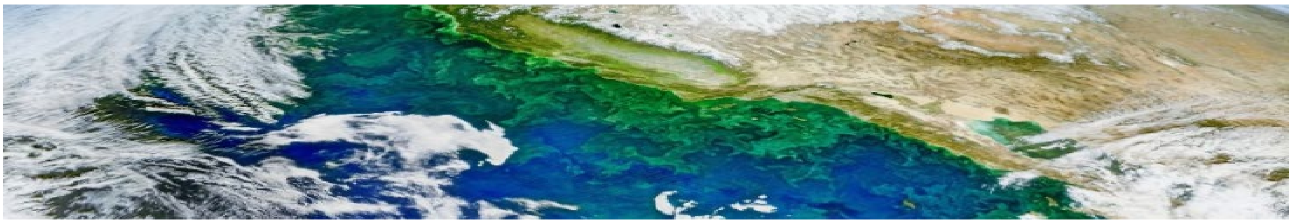
SPAREBANKEN SØR

TNFD report 2023 NatureRisks



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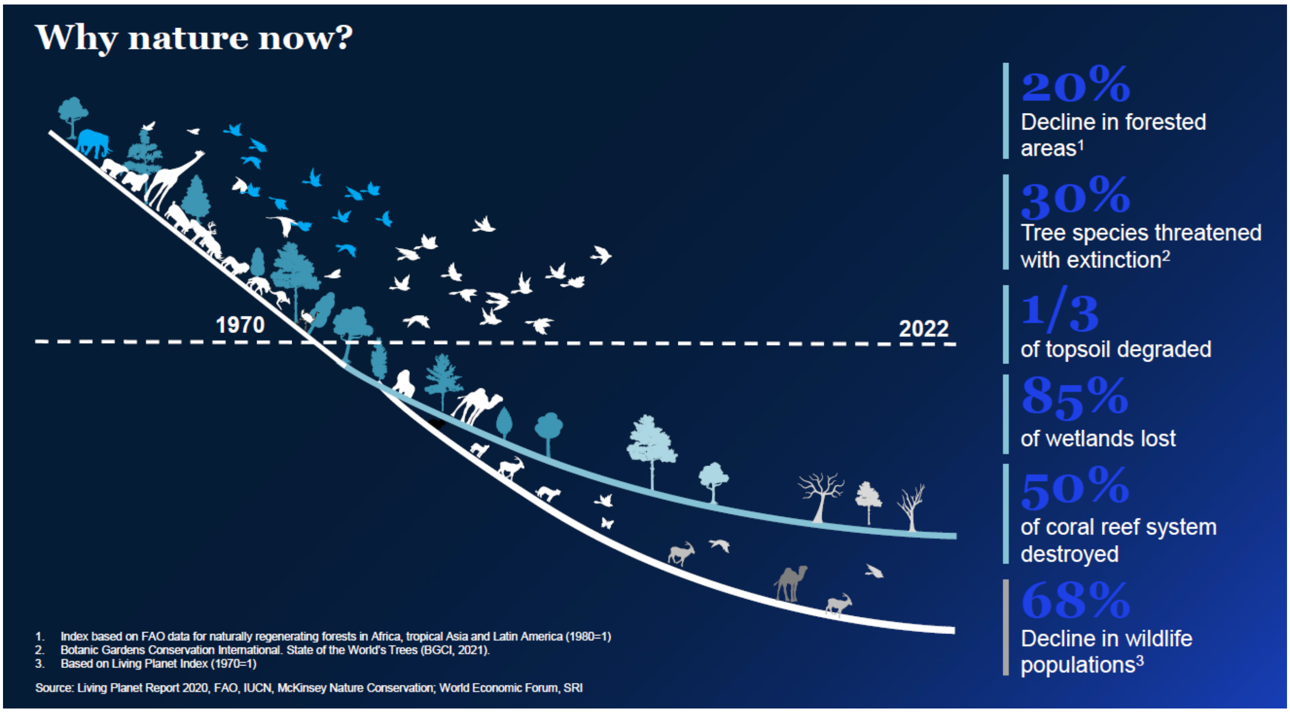
1 INTRODUCTION

The past 50 years have witnessed development unparalleled in human history, with extraordinary increases in the world's economic production, standards of living and life expectancy. The world population has doubled and the global economy has increased four-fold, with more than a billion people escaping extreme poverty. At global level, more food, energy and materials are being produced than ever before. Improvements in human welfare have been truly formidable, as have the overall benefits from the accelerated economic growth of the last century.

These gains in economy and affluence have, however, come at a significant cost to the natural systems that support life on Earth. Human activity has changed 75 per cent of the landmass and 66 per cent of marine environments. Around 25 per cent of observed plant and animal species are threatened by human actions, with a million species at risk of extinction – many of them within the coming decade. Ecosystems have decreased in size, and the state of such systems at global level has deteriorated by 47 per cent in relation to an estimated baseline.

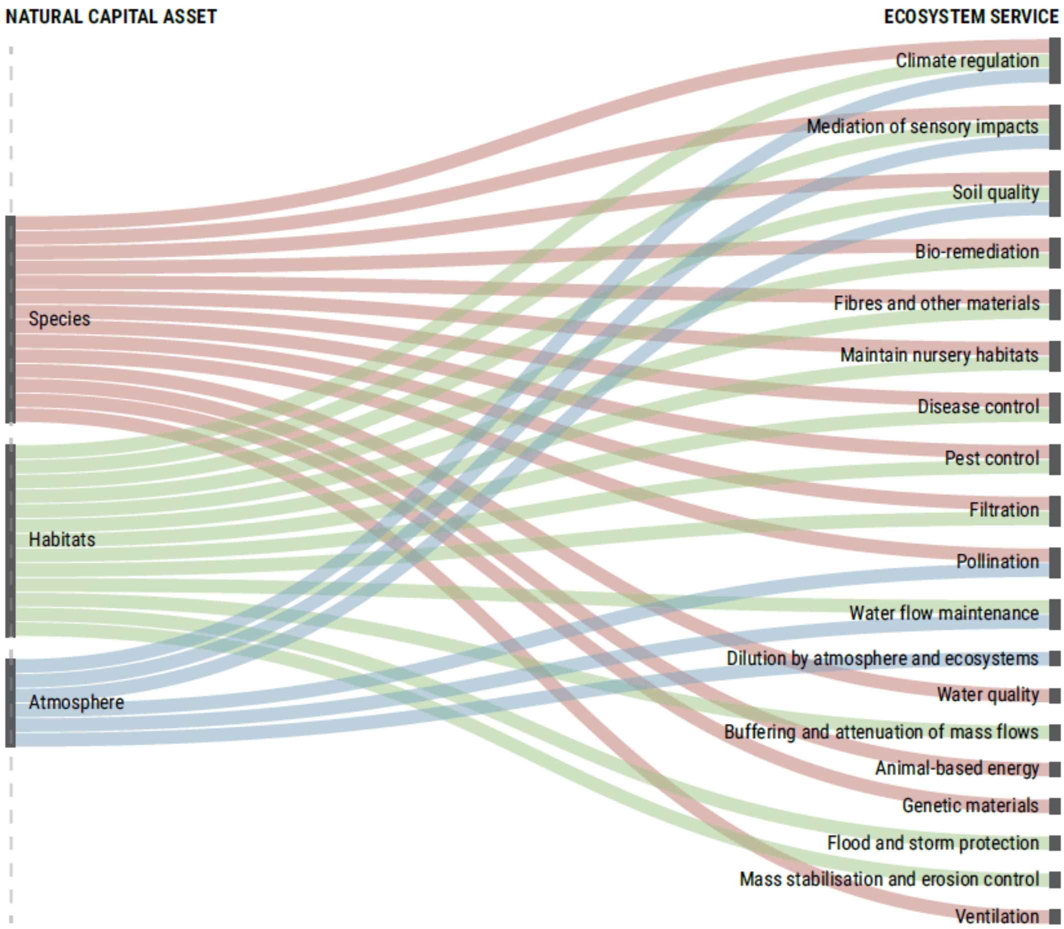
The figure below, Planet Index, illustrates aspects such as changes in the relative populations of wild species which, over time, have experienced a 68 per cent decline during the period 1970 to 2022.



Natural capital consists of natural assets – such as water, forests and clean air – which, together, provide mankind with the means to live a healthy life and make economic activity possible. The goods and services that natural capital provides, in the forms of foods, minerals, water and other natural resources, as well as risk protection and the absorption of pollution, are known collectively as ecosystem services.

Ecosystem services underpin all economic activity. Any negative changes in natural capital therefore have a potentially negative impact on operations that are dependent on it.

The figure below presents the relationship between natural capital and what the ecosystems deliver.



Human interaction with nature, either directly in the form of deforestation or pollution, or indirectly in the form of climate change or reductions in biodiversity, is eating up natural capital at an accelerating pace.
This affects the capacity of nature to continue supplying the ecosystem services on which the economy is built – and depends. These environmental changes have the potential to unleash considerable disruption to economic production and development.

Risk arises when environmental changes affect the capacity of nature to deliver the raw materials and services on which the economy depends.
Financial institutions are exposed to natural capital risk that affects the businesses to which they loan money or which they invest in. The greater the dependency on nature a business or sector has, and/or the greater impact it generates, the greater the potential risk.

Environmental change is global. And accelerating.

2 FRAMEWORK

This report deals with nature and how Sparebanken Sør is working to integrate nature-related dependencies, impacts, risks and opportunities into its business activities.

The table below outlines the four pillars of the Task Force on Nature-Related Financial Disclosures, TNFD:

Governance:	Strategy:	Risk management:	Targets and methods:
Management of nature-related dependencies, impacts, risks and opportunities	Effects that nature-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 natur-related impacts, risks and opportunities.	Methods and targets (KPIs) the bank uses to assess and manage nature-related risks and opportunities.

These are the four areas that are discussed in depth in this report.

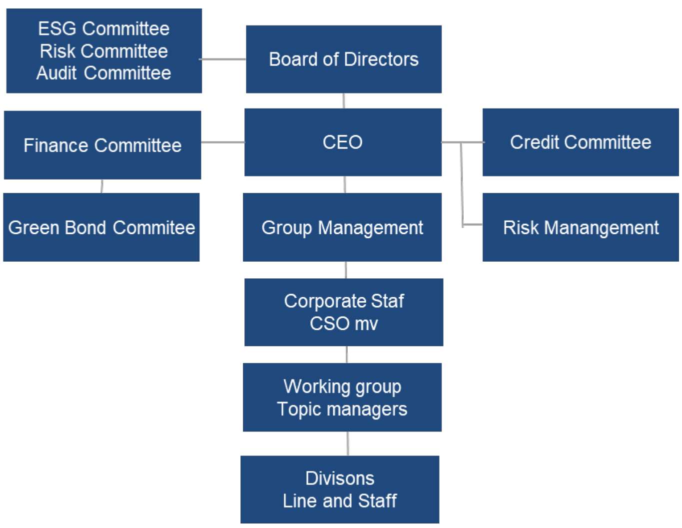
3 CORPORATE GOVERNANCE

3.1 The role of the Board of Directors in nature-related dependencies, impacts, threats and opportunities

The Board of Directors holds overall responsibility for ESG, including nature. The Board adopts the bank's strategy plan, which includes ESG and nature as one of the prioritised areas. The Board processes various governing documents, reports and action plans related to ESG and nature-related risks and opportunities. The Board also processes major credit cases where ESG and nature are integrated into the credit processes. The Board is responsible for setting overarching objectives and risk frameworks for nature-related risks and opportunities in the bank's framework for risk management. The Board also focuses on exploiting the opportunities afforded by the green transition.

3.2 The role of management in assessing, governing and handling nature-related dependencies, impacts, threats and opportunities

The organisational structure for work on ESG and climate risk at the bank:



Information about the status and development of nature-related threats and opportunities is to be integrated into quarterly risk reports submitted to the Group management and the Board.
Additional information about the organisation is presented in the Sustainability Strategy, https://www.sor.no/felles/om-sparebanken-sor/samfunnsansvar/barekraftsrapporter/

3.3 Governing documents

The bank's governing documents for nature risks:

ESG governance document and policy	Document status	
	Public	Internal
Determined by the board		
Strategic plan		X
Sustainability strategy	X	
Risk and capital strategy		X
Organisation of risk management		X
Policy for responsible lending	X	
Determined by group management		
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	

4 STRATEGY

4.1 Nature-related dependencies, impacts, risks and opportunities over different time horizons

4.1.1 Introduction

The bank adopts a dual approach to nature:

- Direct impact on and from the bank's own operations.
- Indirect impact from the bank's business areas.

The direct nature-related dependencies, impacts, risks and opportunities on and from the bank's own operations are low. These aspects are dealt with via the bank's system for environmental management and certification, Eco-Lighthouse. The bank has robust routines, guidelines and processes for handling internal challenges related to nature and the environment. This report will therefore only focus on the bank's own operations to a limited extent.

The indirect nature-related dependencies, impacts, risks and opportunities from the bank's business areas are extensive. This report will therefore focus heavily on the various business areas, the most significant of which are:

- Lending to private and corporate customers
- Investments
- Financing (not a separate business area, but an area crucial to the bank's operations)

Nature-related issues linked to the bank's suppliers and partners, are dealt with under the auspices of the Norwegian Transparency Act, https://www.sor.no/felles/om-sparebanken-sor/samfunnsansvar/apenhetsloven/

Time horizon for nature-related risks and opportunities:

Tidsperspektiv risiko og muligheter	Tid, år
Short Term(ST)	1 -3
Medium Term (MT)	3 - 10
Long Term (LT)	10 - 30

4.1.2 Nature-related dependencies and impacts

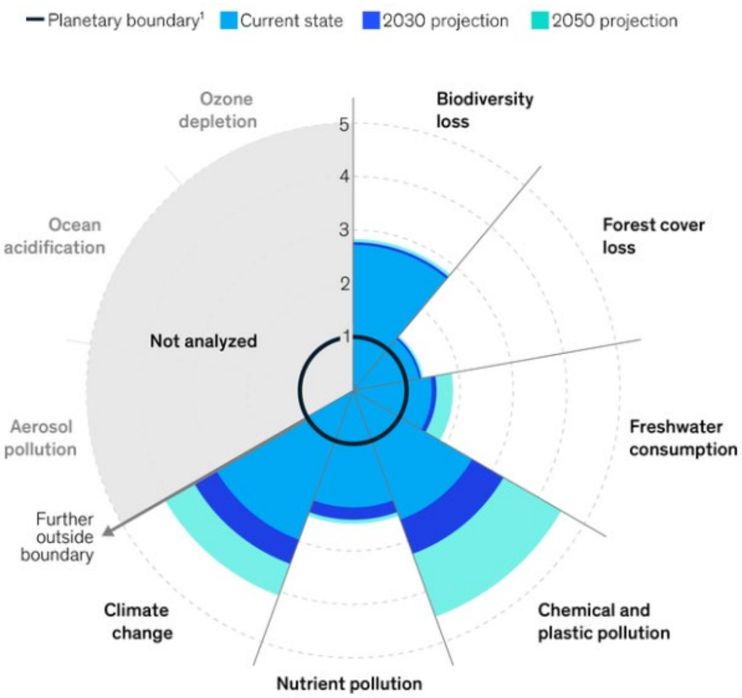
Science Based Target Network (SBTN) definitions of dependency and impact on nature:

Dependency on Nature:
Nature's contribution to people through ecosystem services on which a person or business is dependent in order to be able to conduct its operations.

Impact on Nature:
Positive or negative impact from a person or business on the state of nature, including pollution of air, water or soil, or disruption of ecosystems, habitats or species, or changes to ecosystem regimes.

The global economy is dependent on well-functioning nature and ecosystems. The modern global economy affects all parts of the ecosystems. When ecosystems are degraded or – in a worst-case scenario – actually collapse, the fundamental ecological processes may cease, which in turn can result in significant economic risk.

The figure below, which outlines nature's resilience and vulnerability (Planetary Boundaries), was prepared by the Stockholm Resilience Centre.



Planet Boundaries, (the resilience of the planet), are marked with a black circle.

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), the key drivers for the loss of nature are:

	Drivers for loss of nature	Ecosystem		
		Land	Water	Sea
Pressure on nature	Use of areas, land, water and sea	Scope of use and reduction of land areas and deforestation	Scope of use and reduction in fresh water systems	Scope of use and reduction in marine area
	Use of natural resources	Soil deterioration (reduced production)	er consumption (over-consumpt	Over-consumption of marine resources, e.g. fish
		Over-consumption of land resources, e.g. minerals, non-sustainable logging		
	Spread of foreign species	Non-natural species	Non-natural species	Non-natural species
		Random mortality of natural species		
	Pollution	Pollution, soil	Pollution, fresh water	Pollution and plastic in the sea
	Climate change	Climate emissions		
State of nature	Species	Species population and abundance, extinction rates of species		
	Ecosystems	Size, dependency and quality of the ecosystems		
	Nature's contribution to mankind	Various contributions such as pollination, supply of food and water		

These drivers form the basis for the ongoing work in this report.

The table below presents an overview of the industries with the greatest dependency and impact on nature and ecosystems.

Industries with the greatest dependency and impact on	Dependency	Impact
Agriculture and related services	Very high	Very high
Forestry and related services	Very high	Very high
Fishing, trapping and aquaculture	Very high	Very high
Mining and quarrying	High	High
Energy production and supply	High	High
Water, wastewater and waste disposal	High	High
Building and construction (residences, commercial prope	Very high	High
Retail trade (food, drink, clothing, etc.)	High	High
Transport	High	High

Based on the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) database.

4.1.3 Nature-related risks

Most businesses are dependent on nature and have an impact on it, which can lead to risks.

Nature risk is defined as:

Nature risk arises when the consequences of the loss of nature affects companies that the financial sector lends to, invests in or insures, which also results in financial risk for financial companies.

Nature risk encompasses three types of risk:

Transition risk:

Risk of negative impact on companies as a result of the transition to a society where nature can only be utilised in accordance with the resilience of the planet, changes in policy, regulatory conditions, the market, technology and reputation.

Physical risk:

Risk of negative impact on companies as a result of their dependency on nature, and linked to consequences of physical changes in nature as a result of human activity. Can be incident-driven and acute, as in deforestation, and can also take the form of long-term, chronic changes in ecosystems, loss of biodiversity, etc.

Liability risk:

Companies risk being held liable for activities that damage nature and for the non-observance of regulations.

For the bank, transition risk is considered greater than physical risk in a short- to medium-term perspective, given that Norway is likely less exposed to physical risk in the form of serious climate change and natural disasters.

The table below outlines the nature-related risks to the bank.

Risk type	Description	Potential financial impact for Sør	Impact risk		
			ST 0–3 Years	MT 3–10 Years	LT 10–30
Transitionrisk	**Regulatory risk and political risk**				
	Strict regulation in order to achieve the goals of the Paris and Nature Agreements. Changes in legislation/regulation designed to achieve nature-positive outcome/reduce nature-negative outcome (e.g. trade restrictions, taxes, permits and allocations, protected areas. Changes in access to and pricing of ecosystem services, raw materials and input factors available.	Increased costs on operation and input factors, reduced production, reduced access to and loss of licences on natural resources among customers. 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 of prices of and access to nature-dependent raw materials, transport and input factors. Increased requirements and costs for pollution and restoration. Increased impairments of assets – "stranded assets". Increased capital requirements on non-sustainable activities.			
	Technological risk				
	Increased costs for restructuring to accommodate nature-, climate- and eco-friendly technology, distribution, products and services. Change in production methods and input factors. New monitoring technologies. Impairments for failed technology.	Increased investment in new technology and production processes. Increased operating costs for achieving nature-related targets. Costs linked to replacement of existing raw materials, supply chains and input factors. Critical size in relation to ability to adapt. Depreciation on failed investments and "stranded assets".			
	Market risk				
	Changes in consumption and demand on account of restructuring to accommodate nature-positive products and services. Altered consumption patterns affect business models, costs, market and earnings. Competition for the use of ecosystems. Volatility of/change in material costs.	Reduced market share and revenues and increased losses on account of altered customer behaviour and lower demand. Globalisation and increased competition due to technology, digitalisation. Too little regional access to sustainable activities. Costs linked to replacement of existing products. "Stranded assets".			
	Reputational risk				
	Changes in sentiment/perception of companies and products on account of negative impact on nature. Diminution of brand value on account of use of nature being perceived as worse than that of competitors. Stigmatisation of products and sectors.	Loss of reputation due to lack of willingness or capacity to restructure to accommodate nature-friendly products and services, may result in loss of customers and reduction in sales and market share. Weakened access to and price of financing and equity. Reduced value of equity. Risk of deterioration of relationships and customer loyalty, which are central to a regional bank.			
Physicalrisk	**Acute risk**				
	Changes in ecosystems on which the company depends, resulting in a reduction of access to ecosystem services and/or an increase in prices. Changes in the supply, price and delivery of input factors. Increase in natural disasters such as fire, extreme weather, storms, erosion, etc.	Increased costs on restructuring processes for altered input factors and replacement products. Increased costs due to interruptions in operations and supply chains. Restoration costs. Increased costs for relocating operations and changes in the supplier chain. Reduced value of assets, "Stranded assets". Higher insurance costs.			
	Chronic risk				
	Changes in status and scope of ecosystems on which the company depends, resulting in reduced access to ecosystem services/price increases. Changes in the supply, price and delivery of input factors. Increase in natural disasters such as fire, extreme weather, storms, erosion, etc.	Same as for acute risk, but chronic risk could have greater and more permanent long-term effects.			
Liability risk	**Insurance risk and legal risk**				
	Liability for damage caused to third parties and society.	The bank considers this risk to be very low and has currently not taken it into account in the TNFD report.			

Lowest risk	
Low risk	
Moderate risk	
High risk	
Highest risk	

Nature-related risks:

The following business areas and activities are considered to have the greatest exposure to nature-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". Repricing of assets and "stranded assets"
- 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.

4.1.4 Nature-related opportunities

Most businesses are dependent on nature and have an impact on it, which can lead to risks.

Nature-related opportunities encompass changes and modifications in response to altered consumer behaviour, nature-positive use of ecosystem services, etc. which are necessary to ensure use of nature within the limits of the planet's resilience.

The table below outlines the nature-related opportunities for the bank.

Opportunity	Description	Potential financial impact for Sør	Opportunity to		
			ST 0–3 Years	MT 3–10 Years	LT 10–30
Resource efficiency	Conversion to processes with greater positive impact on nature, e.g. improved efficiency, reduced resource consumption. Introduction of resource efficiency/circular input factors that reduce dependencies and impacts on nature. Diversification in use of nature-related resources.	Reduced risk of loss and non-performance in loan portfolios and investments that adapt to more nature-positive/less nature-negative impact on nature.			
Products and services	New business models, products and services with a positive effect/less negative impact on nature. Resource-efficient technology and products. Circular production systems and value chains. Reduced emissions and waste. Recyclable and nature-positive products.	Reduced risk of loss and non-performance due to reduced transition- and physical risk in loan portfolios and investments. Increased revenues, new sustainable products and circular economy. Cheaper financing through sustainable products. Reduced capital requirements, sustainable products. Excess return on sustainable investments and assets.			
Market	Access to new markets through new technology, new products and services. Use of public sector incentives. Diversification of business model.	Increased revenues from new markets and customers. Increased diversification and reduced risk. Opportunities for increased growth due to improved access to capital and financing for sustainable projects and industries. Circular economy may provide access to new products, customers and markets.			
Capital and financing	Economic incentives through restructuring for nature-positive products and services.	Sustainable products and services should allow the bank to obtain: - Easier access to equity - Lower capital commitment and improved return on equity through sustainable products - Easier access to, and lower prices on, external financing - Lower risk, non-performance and losses through restructuring in customer portfolios.			
Reputation	Actions that generate positive changes and impacts on nature and ecosystem services, and which have an effect on society and local economy.	New markets and customers, increased volume and revenues. Easier and cheaper access to equity and financing. Recruitment of qualified employees.			
Ecosystems, protection and restoration	Direct and indirect restoration, conservation and protection of nature and ecosystems. Protection of endangered species. Financing of voluntary organisations and initiatives for nature-positive activities. Investing in nature-positive infrastructure.	Improved reputation from supporting nature-positive actions. Reduced risk in the loan portfolio and investments in enterprises that are nature-positive/reduce nature risk.			
Sustainable use of natural resources	Conversion to nature-positive processes, including reduced resource extraction, reduced waste and pollution. Recirculation and reuse of natural resources. Reduce dependency on nature. Certification schemes for products and services.	Sustainable products in circular economy and reusables may result in increased revenues, reduced capital requirements and easier access to, and cheaper, financing. Reduced risk of non-performance and loss in the loan portfolio and investments in enterprises that are nature-positive/reduce nature risk.			

Lowest risk	
Low risk	
Moderate risk	
High risk	
Highest risk	

Nature-related opportunities:

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

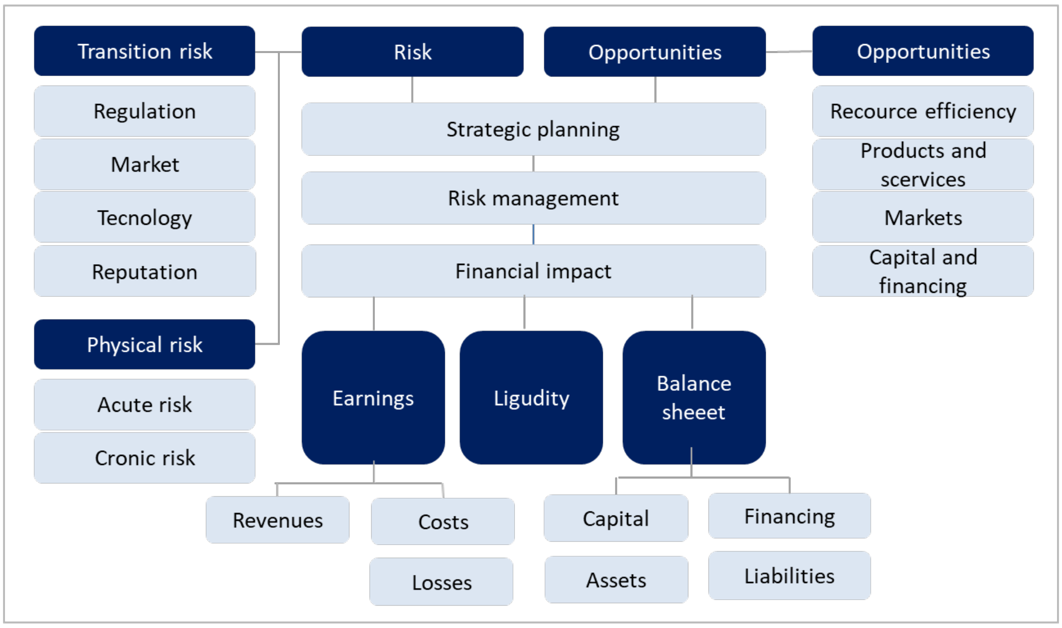
- Lending: Growth in earnings and volume from sustainable activities, new markets and industries. Reduced capital requirements for sustainable activities.
- Investment: Additional return and capital allocation for sustainable activities.
- Financing: Improved access to and lower cost of financing through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

4.2 How nature-related risks and opportunities affect strategy, business areas and financial planning

The bank is a regional savings bank, where the business model is an integrated value chain that comprises the development, production and provision of financial products and services. Distribution of products through owner companies and partners constitutes an important part of the business model. The bank serves customers through a combination of sales offices and digital solutions. Digitalisation and an analytical approach permeate activities in all parts of the value chain. The largest business areas comprise lending to private and corporate markets, as well as financing and investment. Business activities are carried out within the framework of the company's strategy, owner- and corporate governance and ethical guidelines.

The bank conducts traditional banking activities in the areas of loans, savings and the supply of related products such as leasing, insurance, funds and real estate services. Most of the bank's income is linked to lending and financing. Investments and revenue from other products managed by the bank, or through subsidiaries and partners, are other important business areas for the bank.

The relationship between nature-related risks, opportunities and strategic and financial impact:



Climate-related risks and opportunities will have the greatest impact on the bank'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 the competitive situation through technology development and digitalisation.
- Changes in customer behaviour and preferences for products and service adapted to a nature-positive society.

- Changes in customer- and industry composition through the phasing out of activities that have significant nature-negative impact and the emergence of new, nature-positive 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 nature risk in lending, investing and financing. From a short-term perspective of one to three years, the bank rates the risk as relatively low, in terms of both transition and physical risk.
- Establishing solid 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 nature-positive society and ensure that the bank has the capacity and willingness to adapt.
- Sharing expertise with customers and suppliers.
- Ensuring compliance with regulatory requirements.

A more detailed qualitative and quantitative analysis should be performed in all relevant business areas to map nature-related dependencies, impacts, risks and opportunities.

4.3 The impact different nature-related scenarios have on strategy, business areas and financial planning

This section deals with how different nature-related scenarios and stress tests are likely to affect the bank's strategy, business areas and financial planning.

Briefly put, this includes:

1. Preparing scenario analyses and stress tests for how nature-related risks and opportunities may affect the bank's financial results in the short and the long term.
2. Establishing a data basis and conditions for the scenarios/stress tests.
3. Modelling the different climate scenarios/stress tests.
4. Analysing and evaluating results and the impact the scenarios/stress tests are likely to have on strategy, business areas and financial results.
5. Assessing possible actions.

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

4.4 The business areas' dependency and impact on ecosystems, biodiversity and nature

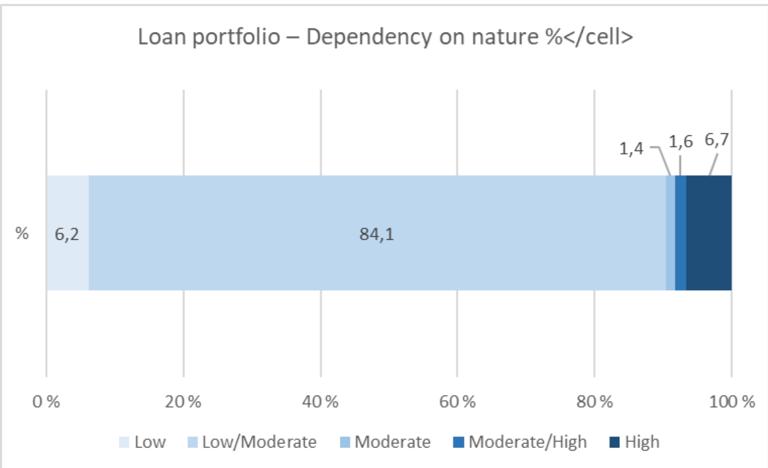
4.4.1 Lending

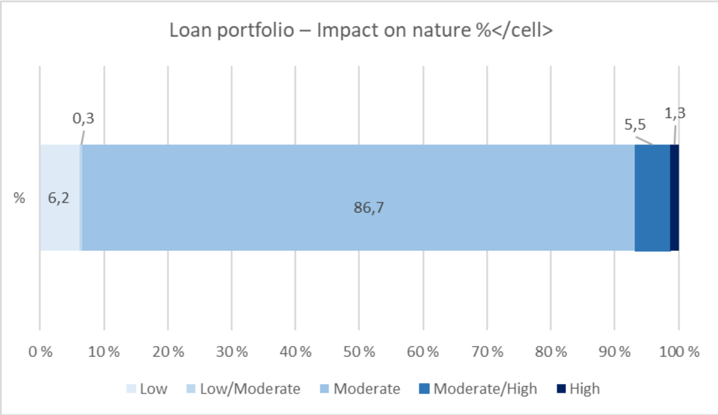
Lending to private and corporate customers is the business area in which the bank has the decidedly greatest dependency and impact on nature.

The table below presents the bank's lending portfolio and shows how dependency and impact on nature are assessed for the different sectors and industries. The assessments are based on information from various sources including ENCORE (Explore Natural Capital Opportunities, Risks and Exposure), SBTN (Science Based Target Network) and own evaluations.

Climate risk Lending	31.12. 2022 MNOK	Dependency on nature	Impact on nature	Impact areas				
				Use of area; land, water and marine	Exploitation of natural resources	Spread of foreign species	Pollution, land and water	Climate change
Home loans	78.684							
Other loans	2.025							
Private customers	80.709							
Agriculture and related services	993							
Forestry and related services	170							
Fishing, trapping and aquaculture	477							
Mining and quarrying	57							
Industry	772							
Energy production and supply	24							
Water, wastewater and waste disposa	87							
Development of property, buildings a	6.667							
Retail industry	1.817							
Transport	494							
Hotels, restaurants and tourism	411							
Information and communication	160							
Financing and insurance	109							
Sale and operation of real estate	23.522							
Professional services	636							
Business services	379							
Public administration	257							
Education	1.402							
Healthcare and social services	2.038							
Cultural activities	586							
Other services	2.136							
Corporate customers	43.196							
Sum total	123.905							

The risk-distributed volume of the lending portfolio (in %) is presented in the figures below.





Lowest risk	
Low risk	
Moderate risk	
High risk	
Highest risk	

The areas with the greatest dependency and impact on nature are the primary sectors of agriculture, forestry and fishing. Forestry is the sector with the greatest potential to have a positive impact on climate emissions, for example, while it also exerts negative impact in the form of deforestation. The building and construction sector is also highly dependent on nature and has a significant impact on same.
Other sectors distinguished by high material dependencies and impacts include energy generation, mining, water and wastewater. The retail sector, including food, drink and clothing, for instance, is also highly dependent on nature, but exerts only moderate impact.

As regards impact, land use, natural resources and climate change are considered to be the areas with the greatest impact on the bank's portfolio.

Generally speaking, the bank has only low volumes of lending in sectors and industries that are heavily dependent/exert significant impact on nature.

Assessment of the sectors and industries that are likely to become most important to the bank has to be based on the scope of dependency/impact, and the size of the portfolio. Moreover, the bank's risk and its positive and negative impact on society have to be taken into account when prioritising areas and actions. It is also important to assess and take into account the upstream (suppliers) and downstream (customers) impact on nature attributable to the different industries.

4.4.2 Investments

The bank's investments at 31.12.2022 comprise:

Ownership interests in group companies:	NOK 2,813 million
Ownership interests in associated companies:	NOK 1,437 million
Liquidity portfolio:	NOK 29,076 million
Shares:	NOK 230 million

The investment portfolio is relatively small in relation to lending, and no specific analysis has yet been carried out of dependencies, impacts, risks and opportunities. The liquidity portfolio is strictly regulated by the Norwegian authorities.
Group companies are integrated into the bank's accounts and sustainability report, and should therefore be viewed in the same way as the bank itself with regard to nature-related dependencies, impacts, risks and opportunities.
The composition of the investment portfolio indicates that dependency and impact on nature are assessed as being relatively low.

4.4.3 Financing

The bank has a product framework for green, social and sustainable products, as well as a bond framework – the Green & Sustainability Bond Framework – that issues green, social and sustainable bonds. Through issuing sustainable loans and bonds, the bank is contributing to the green transition by ensuring that financing is channelled to sustainable businesses. The greatest nature-related risk in relation to financing is access to the sustainable products that can be used to issue sustainable bonds. Sustainable bonds provide easier access to – and, probably, lower prices on – external financing.

5 RISK MANAGEMENT

5.1 How nature risk affects different risk categories

Nature risk is not a separate, isolated risk, but a significant risk factor that affects other risk categories such as credit and market risk. The relationship between climate risk and the key risk categories is shown below, along with the bank's assessment of risk.

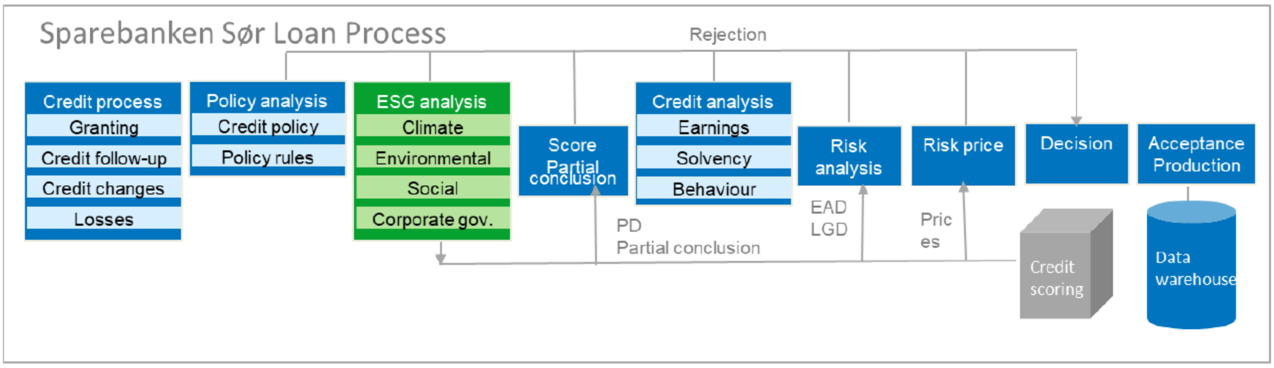
Risk	Transition risk				Physical risk			
	Type	ST 0–3 Years	MT 3–10 Years	LT 10–30	Type	ST 0–3 Years	MT 3–10 Years	LT 10–30
Credit risk	Regulations, technology, changes in customer behaviour and access to/price of raw materials, production processes, etc. could lead to impaired servicing capacity (PD) and increased loss given default (LGD) from customers and could lead to increased expected losses (EL).				Increased expected losses (EL) on customers, industries and sectors with great dependency and impact on nature, due to reduced access to/increased price on input factors from nature, altered customer behaviour and stranded assets. Increased natural disasters result in higher costs, lower revenues among enterprises and may cause a rise in losses.			
Market risk	Regulations, technology, and altered customer behaviour could generate "stranded assets" and repricing of securities and other assets.				Natural disasters and increased focus on – and negative consumption of – nature could lead to rapid repricing, changes in volatility and loss of value on assets and asset items.			
Operational risk	Negative impacts of regulatory changes on internal processes and suppliers may lead to increased losses.				Damage to nature or lack of capacity/willingness to adapt to a more nature-positive society may negatively affect reputation and lead to reduced revenues and increased losses.			
Liquidity risk	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.				Changes in ecosystem deliverables may entail higher costs and impaired servicing capacity among customers, leading to a fall in deposits.			
Business risk	Reduced revenues due to insufficient restructuring to accommodate a nature-positive society. High costs of technology and restructuring. Increased volatility in results due to rapid changes in regulations and customer behaviour.				Physical harm to people and damage to property and data due to serious climate- and nature events may lead to increased costs and reduced revenues. Lack of restructuring among customers may lead to increased losses.			
Strategic risk	Insufficient restructuring and adaptation to a nature-positive society will affect profitability and the bank's reputation.				Changes in ecosystem deliverables and prices, as well as customer behaviour, may lead to discontinuation and bankruptcies through lack of capacity/willingness for strategic restructuring.			

Lowest risk	
Low risk	
Moderate risk	
High risk	
Highest risk	

5.1.1 Credit risk

Nature risk related to credit risk is primarily associated with lending. Retail customers account for the largest volume, with approx. 65 per cent of total loans, of which home mortgages comprise approx. 97 per cent. Corporate customers account for approx. 37 per cent of lending, and consist of relatively small SME customers, with good diversification in terms of geography and industry. The commercial structure in the market area, as well as the bank's exclusion criteria set out in "Policy, responsible credit lending", mean that only a relatively small proportion of the bank's loans are made to industries that have an appreciable negative impact on nature.

The bank has an integrated module for ESG analysis in credit processes for the corporate market, cf. the figure below.



The ESG module covers the 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 and transition risk could affect customers, collateral and the ability to service the debt in specific cases, and result in an increased probability of default (PD), increased loss given default (LGD) and increased expected losses (EL).
- Nature: Assessment of how physical and transition risk could affect customers, collateral and the ability to service the debt in specific cases, and result in an increased probability of default (PD), increased loss given default (LGD) and increased expected losses (EL).
- Social conditions: Assessment of whether customers and their partners comply with requirements and international conventions on social conditions, labour rights and human rights.
- Corporate governance: Assessment of whether customers and their partners comply with requirements and international conventions on corporate governance.

Scoring: Based on the above-mentioned modules, customers are rated low, medium or high risk, which provides a basis for managing processes, authorisations and pricing. Data from the ESG module are used in connection with reporting on cases, customers and portfolios.
The module has been in use since April 2021, and the results thus far indicate that the ESG risk, including nature risk, is low to moderate.
The ESG module framework, including nature, is the object of ongoing revision and improvement.

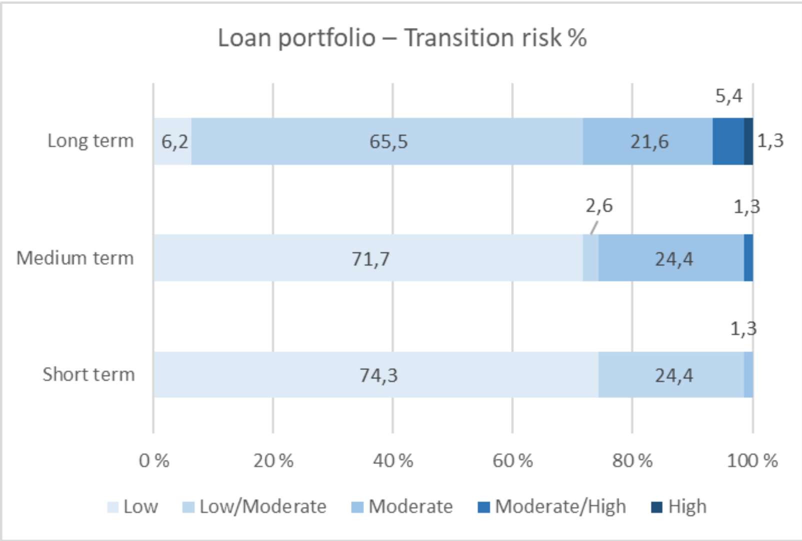
Sustainable products and services constitute an important tool for helping to reduce both the bank's and our customers' climate risk.
The bank has established a Green & Sustainability Bond Framework and a Green, Social and Sustainable Product Framework. The bank uses these frameworks to establish sustainable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

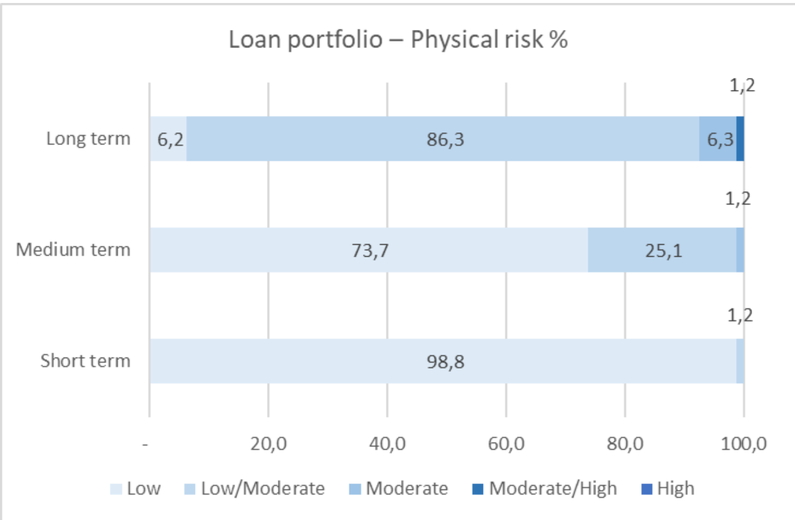
Thus far, the emphasis has been on green mortgages related to climate reduction. As the EU Taxonomy gradually falls into place, the bank will likewise develop products in support of other environmental goals, including circular economy, which are also of significance to nature and resource consumption.
The table below illustrates the lending portfolio and how the bank assesses climate risk from different time perspectives:

Climate risk Lending	31.12. 2022 MNOK	Significance to the bank	Risk sector	Transition risk (Significance and risk)			Physical risk (Significance and risk)		
				ST	MT	LT	ST	MT	LT
Home loans	78.684								
Other loans	2.025								
Private customers	**80.709**								
Agriculture and related services	993								
Forestry and related services	170								
Fishing, trapping and aquaculture	477								
Mining and quarrying	57								
Industry	772								
Energy production and supply	24								
Water, wastewater and waste disposa	87								
Development of property, buildings a	6.667								
Retail industry	1.817								
Transport	494								
Hotels, restaurants and tourism	411								
Information and communication	160								
Financing and insurance	109								
Sale and operation of real estate	23.522								
Professional services	636								
Business services	379								
Public administration	257								
Education	1.402								
Healthcare and social services	2.038								
Cultural activities	586								
Other services	2.136								
Corporate customers	**43.196**								
Sum total	**123.905**								

Very low	
Low	
Moderate	
High	
Very high	

Risk-distributed volume in the lending portfolio (in %) is presented in the tables below.





Very low	
Low	
Moderate	
High	
Very high	

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 climate emissions from the Mining and Water and Sanitation sectors are high, the risk is considered low due to the composition of the portfolios.
Based on an overall assessment, nature risk in the lending portfolio for the current sector composition is considered acceptable in both the short and medium terms. 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. Good risk management systems enable the bank to manage nature-related risk.

5.1.2 Market risk

Nature 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 principally comprise 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 work directly with asset management, but it does 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.

Nature risk fund, shares and ownership shares	MNOK	Transition risk			Physical risk		
		ST	MT	LT	ST	MT	LT
Fund		N/A	N/A	N/A	N/A	N/A	N/A
Shares and ownership shares in associated companies	1.667						
Shares in group companies	2.813	Consolidated in the bank's financial statements and sustainability report					

Very low	
Low	
Moderate	
High	
Very high	

Since the bank only mediates funds, funds will not represent a direct nature risk in and of themselves. The bank assumes that the fund providers handle the nature risk, and that our consultancy in relation to funds is in compliance with legislation.
Shares and shareholdings in companies account for only low volumes and represent low risk.
Nature-related risk and opportunities are followed up through good corporate governance. All subsidiaries and companies in which the bank owns a shareholding of 50 per cent or more are also integrated into the bank's sustainability accounting.

5.1.3 Operational risk

Nature risk in relation to operational risk is primarily associated with loss of reputation and market share due to lack of adaptation to a nature-positive 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.

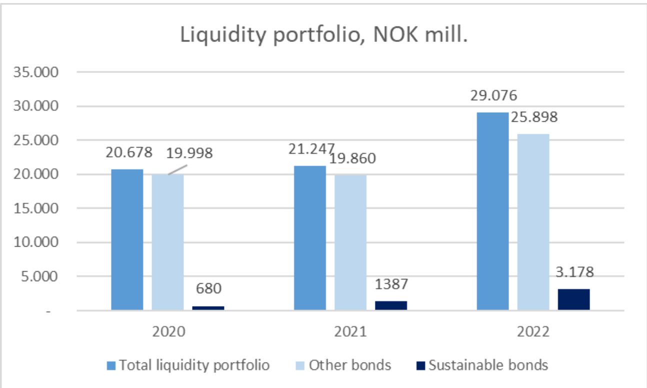
5.1.4 Liquidity risk

Nature risk associated with liquidity risk is principally linked to "stranded assets" in the liquidity portfolio, risk and yield on the liquidity portfolio, and access to and the price of financing.

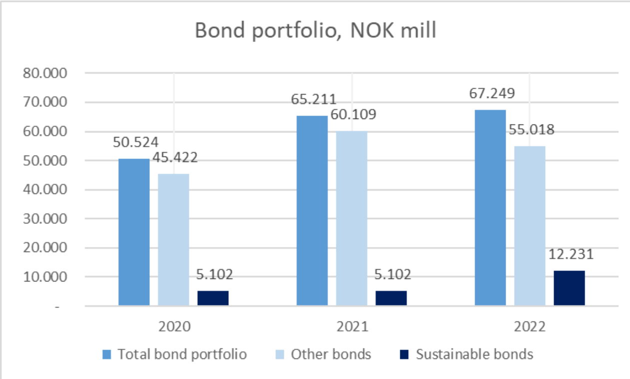
Nature risk Investment/Financing	MNOK	Transition risk			Physical risk		
		ST	MT	LT	ST	MT	LT
Liquidity portfolio	29.076						
Financing	67.249						

Very low	
Low	
Moderate	
High	
Very high	

Nature risk for the liquidity portfolio is considered low to moderate.



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. Sustainable bonds are linked to climate reduction for residential and commercial properties. There are currently no bonds linked to nature-positive actions apart from climate reduction.

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.

5.2 Processes for identifying, and assessing nature-related dependencies, impacts, risks and opportunities

Processes for identifying and assessing nature-related dependencies, impacts, risks and opportunities are performed by sustainability resources and the respective business areas in the bank.

The assessments are based on experience and knowledge of the portfolios, as well as on external literature, models and other resources available concerning this professional area. Some of the external sources the bank has used are described in this report. Nature is a relatively immature area both for the bank and for society in general, and work with nature will be the object of continuous, development, improvement and concretisation.

5.3 Processes for handling nature-related dependencies, impacts, risks and opportunities

With regard to nature risks in own operations, these will be followed up through the bank's environmental management system, Eco-Lighthouse.

In the business areas, nature risks will be followed up via the ESG module in credit processes, KPIs, portfolio analyses of nature risks, stress tests and scenario analyses. These form the basis for defining which actions and follow-up need to be launched in order to accommodate nature-risk goals in the business areas. To date, the bank has not established any goals or KPIs for nature risk, but this will play an important role in the work with nature going forward.

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

The bank has a comprehensive framework for risk appetite and risk tolerance for the various risk categories. General measurement indicators for ESG risk and nature will be integrated into the bank's risk management framework. Reports showing the status and development of overarching governance targets and risk tolerance are prepared quarterly. These reports are assessed by the bank's group management and board, who can track developments and ensure that the risk matches targets set for risk frameworks and risk tolerance.

Nature risk will be integrated into the bank's internal control system. Incidents and losses attributable to nature risk will be reported in the bank's system for reporting undesirable incidents.
KPIs and management goals for nature-related risk and opportunities are under continuous development.

5.5 Describe the approach to localising information that can be used to generate value in relation to nature-related dependencies, impacts, risks and opportunities

No tangible work has been carried out in this area, over and above what is outlined in this report.
The key instruments for generating value for the bank and for society in general with regard to nature are:

- Establish and share expertise
- Sustainable products and services
- Technology and digitalisation
- Sustainable bonds for financing
- Circular economy and recycling internally and for suppliers and customers

5.6 Involvement of owners and stakeholders in assessments and feedback with regard to nature-related dependencies, impacts, risks and opportunities

To date, involvement in the TNFD report and the work with nature is limited exclusively to internal stakeholders.

6 METHODS AND TARGETS

6.1 Methods, data and targets for assessing whether nature-related risks and opportunities are in line with strategy and risk management

6.1.1 Nature-related risks and opportunities from own operations

Nature-related risks and opportunities in-house will be followed up via the bank's environmental management system, Eco-Lighthouse. As regards the climate – which also constitutes a nature-related risk – the bank calculates climate emissions annually, based on the international standard, *A Corporate Accounting and Reporting Standard*, which has been developed by the Greenhouse Gas Protocol Initiative – the GHG Protocol. Our Scope 3 is therefore related exclusively to our own operations. The most significant Scope 3 climate emissions relate to climate emissions from the business areas. This is an area that the bank is working with, and which is discussed in more detail in the TCFD report.

6.1.2 Nature-related risks and opportunities from the business areas

Climate emissions from lending activities:

At present, no methods or targets linked to nature have been established for lending activities.
This is an area that will be prioritised in the work with nature going forward.
As regards climate considerations from lending activities, these are discussed in more detail in the TCFD report.

Climate emissions from investments:

At present, no methods or targets linked to nature have been established for investments.

6.1.3 Scenario analyses and stress tests

Scenario analyses and stress tests of nature risk will be key elements in the work with nature risk going forward. On account of the lack of good models and solid data, this work will likely take some time.

6.2 Methods, data and targets used to assess and handle upstream- and downstream dependencies and impacts on nature

The focus of the work with nature will encompass the supplier chain (upstream) and customers and investments (downstream). These are the business areas that have the greatest dependency and impact on nature, and where the bank can exert positive influence.
This is important work, which the bank has already commenced to a limited extent.

6.3 Targets and indicators for measuring the status and development of nature-related dependencies, impacts, risks and opportunities

Cf. Section 6.2.

6.4 Relationships, dependencies and effects with regard to targets and indicators for climate and nature

Attention to climate risk has increased significantly in recent years, while risks related to nature have tended to fade into the background. However, both types of risk are driven by human economic activity, and they are mutually amplifying. The destruction of mangrove swamps, peat fields and tropical rainforests to make room for agriculture and other uses accounts for 13 per cent of total human carbon emissions, and will continue to amplify the effects of climate change. Conversion of these areas into agricultural land and for other uses releases carbon from vegetation and soil, at the same time as it undermines the capacity of the planet to absorb and sequester climate gases from the atmosphere.
Climate change poses a threat to nature and the contribution it makes to society, including its capacity to provide effective solutions to the climate crisis. One example of such a solution is nature's capacity to capture and store almost half of all human-generated climate gas emissions in both seas and biomass. The UN Climate Panel (IPCC) and the UN Nature Panel (IPBES) both emphasise that immediate measures are required to stop and reverse losses of nature, if it is to be possible to achieve the 1.5- or 2-degree target. The climate and nature crises must therefore be solved simultaneously – especially to avoid the situation where the bank solves one problem at the expense of another. Land and sea areas must be utilised with the least possible impact on unspoiled areas of nature in order to prevent solutions to the climate crisis exacerbating the nature crisis. At the same time, synergies between reducing nature and climate risk open up significant opportunities for increased benefits. Nature-based solutions developed on the basis of nature's own processes have the capacity to contribute to reducing both nature- and climate risk. It has been demonstrated that nature-based solutions can account for as much as 30 per cent of the most cost-efficient measures that are required in the run-up to 2030 to stabilise the global temperature within the 2-degree warming limit. Nature-based solutions can also function as a robust defence against the long-term consequences of climate change. A new report from the International Institute for Sustainable Development (IISD) has indicated that the use of natural infrastructure as protection against rising sea levels and floods has the potential to save society up to USD 248 billion compared to constructed infrastructure such as dikes. Examples of using natural infrastructure include preserving or restoring forests and wetlands. What is more, nature-based solutions are often cheaper to maintain, at the same time as they provide an added bonus by rinsing pollution from the air and water, and by creating larger areas for flora and fauna to re-establish natural ecosystems. A report from the UN Nature Panel (IPBES) shows that on average, restoring ruined and run-down areas of land produces benefits worth ten times the cost of the measures themselves, through increased employment, for example.

Targets, indicators and actions with regard to the climate and nature must be viewed in context in order to achieve positive synergy effects and to eliminate the risk of beneficial measures in one area having a harmful effect on the other.

7 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 in more detail.
2. Collect data on nature-related risk and develop models and methods even further.
3. Develop methods for calculating nature risk in lending and investments
4. Prepare scenario analyses and stress tests – including data and models – for climate risk
5. Build expertise on nature risk throughout the organisation.
6. Continue developing KPIs, governance targets and risk frameworks for nature risk
7. Integrate governance targets for nature risk into the bank's framework for risk management and -reports.
8. Continue development of the framework for nature in the ESG module
9. Establish exclusion criteria for nature
10. Develop sustainable products linked to the EU taxonomy and nature
11. Establish portfolios of sustainable products and bonds
12. Integrate ESG and climate risk into credit processes for home mortgages.
13. Ensure compliance with regulatory requirements, including EU taxonomy.

8 DEFINITIONS

Biological diversity means "the variability among living organisms from all sources including, *inter alia*, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems", United Nations Convention on Biological Diversity, Section 2.

An ecosystem means "all the living things in an area and the way they affect each other and the environment", Cambridge Dictionary.

Ecosystem services means – "a range of tangible and intangible benefits that people obtain directly and indirectly from nature, and which maintain and fulfil human life", World Forum On Natural Capital.

The concept of tipping point is usually taken to mean "a critical threshold where a small disruption can qualitatively alter the condition or development of a system", Lenton *et al.* 2008).

A nature-positive global economy means "an economy where economic activity increases the capacity/resilience of our planet and society to halt and reverse the loss of nature" (World Economic Forum, 2021)

Natural capital means "the stock of renewable and non-renewable resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people", World Forum On Natural Capital.