2022

Impact Analysis

Sydbank Group

Sydbank

Introduction

Summary

This impact analysis is prepared as part of Sydbank's implementation of the UN Principles for Responsible Banking (UN PRB) and also serves as a contribution to comply with the recommendations of the Forum for Sustainable Finance focusing on CO_2 emissions.

The impact analysis is prepared on the basis of data for the 2021 financial year as at 31 December 2021.

The analysis includes activities within the Bank's core activities: finance and investment. The analysis has shown that the climate is a significant impact area for Sydbank. The business volume covered by the analysis within finance and investment totals DKK 107bn and estimated CO_2 emissions constitute 1.15m tonnes, of which 73.82% relates to lending and 26.18% to investments.

Corporate loans account for 68.60% of total emissions. In particular lending within the industries Transportation, hotels and restaurants and Energy supply etc has a high emission intensity. Retail loans account for 5.22% of total emissions and emissions regarding car loans are relatively higher than emissions regarding home loans.

Investment activities account for 26.18% of total emissions. The impact analysis is prepared on the basis of global equity investments.

Background

A sustainable future does not come on its own. It requires significant changes and significant changes require joint efforts. As a consequence Sydbank has signed the UN PRB, which will boost its efforts to contribute to a sustainable transition.

The implementation of the principles define the Bank's efforts to embed sustainability into the Bank's core business to a still greater extent and as part of these efforts we have prepared this impact analysis.

The UN PRB lean on the Paris Agreement climate goals and the UN's 17 SDGs and act as a global guiding principle aimed at ensuring that the banking industry helps to bring about sustainable development and makes a positive contribution to society.

In addition Sydbank has joined the UN Global Compact and continues to comply with and support the UN Principles for Responsible Investment (UN PRI), the Paris Agreement, the OECD Guidelines for Multinational Enterprises and ILO conventions on dignity of workers.

Ongoing reporting on Sydbank's progress on implementing the UN PRB will form an integral part of the Bank's CSR report, which is released annually in connection with the announcement of the financial statements and which is available at any time at the Bank's website (sydbank.com).

Impact analysis

The purpose of an impact analysis is to identify the areas of activity where the Bank's existing business model and business volume relative to the 17 UN SDGs have the most significant negative and positive impact in terms of people, the environment and the economy.

As a systemically important financial institution (SIFI) in Denmark, Sydbank has finance and investment activities within a wide range of industries and consequently we impact – directly or indirectly via our customers – the 17 UN SDGs.

Methodology

The UN implementation guidance for the UN PRB forms the methodological basis of the Bank's impact analysis efforts.[1]

Consequently the analysis is based on the UN Portfolio Impact Analysis Tool for Banks[2] – a targeted analysis of the Bank's lending activities – and on the UN Investment Portfolio Impact Analysis Tool[3] – a targeted analysis of the Bank's investment activities (together referred to as the "Portfolio Impact Tool").

By means of the Portfolio Impact Tool we can identify the impact areas in which Sydbank can strengthen its positive impact and at the same time reduce the negative impact associated with the Bank's operations, see figure 1.

Figure 1 – Impact analysis method

1 >	2 >	3 >	4 >	5 >	6
Scope – mapping of Sydbank's core business areas	Scale of exposure – determination of business volume	Identification of potential impact areas (Portfolio Impact Tool)	Context and relevance – areas in which Sydbank operates	Scale & intensity /salience – Identification of most significant positive/ negative impacts	Possibilities of strengthening or reducing impact

Contact

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Read more about Sydbank's sustainability and CSR efforts at Samfundsansvar (sydbank.dk).

1   Guidance on Impact Analysis – United Nations Environment – Finance Initiative (unepfi.org).
2   UNEP FI Portfolio Impact Analysis Tool for Banks – United Nations Environment – Finance Initiative.
3   Investment Portfolio Impact Analysis Tool – United Nations Environment – Finance Initiative (unepfi.org).

1. Scope – mapping of Sydbank's core business areas

Sydbank is a nationwide bank headquartered in Aabenraa and employs a staff of around 2,200.

Sydbank's business volume is distributed across 12 Danish regions which form the basis of the direct advisory services to the Bank's customers. Depending on customer segment and type of business Sydbank has a market share of between 6 and 12%. The Bank's largest market share is within the SME segment. Furthermore Sydbank has 3 branches in Northern Germany and together they constitute the Bank's 13th region.[4]

The Bank services retail clients and corporate clients and with a market share of over 10% among small and medium-sized enterprises, Sydbank is Denmark's 3rd largest corporate bank.

In addition to deposit and loan products produced in-house, Sydbank's business model includes activities within payment services, securities trading and asset management as well as arranging mortgage credit products, investment management products and insurance products via business partners.

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4   Sydbank's 2021 Annual Report, p 29 (sydbank.com).

2. Scale of exposure – determination of business volume

This section introduces the business volume within finance and investment that is included in the Bank's impact analysis efforts.

The impact analysis is prepared on the basis of data for the 2021 financial year as at 31 December 2021.

Finance
The impact analysis is prepared on the basis of bank loans and guarantees of DKK 88,593m[5], of which DKK 27,719m is attributable to retail loans and guarantees and DKK 60,874m is attributable to corporate loans and guarantees.

Investment
The impact analysis is prepared on the basis of a business volume within investment of DKK 36,439m. The business volume comprises equity investments in the Bank's pooled products as well as equity investments within Sydinvest funds.[6] The latter is incorporated because Sydbank in its capacity as an adviser can greatly influence the investment composition of the funds.[7]

We have decided to focus on equity investments because we believe that our global equity portfolio represents the asset class in the overall investment universe with the most significant impact on society.

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5   Sydbank's 2021 Credit Risk Report, p 12.
6   Reference is made to this limitation when equity investments, equity portfolios etc are mentioned.
7   The business volume within investment cannot be reconciled to the balance sheet in the Sydbank Group's financial statements. The reason is that the impact analysis includes off-balance sheet assets but as regards which Sydbank is an adviser with significant influence on the investment allocation.

3. Identification of potential impact areas

The purpose of using the Portfolio Impact Tool is to identify the most significant areas in which Sydbank has a possibility to strengthen the positive impact and/or reduce the negative impact resulting from the Bank's operations.

The 22 impact areas of the Portfolio Impact Tool relate directly to the UN's 17 SDGs, see figure 2.

The impact areas derive from the pillars of sustainable development.

The Portfolio Impact Tool assigns different levels of significance to products, industries and countries relative to impact areas. An impact area may be significant depending on the nature of the product or the impact of the industry on the impact area combined with the volume of the activity at Sydbank.

On the basis of the Portfolio Impact Tool analysis it is the Bank's overall opinion that the climate is the first negative impact area that should be analysed. In addition waste, resource efficiency/security and water have been identified as significant negative impact areas.

The most significant positive impact areas are inclusive, healthy economies, employment, health & sanitation, economic convergence and housing.

Within finance the negative impact on the climate is due in part to the Bank's home loans and car loans to retail clients – both associated with greenhouse gas emissions. In addition the Bank's corporate loans are distributed across businesses within many different industries all of which impact the climate to a varying degree eg through greenhouse gas emissions.

Within investment our equity investments are spread across many different industries all of which impact the climate to a greater or lesser extent eg through greenhouse gas emissions. In particular our investments in the materials, energy, transport and utilities sectors contribute to the negative climate impact.

This is the first time Sydbank has used the Portfolio Impact Tool to prepare an impact analysis. As part of our continued work with this analysis methodology and in line with the UN's continued development of analysis tools and calculation methods we expect that we will qualify the impact analysis further.

Figure 2 – The PI Impact Radar[8]

8   Impact Radar & Mappings – United Nations Environment – Finance Initiative (unepfi.org).

4. Context and relevance – areas in which Sydbank operates

As a Danish bank primarily operating within the Danish borders it is important that in connection with the identification of impact areas we address the challenges facing society.

In Denmark climate policy is a key topic on the sustainability agenda. Denmark's climate policy is largely shaped by the national greenhouse gas reduction targets contained in the Danish Climate Act from 2020.

Denmark's climate legislation aims to reduce the country's greenhouse gas emissions by 70% in 2030 relative to 1990 and for Denmark to be climate neutral by 2050 so that greenhouse gas emissions do not exceed greenhouse gas absorption.[9]

To reach the goal of reducing Denmark's CO_2 emissions, the central government has established 13 climate partnerships, including a climate partnership for the finance sector. The latter has issued 11 recommendations for the establishment of a coherent model to be used by all public and private players to make it transparent, simple and standardised to calculate, collect, use and exchange CO_2 emissions data.[10]

Financial and credit institutions make up the financial engine in Denmark and in collaboration with customers they can contribute to driving the sustainable transition of our society.[11] As a natural consequence in its most recent strategy "5 bidrag til fremtidens Danmark" (5 contributions to the future of Denmark), Finance Denmark has designated the sustainable transition of the economy as one of the five most important strategic focus areas for the financial sector.[12]

Against this background it is the Bank's assessment that overall the climate represents the most significant and most relevant negative impact area for Sydbank.

As a result of the considerable national and international focus on the climate and climate data, the climate is the impact area with the most data and highest level of data availability. However despite the increased focus on climate data, data availability continues to be a challenge. In view of the extent of data challenges for the impact area with the greatest national and international focus it is expected that the data challenge will be even greater once the other impact areas are incorporated.

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9 Dansk klimapolitik | Energistyrelsen (ens.dk).
10 projektrapportering-faelles-c02-model.pdf (finansdanmark.dk).
11 Bæredygtig finans (finansdanmark.dk).
12 5-bidrag-til-fremtidens-danmark (epaper.dk).

5. Scale & intensity/salience – determination of significant positive and negative impacts

Sydbank complies with the recommendation of the Forum for Sustainable Finance to calculate the overall carbon footprint of our finance and investment activities.

Consequently we have decided to calculate the carbon footprint of our finance and investment activities by using Finance Denmark's CO_2 model for the financial sector, which has been developed to create a common method to measure carbon footprints.

By calculating carbon emissions across finance and investment activities we are able to assess how our core business impacts the climate.[13]

Finance

Based on estimated CO_2 data Sydbank's lending can be illustrated as shown in table 1.

A carbon footprint is calculated as regards loans and guarantees to retail clients of DKK 9,790m which concerns home and car financing. As regards other loans and guarantees to retail clients representing DKK 17,929m a carbon footprint is not calculated.

Table 1 – Estimated CO_2 for lending

	Credit exposure (lending and guarantees) (DKKm)	Share (%)	Emission (tonnes CO_2)	Emission intensity (tonnes CO_2 per DKK 1m)
Retail	9,790	14	60,047	6.13
Corporate	60,874	86	788,815	12.96
Total	**70,664**	**100**	**848,862**	**12.01**

As regards the calculation of the carbon footprint from corporate loans, limitations in data availability have meant that to a large extent sector averages have been used instead of specific customer data. Using a sector average is a transitional solution until a greater part of emissions associated with lending is likely to be calculated on the basis of CO_2 data reported by our corporate clients.

Where possible to obtain CO_2 data for corporate clients we have used this data rather than the sector average. For instance EU verified emissions data is used in connection with the calculations as regards corporate clients who are part of the European CO_2 quota system, EU Emissions Trading System (EU ETS).

In relation to the calculation of the carbon footprint from retail loans, limitations in data availability have meant that the carbon footprint of car loans is estimated on the basis of data from the Danish Centre For Environment And Energy (DCE) according to the car's emission type and average mileage. The calculations regarding home loans are based on data available from the Danish Building and Housing Register.

Table 2 shows emissions and emission intensity of retail and corporate lending by product and industry.

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13 Additional information about estimated carbon footprints as well as an assessment of the quality of CO_2 data according to PCAF's 5 scores scorecard (2020) appear from the section Data, data processing and data quality, p 15.

Table 2 – Estimated CO₂ for lending by product (retail) and industry (corporate)

	Credit exposure (lending and guarantees) (DKKm)	Share (%)	Emission (tonnes CO$_2$)	Emission intensity (tonnes CO$_2$ per DKK 1m)
Total retail	9,790	14	60,047	6.13
Homes	7,273	10	13,225	1.82
Cars	2,517	4	46,822	18.60
Total corporate	60,874	86	788,815	12.96
Building and construction	5,666	8	127,426	22.49
Energy supply etc	3,671	5	94,177	25.65
Real property	5,919	8	6,241	1.05
Finance and insurance	6,769	10	60,788	8.98
Trade	16,341	23	106,316	6.51
Manufacturing and extraction of raw materials	10,416	15	92,574	8.89
Information and communication	485	1	1,123	2.31
Agriculture, forestry and fisheries	3,894	6	99,809	25.63
Public authorities	119	0	1,647	13.84
Transportation, hotels and restaurants	3,362	5	165,049	49.09
Other industries	4,232	6	33,666	7.96
Total	**70,664**	**100**	**848,862**	**12.01**

The emission intensity associated with loans varies quite significantly across products and industries. As regards retail loans, home loans are associated with an emission intensity of 1.82 per DKK 1m. In contrast car loans are associated with an emission intensity of 18.60 per DKK 1m.

As regards the Bank's corporate loans, the emission intensity ranges from 1.05 per DKK 1m for the industry Real property to 49.09 per DKK 1m for the industry Transportation, hotels and restaurants.

Across retail and corporate loans the emission intensity associated with homes and properties is relatively low. However despite the low emission intensity the Bank's impact is significant because the business volume is considerable.

The Bank's emission intensity associated with the industry Transportation, hotels and restaurants is relatively high compared with loans to other industries. Based on available data we have therefore decided to examine this industry in more detail by dividing it into sub-industries. In addition to the industry Transportation, hotels and restaurants we have decided to take a closer look at the industry Energy supply etc as this industry has the second highest emission intensity and as it is expected that there will be a big difference between the emission intensity within the individual sub-industries.

Table 3 – Division into sub-industries

Industry	Sub-industry	Credit exposure (lending and guarantees) (DKKm)	Emission (tonnes CO_2)	Emission intensity (tonnes CO_2 per DKK 1m)
Transportation, hotels and restaurants	Support activities for transportation	497	1,524	3.06
	Freight transport by road	930	113,670	122.21
	Air transport	260	29,274	112.50
	Accommodation	109	93	0.85
	Postal and courier activities	45	382	8.50
	Food and beverage service activities	86	1,101	12.83
	Water transport	3	329	112.09
	Other	1,432	18,677	13.04
Total		**3,362**	**165,049**	**49.09**

Industry	Sub-industry	Credit exposure (lending and guarantees) (DKKm)	Emission (tonnes CO_2)	Emission intensity (tonnes CO_2 per DKK 1m)
Energy supply etc	Distribution of electricity	124	1,970	15.87
	Manufacture of gas	153	4,107	26.82
	Materials recovery	225	1,234	5.48
	Trade of electricity	1,024	1,678	1.64
	Waste collection, treatment and disposal activities	169	30,732	181.88
	Water collection and treatment	135	947	7.00
	Production of electricity	322	13,836	43.01
	Remediation activities and other waste management	8	1,220	152.16
	Water supply	143	102	0.71
	Steam and air conditioning supply	585	33,197	56.76
	Other	783	5,155	6.58
Total		**3,671**	**94,177**	**25.65**

In table 3 where the industries Transportation, hotels and restaurants and Energy supply etc are divided into sub-industries it becomes clear that there is a significant difference between the emission intensity across the sub-industries. Within the industry Transportation, hotels and restaurants the emission intensity varies greatly depending on whether the sub-industries comprise only transport or hotels and restaurants.

The emission intensity stands at between 112.50 and 122.21 per DKK 1m for the sub-industries Freight transport by road, Air transport and Water transport. In comparison the emission intensity associated with hotels and restaurants stands at between 0.85 and 12.83 per DKK 1m.

For the industry Energy supply etc the difference between emission intensities across the sub-industries is relatively large, ranging from 0.71 per DKK 1m for the sub-industry Water supply to 181.88 per DKK 1m for the sub-industry Waste collection, treatment and disposal activities.

Even though some sub-industries are linked in value chains the difference between their emission intensities may be significant. If we consider the sub-industries within electricity supply the emission intensity varies greatly depending on within which part of the value chain the business operates. As regards the sub-industries Production of electricity, Trade of electricity and Distribution of electricity the emission intensity ranges between 1.64 and 43.01 per DKK 1m.

As a result of the significant differences in emission intensity across sub-industries a small change in the Bank's composition of loans could be of considerable importance to the emission intensity associated with the Bank's corporate loans.

Investment

Based on estimated CO_2 data Sydbank's investment activities can be illustrated as shown in table 4.

Table 4 – Estimated CO_2 for investment activities

Investment activities (DKKm)	Investment activities (DKKm)	Emission (tonnes CO_2)	Emission intensity (tonnes CO_2 per DKK 1m)
Investment	36,439	301,115	8.26

Since the beginning of 2021 Sydbank has worked actively to reduce the emission intensity from our equity investments. At the end of 2021 the overall emission intensity of the equity portfolios stood at 8.26 tonnes CO_2 per DKK 1m invested. The benchmark for our emission intensity reduction efforts is the level of the global equity index MSCI All Country World Index (MSCI ACWI) at the end of 2020. At year-end 2020 the emission intensity of MSCI ACWI stood at 9.53 tonnes CO_2 per DKK 1m invested.

We have decided to focus on equity investments as we assess that this asset class has the highest emission intensity. A large proportion of the capital under management is placed in Danish mortgage bonds whose emission intensity per DKKm invested is much lower.

If the impact analysis were to cover our investments in Danish mortgage bonds the emission intensity would be significantly lower given the current methods of calculation.

6. Possibilities of strengthening or reducing impact

At Sydbank we wish to use the knowledge produced by the impact analysis to work on reducing the negative impact that our business has on the climate. We will therefore set targets to support these efforts, follow up on their implementation and carry out continuous monitoring.

Finance
In order to work on strengthening or reducing the future impact of lending it is necessary to be able to identify the emission intensity associated with lending. The emission intensity for a significant part of the Bank's lending was calculated for the first time in the Bank's 2021 CSR Report.

In connection with the Bank's CO_2 calculations for the purpose of this impact analysis it was possible to identify the areas where the Bank's climate impact was the most significant. The increased subdivision of the Bank's CO_2 calculations has made it possible to set objectives for the Bank's lending.

The Bank's objectives within finance are based on the type of loans which we aim to increase and which at the same time may contribute to reducing the negative climate impact.

Setting targets
Sydbank has identified the climate as a significant impact area for the Bank. In connection with the analysis of the Bank's lending several areas where the Bank impacts the climate have been identified. On the basis of the impact analysis Sydbank has formulated the following SMART targets:

- Sydbank aims to increase lending regarding renewable energy by DKK 1,000m by the end of 2025.

  As identified in the impact analysis, emission intensity associated with energy production is relatively high. With this target the Bank aims to increase lending regarding renewable energy with an actual emission of less than 100g CO_2 per kWh. This allows the Bank to impact a significant carbon emitting area which has been identified in connection with the Bank's impact analysis efforts.

- Sydbank aims to increase green commercial property loans by DKK 1,000m by the end of 2025.

  As identified in the impact analysis, green commercial property loans have a significant impact despite a relatively low emission intensity due to the overall large volume of commercial property. By formulating an objective to increase green commercial property loans the Bank can impact a significant carbon emitting area which has been identified in connection with its impact analysis efforts.

- Sydbank aims to increase electric car loans by DKK 200m by the end of 2025.

  As identified in the impact analysis, car loans represent the type of retail loans with the highest emission intensity. By increasing electric car loans and thus supporting the movement towards a greener Danish fleet of cars the Bank can impact a significant carbon emitting area which has been identified in connection with its impact analysis efforts.

- Sydbank aims to increase its leasing activities regarding energy-saving machinery/trucks by DKK 500m by the end of 2025.

  As identified in the impact analysis in the the breakdown of the industry Transportation, hotels and restaurants, emission intensity associated with lending regarding freight transport by road, including trucks and machinery for industry, is often high. In connection with the Bank's leasing activities machinery and trucks are financed. By formulating an objective to increase leasing activities regarding energy-saving machinery/trucks the Bank can impact a significant carbon emitting area which has been identified in connection with its impact analysis efforts.

The above SMART targets are formulated on the basis of impacts identified in the impact analysis and they are based on the same definition of green lending as described in the Bank's Green Bond Framework[14], which contains strict eligibility requirements as regards green lending.

Consequently the Bank's objectives must be considered in light of these strict eligibility requirements as regards green lending. Not all loans that reduce the negative climate impact form part of the Bank's Green Bond Framework. However the objectives include leasing activities as regards machinery, which account for significant emissions but which are not part of the Bank's Green Bond Framework.

The Bank aims to include financing of machinery, which reduces the negative climate impact of our SMART targets if its emissions do not exceed half of the average emission reference or it only uses renewable energy or bio fuel.

Plans for target implementation and monitoring
On the basis of the fixed SMART targets the Bank will combine several data sources to obtain the necessary data so as to enable data supported future reporting of the Bank's targets.

In continuation of the set targets work has been initiated for the purpose of identifying green lending on exposure and activity level in order to support future ongoing target reporting.

Sydbank's sustainability and CSR forum monitors on a regular basis the set targets.

Investment
In 2021 we formulated for the first time an objective to reduce the emission intensity from the equity investment portfolios managed by Sydbank. Since then we have worked actively to ensure that companies' CO_2 emissions are taken into account in our investment processes. The Bank's portfolio managers now incorporate companies' CO_2 emissions as a sub-component in the day-to-day investment process. If two investments within the same sector are projected to generate the same financial return our portfolio managers are now able to choose the investment with the lowest emission intensity.

Moreover we use different strategies based on active ownership and exclusion to reduce the emission intensity from our investment portfolio.

It is our fundamental assessment that active ownership by way of dialogue and voting at general meetings will contribute to the largest real reduction of CO_2 emissions from our investment portfolio. However we also understand that this investment strategy requires a longer time horizon which is not compatible with all our customer types. Therefore we offer investment products where the CO_2 emissions have been reduced significantly by way of exclusion of companies from high emission intensity industries.

Setting targets
It is Sydbank's wish that over time investments are made in compliance with the goals of the Paris Agreement regarding a limited increase in temperature of 1.5 and no more than 2.0 degrees Celsius.

Initially we have set a specific target for a reduction of the emission intensity from our equity investment portfolio.

In 2030 the emission intensity of our equity portfolio must be 75% lower than the level of the global equity index MSCI All Country World Index (MSCI ACWI) at year-end 2020.

14 Financial Information (sydbank.com).

Plans for target implementation and monitoring

Sydbank has developed a responsible investment process to ensure that different sustainability factors are reviewed and incorporated in the final investment decision.

The process is supported using a number of tools enabling portfolio managers to monitor, analyse and select responsible investments across different types of assets. Where relevant and value creating we use external advisers and business partners. In other areas Sydbank develops and maintains tools to support the incorporation of sustainability factors into the investment process. Sydbank's portfolio managers use different data sources as well as internal and external research in the investment process.

The portfolio managers have access to CO_2 emissions data for most of our equity investments. Consequently they can assess on a regular basis how any investment decisions could affect the emission intensity of the investment portfolio. The Bank's Responsible Investment Committee has an ongoing dialogue with the portfolio managers as to how we can select investments that can contribute to reducing the emission intensity of the portfolio. In addition the development in the emission intensity of our overall equity investments is monitored and therefore we can evaluate on a regular basis whether we are following the desired direction towards meeting the target of a 75% reduction in the emission intensity relative to MSCI ACWI.

Sydbank's sustainability and CSR forum regularly follows up on the set targets.

Data, data processing and data quality

Finance
Business volume

The impact analysis is prepared on the basis of bank loans and guarantees of DKK 88,593m[15], of which DKK 27,719m is attributable to retail loans and guarantees and DKK 60,874m is attributable to corporate loans and guarantees.

Lending – carbon footprint

Sydbank's calculation of the carbon footprint of the Bank's lending is based on Finance Denmark's CO_2 model for the financial sector. The model uses several data quality levels, which has made it possible to report on the basis of existing data in 2021. In 2021 and 2022 we have worked on identifying the best possible quality of data to calculate the CO_2 footprint of the Bank's loans. Part of this work has taken place in working groups under the auspices of National Banks in Denmark and Finance Denmark. As a result of these efforts we were able to estimate the carbon footprint of corporate loans, home loans and car loans to retail clients for the first time in 2021.

The carbon footprint is calculated as regards corporate loans, home loans and car loans to retail clients. Due to limitations in data it has not been possible to calculate the carbon footprint of total loans.

Carbon footprints are calculated quantitatively.

The carbon footprint of the Bank's lending for the 2021 financial year was reported in Sydbank's 2021 CSR Report for the first time. The impact analysis has been prepared on the basis of data for the 2021 financial year. However in connection with the preparation of the impact analysis we have further processed data so that the calculation of the carbon footprint in the impact analysis is more easily comparable with the financial statements.

Corporate

The carbon footprint of corporate loans is calculated according to the prioritised list in Finance Denmark's CO_2 model. The carbon footprint is calculated for each individual corporate client based on available data. There is considerable uncertainty associated with this calculation as it is largely based on industry or sub-industry averages as company-specific data has only been available to a limited extent.

Homes

The carbon footprint of home loans is calculated on the basis of the most precise method of Finance Denmark's CO_2 model that is possible based on available data. It should be noted that the carbon footprint of mortgage loans arranged for by Totalkredit is not included in the calculation of the carbon footprint of Sydbank's loans.

Cars – retail clients

The CO_2 footprint is calculated on the basis of the emission type of the car in cases where Sydbank holds a charge on the car. If Sydbank does not hold a charge on the car, an average of Denmark's motor vehicles from the Danish Center for Environment and Energy (DCE) is used.

The carbon footprint is calculated on the basis of the size of the loan at loan origination and the car's market value. In cases where Sydbank does not hold a charge on the car the market value of the car cannot be calculated. Since retail clients must pay at least 20% of the car's market value in accordance with the Bank' internal business procedure regarding unsecured car loans to retail clients, the market value is conservatively calculated as 125% of the size of the loan at loan origination.

Investment
Business volume

The impact analysis is prepared on the basis of a business volume of DKK 36,439m. The business volume comprises equity investments in the Bank's pooled products as well as equity investments within Sydinvest funds. The incorporation of the latter is

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15 Sydbank's 2021 Credit Risk report, p 12.

due to the fact that Sydbank in its capacity as an adviser has a significant opportunity to influence the investment composition of the funds. We have decided to focus on equity investments because we believe that our global equity portfolio represents the asset class in the overall investment universe with the most significant impact on society.

Equity investments made under discretionary individual management agreements at Sydbank do not form part of the analysis. Our overall equity investment portfolio consists of direct and indirect investments via funds, index products and exchange traded funds (ETF). In our overall equity portfolio we have taken fund of funds structures into account. In this way we ensure that the individual investment is included only once when calculating the CO_2 emissions from our overall equity portfolio.

We anticipate that the business volume in the impact analysis will increase in the years ahead as sustainability data as regards the other asset classes matures. However we do not expect that the increased business volume will greatly change the findings as regards the most significant impact areas. For the moment we consider our global equity investment portfolio to be a good proxy of how our overall investment portfolio impacts society.

Investments – carbon footprint

When calculating greenhouse gas emissions of investments we use the CO_2 model for the financial sector developed by Finance Denmark.[16] The model includes the methods of calculation for the CO_2 footprint of different types of asset classes. In line with the recommendations of Finance Denmark Sydbank strives to use the most recently available CO_2 data. CO_2 data is available as regards 97.6% of the companies in our global equity investment portfolio (measured in DKK). Companies for which we have neither reported nor estimated CO_2 data are not included in the CO_2 calculations.

As regards the individual companies in the equity investment portfolio Sydbank uses CO_2 data from an external data provider. CO_2 data consists of the company's scope 1 and scope 2 emissions. The data set comprises reported data and in cases where reported data does not exist, estimated data is used. We aim to be transparent in terms of the share of CO_2 data which is based on estimates prepared by our data provider. In the CO_2 calculations we use estimated data for 20.4% of companies (measured in DKK). It is important to point out that the carbon footprint of the equity investment portfolio is a snapshot at the end of 2021.

As regards the equity investment portfolio the following two CO_2 indicators are calculated:

Emissions (tonnes)

Investments' absolute CO_2 emissions calculated as the total of market value weighted emissions in tonnes CO_2 equivalent (tCO_2).

Emission intensity – tonnes per DKKm invested

Investments' CO_2 emissions calculated as the market value weighted emissions in tonnes CO_2 equivalent per million DKK invested (tCO_2/m DKK invested).

In line with the recommendations of Finance Denmark, the calculations use Enterprise Value Including Cash (EVIC) to ensure that total emissions of CO_2 equivalents are distributed proportionately between equity investors and debt investors in the individual company. The two CO_2 indicators are calculated on the basis of Sydbank's ownership interests in the individual companies in the equity investment portfolio. The ownership interests are calculated on the basis of companies' EVIC.

Data quality – CO_2 emissions

The data quality of CO_2 figures has been assessed on the basis of the PCAF data quality scores (2020). Table 6 below shows a weighted data quality score for the business volume applied in the analysis.[17]

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16 https://finansdanmark.dk/media/48339/co2-model-for-den-finansielle-sektor.pdf.
17 The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com).

Table 6 – Business volume by PCAF's 5 data quality scores

	Score 1	Score 2	Score 3	Score 4	Score 5	Weighted data quality score
Investments		79.1		20.9		2.36
Retail, car loans				100.0		4.00
Retail, home loans			51.0	42.0	7.0	3.56
Building and construction				94.8	5.2	4.05
Energy supply etc	0.8	6.1		79.8	13.3	3.99
Real property				59.7	40.3	4.40
Finance and insurance				69.4	30.6	4.31
Trade				92.4	7.6	4.08
Manufacturing and extraction of raw materials				92.8	7.2	4.07
Information and communication				95.9	4.1	4.04
Agriculture, forestry and fisheries				31.4	68.6	4.69
Public authorities				36.9	63.1	4.63
Transportation, hotels and restaurants	0.1			92.1	7.8	4.08
Other industries				91.9	8.1	4.08