



PRB impact analysis - methodology

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# Impact analysis - methodology

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## Background

In the autumn of 2019, Jyske Bank - as one of 130 founding signatories - signed the 'UN Principles for Responsible Banking'<sup>1</sup> (PRB). Jyske Bank applies the PRB as a general framework for its work on sustainability. Impact analysis is part of the Group's implementation of PRB and will be a recurring activity.

Progress of the implementation of the PRB will be reported in Report on Sustainability and included herein PRB Reporting and Self-Assessment Template which is published at Jyske Bank's website as part of Jyske Bank's annual reporting<sup>2</sup>.

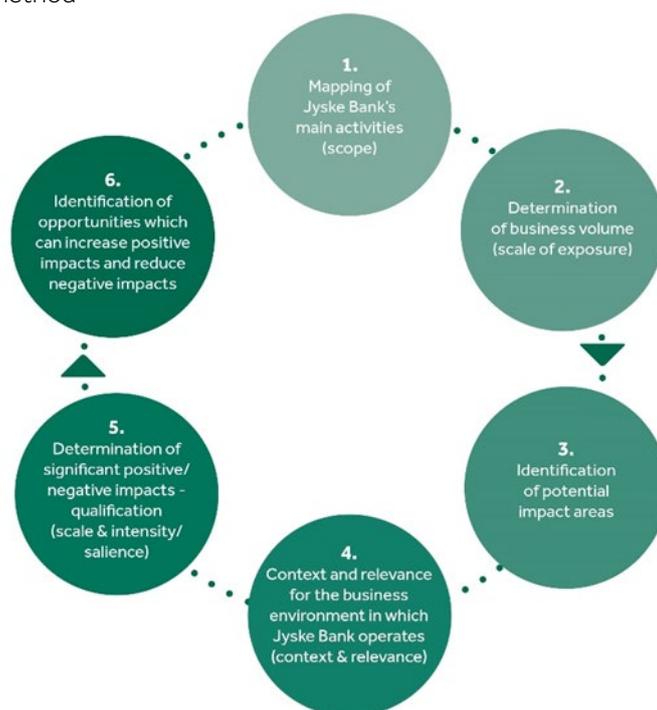
## Impact analysis

Financial players, such as Jyske Bank, pursuing lending and investing activities within a wide range of sectors will directly or via clients impact all 17 UN Sustainable Development Goals. The purpose of impact analysis is, on the basis of Jyske Bank's existing business model and composition, to identify and hence prioritize the most significant areas of activity that are challenged ('negative impacts') and similarly the areas of activity that support sustainability ('positive impacts').

## Methodology

The method applied in Jyske Bank's impact analyses is based on the UN Portfolio Impact Analysis Tool for Banks ("Portfolio Impact Tool")<sup>3</sup> and the four elements, scope, scale of exposure, context & relevance, and scale & intensity/salience, contained in the UN guidelines for the implementation of PRB<sup>4</sup>. Chart 1 gives a graphic representation of the method applied.

Chart 1: Impact analysis method



Following the mapping of Jyske Bank's activities in **step 1**, the total business volume is identified in **step 2**. In **step 3**, the total business volume is analysed using the Portfolio Impact Tool, which will result in identification of

<sup>1</sup> UN Principles for Responsible Banking: <https://www.unepfi.org/banking/bankingprinciples/>

<sup>2</sup> Jyske Bank's reporting on sustainability is available at: <https://investor.jyskebank.com/investorrelations/sustainability/reports>. The publication of the annual reporting follows Jyske Bank's financial calendar which is available at: <https://investor.jyskebank.com/investorrelations/financialcalendar>

<sup>3</sup> <https://www.unepfi.org/publications/positive-impact-publications/portfolio-impact-tool-for-banks/>

<sup>4</sup> [https://www.unepfi.org/wordpress/wp-content/uploads/2020/03/Guidance\\_Document\\_Impact\\_Analysis.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2020/03/Guidance_Document_Impact_Analysis.pdf)

potential impact areas. Subsequently, the context and relevance for these impact areas are assessed in **step 4**. Through qualification of the impact area, the most important impacts are determined in **step 5**. Subsequently, the most important impacts can form the basis of the identification of possibilities (**step 6**).

## Future updates

It is expected that impact analysis as a discipline will be developed continuously as tools are being developed, data are made available and actual experience is gained. Naturally, the method applied to Jyske Bank's impact analysis will be adjusted in the coming years. In principle, identification of impact areas is updated every two years, alternatively when required in case of a major change to the business model and/or scope or the further development of tools/methods resulting in material changes with respect to the identification of potential impact areas. The individual impact areas will be qualified on an ongoing basis. This will be described in separate analyses.

Jyske Bank will on an ongoing basis focus on synergies and consistency between the various requirements of the preparation of impact analyses in the area of investment, including not least the EU Disclosure Regulation's requirement of Transparency of adverse sustainability impacts.

## Step 1: Mapping of Jyske Bank's main activities (scope)

Jyske Bank is one of the largest financial services companies in Denmark and has been designated as a systemically important financial institution. The Jyske Bank Group's business model focuses on Denmark, and Jyske Bank has only limited business activities with clients outside Denmark. However, the underlying investing activities for Jyske Bank's clients are by nature global. Jyske Bank has a full-service setup for its Danish clients and a national branch network.

Jyske Bank's main activities consist of:

- Banking and investing activities targeting personal and corporate clients, as well as private banking clients and also trading and investment activities targeting large corporate and institutional clients
- Mortgage activities aimed mainly at personal clients, corporate clients and subsidised rental housing
- Leasing and financing activities for cars and equipment for the corporate sector
- Management of the Bank's investment portfolio

Essentially, the impact analysis covers the business volume within the above activities. In some cases, it may be necessary to leave out small parts of the business volume due to data-related challenges.

## Step 2: Determination of business volume (scale of exposure)

The business volume encompassed by the impact analysis is based on a selection criterion of whether Jyske Bank has direct access to or a direct influence on the composition of those business activities.

Consequently, the business volume is not directly comparable to the Jyske Bank Group's more traditional measure of assets. The main difference is that assets managed by Jyske Bank's Portfolio Managers in relation to asset management, are included in the impact analysis but are not included in the Group's normal asset figures. In addition, the analysis also includes certain assets managed by Jyske Bank, which are not recognised in the balance sheet, but where Jyske Bank is responsible for the overall allocation decisions, provides client advisory services, or assumes the real credit risk by providing guarantees.

With respect to loans, the analysis encompasses essentially the Group's lending and leasing activities (exclusive of impairment charges), including loans granted to Jyske Bank's clients by other credit institutions against Jyske Bank's guarantee.

In connection with personal clients, the analysis covers loans identified as home and car loans, where loans for home financing consist of mortgage financing and bank home loans. This implies that other loans for private individuals have been left out.

For investments, the analysis covers the total portfolio acquired as a result of Jyske Bank's asset management activities, and the Group's investment portfolio, yet with the exception of the Group's trading portfolios. This also includes investments made by investment associations, including not least Jyske Invest. On the other hand, this means, for instance that assets placed in Jyske Bank's advisory products and services and the clients' self-directed investments are not included in the analysis, whether or not the clients' investments are in safe-keeping in custody accounts with Jyske Bank.

As regards the investment portfolio, the ownership interests in Bankdata, JN Data and Jyske Bank's Wind Turbine are not included.

Investments in equities, corporate bonds and mortgage bonds are included. The part of the business volume within investing activities that has not been included consists primarily of government bonds and cash holdings, in connection with which the CO<sub>2</sub> calculation methods are not assessed to be fully developed.

With respect to asset management, adjustments are made for "funds of funds" structures so that the individual actual investment is only included once. The reporting is based on the business volume as included in Jyske Bank's UN PRI reporting.

### **Step 3: Identification of potential impact areas**

The Portfolio Impact Tool is used for an indication of the impact areas with the most important negative and positive impacts considering the composition of Jyske Bank's business volume. The Portfolio Impact Tool allocates to industries and countries various degrees of importance relative to the impact areas. An impact area may be important due to the industry's effect on the impact area, but also due to the extent of the activity at Jyske Bank. When using the Portfolio Impact Tool, the country score (1-4) has a weighting of 25% per score. In other words, 1 = 25%, 2 = 50%, etc.

The Portfolio Impact Tool targets lending activities, but Jyske Bank has chosen also to apply it as a basis for the identification of impact areas for investing activities. For this use, an adapted version is used, where equities and corporate bonds are mapped to the industry dimension in the Portfolio Impact Tool.

Corporate loans are broken down by industry based on the Central Business Register (CVR) and the hierarchy of industries of Statistics Denmark (DB07). The hierarchy corresponds to a material extent to ISIC codes (used by the Portfolio Impact Tool). Loans for some clients will be processed as belonging to a different industry than the one stated in the Central Business Register (CVR), if more recent and more exact industry designations are available.

In the Portfolio Impact Tool, the relationship to the impact areas of the industry dimension was made at a global level and does not allow for the differences that exist, for instance between the agricultural sectors globally. This underlines the need to assess context and relevance in step 4.

On the basis of the output from the Portfolio Impact Tool, the overall assessment is that Climate is the first negative impact area that Jyske Bank should first subject to a closer analysis. In addition, Waste and Soil Quality have also been identified as important negative impact areas. The most important positive impact areas are Housing, Climate and Inclusive, healthy economies.

The negative impact within Climate relates to the fact that a fairly large proportion of Jyske Bank's lending activities consists of loans for owner-occupied homes and residential rental properties, where the many thousand properties affect the climate through consumption and through the CO<sub>2</sub> emission of the properties.

Loans for agricultural clients also affect the climate negatively as - from an international perspective - a relatively large part of the land area in Denmark is agricultural land, and also the large livestock production in Denmark causes emission of fairly large amounts of CO<sub>2</sub>. The major part of the loans for agricultural clients in Jyske Bank's loan portfolio consist of loans for Animal Husbandry and Production of 1-year crops.

Loans for the transport sector affect the climate primarily through a high CO<sub>2</sub> emission. In Jyske Bank's lending activities, particularly loans for ships and ferries affect the impact area of Climate.

#### **Step 4: Context and relevance for the business environment in which Jyske Bank operates (context & relevance)**

Jyske Bank operates mainly in a Danish context, and in Denmark the agenda for sustainability focuses on the emission of greenhouse gasses, and also Denmark is committed to fulfilling the goals of the Paris Agreement. The Danish parliament has set a target of reducing Denmark's greenhouse gas emission by 70% by 2030 at the latest (compared to 1990)<sup>5</sup>.

Finance Denmark, a business association of the financial sector in Denmark, decided in the autumn of 2018 to establish an advisory Forum for Sustainable Finance, which should offer a number of recommendations as to how the Danish financial sector can be a first mover and contribute to the sustainable transition. Two out of 20 recommendations that the Forum for Sustainable Finance published in December 2019 specifically address CO<sub>2</sub> emission.

Moreover, being the first ones to do so globally, Danish asset managers - through the business association Investering Danmark (INDA) [Investment Denmark] - established in November 2020 a goal for a 75% reduction of CO<sub>2</sub> emission<sup>6</sup>.

Waste is a relevant impact area - not least in Denmark - which is supported by the Sustainable Development Report<sup>7</sup>, in which it is stated that, despite a global top ranking in the SDG index, Denmark faces challenges relating to Sustainable Development Goal No. 12, Sustainable Consumption and Production, just like a number of other high-income countries. Indicators show that the challenges can be attributed to "E-waste generated" (kg/inhabitant), "Imported SO<sub>2</sub> emissions" (kg/inhabitant) and "Non-recycled Municipal Waste" (kg/day/inhabitant).

In conclusion, Climate is the most relevant impact area - both as regards negative and positive impacts - in the context in which Jyske Bank operates. Waste as impact area require further analysis of relevance in a Jyske Bank context.

#### **Step 5: Determination of the most important positive/negative impacts – qualification (scale & intensity/salience)**

At the present point in time, Jyske Bank has only determined a method for qualification of Climate as an impact area. Methods for further impact areas will be determined in connection with the individual analyses.

In relation to Climate the common CO<sub>2</sub> model prepared by Finance Denmark is used for estimation of CO<sub>2</sub> emission. The model describes the fundamental principles for statement of CO<sub>2</sub> emission and detailed methods of 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 respect of ETFs, the CO<sub>2</sub> emission has been estimated as if Jyske Bank owned the corresponding underlying financial assets. In connection with mortgage bonds, data from the individual institution have been applied where these data have been available. If the accessible data do not cover the entire cover pool, estimated data are used.

According to the common CO<sub>2</sub> model, the estimate of the Group's total CO<sub>2</sub> emission must be adjusted for holdings of own shares, corporate bonds and mortgage bonds, so that holdings relating to own activities are not included twice. Jyske Bank's impact analyses cover the emission from the holding of own securities, yet it constitutes an insignificant proportion of the total emission.

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<sup>5</sup> <https://kefm.dk/aktuelt/nyheder/2019/dec/klimalov>

<sup>6</sup> <http://finansdanmark.dk/media/47147/finans-danmark-co2-faktaark.pdf>

<sup>7</sup> Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2019): *Sustainable Development Report 2019*. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN), <http://sustainabledevelopment.report>.

As regards investments, for which no company data, no own estimates for mortgage bonds, nor MSCI estimates are available, multiplication has taken place so the CO<sub>2</sub> numbers amount to an estimate for the entire analysed investment portfolio.

## Loans

The estimation of CO<sub>2</sub> emission relating to bank loans is extensively based on Danish sector averages prepared by Statistics Denmark. Company-specific CO<sub>2</sub> data are preferred, and therefore sector averages are gradually replaced by company-specific CO<sub>2</sub> data.

The CO<sub>2</sub> 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).

Corporate loans: The emission is estimated on the basis of a combination of data for emissions stated by the company and sector averages for the companies for which no specific data are available. Sector averages are based on statements from Statistics Denmark. Bank loans for commercial property and financing of vehicles are attributed to the same industry as the client's bank commitments.

Loans for the financing of private cars: As regards cars for personal clients, the emission of greenhouse gasses is estimated on the basis of a combination of knowledge of the individual means of transportation (for instance year of production and type of engine) as well as average numbers for CO<sub>2</sub> emission. The estimates are based on the car model of the Danish Centre for Energy and Environment (DCE). The emission relating to means of transport for corporate clients is estimated on the basis of the client's sector average.

For an elaboration on the calculation of the emission of CO<sub>2</sub>, please see the "CO<sub>2</sub> model for the financial sector"<sup>8</sup>.

For Jyske Bank's estimates of CO<sub>2</sub> emissions on loans and investments reference is made to separate impact analysis on Climate<sup>9</sup>.

## Step 6: Identification of opportunities which can increase positive impacts and reduce negative impacts

Identification of business opportunities takes place in cooperation with the business units, i.e. by bringing the impact analyses and their conclusions into play as part of the basis for decisions in relation to the development of products, services and advisory services.

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<sup>8</sup> <https://finansdanmark.dk/media/47144/finans-danmark-co2-model.pdf>

<sup>9</sup> <https://investor.jyskebank.com/investorrelations/sustainability>

## Contact

If you would like further information on Jyske Bank's methodology for impact analysis, please contact [ir@jyskebank.dk](mailto:ir@jyskebank.dk)

Read more about Jyske Bank's impact analyses and other sustainability efforts at [investor.jyskebank.com/investorrelations/sustainability](https://investor.jyskebank.com/investorrelations/sustainability).