

Responsible Lending Policy



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Contents

1	BACKGROUND.....	3
2	PURPOSE.....	3
3	TARGET GROUP.....	3
4	PRINCIPLES AND COMMITMENTS.....	3
4.1	Commitments.....	3
4.2	Requirements for lending.....	4
5	LENDING GUIDELINES.....	5
5.1	ESG in lending processes.....	5
5.2	Exclusion criteria.....	5
5.3	Due diligence criteria.....	6
5.4	Green business.....	6
5.5	Follow-up, control and measures.....	7
6	PUBLICATION.....	7
7	RESPONSIBILITY, MANAGEMENT, FOLLOW-UP AND REPORTING.....	7

1 BACKGROUND

Sparebanken Sør wishes to create long-term value and contribute to sustainable regional growth and development. For Sparebanken Sør, responsibility for sustainable development means contributing to the positive future development of ESG issues (the environment, social conditions and corporate governance), as well as exercising corporate social responsibility. Our sustainability efforts are intended to reduce risk by making requirements of our customers.

The purpose of Sparebanken Sør's policy and guidelines is to ensure that the Bank, through its lending, is not complicit in abuses of human, including employee, rights, corruption, financing of terrorism, tax evasion, serious environmental harm or other unethical conduct.

2 PURPOSE

This Policy applies to all lending to the business market by Sparebanken Sør. The Policy is intended to ensure that Sparebanken Sør through its lending activities acts responsibly and contributes to sustainable development.

One overarching credit-strategic goal is that the Bank should only extend credit for purposes compatible with good business practice. The Bank must not be associated with activities, customers or sectors that have a reputation with which the Bank does not wish to be associated.

In extending credit the Bank must be aware of the impact of the projects it is financing on the environment and people. The Bank must exercise caution in extending credit to customers who develop or sell products that cause particular harm to the environment, nature or people.

This Policy establishes guidelines for sustainable lending and requirements for extending and following up credit and customer due diligence to ensure that the Bank's lending is always compatible with the Bank's ESG strategy and policy.

3 TARGET GROUP

This Policy applies to all employees whose work involves lending to business customers.

Employees who are involved in the Bank's lending activities must be familiar with and comply with the guidelines stated in the Bank's "Responsible Lending Policy".

4 PRINCIPLES AND COMMITMENTS

4.1 Commitments

Sparebanken Sør pledges to comply with all legislation that is relevant to the Bank's operations, and in our lending activities we must prioritise ensuring that companies that the Bank is involved with conduct their business in accordance with relevant legislation and our policy.

Sparebanken Sør is a member of national and global organisations that work to promote sustainable development, and the companies the Bank lends to are required to prioritise these organisations' goals and principles in conducting their business.

UN Global Compact

Sparebanken Sør has signed up to the UN Global Compact. Consequently, several of this organisation's principles are of direct relevance to the Bank's investment decisions and choice of partners and funds.

UNEP Principles for Responsible Banking

Sparebanken Sør has endorsed the UN Environment Programme (UNEP) Principles for Responsible Banking. The UN Environment Programme aims to enable the banking industry to play a leading role in achieving the sustainable development goals and fulfilling the Paris Agreement.

The UN Sustainable Development Goals

The UN Sustainable Development Goals, which were adopted in 2015, represent a global plan to eradicate poverty, combat inequality and stop climate change. The plan consists of 17 goals, which are referred to as the world's common blueprint for sustainable development. Sparebanken Sør supports all 17 of the goals.

Finance Norway's "Roadmap for Green Competitiveness in the Financial Sector"

Sparebanken Sør will, together with the rest of the industry, work on following up the recommendations in Finance Norway's "Roadmap for Green Competitiveness in the Financial Sector", which was published in June 2018. One of these recommendations is to integrate climate considerations into the Bank's lending processes.

4.2 Requirements for lending

Sparebanken Sør expects the companies the Bank finances to comply with legislation and to respect and uphold international standards and principles as detailed below:

Climate and the environment

Sparebanken Sør expects companies that the Bank finances to:

- respect and uphold the UN Convention on Climate Change
- respect and uphold the UN Convention on Biological Diversity
- be conscious of greenhouse-gas emissions from their own operations and from companies they partner with, and to systematically work to reduce their direct and indirect impacts on the climate and the environment
- take account of climate and environmental challenges in their corporate governance, risk management and investment planning
- be transparent about, and report risks and opportunities relating to, the climate and the environment

Social conditions

Sparebanken Sør expects companies that the Bank finances to:

- respect and uphold the UN Guiding Principles on Business and Human Rights
- respect and uphold the UN Declaration of Human Rights
- respect and uphold the ILO's eight core conventions in areas such as child labour, freedom of association, discrimination and forced labour
- strive to ensure that no discrimination takes place based on factors such as ethnic background, religion, sexual orientation, disability, age or gender

Corporate governance

Sparebanken Sør expects companies that the Bank finances to:

- respect and uphold the OECD Guidelines for Multinational Enterprises
- respect and uphold the OECD Principles of Corporate Governance
- respect and uphold the UN Convention against Corruption
- have zero tolerance for financial crime in its own activities and at trading partners
- maintain high ethical standards and exercise sound corporate governance

5 LENDING GUIDELINES

5.1 ESG in lending processes

ESG risk relating to the case, exposure and mortgaged assets must be assessed for each credit case. This includes both physical risk and transition risk.

Sparebanken Sør has integrated a dedicated ESG module into the Bank's lending processes, which must be used in extending credit to and following up customers.

The ESG module covers the following:

- **Sector:** Framework for management of sectors and sector-specific assessments and requirements
- **Climate:** Assessment of how physical risk and transition risk could affect the customer, ability to pay and collateral in the case, and result in an increased probability of default (PD), reduced loss given default (LGD) and increased expected losses (EL)
- **Nature:** Assessment of the customer's impact on nature
- **Social conditions:** Assessment of whether the customer and the customer's partners comply with requirements and international conventions on social conditions
- **Corporate governance:** Assessment of whether the customer and partners comply with requirements and international conventions on corporate governance

Based on the above, the customer is given an ESG score in the category low, medium or high risk, which provides a basis for managing processes, mandates and pricing.

Data from the ESG score is used in connection with portfolio reporting.

5.2 Exclusion criteria

The Bank has established self-imposed limits for individual sectors. Even if the enterprises operate in accordance with Norwegian law, on sustainability grounds it is not desirable to establish customer relations with or extend credit to customers who directly, or through entities they control, engage or are involved in the following sectors:

- manufacture, storage and transport of weapons in contravention of international conventions
- production or distribution of pornographic material
- production or distribution of tobacco
- the gambling industry
- production of narcotics, including cannabis not intended for medical purposes
- oil companies engaged in the production and refining of oil that have not started to migrate to sustainable operations
- businesses with links to coal mining or nuclear power

It is also not desirable to extend credit to property leased to the types of company listed above.

Regardless of the sector, the Bank must also not extend credit to customers that present an unacceptable risk of:

- serious or systematic abuses of human rights
- serious breaches of basic employee rights
- serious harm to the environment or nature
- serious emissions of greenhouse gases
- serious corruption
- other serious breaches of basic corporate governance and ethical standards
- serious breaches of applicable legislation and international conventions

In connection with the risk of loss of nature, the Bank will not finance the following:

- **Land use:**
Activities that require significant use of vulnerable natural areas, peatlands, deforestation or wetland areas, and that could harm biodiversity and ecosystems, e.g. IUCN, Red List, UNESCO World Heritage List, the Ramsar Convention etc.
- **Use of natural resources:**
Activities that require the use of and that could significantly harm vulnerable natural resources, biodiversity or ecosystems, for example conflict minerals, minerals from the deep sea, deforestation, overfishing etc.; cf. the UN Convention on Biological Diversity
- **Spreading invasive species:**
Activities that present a high risk of spreading harmful invasive species
- **Pollution:**
Activities that significantly pollute water, soil or air
- **Greenhouse-gas emissions**
Activities involving high emissions of greenhouse gases

5.3 Due diligence criteria

Particular awareness of sustainability should be shown when processing credit applications from customers in the following sectors:

- Airlines
- Shipping
- Aquaculture (marine)
- Onshore wind power
- Transport companies (in particular if these have not established a policy for reducing CO₂ emissions)
- Start-up companies (in particular if these have not established a policy for reducing CO₂ emissions)
- Commercial buildings with a poor energy rating (E–G)

The Bank will prepare more detailed internal guidelines for the most relevant sectors.

5.4 Green business

An important element of sustainable development is to increase the share of sustainable operations (EU taxonomy). This applies to sectors, projects, activities, products and technology.

The Bank aims to increase credit exposure with businesses with a clear ESG profile in order to gain a greater share of sustainable lending in accordance with the EU taxonomy.

Financing of sustainable products and activities is therefore closely linked to assessment of ESG risk and responsible lending processes.

Sparebanken Sør has established a “Framework Green Bond” and “Framework for Green Products”. The Bank will prioritise work on development of more “sustainable products” and increase the scope of “sustainable bonds” going forward.

5.5 Follow-up, control and measures

If the Bank becomes aware that any of our customers are acting in contravention of the Bank’s guidelines, requirements or expectations, a dialogue must be established with the aim of effecting change and improvement.

If satisfactory change or improvement cannot be achieved, the Main Credit Committee at Sparebanken Sør must decide whether to continue the customer relationship.

6 PUBLICATION

Sparebanken Sør’s guidelines are communicated to the Bank’s associates and stakeholders through our “Responsible Lending Policy” on Sparebanken Sør’s website, www.sor.no.

7 RESPONSIBILITY, MANAGEMENT, FOLLOW-UP AND REPORTING

Sparebanken Sør must issue an annual report showing how we comply with our “Responsible Lending Policy”. You can read more about responsibility, management, organisation and reporting in the Bank’s strategy document for sustainability, “Sustainability Strategy”, on Sparebanken Sør’s website, www.sor.no.