SPAREBANKEN SØR

TCFD Report 2022

Version	*Date*	*Document owner*	*Decision*	*Status*
1.0	28.03.2021	Corporate Staff	The Board of Directors	Approved
2.0	31.03.2022	Corporate Staff	The Board of Directors	Approved
3.0	07.03.2023	Corporate Staff	The Board of Directors	Approved

1 INTORDUCTION

Sparebanken Sør's mission is to "create sustainable growth and development for our region".
For Sparebanken Sør, sustainable development means that the bank should contribute to positive development within ESG (Environmental, Social, Governance), while safeguarding the bank's social responsibility in areas where the bank operates. Our work on sustainability should strengthen our competitiveness and reduce the bank's ESG risk. As an employer, investor, lender and supplier of financial products and services, the bank should contribute to sustainable growth and development by strengthening its positive effects and reducing its negative impacts on people, society, climate and nature.

This report deals with the climate, and how Sparebanken Sør integrates climate-related risks and opportunities into its business activities.
The figure below outlines the four pillars of the Task Force on Climate-Related Financial Disclosures, TCFD:

Governance:	Strategy:	Risk management:	Targets and methods:
Management of climate-related risks and opportunities.	Effects that climate-related risks and opportunities have on the bank's strategy, business areas and financial planning.	Systems and processes the bank uses to identify, assess and manage climate-related risks.	Methods and targets (KPIs) the bank uses to assess and manage climate-related risks and opportunities.

These four areas are discussed in depth in this report.

2 CORPORATE GOVERNANCE

2.1 The Board's role with regard to climate-related threats and opportunities

The Board has the overall responsibility for ESG, including climate. The Board adopts the bank's strategy plan. The bank's strategy plan includes ESG and climate, as one of the priority areas. The Board considers various governing documents, reports and action plans related to ESG and climate-related risks and opportunities. The Board also considers major credit cases where ESG and climate are integrated into the credit processes. The Board determines overarching objectives and risk frameworks for climate-related risks and opportunities in the bank's framework for risk management. The Board also focuses on leveraging the opportunities afforded by the green shift.

2.2 Management's role in assessing, managing and handling climate-related threats and opportunities

The organisational structure for work on ESG and climate risk at Sparebanken Sør:

Information on the status and development of climate-related threats and opportunities will be integrated into quarterly risk reports presented to group management and the board.
You can find out more about the organisation in Sustainability Stragety, https://www.sor.no/felles/om-sparebanken-sor/samfunnsansvar/barekraftsrapporter/

2.3 Policy documents, climate

The bank's governing documents for climate risk:

ESG policy documents and policy	Document status	
	Public	Internal
Determined by the board		
Strategic plan		X
Sustainability strategy	X	
Risk and capital strategy		X
Organisation of risks and capital management		X
Determined by group management		
Policy for responsible lending	X	
Policy for responsible investments and responsible securities trading	X	
Policy for climate and the environment	X	
Green & Sustainability Bond Framework	X	
Green, social and sustainable product framework	X	

3 STRATEGY

3.1 Climate-related threats and opportunities over different time horizons

Climate risk represents three types of risk:

Transition risk : Risk of transition to a zero-emission society, which includes political and regulatory conditions, technology, market and reputation.

Physical risk : Acute risk due to extreme weather such as hurricanes, floods etc. Chronic risks, which are long-term climate changes that affect temperature, sea level etc.

Liability risk : Companies can be held liable for damage caused by climate change and non-compliance with regulations.

Sparebanken Sør's approach to climate is twofold:

- Direct influence from the bank's own operations.
- Indirect influence from the bank's business areas.

The impact relates to how the bank's business activities are affected by climate, but also how the bank's business activities affect climate. Sparebanken Sør must make a positive contribution to reducing direct and indirect greenhouse-gas emissions. The aim is to facilitate more sustainable development in the bank and among customers, suppliers and partners.

Klimarisiko og tidsperspektiv	Tid, år
Short Term(ST)	1 -3
Medium Term (MT)	3 - 10
Long Term (LT)	10 - 30

3.1.1 Climate-related risk and opportunities from own operations

Greenhouse-gas emissions from the bank's own internal operations are low. The potential for reducing greenhouse-gas emissions is greatest in relation to land use, energy efficiency and travel.
Climate-related risks and opportunities from the bank's own operations are considered low.

3.1.2 Climate-related risks and opportunities from the business areas

Climate-related risks:

The following business areas and activities are considered to be exposed to the greatest climate-related risks:

- Lending: Increased probability of default (PD), increased loss given default (LGD) and increased expected losses (EL). Higher capital requirements for "unsustainable activities and products".
- Investments: Repricing of assets and "stranded assets".
- Financing: Access to and price of financing due to lack of "sustainable activities".
- Changed customer behaviour and increased competition through technology and digitalisation.

The bank considers transition risk to be the greatest, since Norway, at least in the short term, only has a low exposure to physical risk due to severe climate change.

Risk type	Description	Potential financial impact for Sparebanken Sør	Impact risk		
			ST (0–3 years)	MT (3–10 years)	LT (10–30 years)
Transition risk	Regulatory risk / political risk				
	Strong regulation to achieve the goals of the Paris Agreement. Regulations will affect the cost of greenhouse-gas emissions, capital requirements, value of assets, costs and access to raw materials, input factors, infrastructure, transport and lawsuits.	Increased probability of default (PD), increased loss given default (LGD) and increased expected losses (EL) due to weakened servicing capacity as a result of regulations that affect climate-intensive products, raw materials, transport and input factors. Increased impairments of assets – "stranded assets". Reduced capital requirements for sustainable activities.	Low	Moderate	High
	Technological risk				
	Increased costs for conversion to climate-friendly technology, distribution, products and services. Change in production methods and input factors. Impairments for failed technology.	Increased investment in new technology, products and services. Critical size in relation to ability to adapt. Impairments for bad investments. Risk of deterioration of relationships and customer loyalty, which are central to a regional bank, through digitalisation.	Low	Moderate	Moderate
	Market risk				
	Changes in consumption and demand due to the transition to a low-emission society will affect products, input factors and production processes. Changed consumption patterns affect business models, costs, sales and earnings. Stranded assets.	Reduced market share and revenues due to changed customer behaviour. Increased costs for input factors and supply chain may lead to weakened servicing capacity and increased losses. Globalisation and increased competition due to technology, digitalisation. Too little regional access to sustainable activities. Stranded assets.	Low	Moderate	Moderate
	Reputational risk				
	Negative exposure to climate risk could lead to a loss of reputation and reduced attractiveness. Stigmatisation of products and sectors.	Loss of reputation due to unwillingness or inability to convert to a low-emission society may lead to reduced market share in deposits and loans. Weakened access to and price of financing and equity. Reduced value of equity.	Low	Moderate	Moderate
Physical risk	Acute risk				
	Increased severity of extreme weather such as cyclones and floods.	Increased losses, reduced value of pledged security and assets in locations exposed to extreme weather. Increased costs for the prevention of climate damage. Curtailment of insurances. Reduced revenues due to interruptions in production and the supply chain.	Low	Low	Moderate
	Chronic risk				
	Changes in weather/precipitation patterns. Rising temperatures. Rising sea level.	Same as for acute risk, but chronic risk could have greater and more permanent long-term effects.	Low		Moderate
Liability risk	Insurance risk and legal risk				
	Liability for damage caused to third parties and society.	The bank considers this risk category to represent a very low risk for us in the short term, and it has therefore not been taken into account in the TCFD report.	Very low	Low	Low

Climate-related opportunities:

The bank considers climate-related opportunities to be greatest in the following areas:

- Lending: Growth in earnings and volume from sustainable activities, new markets and industries. Reduced capital requirements for sustainable activities.
- Investment: Excess return and capital allocation for sustainable activities.
- Financing: Better access to and lower cost of financing through sustainable activities.
- Cost reduction: Efficient service and distribution through digital solutions.

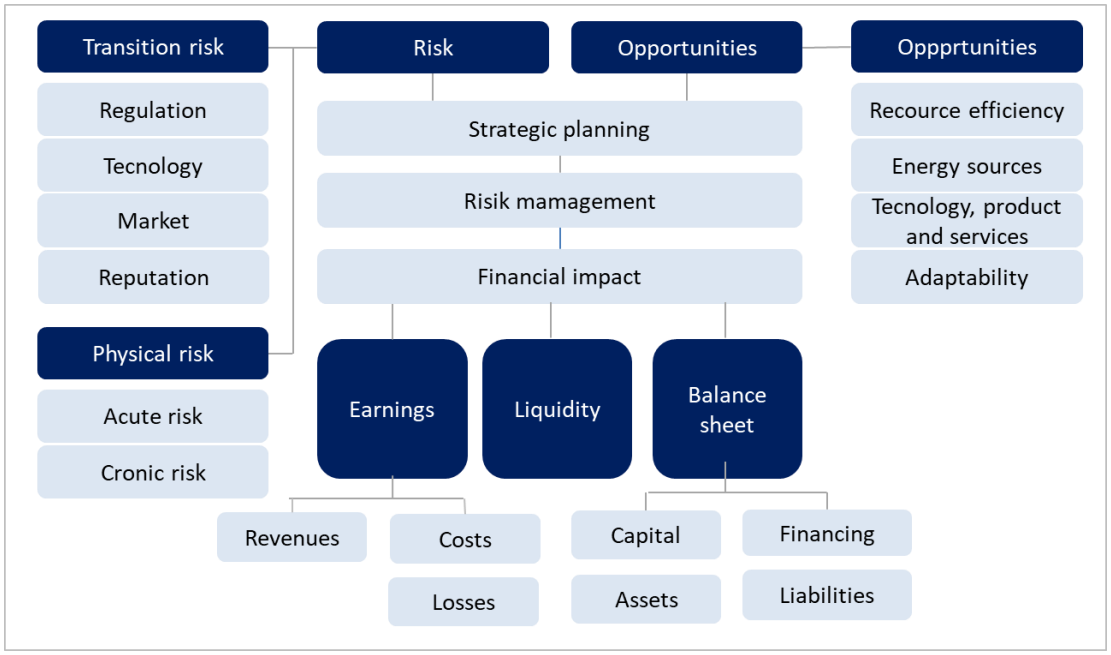
Opportunity	Description	Potential financial impact for Sparebanken Sør	Opportunity to influence		
			ST (0–3 years)	MT (3–10 years)	LT (10–30 years)
Resource efficiency	More efficient processes for transport, production and distribution. Increased recycling and reuse. Energy efficiency. Reduced consumption of input factors and raw materials. Reduced consumption in general.	Reduced costs for technology and digitalisation. Reduced energy consumption related to buildings and waste. New industries and customers due to conversion to circular economy, recycling and reuse.	Low	Low	Moderate
Energy sources	Use of renewable energy. Regulations and incentives. Use of new technology. Better carbon markets. Transition to decentralised energy production.	Reduced costs for energy consumption. Financing of renewable energy, electricity storage, energy-efficient means of transport.	Very low	Very low	Very low
Technology, products and services	More efficient production and distribution through new technology. New climate-friendly and recyclable products and services. Changed use of raw materials and input factors.	Reduced costs due to new technology and digitalisation. Increased earnings due to sustainable activities, cheaper financing and reduced capital requirements. Excess return on sustainable investments and assets.	Moderate	Moderate	High
Market	Access to new markets through new technology, new products and services. Use of public incentives. Diversification of business model.	Increased revenues from new markets and customers. Increased diversification and reduced risk. Growth due to better access to capital and financing of sustainable projects and industries.	Moderate	Moderate	High
Strength/ ability to adapt	Participation in renewable programmes and adaptation to climate-friendly measures.	Sharing knowledge, technology, products and systems with partners. Restructuring of internal resources and recruitment of new expertise.	Low	Low	Low

3.2 How climate-related risks and opportunities will affect strategy, business areas and financial planning

Sparebanken Sør is a regional savings bank, where the business model is an integrated value chain that includes the development, production and provision of financial products and services. Distribution of products through owner companies 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. Business activities are carried out within the framework of the company's strategy, corporate governance and ethical guidelines.

Sparebanken Sør conducts traditional banking activities within loans, savings and the supply of related products such as leasing, insurance, funds, real estate etc. Most of the bank's income is related to Loans and Financing. Investments and revenue from other products managed by the bank, or through subsidiaries and partners, are also important business areas for the bank.

The relationship between climate-related risks, opportunities and strategic and financial impact is as shown below:



Climate-related risks and opportunities will have the greatest impact on Sparebanken Sør's strategy, business areas and financial planning in the following areas:

- Adaptation to new regulations, the EU taxonomy, EBA etc.
- Redirection of capital to sustainable activities.
- Change in competitive situation through technology development and digitalisation.
- Changes in customer behaviour and preferences for products and service adapted to a low-emission society.
- Changes in customer and industry composition through the phasing out of activities that are climate-intensive and the emergence of new climate-friendly activities and industries.
- Repricing of assets.
- Cost of and access to equity and financing.

From a short-term perspective, it is most important to take into account the following risk areas and opportunities:

- Integrating and managing climate risk in lending, investing and financing. From a short-term perspective of one to three years, the bank believes that the risk is relatively low, both in terms of transition risk and physical risk.
- Establishing good technology platforms, digital service solutions and distribution channels.
- Establishing and expanding portfolios of sustainable products and bonds.
- Building internal expertise throughout the organisation in order to be able to adapt to a low-emission society and ensure that the bank has the ability and willingness to adapt.
- Ensuring compliance with regulatory requirements.

A qualitative and quantitative analysis should be made in all relevant business areas to map climate-related risks and opportunities.

3.3 Impact of various climate-related scenarios on strategy, business areas and financial planning (including a 2 °C scenario)

This section deals with how different climate-related scenarios will affect the bank's strategy, business areas and financial planning.

In short, this includes:

1. Preparing models and climate scenarios (1.5–2 °C with early/late adaptation, and a 3–4 °C hot-house scenario) in a ten-year perspective.
2. Establishing data sources and assumptions for the climate scenarios.
3. Modelling the different climate scenarios.
4. Analysing and evaluating results and what impact the scenarios will have on strategy, business areas and financial results.
5. Assessing possible measures.

This is a demanding job in terms of complexity, lack of data and models, and a long time-horizon with a lot of uncertainty about the effects of both climate-related risks and opportunities.
The bank will continue to work on establishing models and data for scenario analyses and stress tests.

4 RISK MANAGEMENT

4.1 How climate risk affects different risk categories

Climate risk is not a separate, isolated risk but is an important risk factor that affects other risk categories such as credit risk, market risk etc. The relationship between climate risk and the most significant risk categories, and the bank's risk assessment, are shown below.

Transition risk				Physical risks			
Type	ST (0–3 years)	MT (3–10 years)	LT (10–30 years)	Type	ST (0–3 years)	MT (3–10 years)	LT (10–30 years)
Regulations, changes in supply chains and customer behaviour could impair servicing capacity (PD) and increased loss given default (LGD) from customers and could lead to increased expected losses				Increased expected losses (EL) from customers, industries and sectors that are exposed to reduced values on pledged security, assets and stranded assets due to climate change.			
Regulations, technology, and customer behaviour could generate "stranded assets" and repricing of securities and other assets.				Climate disasters may lead to rapid repricing, changes in volatility and loss of value on assets and asset items.			
Negative effects of regulatory changes on internal processes and suppliers may lead to increased losses.				Damage from extreme weather to property, infrastructure and input factors and harm to people may result in increased losses.			
Low proportion of sustainable activities affects rating, access to and cost of financing. Repricing of securities may reduce the value of the bank's liquidity buffer.				Impaired servicing capacity and costs for the prevention and repair of climate-related events may affect customers' deposits. Limited access to and high price of external funding.			
Reduced income due to lack of restructuring to a low-emission society. High costs of digitalisation and technology development. Increased volatility in results due to rapid changes in regulations and customer behaviour.				Physical damage to property and data and harm to people due to serious climate events may lead to increased costs and reduced income.			
Inadequate restructuring and adaptation to a low-emission society will affect profitability and the bank's reputation.				Risk of loss of assets exposed to serious climate events.			

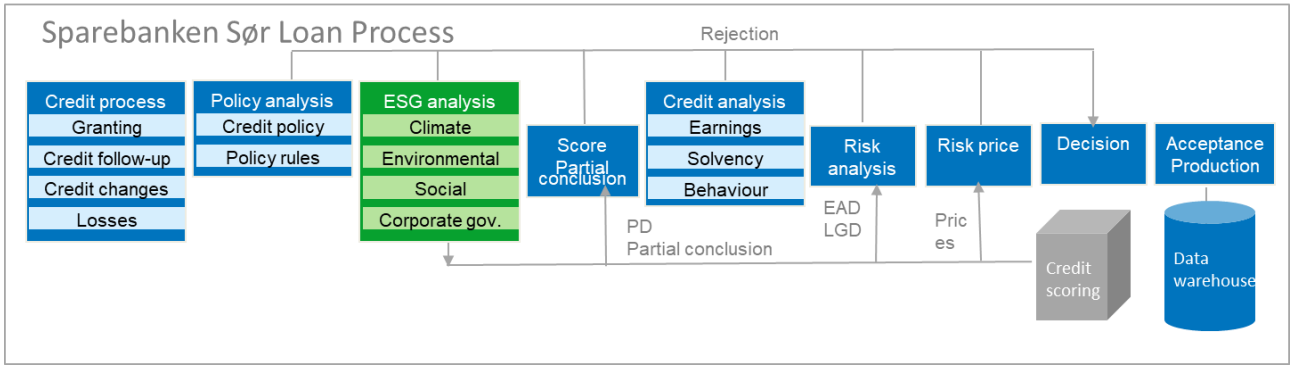
Low risk	
Low/moderate risk	
Moderate/high risk	
High risk	

4.1.1 Credit risk

Climate risk related to credit risk is primarily associated with lending. Retail customers account for the largest volume, with approx. 64 per cent of total loans, of which home mortgages comprise approx. 97 per cent.

Corporate customers consist of relatively small SME customers, with good diversification in terms of geography and industry. The business structure in the market area, as well as the exclusion criteria for Sparebanken Sør, which are listed in our "Responsible lending policy", help ensure that the bank in practice does not lend to industries with high greenhouse-gas emissions.

Sparebanken Sør has an integrated module for ESG analysis in credit processes for the corporate market, see the figure below.



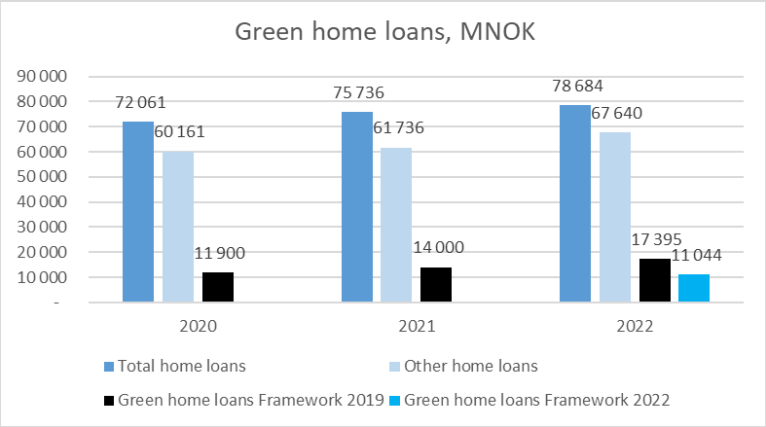
The ESG module has a special focus on climate, but covers the following ESG areas:

- Exclusion criteria: Included in the policy analysis.
- Sector: Framework for managing industries and industry-specific assessments and requirements.
- Climate: Assessment of how physical risk and transition risk could affect the customer, the ability to pay and collateral in the case, and result in an increased probability of default (PD), increased loss given default (LGD) and increased expected losses (EL).
- Nature: Assessment of how the customer's business affects nature.
- Social conditions: Assessment of whether the customer and their partners comply with requirements and international conventions on social conditions, labour rights and human rights.
- Governance: Assessment of whether the customer and their partners comply with requirements and international conventions on corporate governance.

Scoring: Based on the above modules, the customer is given a risk score of low, medium or high, which provides a basis for managing processes, authorisations and pricing. Data from the ESG module is used in connection with reporting on cases, customers and portfolios.
The module has been in use since April 2021, and the results so far indicate that the ESG risk, including the climate risk, is low to moderate.

Sustainable products and services are an important tool for helping reduce both the bank's and our customers' climate risk.
The bank has established a Green & Sustainability Bond Framework and a Green, Social and Sustainable Product Framework. The bank uses these frameworks to establish sustainable products and issue sustainable bonds.

The figures below show green mortgages and green loans for commercial property for each of the bank's frameworks.



The table below shows the lending portfolio and how the bank assesses climate risk from different time perspectives:

Climate risk Lending	NOK mill.	tonnes CO2 *	tonnes CO2/NOK mill. *	Transition risk			Physical risk		
				ST	MT	LT	ST	MT	LT
Mortgages	78 684	102 289	1,30						
Other loans	2 025	2 633	1,30						
Retail customers	**80 709**	**104 922**	**1,30**						
Agriculture and related services	993	136 936	137,9						
Forestry and related services	170	2 356	13,9						
Fishing, trapping and aquaculture	477	5 853	12,3						
Mining	57	2 016	35,6						
Industry	772	4 832	6,3						
Energy production and supply	24	10	0,4						
Water, wastewater and waste disposal	87	5 234	60,2						
Development of property	6 667	14 602	2,2						
Retail	1 817	17 028	9,4						
Transport	494	6 862	13,9						
Hotels, restaurants and tourism	411	4 555	11,1						
Information and communication	160	177	1,1						
Financing and insurance	109	170	1,6						
Sale and operation of real estate	23 522	20 660	0,9						
Professional services	636	4 936	7,8						
Business services	379	7 722	20,4						
Public administration	257	286	1,1						
Education	1 402	1 569	1,1						
Healthcare and social services	2 038	4 432	2,2						
Cultural activities	586	920	1,6						
Other services	2 136	2 285	1,1						
Corporate customers	**43 196**	**243 439**	**5,6**						
Sum total	**123 905**	**345 728**	**2,8**						

*Scope 1 og 2

Low risk	
Low/moderate risk	
Moderate/high risk	
High risk	

The sectors Agriculture and related services, Sales and operation of real estate, and Development of real estate/Construction activities are considered to be exposed to the largest relative transition risk in the portfolio. Although the relative greenhouse-gas emissions from the Mining and Sewage and sanitation sectors are high, the risk is considered low due to the composition of the portfolios.
Based on an overall assessment, climate risk in the lending portfolio for the current sector composition is considered acceptable in both the short and medium term. Long-term risk is currently more difficult to predict, and will depend on factors such as future changes in the sector composition of the portfolio. However, the bank can also manage this through efficient risk-management systems.

4.1.2 Market risk

Climate risk in relation to market risk is primarily associated with yield and value development of assets and securities, and whether or not these qualify as sustainable activities according to the EU taxonomy.

Market risk primarily relates to:

- Own investments. These investments mainly consist of wholly owned subsidiaries and shareholdings in associates, primarily product companies.
- Placement of the bank's liquidity portfolio. This is strictly regulated by the authorities. Discussed under Liquidity risk.
- Securities in funds that the bank distributes to customers from other fund providers. The bank does not directly conduct asset management, but we require fund providers to comply with the same requirements for ESG. This means that the bank does not bear any inherent risk on its own funds.

Climate risk Market risk	NOK mill.	tonnes CO2 *	tonnes CO2/NOK	Transition risk			Physical risk		
				ST	MT	LT	ST	MT	LT
Funds		NA	NA	N/A	N/A	N/A	N/A	N/A	N/A
Shares and shareholdings companies	1.667	NA	NA						

Low risk	
Low/moderate risk	
Moderate/high risk	
High risk	

Greenhouse-gas emissions from companies in which the bank has a controlling interest make up the most important part of this item. Greenhouse-gas emissions from companies in which the bank has a controlling interest are consolidated in the bank's carbon accounting.
We do not currently calculate greenhouse-gas emissions for funds, but assume that the fund providers do this in accordance with the legislation. Shares and shareholdings in companies currently make up such a small proportion and represent such a low risk that climate-related risks and opportunities can be followed up through good corporate governance. All subsidiaries and companies in which we own a shareholding of 50 per cent or more are also integrated into the bank's carbon accounting. We have set goals for reducing greenhouse-gas emissions from our own operations, cf. item 5.

4.1.3 Operational risk

Climate risk in relation to operational risk is primarily associated with loss of reputation and market due to lack of adaptation to a low-emission society, as well as failed investments in technology and lost assets due to extreme climate events.
Operational risk is followed up through the bank's internal control and reporting in the bank's system for unwanted incidents.

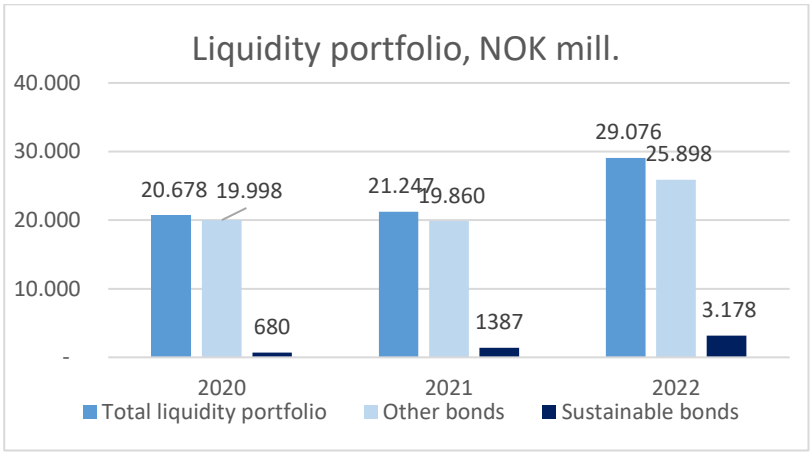
4.1.4 Liquidity risk

Climate risk related to liquidity risk primarily relates to stranded assets in the liquidity portfolio as well as the cost of and access to financing.

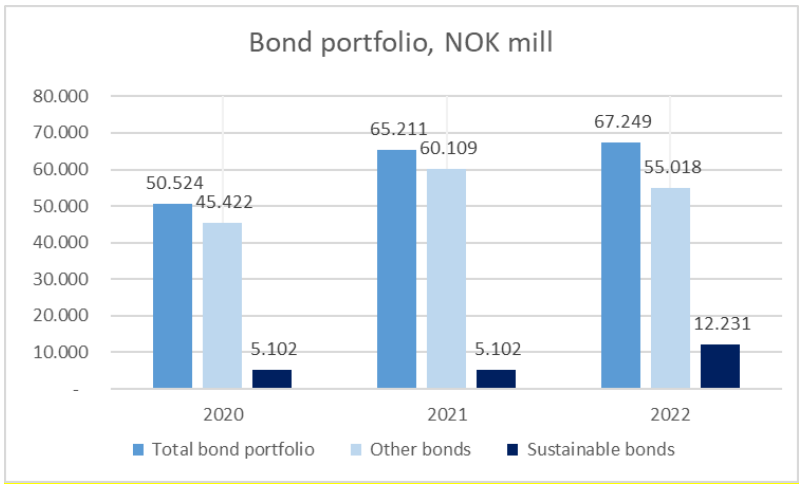
Climate risk Investment/Financing	NOK mill.	tonnes CO2 *	tonnes CO2/NOK	Transition risk			Physical risk		
				ST	MT	LT	ST	MT	LT
Liquidity portfolio	29.076	NA	NA						
Financing	67.249	NA	NA						

Low risk
Low/moderate risk
Moderate/high risk
High risk

The climate risk for the liquidity portfolio is considered to be low.
The composition and development of sustainable bonds in the liquidity portfolio are presented in the table below:



The composition and development of bonds financed under the Green & Sustainability Bond Framework are presented in the table below:



Lack of volume of sustainable activities in relation to the EU taxonomy could lead to reduced access to and an increased cost of financing.

The proportion of, access to and cost of green bonds and issued sustainable bonds in relation to financing will be a key indicator for monitoring risk in this area.

4.2 Processes for managing climate-related risks

Climate risk in our own business will be monitored through annual measurements of greenhouse-gas emissions. Work has also been initiated to map the bank's properties with regard to how the bank can adapt to the Paris Agreement and internal targets for reducing greenhouse-gas emissions.
Climate risk in the business areas is monitored through KPIs, portfolio analyses of climate risk, stress tests and scenario analyses. These form the basis for the measures and follow-up required to meet internal goals, sustainability goals and goals of the Paris Agreement.

4.3 Processes for identifying, assessing and managing how climate-related risks are integrated into overall risk management

Sparebanken Sør has a comprehensive framework for risk appetite and risk tolerance for the various risk categories. Overall measurement indicators for ESG risk and climate are/will be integrated into this framework. A report showing the status and development of overarching governance targets and risk tolerance is prepared quarterly. These reports are assessed by the bank's group management and board, who can follow developments and ensure that the risk matches targets set for risk frameworks and risk tolerance.
Climate risk is integrated into the bank's internal control system. Incidents and losses as a result of climate risk are reported in the bank's incident reporting system.
Our KPIs and management goals for climate-related risk and opportunities are under continuous development.

5 METHODS AND TARGETS

5.1 Methods and calculations to assess whether climate-related risks and opportunities are in line with strategy and risk-management process

5.1.1 Greenhouse-gas emissions from own operations

We calculate greenhouse-gas emissions in our own business annually, based on the international standard, "A Corporate Accounting and Reporting Standard", developed by the Greenhouse Gas Protocol Initiative – the GHG Protocol. Our Scope 3 is therefore only related to our own business. The most significant greenhouse-gas emissions in Scope 3 relate to greenhouse-gas emissions from the business areas. While further work will be done in this area in future, the lack of reliable data and methodology means that significant uncertainty attaches to these calculations, cf. the points below.

5.1.2 Greenhouse-gas emissions from business areas

Greenhouse-gas emissions from lending activities:

Results and methodology for calculating greenhouse-gas emissions from the lending portfolio are based on models and data from PCAF, and some own data. PCAF's framework is based on different methods depending on the available data. To date, we have primarily calculated greenhouse-gas emissions at stage 5, which is the lowest level. We will continue to work to improve the quality of calculations of greenhouse-gas emissions from lending. The goal is to establish as good a baseline as possible, in order to be able to monitor development and goals for reducing greenhouse-gas emissions.

Greenhouse-gas emissions from investments:

Greenhouse-gas emissions from investments (the liquidity portfolio) will also be based on PCAF's methods and data. Further work will be performed on these calculations in 2023.

5.1.3 Scenario analyses and stress tests

The bank will continue to work on establishing models and data for scenario analyses and stress tests for climate risk.

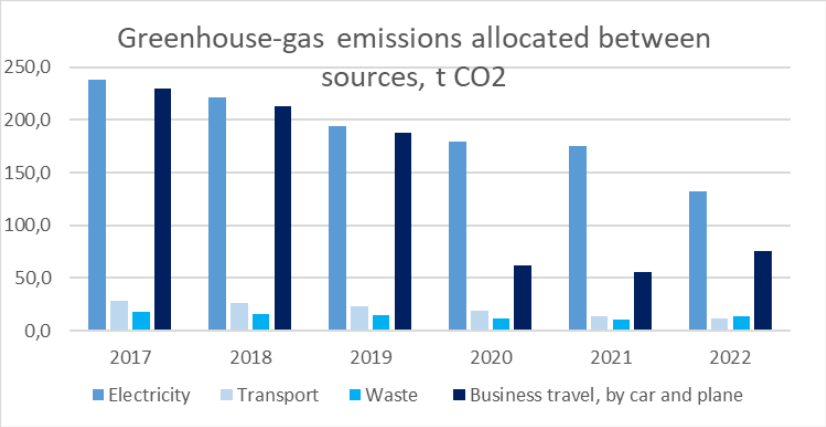
5.2 Greenhouse gases (GHG) and associated risks for Scope 1, Scope 2, Scope 3 and the related risk factors

5.2.1 Greenhouse-gas emissions from own operations

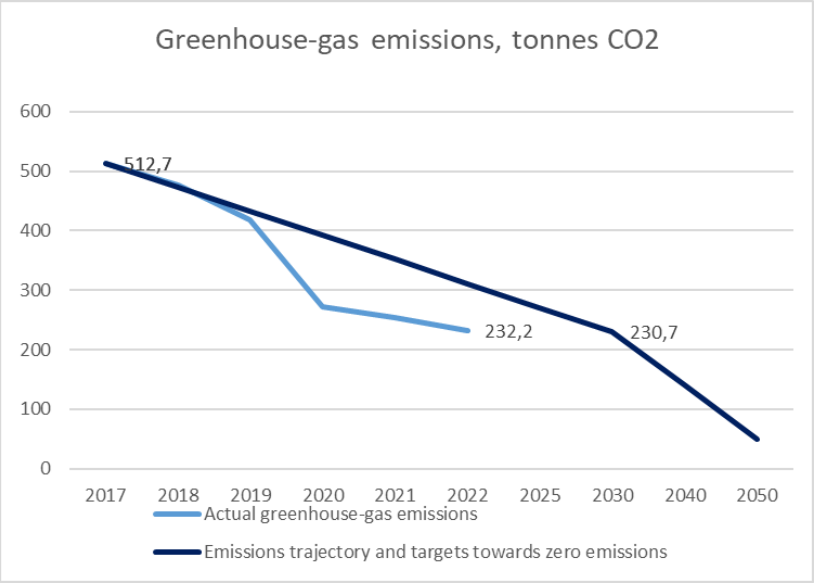
Data on the bank's status and development with regard to greenhouse-gas emissions (GHG protocol) and resource consumption are shown in the table and figure below:

Greenhouse-gas emissions	2020	2021	2022
Greenhouse-gas emissions Scope 1, tonnes of CO2 equivalents	19,0	13,6	11,3
Greenhouse-gas emissions Scope 2, tonnes of CO2 equivalents	181,3	174,8	131,8
Greenhouse-gas emissions Scope 3, tonnes of CO2 equivalents	72,7	66,0	89,1
Total greenhouse-gas emissions, tonnes of CO2 equivalents	273,0	254,4	232,2
FTEs	458	597	601
Greenhouse-gas emissions per employee	0,60	0,43	0,39
Heated area, m²	23.004	26.769	26.564
Energy consumption, 1,000 kWh per year	4.926	6.250	5.384
Energy intensity, kWh per m²	214	233	203

Breakdown of greenhouse-gas emissions:



In 2020, the bank set targets to reduce greenhouse-gas emissions by 55 per cent, and aims to achieve net zero emissions by 2050.
The figure below shows the trend in greenhouse-gas emissions, as well as an illustration of the trajectory of emissions.



The results show that, in 2022, the bank was already approaching its target of reducing emissions by 55 per cent (equivalent to 230.7 tonnes of CO2) by 2030.
More information about climate emission can be found in Climate accounting 2022 on our websites.

5.2.2 Greenhouse-gas emissions from business areas

Greenhouse-gas emissions from lending activities:

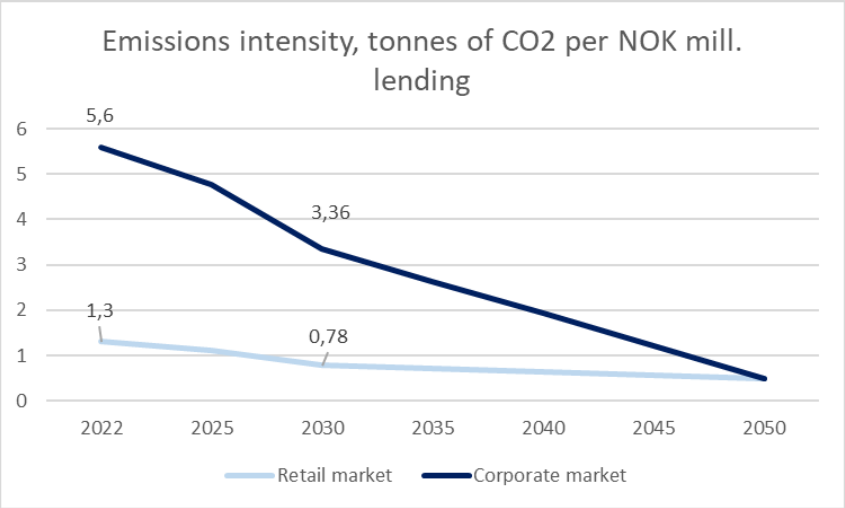
Sparebanken Sør became a partner in PCAF (Partnership for Carbon Accounting Financials) in December 2021. The bank has used PCAF's data and method based on the balance sheet to calculate greenhouse-gas emissions from the corporate market. For the retail market, the bank has used data from Statistics Norway to calculate CO2 emissions.
The distribution of lending and greenhouse-gas emissions in markets and sectors is shown in the table below:

Industry	Total lending NOK mill.	Scope 1 Tonnes CO2	Scope 2 Tonnes CO2	Scope 3 Tonnes CO2	Scope 1 og 2 Tonnes CO2	Tonnes CO2 pr MNOK Scope 1 og 2	Tonnes CO2 pr MNOK Scope 1, 2 og 3
Personkunder							
Mortgage	78.684,0				102.289	1,30	1,30
Other loan and crtedit	2.025,0				2.633	1,30	1,30
Private customers	80.709,0				104.922	1,3	1,30
Agriculture and related services	993,3	136.821	116	33.528	136.936	137,9	171,62
Forestry and related services	170,0	2.344	12	2.881	2.356	13,9	30,80
Fishing, trapping and aquaculture	476,7	5.806	47	11.540	5.853	12,3	36,48
Mining	56,7	2.010	6	2.194	2.016	35,6	74,26
Industry	772,5	4.700	132	24.710	4.832	6,3	38,24
Energy production and supply	23,9	10	0	18	10	0,4	1,17
Water, wastewater and waste disposal	87,0	5.220	14	5.216	5.234	60,2	120,17
Construction of buildings / constructior	6.667,0	14.290	313	317.239	14.602	2,2	49,77
Retail	1.817,0	16.983	45	24.305	17.028	9,4	22,75
Transport	494,0	6.808	53	25.824	6.862	13,9	66,17
Hotels, restaurants and tourism	411,0	4.418	138	10.237	4.555	11,1	35,99
Information and communication	160,1	167	10	1.410	177	1,1	9,91
Financing and insurance	109,2	169	1	296	170	1,6	4,26
Sale and operation of real estate	23.522,0	17.572	3.088	76.058	20.660	0,9	4,11
Professional services	636,3	4.903	33	8.586	4.936	7,8	21,25
Business services	379,4	7.690	31	11.695	7.722	20,4	51,17
Public administration	257,0	200	86	3.084	286	1,1	13,11
Education	1.402,1	1.054	516	12.972	1.569	1,1	10,37
Healthcare and social services	2.038,1	2.190	2.242	40.575	4.432	2,2	22,08
Cultural activities	586,5	720	200	15.881	920	1,6	28,65
Other services	2.136,4	2.154	131	5.128	2.285	1,1	3,47
Corporate customers	43.196,0	236.227	7.213	633.375	243.439	5,6	20,30
Private and Corporate customers	123.905,0				345.728	2,8	7,9

There is currently little comparative data, but the composition of the lending portfolio and the calculations indicate that the bank's greenhouse-gas emissions in the lending portfolio are low. Further work will be carried out in future to obtain better data sources for calculating greenhouse-gas emissions from lending. A project is ongoing under the auspices of Finance Norway in which the bank is a participant, and which aims to create a guide adapted to Norwegian conditions as to how Norwegian financial institutions can use PCAF's framework, models and data. This guide is expected to be available in Q1 2023.

For the lending portfolio, the bank has set a target of reducing greenhouse-gas emissions by 40 per cent by 2030, with net zero emissions by 2050. Starting from 2022, this means an annual reduction in greenhouse-gas emissions of 5 per cent per year to achieve a reduction of 40 per cent by 2030.
The method for measuring reductions in greenhouse-gas emissions in the lending portfolio will be based on the Science Based Target Initiative, SBTI. This means setting requirements for reductions in the emission intensity of the various portfolios in accordance with short- and long-term targets. The figure below illustrates the emissions trajectory for achieving our targets.

There is considerable uncertainty associated with establishing a correct reference point for greenhouse-gas emissions (baseline). The baseline in 2022 will have to be adjusted, as a consequence of improvements in data and methods. As data quality and methods improve, it will also be appropriate to use different concepts to achieve more precise calculations for climate intensity based on industry type. An example of this is to calculate the climate intensity from commercial buildings in tonnes of CO2 equivalents per square metre of financed area, rather than tonnes of CO2 equivalents per NOK million in loans.



The calculations of greenhouse-gas emissions are based on the table above.

The goal is to establish a baseline for greenhouse-gas emissions in the lending portfolio during 2023.

Greenhouse-gas emissions from investments:

No greenhouse-gas emissions from investments have been calculated. The bank will use PCAF's methodology and data as a basis for calculating greenhouse-gas emissions from investments, and will work to establish a baseline.

5.3 Measurement indicators and results for managing climate-related risks and opportunities

5.3.1 KPIs and greenhouse-gas emissions from own operations

The figure below shows the development in greenhouse-gas emissions in recent years, and how the bank is on track to meet emissions reduction targets.

KPI	Description	Unit	Goal	Time	2020	2021	2022	Goal attainment
KPI I1	Greenhouse-gas emissions, own activities	onnes CO2			273,0	254,4	232,2	
KPI I2	Reduction in greenhouse-gas emissions, own activities	%	55	2030	46,8	50,4	54,7	V
KPI I3	Energy intensity, own activities	kWh/m²	0 (NZE)	2050	214	233	203	

5.3.2 KPIs and greenhouse-gas emissions from the business areas

Greenhouse-gas emissions in lending:

KPI	Description	Unit	Goal	Time	2020	2021	2022	Goal attainment
KPI I4	Total greenhouse-gas emissions, Lending	tonnes CO2						
KPI I5	Reduction in greenhouse-gas emissions, Lending	%	40	2030				
KPI I6	Reduction in greenhouse-gas emissions, Lending		0 (NZE)	2050				

The bank aims to establish a baseline in 2022 based on data as at 31 December 2021.

KPIs green mortgages and green loans for commercial property:

KPI	Description	Unit	Goal	Time	2020	2021 Baseline	2022	Goal attainment
KPI F1	Green home mortgages, annual growth in per cent	%	≥ 10	Annual		17,6	24.2*	V
KPI F2	Green home mortgages, percentage	%	≥ 50	2030	16,5	18,5	14.0**	
KPI F3	Green loans for commercial real estate, annual growth in per cent	%	≥ 10	Annual	N/A	N/A	N/A	
KPI F4	Green loans for commercial real estate, percentage	%	≥ 50	2030		30	N/A	

Green mortgages and green commercial real estate loans are calculated on the basis of criteria in the Green & Sustainability Bond Framework.
* Based on the same framework, i.e. framework from 2019. ** Based on the framework from 2022, which has stricter criteria for what qualifies as a green mortgage than the framework from 2019.

KPIs and greenhouse-gas emissions from investments:

KPI	Description	Unit	Goal	Time	2020	2021	2022	Goal attainment
KPI I7	Total greenhouse-gas emissions, Investments	tonnes CO2						
KPI I8	Reduction in greenhouse-gas emissions, Investments	%	40	2030				
KPI I9	Reduction in greenhouse-gas emissions, Investments		0 (NZE)	2050				

The bank aims to establish a baseline in 2023.

Sustainable bonds investments/financing:

KPI	Description	Unit	Goal	Time	2020	2021	2022	Goal
KPI G1	Sustainable bonds, liquidity portfolio	NOK mill.	2.000	2022	650	1.495	3.178	V
KPI G2	Bond financing under Green & Sustainability Bond Framework	NOK mill.			5.102	5.102	12.231	

The bank aims to exploit opportunities for financing sustainable bonds in line with the Green & Sustainability Bond Framework.

6 NEXT STEPS

Important tasks in connection with further development of our work on climate risk are outlined below.

1. Qualitative and quantitative analyses in all relevant business areas to identify risks, opportunities and strategy from a short- and long-term perspective.
2. Collect data on climate risk and further develop models and methods.
3. Further develop calculations of climate risk in lending and investments with the aim of establishing a baseline in 2023.
4. Develop scenario analyses and stress tests for climate risk.
5. Build expertise on climate risk throughout the organisation.
6. Further develop KPIs, management goals and risk frameworks for climate and nature risk and integrate these into the bank's framework for risk management and risk reports.
7. Establish first version of the TNFD report in 2023.
8. Establish exclusion criteria for nature in 2023.
9. Develop more sustainable products.
10. Build portfolios of sustainable products and bonds in relevant business areas in accordance with KPIs.
11. Integrate ESG and climate risk in credit processes for home mortgages.
12. Ensure compliance with regulatory requirements, including EU taxonomy.