

IMPACT ANALYSIS REPORT 2021



TABLE OF CONTENTS

1	EXECUTIVE SUMMARY.....	3
2	INTRODUCTION.....	3
3	METHOD AND RELEVANCE.....	4
4	SCOPE.....	5
5	RESULTS, ASSESSMENTS AND PRIORITIES.....	8
6	PRIORITISED AREAS – INITIATIVES.....	13
7	NEXT STEPS.....	15

1 EXECUTIVE SUMMARY

In 2019, the United Nations Environment Programme Finance Initiative (UNEP FI) launched the Principles for Responsible Banking (PRB). The purpose of the PRB is to enable the banking sector to be a driving force for the achievement of the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement. Sparebanken Sør became a signatory to the PRB in the autumn of 2019.

One of the tasks required under the PRB is to perform an impact analysis.

The purpose of the analysis is to identify the positive and negative impacts the bank's business model has on the UN's 17 SDGs, and prioritise the most important areas.

Sparebanken Sør is a regional savings bank, which operates solely in Norway. Our business model is an integrated value chain that encompasses the development, production and supply of financial products and services. Distribution of products through subsidiaries/associates and partners is an important part of the business model. Sparebanken Sør serves customers through a combination of sales offices and digital solutions. Digitalisation and an analytical approach characterise activities throughout the value chain. The largest business areas are Loans (to private and corporate markets) as well as Financing and Investment.

Analyses cover loans to the private and corporate markets, which is the bank's largest business area. Loans accounts for approx. 78.5 per cent of Sparebanken Sør's business volume, and around 91.3 per cent of its earnings.

The impact analysis shows that the areas in which the bank has the most positive and negative impacts are:

Business area	Positive impact	Negative impact
Comercial Banking	Employment Inclusive healthy economy Housing	Climate Resource efficiency Inclusive healthy economy
Business Banking	Employment Resource efficiency Housing	Climate Biodiversity & ecosystems Waste

Although all the sustainability parameters are considered to be relevant, there are some which are more important to prioritise than others, based on a holistic assessment.

Prioritised sustainability parameters are:

1. Climate
2. Biodiversity and ecosystems (nature)
3. Resource utilisation
4. Waste

The results of the impact analysis are interesting, and will be used in Sparebanken Sør's further endeavours in the area of sustainability and the implementation of UNEP FI's PRB. Work on the prioritised areas indicated in the impact analysis will be coordinated and integrated into the bank's overall endeavours with respect to sustainability.

2 INTRODUCTION

The United Nations Environment Programme Finance Initiative (UNEP FI) launched the Principles for Responsible Banking (PRB) in 2019. The purpose of the PRB is to enable the banking sector to be a driving force for the achievement of the United Nations Sustainable Development Goals (SDGs) and the Paris

Agreement. Sparebanken Sør became a signatory to the PRB in the autumn of 2019. Banks who become signatories commit to abiding by the six principles outlined in the figure below.

 <p>PRINCIPLE 1: ALIGNMENT</p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>	 <p>PRINCIPLE 2: IMPACT & TARGET SETTING</p> <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>	 <p>PRINCIPLE 3: CLIENTS & CUSTOMERS</p> <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>
 <p>PRINCIPLE 4: STAKEHOLDERS</p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p>PRINCIPLE 5: GOVERNANCE & CULTURE</p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p>PRINCIPLE 6: TRANSPARENCY & ACCOUNTABILITY</p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>

Implementation of the principles is a three-stage process:

1. Perform an impact analysis
2. Set targets for important areas
3. Report on progress in the principles' implementation

This report covers the impact analysis. The purpose of the analysis is to identify the positive and negative impacts the bank's business model has on the UN's 17 SDGs, and prioritise the most important areas. This report is part of Sparebanken Sør's implementation of the principles and is a general description of the impact analysis's methodology and results.

For an account of our progress with respect to implementing the principles, please see the PRB Reporting & Self-Assessment – Template 2020, <https://www.sor.no/globalassets/organisasjon/barekraft/prb-reporting-and-self-assessment-template-2020-sparebanken-sor.pdf>.

3 METHOD AND RELEVANCE

3.1 Method

When carrying out our impact analysis, we have made use of UNEP FI's Portfolio Impact Analysis Tool for Banks, version 16.06.2021.

This methodology rests on five key principles, which are described below.

Holistic

A holistic impact analysis aims to understand the enterprise's actual and potential positive and negative impacts with respect to the environment, society and corporate governance.

The method covers 22 impact areas, drawn from UNEP FI Impact Radar (2019), relating to the environment, social responsibility and corporate governance. All the SDGs are, in turn, linked back to the 22 impact areas.

Objective

The methodology is based on an objective assessment of the impact drivers for the relevant business areas. Examples of impact drivers include:

- Customer categories
- Products
- Sectors
- Industries
- Geography

Each of these drivers is assessed with respect to impact areas.

Context and relevance

The point of the analysis is to enable impacts to be managed; in other words, to increase the positive and reduce the negative impacts in a financially viable manner.

Assessments and analyses of the impacts the business has on its surroundings are therefore central to the methodology.

Customised

The methodology is flexible and can be adapted to different enterprises and business areas.

A number of analyses, data and indicators are integrated into the tool. These can be used directly or customised for the individual enterprise and geographic location.

The methodology is designed to support impact assessment as an iterative process.

Transparent and comparable

The Excel-based analysis tool and all associated technical specifications may be freely downloaded from UNEP FI's website.

The model and process comprise the following stages:

1. Define the business activities to be included in the analysis.
2. Establish a data set for the business activities.
3. Verify the quality of the sustainability parameters' metrics.
4. Identify potential positive and negative impact areas (sustainability parameters).
5. Assess the relevance of the impact areas and prioritise the most important ones.
6. Identify which business areas have a positive and negative impact on the prioritised sustainability parameters and potential KPIs.
7. Identify established and potential areas in which to increase the positive impact and decrease the negative impacts.
8. Continue to work on the prioritised impact areas.

4 SCOPE

4.1 Activities included in the analysis

Sparebanken Sør is a regional savings bank, which operates solely in Norway. Our business model is an integrated value chain that encompasses the development, production and supply of financial products and services. Distribution of products through subsidiaries/associates and partners is an important part of the business model. Sparebanken Sør serves customers through a combination of sales offices and digital solutions. Digitalisation and an analytical approach characterise activities throughout the value chain. The largest business areas are Loans (to private and corporate markets) as well as Financing and Investment.

The table below shows the size of the business areas, measured by on-balance volume (OBV) and based on figures as at 31 December 2020.

	Inclusive in the analysis		Excluded in the analysis		
	Loan		Investment		Other
	Comercial-market	Business-market	Liquidity-portefolio	Investment-portefolio	Cash, derivatives etc.
Assets, MNOK	73.362	38.215	21.543	1.270	7.736
Assets, %	51,6	26,9	15,2	0,9	5,4
Total assets, %	78,5		21,5		

Investments are not included in the analysis. Investments are made up primarily of two categories:

- The liquidity portfolio, which is strictly regulated with respect to placement.
- The investment portfolio, which is made up primarily of wholly owned subsidiaries as well as shareholdings in companies whose products the bank brokers.

In addition, there are some other balance sheet items, such as cash and cash equivalents, derivatives and other assets, which have no impact on the analysis and are therefore not included in it.

Based on assets, around 78.5 per cent of the business volume is included in the analysis. Based on revenue, around 91.3 per cent of the business volume is included in the analysis.

4.2 Business volume, sectors and industries

The table below show details of the sectors, industries and products that are included in the analysis.

Market and industry	Sparebanken Sør (2020)	
	Loan MNOK	Loan %
Mortgage	69.979	95,0
Other loans and credits	3.683	5,0
Total, Private customers (households)	73.662	66,0
Agriculture and related services	801	2,1
Forestry and related services	158	0,4
Fishing and hunting	313	0,3
Mining		
Extraction of crude oil and natural gas		
Industry	861	2,3
Electricity, gas, steam, hot water supply		
Water supply, sewage and waste		
Property development	4.104	10,8
Building and construction	1.623	4,3
Retail	1.395	3,7
Shipping and air transport		
Land transport	590	1,6
Hotels and restaurants	399	1,1
Housing associations	1.281	1,1
Real Estate activities	19.303	50,9
Service provision and public sector	7.087	18,7
Total, Business market	37.915	34,0
Total Private and Business	111.577	100,0

The analysis has been carried out on the basis of NACE codes. The data for the private market (PM) is based on the volume of customers in the respective product groups. The data for the corporate market (CM) includes all the main business groups based on the data set for Level 2.

4.3 Context and sustainability parameters

A key source of data for the analysis is the 22 sustainability parameters, see the table below. We have used the sustainability parameters for Norway, since Sparebanken Sør operates solely in Norway. The various sustainability parameters have been assessed, and the model's default values applied.

Availability, accessibility, affordability and quality of resources		Quality and efficient use of resources		Economic value creation for people and society	
SDG parameter	SDG	SDG parameter	SDG	Inclusive healthty economic	8, 9
Water	6	Water	3, 6, 14	Economic convergence	1, 10, 17
Food	2	Air	3, 13, 15		
Housing	3, 11	Soil	3, 15		
Health & Sanitation	3, 6	Biodiversity& ecosystem	14, 15		
Education	4	Recurces effency/security	6, 12, 13, 14, 15		
Employment	8	Climate	13		
Energy	7	Waste	6, 12, 14, 15		
Mobility	9, 11				
Information	9, 11, 17				
Culture & heritage	8, 16				
Integrity & security	1, 16				
Equality & justic	5, 10, 16				
Strong institution peace and stability	16, 17				

All the sustainability parameters receive a score ranging from 1 to 4, where 1 is best and 4 is worst. For Norway, the areas “Resource utilisation”, “Climate” and “Waste” receive a high score (worst). These sustainability parameters will therefore have a greater impact on the results for positive and negative impact than sustainability parameters with a low score.

Data about business areas, sectors, industries and products are combined with the sustainability parameters to identify positive and negative impacts.

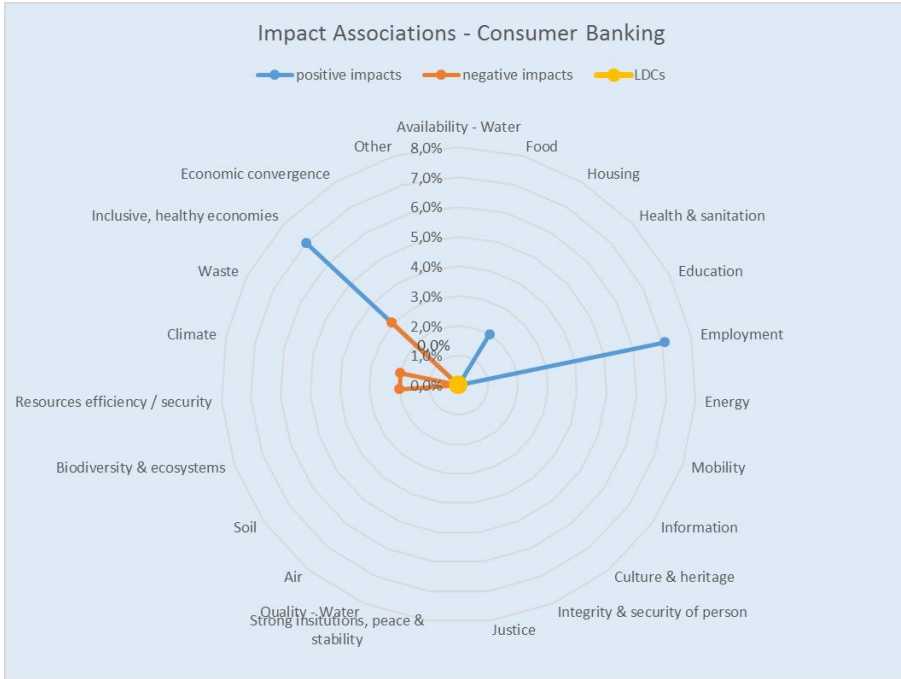
5 RESULTS, ASSESSMENTS AND PRIORITIES

The most important factors for the degree of impact are the bank’s business areas, industries and products, as well as the score (importance) the various sustainability parameters have in the country/countries in which the bank operates.

5.1 Commercial Bank

Analysis results

The figure below shows the most important impact areas for the private market.



The table below shows the three areas the analysis has identified as having the largest positive and negative impacts.

Consumer Banking			
Largest positive impact	SDG	Largest negative impact	SDG
Work – Unemployment – Employment terms and conditions – Other working conditions	8	Inclusive, healthy economy – Easy access to products – Poverty rates – Research and development – Financial inclusion	8, 9
Inclusive, healthy economy – Easy access to products – Poverty rates – Research and development – Financial inclusion	8, 9	Resource utilisation – Energy – Fresh water – Per capita consumption of materials – Other consumption of resources	6, 12, 13, 14, 15
Housing – No. of homes – Homelessness – Price and access to housing – Overpopulation	3, 11	Climate – Climate risk – Carbon emissions	13

Analysis

Positive impacts:

The bank's role in society has a central place in the analysis. This is evident from the bank's positive impact on "Work", an "Inclusive, healthy economy", and "Housing". The bank provides financial services and opportunities to everyone, which has a positive impact on the economy and reduces inequality. The bulk of the lending volume in the private market relates to home mortgages. On the whole, the positive impact areas appear to be relevant and correct.

Negative impacts:

The climate constitutes the most relevant negative impact area. This relates primarily to greenhouse gas emissions (energy consumption) generated by the homes financed through mortgage loans. Mortgages make up the bulk of the bank's private market lending portfolio.

The table below shows greenhouse gas emissions for the lending portfolio:

	Norway(11/2020)		Sparebanken Sør (2020)	
	Loans MNOK	CO 2 1000 tonn	Loansn MNOK	CO 2 1000 tonn
Mortgage			69.979	
Other loans and credits			3.683	
Sum Retail market (Comercial Bank)	3.699.110	4.917	73.662	97,9
Retail market share of Norge, %			1,99	2,0
Sum Business market (Business Bank)	1.836.560	63.828	37.915	317,9
Retail market share of Sør, %			66,02	23,55

The greenhouse gas emission figures are based on data from Statistics Norway. Although the figures are based on a Norwegian portfolio, to which some uncertainty must attach, they will nevertheless provide a good indication of the greenhouse gas emissions' size and scope.

Greenhouse gas emissions from the private market are materially lower than from the corporate market.

Despite greenhouse gas emissions relating to home mortgages being, in the broader context, relatively low, they probably represent the area where the bank can have the most positive impact.

The "Resource utilisation" parameter is also relevant, probably because of Norway's high level of consumption of energy, water and other resources. Households are comfortably off and have good access to relatively inexpensive resources. This can result in a "throw-away society". According to the analysis, the "Inclusive, healthy economy" parameter is also an area where the bank has a negative impact. We are not sure why this is, but believe it may be because only a small proportion of our products relate to social inclusion. The figure also shows that the bank's positive impact in this area is materially larger than its negative impact.

Priorities

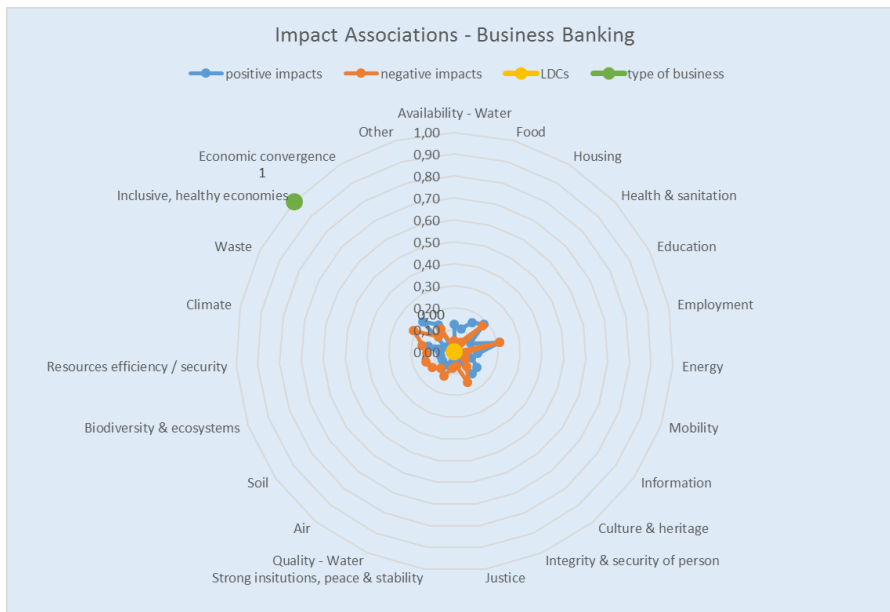
We consider the following to be the areas where we can have the largest positive impact:

1. Climate – management of risk and greenhouse gas emissions from the home loan portfolio. For further details of greenhouse gas emissions associated with the private market and home loans, see the tables under corporate market (CM).
2. Resource utilisation – decrease the use of resources in our own operations.
3. Inclusive, healthy economy – financial inclusion of disadvantaged groups.

5.2 Business Bank

Analysis results

The figure below shows the most important impact areas for the corporate market (CM).



The table below shows the three areas which the analysis has identified as having the largest positive and the largest negative impacts.

CM (Business Banking)			
Largest positive impacts	SDG	Largest negative impacts	SDG
Work – Unemployment – Employment terms and conditions – Other working conditions	8	Climate – Climate risk – Carbon emissions	13
Resource utilisation – Energy – Fresh water – Per capita consumptions of materials – Other consumption of resources	6, 12, 13, 14, 15	Biodiversity and ecosystems – Biodiversity – Ecosystems	14, 15
Housing – No. of homes – Homelessness – Price and access to housing – Overpopulation	3, 11	Waste – Public waste management solutions – Recycling rate – Other waste-related factors	6, 12, 14, 15

Analysis

Positive impacts:

The bank's role in society is also central in the analysis of the corporate market. According to the analysis, the bank makes the most positive impact in the areas "Work", "Resource utilisation" and "Housing". This is closely related to the industries that make up the corporate lending portfolio. The areas "Work" and "Housing" are the same for both the private and corporate markets. We are slightly more uncertain what lies behind the bank's positive impact on resource utilisation. It may relate to good access to and security of supply for critical resources like energy and water. On the whole, the positive impact areas seem both relevant and realistic.

Negative impacts:

The most relevant negative impact area is the climate. This relates primarily to greenhouse gas emissions associated with the lending portfolio and Norway's high score for the climate sustainability parameter. This harmonises with the bank's own assessment of its most important area of impact.

Marked and industry	Norway (11/2020)		Sparebanken Sør (2020)	
	Loans NOK mill.	CO 2 1000 tonn	Loans NOK mill.	CO 2 1000 tonn
Agriculture and related services	66.171	4.914	801	59,5
Forestry and related services	5.915	36	158	1,0
Fishing and hunting	80.501	370	313	1,4
Mining	11.151	279		
Extraction of crude oil and natural gas	15.121	15.229		
Industry	90.850	11.933	861	113,1
Electricity, gas, steam, hot water supply	49.486	1.699		
Water supply, sewage and waste	13.915	1.499		
Property development	135.751	1.301	4.104	39,3
Building and construction	66.468	637	1.623	15,6
Retail	80.914	1.104	1.395	19,0
Shipping and air transport	79.392	20.815		
Land transport	80.699	2.087	590	15,3
Hotels and restaurants	20.475	133	399	2,6
Housing associations			1.281	0,2
Sale and operation of real estate	793.389	122	19.303	3,0
Service provision and public sector	246.362	1.670	7.369	50,0
Total, Business market	1.836.560	63.828	38.197	319,9
Sør's percentage of Norway, %			2,02	0,50

The table shows that Sparebanken Sør's carbon emissions are relatively low compared with Norway as a whole, measured in terms of lending volume. This is because Sparebanken Sør does not lend to a number of carbon-intensive sectors, such as oil and gas, air transport or the chemical and pharmaceutical industries.

According to the analysis, "Biodiversity and ecosystems" is also an area where the bank has a negative impact. This is probably related to relatively large individual industries in the lending portfolio, such as property and construction, which tie up previously green spaces. This is also an extremely important area both nationally and globally, which will attract much attention going forward. The third area in which the bank has a negative impact is "Waste". This is because Norway receives a high (bad) score for this sustainability parameter. On the whole, the negative impact areas identified in the analysis seem relevant and realistic.

Priorities

We consider the areas where we can have the most positive impact to be:

1. Climate – management of risk and greenhouse gas emissions from the corporate lending portfolio.
2. Biodiversity and ecosystems – use of nature and natural resources
3. Waste – reduction in and recycling of waste.

The table below shows which industries have a positive and negative impact on the various areas. The information is the result of the “Performance” area analysis tool.

Marked and industry	Loans MNOK	Climate			Biodiversity & ecosystems			Waste		
		Pos	Pos & neg	Neg	Pos	Pos & neg	Neg	Pos	Pos & neg	Neg
Agriculture and related services	801			x			x			x
Forestry and related services	158		x				x			x
Fishing and hunting	313			x			x			x
Industry	861		x		x				x	
Building and construction	5.727			x			x			x
Retail	1.359		x			x			x	
Land transport	590		x				x			x
Hotels and restaurants	399						x			x
Real Estates activities	20.580			x			x			x
Private services	2.000		x		x				x	
Public administration	1.000		x		x				x	
Education	1.500		x							x
Health & social services	1.500		x							x
Other services	1.127	x			x					x
Total, Business market	37.915									

The fields marked in red show which industries have the largest negative impact, based on the analysis’s conclusions regarding the degree of impact and the lending volume.

6 PRIORITISED AREAS – INITIATIVES

Based on a holistic assessment of the impact analysis, as well as previously performed stakeholder and materiality analyses, we have elected to prioritise the following areas as being both most important and where we can make the largest positive impact.

1. Climate
2. Biodiversity and ecosystems (nature)
3. Resource utilisation
4. Waste
5. Social inclusion

The table below contains a brief outline of initiatives already implemented in these areas and potential new measures.

Sustainability parameter	Implemented initiatives	Potential measures	KPIs
Climate	<ol style="list-style-type: none"> 1. Integrated the climate in credit processes (CM) 2. Targets for reduction in own GHG emissions in relation to the Paris Agreement 3. Framework for green, social and sustainable products 4. Green products in PM 5. Exclusion criteria for lending to industries with high emission levels 6. Policy documents for relevant business areas 7. TCFD report 	<ol style="list-style-type: none"> 1. More green and sustainable products in PM and CM 2. Good metrics for calculating GHG emissions when lending to key industries 3. More green investments 4. Consider CDP 	<ol style="list-style-type: none"> 1. Targets for own GHG emissions 2. EU Taxonomy 3. UNEP FI 4. GRI
Biodiversity and ecosystems	<ol style="list-style-type: none"> 1. Integrated the natural environment in credit processes (CM) 2. Climate and environment policy 	<ol style="list-style-type: none"> 1. Further develop requirements and targets for biodiversity and ecosystems in lending and investment portfolios 2. Build up internal expertise 3. More green and sustainable products, pursuant to the EU taxonomy 4. Reduction in lending to or exclusion of clients/industries that have a materially negative impact on the natural environment 5. Further develop the natural environment as a risk area in credit processes, pursuant to the EU taxonomy 	<ol style="list-style-type: none"> 1. EU Taxonomy 2. UNEP FI

Resource utilisation	<ol style="list-style-type: none"> 1. Eco-lighthouse certification, measurement and follow-up of in-house consumption of resources 	<ol style="list-style-type: none"> 1. Focus on recycling and reuse of resources used in-house 2. Consider how the bank can have a positive impact on our clients and partners in this area 3. Develop products for the circular economy, pursuant to the EU taxonomy 4. Supplier requirements 	<ol style="list-style-type: none"> 1. Internal targets for reducing resource consumption 2. Targets for reuse and recycling of specific resources 3. EU Taxonomy
Waste	<ol style="list-style-type: none"> 1. Eco-lighthouse certification, measurement and follow-up of resources consumed in-house 	<ol style="list-style-type: none"> 1. Focus on reducing waste in-house 2. Requirements for suppliers with respect to waste recycling 3. Consider how the bank can have a positive impact on clients and partners in this area 4. Develop products for the circular economy, pursuant to the EU taxonomy 	<ol style="list-style-type: none"> 1. In-house targets for reducing and reusing resources
Social inclusion	<ol style="list-style-type: none"> 1. Framework for green, social and sustainable products 2. Deposit and lending products for young people at favourable prices 3. Financing of private school and health services 	<ol style="list-style-type: none"> 1. Consider establishing favourably priced products for disadvantaged groups 	<ol style="list-style-type: none"> 1. Targets for lending that promotes social inclusion

7 NEXT STEPS

The results of the impact analysis are interesting, and will be used in Sparebanken Sør's further efforts in the field of sustainability and the implementation of the principles for responsible business. Work on the prioritised areas indicated in the impact analysis will be coordinated and integrated into the bank's overall endeavours with respect to sustainability.

Important tasks going forward will include building up our in-house expertise, analysing the impacts of the investment portfolio, analysing individual industries in more detail, prioritising initiatives and establishing targets and performance indicators for important areas. Work in the various areas must also be reconciled with new regulatory requirements, including the EU Taxonomy, the EBA, etc., as well as information and input from experts and stakeholders, including UNEP FI's PRB.