

# Government bonds

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When Danske Bank invests in a company, it has an opportunity to engage in a dialogue with the company management about their financial circumstances and their efforts to conduct business in a responsible way. For investment in government bonds, however, such a dialogue poses a challenge. It is not possible to exercise active ownership, and it is therefore difficult for investors to know what becomes of their money.

Investing in the government bonds of fragile countries that are affected by conflict or other high-risk situations poses special challenges. The investor does not know whether the investment will contribute to the sound development of the country or unintentionally finance human rights violations, conflict or instability.

Even though the primary responsibility for peace, security and development rests with governments, investors and private companies can affect the stability and security of countries when they generate tax revenues or provide other forms of public funding, for example through investments in government bonds.

Danske Bank's guidelines on investing in government bonds are intended to assure our customers that their funds are invested with due respect of human rights and with a precautionary approach to the risk of financing human rights abuses. The guidelines supplement sanctions imposed by the UN and the EU and support our commitment to the UN Guiding Principles and the UN Global Compact.

## **Danske Bank's guidelines on government bonds**

We base our guidelines for investing in government bonds on the Worldwide Governance Indicators (WGI). The WGI methodology was developed and is updated by the World Bank Development Research Group, and it ensures that our decisions are based on a wide range of official and non-official sources. The WGI measures countries' strength on six parameters:

- Voice and accountability
- Political stability and absence of violence
- Government effectiveness
- Regulatory quality
- Rule of law
- Control of corruption

We do not invest in government bonds issued by countries with the lowest WGI ranking unless there are other official sources – for example the EU, the OECD or UN organisations such as the World Bank – that clearly encourage public funding to support recovery. In addition to adhering to UN and EU sanctions\*, we have decided, on the basis of the WGI ratings from 2012, to exclude current and future bonds issued by the following countries:

- Central African Republic

- Democratic Republic of Congo
- Democratic Republic of Korea\*
- Equatorial Guinea
- Eritrea
- Iran\*
- Republic of Yemen
- Somalia
- South Sudan
- Sudan
- Syrian Arab Republic\*
- Turkmenistan
- Zimbabwe

There are no internationally agreed-upon definitions of “conflict-affected”, “high-risk” and “fragile” countries or guidelines for investing in sovereign bonds. Danske Bank therefore supports national and international efforts to develop a framework for responsible investing in government bonds.