

## Investor letter setting expectations on climate change and biodiversity ahead of COP26

Response to email received July 6<sup>th</sup> 2021 from ShareAction on behalf of 115 investors.

### **1. Publish short-term (5-10 years) climate-related targets covering all financial services, especially those you have most exposure to, ahead of your 2022 AGM.**

Providing loans to retail and corporate customers is the Bank's core business. Responsible lending has been an important part of our social mission for 175 years, and today it is the main focus of our sustainability work.

#### Retail market (RM):

RM's ambition for the period to 2030:

- RM will have good mortgage products that encourage customers to upgrade their old homes and thus emit less CO<sub>2</sub>. We will also have attractive products for new low-emission homes.

Short term (end of 2021):

- RM will double green mortgages to NOK 50 million.
- RM will increase green car loan sales by 50 per cent.
- 32.5 per cent of customers should have buffer savings (short-term savings).
- 13.5 per cent of customers should have savings agreements (long-term savings).
- RM aims to reduce the number of flexi loans in relation to repayment loans in the portfolio.
- RM will help to develop a green banking package. This will improve customers' competence and insight and offer a broader range of green products.
- RM will strive to determine the residential mortgage portfolio's carbon footprint. Good insight into this will go hand in hand with incentives and products that help to make older homes greener. The work will follow the EU taxonomy from 1 January 2022.

#### Corporate market (CM):

CM's long-term goal for the commercial property loan portfolio for the period to 2030:

- At least 50 per cent of the commercial buildings in our portfolio must be green in line with our green framework in 2030 (was adopted in Q1/2021).

Short term:

Commercial properties (property rental):

- 20 per cent increase in proportion of commercial property defined as green in the EU taxonomy.
- 20 per cent increase in proportion of commercial property defined as green in our green framework.
- At least half of all new loans should be for buildings defined as green according to our framework.

Construction projects (residential or commercial properties):

- An increasing proportion of new buildings each year must be in line with the EU taxonomy.

Energy:

- Increase lending within renewable energy by 10 per cent annually. This applies to small-scale hydro projects, solar energy and geothermal heating.

**2. Integrate the findings of the IEA Net-Zero scenario and/or another 1.5C scenario with low overshoot and minimal reliance on Negative Emission Technologies into your climate strategy. Reviews of sectoral policies, company targets, client expectations and accounting numbers should be undertaken to reflect the selected 1.5C scenario.**

SpareBank 1 Østlandet has committed to net zero emissions from its lending and investment portfolios by 2050 or earlier, in alignment with a 1.5C-pathway

The bank has the greatest opportunity to reduce emissions in the corporate loan portfolio and has set science-based climate targets for emission reduction. Emissions will be reduced by at least 40 per cent in this portfolio from 2020 to 2030. Work on climate measures in the bank's two largest industries, real estate and agriculture, is already well under way. In addition, the bank refrains from lending to fossil energy production. The bank makes an assessment of sustainability in all lending cases over NOK 1 million. This assessment may lead to rejection. It happened in 3 cases in 2020, and 2 cases in 2019.

In the retail market, it is within housing that the bank has the greatest opportunity for influence. The division has already established the CO2 footprint in the housing portfolio, and has further decided that by 2050, PM will contribute to reducing CO2 emissions in the existing housing portfolio by 30% on 40% of the homes.

We have several green loans with good conditions for those who choose sustainably for both the private and corporate market. In addition, we have specific targets to increase customers' awareness of their own finances, especially related to savings / buffers (reduce consumption).

To achieve the 2050 target, business operations have created a concrete (science-based) plan with sub-goals. Before we have managed to have zero emissions, we have so far compensated the emissions with the purchase of allowances and guarantees of origin for energy.

**3. Publish a new coal policy before COP26 and commit to phase out from coal by 2030 in OECD countries and by 2040 in non-OECD countries.**

SpareBank 1 Østlandet do not have coal in the portfolio, and we have a policy stating that we do not provide loans for fossil energy, including coal, oil and gas.

**4. Ensure your financial statements are drawn up in alignment with a 1.5C-pathway.**

Our CDP reporting shows that capital resilience to climate change risks and impacts is reflected in our financial statements. SpareBank 1 Østlandet has been recognized for climate leadership by CDP, a global environmental non-profit charity, securing a place on its prestigious 'A List' for tackling climate change ([read more](#)).

Sustainability is very prominent in our [annual report](#), and have for instance included [Principles for reporting on sustainability](#) in the appendix of the annual report 2020.

## 5. Develop and disclose a strategy to address the systemic risk posed by biodiversity loss.

The bank's goal is to increase the proportion of companies contributing to the increased use of renewable energy in the CM portfolio. The bank has great market potential in the areas of forestry and the wood-manufacturing industry. The conditions are right for adopting a national position on environmentally-friendly and sustainable building in wood. The bank wants to encourage this through green business development.

We expect:

- our customers to take a conscious approach to climate risk and focus on reducing their negative impact on the climate and environment.
- companies to prevent negative impacts on local areas registered in the list of UNESCO's World Heritage Sites,<sup>1</sup> wetlands registered in the Ramsar Convention and vulnerable habitats/protected areas registered by the International Union for Conservation of Nature (IUCN)
- companies that operate in areas with endangered plant and animal species, including animal species registered in the IUCN's red list of endangered species<sup>4</sup>, to take these into account and minimise interventions in the natural world

We encourage customers to:

- set targets for improving energy efficiency and reducing their direct and indirect emissions of hazardous substances and greenhouse gases, including particles, nitrogen oxide and ammonia.
- work on reducing pollution and contribute to good routines for waste management and recycling
- state their direct and indirect greenhouse gas emissions; this also forms part of our sustainability assessment for credit applications.
- replace fossil fuels with renewable energy sources where appropriate
- set binding climate criteria for their suppliers and subcontractors
- compensate for their CO<sub>2</sub> emissions through climate quotas approved by the UN (CER) or by the Gold Standard (VER) system.

We do not lend to businesses:

- engaged in the extraction of, or energy production based on, coal or tar sands
- engaged in mining operations

- that use timber obtained from organisations that perform illegal logging, sell illegally felled timber or engage in deforestation and/or destroy tropical rainforests, remove primary forest or protected forests (High Conservation Value Forests)
- carry out lobbying activities aimed at weakening the required restructuring to a low-emission society in line with Norway's goals through the Climate Act and the world's goals through the Paris Agreement.
- engage in the production of fossil fuels.

Our customers are expected to run their operations in line with internationally recognised conventions, national laws and regulations where they operate as well as requirements from purchasers of raw materials. Below are some important areas within nature and agriculture. This does not mean that other areas are of less importance, but we want our agricultural customers and other business associates to pay particular attention that they do not:

#### Biological diversity and gene technology

- violate international or national biodiversity and genetic engineering guidelines, including the UN Convention on Biological Diversity (CBD) and the related Bonn Guidelines and the Nagoya Protocol, and Nature for life – the Norwegian action plan for biodiversity.
- engage in the production or trading of living genetically modified organisms without the permission of the importing country and without the requirements of the Cartagena Protocol being fulfilled, which is a protocol under the UN Convention on Biological Diversity. The ratification of the Cartagena Protocol in Norway was brought before the Storting in a separate parliamentary bill.
- neglect to conduct an environmental impact assessment in large-scale projects that may have a detrimental effect on biodiversity. For example, the standard GRI 304: Biodiversity 2016 can be used here.
- The production of biomaterials complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB). RSB has also been incorporated into Norwegian law.

#### Animal welfare

- violate the Animal Welfare Act, and neglect to follow the Norwegian Food Safety Authority's advice on the import and export of animals, livestock, animal transport and slaughter.
- violate any of the recognised five freedoms of animal welfare from the Brambell Commission: freedom from hunger, thirst or malnutrition, freedom from physical discomfort, freedom from pain, disease or injury, freedom to exercise normal behaviour, and freedom from fear and distress.
- use antibiotics irresponsibly, which contribute to antibiotic-resistant bacteria that can be transmitted to humans.

#### Conservation areas, wetlands and peat

- adversely impact wetlands in the Ramsar Convention or vulnerable and preserved reserves/conservation areas registered by the International Union for Conservation of Nature (IUCN). There are over 60 Ramsar areas in Norway and several in our market area. Companies must respect the plan for the restoration of wetlands in Norway (2016-2020), which has targets for reducing

greenhouse gas emissions, adapting to climate change and improving ecological conditions.

- fail to respect the regional and local conservation plans where they operate.
- fail to respect national guidelines for the extraction of peat, especially peat from high moors, which is a threatened natural habitat both in Norway and in Europe.

#### World heritage

- have a harmful impact on a UNESCO world heritage site. UNESCO's Convention for the Protection of World Cultural and Natural Heritage is an international agreement that obliges countries to identify, protect, preserve, and hand over to future generations that part of world heritage that exists in their own territory.

#### Water

- start operations in areas with water shortages without conducting impact assessments of the operations' water consumption and/or carry out irresponsible water management that has major negative consequences for people and nature.
- cause severe water pollution and neglect to conduct environmental analyses to avoid water contamination.
- do not have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
- violates the 7 principles of the World Commission on Dams.
- start new businesses in areas with water shortages, and where the business will compete with the needs of society, and the local population' access to clean water.

#### Endangered plant and animal species

- violate the Bern Convention on the Conservation of European Wildlife and Natural Habitats.
- conduct business or have operations in areas with endangered plant and animal species, including animal species listed on the IUCN Red List of endangered species, not taking them into account and minimising their operations' interference with nature. Trade shall meet the CITES requirements and trade in endangered plant and animal species that are on the CITES lists shall not take place. The Norwegian Environment Agency is the Norwegian CITES authority and on the Agency's web pages, you will find information on the requirements for import, export and ownership of endangered species and products from endangered species.
- introduce, release after spreading foreign organisms that cause, or can cause, adverse effects on natural diversity and ecosystems and thus violate the Norwegian foreign organisms regulation.

#### Chemical use and fertilisation

- use fertilisers and chemicals irresponsibly, not following national development and regulations regarding the utilisation of organic fertiliser products.

#### Raw materials

- fail to respect internationally recognised standards and initiatives for agricultural raw materials produced outside Norway, which are associated with particular environmental risk and the risk of poor working conditions, such as cocoa, coffee, tea, soy, palm oil, sugar cane, cotton, biofuels, etc. Wherever possible, relevant certification of the raw materials should be used. There are several international initiatives that develop tools and guides that can help. In Norway, the multi-party Initiative for Ethical Trade (IEH) is a relevant partner.
- does not respect people's right to adequate food and is not aware of this in the supply chain, where this is a challenge.

#### Waste Management

- does not handle and treat waste from its own production and operation in a responsible manner, with adequate tracking. Does not ensure compliance with regulations for proper waste management and ensures that the waste does not go astray and harm nature, people or society.

#### Forestry

- neglect to comply with the Forestry Act, which "aims to promote sustainable management of forest resources in Norway with a view to promotion of local and national economic development, and to secure biological diversity, consideration for the landscape, outdoor recreation and the cultural values associated with the forest."
- fail to respect the regulations of county governors on forestry conservation.
- use timber from operators engaged in illegal logging, the sale of illegally harvested timber or deforestation, and/or which destroys tropical rainforests, removes primary forest or high conservation value forests, or conduct business with suppliers or other business partners doing so.
- conduct irresponsible forestry management and violate what are considered good industry standards, among other things, through the Forest Stewardship Council (FSC)<sup>1</sup>. Where there is a risk of harmful impact, production forests and timber plantations should be FSC certified. This also applies to high-risk supply chains with pulp, paper, plywood, furniture or wood.
- neglect to comply with the EU's timber regulation, which is intended to avoid illegal logging and trade in timber and timber products derived from illegal logging.
- use chemicals irresponsibly and pollute the soil, water or air through paper and pulp production.
- fail to respect indigenous peoples' and locals' rights concerning the use of forests.
- operate palm oil production that is not sustainable.

We encourage companies that have a major impact on the forestry and paper industry to report under the CDP Forests Programme (formerly Forest Footprint Disclosure Project).