lower CO₂ emission than equities and corporate bonds. In the asset class of Danish covered bonds, the negative impact on the climate primarily comes from financing of coastal and sea transport via bonds issued by the Ship Credit Fund of Denmark.

The emission intensity for our investment portfolio was at a very low level in the statement as at the end of 2019 and is still assessed, despite a minor rise, to be at a low level. The increase is driven by several factors, among other things portfolio changes and improvement of the estimation method for selected parts of the portfolio.

Loans

Compared with 2019, CO₂ emission related to loans was reduced by approx. 100,000 tonnes. The reduction can primarily be ascribed to lower average emission intensity due to a change in the portfolio mix and improved data quality in the form of company-specific data.

Tables 3 and 4 show loans broken down by personal and corporate clients and products and selected sectors.

Table 3 – Loan portfolio in DKK and CO₂ emission in tonnes

	Business volume DKKm			Emission tonnes CO ₂			Emission intensity tonnes CO ₂ per DKKm	
	2020	2019	Change	2020	2019	Change	2020	2019
Personal clients	195,860	197,570	-1,710	478,391	499,917	-21,526	2.44	2.53
Car loans	10,065	10,168	-103	251,995	268,014	-16,019	25.04	26.36
Home loans	185,795	187,402	-1,607	226,396	231,903	-5,507	1.22	1.24
Corporate clients	222,518	219,621	2,897	1,001,238	1,107,697	-106,459	4.50	5.04
Transport	5,183	4,316	867	444,581	484,425	-39,844	85.77	112.24
Agriculture and fishing	13,158	15,934	-2,776	284,800	341,738	-56,938	21.64	21.45
Mortgage loans	162,609	163,251	-642	149,970	154,357	-4,387	0.92	0.95
Manufacturing industry	7,278	8,502	-1,224	63,663	74,245	-10,582	8.75	8.73
Other corporate loans	34,290	27,618	6,672	58,223	52,932	5,291	1.70	1.92
Total	418,378	417,191	1,187	1,477,629	1,607,614	-127,985	3.54	3.85

Table 4 - Loan portfolio and CO₂ emission in %

	% of total business volume		% of emission	
	2020	2019	2020	2019
Personal clients	47%	47%	32%	31%
Car loans	2%	2%	17%	17%
Home loans	44%	45%	15%	14%
Corporate clients	53%	53%	68%	69%
Transport	1%	1%	30%	30%
Agriculture and fishing	3%	4%	20%	21%
Mortgage loans	39%	39%	10%	10%
Manufacturing industry	2%	2%	4%	5%
Other corporate loans	8%	7%	4%	3%
Total	100%	100%	100%	100%

The total loan portfolio in the analysis is largely unchanged against the end of 2019, and at the same time there were only few changes in the loans of the individual groups.

Generally, 2020 was dominated by COVID-19 where the aid packages and the possibility of deferring tax and VAT payments have resulted in lower investment appetite and high liquidity for businesses.

With respect to Agriculture and fishing, Jyske Bank has been working on a strategic change of parts of the portfolio.

With respect to Other corporate loans, the increase can be ascribed to inclusion of further sectors compared with the latest analysis. The data for sector averages from Statistics Denmark do not include information on emission for all sectors, and loans to some sectors are therefore not automatically included in the estimation of CO₂ emission. In this estimation of CO₂ emission, dialogue with selected public institutions about their CO₂ emission data has enabled the inclusion of an additional approx. DKK 6 billion compared with the 2019 statement.

In connection with home loans, it has been observed that a few assumptions in the 2019 estimate require further analysis, and a portion of the business volume is therefore not included in the 2020 estimate.

As mentioned at the beginning of this analysis, the average emission intensity has fallen from 2019 to 2020. In connection with car loans, this is attributable to the fact that a larger share of the cars is now low-emission cars, among other things because Jyske Finans offers green loans via partnerships with dealerships. The significant change in the emission intensity for Transport can be ascribed to improved data quality. In 2020, a higher share of the emission data is company-specific data, and they have proven to be significantly lower than the sector averages from Statistics Denmark.

Future activities

At the end of 2020, lending to the five areas of lending which Jyske Bank has identified as sustainable areas of lending in the Green Finance Framework accounted for approx. DKK 82 billion. Jyske Bank has identified targets for three out of five areas and will continue working on expanding the business volume within these areas of lending.²

The introduction of a green mortgage product for corporate clients in February 2021 is expected to support the target of increasing loans to commercial properties with energy ratings A and B by an additional DKK 9 billion up to 2025. In addition to expansion of the product portfolio, focus on sustainability in the advice we provide to the Bank's corporate clients is strengthened.

Jyske Bank has specialized branches within most areas of lending with important positive and negative impact respectively, and the results of the impact analysis is used in the strategic work on sustainability of the relevant focus groups.

Within the investment area, it is expected that in the coming year work will be carried out to formulate explicit CO₂ reduction targets, higher integration of CO₂ for mortgage investments and higher integration of scope 3 CO₂ emission in the investment decisions.

² <https://www.jyskebank.dk/ir/baeredygtighed/gff>

Data quality

The data quality of the CO₂ estimates is assessed on the basis of the PCAF data quality score. Table 5 below shows the share of business volume in the individual scores and a weighted data quality score.

Table 5 - Data quality, PCAF score

	Score 1	Score 2	Score 3	Score 4	Score 5	Weighted data quality
Investment	0%	27%	0%	0%	73%	4.20
Asset management	0%	40%	0%	0%	60%	3.80
Own Portfolio	0%	7%	0%	0%	93%	4.80
Loans	<1%	2%	58%	0%	40%	3.78
Home loans, Personal Clients	0%	0%	56%	0%	44%	3.87
Car loans, Personal Clients	0%	0%	100%	0%	0%	3.00
Transport	0%	14%	0%	0%	86%	4.36
Agriculture	0%	7%	0%	0%	93%	4.43
Mortgage loans, Corporate Clients	0%	0%	79%	0%	0%	3.41
Manufacturing industry	<1%	9%	0%	0%	91%	4.41
Other, Corporate Clients	<1%	15%	2%	0%	83%	4.34
Total	<1%	9%	41%	0%	50%	3.90

Generally, the share of company-specific data has increased in this estimation of CO₂ emission compared with 2019. In connection with Transport, 14% in score 2 constitutes an improvement since it has been necessary to reassess the data quality for Transport in 2019 (17%). It will continue to be a focus area for Jyske Bank to increase the share of company-specific data for these estimations.